

BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

**Report of Executive Director
of Place Directorate**

Barnsley Property Investment Fund 2 - Phase 1

1. Purpose of report

- 1.1 To seek approval to proceed with the delivery of a further phase of the Property Investment Fund.

2. Recommendations

It is recommended that:

- 2.1 **Cabinet approve the capital allocation of £3,750,000 to fund the ongoing delivery of the Property Investment Fund and associated supporting procurement activity.**
- 2.2 **Cabinet note that a further report will be provided recommending and seeking approval of preferred investments, costs and outputs.**

3. Introduction

- 3.1 This report seeks approval for the allocation of £3,750,000 of capital monies to undertake a second phase of the property investment fund scheme aimed at accelerating inward investment and indigenous business economic growth. Specifically, approval is being sought to move forward with the procurement activity relating to a relaunch of the fund, technical assessment of applications and identification of preferred schemes.
- 3.2 Existing intelligence obtained through the Property Forum has identified potential schemes which could be brought forward at a number of sites within Barnsley. Based on this intelligence, it is projected that the following economic outputs could be delivered*
- Creation of an addition 250,000 ft² of commercial property
 - 340 jobs
 - Annual business rate generation
 - £13.1m GVA contribution

*proposals are purely indicative at this stage with actual outputs to be determined through the procurement process

- 3.3 The Barnsley's Jobs and Business Plan contains an aspiration to move towards closing the gap with regional job densities by 2033. Based on the analysis of past trends it has been estimated, that with interventions, an ambitious yet more realistic jobs growth target of approximately 17,500 additional new jobs may be achievable by 2033.
- 3.4 To achieve this ambitious jobs target a twin track approach is being adopted in order to find the land and property to accommodate this scale of jobs growth. One strand is focussing upon the allocation of up to 300ha of new employment land as proposed in the Local Plan. This will provide the long term land supply needed to meet this target.
- 3.5 The other strand of this strategy is to ensure that our existing allocated employment sites are fully developed in order to maximise the job creation potential currently locked in undeveloped land in the Borough. The property investment fund is therefore proposed in the Jobs and Business Plan as the potential solution to stimulate speculative development on the existing employment sites whilst addressing the issue of viability gaps.
- 3.6 The availability of a ready supply of high quality modern commercial property is essential in any economy. Locations which have a number of commercial properties that are speculatively built (meaning built with no end occupier in mind) enables an area to capture footloose inward investment enquiries as well as accommodating quickly growing local companies. It is an essential component of job creation as well as safeguarding existing jobs in the area.
- 3.7 The original property investment fund completed delivery in 2016 and has been highly successful delivering the following key outcomes:
- Creation of an addition 230,000 ft² of commercial property
 - 298 jobs projected to be secured within the funded developments
 - Increase in rental values from £4.50 ft² to £5.50 ft²
 - £19 million of private sector investment secured.
- 3.8 From a demand perspective, currently the borough lacks an adequate supply and range of available property that is sufficient to meet the current and increasing demand. This can be evidenced by the following current stock levels:
- 0.7M ft² of available commercial Industrial and office accommodation (with over 73,800 ft² currently under offer, an additional 35,000 ft² premises recorded as being under offer in January 17).
 - 7 large scale units up to 25,000 ft²+
 - 0 units above 100,000 ft²
- 3.9 Over the past 12 months the stock of available accommodation in the borough has decreased by 25%, which has been predominately driven by a 30% decrease in the amount of industrial accommodation in the borough. Such overall declines in stock levels have occurred, despite the provision of additional premises of 230,000 ft² through the initial property investment fund.

