



**CABINET – 22 MAY 2020**

**LEADERS FARM 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 Leaders Farm site, near Lutterworth (Harborough District) and to seek approval for the allocation of resources necessary to support the associated planning application, design team fees and construction costs.

**Recommendations**

2. It is recommended that:
  - (a) Option 2 for development of the Leaders Farm site as set out in paragraph 26 of the report be approved, namely
    - two Drive Thru restaurant units
    - a 50,000 sq ft light industrial unit (subject to successful negotiations with the proposed tenant)
    - further light industrial units on the remainder of the site (at an appropriate time in the future, subject to wider market assessment of the need for such units);
  - (b) £8.2m be allocated from the Corporate Asset Investment Fund for the development of the Leaders Farm Site as set out in (a) above;
  - (c) The Director of Corporate Resources, following consultation with the Cabinet Lead Member, be authorised to undertake all necessary preparatory work to enable the submission of a planning application for the proposed development.

**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. Having reviewed the various options available to the Council, Option 2 presents the best projected return for the capital invested based on current information.

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

5. Subject to approval by the Cabinet, it is intended that a planning application will be submitted to the County Council's Development Control and Regulatory Board in July 2020.
6. Subject to planning permission being granted, it is intended that the development will be completed by the summer of 2022.

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

7. In September 2016, the County Council was granted planning approval by Harborough District Council for the development of a B1 employment use scheme and 70 allotments on the Leaders Farm site. The proposal has now been adopted into Harborough District Council's Local Plan.
8. The Council's Corporate Asset Investment Fund Strategy (agreed by the Cabinet in September 2017) 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.
9. The County Council completed a new £2.6m estate road into the site in 2019 to facilitate the development by providing access to the plots of land. A masterplan of the site, which includes the estate road, is included as the appendix to the report.

### **Resource Implications**

10. 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. 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.
11. The Leaders Farm development would have a maximum capital cost of £8.2m based on the recommended option (Option 2) as set out in Part B of the report. This figure includes costs associated with preparing and submitting the planning application, fees, construction of up to 10 light industrial units and contingencies. The development is expected to generate a revenue over 5 years of £1.875m plus any capital receipts arising from potential disposals.

12. No specific provision exists for this project in the capital programme but funding of £30m has been included for further acquisitions/investments subject to business cases.
13. Further information relating to the proposal and financial estimates and risks are provided in Part B of this report.
14. The Director of Law and Governance has been consulted on the content of this report.

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

15. The report has been circulated to Mrs. R. Page CC (Lutterworth Division).

#### **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**

16. The Leaders Farm site is approximately 6.1 acres located adjacent to the A4303 south of Lutterworth. The site is owned by the County Council.
17. Outline Planning approval was granted in 2016 by Harborough District Council for B1 employment use which included offices and light industrial uses on the site. The planning approval has now expired however the principle of employment use on the site has been adopted into Harborough District Council's Local Plan.
18. The County Council has invested £2.6m in new road infrastructure, completed 2019, in order to provide access to the proposed development site.
19. The Council has marketed the site for office use for over two years with limited enquiries. However, recently the Council has agreed Heads of Terms with two roadside restaurant providers to occupy the two Drive Thru units situated at the western entrance of the site totalling circa 1.57 acres.
20. This leaves the balance of 4.44 acres for other development. A plan has been produced (appended to this report) with the support and advice of agents as to what would be the most viable scheme for the site.

### **Proposal**

21. The proposed scheme, including the roadside restaurant units, is subject to planning permission being granted. Given that the proposed use of 1.57 acres of site are outside the planning uses allocated in the Local Plan, it will be necessary to show that the proposed employment use is contingent on the roadside restaurant scheme being delivered.
22. The advice from the Council's property consultants is that the site would be best suited to a light industrial scheme targeted at small and medium sized enterprises (SME's) with a maximum of 10 units ranging from 1,900 sq ft up to 50,000 sq ft in various sizes, totalling approximately 76,946 sq ft, as per the attached plan. Four options for the site are given below.
23. It is also of note that there is already a potential interest from a local purchasing consortium which is considering expanding into a 50,000 sq ft light industrial unit on the site. Negotiations are underway whereby the County Council would build the unit with the consortium paying a capital amount for the building.

