



Cabinet

16 December 2020

Report of: Councillor Leigh Higgins - Portfolio Holder for Growth and Prosperity (and Deputy Leader)

Business Rate Pool- funding update- Asset Development Programme Phase 1

Corporate Priority:	Delivering sustainable and inclusive growth in Melton
Relevant Ward Member(s):	All
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	Yes a) Incurring Expenditure of £50,000 or more
Subject to call-in:	Yes

1 Summary

- 1.1 The new Corporate Strategy makes a commitment for the Council to maximise the value from its assets. Land and buildings owned by the Council are a key resource that needs to be managed effectively to achieve long term sustainability. It is proposed to assess the development potential of all council owned assets to maximise their ability to create new homes, jobs and community facilities.
- 1.2 This paper sets out phase 1 of the asset development programme; specifically relating to implications associated with Phoenix House and the Cattle Market North, and some potential redevelopment of Parkside. It outlines the approach to development of the Council's assets and presents a business case to seek approval for the phase 1 proposal and associated expenditure.
- 1.3 In April 2020, the Cabinet agreed to accept £500,000 of Business Rate Pool (BRP) funding from LLEP, to be matched by an allocation of £375,000 from the Council's Capital Programme, officer time (£50,000) and sums already committed (£75,000 for masterplanning work). This allocation was subject to further business cases being presented to members for formalise the use of relevant reserve.

- 1.4 A draft grant funding agreement has been received and the details are being finalised in discussion with LLEP colleagues. It is proposed to fund the phase 1 of the Council's asset development programme from this funding pro rata to the overall funding profile.

2 Recommendation(s)

That Cabinet:

- 1. Notes the Corporate Assets Development programme and approves the approach for phase 1 relating to the development proposals for Phoenix House and Cattle Market North site, as well as the potential redevelopment of Parkside, as identified in Section 5.**
- 2. Recommends to Council the inclusion of £285k within the Capital Programme for the Asset Development Programme Phase 1 funded through £163,000 grant funding and £122,000 from the Council's capital receipts as set out in section 10.**
- 3. Delegates authority to the Director for Growth and Regeneration in consultation with the Portfolio Holder for Growth and Prosperity to procure and appoint consultants and contractors to enable the use of this funding.**
- 4. Delegates authority to the Director for Growth and Regeneration in consultation with the Director for Corporate Services to sign the grant agreement following relevant due diligence.**
- 5. Approve the disposal of land at North cattle market site, as identified in appendix 2 with delegation to the Director or Growth and Regeneration to finalise any associated legal documentation.**

3 Reason for Recommendations

- 3.1 This proposal will help support the Corporate Priority of Delivering sustainable and inclusive growth in Melton by confirming plans, committing funding and developing our assets to generate income and provide housing and jobs growth.
- 3.2 This proposal supports the aspirations within the Council's Corporate Strategy to maximise the value of the Council's property portfolio ensuring effective and efficient use. It also supports the effective utilisation of grant funding secured for this purpose and will help the Council maximise the development potential of some of the assets which is not being realised currently. It will assist by reducing liabilities and cost of repair, maintenance, business rates, utilities and operational arrangements for the Council's assets.
- 3.3 The development of these two sites could potentially generate over 120 homes. This will help achieve the objectives of the Council's emerging Housing Strategy and contribute positively to achieving the Local Plan target of building 6175 homes by 2036.
- 3.4 Redevelopment of these sites will help revitalising the area by creating an opportunity for a high-quality gateway development on the edge of town centre.
- 3.5 According to the House Builders Federation, house building creates 1.2 construction jobs for the build, this would equate to approx. 144 full-time-equivalent jobs for the duration of the construction project.
- 3.6 By combining complementary services together in a prominent, accessible and sustainable location the proposals will also reinforce the use of Parkside as a shared

service hub and consolidate operating costs and reduce duplication amongst a range of public sector partners. Should a feasible proposition be developed it would assist in generating additional income for the council and mitigating the lost income arising when the County Council vacates the building from December 2021.

4 Background

4.1 The proposed Asset development programme is an ambitious initiative for the Council to achieve maximisation of use, value and development potential of the Council's assets.

