



CABINET – 22 NOVEMBER 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 the outcome of work undertaken to identify the County Council's objectives for the East of Lutterworth Strategic Development Area (SDA) and assess the potential options available for the delivery of the scheme, which could also be applied to other development projects on County Council owned sites. The report sets out the options considered, the preferred approach and how this might be structured.
2. In addition, the report outlines the current position regarding the spine road which forms part of the scheme and the issues to be considered to identify how this will be delivered and funded. This will be affected by the outcome of the Council's HIF (Housing Infrastructure Fund) bid which is still to be determined.

Recommendations

3. It is recommended that:
 - (a) The outcome of the options appraisal for the delivery of the East of Lutterworth SDA scheme be noted;
 - (b) The comments of the Scrutiny Commission on the proposed preferred approach outlined in paragraphs 90 to 94 of this report be noted;
 - (c) The East of Lutterworth SDA scheme be delivered by adopting a hybrid approach utilising option 5 (Joint Venture – Enabling / Development / Operational Partner) and option 2 (Self Development) as outlined in paragraphs 51 to 54 of this report;
 - (d) Consideration of how best to deliver other growth schemes arising in the County and their possible inclusion within the joint venture once established be considered on a project by project basis and subject to further reports to the Scrutiny Commission and the Cabinet as appropriate;

- (e) The specific objectives for the delivery of the Lutterworth East SDA scheme as listed in paragraph 25 be approved;
- (f) The proposed next steps for the project be noted and further reports presented to the Cabinet for approval setting out:
 - (i) the planned procurement approach and scope;
 - (ii) proposals for the establishment, structure and governance of the joint venture through a limited liability partnership;
- (g) The Director of Corporate Resources undertake further member and officer engagement as outlined in paragraph 102 of this report.

Reasons for Recommendations

4. Establishing a joint venture with a strategic private sector partner on a 50/50 basis to fund, develop and manage the Lutterworth scheme most closely aligns to the Council's aspirations for ensuring control over site development whilst sharing risk and obtaining a financial return. Once established the partnership can also be used as a vehicle for the delivery of future sites if deemed appropriate by members. This approach was supported by the Scrutiny Commission on 6 November 2019.
5. The risks generated by self-development of the employment site to the south of Lutterworth East are clearer and more manageable and the financial rewards significant enough to offset these, therefore this area will be developed by the Council independently of the joint venture.
6. The specific objectives developed for delivery of the Lutterworth East SDA reflect the aspiration for a high-quality development in line with the Council's Strategic Plan outcomes whilst also recognising the need to generate financial returns relative to the risks taken during development.

Timetable for Decisions (including Scrutiny)

7. The Scrutiny Commission considered a report on the proposals for the delivery of the Lutterworth East SDA scheme at its meeting on 6 November 2019. Its comments on the proposals are detailed in Part B below.
8. An indicative timetable for the project is also contained in Part B below. If the preferred approach is approved by the Cabinet further work will be undertaken to prepare for the procurement of a joint venture partner(s), details of which are set out below in paragraphs 96 to 102. This is partly dependent, however, on the success of the Council's Highway Infrastructure Fund (HIF).
9. It is intended that a further report will be presented to the Cabinet in March 2020, at which point it is hoped that the outcome of the Council's HIF bid will be known. A clear position on the HIF bid will allow the Council to make a decision in relation to the joint venture procurement process and the funding of the spine road which is a key element of the scheme.

Policy Framework and Previous Decisions

10. 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.
11. 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. The Scrutiny Commission on 7 March 2018 received a report setting out progress with the SDA, its inclusion in the emerging Harborough Local Plan and the land assembly required to deliver it. The Commission had indicated its support for the SDA.
12. 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, facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.
13. The Council's Corporate Asset Investment Fund (CAIF) 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.
14. The Scrutiny Commission discussed the Lutterworth SDA when it considered the CAIF Strategy at its meeting on 4 September 2019. It was advised that the County Council would consider establishing structures such as a property company on a needs-driven basis. A property company could be a solution that would enable delivery of the Lutterworth East SDA, generate financial return and could also be used to support the delivery of the Council's social care investment programme.
15. In March 2019 the Cabinet accepted a grant allocation of £14m from Homes England from its Local Authority Accelerated Construction Fund (£8m of which related to the East of Lutterworth SDA) and authorised the Director of Environment and Transport (following consultation with the Director of Corporate Resources, Director of Law and Governance, and Cabinet Lead Member for Resources) to enter into a contract and proceed with Stage 1 of that contract to allow ECI (Early Contractor Involvement) in the design and undertaking of

preliminary works in respect of the proposed construction of the East of Lutterworth spine road and related infrastructure. Funding of £1.5m was allocated to support this work up to November 2019. In October 2019 the Cabinet agreed a further allocation of £3.5m to take the project through to March 2020.

