

## Business Case Template

Project Details			
<b>Project Name</b>	Stourview Medical Centre, Haverhill		
<b>Project Manager</b>	Colin Wright	<b>Date</b>	11/06/2024
<b>Project Sponsor</b>	Rachael Mann	<b>Version</b>	2
<b>Business Case Stage</b>	Full Business Case		

Executive Summary
<p>West Suffolk Council is presented with an opportunity to purchase the freehold interest in the Stourview Medical Centre in Haverhill at auction on Wednesday 12 June.</p> <p>The property, shown in the photos attached in <b>Appendix A</b>, has been used as a doctor's surgery since it was built in the late 1980s. The lease to the doctors terminated recently on 1 May 2024.</p> <p>The property is located in a strategically important location which was identified in the 2018 Public Asset Study. It has good access to Haverhill high street and is adjacent to the Council-owned car parks on Brooks Service Road. See the location plan attached in <b>Appendix B</b>.</p> <p>This opportunity is primarily considered as a strategic purchase to help facilitate future development on the Jubilee Place area, which is in line with the ambitions of the Haverhill Town Centre Masterplan (HTCM), as well as providing the opportunity to deliver some of the Council place-shaping proposals for the town.</p> <p>Ownership of this property will support a comprehensive regeneration of the area by investing in development improvements that should enhance access links to the high street and create the space to bring forward future development that will provide a catalyst for private investment in the town.</p> <p>In the short to medium term we will seek to let out the property in order to help mitigate purchase and holding costs. However the property will be acquired with vacant possession, so would be acquired with the risk that a tenant could not be secured (see Economic case).</p>

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Strategic Case	<b>Introduction:</b> West Suffolk Council has an opportunity to acquire the freehold interest of the former Stourview Medical Centre, Haverhill at public auction on the Wednesday 12 <sup>th</sup> June 2024.

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The property comprises of approximately 249.9 sqm (2,690 sq ft) of space over first and second floors (agents floor areas) and includes 9 car parking spaces and a garden of approximately 0.11 acres.

The property is situated centrally between the Royal Mail depot and the Council's busiest town centre car parks on Brooks Service Road.

The site abuts Crown Passage which provides the main pedestrian access route to the high street from Aldi and Tesco. This narrow thoroughfare is a popular access route but provides a poor environment for pedestrians and needs to be widened as recommended by the HTCM.

The property sits within a Flood Zone 2 on the Environment Agency's map, due to its proximity to Stour Brook.

There is a small strip of unregistered land to the east of the site.

**Existing:** Stourview Medical Centre was developed in the 1980's for a local GP, Dr Pearson. In 2015, Stourview merged with Christmas Malting Surgery based on Camps Road – the joint surgeries becoming Haverhill Family Practice (HFP). Since then, HFP have decided to consolidate onto a single site at Camps Road and extend their accommodation. This decision was supported by Suffolk and North-East Essex Integrated Care Board (SNEE ICB).

The release of Stourview by the health system has prompted its disposal at auction by the landlord with vacant possession presenting an unexpected opportunity to bring a privately owned site under the control and influence of the Council.

**Rational for acquiring the property:** The 2015 Haverhill Town Centre Masterplan identified Jubilee Place as a significant development opportunity to enhance the local economy and community space. The masterplan envisions transforming the area into a vibrant, mixed-use development that includes retail, residential, and leisure facilities which match the towns growth and ambitions, encouraging footfall and economic activity.

Since 2015, appetite for a retail-led scheme has diminished amongst commercial developers. The council has completed its own appraisals for Jubilee Place, and this has pointed to ongoing viability challenges.

### Justification:

- Strategic location - The site is strategically located within the targeted regeneration area, making it crucial for cohesive and effective development.
- Potential for Improvement - The former GP surgery site is currently underutilised and can be transformed into a valuable community asset.

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- Support for regeneration - Acquiring this site supports the broader regeneration goals of improving infrastructure, transport, housing, and community services.

**Strategic Alignment:** The acquisition of the freehold interest increases the potential for future redevelopment and regeneration which contributes to the council’s vision and strategic framework 2024-28 and principles of the Investing in Growth Fund (IGF).

