

**CABINET
7 SEPTEMBER 2021**

INVESTMENT FUND UPDATE

**Responsible Cabinet Member - Councillor Scott Durham,
Resources Portfolio**

Responsible Director - Elizabeth Davison, Group Director of Operations

SUMMARY REPORT

Purpose of the Report

1. To update Cabinet on progress against the agreed investments being funded through the Investment Fund.

Summary

2. In November 2016 the Council established an investment fund to be used for innovative investment opportunities beyond the traditional Treasury Management Strategy in order to achieve greater returns given the low returns on investment.
3. The fund provision of £50m is being utilised as envisaged in the original reports to Council to include Joint Venture (JV) vehicles and economic regeneration initiatives. Returns on JV's are anticipated to be over £6m and two of the schemes have completed with the investment fully repaid and recycled back into the fund.
4. Whilst the COVID-19 pandemic had an impact on a couple of the joint venture scheme in regard to timescales being pushed back, they are now back on track and sales are buoyant.
5. The investment fund is currently funding seven schemes as detailed in the report.

Recommendation

6. It is recommended that Cabinet note the use of the Investment Fund and the returns achieved through the joint venture vehicles.

Reasons

7. The recommendations are supported :-

- (a) To keep Cabinet informed of progress made on opportunities undertaken and investment returns.
- (b) To increase development opportunities and ultimately income for the Council.

Elizabeth Davison
Group Director of Operations

Background Papers

- (i) Council report – 24 November 2016 – Investment opportunities
- (ii) Council report – 29 November 2018 – Investment opportunities update and request to increase the fund.

Elizabeth Davison : Extension 5830

S17 Crime and Disorder	There are no anticipated impacts as a result of this report
Health and Wellbeing	There are no specific implications as a result of this report
Carbon Impact and Climate Change	As this report is providing an update on the financing of schemes there is no impact as a result of this report.
Diversity	There are no anticipated impact as a result of this report
Wards Affected	No anticipated impact on an individual area as a result of this report
Groups Affected	No anticipated impact on specific groups as a result of this report
Budget and Policy Framework	This does not represent a change to the budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
Council Plan	The Investment fund is being utilised to assist with the financial stability of the council by maximising investment returns. The fund is also enabling economic growth by facilitating development
Efficiency	The utilisation of the Investment Fund is likely to increase Council income
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Background

8. In November 2016 Council agreed to the establishment of a Capital Investment Fund and following the successful implementation agreed to increase the fund to £50m on 29 November 2018.
9. It has been agreed the fund is recyclable so as the life of an investment comes to an end and repayment is made it will be recycled back into the investment fund for further utilisation. Any future scheme would of course still require a full detailed business case report to Cabinet.
10. Since the establishment of the fund, Cabinet have agreed to 11 uses of the fund, four of which have completed with the funding recycled. Two of the Joint Venture Schemes have been fully repaid (Eastbourne JV and Heighington JV); the Feethams house investment is being repaid via occupier rents and the guarantee on the Darlington Sports Village of £2.1m is no longer required. The remaining seven are summarised below:-

Investment	Cabinet Agreement Date	£m's	Repaid	Balance £m's
Markets (MAMDL Ltd)	20/06/2017	1.80	-	1.80
Neasham Road: Relocation of Cattle Mart	06/03/2018	3.14	-	3.14
JV - West Park	03/04/2018	12.00	-	12.00
JV – Middleton St.George	08/01/2019	4.70	3.30	1.40
JV –ESH/DBC North East	03/12/2019	9.50		9.50
Land Acquisition - Faverdale	31/03/2020	1.30		1.30
JV - Neasham Road	15/09/2020	8.50		8.50
Total		40.94	3.30	37.64

Investment update

Market Asset Management

11. In 2017 the Council entered into a lease with Market Asset Management Ltd (MAM) for the management, refurbishment of the Victorian Indoor Market and the management and improvement of Darlington's outdoor market. As part of the lease MAM are obliged and committed to invest £1.5m (plus VAT) in repairs to the roof and structure of the building and improvements to the mechanical and electrical supplies, ventilation and heating system. A loan of £1.8m was made available to MAM to assist with the upfront expenditure and this is being repaid at state aid compliant rates which will benefit the Council to the tune of around £0.278m. In 2020 members further agreed to allocate £2.050m investment from the Tees Valley Indigenous Growth Fund into the Victorian Indoor Market for the development of the temperate garden and food and beverage outlets.

12. The refurbishment programme is delivered in three phases. The first phase, which commenced in January 2021, includes the refurbishment of approximately 50% of the market hall which will accommodate six street food stalls, a bar, communal seating, new entrance area and new public toilets and an area for live entertainment. This phase has also seen a major refurbishment of mechanical and electrical infrastructure and the installation of a bio-mass heating system. The vast amount of this work was carried out by a local Darlington construction company. MAM will produce and manage a full events diary and focus efforts on driving family-based evening economy to benefit the market and the wider town-centre and to dovetail with ongoing improvements to the outdoor markets and enhance events programme, which are all set to continue.
13. Phase 2 which will commence in September 2021 will focus on improving and refurbishing the existing trading floor, with phase 3 being the installation of a temperate garden on the east elevation of the building replacing the old canopy and redevelopment of large sections of the market vaults into a bar and restaurant. It is anticipated that this work will commence in 2022.