Resource Implications

16. The County Council was expecting to know the outcome of the Housing Infrastructure Fund (HIF) bid for the South West Leicestershire Sustainable Development Area over the summer. However, a decision is now not expected until the new year. If the bid is successful it would provide £31m towards the costs of the construction of the Spine Road to complement the £8m Local Authority Accelerated Construction (LAAC) already secured.
17. As a result, significant uncertainty still exists around how to fund the spine road, and how this links in with the recommended option for delivery of the East of Lutterworth SDA – option 5 (Joint Venture – Enabling / Development / Operational Partner). The various options for delivery of the spine road are currently being considered. More information on this is included in Part B below.

Circulation under the Local Issues Alert Procedure

A copy of this report has been sent to Mr. B. L. Pain CC and Mrs R. Page CC.

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PART B

Background

18. 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.
19. Since 2016 when the Cabinet first resolved to take the scheme forward, the Council has sought to acquire all the land within the SDA to ensure the inclusion of the site within the Harborough Local Plan and to ensure the scheme can be delivered in a way that best supports the Council's wider strategic objectives.
20. The SDA in Lutterworth extends to 516 acres of land and the proposed scheme for the site involves the development of 2,750 dwellings, 56 acres of employment land, 2 primary schools, a local community centre, extensive open space and green infrastructure, thus supporting delivery of many of the Council's Strategic Plan objectives in the area.
21. In addition, the scheme will involve major highways work including the construction of a new spine road (providing some traffic relief to Lutterworth), a new motorway bridge, and substantial off-site junction improvements.
22. To date, the County Council has secured most of the site (95% owned with the remaining 5% to be acquired shortly) and the inclusion of the SDA in the recently adopted Harborough Local Plan. It has also submitted a hybrid planning application for the scheme which sets out detail on major highways work and outlines proposals for the remainder of the site. It is expected that this will be determined in January 2020.
23. The concept masterplan for the site (Appendix A) shows an indicative layout of the proposed development.

The Objectives for the Scheme

24. The Council's Strategic Plan sets out its overarching commitment to support growth through the strong economy and affordable and quality homes outcomes, 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.
25. With those outcomes in mind, the Council has developed its specific objectives against which the East of Lutterworth scheme should be delivered. These have been produced in consultation with members and key officers (details of this engagement are set out in paragraphs 48 and 49 of this report) and are set out below.

Aim – The Council wants to achieve a high-quality mixed tenure community that should act as an exemplary project within the United Kingdom. It should

contribute significantly to the Council's Social Value objectives by creating added social, environmental and economic value both during the development and ongoing operation of the site, by focusing on:

- **Design** – The Council is seeking a scheme with high quality design, including a mix of traditional and modern methods of construction that is delivered based on the principles enshrined in the Lutterworth East Design Code.
- **Environment** – The scheme should promote green infrastructure, minimise the use of resources, encourage the use of renewable energy and enable low carbon living in order to be carbon neutral, and improve biodiversity and enable adaptability to the impacts of climate change.
- **Community** – The design of the scheme should enable a diverse, safe, cohesive, vibrant and integrated community to exist on the site created through well connected community and retail facilities.
- **Public Realm** – The scheme should provide and maintain high quality public realm, giving spaces physical, cultural and social identities that should significantly contribute to people's health, happiness and well-being.
- **Infrastructure** – The design of the scheme should maximise the existing infrastructure and deliver further timely infrastructure of excellent quality that supports the site by providing good, active, safe and sustainable travel connectivity across multiple modes of transportation or negates the need to travel.
- **Economy** – The design of the scheme should develop an economically sustainable environment.
- **Well-being** – In designing the scheme it should provide for a strong emphasis on creating a healthy environment; promoting social and cultural well-being reflecting the needs of those in the local community, and ensuring healthy lifestyles become the default option by design.
- **Education** – Provides good local solutions for high quality teaching and learning for pupils and students of all abilities, helps promote strong routes and good opportunities for employment and further training, and provides integrated and inclusive support for all families.
- **Viability** – the Council requires the scheme to be commercially viable across the life of the project reflecting the level of risk and investment undertaken.
- **Partnership** – the Council is looking for an organisation/s that it can work with to fund, develop, manage and maintain the site throughout the life of the development and with the potential to work together to deliver additional schemes in the future.

