

**CABINET
6 SEPTEMBER 2022**

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 three 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 the joint venture schemes construction timescales, they are now back on track and sales are buoyant.
5. The Investment Fund is currently funding nine 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 recommendation is 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.

Brett Nielsen : Extension 5403

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 is 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. The Economic Growth and Finance Teams continue to look for new opportunities to provide development and financial returns to the Council through the use of the Investment Fund.
10. Since the establishment of the fund, Cabinet have agreed to 14 uses, five of which have completed with the investment recycled back into the fund. One of the five completed investments has completed during the last year, Middleton St George JV, with all houses sold and the investment fully repaid. The remaining nine are summarised below:-

Investment	Cabinet Agreement Date	Agreed Amount £m's	Repaid	Balance £m's
Markets (MAMD Ltd)	20/09/17	1.80	0	1.80
Neasham Road – Relocation of Cattle Mart	06/03/18	3.14	0	3.14
JV - West Park	03/04/18	12.00	5.90	6.10
JV - ESH/BC North East	03/12/19	9.50	0	9.50
Land Acquisition – Faverdale	31/03/20	1.30	0	1.30
JV - Neasham Road	15/09/20	8.50	0	8.50
Burtree Lane Garden Village	05/10/21	0.73	0	0.73
Feethams House	11/01/22	1.71	0	1.71
Land at Blackwell	22/07/22	0.70	0	0.70
TOTAL		39.38	5.90	33.48

11. The JV schemes are projected to provide a pre-tax return on investment of over £6 million once all houses have been sold. The three schemes that have already completed are estimated to provide a pre-tax return of over £1.9m once the accounts are finalised with £1.6m received to date (£1.345m after corporation tax).

Investment update

12. The following paragraphs provide an update on the individual schemes committed against the Investment Fund since the last report to Cabinet in September 2021.

Market Asset Management

13. In 2017 the Council entered into a lease with Market Asset Management Ltd (MAM) for the management and refurbishment of the Victorian Indoor Market and the management and improvement of Darlington's outdoor market.
14. As at the end of June 2022, MAM have drawn down £1.376m of the £1.8m loan which has been used to make physical improvements to the market building, including six new street food stalls, a new bar facility, new toilets, enhanced entrance areas, full mechanical and electrical improvements, the installation of a bio-mass boiler and repairs to the market roof. Further improvements planned to commence in August 2022 include ground floor enhancements, further improvements to entrances, café unit, basement bar and accessible, public and trader toilet improvements. Works are due to be completed by December 2022.

Neasham Road: Linked to Relocation of Cattle Mart

15. 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. The acquisition of the land at Neasham Road not only assisted with this priority but enables the Council to bring forward a significant additional development of affordable and social housing to meet an identified need within the borough
16. £3.14m was allocated from the investment fund being the balance of funding required for the move. The funding will be repaid from Section 106 receipts from affordable housing along with any capital receipts received from the site. This scheme is now progressing with the construction underway for 155 privately owned homes delivered by a JV company (see below) and construction of 150 Council owned affordable houses is due to commence in early August.

West Park Joint Venture

17. The Council entered a JV company with our framework partners to build and sell houses at West Park and agreed funding of £12m to facilitate this. This 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, but 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 has sold all but one of the properties available for sale in 2022 and reservations have been made against the 2023 releases.

Esh DBC JV Limited

19. Cabinet approved the establishment of a JV company in December 2019 to provide the infrastructure, build and sell homes under an investment programme within the North East under the company name Esh DBC JV Limited.
20. 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.

21. 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.
22. The company is still in its infancy however one site has been purchased for the development of 75 houses in the Gateshead area. Good progress at this site, has all houses available for sale in 2022 sold, with further reservations made against the 2023 release.

Land Purchase – Land at Faverdale

23. The Council acquired 74 acres of land for employment use to the east of Faverdale East Business Park following approval in March 2020. Cabinet agreed in October 2021 to seek expressions of interest for a preferred developer of the site which has been marketed through informal tender requesting unconditional offers for the site. The closing date for the tender is 2nd September 2022, at which point submissions will be analysed before returning to Cabinet to consider options.

Neasham Road Joint Venture

24. Cabinet agreed to establishing a JV company with our framework partners to build and sell houses on the Neasham Road site. The company has been set up and infrastructure works are progressing well, with all the properties that will be available for sale in 2022 already sold and reservations made against the 2023 release. Pre-tax profits from the site are anticipated at £1.1m.

Burtree Lane Garden Village

25. The Council have engaged the services of ESH Homes Limited to help facilitate an early planning application for Council owned land at Faverdale. This forms part of the Burtree Lane Garden Village site, which subject to planning will provide approximately 188 new homes and provide a capital receipt to the Council as the site is developed. This receipt will be used to repay the investment from the Investment Fund.

Feethams House

26. Cabinet agreed to the repayment of £1.7m of European Regional Development Funding (ERDF) to the Government received for the construction of Feethams House, to facilitate the temporary use of the building by the Treasury and Other Government Departments. This repayment was required as the change in use no longer met the ERDF funding criteria to provide high quality office accommodation to small and medium enterprises. The grant is to be repaid over a three year term and will be reimbursed through rental income received from the Darlington Economic Campus occupants.

Land at Blackwell

27. Cabinet agreed to the disposal of 5.2 hectares of land on the former Blackwell Grange golf course for housing development. It was also agreed to undertake feasibility works to develop a plan for parkland restoration surrounding the Blackwell Grange Hotel, funded from the Investment Fund and to be repaid from the capital receipt on sale of the land. The sale of the land will fund the wider restoration of the parkland and retain historic pleasure walks and landscaping features.

Summary

28. The Investment Fund has been used for 14 schemes to date five of which have been recycled back into the fund.
29. The agreed Investment Fund of £50m has a commitment against it of £33.48m, leaving a balance of £16.52m uncommitted.
30. The JV schemes are anticipated to generate over £6m in pre-tax profit dividend to assist the Medium Term Financial Plan, along with a further surplus on loan repayments.
31. The Investment Fund is being utilised as envisaged facilitating wide economic benefits as well as a direct positive impact on the Councils financial position.