

# **CORPORATE COMMITTEE**

**28 NOVEMBER 2018**

## **REPORT OF DIRECTOR FOR GROWTH AND REGENERATION**

### **OUTLINE BUSINESS CASE FOR NEW DEVELOPMENT COMPANY**

#### **1.0 PURPOSE OF REPORT**

- 1.1 The purpose of this report is to update the Committee members on progress so far for assessing the outline business case as to whether the Council should establish a collaborative development company and to seek approval for proceeding to full business case and the associated next steps.

#### **2 RECOMMENDATIONS**

**It is recommended that:-**

- 2.1 **The Committee notes the outline business case attached in Appendix A.**
- 2.2 **The Committee approves the preparation of a full business case and associated works at the cost of £13,500, which can be met from within existing budgets.**
- 2.3 **An update is provided to the Committee on the full business case in March 2019 with recommendations for the next steps.**

#### **3 Background**

- 3.1 One of the Place priorities for the Council's Corporate Delivery Plan is to increase the availability of good quality homes that meet local needs. As a way of achieving this, officers have been investigating options for the establishment of a collaborative Development Company (DevCo). Melton Borough Council is working with four other Leicestershire District Councils in preparing an outline business case for the establishment of a DevCo which could be used as a consultancy unit to most efficiently provide the expertise on behalf of the participating authorities to drive forward development. The DevCo could provide the expertise on housing and funding models, and then build and acquire sites and housing. These could then be transferred to individual (District) housing companies, which will need to be set up separately; the details of which are being developed as a parallel piece of work.
- 3.2 All Leicestershire District Councils initially considered whether to form a Collaborative DevCo and 5 decided to commit to funding the development of an options appraisal and Outline Business Case. These were North West Leicestershire District Council, Oadby & Wigston District Council, Charnwood Borough Council, Blaby District Council and Melton Borough Council. 4 of the Councils (subject to the decision of the Corporate Committee) have indicated a desire to now proceed to a full business Case.
- 3.3 Blaby District Council has decided to not continue to beyond the outline stage due to their circumstances, in that they do not have housing stock nor currently have areas of land which are ready to be developed which are immediately available.

- 3.4 Should the committee approve the recommendations, the four remaining partner councils will commission a full business case to fully assess the viability of moving to implementation based on the projects that are available from each council alongside the financial implications of the company and the implications for each partner. This will be reported back to members in the new year; likely March 2019.

#### **4 THE OUTLINE BUSINESS CASE**

- 4.1 From discussions with the Districts the following priorities were agreed for establishing a Collaborative DevCo :
- a. Mixed use development activity that delivers development benefits including housing and commercial use.
  - b. Housing outcomes meet local need reflecting affordability and people's income
  - c. The authorities generate and maintain a level of 'Scale and Pace' to justify the investment in establishing the DevCo
  - d. Surplus for a purpose - the Councils will seek to generate surplus and will take appropriate level of risk to do so, but that is not the only motive
  - e. Control over quality, pace, governance, costs and timescales.
- 4.2 The DevCo would also have the ability to make wider investment and development decisions concerning commercial development for Districts either individually or collectively. There was agreement that this model should not preclude individual authorities doing their own thing, including entering into individual JVs. Some Districts, particularly those that do not currently own stock, were also interested in the potential for any collaborative DevCo to have sufficient flexibility to take on landlord powers if required for any Districts that desired it.
- 4.3 It is to be noted that smooth operation of the DevCo will be reliant on participant authorities being proactive and willing to contribute to share the cost on equal basis, i.e. MBC being 25% shareholder in the company. This would require all authorities to make the same initial upfront financial commitment. However, sites in the Council ownership are of small scale and therefore we are reliant on the large sites such as cattle market, leisure village and Waterfields to be developed through this mechanism to achieve the required level of scale. The work has started on testing the feasibility, capacity and viability of these large sites which will be undertaken over the next 6-8 months. The four potential partner councils are all at different stages, with some ready with schemes to proceed now. This would mean that while Melton would be making an equal upfront contribution for the cost of establishing the DevCo, the company will most likely be focussing in other local authority areas in the first year, however when Melton is ready to proceed the focus would shift to Melton and the investment from the other council's would support our aspirations in the same way as ours would initially support theirs. The ultimate benefit of this collaborative approach is that it will give us all access to skills and expertise that would otherwise be unilaterally unaffordable or would have to be commissioned through a joint venture.

As part of the next steps, confirmation is being sought from the partner authorities to have sufficient oven-ready projects in the pipeline to ensure there would be sufficient work for the company in the early months and years while Melton Borough Council gets itself in a position to do similar. Subject to the confirmation of available projects, the timescales for establishing the company will need to be considered and

if there are insufficient projects in the short to medium term, establishment would need to be delayed or the rationale ultimately reconsidered.