- 3.10 Property enquiry levels are at the highest level for eight years and demand continues to outstrip the existing supply in the local market.
- 3.11 Sheffield City Region is currently in the process of establishing a regional property investment scheme which will predominately be focused on interventions within Enterprise Zone sites. The proposals contained within this report are intended to compliment the regional scheme focusing on speculative development on non Enterprise Zones therefore maximising economic growth potential within Barnsley.
- 3.12 Initial dialogue with the development industry indicates that viability gaps continue to exist within the commercial market. Should the Council not proceed with this enabling proactive intervention then it is unlikely speculatively commercial property will take place in the short term. Barnsley's commercial property stock will remain low and continue to decline. This will not only make it more difficult for indigenous companies to grow (therefore limited jobs growth and business rate income to the authority) but it will also make it more difficult to attract new inward investors to the Borough which could result in neighbouring areas landing the companies resulting in lost opportunities of new jobs and increased business rates.
- 3.13 This report seeks to build on the success of the initial property investment fund scheme and take on board lessons learnt, in order to bring forward additional speculative commercial property development within Barnsley contributing to our employment and business growth aspirations.

4. Consideration of alternative approaches

- 4.1 **Do nothing** – this is not felt to be a realistic option as it is unlikely speculatively commercial property will take place due to existing viability gaps for a period of time. Barnsley's commercial property stock will remain low and continue to decline. This will not only make it more difficult for indigenous companies to grow (therefore limited jobs growth and business rate income to the authority) but it will also make it more difficult to attract new inward investors to the Borough which could result in neighbouring areas landing the companies resulting in lost opportunities of new jobs and increased business rates.
- 4.2 **Council lead on the development of commercial stock** – This scenario would see the Council leading on the development of new commercial stock and either retaining ownership or selling property to potential purchasers. This option is not deemed to be feasible due to the fact that the Council does not own suitable land for this purpose and the significant financial requirement that makes this option unviable.

5. Proposal and justification

- 5.1 The reports seeks approval for the allocation of a first phase of capital monies to undertake a second property investment fund scheme. Appendix C of this report provides a high level overview of the proposed property investment fund application and approval process with key stages summarised in more detail below.
- 5.2 The focus of the property investment fund will be on facilitating the development of commercial properties which would otherwise be unviable without Council intervention where a clear economic business case exists. The key objectives of this exercise will be to deliver economic outputs in terms of job creation and business rate generation whilst minimising the risk of future financial exposure and ongoing costs for the Council.
- 5.3 The Council will seek to utilise existing procurement frameworks, or conduct a procurement event to engage a property specialist who will be responsible for relaunch of the scheme, application process and technical assessment of proposals. This specialist resource will report directly to and work with the Councils Head of Asset Management.
- 5.4 Private sector developers and land owners will be invited to participate in a transparent exercise, which will involve submitting development proposals, quantifying any viability gaps, the financial ask from the fund and the economic outputs of the proposals.
- 5.5 The appointed property specialist will work with the council and be responsible for undertaking a financial assessment and due diligence on submitted proposals, which will provide assurance of viability, build costs and economic outputs.
- 5.6 An internal assessment via the Property Investment Fund Project Board, linked to reports from the property specialist, will be undertaken on submitted proposals in order to select the preferred proposals based on cost, value for money, due diligence and economic outputs.
- 5.7 A further cabinet report will be presented requesting formal authorisation of preferred schemes and setting out the key conditions/ agreements of funding to minimise risks to BMBC
- 5.8 It is further proposed that short term project management resource will be secured for a period of 18 months providing additional resource capacity to deliver the PIF schemes.
- 5.9 In line with industry practice, it is proposed that a charge (entry fee) will be applied to individual scheme allocations enabling the Council to recover a proportion of their delivery costs which will include the specialist property support and project management resource.
- 5.10 Existing intelligence provides the following projected outputs from a Phase 2 PIF Scheme*

- Creation of an addition 250,000 ft² of commercial property
- 340 jobs created
- Annual business rate generation
- £13.1m GVA contribution

*proposals are purely indicative at this stage with actual outputs to be determined through the procurement process

6. Implications for local people / service users

- 6.1. It is anticipated that the scheme will have a significant beneficial impact on the local communities they serve through the generation of additional employment opportunities.
- 6.2. It is intended that developers will be encouraged through the award of investment fund resources to use local labour as well as ensuring that apprenticeships are built into the build and construction contracts..