- **Programme** – New homes to be delivered faster than current delivery trends for new housing, for which any proposal must be robust and realistic.
- **Risk & Reward** - The Council would expect to receive meaningful financial returns for any participation throughout the development and the operational life of the scheme. The Council will invest its land into any arrangement. It also has some appetite for risk, with this extending to additional investment over the land value if this is required; any such investment must be balanced by commensurate reward.

26. Meeting its overarching Strategic Plan outcomes and the above specific objectives for the Lutterworth scheme 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, where possible, generate increased revenue income.

Delivery Considerations

27. The County Council has traditionally sold surplus land and assets by securing planning consent and then seeking best offers from the market. This disposal mechanism has worked well for many years and has passed all the property development risk on to the purchaser with the County Council receiving unconditional land receipts.
28. Given the above pressures facing public bodies many councils are considering the use of more commercial property vehicles that allow them to share in the development and operational risks in return for improved financial returns and greater influence and control during the delivery stages of development and ongoing operation of projects, something not possible if a site is sold in the traditional way.
29. The scale of the East Lutterworth scheme and its potential to deliver so many of the Council's key outcomes meant that consideration of all potential delivery options compared with the Council's traditional approach was deemed appropriate.
30. As agreed by the Cabinet in June 2019, the Council engaged the support of specialist consultants 31ten Consulting (31ten) to help it explore the options available and ensure current best practice is reflected in the appraisal. Their insight has strengthened the Council's understanding of the risks and opportunities associated with the options set out below. They have worked with officers and members to develop the Council's knowledge of the issues and their impact not only on the delivery of the Lutterworth scheme, but also wider aspects of the Council's future asset development plans and obligations, such as adult social care and affordable housing.

Development Options

31. Officers from Strategic Property Services and the Council's new Growth Unit alongside the Council's consultants, 31ten, identified a range of opportunities for both the delivery of the East of Lutterworth SDA site and the Council's wider growth agenda.
32. Focus was given to enabling the Council to retain some level of control over the development to ensure it can best achieve its Strategic Plan outcomes and those which could also financially be more beneficial to the Authority in the longer term.
33. The options assessed were -

Option 1 – Disposal with Planning Permission

34. This option is the approach that has traditionally been adopted by the Council and was used as a baseline against which the other options were compared.

Option 2 – Self Development

35. This would involve the Council carrying out the construction of the entire housing and commercial development.

Option 3 – Joint Venture – Enabling Partner

36. 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 liability partnership or 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. Under this option the Council would enter into a partnership with a development/investment partner. The site is then enabled by the partnership and serviced plots sold on to the market. All services to establish the planning consents, removal of development issues, etc. would be undertaken by the joint venture partnership. The Council would likely receive a land receipt and a share of the profit from enablement.

Option 4 – Joint Venture – Development Partner

37. Under this option the Council enters into a partnership with a development/investment partner. The site is then enabled, and the residential and commercial elements are developed by the Joint Venture. The Council would likely receive a land receipt and take a share of the development profit.

Option 5 – Joint Venture – Enabling / Development / Operational Partner

38. Under this approach the Council enters into a 50/50 partnership with a strategic partner. The site is then enabled by the Joint Venture, a number of the sites are

then developed by the Partnership whilst other plots are disposed of to other developers, and any operational elements are owned and operated by the partnership over the long term. The Council would likely receive a land receipt and take a share of the development/operational profit, which could include private rental and commercial income.

Options Appraisal

39. In order to undertake an Options Appraisal of each of these solutions it was first necessary to define the criteria against which the options would be compared.
40. A set of criteria was developed by 31ten in partnership with the Council that best reflected the Council's objectives for the scheme and its broader strategic aims. A weighting was then applied to each based on their importance to the Council as articulated in the objectives. Based on the balance of project objectives 30% was allocated to financial criteria and 70% to non-financial. Each option would receive a proportion of the weighted percentage based on its performance against that criteria.

No	Criteria	Weighting	Explanation
Financial			
1	Financial Return	30%	The likely financial return to the Council from the option.
Non-Financial			
2	Level of control	10%	The level of control the Council would have over the delivery of the project including the exemplary nature of the project / sustainability
3	Scalability	8%	The scalability of the approach across the County for other projects / priorities
4	Procurement Timeline	6%	The length of time taken to get on site to deliver the project
5	Likelihood of market interest	7%	The potential of the market delivering the role defined by the option
6	Development Risk	9%	Exposure to build cost risk for the scheme including construction costs, issues in the ground etc.
7	Sales / rental Risk	9%	Exposure to the sales value and rental value risk from the scheme.
8	Operational Risk	9%	Exposure to operational risk for the retained elements of the site
9	Balance of risk vs reward	12%	Is the balance of risk the Council would be taking commensurate with the reward it desires