- 4.4 Any work carried out by the DevCo will need to be recharged to the project enabling all the shareholding authorities to recover some of the initial set up costs and therefore reduce our liability. There is a risk that if we ask only those who are using the company to pay for the initial set up costs then when they have completed their work and it is time for us to use it, there would be no incentive for them to remain engaged and the full cost liability could transfer to Melton Borough Council. One of the main benefits of the DevCo is to share liability and to balance our collective needs over time so we can sustain the relevant expertise with sufficient meaningful work.
- 4.5 The outline business case for a collaborative DevCo considers benefits, risks and issues specific to a joint delivery vehicle. Whilst it covers the strategic business case, it does not go into the details of commercial business case. The Council needs to commission market demand analysis to fill this gap which will investigate the current state of market, competition, developers pipeline, potential rate of return on investment, gaps in the offer in the current market etc. This information will feed into the detailed business case and contribute to creating a better understanding of cash flow management, investment potential, finance options and risk profile. This work is already funded and is underway; running in parallel to this work.
- 4.6 Also in parallel with options for the establishment of a Collaborative DevCo, officers have been looking at the options for establishing the Housing Company for Melton, which would be the recipient of any stock developed by the DevCo on behalf of the Council. The creation of local authority housing companies has become a national initiative with over 60 now established although many of them are not operational, or only partially operational or have had limited success. North West Leicestershire District Council and Charnwood Borough Council are also keen to explore the potential and ways of establishing housing companies for their areas. Whilst the option of establishing a jointly owned local housing company with landlord powers is not preferred, there is value in commissioning the work jointly to share the cost, even though the work will consider the issues and requirements specific to each authority area.
- 4.7 Next steps:
  - a. Commission a full business case for the Collaborative DevCo
  - b. Commission market demand analysis to inform the development pipeline
  - c. Review development pipeline for housing sites
  - d. Carry out capacity, viability and feasibility review of cattle market, leisure, housing and commercial sites

## **5 POLICY AND CORPORATE IMPLICATIONS**

- 5.1 The Corporate Delivery Plan supports the development of projects such as cattle market, housing company and leisure site. The establishment of the development company has the potential to gain greater control and benefits of a number of key place related projects. Full details of the implications associated with the establishment of a DevCo will be considered by a future committee prior to any decision taken to enter such an arrangement.

## **6 FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

- 6.1 The total cost of the outline business case is £42,000 which is shared by 5 councils at £8,500 each. This is met from the budget the council has set aside for commercial activity.
- 6.2 The cost for developing a full business case of £53,000 will be shared by the 4 councils at up to £13,500 each. It is anticipated that this cost can be met from within the existing budget.
- 6.3 The full business case will examine in more detail the annual running costs of the development company, the contributions from each council based on the project costs that can be recharged, the apportionment of the residual costs on an equal share basis, the pay back period and the allocation of likely surpluses moving forward taking into account the information from the market demand analysis. These costs would need to be recharged to revenue however project costs can be charged to capital and included within the business case and investment decision for each individual project. The outline business case indicates total annual revenue costs of £350,000 to £550,000 without any allowance for a portion being charged as project costs. This would then be recharged to each authority as shareholder in the company. Currently there is no allowance in the revenue budget for these costs which has been highlighted to members as part for the consideration of the MTFs and therefore this will be a factor to finalise moving forward as to how these costs would be funded in the early years before any return is made from the investment.
- 6.4 The demand analysis being funded from the LEP grant money for Cattle Market project will inform the business case for housing development, hence there will not be an additional cost to the Council. In addition a report to the Place committee relating primarily to the Leisure facility highlighted the need to undertake master planning on specific areas in order to feed in to the commercial appraisal work required to support the full business case for the DevCo. This was estimated as being up to £60k. This estimate will be tested through the procurement process. At the September meeting Corporate Committee also approved expenditure of £40k to support commercial appraisals of key sites. The latest budget monitoring position for 2018/19 indicate the £60k could be met from existing budgets however the financial position for the current and future year is proving challenging. Should that not be possible a recommendation is contained elsewhere within this agenda seeking delegated authority to utilise the reserves.

## **7 LEGAL IMPLICATIONS/POWERS**

- 7.1 No direct legal implications arise from this report.
- 7.2 External legal advice has been sought in the drafting of the outline business case.
- 7.3 Full legal advice will be provided as part of the full business case if approved.

## **8 COMMUNITY SAFETY**

- 8.1 There are no community safety implications associated with this report.

## 9.0 EQUALITIES

9.1 The equality issues of each specific development will be considered as they progress through the approval process.

## 10 RISKS

10.1 The key risks to consider are:

- a. Abortive cost for detailed business case if the Council decides not to go ahead with establishing the Development Company.  
This cost is being shared among four local authorities and hence is relatively low. Without doing the next stage of work it will not be possible for the Council to make an informed decision and there is a risk of missing out on a collaborative approach would could create significant advantage for the council.
- b. Dispute among partners over sharing of risk and reward for the DevCo.  
The outline business case has been prepared jointly in consultation with the four participative authorities. The detailed business case will provide more details and tease out any conflicts of interests.

L I K E L I H O O D	A	Very High				
	B	High				
	C	Significant				
	D	Low			a,b	
	E	Very Low				
	F	Almost Impossible				
			Negligible 1	Marginal 2	Critical 3	Catastrophic 4
			<b>IMPACT</b>			

## 11 CLIMATE CHANGE

11.1 The development of sites through the DevCo will consider and accommodate reasonable response to climate change challenges.

## 12 CONSULTATION

12.1 The Outline business case has been prepared in consultation with all four

