

**REPORT TO** Executive and Council  
**Date of Meeting:** 13<sup>th</sup> February 2018 and 20<sup>th</sup> February 2018  
**Report of:** Emma Osmundsen, Shadow Director (Development Company)  
**Title:** Report on proposed Wholly Owned Development Company to approve additional budget for First Year Business Planning and Company Formation activities

**Is this a Key Decision?**

No

**Is this an Executive or Council Function?**

Council

**1. What is the report about?**

1.1 The report recommends the allocation of additional budget to undertake further modelling activities and a detailed first year business case to facilitate the creation of a wholly owned development company.

**2. Recommendation:**

2.1 This report recommends the allocation of an additional budget of **£166,860** to satisfy Member and SMB requirements in connection with the formation of a wholly owned development company. The costs associated with the additional work amounts to £261,030 on the basis that the work is completed by summer 2018 and presented to Full Council in July 2018. This constitutes £223,330 for the work relating to the Development Company First Year Business Plan and £37,700 for work relating to the Development Company Creation Activities. A proportion of these costs can be recovered from the DCLG Estate Regeneration Funding that the Council has been awarded which accounts for £94,170. This would result in the Council needing to fund and provide a budget for **£166,860**.

**3. Reasons for the recommendation:**

3.1 To enable the completion of work commenced to date to enable Members to consider the formation and first year trading of a wholly owned development company. The work will also encompass the creation of a Steering Group made up of Members and Senior Officers.

3.2 Work has been ongoing over the last 12 months in preparing a comprehensive feasibility and business case supporting the formation of a wholly owned development company. This work has been funded from a £350,000 budget provision contained within the Overview of Revenue Budget 2016/2017 agreed at Full Council on 18<sup>th</sup> October 2016.

3.3 The aforementioned work was completed in August 2017 and a draft report issued to Members and Senior Officers. Following consultation with Members and SMB, it was agreed that further work was to be undertaken to formalise the First Year Business Plan for the Company and to complete the Development Company Creation Activities so a Company (subject to Council approval) could be formed.

- 3.4 During the feasibility work associated with the creation of a new Development Company, the Council were successful in securing £1.3 million from the DCLG for Estate Regeneration Funding as a contribution towards some of the development costs associated with the proposed first year business case. This was in recognition of the visioning work undertaken and the creation of communities that the Development Company put at the centre of its development model. In particular for bringing existing council housing sites forward for regeneration to enable the delivery of more homes and community resources. This funding has been utilised to further the work on the Development Company from summer 2017 onwards.
- 3.5 The above Estate Regeneration Funding is being used (£94,170) to cover part of the cost of this additional work. The requirements of the funding, limit the use of funds to some of the additional modelling for the First Year Business Plan. It cannot be used for any of the development company creation activities.
- 3.6 One of the drivers for the creation of a Development Company is the current inability for the Housing Revenue Account (HRA) to borrow funds to facilitate additional affordable homes being built. The Development Company would also be tasked in delivering new homes on sites and in locations that the private sector will not or cannot for financial viability reasons develop.
- 3.7 For the work undertaken to date in the creation of a wholly owned Development Company, a number of Members have been involved with a series of Member briefings, drop-ins and Workshops along with Senior Officers. For this additional work it is intended that Member and Senior Officer involvement will continue but structured through a newly formed Steering Group, details of which are contained within **Appendix A**.

#### **4. What are the resource implications including non-financial resources.**

- 4.1 Additional Council budget of **£166,860** (the total cost being £261,030) is required to complete the necessary work required for the Development Company formation including additional work relating to option modelling so the Steering Group can be confident and more informed in their decision making processes. This work will be undertaken by Officers, led by the Shadow Director (Development Company) and external professional consultants.
- 4.2 Appendix A sets out in detail the activities and costs necessary to complete the additional work. This consists of two distinct workstreams:

##### Development Company Creation Activities (£37,700):

This constitutes the additional work required by legal advisers Ashfords to set up the holding company and its subsidiaries (ready for trading) and the costs apportioned to the Shadow Director to co-ordinate this.