7. Financial implications

- 7.1 Consultations on the financial implications have taken place with representatives of the Service Director (Finance Business Unit).
- 7.2 Approval is sought to establish the second phase of the Property Investment Fund totalling £3.75M, which has been earmarked as part of the wider capital allocations provisionally approved as part of the 2017/18 budget process.
- 7.3 It is proposed to use the initial allocation of £3.75M to provide financial support to commercial property development companies where a gap in the viability of a particular development has been identified. Specific schemes will be selected following due diligence based on cost, value for money and economic outputs.
- 7.4 An initial procurement exercise will be undertaken to engage a property specialist who will be responsible for the relaunch of the scheme, application process and support for the technical assessment of proposals. The cost of this is estimated to be in the region of £0.050M.
- 7.5 A dedicated Project Manager (grade 10) will also be appointed on a temporary contract for 18 months, who will be responsible for the overall management of the fund from the Council's perspective, managing the assessment and due diligence process of submitted proposals, providing further assurance of viability, build costs and economic outputs. This is estimated to cost around £0.065M.
- 7.6 The remaining £3.6M will be used to provide funding in the form of a grant to prospective developers and land owners. The award of funding will be subject to an application process and rigorous testing to ensure any proposed development meets the Council's aims and objectives. Consideration has

been given to the award of a loan rather than a grant although it is considered that this would not be attractive to the development market. In order to protect the Council's interest's specific conditions will be applied to any grant awarded where clawback of the grant will be actioned if specific outcomes are not met.

7.7 A further report will be produced to detail the proposed schemes, along with costs and outputs.

7.8 The financial implications are shown in Appendix A.

8. Employee implications

8.1 The proposals contained within this report will see the creation of a temporary grade 10 project manager role for a period of 18 months, This role will provide additional capacity over and above existing resource levels and will be dedicated to the delivery of the Property Investment Fund. The creation of the role will also help to protect the ongoing delivery of existing strategic economic priorities.

9.9. Communications implications

9.1 Communications support will be required throughout this process in order to promote the investment fund, schemes which are successful and longer term associated economic outputs.

10. Consultations

10.1 A dedicated cross authority project team has been established in order to coordinate the delivery of this scheme consisting of asset management, legal, procurement, finance, economic development, risk management and planning. A project board is also set up in terms of reporting on schemes, recommendations for cabinet and managing risks.

11. The Corporate Plan and the Council's Performance Management Framework

11.1. The proposals in this report are consistent with Council's Corporate Plan 2017-20 as it directly contributes towards the 'Growing the Economy' aspiration.

11.2. The Jobs and Business Plan sets out a clear set of metrics by which the overall success of the plan and this project will be defined.

12. Tackling health inequalities

12.1. Beyond the contribution that the creation of new jobs can provide in terms of reducing overall worklessness, there are no direct matters of relevance arising from this report.

13. Climate Change & Sustainable Energy Act 2006

- 13.1 Action to improve the energy efficiency of the proposed buildings will help to reduce carbon emissions. Support for the low carbon sector is also proposed in the Jobs and Business Plan.

14. Risk management issues

- 14.1 A comprehensive risk register has been created in relation to this report and full details are contained in Appendix B. This will be regularly updated and managed via the project board meetings

15. Health, safety, and emergency resilience issues

- 15.1 None arising directly from this report although there is the need to ensure all relevant staff are aware of health and safety issues when visiting the development sites. Site contractors will be responsible for ensuring visitors to sites have the correct PPE.

18. Reduction of crime and disorder

- 18.1 It is envisaged that if the schemes are successful in creating more jobs and getting local people employed, this will have an impact on crime and disorder.

19. Conservation of biodiversity

- 19.1 There are no matters of direct relevance arising from this report, although it will be essential to ensure the buildings constructed and the sites are checked for their impact on biodiversity.

20. Glossary

Property Investment Fund (PIF)

21. List of appendices

Appendix A - Financial Implications

Appendix B – Risk register

Appendix C – Property Investment Fund Application Process

22. Background papers

- 22.1 Cab.2.7.2014/7 Cabinet response to the scrutiny report: Creating the Conditions for Economic Growth and Greater Prosperity – Bringing Forward Development on Sites Earmarked for Commercial Units and the Creation of Employment Opportunities.

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