

Agenda item:

Title of meeting: Cabinet and City Council

Date of meeting: 6th November and 11th November 2014

Subject: Dunsbury Hill Farm

Report by: Kathy Wadsworth, Strategic Director of Regeneration

Wards affected: None

Key decision: No

Full Council decision: Yes

1. Purpose

- 1.1 To seek approval to the aims of the Dunsbury Hill Farm (DHF) project and to delegate authority to the Strategic Director Regeneration and Head of Financial Services and Section 151 Officer to carry out the highways works and commission the work needed to evaluate the next stage of the project.

2. Recommendations

- 2.1 The aims of the Dunsbury Hill Farm Project as set out in this report are approved.
- 2.2 Subject to the City Council project governance arrangements and a prior financial appraisal approved by the Section 151 officer authority to commence the highways works and to commission the works needed to evaluate the next stage of the project is delegated to the Strategic Director Regeneration and Head of Financial Services and Section 151 Officer.
- 2.3 The revised financing for the scheme including the additional £2.163 million borrowing is approved and the Corporate Capital Programme is amended to reflect the revised capital budget.
- 2.4 Further authority will be sought from the City Council to approve the possible site development options and opportunities that will arise from the highways works.

3. Background

- 3.1 Dunsbury Hill Farm is a large area of greenfield land situated to the immediate east of Junction 3 of the A3(M). The developable sites are owned in their entirety by PCC, some land transfer is required from Hampshire County Council (HCC) and the Highways Authority (HA) for construction of the road. The site is in Havant and Havant Borough Council (HBC) is the Local Planning Authority with HCC the Local Highways Authority.

- 3.2 HBC have identified the site in their adopted Core Strategy as a key strategic employment site for the sub-region, with the potential to generate new jobs and provide much needed local employment opportunities to the neighbouring Leigh Park area. Havant Planning Policy CS18.3 allocates Dunsbury Hill Farm for a total of approximately 60,000 sq. m of employment space, with a maximum of 20% Storage and Distribution (B8) use.
- 3.3 PCC submitted a hybrid planning application to Havant BC in 2012 and conditional planning permission has been granted. The consent is detailed for the access road and outline for employment (61,789 sq. m) and hotel (5,574sq. m). In line with the adopted Core Strategy policy, 80% of the employment is to be split between B1 (Business) and B2 (Light Industrial), whilst B8 (Storage & Distribution) should not exceed 20%. The involvement of three authorities makes this a complex process. However, there is an appetite to progress the site at Member and officer level.
- 3.4 The site had previously been subject to a viability study and market appraisal, which suggested that it would only be attractive to the market if road infrastructure were delivered by the public sector. Financial modelling has taken place to test the extent to which it would be possible to secure a long-term income stream from the site if the city council were to act as its own developer once infrastructure is in place, rather than to sell the land for development. Early options that were considered are attached at Appendix 1 for reference.
- 3.5 The project is anticipated to have the backing of a successful Local Transport Board (LTB) bid for the sum of £4.377 million, the announcement of which is due imminently.

4. Aims of the project

- 4.1 The key objective of the DHF project is to provide income for the authority, if possible via a long term revenue income stream. There is a working assumption, still to be tested in detail, that this would most successfully be achieved either by the authority acting as developer and landlord for the site or by seeking a development partner. At a sub-regional level the project forms a significant element of their wider growth agenda of the Solent LEP and the potential jobs the development will deliver.

5. The current approach and works ongoing

- 5.1 There are a number of pieces of work currently underway that are intended to:
- i) Provide the detailed report on market value needed to allow the authority to commit to highways construction with confidence that the investment will produce a significant return.
 - ii) Discharge the planning pre commencement conditions

- iii) Develop the master plan for the site, testing viability and development cost.
- iv) Reach financial close with the highways contractor.
- v) Complete the ecological mitigation activities
- vi) Complete the legal site assembly including inter alia S.106/278 and 38 negotiations.

5.2 Anticipating that the work activities i) to vi) come to a satisfactory conclusion in late 2014 early 2015 it is proposed that PCC will be using the LTB funding of £4.377m supplemented by PCC borrowing to construct the highways in 2015 in anticipation of a further decision(s) on how the site is taken forward for development. Consultants, highways and construction partners have been procured giving PCC the potential to respond quickly to market demand and potential occupiers. The additional borrowing requirements are detailed in section 6 below.

