



CABINET – 25 JUNE 2019

**DELIVERING GROWTH IN LEICESTERSHIRE – EAST OF
LUTTERWORTH STRATEGIC DEVELOPMENT AREA AND OTHER
DEVELOPMENT PROJECTS**

**JOINT REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
AND THE CHIEF EXECUTIVE**

PART A

Purpose of the Report

1. The purpose of this report is to advise the Cabinet of work undertaken to establish an approach for the delivery of the East of Lutterworth Strategic Development Area (SDA) scheme which could also be applied to other development projects on County Council-owned sites, and include the possibility to work with a partner (or partners) on such projects via a joint venture arrangement.
2. The report seeks the Cabinet's approval to undertake a detailed assessment of the delivery options available and to carry out soft market testing of those options in order to inform the proposed approach.
3. The report also seeks the Cabinet's agreement to the appointment of a specialist independent business management consultancy to provide expertise and guidance to the Council during this process and assist in defining the objectives and scope of the preferred approach and how the Council can take this forward.

Recommendation

4. It is recommended that:
 - (a) The Director of Corporate Resources in consultation with the Chief Executive and Director of Law and Governance be authorised to explore further the options set out in the report for the delivery of development projects on Council-owned land, with particular regard to the East of Lutterworth SDA, including -
 - (i) appointing specialist consultants to assist and advise the Council on the most appropriate delivery option(s);
 - (ii) undertaking engagement with members, officers, and other parties as necessary to establish the Council's growth delivery objectives;

- (iii) engaging in soft market testing of all or some of the options identified in the report, as he considers appropriate;
- (b) A further report be submitted to the Cabinet in November 2019 regarding the outcome of the work undertaken and the proposed way forward.

Reasons for Recommendations

5. Given the anticipated planning permission for the East of Lutterworth SDA later this year it is important that the Council identifies its preferred approach for the delivery of this scheme to ensure it is in a position to commence infrastructure construction in 2020 and can comply with the terms of the LAAC (Local Authority Accelerated Construction) and HIF (Highway Infrastructure Fund) funding which require housing development to commence on site in early 2021.
6. In assessing the options for this specific site, consideration will be given to how these might also support the delivery of other development schemes in the County and the benefits of the Council playing a more proactive role in future developments to benefit from increased returns, sharing in the costs and risks, and to secure delivery of its wider Strategic Plan objectives.
7. Specific consideration of the possible growth delivery objectives will be key. The involvement of officers and members in this process will ensure these are sufficiently challenged and tested.
8. Undertaking soft market testing will identify market appetite for the options, and assist in defining the scope of the approach the Council may wish to take forward and how this can be realised/ procured.
9. Additional support and expertise is required to explore thoroughly the options and clearly understand the issues relating to their impact on delivery of the East of Lutterworth SDA scheme and wider aspects of the Council's future asset development plans and obligations, such as adult social care and affordable housing.

Timetable for Decisions (including Scrutiny)

10. Subject to approval by the Cabinet, the proposed objective setting exercise will be carried out from July to September 2019.
11. The Scrutiny Commission will be consulted as part of this process at its meeting on 6 November 2019. It is intended that a report will thereafter be submitted to the Cabinet detailing the objectives, the outcome of the work undertaken and the proposed way forward.

Policy Framework and Previous Decisions

12. In May 2016, the Cabinet resolved to support the promotion of the Lutterworth East SDA scheme in collaboration with other relevant landowners and authorised

the Director of Corporate Resources to develop documentation to secure the SDA within Harborough District Council's Local Plan.

13. The Cabinet subsequently considered the detailed financial and resource implications for the project at its meeting in March 2018 and agreed to continue to promote the SDA in the Harborough Local Plan and to develop the site.
14. The County Council's Strategic Plan 2018-22, supported by the Enabling Growth Plan, sets out the Council's objectives for the rationalisation and utilisation of its assets, maximisation of capital receipts, and facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.
15. The Council's Corporate Asset Investment Fund Strategy for 2019 to 2023 approved by the County Council on 20 February 2019 includes the following aims:
 - (i) To support the objectives of the Council's MTFS [Medium Term Financial Strategy], generate an income, increase the Council's financial resilience and support delivery of frontline services;
 - (ii) To support the aims of the Council's Strategic Plan, in particular delivery of the objective of affordable and quality homes (i.e. ensuring the development provides a choice of quality homes that people can afford);
 - (iii) To support growth in the County and meet the aims of the Economic Growth Plan and the County-wide Local Industrial Strategy;
 - (iv) To manage risk by investing in diverse sectors and ensure a more diverse range of properties are available to meet the aims of economic development.

