



**CABINET – 22<sup>ND</sup> NOVEMBER 2019**

**BARROW ROAD/POOLE FARM, QUORN DEVELOPMENT - SOLAR FARM AND LIGHT INDUSTRIAL UNITS**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PART A**

**Purpose of the Report**

1. The purpose of this report is to present the outcome of the further financial analysis of the proposed development, as requested by the Cabinet in May 2018, and to seek the Cabinet's approval to submit a planning application for a solar farm and light industrial units on land owned by the Council in Quorn. The Cabinet is also asked to agree the funding to build the first phase of the scheme if planning permission is granted.

**Recommendation**

2. It is recommended that: -
  - (a) The Director of Corporate Resources be authorised to submit a planning application for the commercial development of a new solar farm and light industrial units at Quorn as detailed in this report;
  - (b) That subject to planning consent being granted, construction of the first phase of the development - the solar farm and Barrow Road units - be approved subject to a maximum cost of £14 million;
  - (c) That a further report be made to the Cabinet when it is considered that construction of phase two of the development - light industrial units at Poole Farm - is viable.

**Reasons for Recommendation**

3. The development of the Council-owned land will provide the Authority with future revenue income and support environmental and economic objectives.

**Timetable for Decisions (including Scrutiny)**

4. Subject to approval by the Cabinet, it is intended that a planning application would be submitted to the County Council's Development and Regulatory Board in December 2019.

5. Both the solar farm and industrial units at Barrow Road are planned to be operational in the 2021/22 financial year.

### **Policy Framework and Previous Decisions**

6. The Council's Corporate Asset Investment Fund Strategy (agreed by the Cabinet in September 2017) requires the Fund to be used to add to the Council's portfolio of land assets to:
  - a. Ensure that there is more diverse range of properties available to meet the aims of economic development;
  - b. Increase the size of the portfolio;
  - c. Improve the quality of land and property available;
  - d. Ensure the sustainability of the County Farms and industrial portfolio by replacing land sold to generate capital receipts and;
  - e. Provide a revenue income stream to support ongoing service delivery.
7. In February 2018 the Council agreed the Medium Term Financial Strategy 2018/19 - 2021/22 (MTFS), the key financial plan for the Authority. It includes savings of £37m over the four years, noting the need for further savings to bridge a budget shortfall forecast by 2021/22.
8. The County Council's Strategic Plan 2018 - 2022 sets out the Authority's five strategic outcomes, one of which is a Strong Economy; for Leicestershire to have a growing and resilient economy so that people and businesses can fulfil their potential. The Council can help deliver this outcome directly through the acquisition of land to support economic growth.
9. The Corporate Energy and Water Strategy 2017 - 2021 contains a target to increase the renewable proportion of energy consumed by the Council by 1% year-on-year based on 2013/14 consumption. The Strategy also details the need to generate income in order to support the MTFS. The income generated through the sale of electricity would support this target.
10. The Council's Environment Strategy, adopted in 2018, notes the role of local government in delivering and supporting creation of a low carbon society, the urgent need for action on climate change, and the interconnection between economic development, social equity/inclusion and environmental impacts.
11. In 2018 the Council signed up to UK 100, committing to achieving 100% clean energy by 2050. In May 2019 Councillors unanimously called for more to be done by the Authority to cut pollution and declared a climate emergency; the Council now aims for its own operations to be carbon neutral by 2030.
12. In May 2018 the Cabinet received a report on the proposed developments at Quorn and agreed that work be undertaken to enable the submission of a planning application and that further financial analysis be undertaken, with a particular focus on the solar farm.
13. A report on the Corporate Asset Investment Fund Annual Performance Report 2018-19 and Strategy Update 2019-2023, considered by the Cabinet on 13 September, had

been updated to reflect the Council's declaration of a climate emergency and the commitments within its new Environment Strategy for 2018-2030.