6. Approved Funding

- 6.1 The Capital Programme 2013/14 to 2018/19 which was presented to Full Council on the 12th November 2013, approved the capital funding of the scheme and gave authority to progress the Dunsbury Hill Farm Access Road subject to a "satisfactory financial appraisal approved by the S.151 Officer" - see Recommendation 7 and Para 10.3.
- 6.2 The actual cost of building the access road is subject to the ongoing negotiations with Volker Fitzpatrick, however the initial tender returns would indicate that the above funding would be sufficient to complete the highway works and part enable the sites.
- 6.3 With the estimated cost of the Access Road remaining unchanged at £9.69m and external funding of £4.377 from the LTB due in 2015/16 there will now be a requirement for an additional £2.163 million of borrowing to fund the scheme. This is a result of the reduction from £6.54 million to £4.377 million in other contributions which reflects the assumption that the other public bodies involved will not have a direct involvement in delivering this scheme. That would give a total City Council funding requirement of £5.313 million comprising corporate reserves of £750,000 and borrowing of £4,563,000, as follows:

	Corporate Reserves £	Borrowing £	Other Contributions £	Total £
Approved Programme (Nov 2013)	750,000	2,400,000	6,540,000	9,690,000
Proposed Amended Programme	750,000	4,563,000	4,377,000	9,690,000
Variation	0	2,163,000	-2,163,000	0

7. Proposal

7.1 The Council approves the increase in the borrowing element of the capital programme subject, as before, to a satisfactory report and Financial Appraisal being provided to the S151 officer substantiating the business case for constructing the highway.

8. City Solicitors comments

8.1 The proposed delegations set out in recommendation 2.2 are appropriate in the circumstances to protect the council's financial position and to enable the project to proceed in a timely manner.

9. Head of finance's comments

9.1 The sum approved in the main capital report to City Council on the 12th November 2013, is anticipated to be sufficient to complete the highways works and part enable the site, however the reduction in external funding has put additional pressure on PCC borrowing in order to meet the shortfall.

9.2 Recommendation 2.2 proposes that authority to commence the highways works and to commission the works needed to evaluate the next stage of the project is delegated to the Strategic Director Regeneration and Head of Financial Services and Section 151 Officer, subject to a financial appraisal approved by the Section 151 officer. This financial appraisal will take account of the forthcoming evidence based report by Lambert Smith Hampton, substantiating the land value, against which any additional borrowing requirement will be measured, up to the value of £4,563,000.

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Signed by:

Appendices:

Appendix 1 - Site Options and Assumptions

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location

The recommendation(s) set out above were approved/ approved as amended/ deferred/rejected by

..... on

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Signed by:

APPENDIX 1

Options and Assumptions

Option 1 - Do nothing

- The site remains undeveloped
- No further planning permissions are sought
- PCC incurs any revenue costs associated with maintaining the land

Possible effect over 20 years - £0.8m loss

Option 2 - Sell DHF at market value

- Carry out all necessary preparatory work to minimise risk for purchaser
- Liaise with potential purchasers to confirm demand, type of employment space required and rental levels.
- Planning permission granted for Employment space in line with established demand
- Marketing begins as soon as possible

Possible effect over 20 years - £10.2m return

Option 3 - PCC build the road then sell at market value

- Carry out all necessary preparatory work and build road
- Liaise with potential purchasers to confirm demand, type of employment space required and rental levels.
- Planning permission granted for the Employment space
- Marketing begins as soon as possible

Possible effect over 20 years - £18.4m gross return

Option 4 - PCC build the road and Employment Space then sell at market value

- Carry out all necessary preparatory work and build the road
- Liaise with potential purchasers to confirm demand, type of employment space required and capital receipt levels.
- Planning permission granted for the Employment space
- Contract signed including conditions re employment space design, completion date etc.
- PCC build the Employment space to purchaser's requirements

Possible effect over 20 years to be modelled based on demand review

Option 5 - PCC build the road and Employment Space and let on a long lease

- Carry out all necessary preparatory work and build the road
- Liaise with potential lessees to confirm demand, type of employment space required and rental levels.
- Pre lease agreement signed subject to planning permission covering heads of terms, completion date, employment space required, rental levels etc.
- Planning permission granted for the Employment space
- Finalise contract and lease with purchaser for PCC to build the Employment space to their requirements and the purchaser to pay agreed rental for a long term, say 15 years.
- PCC build the Employment space to purchaser's requirements

Possible effect over 20 years to be modelled based on demand review