### **Options for Development**

24. Four options have been considered and appraised for the development of the site.

25. **Option 1** Develop the entire site including the Drive Thru units and the Light Industrial Units. This would require a capital contribution of approximately £7.95m.
26. **Option 2** Develop the site with the Drive Thru units, the unit for the purchasing consortium occupier (subject to successful negotiations) and the remaining site with light industrial units, subject to demand. This would require a capital contribution of approximately £8.2m but would be offset by a £6m capital receipt from the consortium occupier's unit sale.
27. **Option 3** Develop the site with the Drive Thru units, the unit for the potential occupier and dispose of the remaining land. This would require a capital investment of approximately £6.44m but would be offset by a £6m capital receipt from the occupier and possibly a capital receipt in the region of £750,000 from the sale of the remaining land.
28. **Option 4** In the event the occupier interest does not come to fruition the Council could develop the Drive Thru units and dispose of the remaining land. This would require a capital contribution of approximately £3m offset by a land sale of potentially £1.75m.
29. Having reviewed the Options available to the Council it is recommended the Council proceed with Option 2 as it offers the greatest return for capital investment. Consideration will be given to when the development of the light industrial units will take place to take account of market conditions and the economic climate.

### **Financial Estimates**

30. The budget being requested allows development of Option 2 as described above with an option to not develop the additional industrial units if demand cannot be justified.
31. The requested £8.2m is made up of the following:
- £7.44m; construction of the Drive Thru units, industrial units, warehouse for onward sale and contingencies.
  - £0.76m; fees, marketing letting.
32. The sensitivity tables for all 4 options use standard assumptions:
- a. Rental growth per annum of 2.0%.
  - b. Capital growth of 3.68% per annum.
  - c. Sale of the warehouse and land.
  - d. Initial rent and rent-free periods for the Drive Thru units.
  - e. Timeframe of 15 years to calculate the discounted cashflows.

33. Appendix B to this report shows 4 sensitivity tables for each option, Net Present Value and Internal Rate of Return against a number of variables, namely rental growth%, capital growth% and initial gross rent.
34. The table below shows a summary of all four options.

NPV	Option	15 year	20 year	25 year
	1	£(.29)m	£2.44m	£4.78m
	2	£1.69m	£3.49m	£5.03m
	3	£1.52m	£2.55m	£3.44m
	4	£(.05)m	£1.01m	£1.93m

IRR	Option	15 year	20 year	25 year
	1	5.67%	8.62%	10.00%
	2	10.16%	12.31%	13.28%
	3	12.46%	14.16%	14.92%
	4	5.88%	8.80%	10.18%

Payback	Option	15 year	20 year	25 year
	1		15	
	2		10	
	3		8	
	4		15	

Option 2 gives the Council the opportunity to build out the industrial units if the opportunity presents itself whilst affording the Council the choice to develop planning consent only for the 6 industrial units and subsequently sell the land, i.e. Option 3.

Both Options 2 and 3 have positive net present values (NPV) over all timeframes and show a wide margin of safety as evidenced by the double digit internal rate of return (IRR).

35. Sensitivity tables below show the effect of changing the base case assumptions on the NPV for Option 2. In both tables below, a lower annual rent increase and lower gross rent or capital growth per annum still results in a positive NPV.

		Rent increase % pa					
		1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
Initial gross rent	315,821	£993 k	£1083 k	£1177 k	£1273 k	£1374 k	£1478 k
	335,821	£1189 k	£1285 k	£1384 k	£1487 k	£1594 k	£1705 k
	355,821	£1386 k	£1487 k	£1592 k	£1701 k	£1815 k	£1932 k
	<b>375,821</b>	<b>£1582 k</b>	<b>£1689 k</b>	<b>£1800 k</b>	<b>£1915 k</b>	<b>£2035 k</b>	<b>£2159 k</b>
	395,821	£1778 k	£1891 k	£2008 k	£2129 k	£2255 k	£2386 k
	415,821	£1974 k	£2092 k	£2215 k	£2343 k	£2475 k	£2613 k
	435,821	£2170 k	£2294 k	£2423 k	£2557 k	£2696 k	£2840 k

