



## Hinckley & Bosworth Borough Council

Forward timetable of consultation and decision making

Scrutiny Commission	10 November 2022
Council	13 December 2022

Wards affected: All Wards

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### Acquisition & Development Strategy

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#### Report of Chief Executive

##### 1. Purpose of report

- 1.1 The purpose of this report is to agree a new strategy for acquiring assets and developing land as part of the Council's delivery of its services to stimulate and support regeneration and economic growth and to increase the supply of new affordable homes.

##### 2. Recommendation

- 2.1 That members approve the Acquisition and Development Strategy.
- 2.2 That members approve a provision be made in the Capital Programme for the sum of £15m to facilitate borrowing through the Public Works Loan Board on a case by case basis as business cases are approved.
- 2.3 That members delegate authority to the Director of Corporate & Streetscene Services to make conditional offers for the purchase of land and/or property which meets the criteria in the Acquisition and Development Strategy. Such offers would be conditional subject to formal members approval in accordance with the Constitution.

##### 3. Background to the report

- 3.1 In 2015 the Council established Hinckley & Bosworth Development Ltd, an incorporated wholly owned company with the aim of developing new housing outside its Housing Revenue Account.
- 3.2 The Council has been exploring new ways through which it can achieve its Corporate Plan objectives to grow the local economy and support business

growth and employment opportunities, encourage regeneration and stimulate the supply of new affordable housing.

- 3.3 In some instances it may be preferable for the Council to proceed with acquisitions or development under its general powers of competence rather than through the wholly owned company and sometimes the reverse may be true. Each proposal will consider this as part of the business case.

#### 4. **The Proposal**

- 4.1 In addition to continuing to pursue opportunities which may be appropriate for the wholly owned company, the Council proposes to actively pursue the acquisition of assets and the development of land in accordance with a new Acquisition and Development Strategy which is appended to this report at Appendix 1. This is supported by a Technical Document at Appendix 2.
- 4.2 The Council proposes to concentrate acquisitions and development undertaken through the strategy within the borough boundary to ensure maximum localised impact, but the Council acknowledges that its functional economic geography (FEG) – the geography within which businesses transact and commuters travel - extends beyond the boundaries of the borough. The strategy establishes the FEG as a wider area taking in the Local Enterprise Partnership (LEP) areas of Leicester and Leicestershire and Coventry and Warwickshire; the Council is a member of both LEPs.
- 4.3 The Council understands that a successful wider FEG area is important to ensuring local economic growth and consequently the Council intends that the extent of the geography within which the Strategy will apply will be the administrative areas of the whole of Leicestershire including Leicester City and also Coventry and Nuneaton and Bedworth. This will enable the Council to benefit from opportunities which may not necessarily be available within the confines of the borough and also to mitigate against the risk of developing a portfolio of assets that may otherwise be limited in terms of geography, sector and scale.
- 4.4 The Council proposes to use its borrowing ability through the Public Works Loan Board (PWLb) to fund opportunities through the strategy and proposes to make initial provision in the Capital Programme for the sum of £15m to fund proposals which are brought forward and are supported by a detailed business case. The Council is cognisant of the latest HM Treasury advice on utilising borrowing through the PWLB which was published in May 2022 and will only be able to justify the utilisation of the PBLB funding to support service delivery and not to acquire assets as investments for yield.
- 4.5 The property market is dynamic and it will be important for the Council to be agile in its governance arrangements to ensure that suitable opportunities can be actively pursued whilst also maintaining robust and transparent governance arrangements. Once an opportunity has been identified that meets the criteria in the Strategy, the Estates and Asset Manager must be able to make a conditional offer to acquire the asset as ordinarily time periods

for offers are within a short timescale and generally would not allow for a formal decision-making process by Members. The conditional offer though will be conditional upon the Council completing the valuation of the asset, undertaking a survey, completing legal due diligence and being subject to the Council's final formal Member decision being made to complete the acquisition.

- 4.6 Once the valuation, survey and due diligence have been completed the full and complete business case will be presented to the Asset & Regeneration Member Working Group before the final decision being taken by the relevant body. Due to timescales generally involved between agreement of heads of terms and completion (usually 30-35 working days) it may not always be possible to present business cases to scheduled meetings in the municipal calendar and in such cases it is proposed that Extraordinary meetings are arranged as required.
- 4.7 In order to make transparent and informed decisions the Member Working Group and the relevant body will be presented with a full business case for every proposal that is recommended for completion. The business case will explain the justification of the proposal against the strategy and will include details of the Red Book valuation, the full building survey and the legal due diligence on title, leases, tenants etc. The business case will present details on the financial visibility of the proposal including sensitivity testing of potential scenarios for growth. Risks associated with the proposal will also be detailed as part of the business case. If the final decision to complete on the proposal is made by members, the Council's Estates and Assets Manager will work with legal and financial colleagues to progress to exchange and finally to completion as soon as practicable after the decision has been made to proceed.

