



**CABINET – 23<sup>RD</sup> MARCH 2021**

**AIRFIELD BUSINESS PARK DEVELOPMENT PROPOSAL**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PART A**

**Purpose of the Report**

1. The purpose of this report is to advise the Cabinet of the development proposals for the next phase of Airfield Business Park in Market Harborough (Harborough District) and to seek approval for the allocation of resources necessary to support the submission of a planning application for light industrial units covering a further 96,717 sq. ft. of the site, to proceed to tender to construct the next key phase of the scheme covering most of the site (81,376 sq. ft) and, subject to the outcome of that tender exercise, to seek delegated authority for the Director of Corporate Resources to proceed with the development.

**Recommendations**

2. It is recommended that:
  - a) The proposals for the further development of 96,717 sq.ft of Airfield Business Park as detailed on the indicative Masterplan attached ('the development') and the financial costs and returns estimates as set out in this report be noted;
  - b) It be noted that a planning application for the development will be submitted to the County Council as planning authority in April 2021;
  - c) £9.5m be allocated for the development from the Corporate Asset Investment Fund subject to the satisfactory outcome of the tender exercise referred to in (d) below;
  - d) A tender exercise be undertaken for the construction of part of the development covering 81,376sq. ft of the site (phase 3);
  - e) That the Director of Corporate Resources be authorised to:
    - i. undertake all necessary preparatory work to enable the submission of a planning application for the proposed development;

- ii. consider the outcome of the tender exercise in respect of phase 3 and, following consultation with the Cabinet Lead Member for Resources, determine whether to proceed with the development;
- iii. subject to ii above, to select a preferred contractor(s) and enter into such contracts and undertake such work as is necessary and appropriate to enable the development (both phase 3 and 4) to be delivered, including undertaking a further tender exercise in advance of proceeding with phase 4 of the scheme.

### **Reasons for Recommendation**

- 3. The development of the Council-owned land will support the delivery of both new business accommodation and income generating assets.
- 4. Undertaking a formal tendering exercise will ensure that the Council secures the most competitive build cost price.
- 5. The delegation to the Director of Corporate Resources, following consultation with the Lead Member for Resources, is sought to enable the development to proceed immediately, subject to a satisfactory outcome to the tender exercise.

### **Timetable for Decisions (including Scrutiny)**

- 6. The Scrutiny Commission will consider a report on the proposed development at its meeting on 15<sup>th</sup> March and its comments will be reported to the Cabinet.
- 7. Subject to approval by the Cabinet, it is intended that a planning application will be submitted to the County Council as planning authority in April 2021.
- 8. Subject to planning permission being granted and the successful outcome of the tender exercise, it is intended that the development will be completed by December 2022 unless market conditions indicate that revisions to the scheme are required.

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

- 9. The County Council's Medium Term Financial Strategy (MTFS) is the key financial plan for the Authority. The latest MTFS for the period 2021/22 to 2024/25 was agreed by full Council on 17 February 2021. This included provision for Corporate Asset Investment Fund (CAIF) capital expenditure of £11m in the year 2021/22 and £71m for the period 2022/23 to 2024/2025 bringing the overall CAIF programme to a total of £260m.
- 10. 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.

11. The Council's Corporate Asset Investment Fund Strategy (the latest iteration of which was agreed by the full Council as part of the MTFs in February 2021) requires this Fund to be used to add to the Council's portfolio of land assets to:
- a. Ensure that there is more a 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.
  - f. Fund will aim to ensure that its developments will be built in as sustainable a manner as possible with the aim of being net zero carbon in the construction phase and as energy efficient to occupy and operate as possible (including the use, where viable, of on-site renewable energy sources).

### **Resource Implications**

12. The Council's investment strategy approach 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. As stated above, the overall target value of the CAIF programme to the end of 2024/25 is intended to total £260m. 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.
13. The Airfield Business Park development would have a maximum capital cost of £9.5m. This figure includes costs associated with preparing and submitting the planning application, fees, construction of 34 light industrial units plus contingencies. The development is expected to generate an income of approximately £787,000 per annum once the scheme is completed. This is in addition to the £550,000 per annum and capital receipt of £802,465 which the previous phases generated.
14. No specific provision exists for this project in the capital programme but funding of £30m has been included for further acquisitions/investments subject to a satisfactory business case.
15. Further information relating to the proposal and financial estimates and risks are provided in Part B of this report.
16. The Director of Law and Governance has been consulted on the content of this report.

