

# Otterpool Park

## Strategic Direction, Funding and Delivery

# Overview

- Cabinet will receive a report on Otterpool Park in October 2023:

*The report will present an update on the project (following on from report C/22/109 to Cabinet in April 2023). The report will detail the outcome of a management review which assessed future strategic funding and delivery options for the project along, including delivery plan proposals for Otterpool Park LLP for the 18 month period to March 2025.*

- The purpose of this presentation is to ask Committee to consider a range of key issues in order to inform the report to Cabinet and subsequent decision making.
- OSC input is sought on the overall strategic direction, funding and delivery options for the project.

# Contents

1. Background to Otterpool Park, the vision, the role of Otterpool Park LLP and the Council and key decisions taken to date.
2. Current position of the project and key considerations for the Council.
3. Outcomes of a comprehensive Management Review covering:
  1. governance;
  2. strategic direction; and
  3. future delivery & funding options.
4. Emerging recommendations for Cabinet.

# Background - Otterpool Park

The vision for Otterpool Park is:

***To deliver a next generation garden town of up to 10,000 homes that will provide sustainable living and a healthy economy: provide the best quality of life for existing and future residents and respond to local land scape and character.***

<https://www.otterpoolpark.org/vision/>

# Background - Otterpool Park

- Phase one of the project focuses on the creation of a new town centre and a new public park - Castle Park, adjacent to Westenhanger Castle. It will provide the first new homes, as well as commercial and retail spaces. Services that will be delivered for the first residents of Otterpool Park; the first primary school, health and community facilities and open green spaces centred around the racecourse lake.

<https://www.otterpoolpark.org/vision/masterplan-phase-one/>

- The Planning and Licensing Committee (4 April 2023) resolved to grant outline planning permission for Otterpool Park.

<https://www.otterpoolpark.org/amended-outline-planning-application-approved/>

# Background - Otterpool Park LLP

- Otterpool Park LLP (the LLP) was established in May 2020 with the principal objective of acting as master developer for the delivery of the project.
- The LLP is a wholly-owned company of the Council. The Members' Agreement establishing Otterpool Park LLP sets out the decisions which the LLP can take and those that require consent of the Council.
- The Council agrees the strategic direction and funding for the LLP. Every 5 years the LLP submits its strategic business plan to the council for approval. Within the 5-year period annual updates are also prepared and placed before the council for approval.
- The LLP has undertaken a range of activities including: land assembly, planning matters, design of key early infrastructure and community engagement.

# Background: Key Strategic Decisions

Timeline of key strategic decisions taken by the Council:

## **October 2017**

Charter for Otterpool Park agreed.

<https://folkestone-hythe.moderngov.co.uk/ieListDocuments.aspx?CId=142&MId=4383&Ver=4>

## **May 2020**

Establishment of Otterpool Park LLP as Council's delivery vehicle and master developer.

<https://folkestone-hythe.moderngov.co.uk/ieListDocuments.aspx?CId=142&MId=4766&Ver=4>

## **January 2021**

Otterpool Park LLP 5-year Strategic Business Plan agreed.

<https://folkestone-hythe.moderngov.co.uk/ieListDocuments.aspx?CId=142&MId=4860&Ver=4>

# Background - Key Strategic Decisions

## January 2022

1<sup>st</sup> Annual update to the Strategic Business Plan agreed.

<https://folkestone-hythe.moderngov.co.uk/ieListDocuments.aspx?CId=142&MId=4950&Ver=4>

## February 2023

Agreement to provide in aggregate addition borrowing capacity of up to £119m. This was most recently reaffirmed in the approved General Fund Capital Strategy.

<https://folkestone-hythe.moderngov.co.uk/ieListDocuments.aspx?CId=142&MId=5138&Ver=4>

## April 2023

Agreement to undertake due diligence and a financial assessment of the 2<sup>nd</sup> draft updated Business Plan prior to consideration of Cabinet.

<https://folkestone-hythe.moderngov.co.uk/ieListDocuments.aspx?CId=142&MId=5140&Ver=4>



# Background - Strategic Funding Decisions

## February 2023

- The total agreed funding for Otterpool Park is £119M, comprising:
  - Land Acquisition                      £44M
  - Working Capital                        £75M
- The Council's Medium Term Capital Programme includes provision for the loan funding currently up to £75m (as above) from the Council to Otterpool Park LLP to support the project. Interest is charged at 3% above that the Council can borrow from the PWLB.
- The intention is for loan and its interest to be repaid from the proceeds the LLP generate from selling serviced plots of land to the housing developers over the life of the project.