In addition to the above, there are non-financial implications for the creation activities as it requires the Chief Finance Officer and City Solicitor involvement.

Development Company First Year Business Plan (£223,330):

This comprises the coordinated involvement of a number of professional specialists in order to provide the necessary detailed inputs such as development appraisals, cash flows, cost plans, accountancy advice, design work, land valuations, surveys and the like. This work would be overseen by the Shadow Director and project managed by external consultants. A contingency of £21,500 is included within the above figure.

- 4.3 The DCLG Estate Regeneration Funding is not conditional on additional homes being delivered but it does require a substantial amount of development project work to be committed by 31<sup>st</sup> March 2018, this governs the pace and timetable to undertake specialist work that will inform the first year business plan. There are consultants appointed and already undertaking this work which will inform some of the inputs of the First Year Business Case.
- 4.4 The work associated with the development company activities will also require council staff and member resources. Specific allowance has been made for the Shadow Director however there will be other staff & service area involvement which has not been accounted for in the costs and budget requested. There has been ongoing dialogue and involvement with many of the key Council service areas affected (planning, finance, legal, & HRA). There are other service areas that will be impacted including HR, housing, IT, estates, communications, public realm and these will be considered & relevant officers consulted as part of this additional work.
- 4.5 In order to achieve the necessary timeline, in addition to the officer and council support mentioned above, there will be a resource need from Members as part of the proactive Steering Group. A structure and process of this has been established to assist which will help achieve the development company creation timeline. **See Appendix A.**

**5. Section 151 Officer Comments:**

- 5.1 The budget request is noted. In order to fund the proposal, the Council will have to use funds set aside for corporate priorities, which are intended to support transformation work to address the budget shortfall in 2019/20 and 2020/21. This will reduce the amount available for corporate priorities and in particular transformation to support future budget reductions to around £800,000.

**6. What are the legal aspects?**

- 6.1 There are no specific legal aspects relating to the additional budget request.
- 6.2 Legal advice relating to the formation of the Dev Co has been ongoing and regularly received by Ashfords LLP.
- 6.3 The Head of Legal has been kept informed and attended Briefings and specific meetings with Ashfords throughout the development of the Dev Co.

## **7. Monitoring Officer's comments:**

This report is essentially about financing the business case for the formation of the company and as such raises no issues of concern to the Monitoring Officer.

## **8.1 Report details:**

- 8.1.1 A detailed Business Case and Feasibility Study was completed in August 2017 examining the possibility of creating a wholly owned development company. The process of compiling this Study involved undertaking a series of workshops, reviews and briefing sessions each step of the way. The completed Report is the output of over 40 meetings, to generate material, review material and obtain learning from third parties. As well as meetings, reviews and discussions with Members and Senior Officers within the Council, learning sessions have taken place with other Local Authorities who have established Development Companies or undertake development through different delivery models. This work has been funded from a £350,000 budget provision contained within the Overview of revenue Budget 2016/2017 agreed at Full Council on 18<sup>th</sup> October 2016.
- 8.1.2 The Business Case set out the purpose for the wholly owned development company, how it would be structured and resourced and modelled the feasibility of the Company over 10 sample development sites. The Business Case covered all aspects associated in the formation of a Trading Company and contained numerous specialist reports from the Consultants that were appointed to assist. The Report concluded that on the basis of the sites modelled and in accordance with the structure and governance proposed it was feasible to form a wholly owned development company and for it to trade generating an operating surplus.
- 8.1.3 The detailed Business Case and Feasibility Study was distributed to Members and Senior Management and a special presentation made to SMB and Council Members in September 2017. As a consequence of this presentation and the subsequent discussions that took place, it was agreed that further work was required to develop a detailed first year business plan along with detailed modelling on the proposed first year developments so SMB and Members could be more informed on the options available for developing homes over and above a Council wholly owned development company. It was agreed that the Shadow Director would develop a scope of work to determine a new budget to complete this work together with the final steps required to get the Company ready to trade.
- 8.1.4 The Shadow Director in tandem with developing the scope of the remaining work has sought to review the consultation work undertaken over the previous 12 months with Members and Senior Officers and has put forward a recommendation to create a wholly owned development company Steering Group. The details of this are contained within Appendix A which sets out the purpose of the Group, the membership and timeline.