41. In order to conclude on the scoring against each criterion significant research was undertaken on each of the options and how they would apply to Lutterworth East and potential additional projects with the Council. This was completed by undertaking the following:
- A desktop assessment of the advantages and disadvantages.
 - Comparison with other solutions in the market and best practice.
 - A risk and financial assessment.
 - Soft Market testing.
 - Member and officer engagement.
42. To undertake this appraisal certain assumptions have had to be made. These have included:
- Spine Road works - It has been assumed that the highway works regarding the construction of the spine road will be managed separately outside of the JV and that the Council would utilise a combination of funding sources to achieve this including the LAAC and HIF funding. At the time of undertaking the appraisal work, the outcome of the Council's HIF funding bid to support, in part, the cost of constructing the road was and remains unknown. Further details regarding this is set out below.
 - The delivery solution would take responsibility for the delivery of all elements within the redline of the site (indicative plan attached as Appendix B).
 - That any procurements are undertaken efficiently but in line with relevant regulations.
 - Third party expertise is used to support the Council as appropriate through all of the options.

Outcome of the Options Appraisal and Soft Market Testing

43. An assessment of the advantages and disadvantages of the above options as well as the risks and financial implications of each is set out in detail in Appendix C. A summary of the key findings is set out below.
44. This analysis demonstrates that each of the options offer a variety of advantages and disadvantages to the Council, however the Joint Venture options most closely match the Council's aspirations in terms of sharing risk, accessing appropriate skills, retaining control to secure its Strategic Plan outcomes and generating a financial return.

Soft Market Testing

45. Officers engaged with the market by way of soft market testing (SMT) to better understand the level of interest from relevant third-party organisations in pursuing the Lutterworth East SDA scheme and wider property development opportunities with the County Council. In particular the purpose of this SMT exercise was to allow and enable potentially interested organisations with appropriate expertise and relevant experience to:
- Outline and generate initial views/ideas around the delivery routes for the project, the scope and the potential procurement strategy (noting this is with no commitment to themselves or the Council);
 - Engage with the Council to understand its challenges, intentions and desired outcomes;
 - Provide informal input to help shape and refine the Council's technical requirements;
 - Inform the Council of current market developments and cite examples of best practice across the public sector; and
 - Explore potential options and solutions available to the Council.
46. The outcomes of this process provided detailed feedback to the Council around 12 key themes, as shown in Appendix D.
47. On balance this engagement strongly supported a partnership approach to the delivery of Lutterworth East through a joint venture approach, preferably as Master Developer and potentially operator of retained assets in line with Option 5 (Joint Venture – Enabling/Development/Operational Partner).

Member and Officer Engagement

48. As part of the appraisal process both members and officers were consulted to identify the key objectives for the delivery of the Lutterworth East scheme (as set out earlier in this report in paragraph 18). Officers were involved from all departments to ensure the Council's wider strategic objectives were captured. This included a workshop session with key officers and a presentation to the Council's Corporate Management Team.
49. A cross party briefing was also held involving members of the Corporate Asset Investment Fund Advisory Board and the Scrutiny Commissioners. This was led by 31ten to obtain feedback on the objectives identified and which helped shape the soft market testing with potential private sector partners.

The Preferred Delivery Approach for East of Lutterworth SDA

50. The outcome of the options appraisal is summarised in the table below.

No.	Criteria	Weighting	Option 1 Disposal	Option 2 Self Devt	Option 3 JV Enabling	Option 4 JV Dev't	Option 5 JV Enable / Dev / Operate					
Financial												
1	Financial Return	30%	1	6%	5	30%	2	12%	3	18%	4	24%
Non-Financial												
2	Level of control	10%	1	2%	5	10%	2	4%	3	6%	4	8%
3	Scalability	8%	1	2%	2	3%	3	5%	3	5%	5	8%
4	Procurement Timeline	6%	5	6%	3	4%	4	5%	4	5%	4	5%
5	Likelihood of market interest	7%	2	3%	3	4%	5	7%	5	7%	4	6%
6	Development Risk	9%	5	9%	1	2%	3	5%	3	5%	3	5%
7	Sales / rental Risk	9%	5	9%	1	2%	5	9%	3	5%	3	5%
8	Operational Risk	9%	5	9%	1	2%	5	9%	5	9%	3	5%
9	Balance of risk vs reward	12%	1	2%	2	5%	3	7%	4	10%	5	12%
Total			26	48%	23	61%	32	63%	33	70%	35	79%
Ranking				5		4		3		2		1

