

# BRIEFING PAPER

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**SUBJECT:** Authority to set up a wholly owned Development Company to deliver city wide development

**DATE:** 16 April 2015

**RECIPIENT:** Overview and Scrutiny Management Committee

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## THIS IS NOT A DECISION PAPER

### SUMMARY:

The Council has a number of sites across the city, both in the city centre and surrounding areas of council owned accommodation which have the potential to deliver more homes for the city and promote economic growth. Setting up a wholly owned Development Company (using council powers under Section 1 of the Localism Act 2011) could enable the council to make maximum use of its assets. In addition, the Council will be able to deliver more homes of all tenure for the city. To facilitate this legal and financial work is required.

### BACKGROUND and BRIEFING DETAILS:

1. Southampton City Council has ambitious plans for developments focused on the Very Important Projects and new pipeline of projects designed to deliver the aims and objectives of the City Centre Masterplan. This will deliver more jobs, homes and employment space to drive economic growth. The city's estate regeneration programme is designed to create successful communities to ensure everyone in the city will benefit from this economic growth. The creation of a Development Company would afford the Council new opportunities. One of these will be to increase the supply of new housing across the City.
2. It is proposed that the Council undertakes the necessary work to establish its own standalone Development Company (DevCo) under its general competence powers under the Localism Act 2011. Such a structure would be used to support a variety of developments including city-centre and estate regeneration developments. The company would be a body limited by shares. The Council would be the sole shareholder. It would need to comply with Companies House requirements, appoint a Secretary and at least one other director, file audited accounts and annual returns. The DevCo would develop homes of all tenures. Financial resources to do this would initially be provided via the council who would borrow through its General Fund (for example from the Public Works Loans Board (PWLB) at a low rate) and make an income through on-lending at a higher commercial rate to the DevCo. This arrangement would help to avoid any State Aid issues. There is scope for the DevCo to attract external investment.
3. The advantages of a DevCo would be:
  - To maximise the use of the council's assets
  - To access external capital and grants
  - To enable the council to solely control the company and to define the aims and objectives and appointment of directors.

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- If used for estate regeneration to facilitate the retention of homes by the HRA and to allow maximum flexibility over when the HRA buys units, assisting with the management of HRA Business Plan borrowing levels within the Government imposed 'debt cap'.
  - To keep profits created by any increase in house prices through inflation or betterment.
  - To keep development programmes in the Council's hands so it can be managed to mitigate risk. i.e. accelerate or slow down
  - To have the potential to deliver other SCC capital projects.
  - To have the potential to develop homes of all tenure.
  - To potentially pay a dividend to the Council which would accrue as a general Fund benefit.
4. Setting up a development company requires work to be undertaken which is relatively straightforward including developing the Business Case and Business Plan. There is a considerable pool of expertise, which can be accessed to do this as well as setting up the funding agreement between the Council and DevCo. (A Financial Agreement with the council to agree terms of borrowing which would need to be on a commercial rate to avoid being considered as State Aid). Legal advice is also needed particularly following a statement by Brandon Lewis MP (Minister of State for Housing and Planning at the Department for Communities and Local Government) in relation to any social housing which might be held by the DevCo. (There is no plan to do this in Southampton).
5. A number of local authorities have already embarked on this process, for example, the London Boroughs of Enfield and Newham and South Cambridgeshire DC.

## **RESOURCE/POLICY/FINANCIAL/LEGAL IMPLICATIONS:**

6. Revenue costs of up to £250,000 (one-off) are likely to be required to undertake this work. This would cover the costs of setting up the company and project management, as well as the legal and financial advice required to establish a sound Business Plan for the DevCo.

## **OPTIONS and TIMESCALES:**

7. The Cabinet report considering the setting up of a development company is due to be published on 13<sup>th</sup> April 2015.

**Appendices/Supporting Information:** None

**Further Information**

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