

CABINET
5 SEPTEMBER 2023

ANNUAL REVIEW OF THE INVESTMENT FUND

**Responsible Cabinet Member -
Councillor Mandy Porter, 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 £6.7m and three of the JV schemes have completed with the investment fully repaid and recycled back into the fund.
4. The Investment Fund is currently funding ten schemes as detailed in the report.

Recommendation

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

Reasons

6. The recommendation is supported by the following reasons:-
 - (a) To keep Cabinet informed of progress made on opportunities undertaken and investment returns.
 - (b) To increase development opportunities and 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

7. 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.
8. 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 using the Investment Fund.
9. Since the establishment of the fund, Cabinet have agreed to 15 uses, five of which have completed with the investment recycled back into the fund. The remaining ten 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	6.42	5.58
JV - ESH/BC North East	03/12/19	9.50	0	9.50
Land Acquisition – Faverdale	03/03/20	1.30	0	1.30
JV - Neasham Road - Elderbrook Park	15/09/20	8.50	2.25	6.25
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
JV – Neasham Road – Hurworth Gardens	03/07/23	6.70	0	6.70
TOTAL		46.08	8.67	37.41

10. The JV schemes are projected to provide a pre-tax return on investment of over £6.7m once all houses have been sold. Receipts from the three schemes that have already completed have provided post tax dividends of £1.575m to date.

Investment update

11. The following paragraphs provide an update on the individual schemes committed against the Investment Fund since the last report to Cabinet in September 2022.

Market Asset Management

12. 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.
13. The first phase of development included the construction of six street food stalls, new toilets, enhanced entrance areas, a new bar facility, full mechanical and electrical improvements, the installation of a bio-mass boiler and repairs to the market roof.
14. Additional works to the market funded from outside of the Investment Fund include, phase two of the redevelopment which commenced in August 2022 and includes additional new toilets improvements to the entrance area to the traditional trading area, general enhancement of the market and a new bar facility in the vaults area of the market. These works were completed in March 2023.

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 new houses for sale 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 Cattle Mart and Neasham Road sites. This scheme is progressing with the construction underway for 155 privately owned homes delivered by a JV company and construction of 150 Council owned affordable houses. It has recently been agreed the final plot of land on the site is sold to a new JV partnership with ESH and a capital receipt is expected before the end of 2023 (see below).

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, to date £6.42m of this has been repaid. This scheme is part of the larger West Park Village and will be completed over a seven-year period. The current projection is that this scheme will provide a higher return than the originally anticipated pre-tax profit of £2.1m, once the scheme is completed. To date £1.0m of post-tax dividend has been received.
18. The site continues to see high levels of interest and at the time of writing 32 of the 36 properties available for sale in 2023 have been sold or reserved and two reservations have been made against the 2024 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 between 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. One site has been purchased for the development of 75 houses in the Gateshead area.
22. Good progress with sales is being made at this site, with 41 of the 50 properties made available in 2023 either sold or reserved, with two reservations made against the 2024 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. Unfortunately, due to the unexpected changes in the economic climate in late 2022 the submitted expressions of interest did not reflect best value for the Council to proceed. A further market testing procedure will commence in autumn 2023.

Neasham Road Joint Venture - Elderbrook Park

24. The Council entered a JV company with our framework partners to build and sell houses at Neasham Road and agreed funding of £8.50m to facilitate this, to date £2.25m of this has been repaid to the Council.
25. The site continues to see high levels of interest, with 39 of the 42 properties made available in 2023 either sold or reserved, with one reservation made against the 2024 release.
26. Pre-tax profits from the site are anticipated at £1.1m.

Burtree Lane Garden Village

27. 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. Work progresses with the sale of the site, and it is estimated that a sale will be completed in 2024.

Feethams House

28. 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

29. 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. Work progresses with the sale of the site, estimated to be completed in 2024.

JV Neasham Road Cell C - Hurworth Gardens

30. Following the successful completion of preliminary surveys (approved by Cabinet 8/11/22) a planning application has been submitted for the delivery of 144 houses and in July 2023 Cabinet approved the establishment of the Joint Venture Company between the Council and Esh Homes to acquire the land, deliver infrastructure and build and sell new homes at Neasham Cell C. The estimated pre-tax profit share for the Council is £0.694m on completion of the scheme.

Summary

31. The Investment Fund has been used for 15 schemes to date five of which have been recycled back into the fund.
32. The agreed Investment Fund of £50m has a commitment against it of £37.41m, leaving a balance of £12.59m uncommitted.
33. The JV schemes are anticipated to generate over £6.7m in pre-tax profit dividend to assist the Medium Term Financial Plan, along with a further surplus on loan repayments.
34. The Investment Fund is being utilised as envisaged facilitating wide economic benefits as well as a direct positive impact on the Councils financial position.