

Bolsover District Council

Executive

3rd October 2016

MEDIUM TERM FINANCIAL PLAN

Report of the Executive Director Operations

This report is public

Purpose of the Report

- To update Executive concerning progress in respect of establishing a Joint Venture Company targeted at constructing homes – and potentially other developments – in order to help progress the Council’s Strategic Priority of Growth.
- To request Executive to allocate an amount of £500,000 from the Transformation Reserve in order to purchase land and / or properties which will facilitate the ability of the Joint Venture Company, or other projects to secure the regeneration of the District, progress the growth agenda, or securing future income streams for the Council.
- Re-allocate residual budget from JV set up costs to utilise to set up wholly owned housing company.

1 Report Details

- 1.1 Executive will be aware that the Council had previously agreed to establish a Joint Venture Company with the private sector in order to bring forward sustainable regeneration – principally house building – projects. Good progress has been made in establishing the Company and the Council has now transferred its 50% share of the set up funding of £50,000 which will allow feasibility work to be undertaken in respect of a list of initially three sites which have been identified by the Council and its JV partner, Woodhead Regeneration.

The next stage is that the company make an offer to buy the sites from the council and undertake detailed feasibility studies in respect of the identified sites, which where appropriate will lead to the development of a full Business Case and project plan for consideration by the JV board. It is envisaged that initially the JV Company will progress schemes on land that is sold to it at market value by the Council.

Before committing to any individual schemes the company will need to ensure that funding is in place to finance site acquisition and other development costs. These costs will be recovered from the sale of the completed development. Given that the company is newly established, with no track record or assets, it would struggle to secure funding from the Banks and other financial institutions. It

is anticipated that the Council will offer to provide development funding to the company, with such funding provided on commercial terms. Approval for land sales, investment into the company or commercial loans will be required from Executive or Council as appropriate. These further approvals will be brought forward for consideration on a project by project basis. If the Council does not support a particular project then that project will be less likely to proceed. Pending the approval of actual projects the Council's financial exposure to date is limited to the £50,000 which it has already been agreed should be transferred to the JV Company.

- 1.2. At this stage all of the schemes being considered by the Joint Venture involve building houses for sale on the open market. The open market sales will be used to cover development costs including land purchase and loans, with any profit divided equally between the two shareholders. In addition to overall development profit, the Council will also receive commercial interest on the loans that have been advanced to the company and should the scheme fail to be completed due to any unforeseen reason, etc then the Council as the funder would have contractual arrangements in place to recover legal ownership of both the land and of the partially constructed buildings on site, etc, limiting the risk to the council.
- 1.3. Where the Joint Venture company is building houses for sale it needs to be recognised that to meet the Council's wider social objectives these schemes are likely to be progressed on more marginal developments than would be the case if the Joint Venture were a purely market led developer. This acknowledges the reality that there would be fewer advantages to the Council if the Joint Venture only undertook those projects that the private sector would undertake anyway.
- 1.4. In addition to the Joint Venture Company the Council is also in the process of establishing a wholly owned Housing Company which would provide houses for rent on the open market. A more detailed report proposing the establishment of this company will be brought to a future meeting of Executive once the details have been worked through. It is intended that this company would buy both new build and second hand properties creating an investment portfolio for the council whilst diversifying the housing offer available to local people. One of the options that the wholly owned company may consider is the purchase of properties from the JV; however, any such purchases would be on a purely commercial basis.
- 1.5. A more detailed report will be brought back to future meetings to secure the agreement of Executive / Council to the establishment of the wholly owned company. To move forward the development of this company forward and obtain further detail for reports, it is proposed that funding allocated by Executive to fund the establishment of the JV is also utilised to fund legal and professional advice to fully explore the creation of the housing company. While full details concerning the legal structure need to be finalised, the operation would be based upon the company making use of Housing management services (lettings, repairs and maintenance, etc) from the Council's Housing department which would make an appropriate commercial charge.
- 1.6. The Council would be required to fund the cost of the wholly owned company through prudential borrowing (an estate of say 100 properties might require borrowing in the order of £12m). Given that the schemes would need to be

financially viable tenancy arrangements would be on the basis of short term tenure at market rent. While the terms of such tenure would be more expensive to tenants and offer less security, it needs to be recognised that this approach is necessary to make it financially affordable to build the properties concerned. While the wholly owned Housing Company will operate as a high quality landlord it needs to be recognised that this new build houses will come at a significant financial cost to the Council and it will be necessary to allow the Wholly Owned Company to operate on a commercial basis including charging market rents in order to ensure that the company is financially viable.

