

D2N2 Investment Board Cover Sheet – 12th October 2020

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Meeting and Date	Investment Board 12 th October 2020		
Subject	Project for approval-Lindhurst, Mansfield		
Author	T Goshawk	Total no of sheets	11

Papers are provided for:	Approval <input checked="" type="checkbox"/>	Discussion <input type="checkbox"/>	Information <input type="checkbox"/>
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Summary and Recommendation(s)
<p>In July 2020, D2N2 was allocated £44.4 million from the governments Getting Building Fund towards the delivery of a range of projects across the region to stimulate economic activity and aid recovery from the impacts of Covid-19 on the region. The funding is subject to each of the 10 identified projects submitting a business case that is fully compliant with the D2N2 Local Assurance Framework (LAF).</p> <p>In order to support D2N2 and the accountable body, independent expertise has been procured from Thomas Lister Ltd and Amion consultants to assess each of the projects against the requirements of the local assurance framework.</p> <p>This project being put before the Investment board has now been assessed and is being recommended for consideration and approval based on its full compliance with the LAF.</p>

D2N2 INVESTMENT BOARD

12th October 2020

Project for Approval-Lindhurst, Mansfield

Project Name	Lindhurst	Project Applicant	Nottinghamshire County Council
Construction Start Date	5 January 2021	Construction End Date	16 November 2021
Getting Building Fund Requested	£3 Million	Total Project cost and Sources of funding	Total Cost - £3.3m Lindhurst Group - £300,000
Gross Value Added/ Benefit Cost Ratio	BCR = 3.8/GVA PVB £52.371m	Expected Outputs	475 New Homes £246.7m of funding to the Total Development

1.0 Project Description

A £250 million investment, the Lindhurst Mansfield Development off the Mansfield and Ashfield Regeneration Route, is a sustainable urban development strategic housing site. Overall, the Lindhurst Development will deliver:

- up to 1,700 new homes, including 30% affordable
- 188,000 m² of employment floorspace
- 31,000 m² of commercial space
- a Local Centre
- a Community Park
- local bus links and green routes
- a local school
- up to 4,000 jobs

The government-backed scheme received £8.5 million in loan funding from the Homes and Communities Agency (now Homes England) in 2017 enabling infrastructure works for the first phase of development to be launched that year. Housebuilders such as Avant Homes moved on site shortly after. Phase 1 to deliver 530 units is 87% complete and progressing to timescale.

A £3 million grant from the Getting Building Fund would secure Phase 2 to proceed, unlocking not just 475 homes but also community facilities of the Local Centre, school and bus routes. With local unemployment expected to rise significantly through 2020, Phase 2 is primed for delivery, and includes some much-needed jobs.

2.0 Summary of Strategic Case/Fit

The Strategic Case initially provides further information about the Lindhurst project and specifically Phase 2, including what the project will deliver and details about the site. To consider the strategic fit of the proposals, the report makes reference to the evolving D2N2 Local Industrial Strategy and the wider National Industrial Strategy and explains how Phase 2 will contribute towards themes such as clean growth and education and skills development. The recent Plan for Jobs announcement by the government is also considered and the importance of the construction industry in driving the recovery from Covid-19 in the UK. The Strategic Case continues by discussing the market failures associated with the site (imperfect information, coordination failure, positive externalities and market power), and makes clear that without grant funding, construction of the Spine Road is not financially viable and the Lindhurst site will remain stalled.

Specifically:

- Phase 2 includes brand new educational facilities, which will serve the new Lindhurst community. Project partners are on board to open up new approaches to learning and skills. This also chimes with D2N2 'Vision 2030' Strategic Economic Plan where one of its three core themes are "delivering skills and knowledge for the future"
- The Lindhurst Mansfield Development is mixed use and includes some 188,000 m² of employment floorspace. In a post-COVID-19 world this makes the new settlement more future-proof, with work closer to home. Back to D2N2's SEP, it also lists seven high level economic targets for 2030. Of significance to Lindhurst, the SEP states that the LEP will support partnership working with local authorities, the development community and Homes England to accelerate the completion of new housing to support D2N2's growth ambitions and to deliver against Government targets.
- Under theme 3, 'quality of place', the SEP states that investment in physical infrastructure will support business and housing growth ambitions as well as enhancing the natural environment. It states that in supporting and enhancing D2N2's 'quality of place', as a great location to live, work and invest – the roles of local authorities as 'place makers', with statutory housing, planning and transport roles, will be fundamental to effective partnership working.