### **Resource Implications**

14. The County Council faces a very difficult financial outlook including a savings requirement of £75m of which £20m is currently unidentified. This gap is expected to grow in later years.
15. The proposed Strategy envisages growing the Corporate Asset Investment Fund (CAIF) over the next 5 to 10 years, the exact level of investment being dependent on the availability of good investments and funding. The expectation is that the returns (both revenue income and capital growth) generated by the CAIF will have a meaningful impact on the Council's funding gap.
16. The first phase of the Quorn scheme - the solar farm and the light industrial units off Barrow Road - would have a maximum capital cost of £14m (including the cost of preparing and submitting the planning application, charges by Western Power Distribution for the connection and contingency) and is expected to generate an average annual return over a 5-year period of £834,000 through the letting of commercial units and the sale of electricity from the solar farm.
17. Further financial information relating to each element of the proposal and detailed financial estimates and risks are given in Part B of this report.
18. The Director of Law and Governance has been consulted on this report.

### **Circulation under Local Issues Alert procedure**

19. This report will be circulated to Mrs H. Fryer CC (Quorn and Barrow division).

### **Officers to Contact**

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## **PART B**

### **Background**

20. The Council-owned site comprises three parcels of land (shown on the location plan in Appendix A) which are currently held under grazing licences. The land lies to the north of the A6 between Quorn and Barrow-upon-Soar in Charnwood -
- i. Solar Farm site which is located south-west of the River Soar and comprises 62 acres of grazing land.
  - ii. Barrow Road which comprises 2.35 acres of pastureland bound on all four sides by roads including Barrow Road and the A6.
  - iii. Poole Farm which comprises 2.27 acres of agricultural land and several redundant associated agricultural buildings.
21. The first phase of the scheme would involve the solar farm and Barrow Road units, proposals for which are detailed below.

### **Solar Farm**

22. The 62-acre solar farm would be accessed from Barrow Road. The River Soar runs along the north-east boundary of the site as do overhead powerlines. Severn Trent operates a sewage plant towards the northern end and the site is crossed by hedgerows. The site is shown at Appendix B.
23. The scheme would comprise a series of parallel rows of photovoltaic (PV) panels with direct connection to the National Grid. Due to flood risk, some frames will be near 2 metres above ground level (detailed drawings will be prepared to accompany the planning application).
24. Following feasibility studies and discussions with Western Power Distribution, the proposal is for a 10-megawatt power farm, enough to generate 8.79 megawatt hours per annum. This would be enough electricity to supply around 2,500 homes and is just under half of the energy used by the buildings the Council occupies and street lighting for the County.
25. The average income generated by the Solar Farm for the first five years (£444,000 per annum) is modelled on a prudent basis and generates a 25-year Net Present Value of £51,000 with an associated Internal Rate of Return (IRR) of 6.2%.
26. The capital cost is currently assessed to be £6.4m. A more detailed cost estimate will be conducted and a full procurement exercise will take place before awarding a construction contract.
27. There may be potential to increase the income from the solar farm following preliminary discussions with Severn Trent Water which operates a sewage treatment works next door to the site.

### **Barrow Road**

28. It is proposed to use this site for a 45,500 sq. ft (slightly larger than previously reported due to a more efficient layout) single-storey light industrial development which would be split into 9 units, ranging in size from 2,500 sq. ft to 4,500k sq. ft, delivered in a single phase. The scheme would to be accessed from the link road between the southbound A6 and Barrow Road. This is illustrated in Appendix C.
29. Officers are in discussion with architects and environmental engineering consultants to achieve a zero-carbon rating on the development (or as close as possible to zero if not financially viable to be actually zero-carbon). It may include technologies such as wind turbines, solar roof panels and water heating, LED lighting, rainwater harvesting, heat recovery ventilation, triple glazing, and electric vehicle charging. It is expected that occupiers would be local small and medium sized enterprises.
30. The capital cost of the scheme (assuming a BREEAM sustainability assessment of very good) is currently estimated at £7.6m and the average annual income for the first five years is £390,000 per annum.
31. The 25-year Net Present Value for this part of the overall scheme is £6.1m with an associated IRR of 10.1%.