51. The preferred approach from this analysis is Option 5, a 50/50 Joint Venture partnership with a strategic partner to enable and develop the site and any operational elements being then owned and operated by the partnership over the long term.
52. The Council has made clear that there are some elements of the site that it would wish to develop itself as it feels the balance of risk and reward for these elements would score more highly as these risks are clearer and more manageable and the financial rewards significant enough to offset these risks. In particular this relates to the distribution and commercial uses to the south of the site. To test this scenario a further appraisal was undertaken of these elements. This approach highlighted a significantly higher score for Option 2 – self-development as a result of the market interest and balance of risk and reward elements scoring more highly.
53. The recommended approach going forward is therefore a hybrid option between Options 2 and 5 whereby the Council would establish a joint venture for the majority of the site and would remove the employment sites which it would self-develop.
54. It should be noted that this approach enables the delivery of the site within the redline (shown on the indicative red line plan – Appendix B) and also enables the Council to deliver any additional elements it wishes outside of this structure, and indeed purchase any completed elements it wishes from the joint venture as investments, for example private rented housing to generate additional income streams for the Council.

Proposed approach for other Growth Schemes

55. The objectives identified as part of the appraisal process established that the success of the joint venture in delivering the Lutterworth scheme should determine whether or not consideration is given to further growth schemes being

delivered in this way. In order for this to be achieved effectively the option of the Council adding additional schemes to the partnership would be included within the scope of the procurement of the partner. Thus, enabling this partnership to be used for these schemes subject to it delivering successfully on Lutterworth East. The process through which additional schemes are added to the partnership would be something considered and assessed as new schemes arise and will be the subject of reports to the Scrutiny Commission and the Cabinet as appropriate.

What might a Joint Venture look like for the County Council

56. As mentioned above, there are a range of different commercial joint venture partnership arrangements which can be adopted with each partner contributing resources to the venture.
57. A new business (a limited company or limited liability partnership) is created in which the Council and its partner(s) collaborate, sharing the risks and benefits associated with the venture. The resources contributed by either party may include land, capital, experienced staff and/or other equipment or assets.
58. For Lutterworth it is proposed that the County Council will put in its land and the private sector partner (PSP) would contribute cash and other resources. Given that the Council owns the whole site its contribution will be substantial, and a partner will need to equally match this (it is proposed that the venture will be a 50:50 partnership). Senior debt will then be sought to fund the remaining costs. The returns from the development will then be used to repay the debt, repay the investment of the Council and its partner and then any surplus profits shared.
59. The proposed joint venture will be for the development of the scheme, but also its operation (such as by maintaining the public realm and green infrastructure and also perhaps in a landlord capacity for the retail, community and commercial uses).
60. It is intended that the joint venture will be in place for a period of 30 years, after which it would cease. This will give time for the development to be completed (currently targeted for mid-2036), but also allow for 14 years (approximately) of ongoing management until 2050 which coincides with the Strategic Growth Plan.
61. Through the proposed joint venture the Council will share in the risks associated with funding, development and operation which over the lifetime of the scheme will not be insubstantial and will include risks around accessing funding, construction, sales, rental, and the financial position of its partner and the partnership vehicle. However, to balance these risks, it will benefit from commensurate rewards through sharing in the profits from the scheme as a result of the development and operational activity. These returns are likely to be realised across the 30-year life of the scheme and will flow from its activities. These will not be all in up front capital receipts, or exit returns, it is more likely to correspond with major phases and decisions on disposing of assets or retaining them within the partnership. As 50/50 member of the partnership the Council will have equal say over these decisions.