## **5. Opportunities**

- 5.1 There is an emerging opportunity for investment at Market Bosworth and it will be important that the Council has a strategy in place to provide the framework for considering it along with any other key opportunities. Full details of the proposal will be reported to members once the proposition and business case has been developed.

## **6. Exemptions in accordance with the Access to Information procedure rules**

None – report will be taken in open session.

## **7. Financial implications (AW)**

- 7.1 The proposed strategy sets a new budget requirement for this year of £15,000,000. This budget will be used to acquire new assets that fall within the set criteria of the Acquisition and Development Strategy (The Strategy) and will not require returning to Council for approval.

7.2 The Strategy will require a significant increase in PWLB borrowing, which is not allowed for “commercial” level investments. Commercial investments are where the primary reason for the activity is to generate yield. Examples of acquisitions considered held for yield under PWLB requirements include where borrowing is for the buying of land or buildings:

- To let out at market rates where previously operated on a commercial basis and will continue to be run on that basis by the local authority
- Other than housing which will generate income and are intended to be held indefinitely rather than until the achievement of a trigger event

7.3 This will rule out higher risk commercial investments, and the Strategy proposed is specifically aimed at normal regeneration and development activity that HBBC have been historically involved in. However, this does mean that finding suitable acquisitions that cover costs and provides a net return safety margin of at least 1.25% or 2% respectively will be harder to find. The table below shows what level of gross return would be needed to cover these net requirements.

<b>Table 1</b>		
<b>Rate of return requirements</b>	<b>Minimum 1.25% net return</b>	<b>Minimum 2% net return</b>
<b>Investment before Stamp Duty</b>	£13,987,500	£13,987,500
<b>Acquisition costs (6.75%)</b>	£1,012,500	£1,012,500
<b>Rate of return Calculation</b>		
<b>Financing cost (PWLB 4.27%)</b>	£640,500	£640,500
<b>MRP (50 years)</b>	£300,000	£300,000
<b>Admin (10%)</b>	£30,000	£30,000
<b>Total Annual costs</b>	£970,500	£970,500
<b>Net Rate of return 1.25%/2%</b>	£187,500	£300,000
<b>Gross rate of Return required</b>	£1,158,000	£1,270,000
<b>Gross % return on £15m</b>	7.7%	8.5%

7.4 This table shows that if the minimum safety threshold return margin of 2% is required, a gross return of 8.5% is needed. The 2% tenet is the more prudent target and should be considered the minimum proceed threshold, unless an acquisition has a very low risk assessment, and 1.25% is considered acceptable.

7.5 The Strategy includes the possibility that acquisitions may be made outside the borough boundary in the wider LEP area, although the preference will always be to focus within the borough. The Council is mindful of the UK Debt Management Office advice regarding the use of PWLB, professional advice will be taken to ensure acquisitions outside the council’s complies with current requirements.

## 8. Legal implications (MR)

8.1 There are several general and specific powers available to the Council in relation to the acquisition of assets:

- a) Section 120 Local Government Act 1972 empowers the Council to acquire by agreement any land whether inside or outside its area for the purposes of any of its functions or for the benefit improvement or development of its area
- b) Section 12 of the Local Government Act 2003 gives the Council the power to invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs
- c) The Localism Act 2011 provides a general power of competence for local authorities. It gives local authorities the same power to act that an individual generally has and provides that the power may be used in innovative ways, that is, in doing things that are unlike anything that a local authority - or any other public body - has done before, or may currently do.

## 9. **Corporate Plan implications**

- 9.1 The Borough Council's Corporate Plan 2022-25 sets out the Council's overarching aims and objectives for improving the social, environmental and economic wellbeing of the borough for its residents, businesses and visitors. One of those objectives is *"encouraging sustainable economic and housing growth, attracting businesses, improving skills and supporting regeneration"* and one of the means by which that is to be achieved is to *"provide direct investment in economic opportunities where opportunities arise and subject to the business case."*

## 10. **Consultation**

- 10.1 None resulting from this report.

## 11. **Risk Implications**

- 11.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.
- 11.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively. All risks associated with the proposed Strategy are set out within the supporting technical documents attached.

## 12. **Knowing your Community - Equality and Rural Implications**

- 12.1 The intention of the Strategy is to improve opportunities for the borough's community through the stimulation and growth of the local economy and the increase in housing choice and availability.

### 13. **Climate Implications**

- 13.1 The impact of the strategy on climate change will be considered through individual business cases as they are presented for consideration.

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Background papers: Council report 17 March 2015 - Housing Development Company

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