***The project aligns with the council’s strategic vision and framework in the following way:***

- **Sustainable Growth** by continuing to support regeneration of Haverhill Town Centre including the High Street to maximise the town’s potential.
- **Thriving Communities** by supporting local high streets as the vibrant centres of thriving local communities and seeking to develop infrastructure that supports growth.
- **Accessible, affordable, and decent homes** by work with partners to bring forward opportunities for regeneration on brownfield sites.
- **Environmental Resilience** by working together to implement and adapt to climate change in West Suffolk.

The **2015 Haverhill Town Centre Masterplan** was developed with the goal of revitalising the town centre and fostering economic growth.

Key strategies and aspirations outlined in the masterplan:

<b>Mixed-Use Town Centre</b>	<ul style="list-style-type: none"> <li>• A vision to create a <b>mixed-use town centre</b> that would serve as a place to <b>live, work, and play</b>.</li> <li>• The town centre aimed to <b>capitalise on existing attractions</b> and enhance them to attract residents, workers, shoppers, and visitors.</li> <li>• By 2031, Haverhill Town Centre was envisioned to be a vibrant hub where people could engage in various activities.</li> </ul>
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	<p><b>Benefits</b></p> <p>The acquisition of the premises at Stourview would allow the council to increase its landholding and development potential of Jubilee Place, creating a more cohesive and impactful development to come forward for the benefit of the whole community.</p> <p><i>Improved Development Potential</i></p> <ul style="list-style-type: none"> <li>Increasing land value or marriage value.</li> <li>Encouraging greater mix uses.</li> <li>Enhance development potential.</li> <li>Fostering economic regeneration and attracting investment.</li> </ul> <p><i>Improved Public Realm</i></p> <ul style="list-style-type: none"> <li>Enhanced connectivity.</li> <li>Attractive environment.</li> <li>Encouraging Sustainable Use.</li> </ul>						

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	Future Uses Options		
	Duration	Option	Comments
	Short-term (1-3yrs)	Meanwhile Use	Potential short-term letting to enable use by public/private tenants and/or small businesses currently located at MENTA on Hollands Road.
	Medium-term (3-5yrs)	Community Use	Potential town centre location for <ul style="list-style-type: none"> <li>- Pre-school/Nursery</li> <li>- Youth Provision</li> <li>- Leading Lives</li> <li>- Dementia Care</li> </ul>
Long-term (5yrs+)	Jubilee Place Regeneration	<ul style="list-style-type: none"> <li>- Blue Badge Parking linked to High Street Enhancements</li> <li>- Relocated and Enhance Bus Station</li> <li>- Small Health Hub</li> <li>- Town Centre Housing</li> </ul>	
Economic Case	<p>Although the purpose of this purchase is primarily to facilitate future development, in the medium term the property will be let on the open market while the development sites are assembled and designs are prepared.</p> <p>A one year void period is anticipated before a new tenant is found and an incentive of approximately 6 months rent free is likely to be required for a ten year lease.</p> <p>The medical care market in Haverhill is limited as the two doctor's surgeries in the town are currently settled in their existing accommodation. However, other health care services are operating in the town so there could be opportunities to secure a tenant on a 5-10 year lease under the existing use with minimal alterations.</p>		

