

**CABINET
10 SEPTEMBER 2024**

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 £7.5m 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 10 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

Council Plan	The use of the Investment Fund contributes to economic development, regeneration and activity therefore contributing to the Council Plan priority. ECONOMY - building a strong sustainable economy and highly skilled workforce with opportunities for all.
Addressing inequalities	This report is providing an update on the financing of schemes therefore there is no impact as a result of this report.
Tackling Climate Change	This report is providing an update on the financing of schemes therefore there is no impact as a result of this report.
Efficient and effective use of resources	The utilisation of the Investment Fund is likely to increase Council income in this and future years.
Health and Wellbeing	This report is providing an update on the financing of schemes therefore there is no impact as a result of this report.
S17 Crime and Disorder	This report has no implications for crime and disorder
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 report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
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 an 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 still require a full detailed business case report to Cabinet for approval.
9. 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.
10. Since the establishment of the fund, Cabinet have agreed to 16 uses, six of which have completed with the investment recycled back into the fund. At the end of the first quarter 2024/25 there are 10 remaining schemes as 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	0.64	2.50
JV - West Park	03/04/18	12.00	12.00	0.00
JV - ESH/DBC North East	03/12/19	9.50	0	9.50
Land Acquisition – Faverdale	03/03/20	1.30	0	1.30
JV - Neasham Road – Elder Brook Park	15/09/20	8.50	3.75	4.75
Burtree Lane Garden Village	05/10/21	0.73	0	0.73
Feethams House	11/01/22	1.71	1.04	0.67
JV – Neasham Road – Hurworth Gardens	03/07/23	6.70	0	6.70
JV – Blackwell Grange	09/01/24	8.48	0	8.48
TOTAL		53.86	17.43	36.43

11. The eight JV schemes approved to date are projected to provide a pre-tax return on investment of over £7.5m once all houses have been completed and sold. Receipts from the three schemes that have already completed have provided post tax dividends of £1.575m.

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 2023.

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. 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.
15. 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, two new hospitality venues and a new bar facility in the vaults area of the market. These works were completed in March 2023. A further phase which included a full refurbishment of the retail area was completed in August 2024. This now provides an additional 10 stalls of which four are currently occupied by new traders and heads of terms have been agreed for three more traders.
16. With the completion of Phase 3, detailed discussions with MAM on the terms for the repayment of the loan facility have commenced and will be reported back to members when complete.

Neasham Road: Linked to Relocation of Cattle Mart

17. 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 new houses for sale and social housing to meet an identified need within the borough.
18. £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. To date £0.64m has been repaid. This scheme is progressing with the construction underway at Elder Brook Park and Hurworth Gardens sites. (see below).

JV West Park

19. 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 funding has been drawn down against this allocation and all of this has been repaid. As this scheme is now in the later phases it is not expected that any further draw down of funding will be required and therefore the balance outstanding on the Investment Fund is shown as fully repaid.
20. 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.

21. The site continues to see high levels of interest and at the time of writing 26 of the 32 properties available for sale in 2024 have been sold or reserved.

JV Esh/DBC North East

22. 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.
23. This company takes a longer-term view and is not site specific which enables funds to be reinvested over a longer term. A number of sites are under consideration and two have commenced construction at Gateshead and Trimdon.
24. Good progress with sales is being made at the Gateshead site, with nine of the 13 properties made available in 2024 either sold or reserved.
25. The new site at Trimdon (Bluebell Gardens) has recently commenced construction with one of the four properties available in 2024 sold to date.

Land Purchase – Land at Faverdale

26. 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. The site was marketed through informal tender but due to changes in the economic climate in late 2022 the submitted expressions of interest did not reflect best value for the Council to proceed.
27. Developer interest remains in the site and the Council is continuing to explore development uses for the site.

JV Neasham Road – Elder Brook Park

28. The Council entered into 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 £3.75m of this has been repaid to the Council.
29. Pre-tax profits from the site are anticipated at £1.1m.
30. The site continues to provide high levels of interest, with all of the 32 properties initially made available in 2024 either sold or reserved.

Burtree Lane Garden Village

31. The Council have engaged the services of Homes by Esh the Council's JV partner to help facilitate an early planning application for Council owned land at Faverdale. This forms part of Phase 1 of the Burtree 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 Fund.

32. Work has progressed with the sale of the site, however planning and infrastructure tendering delays have pushed back the anticipated sale completion date to the first quarter of 2025.

Feethams House

33. 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 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.
34. 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. To date £1.04m has been repaid to the Investment Fund.

JV Neasham Road - Hurworth Gardens

35. 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 in July 2023 and agreed funding of £6.7m to facilitate this.
36. The estimated pre-tax profit share for the Council is £0.694m on completion of the scheme.
37. Sales at the site are progressing very well with 17 of the 26 properties made available in 2024 either sold or reserved.

JV Blackwell Grange

38. Cabinet approved the creation of a new Joint Venture Company between the Council and Esh Homes to acquire land and undertake associated works to deliver housing and landscape restoration works to parkland at Blackwell in January 2024. Funding of £8.48m was agreed to facilitate the works, with an expected pre-tax profit share of £0.871m for the Council once works and all properties are sold.

Summary

39. The Investment Fund has been used for 16 schemes to date, six of which have been recycled back into the fund.
40. The agreed Investment Fund of £50m has a commitment against it of £36.43, leaving a balance of £13.57m uncommitted.
41. The JV schemes are anticipated to generate over £7.5m in pre-tax profit dividend to assist the Medium Term Financial Plan, along with a further surplus on loan repayments.
42. The Investment Fund is being utilised as envisaged facilitating wide economic benefits as well as a direct positive impact on the Councils financial position.