The specific objectives of the wider Lindhurst scheme are set out, as well as a consideration of stakeholder interests and key dependencies associated with the project.

**Assessors
Comments**

The Lindhurst scheme has a very strong strategic fit with objectives from GBF, including 475 housing units. There

	is a compelling strategic rationale to support Phase 2 of this development in particular given the current pandemic.
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3.0 Summary of Economic Case and expected outcomes

Within the Economic Case, a long list of options for the Lindhurst development is initially considered. Five options are considered at the long-list stage, ranging from 'Do nothing' to a 'Do more' intervention. Using SWOT analysis, 3 options are short-listed for more detailed economic appraisal – Option 1 (do nothing) as the base case, Option 3 as the preferred option, and Option 4 (a delayed project) as the variant option. The methodology and modelling assumptions which have been used as part of the economic modelling are made clear, including the approach to additionality, before setting out the outputs associated with each short-listed option – housing, construction and operational jobs, and GVA.

The economic costs of the Lindhurst project are displayed with consideration of Optimism Bias and weighed up against the economic benefits which take the form of land value uplift. Wider benefits are scored, with the Economic Case concluding will the calculation of a BCR of 3.8 for the preferred option. Sensitivity analysis is used to test the robustness of the VfM calculation, as well as scenario testing. Overall, given the VfM calculation, sensitivity analysis and wider benefits of the preferred option, it is recommended that Option 3 is taken forward as the preferred strategy.

Assessors Comments	<p>The economic analysis has been conducted in accordance with Green Book methodology. Based on the analysis within the Economic Case, it is recommended that Option 3 is taken forward as the preferred strategy. This scenario performs best in overall value for money terms. This analysis shows that Option 3 results in a BCR = 3.8:1 when then the benefits relate to land value uplift. which indicates a project providing “High” value for money.</p> <p>The sensitivity analysis presented indicates that the BCR is robust to significant changes to the additionality of housing outputs and costs. There is also a range of wider benefits that arise including employment, amenity and health benefits. The overall scheme has been reviewed and approved for funding by Homes England as part of the HIF appraisal process (with a requirement to demonstrate overall social and economic return to public funds).</p>
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4.0 Summary of Commercial Case

The Commercial Case provides an overview of the East Midlands property market before considering trends within Mansfield and the Nottingham Outer Housing Market Area, where the Lindhurst site is located. Commentary is provided on elements of the Lindhurst scheme which have been delivered to date as part of Phase 1. Innes England have prepared an independent residential and commercial market review, with an overview being provided in the Business Case. This report adds context to the development appraisal and considers the benefits derived from delivering the Phase 2 spine road in a single phase.

The appraisal highlights that over recent years there has been a noted rise in demand for larger family type housing from residents moving out of Nottingham looking for “value for money” whilst retaining the ability to commute easily using public and private transport.

Lindhurst is ideally placed to capitalise on this trend, being situated on the south side of the town and therefore accessible to Nottingham to the south and Newark to the south west.

Despite these positive market dynamics, the landowners faced significant challenges in bringing the Lindhurst site forward for development due to the substantial infrastructure costs associated with opening the site up and bringing the first phase forward. The landowner secured funding from the HCA to address these challenges, following which successful land sales were secured to a number of national house builders who are bringing forward the development of 518 dwellings across a range of house types. The product was well received by the occupier market with the house builders achieving a typical sales rate of 20 completions per month for the 9-month period from June 2019 to March 2020 across the four active sites.

The Commercial Case continues by summarising the procurement process to be adopted, as well as a profile of the anticipated housing outputs for the site. It is confirmed that the project is State Aid compliant, following advice from Weightmans LLP.