4.2 Key objectives for the asset development programme are:

- Reduce revenue cost for maintenance and repair
- Retain and increase income from rents and service charges
- Generate capital receipts through disposals
- Explore invest to save/ invest to grow business cases
- Enable development and growth in homes and jobs

4.3 In order to assess the development potential of its assets, the Council commissioned consultants to prepare masterplans and development appraisals for 8 key sites. This work was the basis for a successful funding bid to the Leicestershire Business Rates Pool (BRP) for £500,000. In April 2020, the Cabinet agreed to allocated capital receipts as part of the match funding requirements, with further details to be given further consideration in due course. This report provides details of phase 1 of the Asset Development Programme and requests commitment of the first part of that funding. As part of the Asset Development Programme, it is proposed to develop a portfolio approach for the development of key sites in council ownership with development potential. The approach is to form a self-funding model that uses initial injection of grant support from public sector in order to create capital receipts from initial disposals to start a delivery programme of development sites over the next 10 years.

4.4 The collective aim for developing the sites is to create jobs, build homes, strengthen community facilities and generate either revenue income or capital receipts for the Council. Each site is different and some will be easier to deliver than others. The expectations on financial return will also be different for each site. Some of the identified sites may be constrained for development purposes and may lend themselves better to the existing uses at this time.

4.5 Given the timescale set out above, a phased approach to development is proposed. This would start with those sites which have greater certainty, fewer constraints, better community benefits and the ease of delivery. Considering these criteria, it is proposed to focus the current resource from BRP and the Council's match funding on two sites as described below.

- **Phoenix House:** It is proposed to relocate current occupiers from Phoenix House into The Cove, Edge and Parkside, to free up this 0.77 ha of brownfield site for residential use to create a 66-bed extra care/ sheltered/ retirement facility or a mix of 40 one and two bed apartments for private rented sector.
- **Cattle Market North:** It is proposed to develop North cattle market site for a potential development of 90 homes in two stages.

4.6 A range of tasks need to be undertaken to achieve this as identified in para 5.23. It is proposed to procure programme and project management expertise from multidisciplinary development consultancy services to develop the projects further and deliver the commitments of this grant funding in order to achieve the outcomes.

5 Main Considerations

5.1 Phoenix House:

5.2 Phoenix House is a Council owned asset on a 0.77 Hectare site, located on a major arterial route into Melton Mowbray town centre, in a key sustainable location, adjacent to Sainsbury's supermarket and an approx. 10-minute walk from the railway station with good links to Leicester and London.

5.3 Phoenix House currently accommodates both community, charitable and commercial lettings to EMAC, DVSA and Enterprise Cars. The building is only partially occupied and current gross rent received is circa £51,000 per annum. The annual costs of running and maintaining the building are as follows:

- Service agreements- £10,000
- Emergency call outs- £3,500
- Cleaning- £5,000
- Business rates- £10,500
- Utilities- £17,000
- Insurance- £4,500
- Telephones- £3,000
- Waste collection- £1,000

Total: £54,500 per annum

5.4 The net result is that the building is running at a loss, or perhaps breaking even when £7,000 of service charges contribution is taken into account under the lease to Melton Learning Hub. The age and condition of the building has not attracted further leases and as the building condition deteriorates further, repair and maintenance costs will rise.

5.5 In the current economic climate of Covid-19 and trend of home working has reduced demand for secondary office space. Additionally, there is significant competition from the adjacent Pera Business Park that provides better quality serviced office accommodation. A demand study undertaken by BE Group in 2019 established that any demand for office space in Melton Mowbray can be adequately met by the Pera Business Park.

5.6 The work by consultants identified the two probable options for this site to be a 90 bed hotel or 70 flat sheltered accommodation/ extra care scheme. To fully assess the value and market condition, it would be preferable to go out to the market on an open competitive basis to invite offers.

5.7 The site location provides an ideal opportunity for a gateway development with active frontage to accommodate residential uses. Melton's emerging housing strategy identifies the need for accommodation to suit the needs of aging population in a location close to amenities and with good transport links.

5.8 The key constraint in developing the site for residential use (extra care/ retirement village or care homes) is the current leases and achieving vacant possession. Discussions have

already taken place with occupiers and it is understood that in principle, all occupiers are willing to move to a new and suitable location for their operation, subject to ensuring business continuity and no additional cost to them. In order to enable this to happen, the property team have assessed all potential options available within the Council ownership to suit the need for each individual occupier and retain the businesses in the Melton area as well as protect the revenue income stream for the Council.

