



Derby City Council

**COUNCIL CABINET**  
**14 February 2018**

**ITEM 12**

Report of the Cabinet Member for Communities  
and City Centre Regeneration

**Development of high quality office complex (Bold Lane)**

**SUMMARY**

- 1.1 This report seeks approval to progress the Business Case for a direct development by the Council of high quality, commercially-let offices at 6 Bold Lane. The development will be income generating and over-time self-sustaining.
- 1.2 The project will create quality workspace for growing businesses, addressing the market failure in the supply of larger, high quality office units in the City Centre. The development of this site will reinforce the Sadler Square area as a prime office location, bringing back into use a brownfield site and supporting the wider regeneration of the area. The overall purpose of the project is to support the much needed development of the office market in the city centre.
- 1.3 The development represents a new approach by the Council in the direct development and commercial operation of a large office building (net lettable area - 27,000 sq ft). The office development will cost £6.388m and requires Council investment through service financed borrowing and support from the Regeneration Fund.
- 1.4 It is proposed to progress the project through detailed design, development of a planning application, procurement and appointment of a contractor and construction of the building.
- 1.5 This report details the findings of the feasibility work, the rationale for progressing the preferred option and seeks Cabinet approval to deliver a high quality commercial development on Council-owned land at Bold Lane.

**RECOMMENDATION**

- 2.1 To approve the development of high quality, commercially-let office accommodation on the Council-owned Bold Lane site, in line with the recommendations of the Development Options Assessment (see the Bold Lane Business Case at Appendix 2).
- 2.2 To agree for officers to explore all delivery options for the project, including potential partnership arrangements with a private sector developer and to delegate authority to the Strategic Director for Communities and Place and Director of Finance, in consultation with the Portfolio Holder for Regeneration and Economy to pursue the delivery mechanism that proves most advantageous for the Council.

- 2.3 To delegate authority to the Strategic Director for Communities and Place following consultation with the Director of Finance, Cabinet Member for Governance and Finance and the Cabinet Member for Regeneration & the Economy to progress all actions necessary to progress and complete this project, including: procurement of a design team, submission of a planning application and entering into demolition and construction contracts changes to future management arrangements for the building and the granting of lease and other occupation agreements.
- 2.4 To approve the addition of the Bold Lane scheme to the Regeneration Capital Programme in line with the following profile; 2018/19 - £654,000, 2019/20 - £5.711m and 2020/21 - £23,000.
- 2.5 To recommend to Council the inclusion of £5.734m of service-financed borrowing to support the capital cost of the project on the Regeneration Capital Programme, in line with the financial profile and funding proposals set out in Appendix 1.
- 2.6 To approve an allocation of £654,000 from the Regeneration Fund to progress the scheme, the Regeneration Fund Sub-Programme Board agreed this allocation on 6 November 2017.
- 2.7 To approve a loan from the Regeneration Fund of up to £555,000 to meet the Corporate Borrowing and void revenue costs to Year 3, the Regeneration Fund Sub-Programme Board agreed this allocation on 6 November 2017.
- 2.8 To note and accept the risks and mitigation measures in place to deliver the project.
- 2.9 To approve the management of the building by the Council's *Connect Derby Team*.
- 2.10 To approve the submission of relevant external funding bids where appropriate to support the delivery of the Bold Lane scheme.

## **REASONS FOR RECOMMENDATION**

- 3.1 To enable the delivery of a high quality office development and stimulate the office market within the city centre. Taking forward this development will support the delivery of the City Centre Masterplan 2030 objectives.
- 3.2 Based on the outcome of the feasibility work, the preferred option requires the lowest initial investment by the Council and will achieve highest return on investment.
- 3.3 The preferred delivery model is a direct development by the Council, as set out in the report, however recent market soundings have indicated there may be an alternative delivery route through a partnership arrangement with a private developer. This option requires further, more detailed investigation to consider the impact on the risk profile – this option could have the potential to mitigate the delivery risk to the Council. The alternative delivery model would only be pursued if it would deliver the same or more positive NPV with reduced risk to the Council.