### **Circulation under the Local Issues Alert Procedure**

17. The report has been circulated to Dr Paul Bremner CC (Market Harborough West and Foxton)

**Officers to Contact**

Chris Tambini, Director of Corporate Resources  
Corporate Resources Department  
Tel: 0116 305 6199  
Email: [chris.tambini@leics.gov.uk](mailto:chris.tambini@leics.gov.uk)

Jon Bennett, Head of Strategic Property Services  
Corporate Resources Department  
Tel: 0116 305 6926  
Email: [jon.bennett@leics.gov.uk](mailto:jon.bennett@leics.gov.uk)

## **PART B**

### **Background**

18. The County Council owns 15.5 acres of land at Airfield Business Park which it acquired in 2016. The site is located adjacent to the A508 Harborough Road north of Market Harborough and has been identified as a Key Employment Area and allocated for B1(a)/(b) (now class E under the new use class order - offices and research and development of products or processes), B2(c) (general industrial) and B8 (storage and distribution) in Harborough District Council's adopted Local Plan.
19. In July 2018, the County Council secured planning permission to build 80,000 sq. ft. (5.42 acres) of industrial space (12 units for B1/B2/B8 use) on part of the site.
20. Works on these units began in February 2019 and were completed in December 2019, at an overall cost of £6.85m. This development phase was valued in October 2020 as being £7.1m.
21. There has been strong market interest in the development, with 10 of the 12 new units now occupied and the rents achieved in line with expectations. The scheme has continued to receive strong levels of interest during the recent Covid lockdowns and a number of lettings have been secured during this time, emphasising the scheme's attractiveness as a business location during what has proven to be a challenging economic period.
22. Five of the tenants who moved into Airfield Business Park took space to expand their existing Leicestershire-based operations. The Council has also been successful in attracting five new businesses from outside of the County. All of the Council's Airfield Business Park tenants have continued to trade successfully throughout recent Covid lockdowns.

### **Proposals for further development**

23. As a result of the success of the most recent phases of the development, consideration has been given to the potential to develop a further 96,717 sq. ft. (the remaining 7.69 acres) of the site for E class, B2 and B8. E class is a new use class order which includes offices and light industrial uses. An indicative masterplan has been produced setting out the proposals which is appended to this report.
24. If the Cabinet approves the recommendations in this report, a planning application for the scheme will be submitted. Once planning permission has been secured, the construction contract for the first 27 units (phase 3) will be put out to open tender on a fixed cost basis as detailed below. Subject to the success of that tender exercise, that part of the development will proceed immediately. The remaining 9 units (phase 4) will be subject to a further tender exercise once the other 27 have been built.

25. By approaching the development in this way, the Council can ensure that the uses for the last 9 units is still optimal. It allows for flexibility to either provide more business units or, subject to further planning permission being granted, for non-industrial uses - whichever has the highest demand/greatest viability at the time. The site allocation within the Local Plan is for commercial uses and therefore any uses to be considered which deviates from the principles agreed will need to be justified through the planning application process.
26. The sizes of the proposed units have had regard to the market demand experienced in the most recent phase of development that highlighted a substantial demand for smaller units (up to 4,000 sq. ft.) which can offer existing tenants the opportunity to move into larger accommodation as their businesses expand in the future. Overall the units will provide accommodation ranging from 1,539 sq.ft.to 10,010 sq.ft.
27. It is envisaged that the following indicative timescales will apply in terms of delivery and receipt of income for the Council should the proposal be approved by the Cabinet:

April 2021	Submission of a planning application to the County Council as the Planning Authority
September 2021	Planning permission secured/ formal marketing commences
December 2021	Completion of procurement exercise/ enter into build contract
February 2022	Commence construction
November 2022	Practical completion of the scheme
December 2022	First occupation of units

### **Financial Estimates**

28. The cost estimate is currently £9.5m. This includes an allocation of contingency, construction costs, professional fees and letting costs.
29. The contingency against the construction cost element is considered appropriate given that significant due diligence has been completed with respect to ground conditions and therefore a lower contingency than that used for phase 1 is assumed.
30. A favourable net yield of 7.6% is expected to be achieved assuming a scheme cost (including land value costs) of £9.5m having regard to an assumed rental income of £787,000.
31. It is worthy of note that the Council acquired the land in 2016 at a cost per acre of £290,000. The land proposed to be developed is now considered to be worth in the region of £420,000 per acre.
32. The rent per sq. ft. compared to the most recent development phase has increased from £8 per sq. ft. to £10 per sq. ft. This should mean that the

existing units are expected to achieve higher rents at rent review or at new letting/lease renewal.