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	<p>Alternative uses include day care nurseries and other community uses, but these uses will require planning permission and tenants are less likely to be able afford the market rent for a GP surgery.</p> <p>Planning could be sought for office use, but the office market is in decline with the rise of trends in home working and therefore demand for office space is weak at present, especially an office of this size.</p> <p>Conversion to residential accommodation has been considered but this would be contrary to current policy and the LPA would see this use as a last resort. Given the busy town centre location, the site doesn't lend itself to residential use. In any event, a developer would have to demonstrate a lack of demand for the existing use by marketing the site for the existing use for 12 to 18 months.</p> <p>If the property is not purchased, the Council may lose the opportunity to gain control of a key site for the redevelopment of the town centre in line with the HTCM. Furthermore, other developers are likely to prioritise financial returns from the property and might not deliver the recommendations of the HTCM on this site.</p> <p>In terms of an exit strategy, the property could be returned to the market for sale to recover the capital costs, although, due to the limited market for the property, there is a risk that the full capital cost might not be recovered.</p> <p>Given the long-term ambitions for the site, if a suitable tenant is not found, the property could be demolished and incorporated into the adjacent car park in the medium term subject to planning. This will reduce holding costs and prepare the site for future development.</p> <p>In summary, there are medium term risks associated with this investment in terms of securing a tenant, but there are alternative options to consider and ultimately, the main objective of the purchase is strategic ownership for future place shaping as set out in the Strategic Case.</p>
<b>Commercial Case</b>	<p><b><i>Procurement Strategy</i></b></p> <p>Legal services commissioned for this purchase will be provided by the inhouse Shared Legal Service and any external valuation advice or repair works will be procured in line with the Council's procurement rules.</p> <p>All property negotiations will be handled by inhouse surveyors.</p> <p>We will not have the opportunity to undertake full due diligence before the auction takes place, although we have viewed the property and reviewed the legal pack provided by the auctioneer.</p>

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	<p><b><i>Contractual arrangements</i></b></p> <p>An unconditional offer will be submitted at auction. If successful a 10% deposit will be required within 24 hours of the auction and contracts for the acquisition will exchange in due course with the remainder of the payment made at completion.</p> <p><b><i>Legislation considerations</i></b></p> <p>Given the age and condition of existing fixtures and fitting in the building, the Council will have to ensure that relevant health and safety legislation is adhered to in relation to the re-letting of the property.</p>
Financial Case	<p><b><i>Capital requirement</i></b></p> <p>The vendor’s agent has set a guide price of £250,000 for the auction of the property. We understand from the agent that interest in the property has been limited and that only two parties have viewed the property - one of the parties is a Chiropractor practice.</p> <p>Based on a high level inhouse valuation of the property, the market value of the property is believed to be in the region of £235,000-£265,000. However, because the Council owns the adjacent car parks, it could be argued that the Council will benefit from marriage value which makes the Council a special purchaser because it can realise more value from the site. It is difficult to quantify the level of additional value until a scheme has been designed and appraised financially, but this benefit could justify an offer in excess of market value.</p> <p>The property is in good overall condition given its age and the previous tenant has complied fully with their dilapidations obligations at the end of their lease so the interior is well presented, although the boiler, fire alarm and fire doors are old and likely to require replacement. In order to bring the property up to lettable standard, an inhouse building surveyor, who has inspected the property, has recommended that a capital budget is set aside to cover any statutory compliance and upgrading costs.</p> <p><b><i>Revenue impact including borrowing costs</i></b></p> <p>The agent has confirmed that the rent paid by the previous tenant was approximately £30,000 per annum which equate to a rate of £11 per sq ft. GP surgeries typically achieve rents broadly in line with office space. Office rents in Haverhill range from £8 to £20 depending on the age, condition and location. This rent probably reflects a marginal premium for the GP use.</p>



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The tenants will be responsible for all repairs and maintenance. Therefore, the Council is not expected to incur significant ongoing maintenance costs, unless a tenant breaches the terms of the lease, or the property suffers vandal damage during the void period.

As this purchase will be part of the Investing in our Growth Agenda fund, it has been assessed on the basis of the Council borrowing to fund the purchase. This is consistent with all investments made from this fund.

The annual borrowing costs will be based on prudential borrowing on an annuity basis from PWLB, over a period of 40 years for the costs associated with purchasing the site and over 15 years for the refurbishment costs. The assumed interest rate will be 4.60%, which is the average rate the council believes it can borrow across its whole portfolio.

The following table shows the financial implications of purchasing the building based on two potential price offers.

