

Decision maker:	Director for Economy, Communities and Corporate.
Decision date:	8 June 2018
Title of report:	Direct development at the Hereford enterprise zone
Report by:	Economic development manager

Classification

Open

Decision type

Non-key

Wards affected

Dinedor Hill;

Purpose and summary

To undertake a preliminary business case assessment of two potential direct council commercial development projects at Hereford enterprise zone (Hez).

In this instance the direct development undertaken by the council will create new employment space for rent by businesses, this will serve to meet unmet demand for business space at Hez. This will help to accelerate the achievement of business occupancy targets, and meet the objective of creating more and better quality jobs at Hez, thereby helping to implement an important priority project of the Herefordshire Economic Vision.

Recommendation(s)

That:

- (a) a business case be developed regarding investment opportunities for the council to develop medium scale office and industrial space for rental at the Hereford Enterprise Zone; and**
- (b) £35,000 be allocated from the Development and Regeneration Partnership budget to undertake the detailed work required to inform the business case preparation and for this detailed work to be undertaken by the council's development partner.**

Alternative options

1. **Do nothing:** There is demand from Herefordshire based companies wishing to expand for medium-scale office and industrial space for rent which is not being met by speculative private sector development. To do nothing means that these companies stay where they are currently located, in potentially unsuitable and cramped premises inhibiting their growth potential, or move elsewhere to find suitable premises, potentially out of the county.
2. **Undertake direct development at the zone without first undertaking a business case assessment:** It would be feasible to undertake one or more direct developments within the zone based on previous schemes that the council have developed. However this would involve utilising market, cost and income assessments that were based on historical data which would result in an inaccurate business case and potential for cost overruns or development not suited to market requirements.

Key considerations

3. The Hereford enterprise zone has the objective of bringing to market for sale or rent 110 acres of largely brownfield land around the existing Rotherwas Industrial Estate.
4. Zone status was bid for, and secured on the basis that this would catalyse business development and hence job opportunities and economic value on the zone. The business rates generated by businesses locating on the zone are retained for economic benefit for the Marches Local Enterprise Partnership not returned to the Treasury. The quicker buildings are built and occupied, the bigger this pot becomes, accumulating over a 25-year period starting in 2013.
5. The zone is proving a major success to date. Most investment has been made by businesses buying land and building new premises. 19 land sales for 35 acres have been contracted, generating over 423,000 sq ft of new work space, with £24m private sector investment in the construction alone.
6. The council has previously undertaken two direct developments – Skylon Court and Skylon Place - to provide space for rent within the zone. £3.3m has been invested providing 13 units and 24,000 sq ft of space. All 13 units are let and occupied (within 6 months of construction), and the two developments are generating net yields for the council in the order of 3 - 4%.
7. There are two plots immediately available and development ready on the zone to develop either / both an office development of circa 15,000 sq ft and industrial space of circa 13,000 sq ft. Business enquiries have been fielded by the zone for both types of premises and it is considered that this constitutes evidence that the need for new business space is not currently being met by the market. Please see appendix 1 for a site plan identifying these plots.
8. On 27 July 2017, cabinet approved the appointment of a developer to work in partnership with the council in delivering the development and regeneration programme. It is proposed that the council develops a business case for potentially investing in these two direct development opportunities which is informed by designs and development appraisal undertaken by the development partner.
9. The information provided by the development partner to inform the business case will include indicative building designs drafted by an architect, Structural Engineer input into the design and Quantity Surveyor estimates of cost based on these designs. Information

on the site details and building requirements will be formulated by council officers and the zone team to inform the development partner's considerations.

10. An initial estimate, utilising current industry standard building costs, shows potential investments required in the order of £3m for the office building and £2m for the industrial space. Factoring in local market rental rates, a return on that investment is feasible and hence there is a case to be made.
11. The business case for investment in medium scale office and/or industrial space for rental at the zone will be brought back to the cabinet member for further consideration, and to decide whether the project(s) should progress or not. For the purposes of the business case it is to be assumed that the council's property service will provide the ongoing management of the property and will handle all landlord and tenant matters.
12. Officers and the Hez team will undertake an assessment of options for the delivery of any direct developments that receive a positive business case assessment. Included within the options assessment will be the potential for inclusion within the Development and Regeneration Partnership programme.

Community impact

13. Through the direct facilitation of company growth by providing land and premises for expansion and relocation of businesses, the enterprise zone contributes to the council priority of 'Support the growth of our economy' and it is a key project in the council's corporate delivery plan. It is also a priority project within the Herefordshire Economic Vision and it could significantly support the goals of the scheme including growing the local economy and creating higher value jobs. The project will also support the goals for the Marches Strategic Economic Plan including Supporting Business and Physical Infrastructure.
14. The zone is allocated for employment use and services infrastructure will be in place before construction starts. The development will be covered by the Local Development Order for the enterprise zone which permits development of premises under B1, B2 and B8 use classes, subject to compliance with specified conditions.
15. Failure to proceed with the development will mean that this employment space would not be built and hence the new job opportunities would not materialise.
16. The council is committed to providing a healthy and safe environment for all individuals impacted by its coordinated activities. As a result the council endeavours to ensure that the work they and their partners undertake, does not adversely affect the health, safety or welfare of members of the public or visitors. Therefore partners are expected to work to the same high health and safety standards and approved codes of practice as the council, as far as is reasonably practicable and any contracts will reflect this

Equality duty

17. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
18. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. Our providers will be made aware of their contractual requirements in regards to equality legislation.

Resource implications

19. The cost of undertaking the work to inform the business case assessment is estimated to be £35,000. The financing of this work will initially be resourced from within existing budgets and will be overseen by the economic development manager and the Enterprise Zone Capital Works Programme Board.
20. Depending on the outcome and potential agreement of the business case, if the project(s) go ahead the costs of undertaking the options appraisal and business case assessment can be capitalised and will be included within the overall capital cost of the project(s).
21. The project(s) appraisal and business case assessment will consider the projected cost of design and building, the likely rents and maintenance costs and return on investment. The final agreed scheme(s) will be funded from the allocation made to the development and regeneration partnership in the capital programme.

Legal implications

22. There is no legal impediment to this proposal.
23. Until tenants are secured any rental and business rate income is not guaranteed and the spend is speculative. As such this is chiefly a financial decision.
24. Should the decision be made to proceed with this scheme, it is recommended that before funds are advanced, prospective tenants are secured via agreements for lease legally obliging them to enter into leases once the units are complete which takes away the speculative nature of the matter and ensures that an income is definitely to be secured by this scheme.
25. The leases of the units will need to be on full repair and insurance basis unless a service charge scheme is proposed and to be excluded from the security of tenure provisions of the Landlord & Tenant Act 1954 to ensure flexibility for the council and for prospective buyers of the freehold.

Risk management

- 26.

Risk / opportunity	Mitigation
Revenue expenditure to prepare and consider a business case would be at risk if the project does not proceed.	Information to help inform project consideration already accessible/identifiable Business plan preparation costs covered by corporate reserve
Opportunity cost if the project does not proceed via the development regeneration partnership	Although there would be time delays, the collation and consideration of information to inform a business case would be required for any other procurement route, so not all this time and resource would be wasted.

Consultees

27. Local member for Dinedor Hill has been consulted and is very supportive of the Council constructing and owning buildings to rent to businesses where this meets market need
28. The Hez Executive Board has considered and is supportive of such a project that would add to the overall offer to businesses at the zone.

Appendices

Appendix 1 (a and b) - Site plans showing development sites:

- Direct Development – Plot N4
- Direct Development – South Magazine Plot

Background papers

None identified