

BABERGH DISTRICT COUNCIL

TO: CABINET (BABERGH)	REPORT NUMBER: BCa/22/15
FROM: Cabinet Member for Economy	DATE OF MEETING: 08/07/2022
OFFICER: Fiona Duhamel	KEY DECISION REF NO. CAB331

HADLEIGH A1071 ROADSIDE COMMERCIAL WORKSPACE DEVELOPMENT

1. PURPOSE OF REPORT

- 1.1 To report back to Cabinet with an interim progress update (see also confidential appendices), further to its high-level business case consideration and resolutions of 08 June 2021 (Paper BCa/21/7 refers).
- 1.2 To note that the transfer to the Council of approximately 1.5 acres of allocated employment land is now being finalised. This transaction is facilitated via a S106 agreement with Persimmon Homes as part of the adjoining housing development scheme (Weavers Meadow) in Hadleigh.
- 1.3 To seek Cabinet approval for the freehold disposal, following the marketing period, on the terms agreed and outlined in the confidential appendix, of the convenience/retail portion of the site (approx.1870m²) AND to authorise the recycling of that capital receipt towards the wider employment scheme.

2. OPTIONS CONSIDERED

- 2.1 (a) DO NOT PROGRESS WITH DESIGNING A SCHEME – rejected by Cabinet at its meeting of 08 June 2021

(b) PROGRESS WITH THE DETAILED DEVELOPMENT OF A VIABLE SCHEME AND BUSINESS CASE, TO BEST ACHIEVE STRATEGIC REGENERATION PRIORITIES, TO BE REPORTED BACK TO CABINET – resolved by Cabinet at its meeting of 08 June 2021 and progressed accordingly

Now:

(c) PROCEED with the freehold disposal of the convenience retail / potential drive-thru area of the site, on the basis of the draft Heads of Terms provided at Confidential Appendix B to this report. Recommended given a productive period of marketing undertaken, following Cabinet's June 2021 authorisations and funding, and the positive impact on whole scheme viability and deliverability from gaining a capital receipt.

(d) DO NOT PROCEED with the freehold disposal at this time or opportunity. Not recommended given the previous Cabinet resolutions and marketing period undertaken.

3. RECOMMENDATIONS

RECOMMENDED TO CABINET

- 3.1 That Cabinet note progress on wider scheme design development, marketing advice received and pre-let tenant engagement.
- 3.2 That Cabinet approve the disposal of Part A of site (shown on the site plan attached as Confidential Appendix A), following extensive marketing, on the basis of the draft Heads of Terms (attached as Confidential Appendix B).
- 3.3 That Cabinet delegate authority to the Assistant Director Economic Development and Regeneration to conclude the legal agreement on transfer, in consultation with the Cabinet Member for Finance, Assets and Investments and Cabinet Member for Economic Development.
- 3.4 That Cabinet authorise the re-use of 100% of the capital receipt proceeds from the freehold disposal within the wider scheme development.

REASONS FOR DECISION

1. The Council has secured a small parcel of employment land which it can directly invest in to address market failure and develop as a viable scheme to provide needed workspace, employment opportunities and support for the local community of Hadleigh and surrounding area.

4. KEY INFORMATION

BACKGROUND

- 4.1 At its meeting of 08 June 2021, Cabinet considered an outline design concept and business case for using its own land (pending transfer) for directly delivering evidence-based employment opportunities at Hadleigh, alongside the A1071 Ipswich Road. Persimmon had been temporarily using the employment land as a site compound but are now relocating and remediating this site – finally enabling its transfer to the Council now the S106 trigger-point has been passed and planning obligation resolved.
- 4.2 Cabinet has resolved its preference for an optimal ‘low-density’ scheme design - incorporating up to 10 (ten) B1 (light industrial) use units and an anchor tenant facility including office space over two floors (approx. 304m²). Also incorporating an A1 use retail/convenience store (approx. 325m²), which is now subject to the recommendations of this report regarding a freehold disposal opportunity.
- 4.3 Cabinet resolved to instruct the Assistant Director for Economic Development and Regeneration to progress with the next package of diligence, design and preliminary marketing work. It allocated £100,000 of funding for this to be undertaken, with the outputs to then be reported back to Cabinet for its further consideration. Cabinet agreed ‘in principle’ support for delivering the scheme up to a cost envelope of £2.25m of borrowing within the Capital Programme for 2022/23, and subject to a further decision with the outputs review.

- 4.4 Of the three investment and return scenarios presented, Cabinet resolved its preference for letting the built units to generate a longer-term revenue stream for the Council and to retain control and flexibility. It was reported that this option, in addition to those gains, brings additional risks – higher exposure to long term borrowing, letting risks (e.g. void periods) and increased management resource and maintenance costs. Since this decision, negotiations with a prospective key anchor tenant, having long leasehold requirements, has supported this option. The opportunity for a capital receipt from a freehold disposal of the convenience/retail portion of the site has also since arisen, and this provides an enabler opportunity to further support the business case investment and delivery.
- 4.5 We attach as Appendix C (Confidential) the design layout draft being prepared by the Council's appointed architect Barefoot & Gilles including schedule of accommodation.