Resource Implications

16. The costs of engaging the consultant are expected to be in the region of £12,000, and this funding will be provided from the Corporate Asset Investment Fund.

Legal Implications

17. Several options set out in this report will require compliance with EU procurement regulations including the Public Contracts regulations 2015, in addition to the Council's Constitution and Contract Procedure Rules. The Director of Law and Governance acting in conjunction with external legal advisers as appropriate will provide advice and assistance throughout this process.

Circulation under the Local Issues Alert Procedure

18. None.

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PART B

Background

19. The Council's Strategic Plan sets out its commitment to support growth through the delivery of a strong economy and affordable and quality homes, but also in the context of its wider obligations to support the environment, to build safer and healthier communities and to provide services that best support those who are most vulnerable living and working in the area.
20. Meeting these outcomes will be difficult given the significant financial, demographic and service demand pressures the Council currently faces. Years of austerity and reducing government grants have meant that whilst service demand and operating costs have increased, the Council's income to support frontline services has vastly reduced over the last decade. As a result, like other authorities, the Council is having to consider new ways of working that will enable it to both deliver its identified outcomes and generate increased revenue income.
21. In 2014 the Council established the Corporate Asset Investment Fund (CAIF) which substantially changed its approach to property investment and how it manages and steers the use of its asset portfolio. The scheme currently being progressed through the CAIF is the East of Lutterworth SDA. Since 2016 when the Cabinet first resolved to take this scheme forward, it has sought to acquire all the land within the SDA to best support inclusion of the site within the Harborough Local Plan, and to ensure the scheme could be delivered in a way that best supports the Council's wider strategic objectives.
22. The Harborough Local Plan including the SDA was adopted by Harborough District Council on 30th April 2019. The Council's planning application for the scheme was submitted to Harborough District Council on 27th February 2019 and is expected to be determined in September 2019.
23. The Council now needs to consider its next steps and how it wishes to take this scheme forward. It is intended that as part of this process, consideration will be given to how each potential approach might also be applied to other development schemes and/or support the Council's wider growth commitments, for example, delivery of its Adult Social Care Accommodation Plan which is the subject of a separate report on the agenda for this Cabinet meeting and is covered in the options appraisal below.

Proposed Development Options

24. Officers from Strategic Property Services alongside those from the Council's new Growth Unit have been considering the range of opportunities that are available for both the delivery of the East of Lutterworth SDA site and the Council's wider growth agenda. The focus is on options which could financially be more beneficial to the Authority in the longer term and enable the Council to retain some level of control over its development site and ensure it can best achieve the Strategic Plan outcomes.

25. In order to ensure current best practice is reflected in the options appraisal, it is proposed that the Council engage a specialist independent business management consultancy. Their insight will strengthen the council's understanding of the risks and opportunities associated with the options set out in this report.
26. The options proposed for assessment in detail are as set out below -
- Option 1 - Disposal with Planning Permission
 - Option 2 - Self Development
 - Option 3 - Joint Venture Partnership.

Option 1 – Disposal with Planning Permission

27. This option is the approach that has traditionally been adopted by the Council and will be used as a baseline against which the other options will be compared. Traditionally the Council has sold its surplus land and assets by securing the appropriate planning permission (outline/full) on land it owns and then seeking best offers from the market place to sell this for development. This disposal mechanism has worked well for many years and has passed the property development risk on to the purchaser, with the Council receiving a mix of conditional and unconditional land receipts.
28. This option does not, however, enable the Council to benefit from the development profit secured by the buying developer when the site is complete and individual plots sold. Also, once sold the Council loses control of the site and this could therefore reduce the Council's ability to secure delivery of its wider Strategic Plan outcomes. For example, a developer can, once it has bought the land, seek to amend the Council's planning approval which might see a reduction in affordable housing on the site, or result in the land being left fallow as a developer chooses not to proceed once purchased.

