

CABINET
10 SEPTEMBER 2019

INVESTMENT FUND UPDATE

**Responsible Cabinet Member - Councillor Charles Johnson,
Efficiency and Resources Portfolio**

Responsible Director - Paul Wildsmith, Managing Director

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 vehicles and economic regeneration initiatives. Returns on joint ventures are anticipated to be over £4m.
4. The fund is currently being used on eight schemes 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 to keep Cabinet informed of progress made on opportunities undertaken and investment returns.

Paul Wildsmith
Managing Director

Background Papers

Council report – 24 November 2016 – Investment opportunities

Council report – 29 November 2018 – Investment opportunities update and request to increase the fund.

Elizabeth Davison : Extension 5830

S17 Crime and Disorder	No impact as a result of this report
Health and Well Being	No impact as a result of this report
Carbon Impact	No impact as a result of this report
Diversity	No impact as a result of this report
Wards Affected	No impact as a result of this report
Groups Affected	No impact as a result of this report
Budget and Policy Framework	There is not impact on the budget or policy framework.
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	No impact as a result of this report however the use of the fund is likely to enhance the Borough's economy.
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.
9. Since the establishment of the fund Cabinet have agreed to eight uses of the fund summarised below:-

Investment	Cabinet Amount £m's	Cabinet Agreement
JV - Eastbourne	1.50	08/11/16
JV – Eastbourne - Loan repaid	(1.50)	
Markets (MAMD Ltd)	1.80	20/06/17
Darlington Mowden Park arena - sports village	2.10	05/12/17 & 11/12/18
Neasham Road: Linked to Relocation of Cattle Mart	3.14	06/03/18
Feethams House	2.63	06/03/18
JV - West Park	12.00	03/04/18
JV - Heighington	6.10	29/06/18
JV – Middleton St.George	4.70	08/01/19
Total	32.47	

Investment update

Eastbourne Joint Venture

10. The Council entered into a joint venture partnership with Esh Homes following a procurement exercise to build and sell houses in Darlington. The Eastbourne JV scheme was for 60 homes and is nearing the completion with all properties built and sold and final accounts being prepared. The investment of £1.5m has been repaid and the Councils anticipated pre-tax profit is £0.800m, £0.300m higher than the £0.500m initially anticipated when the scheme was brought to Cabinet. Furthermore as the council provided a loan to the joint venture a further surplus of £0.080m on interest repayment has been made.

Market Asset Management

11. In 2017 the Council entered into a partnership agreement 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 partnership agreement 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.
12. Most of the activity so far has been preparatory work with the current tenants to ensure they appreciate what work is being proposed and that robust legal arrangements for their tenancies are in place. To date £0.413m has been advanced with the majority of the loan is anticipated to be made later in the year.
13. Members will recall following July's Cabinet meeting that further work has been carried out which includes the building of a winter garden on the East facing side of the market hall and the inclusion of a more extensive food and beverage offer in the market vaults area. Feedback received has been very positive and although finalisation of the total cost of this investment is not yet complete, it is based on estimates, and indications are that an additional £1.5m will be required which will be funded through the Tees Valley Combined Authority's Indigenous Growth Fund. If agreed it is likely works to both areas will be completed at the same time.

Darlington Mowden Park Arena – sports village.

14. In December 2017 Cabinet agreed at the request of Darlington Mowden Park (DMP), owners of the arena, to work collaboratively on a proposal for the Arena, the 23 acres owned by DMP and up to 42 acres of adjacent Council land to create a sports village (DSV) that will have an improved arena as a centrepiece asset with an artificial pitch and reconfigured concourse for events, together with a centre of excellence for sports, a new sports and leisure complex, village green, appropriate sports retail centre and a neighbourhood centre primarily geared to support local housing proposed on land to the west of Neasham Road.
15. To achieve the DSV the Council and DMP have been working together to examine and develop the vision and business plan. Subject to receipt of the business plan, the Council will undertake Due Diligence on the proposal including an independent assessment of its viability. Business plan preparatory work by DMP is ongoing but will be nearing completion in the next few months. Future reports on this will be presented to Cabinet.
16. Alongside its goal of seeing improved sporting provision in Darlington, the Council has a crucial interest in the long term future of the arena site as it provides the access to an adjacent 42 acres of Council land that could be suitable for a range of development opportunities. Regardless therefore as to whether this DSV proposal goes ahead it is important that the Council protects its position on future access to Council adjacent land.
17. To achieve this, the Council has negotiated and agreed a position where it will have a guaranteed right to step in and acquire the freehold of the Arena and DMP land in

certain scenarios and £2.1m has been earmarked as a guarantee should the Council wish to exercise its step in rights.

Neasham Road: Linked to Relocation of Cattle Mart

18. In March 2018 Cabinet agreed to purchase the land at Neasham Road from the Darlington Farmers Auction Mart and others that would help to facilitate the move out of the town centre. It has been a priority for the Council for a number of years as it was recognised that the current location is unsuitable for a Mart operation, undesirable in the context of wider regeneration opportunities, 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 assists with this priority but also subject to planning enables the Council to bring forward significant additional development of affordable and social housing to meet an identified need within the borough
19. £3.14m was allocated being the balance of funding required for the move. The funding will be repaid from future section 106 receipts from affordable housing and along with any capital receipts received from the site. This scheme is currently being planned with development unlikely to start for at least 12 months with the anticipation that funding won't be repaid for a number of years.

Feethams House

20. The Feethams area has seen significant regeneration activity and change in the last 5 years, with 1 key gateway site remaining undeveloped. Darlington Town centre is poorly served with Grade A office accommodation and the establishment of Grade A office accommodation in the town centre has always been seen as the final piece in the Feethams Strategy. In March 2018 Cabinet agreed to allocate £2.63m from the investment fund being the balance of funding on the Feethams House Office development, ERDF and TVCA monies make up the remaining cost. The Council funding represents borrowing and the borrowing costs will be repaid from rentals when the building is occupied. Members can see the progress being made on the building which will attract tenants in 2020
21. Work is ongoing to secure tenants and there has been positive interest from a number of parties, however until the building is completed it is very difficult to secure tenancies especially from SME's.

West Park Joint Venture

22. 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 £1.686m and further surplus on interest payments from the loan of over £0.7m
23. The venture is in its early stages, both the land deal and the Joint Venture agreement have recently been completed and work commenced at the beginning of August.

Heighington Joint Venture

24. Cabinet approved £6.1m to establish and fund a joint venture company to acquire the site and bring forward a residential development of 43 homes in Heighington. Homes are currently being built with the programme anticipated to finish in the third quarter 2020. At the time of writing the report six properties had exchanged. The Council is due to receive a surplus on the loan interest of £0.190m and a pre-tax profit on the scheme of £0.677m.

Middleton St. George Joint Venture

25. In January 2019 Cabinet approved the establishment of a Joint Venture company to provide the infrastructure, build and sell homes in Middleton St George. It is anticipated 55 homes, both new private sale and affordable will be available when the scheme is completed in 2021. It is anticipated the Council will receive pre-tax profit of £0.594m with a surplus on the loan of £0.170m. At the point of writing the report four properties have been sold.

Summary

26. The investment fund has been used for eight schemes to date as noted above. In November 2018 Council agreed that once funding has been repaid the amount can be recycled back into the fund for future use. This is the case for the Eastbourne joint venture, where the £1.5m funding has been fully repaid.
27. The agreed Investment fund of £50m has a commitment against it of £32.47m leaving a balance of £17.53m uncommitted.
28. The investment fund is being utilised as envisaged facilitating wide economic benefits as well as a direct positive impact on the Councils financial position.