



ADUR & WORTHING COUNCILS

Joint Strategic Committee
13 July 2021
Agenda Item 18

Key Decision: Yes

Ward(s) Affected: Broadwater

Outline business case for the development of Decoy Farm

Report by the Director for the Economy

Executive Summary

1. Purpose

- 1.1. The report seeks approval of the Strategic Outline Business Case and Outline Business Case (OBC) for the development of Decoy Farm site for industrial development and to progress the project through to Full Business Case (FBC) in readiness for project delivery.

2. Recommendations

The Joint Strategic Committee is recommended:

- 2.1 To approve the Outline Business Case for the Decoy Farm Development.
- 2.2 Delegate authority to the Head of Major Projects and Investment to make the necessary consultancy appointments to prepare the Full Business Case, to submit a planning application for the development and to tender the construction of the development.
- 2.3 To allocate £600,000 in the 2021/22 Capital Programme for the development of a Full Business Case, funded from the Strategic Property Investment Fund.

2.4 Note that a further report will be presented to Committee updating members on progress on the project later in the year.

3. Context and Development Strategy

- 3.1 Worthing Borough Council, like most other councils, is a significant landholder. The council has circa 500 assets and in excess of 300 tenancies within the borough. As part of the Asset Management Plan and in order to meet the needs of the councils Medium Term Financial Strategy, the use of these assets are balanced across both our operational and investment needs, with assets used to generate both social and commercial value.
- 3.2 Officers continue to seek to add value to the historic estate through proactive management of the assets as well as seeking new opportunities by purchasing, renovating and disposing of assets according to the principles of the strategy set out in the Asset Management Plan.
- 3.3 The councils have been proactive in acquiring properties for investment purposes to generate additional revenue for the council, usually out of borough and in accordance with the Strategic Commercial Property Investment Strategy, as well as sites in borough which facilitate increased housing delivery, or strategic and long term regeneration opportunities. Through this work it has become increasingly evident that investment opportunities in industrial developments are difficult to source. Within Worthing and nationally there is a shortage of employment land that is hampering business growth and expansion. This shortage has been driven through a number of factors including the growth in the supply chain and logistics sector, changes to the planning regime specifically expanded permitted development rights, along with increased demand for housing. This shortage has led to a significant growth in value for industrial assets over the last number of years; a dearth of opportunities for investment; and increasingly a difficult occupational market for business owners to find long term homes for their businesses in well run employment parks.
- 3.4 The development strategy for Decoy Farm to date has been to successfully remediate the land using the funds received from Coast to Capital Local Enterprise Partnership, and then to offer the site as a whole to the market, or to develop it as a joint venture. It was felt that this approach was a pragmatic step to deliver the wider economic, social and environmental benefits that the

development would generate. Given the changing investment landscape and improved viability of the site, the challenges to delivering and retaining employment land outlined in paragraph 1.3, a revised approach was considered.

- 3.5 In this approach Worthing Borough Council would look to develop a new employment estate with a view to maintaining it as a Council owned and managed asset for the long term. The Council would develop the access and utility infrastructure. Larger units would be developed and let to companies following a pre-let agreement on terms of up to 25 years. Smaller units would be developed speculatively where there is credible market research showing demand. Developed units and plots would not be offered for freehold sale to ensure that they are not lost to change of use or new permitted development rights over time.
- 3.6 This development presents an opportunity for the council to invest in a site to secure the delivery of new, modern and fit for purpose employment space within the borough, that can be used to generate economic growth, a positive revenue return, as well as business rate income for the council.
- 3.7 The development will provide the Council with the opportunity to develop this new space and safeguard employment space for local economic generation as we seek to kick start and boost the local economy following the impacts of Covid-19.
- 3.8 It has been identified that there is a shortage of both affordable and fit for purpose modern industrial units within the town. This shortage often means that occupiers valuable to the town's local economy cannot find suitable business space to lease or they are constrained to existing poorer quality properties with little room for growth. By seeking to control the development of the site, the council can work with local occupiers and trusted partners, to deliver a well managed, high spec employment and business space.
- 3.9 The council can ensure the development is delivered in such a way it supports our local economy and business community with a different approach to the private developer market, but focusing on recycling the developers standard profit back into the development and securing the delivery of the new space. In comparison to other options the council can seek to ensure the development's full potential and existing planning permission is delivered and ensure that the site is not mothballed for better market conditions or land banked/traded in the future, by the private sector.