33. The estimated construction costs against those achieved for the most recent phase have increased. These costs will therefore be tested by completing a competitive tender procurement exercise before it is determined whether this phase of the scheme should be progressed. This tender exercise will be based on a fixed cost to limit cost over runs. The details of in scope elements within the tender and construction contract will be carefully considered to also reduce the risk of cost over runs for the Council. If the tenders received are considered too expensive having regard to the returns required then the Council may consider alternative options.
34. Finance have completed various scenarios around the base case to highlight the sensitivity in net present value (NPV) and internal rate of return (IRR) over 20 and 25 years with a summary shown below. Under the base case assumptions, the NPV over 25 years is £1.8m and a breakeven point over 20 years. The competitive tender exercise to be undertaken will re-risk these returns estimates and only if these are shown to be at an acceptable level will this next phase of the development proceed.

	<b>20 yrs</b>	<b>25 yrs</b>
<b>IRR</b>	<b>6.0%</b>	<b>7.5%</b>
<b>NPV</b>	<b>(56,468)</b>	1,830,504

35. Finance have modelled 25 years' NPVs under the following scenarios, a reduction in gross rent from the base case and improvement in construction cost per square foot from the base case. Base case assumptions are shown in bold within the sensitivity tables below.
36. Construction costs are the highest individual cost line with the most uncertainty and as such are modelled alongside rent received. Construction costs are modelled at the base case assumption and also at incremental reductions of £5 per sq ft. Rent sensitivity is modelled given the Council's experience of phase 1 rents where some units are permanently vacant. The assumptions used for this are the base case gross rent of £787,000, followed by reductions in 5% increments.

25-year NPV sensitivity table: Construction costs and gross rents

		<b>Gross rent -5%, -10%, 15%</b>			
		<b>787,168</b>	747,810	708,451	669,093
<b>Construction cost (base and reduction of £5 / sq ft)</b>	Base - £20 / sq ft	<b>£3151 k</b>	£2624 k	£2097 k	£1570 k
	Base - £15 / sq ft	<b>£2809 k</b>	£2282 k	£1755 k	£1228 k
	Base - £10 / sq ft	<b>£2466 k</b>	£1939 k	£1412 k	£885 k
	Base - £5 / sq ft	<b>£2124 k</b>	£1597 k	£1070 k	£543 k
	<b>Base case</b>	<b>£1831 k</b>	<b>£1303 k</b>	<b>£776 k</b>	<b>£249 k</b>

37. Under the 25-year scenarios, an improved NPV is achieved as construction costs decrease. A competitive tender process has been chosen to maximise

the chance of reducing construction costs towards that the Council paid to construct phase 1 on cost per square foot basis.

### **The Planning and Tender Process**

38. It is intended that a single detailed planning application will be submitted for the development. The planning application will be a Regulation 3 matter – that is, a matter to be determined by the County Planning Authority - given the Council owns the land and will be actively involved in the development of the site.
39. It is intended that the application will be submitted in April 2021. Pre-application advice has been sought from County Council planning officers on an informal basis; it should be noted that this should not be seen as indicative of the outcome of any eventual planning application process which will need to follow usual procedures taking into account all relevant and material planning considerations.
40. The application would be in line with the current allocated use in the adopted Harborough District Local Plan.
41. Once the planning application has been submitted, the County Planning Authority (as part of the statutory planning process) will consult on the application with the local community, local councils and any other relevant stakeholders/interested parties in the usual way.
42. Subject to planning permission being granted, the contract to build the units will be secured via an open tender rather than a framework. Legal and procurement colleagues will be consulted regarding the terms of the tender and proposed form of contract which will be drafted on the basis that a contract will only be entered into if the outcome of the procurement process achieves a cost price acceptable to the Council.

### **Equality and Human Rights Implications**

43. There are no Equality and Human Rights Implications directly arising from this report. Implications associated with the future development of the site such as planning applications for planning permission, will be subject to Equality and Human Rights Impact Assessments, as appropriate, prior to decisions being made.

### **Crime and Disorder Implications**

44. The site is undeveloped land. The development of this land will prevent issues with fly tipping and unauthorised grazing.

### **Environmental Implications**

45. As this is a Council-led development, the scheme will ensure the Council's ambitions for a sustainable scheme are met where possible. This will involve



ensuring the chosen construction strategy incorporates sustainable construction methods. This will involve the use of photovoltaic panels, electric car charging points, insulation and the use of best practice construction methods.

### **Risk Assessment**

46. This is a medium-sized 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 construction costs. Inevitably all of these bring a degree of risk.
47. So that financial risk can be mitigated, and best value obtained, advice has been provided by external consultants. The scheme will be tendered and if the cost of tender returns is unacceptable, the proposed scheme may be redesigned to reduce cost.

### **Appendix**

Indicative Masterplan

### **Background Papers**

Corporate Asset Investment Strategy 2021 – 2025

<http://politics.leics.gov.uk/documents/s159769/Appendix%20H%20-%20CAIF%20Strategic%20Report%202021-25.pdf>

This page is intentionally left blank