Structure of the proposed Joint Venture

62. Early consideration has been given to the most appropriate vehicle through which the Council will work with a Private Sector Partners (PSP). It is proposed that creating a limited liability partnership (LLP) would be the most appropriate way forward.
63. An LLP is a body corporate with a legal personality separate from that of its members (i.e. the joint venture partner organisations). An LLP can do anything that a person can do, including holding property, entering into contracts, employing people, suing and being sued. It functions in many ways in the same way as a limited company.
64. One significant difference is that corporation tax does not apply to an LLP. The income of the LLP is assessed for tax in the hands of the members. This can avoid profits being subject to tax at joint venture and owner level and can allow local authorities to benefit from their tax position. This tax treatment is why an LLP is the standard legal form for these sorts of projects and is being proposed instead of any other entity as the joint venture vehicle.
65. There is a subsidiary question as to whether the Council enters into the LLP directly or through a wholly owned company. Both approaches are quite common in the market and the most appropriate approach for the Council will be determined in light of more detailed legal advice. Whether or not the Council enters into the LLP via a company will not affect the overall commercial arrangements, the level of Council control or its relationship with the PSP or joint venture. This question will be the subject of further reports as appropriate.
66. The LLP will own the assets of the business and be liable for its own debts. The members of the LLP act as its agents and only have liability up to the amount they have contributed to the LLP. An LLP maintains accounting records, prepares and delivers audited annual accounts to the Registrar of Companies, and submits an annual return in a similar manner to companies.
67. The LLP will be governed by an LLP Agreement (LLPA) which will be entered into by the Council, the private sector partner in the joint venture and the LLP. This is a private document and sets out the roles and responsibilities of the parties. It will be a 50/50 deadlocked joint venture, meaning that where the partners do not agree on a course of action the partnership will be in deadlock. This reflects the proposed 50/50 split of each party's investment into the joint venture and ensures one partner cannot act without support from the other. An exit strategy will be written into the LLP Agreement in the event of a complete deadlock
68. The LLP will have a Board which will contain an equal number of representatives from each member organisation, appointed and replaced by that member organisation. There will also be an opportunity to appoint non-executive directors to the Board that could bring in wider expertise and act as an independent party on the Board. The Board will produce a business plan for the LLP which will

require the approval of each member organisation. The Board are responsible for the day to day operation of the LLP in accordance with the business plan.

69. The LLPA will contain a delegation policy which details a list of reserved matters which are those material matters in respect of which the Board may not act unless it is either approved by the LLP members directly or included in an approved business plan.
70. The Council will exercise its function (i.e. determine the reserved matters) as a member of the LLP either through the Cabinet or a committee of the Cabinet. They are likely to appoint an individual who will liaise with and present their position to the LLP.
71. Further work to develop the best structure for a limited liability partnership (including legal, operational and staffing arrangements) will be undertaken and member and officer engagement will be necessary to establish the preferred governance and management arrangements for the partnership in accordance with appropriate legal advice (see the 'Next Steps' section below).

Procuring a Joint Venture Partner(s)

72. The Council's financial, strategic and legal consultants, 31ten and Bevan Brittan, have provided advice on the route forward for securing a joint venture partner or partners. Given the scale of the scheme and the size of the contract to be awarded, the procurement tender will need to be advertised in the Official Journal of the European Union (OJEU) and a process of competitive dialogue undertaken. This takes into consideration the need for a transparent, regulated process alongside the desire to attract the best solutions from the market. The outcome of leaving the EU will not affect the proposed procurement approach.
73. A competitive dialogue process will provide the County Council with the opportunity of gaining greater understanding as to what the market can provide and the ability to question and shape the eventual solution.
74. In short, bidders will be able to develop their own proposals in response to the County Council's objectives and only when their proposals are developed to sufficient detail are tenderers invited to submit competitive bids. Appendix E gives an overview of the OJEU procedure and the stages for the competitive dialogue process.
75. The procurement will take approximately 9 months to complete and the outcome of this process will therefore be reported to the Cabinet and the Scrutiny Commission late next year. Approval at that time will also be sought from the Cabinet of the outcome and that the procurement has been run in line with their requirements. The selection process will be undertaken by the Chief Executive with support from other Chief Officers, guidance from the Council's consultants 31ten and Bevan Brittan and following consultation with the Leader and Deputy Leader throughout.

76. EU procurement is highly regulated and potentially open to challenge from unsuccessful organisations. Therefore, it is important the County Council in undertaking this procurement provides a clear picture to the market of what it requires in terms of how a partnership would operate, the control it desires, the risks it is willing to take, as well as the reward it desires, the delivery of the scheme, how the resultant assets will be managed and future ownership arrangements. Officer and Member input into the early stages of preparing for the procurement process are therefore critical.
77. In order to ensure the Council's procurement process is robust more detailed work will be undertaken with both Members and Officers to establish the parameters of the procurement, the joint venture and the establishment of a limited liability partnership and future expectations for the scheme.
78. To secure the specialist commercial, financial and legal advice and expertise needed to support this process the Council will continue to engage 31ten. They will lead this process with involvement from Council officers in procurement, legal, growth, finance and strategic property and the Council's external legal advisors, Bevan Brittan.