- 3.10 Through a clear tenant mix policy, the council can curate a mix of like minded occupiers that align with the councils strategic goals of generating positive local employment and social-economic outputs. Work on the detail of this will involve teams across the Economy directorate, ensuring a cohesive approach to cultivating this employment space.
- 3.11 In assessing the wider strategic landscape for Worthing Borough Council it was considered that this revised development strategy would respond to a number of key drivers for the Council:
- Investment will provide local employers with the stable platform and confidence that will allow them to plan and invest for the long term success of their companies, driving forward the town's economy and securing jobs locally.
 - Development will create an asset for the Council that can be sold or securitised should the financial landscape change.
 - It would deliver a long term stable income stream for the Council.

4. Proposed Development and Economic Benefits

- 4.1 Following the recently completed land remediation, the next step is to develop the Decoy Farm asset to generate employment opportunities and economic growth through the provision of flexible commercial units to meet existing and future demand.
- 4.2 The strategic objective of the development is to maximise the use of the site to provide at least 13,500 sqm of employment floorspace which will provide between 302 and 752 full-time jobs.
- 4.3 A two stage development delivery approach is proposed. In Phase 1 good quality and much needed units would be built to enable local SMEs to thrive and then those units would be let. Phase 1 income receipts would contribute to the development of Phase 2.
- 4.4 Developing Decoy in this way will provide a commercial income stream to help fund service provision for the needs of residents and the business community in the Worthing Borough Council area.
- 4.5 As well as the socio-economic benefits of employment generation and that the fully developed site will create new jobs, an owned development will produce commercial revenue for the Council. By retaining ownership of the Decoy Farm development, the Council can expect to receive and earn rental income

in years to come and ensure best use of the asset in the future. The new development will also attract business rates income.

- 4.6 The value of Decoy Farm as an asset will increase as a result of the decontamination of the site and the development work, all of which will benefit the Council.

5. Due Diligence - Outline Business Case

- 5.1 The purpose of the Outline Business Case (OBC) is to develop the preferred option to meet the strategic objectives for Decoy Farm as set out in the Strategic Outline Case (SOC).

- 5.2 The OBC provides the documentation for the preferred delivery option using the following framework:

- Strategic Case - to confirm that strategic objectives remain current and that there is agreement to the recommended preferred option that we want to achieve.
- Economic Case - to determine that the proposal provides good public value for money through economic appraisals for quantitative and qualitative benefit assessment.
- Commercial Case - to prepare for the potential deal structure by considering the delivery model options, commercial viability, procurement and engagement.
- Financial Case - to ascertain the affordability and funding requirement.
- Management Case - to plan for successful delivery.

- 5.3 Work has been carried out on a potential leasing strategy to support the OBC.

- 5.4 Financial scheduling and Benefit-to-Cost Ratio (BCR) modelling has also been completed to assess the costs and benefits of developing Decoy Farm and to determine its viability.

6. Proposed Commercial Strategy

- 6.1 The proposed Decoy Farm development is being brought forward based on the following commercial principles:

- 6.2 The Council will borrow to fund the capital expenditure for delivery of the site infrastructure and buildings which will incur ongoing repayment costs.

