

Derbyshire County Council

Cabinet

15 December 2015

Report of Strategic Director of Corporate Resources

**ESTABLISHMENT OF A DERBYSHIRE COUNTY COUNCIL
DEVELOPMENT COMPANY
(COUNCIL SERVICES)**

1 Purpose of the Report To inform Cabinet of the progress so far in establishing the business case for a Development Company for Derbyshire County Council and of the further work to be undertaken; and to seek approval, in principle, to the establishment of a Development Company, subject to the production of a satisfactory business case.

2 Background

Derbyshire County Council is facing cuts of an estimated £101m in the period up to 2020 in addition to considerable savings already achieved. It is undeniable that the Council will need to make tough decisions about which budgets and services to cut in the coming years. However, in face of such an extraordinary financial situation, the Council remains ambitious for Derbyshire and Derbyshire citizens. As such it will take seize opportunity to explore and implement new and innovative ways to deliver services that meet the needs of local communities and mitigate the worst impact of these deepening cuts.

At its meeting of 22 September 2015, Cabinet agreed four key priorities for the Council focused on delivering services that help meet the needs of local citizens, in a climate of drastically reducing budgets and resources. These four priorities moving forward are:

- **Combined Authority and Devolution** – to work with other Councils to seize opportunities for greater control over funding and to maximise benefits for Derbyshire, in particular around key areas of economic development, regeneration and transport
- **Innovation and Transformation** – to explore ways in which the Council can work differently, encourage creativity and explore new opportunities
- **Thriving Communities** – to work with local communities and key public sector partners in those communities to build confidence and resilience

- **Income** – to generate new income streams to help the Council be less reliant on central government funding, such as income generation from solar energy, the establishment of a Development Company and opportunities to exploit European Funds

The exploration of the opportunities that could be presented by a Derbyshire County Council Development Company has a clear link to these priorities by transforming the way the Council works in the future, by developing and implementing new solutions to meet unprecedented challenges, and by supporting and encouraging a culture of innovation and creativity within the organisation.

If the Council and its partner authorities are successful in forming a Combined Authority and achieving a Devolution Deal, it is anticipated that there may be a wish to pursue the establishment of a Development Company to approach projects on a cross authority basis. However, this will take some time to establish and in the meantime the Council is keen to explore the opportunities for the County Council to make best use of its available land and assets to generate income independently of future Combined Authority and/or Devolution Deal developments. This would also help the Council use new income to ease the impact of the cuts programme and help reduce reliance on government funding in the coming years. With the Council needing to look differently to provide new ways of delivering services, the Development Company will also be essential in helping departments across the Council to plan and reshape their services moving forward.

3 Information and Analysis

In recent years, a number of metropolitan and single tier authorities (which hold housing responsibilities) have pursued the options of establishing Development Companies. They have used a range of different approaches, including partnerships with the private sector and with registered social landlords, a number of different funding models and a number of different models of company form and governance dependent upon the circumstances of the local authority and the assets available to it.

Most Development Companies established to date have been set up by single tier authorities with housing duties and responsibilities. In Derbyshire, these duties and responsibilities sit with the District Councils. While this presents a different challenge, it has been established that the County Council does have the power to set up a Housing Development Company and as Surrey County Council have already set up such a vehicle and Cambridgeshire County Council are about to do so, it seems to be clear that a two tier County authority can pursue this course of action.

Officers have considered models used by other local authorities and sought initial legal and financial advice. Whilst there is much learning to be taken from

other authorities' experience, it is necessary to ensure that we establish the best approach for Derbyshire.

4 Aims, Objectives and Principles

It is proposed that the Council consider the establishment of a Development Company along the following principles and with the following aims and objectives:

- To generate a source of revenue income and capital investment return
- To make effective use of the Council's land
- To create employment opportunities within Derbyshire, including for apprentices and DCC care leavers
- To maintain ethical and environmental standards in specification, development and construction of properties

To deliver the above aims and objectives, it is recommended that the following approaches should be considered in setting up any Development Company:

- Establishment of a legal form that allows the Company to operate outside of public procurement requirements
- Establishment of a structure that allows that the Company to be flexible and whilst initially concentrated on housing development may also allow for the development of other properties e.g. extra care housing
- Establishment of a structure that could potentially partner with a Registered Social Landlord (RSL) or other public or private body where this would be advantageous

The benefits of meeting the aims and objectives identified in the report should enable the Council to help meet the pressures of the current financial climate. It is recommended that an initial business case based on four identified and suitable pilot sites is pursued in the first instance.

In addition, the following key considerations will need to be answered before an effective Development Company can be established:

- How the Development Company will be funded and how land will be transferred in to its ownership
- The governance of the Development Company to enable the considerations set out above
- How income and profits generated by the Development Company will be allocated between transfer to the Council to support service delivery and retention by the Development Company to sustain its future investment plans
- The mechanisms for releasing gains made by the Development Company to the Council where these may involve taxation issues

- The most efficient and effective legal form for the company and the establishment of the correct tax and accounting regimes to maximise returns and remain legally compliant
- Any implications for staffing of the company and associated costs such as pensions and other future liabilities

As part of the development process, the Council will use its customer segmentation model and classification to anticipate and manage customer need. The classifications or 'clusters' have been developed to help the Council understand why, how and where customers accessed services.

Understanding that different customers and communities have diverse service needs ensures the Council can allocate and manage its resources accordingly. This will be key to informing the Council's asset management and priorities in the coming years.

5 Timetable

Subject to Cabinet approval, it is proposed that work proceeds to resolve the considerations detailed above and to finalise a detailed business case for the pilot sites. This would then be submitted for consideration by Cabinet. Alongside this, the Council is already pursuing outline planning permission for these sites to allow work to commence as quickly as possible. Because of the need to progress this work quickly and because the commercial nature of this work is outside of the Council's usual operations, additional external advice may be required subject to appropriate Member approvals

It is anticipated that, subject to a satisfactory financial business case, that a Development Company could be established early in 2016,

6 Financial Considerations Specialist financial advice is being obtained by the Director of Finance.

7 Legal Considerations Specialist legal advice is being obtained by the Director of Legal Services.

8 Other Considerations In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality of opportunity, environmental, health, property and transport considerations.

9 Key Decision No.

Public

10 Call-in Is it required that call-in be waived in respect of the decisions proposed in the report? No.

11 Officer Recommendations That Cabinet:

- 11.1 Notes the progress achieved to date
- 11.2 Approves the aims, objectives and principles set out for the proposed Development Company as described in this report
- 11.3 Approves the preparation of a business case for the identified pilot sites including the procurement of further external advice as necessary, subject to the appropriate Member approvals
- 11.4 Approves, in principle, the establishment of a Development Company for Derbyshire County Council, subject to the preparation of a satisfactory business case.

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