Neasham Road: Linked to Relocation of Cattle Mart

14. In March 2018 Cabinet agreed to purchase the land at Neasham Road from the Darlington Farmers Auction Mart and others to help facilitate the move out of the town centre. This was in recognition that the location was unsuitable for a Mart operation, both undesirable in the context of wider regeneration opportunities and impacts on the neighbourhood around Bank Top, and furthermore is constraining DFAM's growth opportunity. The acquisition of the land at Neasham Road not only assisted with this priority but enables the Council to bring forward significant additional development of affordable and social housing to meet an identified need within the borough
15. £3.14m was allocated from the investment fund being the balance of funding required for the move. The funding will be repaid from future Section 106 receipts from affordable housing along with any capital receipts received from the site. This scheme has now received planning permission for the whole site for the development of 449 homes, 155 privately owned homes delivered by a Joint Venture company, 150 Council owned affordable houses and outline planning for 144 homes to a registered provider or council owned affordable homes.
16. Following the grant of planning permission, development of the site at Neasham Road is now underway with construction of the site infrastructure progressing very well. Subject to the weather it is expected that the part of the site earmarked for Council Housing will be the first to start in early 2022 followed shortly afterwards by the Esh/DBC JV development. Opportunities to acquire land in third party ownership adjacent to the site have been taken with a view to assembling further development opportunities.

West Park Joint Venture

17. The Council entered into a Joint Venture Company with our framework partners to build and sell houses at West Park and agree funding of £12m to facilitate this. The scheme is part of the larger West Park Village and will be completed over a seven-year period. The Council is anticipated to receive a pre-tax profit on the venture of £2.1m and is ahead of

target at present, it is anticipated returns will be higher than originally anticipated when the scheme is complete.

18. The site continues to see high levels of interest and good demand from potential buyers, at the time of writing the scheme is ahead of schedule with 82 plots either reserved, exchanged or legally completed. The site is experiencing some issues in regard to supply of materials due to the global pandemic with delivery periods for material extended, however good progress is being made and it is not anticipated it will affect the gross profit margin.

Middleton St. George Joint Venture

19. In January 2019 Cabinet approved the establishment of a Joint Venture company to provide the infrastructure, build and sell 55 new homes private sale and affordable in Middleton St George. All plots have been sold or reserved and the anticipated pre-tax profit dividend is anticipated to be higher than the original estimate of £0.594m, this will be confirmed in the year end accounts. Furthermore as the scheme was slightly delayed due to Covid the surplus on the loan arrangements will also be higher than budgeted.

Esh DBC JV Limited

20. Building upon the success of the joint venture housing companies, Cabinet approved the establishment of a joint venture company in December 2019 to provide the infrastructure, build and sale of homes under an investment programme within the North East under the company name Esh DBC JV Limited.
21. This company takes a longer-term view and is not site specific which enables funds to be reinvested over a longer term. All sites are subject to qualifying investment criteria for residential development and it is envisaged the sites would be outside the boundaries of Darlington but within the North East region.
22. The company is based on a 50:50 split between the Council and Esh Homes Ltd with the company delivering profits equally the two parties. The estimated average pre-tax profit share for the Council per annum is £1m however cashflows will be recycled into new land and WIP until the fourth year of operation when the first dividend of £1m is anticipated.
23. The company is still in its infancy however one site has been purchased for the development of 75 houses in the Gateshead area and pre-construction works are progressing.

Neasham Road Joint Venture

24. Cabinet agreed to establishing a Joint Venture company with our framework partners to build and sell houses on the Neasham Road site. The company has been set up and as noted in paragraph 16, infrastructure works are progressing well with the first homes for sale anticipated in 2022. Pre-tax profits from the site are anticipated at £1.1m.

Land Purchase – Land at Faverdale

25. An opportunity arose to purchase the 74 acres of land for employment use to the east of Faverdale East Business Park which Cabinet approved in March 2020. This is part of a long-term strategy for opening up land for development. A number of expressions of interest have been made with a view to developing out the Council's site and it is intended to bring a report to Cabinet in October with a recommendation for taking the site forward.

Summary

26. The investment fund has been used for 11 schemes to date four of which have been recycled back into the fund.
27. The agreed Investment fund of £50m has a commitment against it of £37.64m leaving a balance of £12.36m uncommitted.
28. The joint venture schemes are anticipated to generate over £6m in profit dividend to assist the Medium Term Financial Plan, along with a further surplus on loan repayments.
29. The investment fund is being utilised as envisaged facilitating wide economic benefits as well as a direct positive impact on the Councils financial position.