## **9. How does the decision contribute to the Council's Corporate Plan?**

- 9.1 The Corporate Plan identifies an action to set up a new vehicle for delivering housing and commercial developments.

- 9.2 The outcomes of the proposed wholly owned development company will assist with the Council's other Corporate Plan aims including:
- Continuing to make energy savings and generate renewable energy
  - Addressing future investment requirements for Council Housing Stock
  - Working with Exeter City Futures to tackle congestion, achieve energy independence and progress a Smart City Agenda
  - Development Plan (Greater Exeter Strategic Plan)

## **10. What risks are there and how can they be reduced?**

- 10.1 The principle risk relates to scope and time. This additional work is budgeted on a defined timeline with a prescribed timetable of activity and Steering Group involvement. If the scope of work changes and/or the timetable so it is enlarged or prolonged there is a risk that the budget proposed will be insufficient. A contingency of £21,500 has been allocated for a timetable slippage of up to 3 months.
- 10.2 Risks associated with the formation and trading of a wholly owned development company have been examined in detail. The original Business Plan and Feasibility Report contained a detailed Risk Report and Risk Register within Appendix O and a series of Risk Workshops have been undertaken with Senior Officers and the Consultant Team engaged in assisting with the compilation of the Report.

## **11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**

- 11.1 The purpose of the additional budget is to conclude the work that has already commenced to support the case for the formation of a wholly owned development company. The purpose of the company is to increase the choice, quality and quantity of housing across the City, developing homes that are exemplar in terms of energy performance, climate resilience and healthiness. This offers greater housing options to meet a diverse need, promotes health and wellbeing as well as eradicating fuel poverty. The Company would also assist with the regeneration and enhancements to existing housing estates across the city, promoting greater community cohesion, enhanced public safety and improved infrastructure, community facilities and estate landscaping.

## **12. Are there any other options?**

- 12.1 There are two other options that have been considered :
- Do not progress any further work relating to the creation of a wholly owned development company***
  - Only undertake the necessary development company creation activities***
- 12.2 ***Do not progress any further work relating to the creation of a wholly owned development company***  
This is an option if the Council does not wish to incur any further costs associated with the creation of a wholly owned development company, resulting in the development company not being formed, incorporated or trading.

There are three main impacts resulting from taking this approach

- (i) This approach may hinder the council's ability to deliver some of its corporate aims. In particular the supply of more homes and, specifically, more affordable homes.
- (ii) Without a wholly owned development company the Council cannot afford to build any more Council homes (due to the HRA borrowing cap) and cannot build any open market homes (for sale or rent) as this is outside the legal remit of the Council without having a commercial trading company in place.
- (iii) There is a reputational risk which could result in missing opportunities for partnership / external funding. For example, Exeter City Council has been singled out by the Homes and Community Agency and DCHLG as a Local Authority capable of delivering new homes and regeneration. Financial grants and project funding have been gifted to the Council due to its positive track record for delivery. There are many Government funded opportunities increasingly available as the Government strives to deliver more homes and Exeter City Council would be far better placed and seen more favourably for Government investment if it had development delivery vehicles in place. The wholly owned development company is one such vehicle and it could also be a vehicle to attract other private sector and public sector partners to enable more housing at scale.

**3. *Only undertake the necessary development company creation activities***

The Council could decide not to fund the completion of the consultancy work undertaken to date and this would not prevent the formation of the wholly owned development company. The Proposal contained within Appendix A indicates that subject to the budget approval and spend of a further £37,700 on Development Company Creation Activities the Company could be formed and the costs associated with the first year business plan could be met by the Development Company as part of its first year trading activity.

Emma Osmundsen  
**Shadow Director (Development Company)**

**Local Government (Access to Information) Act 1972 (as amended)**  
**Background papers used in compiling this report:-**

Appendix A – Steering Group (Dev Co Creation and Year One Business Plan Activities)  
Full Business Case and Feasibility Report (September 2017)

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