MARKETING PERIOD OUTPUTS

- 4.6 Marketing of the convenience/retail portion of the site failed to bring forward any tangible interest from convenience store operators on a leasehold basis which was part of the basis for Option 3 agreed previously by Cabinet. It did however bring forward conditional and non-conditional offers to purchase the freehold of that area of the wider site, which would help to improve the viability assessment on the Council's investment, reduce borrowing costs and enable the Council to still generate its preferred longer-term letting income on the units on the remainder of the site.
- 4.7 It is the recommendation of this report that the conditional offer (as shown in Confidential Appendix B) be accepted and on this basis draft Heads of Terms have been prepared for Cabinet consideration and approval.
- 4.8 During the marketing period, the Regeneration Team also followed-up a lead and opened conversations directly with a potential public sector anchor leasehold tenant for an office use on the retained portion of the site and this opportunity remains in discussion but cannot be resolved for this reporting period. If agreement can be reached, this further helps to de-risk the Council's investment but would involve increased up-front development cost to provide an additional office building on the site.

DEMAND (POST-COVID) AND EVIDENCE

- 4.7 This project opportunity arises on the back of the clear evidence reported via the October 2019 MENTA workspace and grow-on space study commissioned by Babergh & Mid Suffolk - which found a shortage in incubator space (1,500sq ft range) in the districts and reported that "ideal locations are on outskirts of population centres with good access, car parking, broadband, mobile signal etc. Locations should also be linked to areas of future housing growth, such as Hadleigh..."
- 4.8 Post-Covid reports and evidence-refresh in 2021 from MENTA show that demand is still outstripping supply for small affordable workspace units in the local area, and the recent marketing agent consultancy has reinforced this position. There is confidence that good specification units in an accessible location will let well and for a market rent. The Council could also still consider selling units and the sale market is also strong.

- 4.9 This recovery and regeneration focused project directly responds to delivering affordable starter workspace unit opportunities in the growing town of Hadleigh. The site is immediately on the A1071 with good onward links to A14 and A12 - regional level corridors for economic growth and key economic and productivity infrastructure.
- 4.10 It will support local jobs and clustering of small start-ups/fledgling business and enterprise, and deliver against the evidenced gaps and market failure. Public sector intervention can stimulate sustainable small developments of this type and in market town outskirts locations.
- 4.11 Acquiring this plot demonstrates a pro-active local leadership commitment by the Council to improving community and employment development from private sector housing schemes.

5. LINKS TO CORPORATE PLAN

- 5.1 The Corporate Plan (2019-27) is designed to address the challenges and seize the opportunities facing the district, and its organisations, for the foreseeable future. In relationship to the matters contained within this report, the Council's strong local leadership role to build great communities for living, working, visiting and investing in is particularly relevant.
- 5.2 The Joint Recovery Plan references the Councils leading a programme of place-based Vision and Invest programmes for its market towns across both districts, including the 'Invest in Hadleigh' brand. An outline of the potential investment opportunity has been discussed at the Hadleigh Invest Board of stakeholders who were broadly supportive of this initiative.
- 5.3 Strategic priorities linked for this matter include:
- (a) Rejuvenate our vibrant market towns (including our Vision and Invest programmes)
 - (b) Thriving, attractive, sustainable and connected Communities
 - (c) A robust financial strategy
- 5.4 The Strategic Asset Management Plan to 2025 aims to support business development and regeneration and encourage commercial activities by:
- Providing suitable accommodation for employment of the right type in the right place supporting the development of job opportunities and skills within our districts
 - Maintaining flexible lease terms
 - Undertaking property development
 - Improving availability and use of employment land
 - Undertaking considered acquisitions and disposals which meet specific criteria

6. FINANCIAL IMPLICATIONS

- 6.1 The Council's Medium Term Financial Strategy (MTFS) 2021-2025 requires the Council to take a medium-term view of the budget through a robust financial strategy that is focused on delivering the six corporate strategic priorities. The Council's main strategic financial aim remains to become self-financing and not reliant on

Government funding. The Council's parallel aim is to generate more funds than are required purely for core services, in order to enable additional investment into the district. This requires careful balancing of cost management, income generation and service levels. (See attached confidential appendix C)