Option 2 – Self Development

29. This would involve the Council carrying out the construction of the entire housing and commercial development. It potentially generates the highest return as the Council would benefit from all the development profit whilst retaining full control of the development and thus giving it the best scope to achieve its wider Strategic Plan outcomes.
30. However, under this option the Council would bear a substantial amount of the development/financial risk. Also, whilst the Authority has some experience of undertaking smaller developments, it currently has no experience of progressing a development of the size of the East of Lutterworth SDA scheme. This would therefore need significant investment in new staff resources and, furthermore, the cost of delivery could be substantial, requiring the Council to borrow to in order to fund the construction costs.

Option 3 – Joint Venture Partnership

31. The term joint venture describes a range of different commercial partnership arrangements which would involve the Council plus one or more partners. Under such an arrangement, each partner contributes resources to the venture and a new business (a limited company) is created in which the Council and its partner(s) collaborate together, sharing the risks and benefits associated with the venture(s). The resources contributed by either party may include land, capital, experienced staff and/or other equipment or assets.
32. By way of example, one possibility would be for the Council to transfer ownership of land to the joint venture company whereby the value of that land acts as the Council's equity contribution to the venture. This would then be matched by a joint venture partner who would contribute funding that (at least) matches the value of the Council's land. Alternatively, the land could be drawn down by the joint venture company and the Council would then receive a capital receipt, which could be used to contribute to development costs.
33. In both scenarios, in addition to the Council sharing risks and costs and obtaining a share in the development profit, benefits could include low risk capital receipts with enhanced development profit, shared financial risk with contributions towards infrastructure costs, and access to private sector development skills. In establishing the joint venture, the Council would need to set out its objectives for the partnership and these could also ensure that delivery of a scheme not only prioritised a good financial return, but also delivery of the Council's wider Strategic Plan outcomes.
34. There are, however, potential political, reputational and financial risks involved with this option as such an approach is dependent on a strong partnership and is therefore contingent on the Council finding an appropriate partner. This option would also not deliver the level of profit or control offered in Option 2. The benefits would also need to be weighed against the fact that setting up a joint venture would be time consuming and must go through the potentially expensive procurement process (OJEU). It may not therefore be appropriate for all Council-owned sites, particularly those which are smaller and straightforward.
35. General discussions with the market over the past few months suggest there is an appetite from a range of potential joint venture partners to work with the Council in the development of the East of Lutterworth site. To assess fully the viability of this option, the Council will need to engage with potential partners more formally by way of a soft market testing exercise to consider alternative types of joint venture and ascertain how these might be established.
36. Any joint venture arrangement would need to be structured in a way that best addresses the Council's risk appetite, desire for control and the level of finance and funding that it is able and willing to commit and invest. A suitable partner will be an organisation that has best alignment to the Council's objectives and interests and this will be tested in general terms through the soft market testing exercise proposed. To support this, the Council (both members and officers) will need to identify what it considers its key objectives for a joint venture might be.

Objectives Setting, Options Appraisal and Soft Market Testing

37. Subject to the Cabinet's approval, a detailed assessment of each of the above options will be undertaken over the summer based upon clearly defined growth delivery objectives for the Council. Those objectives will align to the Council's Strategic Plan. The options appraisal will include:
- An assessment of the advantages and disadvantages, risks, benefits and the financial implications of the options.
 - The soft market testing to gauge interest.
38. The outcome of this assessment will be reported to the Scrutiny Commission on 6 November 2019 and thereafter to the Cabinet.

Equality and Human Rights Implications

39. There are no Equality and Human Rights Implications directly arising from this report.

Risk Assessment

40. The Lutterworth East SDA is a large and complex project that requires upfront investment in order to generate future financial returns. The risks relate to the size of the financial obligations which the Council could potentially commit to. These will include consultancy fees, infrastructure design costs, funding, timing commitments and partnership agreements. Inevitably all of these bring a degree of risk.
41. Risks associated with each option set out in this report will be assessed and presented to the Cabinet in November. These will focus on delivery risk, political and reputational risk and financial risk.
42. The Council is mindful of this and appropriate governance arrangements have been put in place to continually monitor the project. A Growth Delivery Board is chaired by the Chief Executive and updates are also regularly provided to the Corporate Asset Investment Fund Advisory Board.

Environmental Impact

43. There are no environmental impacts directly associated with the recommendations set out in this report. However, the delivery of growth, irrespective of the preferred delivery option, will reflect the Council's position in relation to the climate change.

Background Papers

Report to the County Council - 20 February 2019 – Medium Term Financial Strategy
2019/20 – 2022/23

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