Assessors Comments	The Commercial Case has demonstrated the need and demand for the Lindhurst scheme. Good use of independent agency advice (i.e. Innes England). Property annex provided; and development appraisal.
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5.0 Summary of Financial Case

The Financial Case sets out information about the development appraisal which has been prepared by NCC surveyors for Phase 2 of the Lindhurst development. Attached as a separate appendix, the Business Case summarises the approach to

the appraisal and the key assumptions which have been adopted, resulting in the conclusion that without grant funding, the land at Lindhurst has a negative value and would not be delivered. The Financial Case then provides a profile of the proposed D2N2 funding over the period Q1 2021/22 to Q3 2021/22.

The applicant has undertaken a standard residual value development appraisal for the scheme. The analysis shows set out the case that in the absence of grant funding, the appraisal demonstrates that even with zero land value there is a **significant shortfall in development profit** at 16.85% on GDV demonstrating that without any funding the scheme is unviable and therefore would not deliver any of the residential units (including affordable), a 2 FE school, local centre and employment opportunities. Overall, with no grant funding the scheme is not viable.

Alternatively, with grant funding, the land residual at £2,563,364 (benchmark £2,520,000) demonstrates that with grant funding and the Lindhurst contribution the scheme delivers the minimum return to a landowner – the scheme is therefore viable and importantly delivers residential units (including affordable housing), a 2-FE school and local centre alongside much needed employment land. Therefore, with grant funding the scheme is viable.

Ultimately, the development viability appraisal demonstrates that there are a range of costs that will be incurred to deliver the development, including public open space, the education allocation for the site and the bus route to the centre of Mansfield. These costs have a significant impact on the development viability of the scheme and hence its ability to provide affordable housing and other planning contributions as well as several environmental, social and economic benefits.

**Assessors
Comments**

The Financial Case clearly demonstrated the affordability of the Lindhurst proposals, confirm the funding arrangements and the basis of the viability assessment (prepared by Notts in house MRICS surveyor). A cashflow statement is appended to Business Case.

6.0 Summary of Management Case

The Management Case sets out the governance and management arrangements for the Lindhurst scheme, the key milestones for the delivery of the Phase 2 Spine Road and the change request process that will be followed if necessary. Communication and stakeholder management to date is detailed, followed by Nottinghamshire County Council's Risk Management Strategy and an approach to monitoring and evaluation.

By using the Scape National Civils Framework (a pre-tendered approach), this allows the project to be on site much quicker than a conventional approach and this gives surety to the planned timeline for delivery. The key milestones of the Phase 2 Spine Road include:

- **Acquisition** – the site is already in the ownership of the consortium
- **Outline planning** permission secured – 2013
- **Reserved Matters** registered w/c 3 August 2020
- **No procurement barriers** to delay delivery - via Nottinghamshire County Council
- **Start on site** – January 2021
- **Practical Completion** of Spine Road by August 2021
- **Full Occupation/disposal** of Phase 2 – March 2022

Assessors Comments

The Management Case outlined how the delivery of the Lindhurst project will be planned and overseen to ensure its success. Making good use of the ARC consultancy resources. Detailed Risk Register and Programme provided.

7.0 Assessors Recommendation

Lindhurst is a £250 million Development off the Mansfield and Ashfield Regeneration Route, is a sustainable urban development strategic housing site. Overall, the Lindhurst Development will deliver: up to 1,700 new homes, including 30% affordable, public infrastructure (Local Centre, Community Park a local school) and up to up to 4,000 jobs.

There is a compelling strategic rationale to support Phase 2 of this development in particular given the current pandemic. The analysis has demonstrated that there is a need for gap funding to enable the scheme to progress.

A £3 million grant from the GBF would secure Phase 2 to proceed, unlocking not just 475 homes but also community facilities of the Local Centre, school and bus routes. With local unemployment expected to rise significantly through 2020, Phase 2 is primed for delivery, and includes much-needed jobs. **There is also a range of wider benefits that arise including amenity and health benefits.**

By de-risking the site an immediate economic stimulus will be provided through the jobs associated with the Phase 2 build, supporting a faster recovery from COVID-19. Moreover, it would ensure that momentum is maintained such that future phases can be progressed post COVID-19.