Construction of Spine Road

79. The overall cost for the construction of the spine road is estimated to be £86m. This includes the Early Contractor Involvement (ECI) and preconstruction costs in designing the road (£4m which was approved by the Cabinet in March and October 2019).
80. The County Council has been successful in securing Local Authority Accelerated Construction (LAAC) funding of £8.08m from Homes England to support these works.
81. The LAAC Programme was set up by the Government to support local authorities in enabling sites for housing development through infrastructure works, planning and technical expertise and site remediation.
82. At Lutterworth East this will part fund the site access from the A4304 and the first section of the Spine Road running north from the A4304, bridging the River Swift and to the southern edge of the proposed new housing. There are certain conditions attached to this funding, the key one being that works to build the first house on site must begin in March 2021.
83. As part of a bid relating to the South West Leicestershire Sustainable Development Area (SDA) which includes the East of Lutterworth SDA, the County Council has also applied for Housing Infrastructure Fund (HIF) grant monies. This is also funding managed by Homes England and established by the Government to deliver new physical infrastructure to support delivery of new additional homes that otherwise would not be built and to make a meaningful difference to overall housing supply.

84. It was anticipated initially that a decision on this bid would have been made during the summer of 2019. However, at the time of writing this report the County Council is still awaiting a decision. If the bid is successful, this will provide up to a further £31m towards the cost of constructing the spine road.
85. In terms of delivery of the road the Council has a number of options from funding/delivering this entirely to passing some or all of this to be funded/delivered through the joint venture.
86. The greater contribution the Council makes to funding the road, the more the County Council will benefit from the fact that the value of its land is likely to be significantly higher, requiring a greater match funding contribution from the joint venture partner, as each parcel of land is rolled out for development. The scale of the liability of the road that falls on the joint venture will be a very significant factor in determining whether organisations are interested in bidding to become the Council's partner, and therefore the financial submissions received from tenderers as part of the procurement process. The more liability the joint venture is expected to pick up in terms of funding the spine road, the less beneficial their bids are likely to be for the County Council, and potentially this may dissuade some tenderers from bidding.
87. It is possible to split the delivery of the spine road into 2 separate phases. This would obviously add to the overall cost of delivery, but also timescales, meaning it would be highly unlikely the LAAC funding requirements could be met. Also, it is expected that a planning permission trigger will require that the whole distributor road is completed about the time the 500th house (out of 2,750 in total) is in place. As such, as the requirement is early in the development timeline, it would be preferable to commission and deliver the entire road in one single phase if possible.
88. The implications of the various scenarios are currently being considered. It is intended that the proposed way forward will be presented to the Cabinet in March 2020 when it is hoped a decision on the Council's HIF bid will have been made.

Public Consultation

89. Over the summer, the County Council undertook a 13-week public consultation on its priorities, to which it received over 4,300 responses. Questions relating to how the County Council raised income were specifically tailored to elicit views on the Authority's approach to growth and economic development. 81% of respondents agreed that the County Council should explore commercial opportunities to generate income and 66% of respondent agreed that the County Council should make more investments in land, property and other assets as a source of income. These responses demonstrate that there is general support for the County Council's direction of travel.

Comments from the Scrutiny Commission

90. The Scrutiny Commission at its meeting on 6th November considered a report concerning the objectives for the delivery of the scheme and the proposed

approach as detailed above.

91. The Commission supported the objectives identified as these would be crucial in delivering an exemplar development which would be innovative and aspirational and provide a template for the future.
92. The proposal for 40% of the houses built on site to be affordable housing and for the ambition of the development to be carbon friendly were particularly welcomed. With regard to affordable housing the Commission asked that as part of the procurement and delivery approach consideration be given to a range of housing options and to the potential establishment of a housing company to manage any housing that would subsequently be owned by the Council, whether private or affordable. Officers advised that this would be a consideration and work had already begun on this.
93. The Commission supported the outcome of the options appraisal and soft market testing which concluded that a joint venture with a strategic private sector partner(s) to enable, develop and operate the site offered the best chance of delivering to the objectives of the scheme.
94. The Commission noted that the proposed approach would be a departure from previous practice and therefore carried additional financial risks. However, whilst acknowledging these additional risks, members were of the view that these would be outweighed by the rewards, particularly to the reputation of the Council in delivering a successful exemplar project.

Current planned timetable for delivery

95. The current time line for the next stages in the delivery of the Lutterworth East SDA scheme are outlined below:

November 2019	Cabinet report setting out information presented to the Scrutiny Commission in this report and seeking approval of the preferred delivery option and the identified objectives.
January 2020	Planning permission expected to be determined subject by Harborough District Council to a s106 planning agreement, also expected to be completed in January 2020.
March 2020	Report to Cabinet seeking approval of (1) funding options for the spine road; (2) to enter into contract for the construction of the spine road subject to receipt and agreement of final costs; (3) approval to proceed with the joint venture procurement; (4) approval of the key aspects of the structure of the joint venture and the procurement documentation.