- 6.3 Upon approval of the Full Business Case for larger plots a pre-construction development agreement for lease will be entered into with the tenants. No more than 20% of the units will be built speculatively.
- 6.4 A development appraisal will be undertaken and evidence sought to ensure that the costs and income generated by the proposed development are benchmarked against construction costs (business case).
- 6.5 The Council has procured a 'specialist' development delivery service for the development who will prepare (subject to Member agreement) the Full Business Case on behalf of the Council and partners including planning, design, procurement and commissioning to prepare the scheme for delivery.
- 6.6 To reduce the risks associated with developing the scheme from OBC to FBC (detailed design - RIBA Work stages 4) ongoing market intelligence and data will be gathered to understand the development risk.
- 6.7 To support the preparation of the FBC the council will develop and submit a full detailed planning application and procurement of a contractor to ensure a fixed construction cost is achieved.

7. Next Steps and Target Milestones for Development

- 7.1 Assuming a project start date of September 2021, these are the potential timescales and milestones for the development:
- **Phase 1: September 2021 - September 2024**
 - Sept 21 - Sept 22: Pre-construction - 12 months to undertake design work and secure full planning consent.
 - Sept 22 - Sept 23: Construction - 12 months.
 - June 23 - Sept 24: Letting - 15 months to begin in the last 3 months of construction.
 - **Phase 2: March 2024 - June 2025** (to start 6 months before the end of letting Phase 1)
 - Mar 24 - Sept 24: Pre-construction - 6 months to undertake design work and secure reserved matters consent.
 - Sept 24 - June 25: Construction - 9 months.
 - Letting: to commence on practical completion.

8. Financial Implications

8.1 In 2020/21 the Council undertook a programme of decontamination works at Decoy Farm at a cost of £4.38m funded through Local Growth Funds.

8.2 The Council now has several options for the future of the site as outlined in the Strategic Business Case. The initial preferred option of site remediation and development for full employment generation use through the construction of industrial units is likely to cost the Council in excess of £31m. The next phase of work will firm up the likely costs associated with the development.

	Phase 1 £	Phase 2 £	Total £
Construction costs	15,741,660	14,220,380	29,962,040
Initial design fees (Full business case)	500,000	0	500,000
Interest	362,560	200,000	562,560
	<u>16,604,220</u>	<u>14,420,380</u>	<u>31,024,600</u>

8.3 However, the Council should be able to recoup these costs via the income generated from the industrial units once fully let:

Net annual return:	Phase 1 £	Phase 2 £	Total £
Minimum Revenue Provision	170,330	151,620	321,950
Interest costs at 2.5%	412,210	356,810	769,020
Total debt charges	<u>582,540</u>	<u>508,430</u>	<u>1,090,970</u>
Less: Income	-900,000	-731,030	-1,631,030
Overall initial net income (-)	<u>-317,460</u>	<u>-222,600</u>	<u>-540,060</u>

8.4 The Council will need to provide for both future void periods (and associated costs) and future maintenance of the buildings to ensure that the development is sustainable. Consequently 20% of the annual income should be set aside into the Strategic Property Investment reserve to ensure that the Council has sufficient resources to properly manage the new units and associated risks. The cost of any initial void period will be funded through the current provision for such costs.

8.5 The initial modelling undertaken by the consultant indicates that there is a positive net present value and internal rate of return arising from this development. This has been tested with a variety of assumptions to ensure that the proposal should be pursued further:

	NPV	IRR (Excel Formula)
Base Model (2% rental growth per annum)	£ 13,868,865	5.2912%
Model (2.5% rental growth)	£ 21,237,957	5.9399%
Model (1.5% rental growth)	£ 7,723,964	4.6214%
Model (base with 2.5% operating cost inflation)	£ 13,428,053	5.2432%
Model (base with 20% rolling letting void)	£ 11,317,097	4.9698%
Model (base with 20% increase in construction costs)	£ 8,576,446	4.4741%

8.6 The construction of industrial units will be a valuable addition to the property portfolio in an asset class which is hard to acquire.

8.7 As part of the development of the full business case, the Council will need to ensure that the value of the property exceeds any loan financing so that if necessary the Council could sell the units and recoup the investment made. An assessment of the value of the properties will be undertaken as part of the development of the Full Business Case.

8.8 Members should note that if the development does not progress, then the abortive costs associated with the Full Business Case will have to be written off to revenue and funded from the reserves.