**SUPPORTING INFORMATION**

Bold Lane Business Case

- 4.1 The detailed Business Case for the Bold Lane project is attached in Appendix 2 and the sections are summarised below:
- 4.2 **Project description** - This project aims to improve the supply of offices in the city centre for businesses who want to locate there, or growing businesses looking to expand and as a result create new jobs in the city centre. The proposal is to deliver a high-quality four-storey office development, designed to be let as a whole or as single floorplates - the net area is 27,000 sq ft. There will be flexibility on the ground floor, for a reception area, a café and possible subdivision to create smaller offices.
- 4.3 **Strategic fit** - The City Centre Masterplan recognises that large office units are in short supply in the city centre and this market failure is holding back business growth. There are no Grade A offices available within the city centre and many of the key office development are being promoted for alternative uses. The Bold Lane project will deliver a Grade A office development in the City.
- 4.4 **Project rationale** - A series of office market assessments commissioned by the Council in recent years have indicated pent-up demand for new Grade A office accommodation within Derby city centre. However, current rental values do not create a sufficient margin to attract the delivery of new speculative office development by the private sector. Therefore without intervention by the Council there will continue to be a lack of Grade A office accommodation and those companies interested in returning to the city centre will either be forced to remain in out of town locations or potentially relocate elsewhere outside the city.
- 4.5 **Project benefits** – The project will contribute to an increase in confidence in the city centre office market and stimulate the market to bring forward high quality office accommodation, increasing the value of a Council owned asset. The project will provide grow-on space for businesses and contribute to the creation and retention of jobs in the city centre. The scheme will lead to an increase in business rates.

- 4.6 **Financial model** –The cost of the project is £6.388m, with £654,000 as an up-front grant from the Regeneration Fund and capital investment of £5,734m funded through Service Financed Borrowing. In the first year of operation, the borrowing and void revenue costs will be met through a loan from the Regeneration Fund of £555,000 which would be repaid to the Fund. The project is self-financing, generating rental income to support Council borrowing and the Regeneration Fund loan. The Investment Appraisal and details of the assumptions made within the appraisal are appended as part of the Business Case. The Investment Appraisal demonstrates the project is a positive investment for the Council.
- 4.7 The outcome of soft market testing completed in September 2017 supports the rental income assumptions for the project along with the assumed rent free period. The Soft Market Testing Report is contained in the Business Case.
- 4.8 **Project management** – The project will be managed within the Regeneration Projects service and has a dedicated Project Manager. A Project Team has been established involving officers from Finance, Legal, Estates, Asset Management, Procurement and Connect Derby.
- 4.9 A high level delivery programme is set out in the Business Plan, it is anticipated a Design Team will be procured following Cabinet approval, a planning application submitted in June 2018 with construction commencing Autumn 2018.
- 4.10 **Key Project Risks** - The key project risks are listed below, a detailed risk register is included as part of the Business Case:
- Construction cost overrun.
  - Achieving predicated occupancy levels and rental values.
  - Securing tenants within estimated void/ rent free periods.

## OTHER OPTIONS CONSIDERED

- 5.1 **Site development options**  
Three development options for the site have been assessed, further detail on the options, costs and net office area are contained in the Business Plan – Project Description.
- 5.2 **Marketing and disposal of the land in the Council's ownership.**  
This is not considered to be a serious option as it could lead to a development scheme which is unlikely to deliver high quality office accommodation and could negatively impact on Sadler Bridge Studios and the value of this asset.

- 5.3 **Secure a pre-let before progressing the project.**  
While a pre-let would reduce the risk to the Council, this option could result in a major delay to the development of the site. There is a possibility that a pre-let could be secured while the project is being developed, marketing will commence once the project is approved and a planning permission is secured.
- 5.4 **Explore a joint venture approach with a private sector developer.**  
The Feasibility and Options Assessment evidences market failure, however recent market soundings have indicated there may be an alternative delivery route through a partnership arrangement with a private developer. This option requires further, more detailed investigation to consider the impact on the risk profile – this option could have the potential to mitigate the delivery risk to the Council. The delivery model would only be pursued if it would deliver the same or more positive NPV with reduced risk to the Council.
- 5.5 **Bring forward a mixed use development;**  
The implementation of a mixed use development has been pursued previously by Cityscape and Blueprint, the schemes have not been viable due to market failure.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Estates/Property officer</b>  <b>Service Director(s)</b> <b>Other(s)</b>	Emily Feenan – Principal Lawyer Amanda Fletcher – Head of Finance Zoe Bird – HR Shared Services Manager Jayne Sowerby- Warrington – Head of Strategic Asset Management and Estates Greg Jennings – Director of Regeneration, Property and Housing Projects Catherine Williams – Head of Regeneration Projects
<b>For more information contact:</b> <b>Background papers:</b> <b>List of appendices:</b>	Emma Dann 01332 643047 emma.dann@derby.gov.uk Appendix 1 – Implications Appendix 2 – Business Case – Confidential - not for publication

