



DERBY CITY COUNCIL REGENERATION FUND

SUMMARY

- 1.1 To outline proposals for the Council to invest the Regeneration Fund and to seek approval for the proposed governance arrangements to maximise and safeguard these investments.

RECOMMENDATION

- 2.1 To approve the proposed methodology for the selection of investments including the appointment of commercial and legal advisors.
- 2.2 To approve the formal invitation of submissions by the property industry that will be scored and selected against an Investment Strategy and Business Plan to be devised.
- 2.3 To instruct officers to bring this Investment Strategy and Business Plan, plus all recommendations about which schemes to support, to Cabinet for approval as soon as possible.
- 2.4 To note the completion of the Darley Abbey Regeneration Strategy, which is the subject of a separate report to this Cabinet. In particular, Members should note the progress in negotiations with the owners of Darley Abbey Mills, and are asked to approve a £300k Heritage Grants Fund and £600k towards essential repairs to the Council-owned Stable Block (the latter being partially refundable). If approved, this will be one of the first Regeneration Fund schemes to receive funding, and is expected to commence implementation later this year.
- 2.5 To note that a funding application has been submitted to emda for £2.925m of ERDF and approve in principle the allocation of £1m of Regeneration Fund to match this potential grant for the construction and acquisition of an office development to be located in the Cathedral Quarter targeted to provide employment opportunities for the city's disadvantaged communities. If the ERDF application, currently being considered by emda, is successful this will be a further Regeneration Fund scheme in the first tranche with works on site expected to start on site in October 2011.

- 2.6 To approve in principle the allocation of funding from the Regeneration Fund to secure an assignable option on two key sites being part of a proposed major mixed use regeneration initiative in the city centre. This would be the third Regeneration Fund allocation.
- 2.7 To approve, in principle, the allocation of funding from the Regeneration Fund, for the appointment of independent legal and commercial advisors. Delegate the authority to award the contract in accordance with the requirements of the contract procedure rules.

REASONS FOR RECOMMENDATION

- 3.1 In proposing the establishment of the Regeneration Fund, my report to Cabinet in February 2010 outlined the reasons why the Council should be at the forefront of economic interventions during the current economic climate. This included direct interventions in enabling schemes to be brought forward that currently have planning permissions, for example for office developments and mixed-use commercial developments in the city centre. The rationale described in that paper was that the private sector needs investor confidence boosted by public sector investment, before the private sector will make any investments, and that the lead in that should come from the Council as the lead public sector body in stimulating regeneration, investment and jobs.

SUPPORTING INFORMATION

- 4.1 On 16 February this year approval was given in principle to the establishment of a Regeneration Fund, initially valued at £10m. Since that date officers have:
- Undertaken a soft market testing exercise with property developers and landowners to identify the type of schemes that this Fund might support.
 - Held discussions with some of these interested parties.
 - Identified a preferred mechanism for managing the Fund.
 - Liaised with our main regeneration funding partners (including emda, HCA etc) to identify ways of leveraging additional resources into the fund.
 - Liaised with property owners at Darley Abbey Mills, with English Heritage, and Local Interest Groups, over the potential for refurbishment of property to bring back into use vacant commercial floorspace. A Heritage Grants Fund is proposed at £300k to assist in bridging any funding gaps in refurbishing these properties
 - Sought expressions of interest from private sector end users in the Council owned Stable Block at Darley Abbey Mills. This Listed property is in urgent need of refurbishment, which would cost approximately £600k, but through arrangements with an operator/developer could lead to a receipt of approximately half of this to return to the Regeneration Fund.

- Submitted a detailed funding application to emda for ERDF funding for a new office development located in the Cathedral Quarter to provide employment opportunities for the city's disadvantaged communities. This is a £3.925m project and regeneration funding of £1m will be required as match funding. Opportunities to lever in any additional public/private investment to further enhance this scheme/the regeneration opportunity are being explored without additional call on the Regeneration Fund and, if the ERDF application is favourably determined, a further more detailed report will be made to Cabinet as early as possible.
- Entered into discussions with the owners of two key sites in the city centre, to agree heads of terms for an assignable option to secure these sites for key development proposals, to avoid them being disposed on the open market..
- Tenders have been sought from firms who are members of the East Midlands Lawshare Framework, to request expressions of interest and levels of fixed fee required to provide legal and commercial advice to the Council, which is currently outside the expertise of Council Officers. Negotiations continue with the preferred law firm regarding fee scales. Officers also wish to seek a commercial surveyor, to give independent advice upon the commercial viability of schemes that have requested funding from the Regeneration Fund.

