



CABINET: 13 September 2016

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**Report of: Director of Housing and Inclusion**

**Relevant Portfolio Holder: Councillor J. Patterson/Councillor I. Moran**

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**SUBJECT: FORMING A DEVELOPMENT COMPANY – OPTIONS APPRAISAL  
SUPPORTING CONSTRUCTION DEVELOPMENT**

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Wards affected: Borough wide

## **1.0 PURPOSE OF THE REPORT**

- 1.1 To seek authority to investigate further the benefits of forming a Development Company which would drive forward the ambitions of the Council.

## **2.0 RECOMMENDATIONS**

- 2.1 That the Director of Housing and Inclusion investigate further the benefits of forming a Development Company or other appropriate vehicle for delivery of achievement of the Council's ambitions for development and facilitating development as set out in paragraph 5 of the report.
- 2.2 That up to £50,000 be made available to carry out initial investigations as set out in paragraph 6 of the report.
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## **3.0 BACKGROUND**

- 3.1 An increasing number of local authorities are becoming interested in setting up a trading company to improve efficiency and generate income. Council Officers have had recent experience of development for both commercial and residential purposes in the Greenshoots and Firbeck projects. Whilst these projects were undertaken primarily to support Council activity in providing support to businesses and regenerating the Firbeck area, the spin off has been that Council Officers could see the potential of undertaking greater work in these areas to support the Council's priorities and to generate income for the Council.

## **4.0 ACHIEVING THE COUNCIL'S PRIORITIES**

4.1 The Council's priorities are:

- Ambitious for our economy - Retain and grow jobs, increase skills and encourage business and wealth.
- Ambitious for our environment - Enhance the built and physical environment and its cleanliness.
- Ambitious for Health and Wellbeing – Improve the health and wellbeing of local communities.

4.2.1 **Ambitious for our Economy** – By developing commercial and residential property, this would assist our economy by:

- Supporting new and growing businesses
- Increasing residents in the area
- Increasing income to the Council by way of Council Tax or Business Rates
- Increasing footfall for retail businesses
- Increasing or maintaining employment in the construction industry
- Increasing skills for those wishing to work in construction
- Generally increase wealth within the Borough

4.2.2 **Ambitious for our Environment**

- Ensuring the built Environment is in-keeping with ambition

4.2.3 **Ambitious for Health and Wellbeing**

- By increasing wealth, formation of business and employment opportunities, residents will have a better chance of a healthy and well balanced lifestyle.

4.3 There appears to be significant benefits in meeting our priorities if we look to develop a vehicle that would support construction and development.

4.4 A simple commissioning and sharing of risk model which we have explored whilst working with the Homes and Communities Agency (HCA) on the Land Auction Pilot project has seen the potential to increase land value significantly.

4.5 The Council has some land holdings but few sites that would lead to major development opportunities and if the Council wished to investigate this matter further, then purchase of land either on a voluntary or compulsory basis and/or working in Partnership with other private sector landowners would have to be actively considered.

## **5.0 WHY CREATE A COMPANY?**

5.1 Council Officers are employed to support meeting the Council's priorities so why is it suggested that scarce resources of the Council be used to investigate the formation of a Development Company?

- 5.2 Whilst various Governments have increased powers available to Council's under the Local Government Act 2003 and the general power of competence under the Localism Act 2011 to undertake a range of activities to support their communities the basic principle remains that if trading is to be done in the wider commercial market with a view to generating a profit then the Council must set up a company.
- 5.3 From the experience gained from working with the HCA on the Land Auction Pilot Scheme, it has become apparent that by taking risks on the development of land, this could help achieve the Council's ambition and at the same time generate a profit for the Council to support its agenda. See paragraphs 4.2 above.
- 5.4 Officers are working up proposals to go to Council in October for the Westec Site which will, if approved, maximise the value of the Council owned land and assist with our experience of acting on a more commercial basis.
- 5.5 The activities that would be considered for the development company would be as follows:
- **Voluntary purchase of land to accelerate development of both residential and commercial/industrial uses**
  - **Working with the Council to assist it's compulsory purchase of land to accelerate development of both residential and commercial/industrial uses**
  - **Investing in de-risking sites in partnership with other developers/landowners and the Council.**
  - Bidding for LEP and other funding investing in infrastructure within sites to accelerate development
  - Supporting residential and commercial/industrial developments to grow the local area
  - **Consider establishing a dedicated work force for development purposes**
  - **Consider having a strategic alliance with local education/training establishments to provide skills training for local people**
  - **Consider other construction projects to balance workloads to meet market conditions**
- 5.6 The activities in 5.5 above support the Council's priorities as outlined in paragraph 4. The activities in **bold** are areas that could potentially generate profits and where consideration needs to be given to whether a company needs to be formed and which type of company would be best suited for the purpose.
- 5.7 In terms of generating possible profits, the areas that will be explored for the establishment of a company will be around commercial and residential redevelopment of Council owned land and the purchase of appropriate land to develop, both in and outside of the Borough.
- 5.8 It is to be appreciated that officers will consider with the benefit of expert advice, whether a company is the most suitable vehicle for delivery of the Council's ambitions. Other options will be developed for the consideration of Members should these be appropriate.