<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 The Bold Lane Investment Appraisal includes the following investments:
- The capital investment to develop the scheme including demolition, professional fees, other fees and contingencies.
  - Regeneration Projects Staff Costs.
  - Marketing and agents fees.
  - Regeneration Fund loan repayment.
  - Management, maintenance, servicing cost of communal areas.
  - Service charge.
- 1.2 The net capital investment required for the project is £5,734m; £6,388m gross capital cost, less a one-off capital grant of £654,000 from the Regeneration Fund. The £5.734m will be met from Service Financed Borrowing.
- 1.3 In the first years of the development borrowing and void costs will exceed income generated. A £555,000 Regeneration Fund loan will be used to meet these revenue costs. The loan will be repaid to the Regeneration Fund over a six year period from the projects second full year of operation which is expected to be 2021/22.
- 1.4 The appraisal is built on a self-financing model with income generated through;
- Rental income
  - Increase in business rates
- Borrowing costs are to be serviced from rental income; income generated from commercial letting of the finished building. The impact of void periods and associated costs have been factored in to the Investment Appraisal. Operational costs of the building and a service charge to tenants have also been included.
- 1.5 There is expected to be a lead in until the building is fully let where income is at a level where it is able to meet associated costs. It is proposed that the Regeneration Fund meets this shortfall in the first year by way of an interest-free loan, repayable from year three (2021/22) onwards. The Investment Appraisal assumes the Regeneration Fund loan will be repaid over a six year period.
- 1.6 The investment appraisal shows a positive net present value and an internal rate of return over the 40 year appraisal period, demonstrating a positive investment for the Council.

- 1.7 The building will require facilities management and there is likely to be a requirement for a centralised reception as well as management and maintenance of internal and external communal areas. It is proposed that the Council's *Connect Derby Team* could manage the building, but the development will not require the same level of service as other Connect buildings. The management, servicing and maintenance costs associated with the communal areas of the building will be built into the building service charge. This approach is in line with market expectations and supported by the advice through the feasibility work.

## **Legal**

- 2.1 There are no specific legal implications arising from this report. Legal Services will provide advice and support in relation to procurement procedures and contractual terms for appointment for key contractors. In addition, ongoing support and advice is provided in relation to compliance with funding conditions and to ensure overall project governance.

## **Personnel**

- 3.1 There is expected to be a need to recruit additional staff to Connect Derby to manage the Bold Lane project, as this will be an increase to the current Connect Derby service. The building management requirements and level of increase in staffing will be confirmed in the coming months and HR will be consulted on the staffing requirements.

## **IT**

- 4.1 The new building will provide Grade A office accommodation and the capital build will include the installation of IT infrastructure eg, cabling for broadband and network access and well as phone lines for telecommunications and monitoring security alarms. IT services will be part of the multi-disciplinary project team, advising on the development of the detailed specification for the building's IT requirements.

## **Equalities Impact**

- 5.1 The detailed designs for the Bold Lane Office building will need to comply with the Equality Act requirements and Building Regulations. The need for a changing places facility in this part of the city centre has been identified, the opportunity to meet this need will be considered as the synergy between the Bold Lane scheme and Sadler Bridge Studios is confirmed through the design process.

## **Health and Safety**

- 6.1 Surveys will be required for asbestos and land contamination prior to demolition and redevelopment.

## **Environmental Sustainability**

- 7.1 Through the detailed design phase of the project consideration will be given to

sustainable environmental construction and measure to reduce the environmental impact of the building, for example installing PV panels and use the energy to part power the building.

## **Property and Asset Management**

- 8.1 In order to minimise the risk associated with this project it is recommended that:-
- The financial appraisal is revisited at suitable gateway points of the project i.e. before contractors are appointed to ensure the latest market conditions relating to rental levels/demand are taken into account. This should include a robust sensitivity analysis.
  - The level of building maintenance costs incorporated in the financial assessment be reviewed at the end of the design stage to assess the impact of the financial viability of the project.
  - As soon as practicable, Agents should be appointed to market the property in order to minimise the initial void period.
- 8.2 The servicing and maintenance costs will be built into the building service charge. It is anticipated that the service charge will cover the costs associated with servicing and maintenance however this level of charges need to be reviewed on a periodic basis.
- 8.3 Strategic Asset Management and Estates has been and will continue to be part of the multi-disciplinary project team involved throughout the project.

## **Risk Management and Safeguarding**

- 9.1 The project risk register is contained in the Business Case.

## **Corporate objectives and priorities for change**

- 10.1 The project addresses a key priority within the City Centre Masterplan 2030.