	Guide price	Maximum offer
	£	£
<b>Capital implications of purchase</b>		
Purchase Cost of building	<b>250,000</b>	<b>305,000</b>
Stamp Duty (SDLT)	2,000	4,750
Purchase costs at 3% of capital value	7,500	9,150
Refurbishment costs	50,000	50,000
<b>Total capital costs</b>	<b>309,500</b>	<b>368,900</b>
	£	£
<b>Revenue implications of purchase</b>		
Potential rental income	( 29,590)	( 29,590)
Building maintenance contribution (1.1% of cost)	( 2,750)	( 3,355)
<b>(Surplus)/deficit per annum before borrowing</b>	<b>( 26,840)</b>	<b>( 26,235)</b>
Borrowing - interest	14,237	16,969
Borrowing - minimum revenue provision	4,755	5,296
<b>(Surplus)/deficit per annum before borrowing</b>	<b>( 7,848)</b>	<b>( 3,969)</b>
Return on investment (before borrowing and costs)	9.56%	8.02%
Return on investment (after borrowing and costs)	2.54%	1.08%

The table above demonstrates that, based on borrowing costs, the Council can afford to offer a maximum price of £305,000 for the building. The initial return on investment generated by this proposal could range from 8.02% to 9.56% before borrowing (1.08% to 2.54% after borrowing) depending on the offer accepted at auction.



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	<p>These returns are in line with the aspirations of the investing in growth agenda fund.</p> <p>The figures in the table above include the full cost of prudential borrowing, however, actual borrowing would only take place when the Council’s treasury management activities identify such a need.</p> <p>In view of the predicted one year void period, we have budgeted for holding costs of approximately £15,000 primarily to cover the cost of business rates, security, utilities and general repairs and maintenance in the first year of ownership. This cost could be higher if a tenant is not found within 12 months.</p> <p>Holding costs, including borrowing costs incurred during any initial void period will be funded from the Capital Projects Financing Reserve.</p> <p><b>Capital funding</b></p> <p>The Council will fund the capital cost of this project from the Investing in Growth Fund (IGF), through prudential borrowing, with the default position being this coming from the Public Works Loans Board (PWLB).</p> <p>The principle of the Council’s IGF is to support delivery of the Council’s Strategic Priorities and produce revenue to support the ongoing delivery of services. The fund aims to provide a blended return with a target to achieve 1% above borrowing across the whole fund. This purchase is expected to meet the Council’s minimum net target return of 1% for the fund.</p>
Management Case	<p><b>Project Management Plans</b></p> <p>In the medium term, the property will be incorporated into the Council’s commercial property portfolio and managed as a non-operational investment by the Estates team. Any required works will be identified and managed by the Building Services team.</p> <p><b>Risk Management</b></p> <p>All construction contracts and risk management will be managed by the Building Services team with representation from Finance and Legal. Any decisions that need to be taken out with this team, will be presented in accordance with the Decision-Making requirements of the Council.</p>

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#### ***Use of Specialist Advisers***

Any required works will be managed in house, but some specialist consultants and contractors may be required. Specialists could include:

1. Commercial Lettings Agent
2. Quantity Surveyor
3. Technical compliance contractors

#### ***Monitoring during implementation***

The project will be delivered in accordance with best practice subject to robust risk management, financial management and project delivery practices.

### Recommendations and Next Steps

It is **RECOMMENDED** that members:

- (1) Approve a capital budget of £318,900 funded from the IGF, funded by prudential borrowing for the purchase of the property as detailed in the Strategic Case above.
- (2) Establish a capital budget of £50,000 (Fifty Thousand Pounds) to fund the cost of any immediate repairs and maintenance, with any balance from the purchase price maximum bid price also being made available for work if required.
- (3) Establish a revenue budget of £15,000 (Fifteen Thousand Pounds), for the period of 1 year to cover the holding costs of the building, as detailed in the supporting business case.
- (4) Authorise a named officer, to be delegated by the Director of Resources, to bid on the property at auction up to a maximum price of £305,000.
- (5) Officers will proceed in line with the Council's agreed Scheme of Delegation.
- (6) Acknowledge that the Council will incur additional revenue costs if a suitable tenant is not secured within a year of the acquisition.
- (7) Acknowledge that officers will proceed in line with the Council's agreed Scheme of Delegation.
- (8) Agree for the Council's Section 151 Officer to make the necessary changes to the Council's prudential indicators as a result of recommendations 1 and 2.