- 1.7. Executive should note that the wholly owned company will require a loan from the Council to purchase any properties and will only be able to operate on the basis that the properties it purchases are financially sustainable. Accordingly each proposed purchase would need to be supported by a Business Plan which again would require the approval on a project by project basis of the Council. All profit from lettings will be returned to the council, as 100% shareholder. As is the case with the JV the wholly owned company would require a significant level of independence from the Council. While both companies would be separate and independent entities it is anticipated that they may on occasions choose to work with each other through commercial arrangements in order to pursue their own interests as companies and to help promote economic activity within the District.

Land Acquisition / Purchase

- 1.8. The previous sections of this report set out how the Council will progress its aspirations under the growth agenda through the creation of two separate companies. In order for these proposals to work in practice the Council will need to sell land into the JV Company – at market value - before any development can proceed. The Council has identified - and agreed in principle - a limited number of sites where a sale into the JV is seen as appropriate to enable development. However, in order to ensure that an appropriate pipeline of projects Officers consider that it will be necessary to identify further sites for purchase and transfer, or in some cases to purchase public or private land/property adjacent to currently identified sites to enhance the usability or the value of land already in Council ownership. Given that the property market can move quickly it is necessary for the Council to be able to respond to opportunities in a timely and flexible manner which will require that appropriate delegations supported by 'earmarked' funding are provided to officers. It is accordingly recommended that Executive agree to earmark an amount of £500k from the Transformation Reserve in order to fund land/property acquisitions. In order to preserve the Council's commercial flexibility it will be necessary to grant delegated powers to the Executive Director – Operations in consultation with the Leader / Deputy Leader of the Council to purchase land and / or property on the Council's behalf. Once purchase is completed then this would be reported to the next meeting of Executive. Such decisions will still be key decisions and therefore subject to the procedures for advance notice of key and exempt decisions and the alternative procedure for where this cannot be done. These decisions will also be subject to call in unless call in is excluded.

2 Conclusions and Reasons for Recommendation

- 2.1 The report is concerned with three main interconnected issues. In the first place it provides an update concerning the progress to date in establishing the Joint Venture Company. Secondly, it advises Executive of the work that is currently underway in order to develop proposals for a wholly owned Council company which will provide homes for rent on a commercial basis. Finally, in order to progress the Council's Strategic Target of promoting growth it is proposed to earmark an amount of £500,000 within the Transformation Reserve in order to fund purchase of land and property which are required in order to acquire new, or to enhance the value of existing sites for development by the Joint Venture Company.

Reasons for Recommendation

- 2.2 The Joint Venture Company has been established in order to promote the regeneration of the District and to secure improved financial returns for the Council from its asset base. In order to secure these objectives the Council will on occasions be required to purchase land adjacent to existing property holdings, or alternatively it may need to purchase new areas of land. While the Council has sufficient existing land holdings for the JV Company to undertake a limited range of schemes it needs to be recognised that if the Company if it is to have a medium to long term future it will need to have access to a pipeline of development opportunities. Agreeing to establish a financial provision to fund the purchase of prospective sites is essential if the Council is to progress its Growth Strategy in a sustainable fashion.

3 Consultation and Equality Impact

Consultation

- 3.1 These are no consultation issues arising directly out of this report. As a general principle the requirement for consultation will be addressed on a project by project basis. All developments will be required to secure planning permission which in itself includes a process of consultation.

Equalities

- 3.2 There are no equality issues arising directly from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 These are detailed in the attached report.