<https://folkestone-hythe.moderngov.co.uk/ieListDocuments.aspx?CId=122&MId=5144&Ver=4>

# Current Position - Funding

- The current funding agreed level by the Council for Otterpool Park is up to £119M. To date spend is circa £63M.
- Currently the annual interest charge incurred by Council on borrowing is circa £400k. MRP provision is at a minimum of £1.2M annually as part of the Council's General Fund budget to service that borrowing.
- Ahead of any income generated from land sale receipts, the annual funding requirements of the LLP at the peak debt position in 29/30 is estimated at £9.5M per year which would be funded by the Council through capital borrowing.
- Interest charges and MRP would both rise significantly if this level of borrowing was agreed.
- Over the past 3 years significant external factors (e.g. increased PWLB rates, UK inflationary pressures, COVID) have had a significant impact on this funding allocation and, having been reviewed by the Council S151 Officer, the original funding proposal is **not** now considered affordable.
- Therefore, the financing structure of the LLP needs to change.

# Current Position - LLP Business Plan

- The LLP draft Business Plan 203-24 requested the Council agree to a significant increase in the borrowing facility made available.
- The LLP requested that the Council increase its loan facility by an *additional* £80M to £199M to cover peak debt requirements.
- The additional £80M funding request consists of £49M for accelerated land acquisitions and £31M for inflationary cost pressures on infrastructure provision.
- The level of funding sought by the LLP represents an additional significant undertaking at a scale which has not previously been considered in the Council's Medium Term Financial Strategy (MTFS), nor Medium Term Capital Programme (MTCP).
- This level financial commitment presents a significant risk to the Council and Cabinet agreed that further due diligence and a financial assessment be undertaken.

# Current Position - LLP Business Plan

- The overall strategic vision for Otterpool Park remains sound and fully supported by the Council.
- Assessment of financial and delivery risk to the Council in the short, medium and longer term is required.
- The LLP needs clear direction from the Council as to its short-term delivery priorities and resources available.
- In lieu of an updated Business Plan being agreed, the LLP has been requested to develop a Delivery Plan for an 18-month period to April 25.
- The Delivery Plan should include a robust cashflow and clear milestones and focus on essential activities related to: (1) land acquisition; (2) planning; and (3) infrastructure design.
- The LLP submitted a Delivery Plan on 12<sup>th</sup> Sept '23 and this is currently being assessed.

# Current Position - Council

- A broad range of due diligence and financial assessment has been carried out which forms an overall Management Review for the new administration. This has focussed on identified delivery and financial risks to the Council, supported by external specialists Local Partnerships and KPMG.
- Homes England continues to support the Council by providing advice on delivery and strategic funding options (as well as being a 10% landowner at Otterpool Park).
- The Corporate Risk Register has been updated with an escalated risk to reflect the Council's current position in relation to Otterpool Park. This recognises that achieving the resolution to grant planning approval is a significant milestone and moving into the next phase with a significantly changed context brings substantial financial and delivery risks.
- This risk is assessed as **extreme** and requires mitigation. Please refer to Risks C2 and C3 in the Corporate Risk Register: <https://folkestone-hythe.moderngov.co.uk/documents/s44924/110923%20Corporate%20Risk%20Register.pdf>

# Due Diligence - Critical Factors

In carrying out due diligence and financial assessment a range of critical factors have been considered:

- Governance and organisational capacity review of both the Council and Otterpool Park LLP.
- International and UK economic conditions and forecasts.
- Public sector operating environment.
- Otterpool Park LLP Financial Model and approach to Delivery.
- Council's Medium Term Financial Strategy.
- Affordability - including assessment of Minimum Revenue Provision (MRP), PWLB rates, impact on General Fund (revenue consequence of capital borrowing).
- Assessment and mitigation of both Delivery and Financial risk to the Council.

# Governance Review (refer to Appendix 1)

- The Council proactively commissioned Local Partnerships to conduct an in-depth Governance Review as the LLP embark on a new phase of activities.
- The Council commissioned the review in order to understand where there are opportunities for improvement in governance, and what lessons can be learned from elsewhere.
- A document review, interviews, a skills audit and desk-based research were carried out in March and April 2023. The review focused on the LLP, with the Council's own governance arrangements in relation to it also under review.
- The review found:
  - The vision for a high-quality garden town and the commitment to sensitive and meaningful place making is well understood. Both the LLP and Council officers and politicians share a similar view of its importance to the area.
  - The high-level vision needs to be backed up by a shared and sufficiently detailed understanding of what is needed to deliver OP with clarity on responsibilities and what consultation or approvals are needed from whom.

