


| Business Case | |  |
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| <i>The business case expands the project brief into a structured evidence based logical argument, why decision makers should approve the case for the project to proceed to the next stage.</i> | | |
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| | Iain Brown | 07/04/18 |
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| Project Name | Commercial Property Acquisition Fund & Enhanced Asset Management | |
| Project Reference (if applicable) | | |
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| Date Approved | | |
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Introduction and Background

Selby District has clear objectives for Enterprise and Business growth as laid out in the Corporate Plan and the Economic Development Framework (EDF). The central objective within the EDF is the need to develop the necessary physical infrastructure to unlock economic growth which will then attract new business investment to create more employment opportunities within the private sector, while at the same time engaging with existing businesses to support growth and resilience. The drive to grow and expand business across the district also supports the objective to develop a long term programme of market town regeneration to boost the visitor, leisure and night time economy.

The key objectives behind the Commercial Property Acquisition Fund and Enhanced Asset Management Programme are twofold:

- to create an investment platform from which tangible direct returns on investment (ROI) can be generated through the acquisition of appropriate commercial properties – secured through rental income.

- to give the Council the ability to directly influence, participate and acquire commercial property that will have a direct bearing on the delivery of its Corporate Plan, Economic Development and Place Making goals;

In the process of pursuing this approach there is the potential to work in partnership within the public sector (e.g. NYCC has its own commercial property investment strategy) and the private sector and site owners/developers.

Scope

The scope of this programme is to acquire commercial property in line with Economic Development Growth and Place Making objectives with the goal of fulfilling a market need and generating revenues and a direct ROI. The scope does not include purchase of residential property.

To reflect this new approach and ensure that any proposals for commercial acquisitions are determined against a clear set of objectives and match our corporate priorities we intend to commission a quick but full review of the Council's Asset Management approach - to develop a revised Asset Management Policy that encompasses acquisitions, a new Asset Management Strategy and a revised Asset Management Plan.

Objectives or reasons for the project

The overall objective of this programme is to acquire and invest in commercial property, including to meet unfulfilled market needs, while at the same time creating the best achievable direct return on the Council's investment.

The new Asset Management Policy and Strategy will set out a clear set of objectives for considering commercial acquisitions as set out above that will include links back to our Corporate Plan and EDF as well as achieving an appropriate ROI.

For example the offering for sale of redundant NatWest Bank premises with strategic locations in Tadcaster and Selby provides the opportunity to influence place making while at the same time delivering tangible long term financial returns. Equally the opportunity to invest in purpose build industrial units to fulfil a specific market need that is not being satisfied by the free market can be considered when both a specific demand exists (e.g. small scale industrial units between 5,000 and 10,000sq.ft) and the opportunity to invest arises such as availability at a Strategic Development site e.g. Sherburn2. By unlocking a shortage of certain types of business unit, growth opportunities are realised, creating greater business rate revenues, rent revenues and tangible asset ownership.

Benefits and outcomes

The Council's savings plan is assuming that savings/income of £250k per annum by 2020 can be achieved from direct return on investment (ROI) secured through the Programme for Growth. This new project proposes a commercial property investment fund of £2.5m. Added to the £1m previously agreed at Council in December 2017 for commercial property acquisition, this will give us an Commercial Property investment pot of £3.5m. If we achieve a direct ROI of 7% then this will generate the £250k savings required by 2020.

Another key benefit of this programme is that it allows to Council to intervene when either the free market is not responding to market needs or an opportunity arises that will allow the

Council to directly influence place and community needs in accordance with it's the Corporate Plan and Asset Management Policy and Strategy.

Directionally, it is intended that that this fund be used to acquire commercial property to generate additional long term direct revenue through rental income. This may be achieved solely by the Council or in partnership, such as NYCC, with the aim to maximise financial return while at the same time addressing critical market needs.

Typically in the private sector investment in purpose built commercial property generates a minimum of 5% or more per anum - with variances between industrial units and office space that commands a premium.

Less tangible benefits for such an approach can result in creating targeted business growth opportunities currently not supported by the private sector thereby retaining growth business within the district and contributing towards growth in business rate revenues.

Options appraisal

This programme is primarily based upon market driven opportunities that arise across the district and each has to be assessed individually in order to determine whether they meet the core needs as and when they occur. The options under consideration will include both existing properties that become available for purchase and redevelopment and the opportunity to invest in property off plan or newly constructed.

Whichever options become available full consideration will be given to how the purchases can best be financed, should SDC be the sole purchaser or is there an opportunity to work in partnership either with NYCC or a particular developer? It will be determined which approach is the most beneficial option to SDC in terms of scale of the transaction; the financial returns; the need for specialist services; the minimisation of risk and development needs.

Recommendation

It is recommended that in order to fulfil the objectives of this programme all suitable properties that become available for purchase or development be reviewed against a set of agreed commercial and place making criteria and informed by the proposed new Asset Management Policy and Strategy. Once the required commercial and financial analysis is complete and subject to them meeting all considerations, authorisation to proceed will be sought from the Executive.

Outline Project Plan

Due to the nature of this programme no specific time scales can be given other than, subject to the availability of suitable investment opportunities the transactions will commence within the financial period 18/19 to 19/20.

Individual property acquisitions will be the subject of their own Business Cases and Project Plans that will be determined at the time and will take into consideration the impact of external market influences.

Resources and Finance

Members agreed a £1m fund for acquiring Commercial Property at Council in December 2017. We are actively pursuing a number of opportunities using this fund.

This new project would provide an additional £2.5m of funding for acquiring further commercial property, giving a total fund of £3.5m.

This level of funding is required if we are to achieve the direct ROI of £250k by 2020 from the Programme for Growth assumed in the Councils savings plan.

Risks / Issues

There is a risk there may be no properties that meet the criteria and budget set aside for this programme. This could be due to the lack of availability of suitable investment targets or how competitive we can be in open market transactions.

While a full financial analysis will be completed for each project under consideration, the property market is volatile and there are risks that forecast returns and asset values will change and be subject to external factors outside our control. These issues will be fully considered in developing the Business Case for individual purchases and only recommended for approval if the risk profile is satisfactory.

In acquiring appropriate properties we have the responsibility to ensure that they are fully utilised as set out during the research supporting the purchase. There is reputational risk to the Council in the event that such properties are not utilised either in full or as originally intended.

Links and Dependencies

This programme is directly linked to the Council's Corporate Plan and more specifically to the Economic Development Framework – Making Selby District a great place...for enterprise and business growth; to live and work; and to achieve your potential. The ability to influence and impact both business and community gives the Council an effective means to tangibly make a difference and deliver against core objectives.

Additionally it provides the opportunity deliver financial growth for the District through asset acquisition, rent and rates revenues.

Key Stakeholders

It is intended that we will be actively working to develop strategic partnerships, firstly with North Yorkshire County Council as a potential co-investor e.g. on the acquisition of industrial units to meet specific market needs.

In addition there is also the opportunity to engage with the developers of the District's Strategic sites with the potential to partner in projects that deliver specific market needs and provide a suitable direct ROI.