June 2020	Delivery of spine road commences.
December 2020	Preferred Partner for the Joint Venture selected.
	Report to Cabinet (and Scrutiny Commission) seeking approval to award contract to preferred bidder.
February / March 2021	Joint Venture established and contracts signed with the Council's Preferred Partner.

Next Steps/Ongoing Activity

96. **Scope of the Procurement** – Detailed work on the scope of the procurement and the documents to be supplied to support this will be undertaken to set out the parameters of what the Council is seeking from a private sector partner. This will include the Council's policy position on a number of areas, its aspirations from the scheme, the structure of the procurement and the specific evaluation approach to be used to select its partner.
97. **Objectives for the joint venture** - These were established as part of the assessment appraisal following consultation with both members and officers. However, further work will be required to understand how these can be delivered. Delivery of the Council's wider Strategic Plan outcomes will be a priority however, this has to be balanced against the viability of the scheme overall and the benefit of securing a good financial return which can be reinvested to support the delivery of wider Council services and objectives.
98. **Risk appetite** - 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 need to be determined prior to commencement of the procurement process.
99. **Limited Liability Partnership** - Consideration of the governance and management arrangements for the partnership and how this will link with the Council's internal governance structure and processes will be necessary to ensure the Partnership retains a degree of flexibility that enables it to deliver the objectives identified by the Council, whilst also ensuring the Council retains an overall degree of control and oversight throughout the project. A report will need to be prepared and presented to the Cabinet in due course setting out the structure of the LLP. This report is likely to be exempt as it will contain details that, if made public, could jeopardise the procurement process.
100. **Design Code** – Both a summary and detailed Design Code is being prepared and a draft version will be completed in November. This will be used to frame the overall vision and concept for the Lutterworth East scheme, linking to the Council's Strategic Outcomes and setting out a coherent and consistent design approach to be considered by developers.

101. **Spine Road** - As outlined above the implications of the various scenarios for the delivery of the spine road are currently being considered. Regard will need to be had to how these will impact the proposals for a joint venture as set out in this report. Discussions with Homes England will continue to seek confirmation of the Council's HIF funding bid as early as possible.

Further Member and Officer Engagement

102. The above work will be undertaken by officers with significant input from members. Given the timeframe and the need for a degree of confidentiality so as not to jeopardise the proposed procurement process, informal workshops will be held with both officers and members prior to the procurement process being undertaken to complete this work. The feedback received in these workshops will be captured in the planned report to the Cabinet in March 2020.

Risks Assessment

103. The Lutterworth East SDA is a large and complex project that requires upfront investment in order to generate future financial returns over a long timeframe which will be highly sensitive to key assumptions and external factors such as the state of the housing market and the wider economic climate.
104. There are also potential political, reputational and financial risks involved with the proposed joint venture approach as this is dependent on a strong partnership and therefore contingent on the Council finding an appropriate partner.
105. 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 and Lead Members as appropriate.

Equality and Human Rights Implications

106. There are no Equality and Human Rights Implications directly arising from this report. Implications associated with the future development of the SDA will be subject to an Equality and Human Rights Impact Assessment as appropriate prior to decisions being made.

Environmental Impact

107. A full Environmental Impact Assessment was submitted as part of the planning application for the Lutterworth East SDA.

Background Papers

Minutes from Cabinet meeting on 9 May 2016 -

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4602&Ver=4>

Report to the Cabinet on 29 March 2019 “East of Lutterworth Strategic Development Area - Homes England Funding and Early Contractor Involvement”

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=5601>

Report to the Cabinet on 13 September 2019 “Corporate Asset Investment Fund Annual Performance Report 2018-19 and Strategy Update for 2019 to 2023”.

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=5605>

Leicestershire County Council Strategic Plan 2018-22

<https://www.leicestershire.gov.uk/about-the-council/council-plans/the-strategic-plan>

Minutes of Scrutiny Commission meeting on 4 September 2019 -

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=5698&Ver=4>

Report to the Cabinet on 22 October 2019 “East of Lutterworth Strategic Development Area”

<http://politics.leics.gov.uk/documents/s148885/Lutterworth%20East%20SDA%208.10.19SLdbv2%20FINAL.pdf>

Appendices

Appendix A – Site Plan

Appendix B – Indicative redline (Joint Venture) Plan

Appendix C – Advantages and Disadvantages Options Appraisal

Appendix D – Soft Market Testing Outcomes

Appendix E – Procurement Process

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