- 5.9 The proposal is to relocate current occupiers of this partially vacant building into other buildings within the Council's property portfolio to free up land for residential development.
- 5.10 It is proposed that most of the community based services delivered by the Council and its partners from Phoenix House can be moved to the vacant community centre at The Cove or The Edge. This will be beneficial to the service as the facility will be based in the locality where it is required, rather than in current town centre location. The building will need to be refurbished at an estimated cost of £75,000 to allow for this move.
- 5.11 The functions of EMAS, DVSA and Enterprise Cars can be accommodated in the Parkside building which is a shared service building currently occupied by Melton Borough Council (MBC), Leicestershire Country Council (LCC), Registrar Officer and Department for Work and Pensions (DWP). LCC has recently served the notice to vacate the building by December 2021. This has created an opportunity to accommodate other occupiers within the building. The Parkside is considered to be the most suitable location for EMAS and DVLA due to its proximity to the railway station, opportunity for highly visible frontage and availability of ample car parking provision.
- 5.12 It is proposed to appoint architectural consultants to redesign the layout of Parkside to suit the requirement of the new occupiers and provide costing for implementation of the changes. The cost for this consultancy work is estimated at £45,000.
- 5.13 This exercise will identify the actual cost of implementation of works which will be verified through the procurement of contractor and cabinet approval will be sought to meet the expense from BRP funding. This work will also help identifying the needs of each occupier and the rental/ lease conditions for each of them. This information will inform the next stage of business work for implementation of works.
- 5.14 It is proposed to appoint consultants to provide commercial advice on an options appraisal for delivery mechanism for Phoenix House. The potential options to consider, but not limited to, are:
- Disposal subject to planning and vacant possession to generate capital receipt
 - Direct development with Council's own investment (will require borrowing and funding bids subject to business cases) through design and construction contract for one and two bed apartments to be held in the Council owned housing company for PRS
 - Procurement of a Joint Venture partner to bring experience and expertise of market, design and construction for a shared profit and risk approach
- 5.15 The outcome of the options appraisal will inform a long term investment strategy for the Council with focus on income generation. In case the Council decides to undertake direct development activities on the site and acquire the units at the end of the process, it will help generate long term revenue income from private rented sector market. An alternative asset holding vehicle such as housing company would need to be created for this.

5.16 Cattle Market North:

- 5.17 This is a relatively straight forward and clean site (2.5 ha), with allocation for residential use. Having secured an outline planning approval this will provide greater confidence of achieving a sale price in between £2.5m and £3m based on a scheme for 90 homes via a subject to planning offer. This is considered to be a good site for retirement or extra care living, students accommodation or private sector apartments or homes for sale or rental due to its proximity to town centre amenities and other residential areas in the north.
- 5.18 Part of the development site is within the freehold ownership of the Council whilst another part is held by way of a 999 year lease granted from Melton Mowbray Town Estates, without any restrictive covenants. A part of the site is included in the lease agreement with Gillstream that expires in 2032 and will be necessary to work in partnership to bring forward development.
- 5.19 It is proposed to plan the development of the site in two phases, with phase 1 being the development of the land in Council's freehold (as well as MMTE lease for 999 years). And phase 2 of the development will be on the land within Gillstream lease. Access through the phase 1 development can be designed to enable the development of phase at a later date. Phase 1 could potentially accommodate about 60 units on circa £1.5ha land. Further detailed plans need to be explored to ascertain the quantum and type of development as well as potential value, which can be done through market testing.
- 5.20 Officers will work with an external solicitor to assess the land titles and undertake any further legal due diligence on the leases in assessing the site in preparation for sale or development.
- 5.21 It is proposed to pursue disposal of the land identified in phase 1 of the development of this site. The capital receipt generated by the disposal will be reinvested for the next stage of the asset development programme in projects such as leisure provision or housing company, subject to viable business cases and further cabinet approval.

5.22 The Proposal:

5.23 The table below identifies the tasks that need to be undertaken to deliver the next stage of activities in order to bring forward the development of the council owned sites.