## 6.0 NEXT STEPS

- 6.1 If Members are comfortable with exploring the options including the company concept, I propose to strengthen the work outlined in paragraphs 4 & 5 around the strategic fit of future approaches with the Council's priorities.
- 6.2 Professional assistance will be commissioned to appraise the options available and developing a business case. Officers will develop a comprehensive brief so that this Council will receive bespoke advice on the options available, the costs and risks associated with each.
- 6.3 I attach Appendix A, a Policy Briefing from Local Government Information Unit which will be of assistance to Members. In particular, I would draw Members attention to the spreading the word model. This report highlights the strategic fit referred to in the initial box which then suggests that an Option Appraisal be undertaken. This is recommended as the way forward. Members will note that there is a great deal of work involved in taking this forward through various stages of setting up a Local Authority Trading Company and building a successful team to lead this should this prove to be the favoured option.
- 6.4 I also attach at Appendix B, a paper prepared by our auditors, Grant Thornton, entitled "Spreading their wings – building a successful local authority trading company". This explores why Councils are following this route and the steps that need to be taken to ensure the success of a project of this nature. Officers will support Members through this process and follow the advice in order to minimise any risks.
- 6.5 An officer working group, under the leadership of the Director of Housing and Inclusion will be set up to help steer the project. Staff from key service areas will undertake detailed work as part of the option appraisal process to evaluate the most appropriate way forward. As part of the work it is anticipated that Officers will:
- Undertake due diligence
  - Make site visits
  - Explore advantages and disadvantages with other Local Authority Trading Companies
  - Oversee the work commissioned
  - Satisfy themselves that any recommendations are in the interest of the Council and Council Tax payers.
- 6.6 It is estimated that over 50 Councils have formed companies to support their objectives so the path taken in creating a company is now well established and the costs and risks associated with this are often less prohibitive, although this will depend on the business case for the particular company. However, there will be costs associated with this and Members will need to consider this matter carefully.
- 6.7 To minimise costs, Officers are aware of neighbouring Councils who are at a similar stage to West Lancashire Borough Council and the possibility of a shared procurement process is being explored provided that it achieved an options appraisal proposal tailored to meet the requirements of the Council. Site visits to

other Councils who have already set up a development company are proposed to enable us to learn from their experiences.

## **7.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

- 7.1 The development of commercial and residential assets will ensure that modern up to date facilities are being provided for the business and residential community at a pace that the Borough Council can influence. This will aid in the timely and sustainable development of the Borough.
- 7.2 The formation of a development company to undertake the tasks detailed in the report can meet community strategy objectives by providing employment opportunities and the subsequent health benefits that will follow; also, by developing stronger communities by residential developments within the Borough.

## **8.0 FINANCIAL AND RESOURCE IMPLICATIONS**

- 8.1 A budget of £50K is sought for this project. If a joint procurement exercise is achievable, it is estimated the costs will be in the order of £30K. However, if a sole procurement process is undertaken, it is estimated that the cost will probably be around £50K and can be met from the major projects reserve.

## **9.0 RISK ASSESSMENT**

- 9.1 The process of commissioning work will inform Members of the options available and also the risks associated with these so that an informed judgement and decision is reached.
- 9.2 At this stage, the process recommended will ensure that Members are aware of the options and risks associated with the approach.
- 9.3 Whilst there would be risks associated with establishing a company, should this ultimately be the option chosen, there are also risks associated with not exploring such options, in the current financial scenario for Council, whereby it is anticipated that no Government Grant will be received by 2020.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

As this report is only requesting authority to 'investigate' the benefits of forming a Development Company, the decision does not have any direct impact on members of

the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

**Appendices**

Appendix A – Policy Briefing from Local Government Information Unit

Appendix B – Grant Thornton briefing note

Appendix C – Minute of the Landlord Services Committee held on 8 September 2016 – to follow