		Rent increase % pa					
		1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
Capital growth % pa	3.38%	£1283 k	£1390 k	£1501 k	£1616 k	£1736 k	£1860 k
	3.48%	£1381 k	£1488 k	£1599 k	£1715 k	£1834 k	£1959 k
	3.58%	£1481 k	£1588 k	£1699 k	£1814 k	£1934 k	£2058 k
	<b>3.68%</b>	<b>£1582 k</b>	<b>£1689 k</b>	<b>£1800 k</b>	<b>£1915 k</b>	<b>£2035 k</b>	<b>£2159 k</b>
	3.78%	£1684 k	£1791 k	£1902 k	£2017 k	£2137 k	£2261 k
	3.88%	£1787 k	£1894 k	£2005 k	£2120 k	£2240 k	£2364 k
	3.98%	£1891 k	£1998 k	£2109 k	£2224 k	£2344 k	£2468 k

36. Similar sensitivity tables for the internal rate of return (IRR) show that Option 2 exhibits a wide margin of safety before the NPV would return NIL. For

completeness an NPV of NIL results at an IRR of 6.09%, the rate at which the council discounts future cashflows to present values.

		Rent increase % pa					
		1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
Initial gross rent	315,821	8.6%	8.8%	9.0%	9.2%	9.4%	9.6%
	335,821	9.0%	9.2%	9.4%	9.7%	9.9%	10.1%
	355,821	9.5%	9.7%	9.9%	10.1%	10.4%	10.6%
	<b>375,821</b>	<b>9.9%</b>	<b>10.2%</b>	<b>10.4%</b>	<b>10.6%</b>	<b>10.8%</b>	<b>11.1%</b>
	395,821	10.4%	10.6%	10.8%	11.1%	11.3%	11.5%
	415,821	10.8%	11.1%	11.3%	11.5%	11.8%	12.0%
	435,821	11.3%	11.5%	11.7%	12.0%	12.2%	12.5%

		Rent increase % pa					
		1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
Capital growth % pa	3.38%	9.3%	9.5%	9.7%	10.0%	10.2%	10.4%
	3.48%	9.5%	9.7%	9.9%	10.2%	10.4%	10.7%
	3.58%	9.7%	9.9%	10.2%	10.4%	10.6%	10.9%
	<b>3.68%</b>	<b>9.9%</b>	<b>10.2%</b>	<b>10.4%</b>	<b>10.6%</b>	<b>10.8%</b>	<b>11.1%</b>
	3.78%	10.2%	10.4%	10.6%	10.8%	11.0%	11.3%
	3.88%	10.4%	10.6%	10.8%	11.0%	11.3%	11.5%
	3.98%	10.6%	10.8%	11.0%	11.3%	11.5%	11.7%

37. The current national lockdown as a result of the Coronavirus could potentially have an effect on the viability of the development and as such the option to not progress the development of the 6 industrial units has been included. A viability review will be undertaken at key stages of the development such as receipt of planning approval and tender return to ensure the scheme meets the investment criteria.

### The Planning Process

38. It is intended that a single detailed planning application would be submitted for the entire development. The planning application would 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. Once the planning application has been submitted, the usual public consultation would be undertaken by the County Planning Authority as part of the statutory planning process.

### Equality and Human Rights Implications

40. 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.

### **Environmental Implications**

41. As this is a Council-led development it is envisaged that 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. Furthermore, the scheme will look to achieve an 'excellent' rating in the BREEAM assessment. This is likely to involve the use of Photovoltaic panels, car charging points, insulation and the use of best practice construction methods.

### **Risk Assessment**

42. 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.
43. In order to minimise risk cost and value advice has been provided by external consultants. The scheme will be tendered and if the cost of tender returns is unacceptable the employment scheme could be redesigned in order to reduce cost.

### **Appendix**

Appendix A – Site Plan

Appendix B – Financial Sensitivity Analysis

### **Background Papers**

Corporate Asset Investment Strategy 2019 – 2023

<http://politics.leics.gov.uk/documents/s144425/Appendix%20H%20-%20CAIF%20Strategy%202019-23.pdf>