No	Tasks	Estimated cost (tbc through procurement)	timescales
1	Procure programme and project management support and development expertise for developing and delivering the full development programme of all council owned sites using BRP funding	Up to £120,000 (12% of project cost)	January 2021- to March 2024 (or until the end of delivery of this programme)
Phoenix House			
2	Undertake options appraisal for delivery mechanism for Phoenix House with a clear investment proposition and draw-down of grant funding	£10,000	January 2021 to March 2021
3	Cabinet approval for preferred option and next steps		May 2021
4	Prepare costed design solution for reconfiguration of Parkside, to accommodate existing Phoenix House tenants, with customer facing frontage opportunity and access to car parking	£45,000 (potential OPE funding)	April 2021 September 2021
5	Undertake refurbishment of community centre (The Cove) as per cost estimates received and support relocation	£75,000	January 2021 to November 2021
6	Procurement of contractor for Parkside works subject to funding	tbc through procurement	September 2021 to November 2021
7	Cabinet approval for the next phase of expenditure, implementation of works for Parkside and appointment of contractor	NA	December 2021
Cattle Market North			
8	Work with an external solicitor to assess the land titles and undertake any further legal due diligence on the leases in assessing the site in preparation for sale. A legal pack to be compiled and held by the solicitor in a dedicated intranet site in readiness for a sale or development process. Three quotes have been received.	£15,000	January 2021 to March 2021
9	Commission a local firm to prepare a topographical survey and environmental survey.	£10,000	January 2021 to March 2021
10	Commission agents to undertake disposal on behalf of the Council and negotiate heads of terms	£18,000 @ 1% of estimated sale price	March-April 2021

- 5.24 A sum of £285,000 is proposed to be allocated from the grant and ring fenced capital receipts of £875,000 to cover the above mentioned costs.
- 5.25 Further approval from Cabinet will be sought for the next phase of works in April 2021.

6 Options Considered

6.1 Option 1- Start work on developing all sites simultaneously

This option is not considered to be appropriate as this would be resource intensive and would require a significantly larger pot of funding. Also it would mean that the market will be flooded with developments that compete with one another for attracting funding as well as market share. The staged approach will help generating capital receipt or revenue income that will be reinvested in the next phase of development. This approach will help build capability and capacity within the Council for future developments. Starting with low risk developments will also allow for building confidence for funders and investors in the Council's ability to deliver developments. The learning from market reaction to such proactive delivery will help shaping future strategy. The staged approach also provides more opportunities for involvement from stakeholders and members at all stages of the development.

6.2 An options appraisal for delivery mechanism is proposed to be prepared for Phoenix House.

6.3 An option was considered to prepare a planning application for residential use for cattle market north site prior to disposal. This option was rejected as planning is not considered to be a risk that needs to be mitigated for this site. Therefore it was considered best not to spend time and money on getting planning approval and go out to market instead.

7 Consultation

- 7.1 This proposal is a result of ongoing engagement with all occupiers in Phoenix House including EMAS, DVSA and Enterprise cars, Melton Learning Hub, Melton Space and other partners. All partners have indicated so far that they are willing to explore suitable alternative locations for the move. Further detailed discussions will be undertaken as part of the design exercise for the reconfiguration of Parkside building.
- 7.2 DWP and the registrar office based at Parkside have been engaged with and they have indicated their support for the redesign.
- 7.3 The proposals are devised jointly by a multi-disciplinary team of officers including planning, property, regeneration, finance and legal colleagues.

8 Next Steps – Implementation and Communication

8.1 The next steps are:

- Completion of sign off- BRP grant funding agreement- December 2020
- Procurement of project management support- January 2021
- Procurement of options appraisal advice- January 2021
- Report back to cabinet with further update in May 2021.