- 6.2 The capital receipt for the sale of the land identified for convenience retail/drive thru will support the viability of the wider development. With rising build costs as a result of departure from the EU, cost of living rises and supply chain issue due to global pressures, small workspace schemes continue to be challenging to deliver as rental values do not necessarily support viability of development. Leadership from the Council in bringing this site forward by recycling the capital receipt will provide much needed employment space in Hadleigh.
- 6.3 Costs continue to be reviewed for the remaining area of the site and viability may be improved through the introduction from the marketing process of a new office use. A final report and recommendations for delivery on this part of the site will be brought back to Cabinet later in the year. Should Cabinet decide not to authorise this project then it is likely an onward land sale only will follow, which will unlikely deliver against the market failure or opportunities otherwise likely for this small employment allocation.
- 6.4 The Regeneration Team will continue to explore external funding opportunities for development elements as the project progresses (for example capital grants associated with carbon reduction or localised energy generation), which have potential to reduce costs and further improve viability.

7. LEGAL IMPLICATIONS

- 7.1 The transfer of land is subject to S106 obligations, including the trigger point at which the land is available for transfer to the Council from Persimmon.
- 7.2 Onward disposals or leasehold agreements will be subject to legal review as required.
- 7.3 Site investigations, surveys and diligence continue and any implications requiring legal review will be picked up and addressed as part of the project management work.

8. RISK MANAGEMENT

- 8.1 This report is most closely linked with the Council's Corporate / Significant Business Risk No.7 (Lack of workspace delivered in our districts due to market failure). Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Failure of the Council to deliver investment in the site will reinforce market failure and leave the site under-utilised	2 - unlikely	3 – bad	Design and construct a viable commercial development with an acceptable return on investment for BDC

Selling the whole site would result in loss of control on uses, miss income generation opportunities and strategic priorities delivery	2 - unlikely	3 – bad	Sell part of the site only to support delivery of the remainder. Retains control of strategic priority objectives (e.g. workspace/ jobs creation and mid-term financial strategy)
Failure to provide strong local leadership within 'Invest in Hadleigh' Programme stifles wider town investment opportunities	2 - unlikely	3 – bad	Delivering a viable scheme demonstrates positive leadership intervention and supports confidence across the programme
Lack of control on end-uses from disposed area of site, resulting in lack of stakeholder/community support and possible reputational risks	3 - probable	3 – bad	Some higher residual risk remains as not fully within Council control or subject to planning risk. Heads of terms offer some mitigation and uses will be subject to planning process/engagement
Investment is made but demand for units and rental profiles are less than anticipated, negatively impacting business case	2 - unlikely	3 – bad	Marketing advice shows strong demand (leasehold and freehold disposal) with good rental profile opportunities. Evidence base refresh has been undertaken post-Covid. Delivering the right quality and spec of units. Secure anchor tenant
Preference for retention and letting of all units will create flexibility but introduce maintenance and management costs, void period liabilities etc.	3 - unlikely	3 – bad	Will be further modelled in updated development appraisal. Secure anchor tenant. Headroom in rental levels to balance void and

			management risks. Sale options not excluded
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9. CONSULTATIONS

- 9.1 Engagement will continue through the Invest in Hadleigh Board and with the town council, prospective occupiers and local stakeholders.
- 9.2 Marketing negotiations will continue, aiming to secure anchor tenant and lessees.
- 9.3 Initial high-level discussions on the potential of a scheme have been had with the Planning Team and Strategic Assets colleagues, and this will progress to pre-application including highways.
- 9.4 Planning process will follow in due course in terms of formal responses to proposals.

10. EQUALITY ANALYSIS

- 10.1 Equality Impact Assessment (EIA) Initial Screening has been undertaken and identified no impact on one or more of the 9 protected characteristics as defined by the Equality Act 2010. No full assessment is required arising from the matters contained within this report. This commercial and workspace development will incorporate accessible design features, including for building access and parking, in accordance with prevailing Building Regulations and/or British Standards where applicable.

11. ENVIRONMENTAL IMPLICATIONS

- 11.1 Development of the site will have associated environment impacts requiring assessment and mitigation. The initial design work has proposed roof mounted solar PV, to provide self-consumption energy opportunities and cost savings for occupiers. Also electric vehicle charging points and biodiversity planting and features are proposed to further embed green infrastructure and mitigate carbon impacts.
- 11.2 Any A1 use facility on the disposal part of the site will likely be well used by new residents in the locality as well as commuters, as will electric vehicle charging point (EVCP) infrastructure. The Council as developer will be able to specify sustainability and energy efficiency in design (e.g. roof mounted solar PV) towards the net zero carbon ambitions of Suffolk by 2030.

12. APPENDICES

Title	Location
A: Proposed Freehold Disposal area of site CONFIDENTIAL	Attached
B: Draft Heads of Terms CONFIDENTIAL	Attached

C: Barefoot & Gilles Design Layout Plan CONFIDENTIAL	Attached
D. Outline of Financial Business case to Support Economic Growth Workspace development - CONFIDENTIAL	Attached