9. Legal Implications

9.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything that is calculated to facilitate, or which is conducive or incidental to, the discharge of any of their functions.

9.2 Section 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority to make arrangements to secure

continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

- 9.3 Section 1 of the Localism Act 2011 empowers the Council to do anything an individual can do apart from that which is specifically prohibited by pre-existing legislation
- 9.4 Section 1 of The Local Government (Contracts) Act 1997 provides that every statutory provision conferring or imposing a function on a local authority confers the powers on the local authority to enter into a contract with another person for the provision or making available of assets or services, or both (whether or not together with goods) for the purposes of, or in connection with, the discharge of the function by the local authority.
- 9.5 When procuring for professional services or for the construction work contract required for this project, the Council must have regard to its Contract Standing Orders and the Public Contract Regulations 2015.

Background Papers:

- Strategic Outline Case for Decoy Farm, Worthing - March 2021
- Worthing Local Plan 2016 - 2033
- Adur & Worthing Councils Platforms for our Places - Going Further: 2020 - 2022
- Adur & Worthing Councils Sustainable Procurement Strategy 2020 - 2023

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Sustainability & Risk Assessment

1. Economic

The proposed development of Decoy Farm aligns with the Adur and Worthing Economic Plan 2013 - 2023 where the Economic Priorities are named as Support Business, Develop Growth, Enhance Business Environment, Advance Local Skills, Encourage Sustainability and Promote Health and Wellbeing. The Economic Plan also states “It is vital that Adur and Worthing provides foundations for business to operate effectively” and promotes the following aims:

- Support Business
- Develop Growth
- Enhance Business Environment
- Advance Local Skills
- Encourage Sustainability
- Promote Health and Wellbeing

The outcome of the proposal in this report will have a direct, positive impact on the provision and creation of jobs in the Worthing Borough. It will generate employment opportunities and economic growth through the provision of flexible commercial units to meet existing and future demand.

2. Social

2.1 Social Value

The development of Decoy Farm promotes thriving communities and contributes to social value, where families and individuals can live and work and be part of the local community.

2.2 Equality Issues

The proposed development aims to provide workspace and job opportunities for all, irrespective of race, gender, sexuality, age, religion or belief, disability, marital status, pregnancy or maternity.

2.3 Community Safety Issues (Section 17)

It is envisaged that by providing new commercial business units, giving access to an increased number of jobs and opportunities, will help support people to be part of their communities in which they live and work and help reduce anti-social behaviour.

2.4 Human Rights Issues

The proposal in this report does not impinge on anyone's human rights and conforms with the Human Rights Act 1998, to treat everyone equally, with fairness, dignity and respect.

3. Environmental

As a key asset for Worthing Borough Council, Decoy Farm contributes directly to the Local Economy Policy and the Environment and Climate Change policy, by providing local businesses with space for their operations and being considerate to future generations through the environmental clean-up of the site's former landfill contamination. Any future development will consider the following:

- Contaminated land issues are appropriately assessed and managed.
- Views across the Local Green Gap are assessed and any necessary mitigation provided.
- The most vulnerable uses are located in the areas at lowest risk of flooding and that flood risk will be safely managed across the lifetime of the development, taking climate change into account.
- Plans for a public right of way across the Green Gap and the minimisation of impacts on nearby residential properties.
- To deliver new commercial floorspace which protects the continued operation of the adjacent household waste recycling site.
- Mitigate offsite traffic impacts on the local and strategic road networks and local air quality.
- A net gain in biodiversity through enhancement of valued habitats.

4. Governance

A dedicated project board will oversee the governance of the project ensuring:

- Due diligence and alignment with Council policies and priorities
- Legal issues and compliance with legislation
- Risk management including health and safety
- Statutory approvals
- Stakeholder management, engagement and change control

Commissioning and procurement activities will be in line with the Council's Sustainable Procurement Strategy and undertaken in an efficient manner, adopting a whole life costing basis that obtains value for money whilst delivering social, economic and environmental benefits.