### **Poole Farm**

32. It is intended that the Poole Farm site would be used for 30,915 sq. ft. of light industrial/office space, which would replace redundant farm buildings on the site. Again, the size has slightly increased from previously reported scheme due to a more efficient scheme being designed. These would be of the same type and construction as those at Barrow Road, with 5 units of two inward-facing terraces (of 3 units and 2 units respectively). Proposed access is via Barrow Road and the site would be linked to the A6 by an improved access road. This is shown in Appendix D.
33. It is not clear at present as to whether there is sufficient demand for these units as well as those at Barrow Road and the cost of the access road would not be insignificant. These would therefore form the second phase of the development if required; included in the planning application but to be the subject of a further Cabinet report if funding to build it is required.

### **The Planning Process**

34. Following pre-application advice, it is intended that a single planning application would be submitted for the three developments. In this way, both the solar and commercial elements will be determined as a single comprehensive and complementary development. It will also negate the need to make a separate future application for Poole Farm.
35. As indicated in the previous report to the Cabinet (May 2018), the planning application would be submitted to the County Council as the Planning Authority: in accordance with Regulation 3 of the Town and Country Planning General Regulations 1992. Under this Regulation, the Council determines planning applications for development which it is carrying out, or which is being carried out on its behalf.

36. Prior to the submission of the planning application, officers will consult with the Soar Valley and Grand Union Canal Partnerships, the owners of Pillings Lock Marina, local allotment holders, and other stakeholders such as Quorn Parish Council.
37. Once the planning application has been submitted, public consultation would be undertaken by the County Council as the local planning authority as part of the statutory planning process. This would again include Charnwood Borough Council, statutory undertakers (e.g. Severn Trent Water, the Environment Agency), and the parish council.

### **Financial Estimates and Risks**

38. Financial model shows that the Phase 1 of the development - the solar farm and Barrow Road units - would generate an average annual return over a 5-year period of £834,000. This is the revenue generated from the letting of Barrow Road and the sale of electricity from the solar farm.
39. To secure such revenue, it will be necessary to gain detailed planning permission for Phase 1 and meet construction costs of the development. Details of the development costs (as of November 2019) are set out in the table below, along with a timeline as and when expenditure is likely to occur.

Description	2020/21	2021/22	Total
Barrow Road Industrial Units	£2m	£4.15m	£6.15m
Solar Farm	£6m	£0.4m	£6.4m
Contingency	£0.7m	£0.75m	£1.45m
<b>TOTAL</b>	<b>£8.7m</b>	<b>£5.3m</b>	<b>£14m</b>

### **Solar Farm**

40. While government subsidies for renewable energy have now finished, income for the solar farm will be generated from the sale of electricity to third parties. This will be achieved by entering into commercial agreements. The Council is currently in discussions with parties who are interested in securing long-term renewable energy. This includes neighbours (including Severn Trent Water) who can receive 'directly wired' electricity – at a higher return to the Council – and energy suppliers who can purchase volumes of solar energy. Selling to energy suppliers delivers a lower return for the Council as this electricity passes through the grid and is therefore subject to the costs associated with this. The figures provided are based on selling the electricity to an energy supplier.

41. The generation, sale and purchase of electricity is heavily regulated, and the solar farm may be subject to both decreases and increases in running costs in the future because of changes in policy or regulation.
42. The financial return modelled on the Council's standard 25-year net present value model takes into account the currently depressed wholesale electricity price which as at August 2019 is circa 20% lower than the average of the previous 12 months. It is assumed that wholesale prices will return to historical averages 2 years after commissioning and a prudent growth rate of 2% per annum is assumed, in line with Office of National Statistics inflation estimates. As at September 2019, Consumer Price Inflation (CPI) is 1.7% and Retail Price Index (RPI) is 2.4%.  
(Note: Both CPI and RPI both include a 'basket of goods' on which price changes are calculated although the basket varies between the two measures. RPI, for example includes certain 'housing costs' that are excluded from the CPI basket such as council tax and buildings insurance. In addition, the actual calculation method between the 2 measures differs which produces a difference in the aggregated inflation value had the 2 baskets been identical. In general, the CPI method of calculation produces a lower inflation number.)
43. The key assumptions for the solar farm are capital expenditure to build, income received per kilowatt hour of electricity generated and inflation of energy costs. The sensitivity on IRR is shown below for energy income and inflation of income. The base case assumes that at year 3 the Council would receive 6.37p / kwh which then increases at 2.00% per annum.