This project exemplifies the GBF programme, and we strongly recommend its approval.

8.0 Officer's Recommendations

Following a review of the business case alongside the independent assessment, officers would recommend the Investment Board to approve the request of £3.3m of Getting Building Fund to be released to Nottinghamshire County Council.

The project has been tested against the conditions of the Local Assurance Framework and fully complies with the document and is therefore eligible for funding to be released.

Strategically the project aligns with the delivery plans and strategic documentation from the LEP. In particular the project supports proposition 3.3 of the Emerging Recovery Strategy in supporting the growth of our towns and economic corridors. The grant funding requested for this intervention unlocks the delivery of space for housing and job creation in the LEP area.

No specific recommendations or caveats are attached to the request for the project to be approved.

Getting Building Fund Checklist

1. A detailed 'Green Book' compliant business case has been completed detailing the project and its alignment to the 5 case model. 'The Checklist ¹ ' published by HM Treasury is a useful one page guidance paper.	<i>Nottinghamshire County Council have submitted a Green Book compliant Business Case for the Lindhurst redevelopment which aligns with the 5-case model.</i>
2. A VFM assessment must be completed. This VFM assessment will be independently assessed by D2N2 and must show an overall score of 'High'.	<i>The projects business case and Value for Money has been independently assessed by Amion and Thomas Lister and they have confirmed that the project demonstrates High Value for Money.</i>
3. Details confirming that all planning consents have been granted and that all pre start conditions have been met.	<i>The promoter has confirmed that all planning consents for the project have been met and the final agreement was completed on the 29th of September 2020.</i>
4. Confirmation that any Section 106 or other agreements have been entered into.	<i>All section 106 agreements have been met for the project.</i>
5. Confirmation of the results of the procurement exercise detailing: -the tenders received (along with detailed costs) -the tender accepted (along with timescales/conditions)	<i>NCC have used their internal Arc Partnership contract framework to procure the works for the Lindhurst project.</i>
6. Details of the construction contract to be entered into by the promoter detailing: -start date -completion date	<i>Following the procurement exercise, Wates have been chosen as the main contractor for the project through the SCAPE Framework process. The project will operate on the following timescales:</i>

-liquidated damages/cost over runs	<ul style="list-style-type: none"> - <i>Start on Site – January 2021</i> - <i>Completion – November 2021</i>
7. Confirmation that the promoter will be responsible for any variations to the contract price and that once entered into, the contract will be completed in line with the details submitted. The promoter should submit a separate letter appended to the Business Case which confirms this from their Financial Director or equivalent.	<i>The promoter has confirmed that they will be responsible for any cost overruns associated with the project.</i>
8. Confirmation that the project has been designed to RIBA stage 4 or its equivalent.	<i>The project promoter has confirmed that the design has reached RIBA Stage 4.</i>
9. Details of any outstanding points preventing/delaying the start-up of the construction contract.	<i>No outstanding points are preventing the start of the construction contract.</i>
10. Details of any changes for the project form the initial EOI and OBC submissions with reasoning behind these changes. Including an updated viability report as submitted in point 5 of the OBC.	<i>No significant changes have been recorded since the submission of the expression of interest.</i>
11. Confirmation that all funding is now in place with details of the sources of funding, please include letters from third party funders confirming any conditions and timescales.	<i>The project promoter has confirmed that all funding for the project is in place.</i>
12. Confirmation that all land/legal agreements have been completed and are in the control of the promoter to deliver the entire project	<i>All land is ownership of the project promoter</i>
13. A phasing plan identifying the start and completion elements of the project along with costs associated with each phase and the outputs/outcomes that will be delivered on a quarterly basis.	<i>An up to date phasing plan of the project has been included as part of this business case.</i>

14. An updated risk register identifying the key risks and the project manager responsible. The risk register needs to be scored and include a mitigation plan.

The project promoter has submitted an up to date risk register which includes mitigations to the issues identified.