9 Financial Implications

- 9.1 At its meeting on 22 April 2020 Cabinet approved the acceptance of the conditional offer of £500,000 capital fund grant for the Development of Council owned sites and noted that Cabinet and Council approval for inclusion in the capital programme and release of funding would be sought following the preparation of a detailed business case. It was noted that match funding from capital receipts of £375,000 would be required for the project to proceed. As a result whilst not formally allocated this amount was set aside in recognition of this potential use.
- 9.2 The cost for design consultancy work is estimated at £45,000. A revenue funding bid for the Government's One Public Estate (OPE) fund has been submitted through Leicestershire partnership, due to be concluded in February 2021.
- 9.3 The estimated costs set out above for £285,000 of expenditure constitute the first phase of the project and will lead to a more accurate assessment to be made of the detailed financial implications of the release of the assets both revenue and capital. Should the bid for OPE funding be successful this would lead to a lower spend against the £285,000 and therefore there would remain increased funding for later phases of the project. The total funding for all phases of the project of £500,000 from LLEP grant and £375,000 from the Council's capital receipts is used to inform the proportion of funding for this first phase, resulting in a funding allocation of £163,000 grant funding and £122,000 from the Council's capital receipts.
- 9.4 Once a design and negotiations have been completed the next phase will be to produce a detailed business case setting out the capital and revenue implications of proceeding to implementation. This will then be considered further by cabinet and council. This will include further capital spend in implementation of the building design, moving tenants and Council staff. This will be met from the residual grant funding and set aside capital receipts.
- 9.5 The revenue implications that will feed into the detailed business case include, cost savings from Phoenix house no longer being in use, any difference from the rent and service charges currently being received from tenants at Phoenix house and that which would be received in a successful move to Parkside. It should be noted there will be a loss of income of £132,000 pa from LCC move out of Parkside. Should Council services currently being delivered from Phoenix House move to The Cove this will also have revenue implications. The impact of current running costs will need to be reassessed. As a previous joint children's centre and community facility the costs of the Cove are currently met from special expenses with rental income offsetting the cost. The allocation of the costs following the use of the building as office accommodation will need to be reconsidered and it may be appropriate to continue to charge a proportion to special expenses reflecting the use as a community facility whilst charging the office accommodation element to general expenses.
- 9.6 The current position on the council's capital receipts after allowing for existing approved schemes and the £375,000 set aside for all phases of this project is a balance of £135k. Any sale of property released through this proposal will result in a capital receipt which can be utilised to fund future asset improvements or development and will be a welcome injection as it is likely that bids for capital funding as part of the 2021/22 budget process will be in excess of this amount. In addition to this amount there is £785,000 set aside for the Leisure vision project.

Financial Implications reviewed by: Director for Corporate services

10 Legal and Governance Implications

- 10.1 The Council has the power to enter into contracts in order discharge its functions (Local Government Act 1972, s111 and the Local Government (contract) Act 1997, s1). In addition to complying with all relevant UK and EU legislation every contract entered into on behalf of the Council must also comply with the Council's Contract Procedure Rules and the Council's Financial Regulations
- 10.2 The Council has the power to receive grants from organisations using its general power of competence in section 1 of the Localism Act 2011. Section 1 of the Localism Act 2011 permits a Council to do anything that an individual may do whether or not normally undertaken by a local authority (the General Power of Competence).
- 10.3 Section 123 of Local Government Act 1972 provides the power for Principal Councils to dispose of land at market value. If the land is to be sold at less than market value the consent of the Secretary of State will be required unless a General Consent is applicable.

Legal Implications reviewed by: Monitoring Officer

11 Equality and Safeguarding Implications

- 11.1 The design will accommodate accessibility criteria to ensure the building caters to all users.

12 Community Safety Implications

- 12.1 Community and staff safety implications will be considered as part of the design.

13 Environmental and Climate Change Implications

- 13.1 The Parkside is designed to be an energy efficient building. Any new changes will align with that objective.

14 Other Implications (where significant)

- 14.1 NA

15 Risk & Mitigation

Risk No	Risk Description	Likelihood	Impact	Risk
1	Non-compliance to grant funding conditions	Low	Critical	Medium Risk
2	Un-successful OPE funding bid	Low	Marginal	Low Risk
3	Timescales are not met and objectives are not achieved	Significant	Critical	Medium Risk
4	Lessee resistance to co-location and new premises	Low	Critical	Medium Risk
5	Existing Tenants are unable or unwilling to pay any additional rent/service charge as a result of moving to new premises thereby failing to mitigate the loss of income form LCC moving from the building	High	Marginal	Medium Risk

6	The project does not progress to disposal or refurbishment of assets does not proceed leading to design work having to be written to revenue	Significant	Marginal	Medium Risk
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		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High		5		
	4 Significant		6	3	
	3 Low		2	1,4	
	2 Very Low				
	1 Almost impossible				

Risk No	Mitigation
1	Regular engagement will be maintained throughout the project with the funders to ensure compliance to funding conditions.
2	If unsuccessful, this money will need to be funded from the Council's match funding for BRP to enable the project to move forward.
3	Project will be reported to Growth & Regeneration Programme Board for monitoring progress and resolving any constraints to delivery
4	The engagement with partners will continue through the project at all stages
5	The project will be prioritised as it is critical to the delivery of the council's development aspirations and future financial sustainability

16 Background Papers.

16.1 April 2020 Cabinet report

17 Appendices

17.1 Appendix 1- Plan of Phoenix House

17.2 Appendix 2- Plan of Cattle Market North identifying the area proposed for disposal

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