4.2 The landscape for regeneration has changed substantially since May. Emda and all other RDAs are being dissolved, to be replaced by new Local Enterprise Partnerships, and the number of other Government agencies is being reduced. A Local Enterprise Partnership submission has been made on behalf of Derby, Derbyshire, Nottingham and Nottinghamshire, to Government, and the Minister's decision is awaited. Single Programme resources are being slashed and replaced by a Regional Growth Fund – there are few details about this at present, as it has just been the subject of a consultation which closed on 6 February, and to which the four authorities of Derby, Derbyshire, Nottingham and Nottinghamshire made a joint response. The first tranche of RGF is expected in December 2010, but the level of funding at that stage has yet to be confirmed. ERDF projects are being curtailed. New national economic development and fiscal policies are very different and likely to significantly affect how local authorities are able to intervene in the promotion of regeneration schemes. All of these changes have consequences upon how the Council may use the Regeneration Fund and have forced a slight delay in presenting this report to you.

4.3 One constant in all this change is that the private sector is struggling to make property schemes viable. This is further compounded by the aspirations of landowners regarding high land values. Even before this recession, speculative commercial property schemes within Derby were a weak investment proposition due to relatively low rentals and modest growth in rental markets and capital values. It is therefore considered critical to intervene to avoid our regeneration plans stagnating and to help retain private sector interest in Derby for years to come.

4.4 The range of potential outcomes stated in the February 2010 Cabinet report are considered to be essential. However, since the Fund needs to be self-sustaining and create assets that may sit on a Council balance sheet, this places a premium on our Fund securing commercial development. The following outcomes need to be achieved:

- Promoting commercial & mixed use development
- Levering additional investment
- Maximising local jobs
- Attracting & retaining businesses
- Conserving and protecting heritage assets and the public realm
- Stimulating innovation, skills & enterprise
- Facilitating operational efficiencies (across the Public sector).

4.5 Outputs therefore must be:

- Commercial floorspace built or refurbished – housing units might also be a secondary outcome
- Jobs created / safeguarded
- Other investment levered (especially private sector).

4.6 Types of investment to create these assets are therefore:

- Equity investments in property development / refurbishment by others – this is a mechanism that shares both risk and reward and will spread the Fund resources wider
- Grant funding commercial property refurbishment
- Direct acquisitions / direct development by the Council – this will use Fund resources very swiftly in just a handful of schemes and the Council would bear all the risk and need to control the procurement of schemes
- Rental Guarantees to developers
- Debt finance / loan guarantees to developers – the Council Fund must avoid becoming “junior debt” as the risks would be higher. This requires careful scrutiny of capital finance rules.

4.7 The approaches that officers have made to property developers and land owners over the last few months have resulted in their submission of a variety of ideas that offer a flavour of the way in which the Council may wish to utilise our Regeneration Fund. Some developers would welcome direct investment by the Council in the early phases of their developments. Some would like the Council to consider purchasing their property immediately after it has been constructed. Others would wish the Council to offer rental guarantees or to actually commit to renting space for our own needs that effectively give them a secure source of income for a number of years irrespective of the market take up of their buildings. Another developer has suggested they would like the Council to offer loan funding as well as a rental guarantee.

- 4.8 All the suggestions presented to the Council have their individual merits but each requires a thorough assessment of their relative risks and rewards. These assessments, which are complex in their own right, become further compounded by legal, financial, procurement and State Aid regulations that the Council must comply with. For these reasons it is felt to be prudent that the Council undertakes the following:
- Appointment of commercial and legal advisors who would assist the preparation of the Investment Strategy and Business Plan; and
 - Production of a formal invitation for developers and landowners to submit their detailed proposals that must comply with the Investment Strategy.
 - Officers have been in discussion with law practices who are members of the East Midlands Lawshare Framework.
 - Officers will prepare invitations to tender from independent commercial agents, as described at the end of paragraph 4.1 of this report.
- 4.9 The breadth of support needed from commercial and legal advisors will cover:
- Preparation of the Investment Strategy & Business Plan
 - Financial & development appraisals of competing potential investments
 - Due diligence checks of potential investment partners
 - Legal, financial and State Aid advice
 - Governance advice.
- 4.10 It is proposed that, following the completion of the Investment Strategy the Council would invite formal tenders to be returned by December. The collation and assessment of proposals received would be supported by these external advisors. This would help ensure that the Council makes the best investment decisions most likely to create a portfolio of assets that will increase in value and thus make the Fund sustainable for a period of time.
- 4.11 It is proposed that the Council's capital receipt policies will need to be amended to enable the growth in asset values and any income received to be ring-fenced for subsequent use by the Fund. It is also considered desirable that some of the income generated might be used to contribute to "softer" regeneration projects, some of which might be pure revenue schemes.
- 4.12 The Investment Strategy will stipulate the range of investments that are considered appropriate, following more detailed consideration by financial, legal and procurement advisors. It will set out the policy drivers and what the Council wants to achieve and our attitude to risk. The Business Plan will demonstrate how investments that have been offered to the Council will be phased, how returns will be handled and the timescales for the Fund to operate within. This will also include a forecast balance sheet, profit and loss account and cash-flow analysis.

