

**CABINET
27 OCTOBER 2016**

SPECIAL PURPOSE VEHICLE FOR PROPERTY DEVELOPMENT

Cabinet Member Cllr Ray Stanley
Responsible Officer Andrew Jarrett – Director of Finance, Assets & Resources

Reason for Report: To request approval to undertake more detailed research in to the potential of forming a special purpose vehicle.

RECOMMENDATION(S): The Cabinet agree to the formation of a property development special purpose vehicle and authorise the Director of Finance, Assets & Resources in conjunction with the Cabinet Member for Housing to explore the precise terms of reference, objectives and governance that will be required in order to facilitate an increased level of housing and commercial delivery within the District.

Relationship to the Corporate Plan: The delivery of 300 affordable units over the next 4 years is a key objective of the Council's Corporate Plan. In addition the Council is exploring new revenue streams/opportunities to offset the significant reductions in Government funding in order to maintain current service levels.

Financial Implications: A thorough business plan, which will evaluate the potential pros/cons, set up costs and annual yield/return will be included in the next report to the Cabinet. Specialist advice with regard to tax planning, vat issues, debt financing and accounting arrangements will be sought when/where applicable. Any growth in housing and commercial numbers will see increased New Homes Bonus and Business Rate receipts.

Legal Implications: Specialist advice will be obtained where necessary. Section 95 of the Local Government Act 2003 (provides the Power to Trade activities through a company and Section 1 of the Localism Act 2011 provides a "General Power of Competence" which enables Councils the "power to do anything that individuals may do", unless prohibited by any other legislation.

Risk Assessment: Governance arrangements will need to be carefully considered, coupled to detailed business planning (including sensitivity analysis). We will also liaise with other Councils who have been operating SPVs for a number of years to learn from their experiences. If agreed and implemented a robust reporting process will be agreed.

1.0 Introduction

1.1 Since the national public sector austerity programme was implemented back in 2010/11 all Councils have been striving to reduce operating costs or look for new activities to increase income in order to maintain ongoing service provision. During this period MDDC has managed to reduce its overall General Fund revenue expenditure by over £3m.

1.2 In addition to the evident budget pressures, we also have a national and local shortage of housing numbers and many "stalled" allocated/available

sites which are not being delivered for a number of reasons (i.e. market forces, commercial decisions, borrowing costs, infrastructure requirements, complexity of site, etc. Within the Council's Corporate Plan we have a targets for affordable housing supply (300 over the next 4 years) which we have been unable to deliver and left to the commercial market this position is unlikely to improve.

2.0 Special Purpose Vehicle (SPV)

2.1 Nationally a significant number of Councils have or are now creating a special purpose vehicle in order to deliver a noticeable "step change" in housing and/or commercial delivery, e.g. Ashford BC, Plymouth CC, Kent CC, Eastleigh BC, Mansfield DC, Wakefield DC, Westminster CC, etc. This high lights Councils of varying degrees of size and potential scope which have or are moving forward with property SPVs.

2.2 A property SPV is a legal entity which is created solely to facilitate, deliver, commission and ultimately rent/sell properties onto the open market.

3.0 Why set up a SPV?

3.1 There are a number of reasons/benefits of implementing a SPV, ranging from; commercial benefit, unlocking stalled development sites, meeting corporate priorities, creating a financial return to mitigate Government grant reductions.

3.2 In addition to the above, taking housing and commercial delivery outside of the Local Authority enables a different approach to delivery. Also as a stock holding Council (i.e. with a Housing Revenue Account), utilising a SPV takes investment outside of our borrowing cap and removes some of the financial risk associated with the Right to Buy scheme (RTB).

3.3 It is possible that an independent SPV would be viewed differently by a prospective purchaser/leaseholder once assets were brought to the market, i.e. unique corporate identity/branding.

3.4 On a wider context, accelerating and enabling property development across the District will see, more jobs in the construction industry, increase Council Tax, New Homes Bonus receipts, help grow our commercial base and work towards our town centre regeneration aims.

4.0 What we need to do to set up a SPV?

4.1 Clearly, as a significant number of Councils (see para. 2.1) have already set up SPVs, we will visit and liaise with them to learn from best practice, lessons learned, look at timetables to deliver, how best to structure and account for, etc. In addition we will need to consider all/many of the following issues:

- We will need to procure external advice (i.e. legal, procurement, employment, tax and VAT planning, etc.). As a reasonable number of Councils have already commissioned this specialist advice, it may be less expensive to just tailor it to a MDCC solution

- We need to be clear on our objectives (i.e. what the SPV will and will not be delivering – i.e. simply for profit, to aid regeneration, to deliver Council corporate targets, affordable, private or mix of housing supply, what kind(s) of commercial ventures, etc.
- Governance arrangements/setting up of legal entity/form and structure – this will include decision making and reporting hierarchy
- Staffing requirements – direct staff, secondments, utilisation of Council officers if capacity, how appointments are made
- Branding – what the company is called
- Commissioning – VFM, process to appoint contractors, contract management skills, use of external specialists (architects, valuers, agents, etc.)
- Financing – set up funding, accounting requirements (we have already discussed this briefly with our external auditors), distribution of profits, state aid limits, procurement issues, asset/land acquisition and sale/rent, liabilities, sources of debt financing, etc.

5.0 Conclusion

- 5.1 As Members can see from the above, the creation of a SPV, is a significant piece of work and will be viewed as a specific work stream in its own right, that will undoubtedly need some dedicated staffing resource in order to report back to the Cabinet with recommendations.
- 5.2 At this current juncture we are proposing a report back to a Cabinet meeting in December/January outlining what a SPV would look like for MDDC, with clear objectives and a timeline for potential creation.

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Circulation of the Report:

Cllr Ray Stanley & Management Team