# Governance Review: Key Recommendations

- Strengthening the Council's Governance and Oversight by improving how the Council holds the LLP to account; revising and strengthening governance and project oversight by Cabinet / Committees.
- Ensuring that Statutory Officers and the Shareholder role have appropriate support and visibility for a project of this scale and nature.
- Ensuring that the Council has sufficient client-side operational capacity and capability to provide robust scrutiny, in particular relating to Finance and Property.
- A wide range of governance improvements for the LLP board to ensure it has the capability, maturity and time to make robust decisions for the project and provides appropriate scrutiny of LLP staff, risk and strategic delivery matters.
- Strengthening the rigor of Business Planning to allow the Council to satisfy itself that the LLP is operating in line with overall objectives.



# Governance Review: Action & Next Steps

- F&H DC and the LLP have already started to implement the recommendations via an agreed Action Plan.
- Progress delivering the Action Plan will be reviewed by East Kent Audit Partnership and reported to Members via the Owners' Committee and A&G.
- Steps to strengthen operational governance arrangements have progressed, starting with a new Joint Operations Board to ensure that FHDC and LLP senior leadership teams are sighted on all matters.
- A joint FHDC and LLP Risk Register is being developed to ensure that all key risks are understood and managed effectively with appropriate mitigation in place.
- An Interim LLP Board Chair has been appointed by the Leader and cabinet has agreed additional capacity to enhance the Board with additional skills and expertise.
- An appropriate level of scrutiny for a project of this scale and nature is in the forward plan for Cabinet and Overview and Scrutiny Committee.

# Financial Assessment & Due Diligence

A robust financial assessment and due diligence continues with the support of KPMG and other advisors to the Council:

- An assessment of the robustness of the proposed 2023-24 Business Plan, and 18-month Delivery Plan to April 2025.
- A review of the supporting advice from LLP advisors.
- A review of the assumptions made within the business plan, and their sensitivity to market changes.
- Analysis of the Minimum Revenue Provision (MRP) implications of the current funding and delivery strategy, particularly in respect of the necessary further land transactions and enabling infrastructure works.
- A headline assessment of alternative funding and partnering options to mitigate risk.

# Financial Assessment & Due Diligence: Key Recommendations

- In the long term, Otterpool Park remains a profitable scheme but project peak debt and capital requirements present a level of risk that is not acceptable nor affordable to the Council.
- Significant contextual factors have impacted on the project over the last 12 months which necessitates a different approach to funding and delivery.
- The Council should consider alternative structures that reduces the Council's exposure to delivery and funding risk, considers MRP affordability, and satisfies its financial return profile (i.e. upfront receipt is secured with a profit share at latter stages).
- The Council's funding and risk appetite needs to be specified, and ensure it is clearly communicated to the LLP.

# Financial Assessment & Due Diligence: Key Recommendations

- The Council identifies changes to amend the delivery model to lower the Council's risk and funding requirement, prioritising early payment to the Council for land with the benefit of planning, including sources of third-party expertise and funding capacity.
- The Council assess the approach to delivering the infrastructure - identifying the most appropriate delivery approach for each category of infrastructure, consistent with the Council's Investment Parameters. Each element of works considered whether it is essential for action now, whether it can be transferred to a third party, or whether it can be deferred.
- The Council to work with Homes England to seek support for enabling works, on the basis of economic benefit derived from the project as a whole.

# Emerging Recommendations for Cabinet

- To note that a governance review has been completed and that reports will be provided to the Owners' Committee and to Audit & Governance.
- To note the changed economic context and operating environment which requires the Council to amend the delivery approach, addressing significant financial and delivery risks potentially impacting on the Otterpool Park project.
- To agree the outcomes of a strategic funding and delivery review, and the need to attract external funding, expertise and capacity to deliver the project.
- To agree that the Council explores third-party funding (public and/or private sector) on a joint venture basis, reporting the outcome to Cabinet.
- To agree the key principles under which the Council shall seek to secure a joint venture partner.

# Proposed Principles of a Joint Venture

- Joint Venture (JV) between the Council and third party on a strategic, site-wide basis.
- JV partner to demonstrate a track record of facilitating development at scale, and a commitment to delivering the vision for Otterpool Park.
- JV partner to share the role, risk and responsibility as Master Developer for the whole site.
- Council retains a significant stake – preferably 51% control.
- JV partner makes a £ contribution to costs already incurred by the Council.
- JV agreement to release an early capital repayment to the Council.
- Future profit / returns to be on a shared ‘risk and reward’ basis.
- Delivery and financial risk to the Council mitigated to an acceptable level of tolerance.

# Discussion & Questions