- 4.13 It is proposed that the Derby Renaissance Board should be consulted about the Investment Strategy and Business Plan at the outset and periodically reported to about progress. However, it is felt prudent that all investments decisions are taken by the Cabinet as advised by a Regeneration Fund “panel”, which might comprise a member of the DRB together with our lead commercial advisor, one or more Members and several senior officers. It is suggested that this Panel will approve the draft Investment Strategy in October and oversee the invitation to tender (also in October).
- 4.14 There is a separate, detailed report to this Cabinet/COG on the Darley Abbey Regeneration Strategy. The key elements of the strategy requiring approval at this Cabinet/COG are the proposals for the establishment of a Heritage Grants Fund at £300k, to bridge any viability gaps in generating the refurbishment of privately owned mill properties and other properties within the mill’s complex, and the proposed investment of £600k in essential repairs and refurbishment to the Council-owned Stable Block, which would be partially refundable through disposing of the property on the open market. The end user of the improved property would then have to invest further in the conversion fitting out of the stables, as well as the creation of car parking spaces and interpretation facilities, and this in turn would justify the Council effectively subsidising the scheme by approximately £300k from the Regeneration Fund.
- 4.15 Officers have been in negotiation with owners of two key sites being part of a proposed major mixed use regeneration initiative in the city centre. These negotiations are not identified in this paper for reasons of confidentiality but the proposal to secure an option here will be the subject of a detailed and confidential report to a future Cabinet when provisionally agreed with the owner.
- 4.16 The Council is the applicant to emda for ERDF funding assistance for the construction and acquisition of an office development to be located in the Cathedral Quarter targeted to provide employment opportunities for the city’s disadvantaged communities. The project will target schemes with planning permission “ready to go” and will provide 1,500 sq m of office space for new start and existing businesses by December 2012 and 85 new jobs for the disadvantaged communities by December 2018. The ERDF application is currently with emda and if successful a more detailed paper will be produced to the earliest possible Cabinet/COG meeting.

OTHER OPTIONS CONSIDERED

- 5.1 Other options were considered in the Cabinet paper of February 2010 and remain unchanged.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s) Other(s)	Olu Idowu Martyn Marples N/A N/A
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Appendix 1

IMPLICATIONS

Financial

- 1.1 The Regeneration Fund has a ring-fenced budget of £850,000 reserve allocated in 2010/11, and a further £500,000 reserve to be allocated in 2011/12. The Fund also has a £600,000 revenue budget, for use in prudential borrowing to assist schemes up to a maximum programme value, and to fund some of the posts in the Regeneration Department required to implement some of these schemes.
- 1.2 The Darley Abbey Mills Strategy will require regeneration funding of £900k, but with an anticipated return of approximately £300k.
- 1.3 The Cathedral Quarter project will require £1m from the Regeneration Fund. If the application is successful the Council match funding will be £1m of prudential borrowing, financed from the Regeneration revenue budget.
- 1.4 The owner of the two key sites which are part of a proposed major mixed use regeneration initiative in the city centre, has provided his valuation of these sites, and this is currently being assessed by officers. There may be a negotiation required over this valuation, but on the assumption that an option agreement will require a 5% deposit from the Regeneration Fund, the maximum that could be needed based on the owner's valuation is £60,000. This will form part of the total purchase price should the Council exercise the option, but will be non returnable should the Council opt out of this agreement. If the acquisition and selling on to a developer is successful, this funding will be returned to the Regeneration Fund for further use/ investment.

Legal

- 2.1 The need for transparency in the decision making processes is acknowledged within the report, to the extent that procurement exercises will apply to both the selection of commercial and legal consultants as well as in the choice of preferred developers' for schemes, from those seeking access to funds.
- 2.2 The combined roles of the appointed commercial and legal consultants will be to formulate and guide the application of the broad principles for access to the Regeneration Fund. They will also play a pivotal role in the choice of preferred developers', in which capacity their involvement also provides the added benefit of demonstrating independence in the decision making process for what otherwise is an administrative decision.

Personnel

- 3.1 It is expected that recipients of the Regeneration Fund would be asked to sign a Recruitment and Training Agreement that sets out their proposals to employ from disadvantaged communities and create training opportunities as part of their schemes.

Equalities Impact

- 4.1 The Fund would provide a positive tool with which to strengthen the Council's approach to valuing diversity and to creating opportunities for all our citizens. The application of the Councils Recruitment and Training Agreement will provide a means of monitoring progress being made.

Health and Safety

- 5.1 There are no Health and Safety issues arising directly from this report.

Carbon commitment

- 6.1 All proposals considered for funding will include carbon footprint reduction and sustainability in their evaluation.

Value for money

- 7.1 Investments will be fully appraised to ensure they maximise value for money to the Council.

Corporate objectives and priorities for change

- 8.1 The establishment of a Regeneration Fund would contribute to all six of the Council's six priority areas.