IRR sensitivity:

		Wholesale energy income £/kwh Yr 3 - 25				
		0.0586	0.0611	0.0637	0.0662	0.0688
Energy cost inflation	1.40%	4.1%	4.8%	5.5%	5.8%	6.8%
	1.60%	4.3%	5.0%	5.6%	6.0%	6.9%
	1.80%	4.7%	5.4%	6.0%	6.4%	7.3%
	2.00%	4.9%	5.5%	6.2%	6.5%	7.4%
	2.20%	5.0%	5.7%	6.3%	6.6%	7.5%
	2.40%	5.1%	5.8%	6.4%	6.7%	7.6%
	2.60%	5.5%	6.2%	6.8%	7.1%	8.0%

### Barrow Road Units

44. The key assumptions used for the Barrow Road development are cost to build and inflation on the £8 per square foot tenant rental. The sensitivity on IRR for both the build cost and rental inflation are shown below. The base case for Barrow Road assumes rental inflation at 3.5% per annum based on the view that a zero-carbon proposition is more attractive to a tenant. The Council has in past calculations used 2.5% rental inflation, which in this case still produces a favourable return over 25 years.

IRR sensitivity:

		Rental inflation				
		2.50%	3.00%	<b>3.50%</b>	3.75%	4.00%
<b>Build cost</b>	6,460,000	10.9%	11.1%	<b>11.4%</b>	11.5%	11.6%
	6,840,000	10.5%	10.7%	<b>10.9%</b>	11.0%	11.1%
	7,220,000	10.1%	10.3%	<b>10.5%</b>	10.6%	10.7%
	<b>7,600,000</b>	<b>9.7%</b>	<b>9.9%</b>	<b>10.1%</b>	<b>10.2%</b>	<b>10.3%</b>
	7,980,000	9.3%	9.5%	<b>9.7%</b>	9.8%	9.9%
	8,360,000	9.0%	9.2%	<b>9.4%</b>	9.5%	9.6%
	8,740,000	8.7%	8.9%	<b>9.1%</b>	9.2%	9.3%

### Equality and Human Rights Implications

45. There are no equality and human rights implications directly arising from the recommendations in this report. The planning application will be subject to an Equality and Human Rights Impact Assessment as appropriate prior to a decision being made.

### Environmental Implications

46. The proposed development would support aims set out in the Council's Environment Strategy to help delivering and support a low carbon society whilst supporting the local economy.

47. Through the introduction and management of extensive natural grassland, new trees, shrub and hedgerow planting the Council will be providing carbon sequestration within soils and vegetation. This contributes to reducing the Climate Change impacts by reducing carbon in the atmosphere whilst also supporting Biodiversity enhancement. The habitat improvements such as planting more native plant species will help insect pollinators. Adding in bird nesting sites, new ponds and management of vegetation along the river will strengthen and aid the habitat connectivity along the Soar corridor for species such as Barn Owl and Water Vole. The River Soar Corridor is identified by organisations such as the Leicestershire and Rutland Wildlife Trust, Environment Agency, Rivers Trust and others as a strategic location for biodiversity enhancements.

### Appendices

Appendix A – Plan showing all 3 plots for development

Appendix B – Solar Farm site

Appendix C – Barrow Road site

Appendix D – Poole Farm site

### Background Papers

Report to the Cabinet on 15 September 2017 – Draft Corporate Asset Investment Fund Strategy 2017/18 - <http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4863&Ver=4>



Report to the County Council on 6 December 2017 – Strategic Plan and Single Outcomes Framework - <http://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MID=5104>

Report to the Cabinet on 1 May 2018 – Proposed Developments in Quorn: Solar Farm and Light Industrial Units - <http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=5180&Ver=4>

Report to the Scrutiny Commission on 4 September 2019 - Draft Corporate Asset Investment Fund Annual Performance 2018-19 and Strategy 2019 -23  
<http://politics.leics.gov.uk/documents/s147810/CAIF%20Annual%20Report%20and%20Strategy.pdf>

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