5 Implications

5.1 Finance and Risk Implications

Financial

These are detailed in the attached report. The key recommendation of the report is that an amount of £500,000 should be set aside from the Transformation Reserve in order to fund future acquisitions which shall include ancillary legal costs. Given that the uncommitted level of Transformation Reserve is currently one of £1.5m this is a significant commitment. The Transformation Reserve was, however, established on the basis that it would be used to support Invest to Save projects and this report is clear that Officers will only utilise the allocated resources where these are linked to a scheme which will generate a positive rate of return.

Executive will recall that the overall objective of these proposals is to secure additional development within the Bolsover area and to generate financial surpluses which are in addition to any value that is generated from a direct sale of land on the open market. This report sets out progress to date but a key element of these proposals is that any specific project will be subject to a detailed business plan which demonstrates that the project under consideration is financially sustainable.

Risk

These are covered in the attached report. With respect to financial risk there is clearly a danger that the Council could be adversely impacted either by a general fall in property values, or by poor decision making which resulted in the purchase of assets which suffered a significant – and above market rate – loss of value. Officers will take appropriate steps to mitigate these risks including obtaining robust valuations and only investing in schemes where the business case indicates that a significant uplift in value will be secured from including a property in a wider scheme. It does, however, need to be recognised that residual risk cannot be eliminated and Executive should be aware that by agreeing to these proposals the Council will be exposed to some additional financial risks. In reaching any decision Executive needs to balance accepting these risks against the reality that the Council is operating against a background of a continued decline in the level of Government funding. This will require that additional funding be identified and secured from the growth and related agenda if the Council is to protect core services for local residents. By progressing the proposals outlined in this report the Council will potentially benefit from uplift in land values, from developer profits, from rental income, additional New Homes Bonus and Council Tax. The potential benefits will be evaluated as part of the project specific Business Plan which will be developed in respect of all major initiatives.

In addition to the balance between financial risk and reward it is also important for Executive to note that the Business Plans developed in respect of all schemes will explicitly consider the wider benefits to the District in terms of regeneration, bringing derelict land back into use, developing sustainable communities, promoting employment, etc. Executive will play a key role in ensuring that the scheme proposed are not driven simply by financial considerations but serve to meet the wider objectives of the District Council, its communities and partner organisations.

5.2 Legal Implications including Data Protection

Officers from the Council’s legal service are a key part of the team which is progressing the work set out in the above report. Given that much of the work requires specialist advice the Council’s own staff have generally adopted a client role in developing these proposals with appropriate specialist advice having been sourced from specialist lawyers. In addition there may be occasions when it is necessary to outsource roles such as regular conveyance work where there is insufficient capacity in-house. While there is a cost associated with the use of external advice officers consider that it offers good value as the services concerned have been competitively procured – generally through framework arrangement – whilst careful selection of external advisers has enabled us to identify and utilise experienced specialists in these areas who are able to provide comprehensive advice without the need for extensive research.

While much of this report is in effect an update of previously approved work the report does request that Executive agree to set up a fund for the purchase of property. In acquiring any land the Council is bound by the local Government legal framework which is based upon the core principle that Council’s cannot purchase land at a price above the open market value. Officers will ensure that any purchases comply with that requirement by securing advice from an appropriately qualified and experienced valuer.

5.3 Human Resources Implications

These are no HR issues arising directly from this report.

6 Recommendations

- 6.1 That Executive note the progress that has been made in respect of establishing a Joint Venture Company and endorses the work that is currently being progressed to establish a wholly owned Council Housing Company.
- 6.2 That Executive agrees to set aside an amount of £500,000 within the Transformation Reserve in order to fund land and property acquisitions necessary to promote the Growth Agenda as outlined within this report and grants delegated powers to the Executive Director Operations in consultation with the Leader and Deputy Leader to acquire land and property on behalf of the Council as outlined within this report.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is an executive decision which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No it involved the allocation of funds held within the Transformation Reserve, on Invest to Save projects.
District Wards Affected	All

Links to Corporate Plan priorities or Policy Framework	Unlocking our Growth Potential Supporting our Communities to be Healthier, Safer, Cleaner and Greener
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8 Document Information

Appendix No	Title
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	Contact Number
Executive Director – Operations	2431