

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
10 June 2014

**Subject: ESTABLISHMENT OF LOCAL AUTHORITY ECONOMIC DEVELOPMENT
COMPANY**

All Wards
Portfolio Holder for Economic Development and Finance: Councillor P Wilkinson

1.0 PURPOSE AND BACKGROUND

- 1.1 This report seeks Cabinet approval to investigate the potential establishment of a Council controlled company for the purpose of economic development.
- 1.2 The Local Government Act 2003 provided the power for Local Authorities to trade and generate profit through the establishment of local authority owned companies.
- 1.3 There are a number of forms that such companies can take but they all fall into two categories a Local Authority Trading Company (LATC) or a Local Asset Backed Vehicle.
- 1.4 Local Authority Trading Companies are established to enable Councils to trade services beyond both their sector and their geographic boundaries. Their relevance in an economic development context would be limited. A more suitable vehicle would be a Local Asset Backed Vehicle.

2.0 LOCAL ASSET BACKED VEHICLES (LOCAL ASSET BACKED VEHICLE)

- 2.1 A Local Asset Backed Vehicle is a medium to long term joint venture equity partnership between a Local Authority (or a number of public sector bodies) and a private sector investment partner, who may or may not be a building or development contractor. A Local Asset Backed Vehicle can also be set up as a Public/Public partnership procuring private sector expertise as and when required in order to deliver specific projects.
- 2.2 There is no prescribed or standardised model for Local Asset Backed Vehicles. Each solution requires bespoke configuration in order to ensure that each public body's outcomes are delivered in accordance with their local economic requirements. See Annex 'A' for potential Hambleton District Council model.
- 2.3 The Council or possibly with its Public Sector Partners contribute land/assets. The investment partner contributes capacity to deliver skills, experience and funds to develop projects. Projects could include residential, operational public buildings, retail, community, office and/or industrial and commercial property.

Outcomes are agreed between the Council and the investment partner through a robust business plan, budget and approval procedure. The financing of projects can be structured to ensure that both parties receive an acceptable level of capital and revenue return.

2.4 There are a number of reasons why Local Authorities use Local Asset Backed Vehicles, some of which would not be appropriate to Hambleton. These include:

- In times of attrition, using a Local Asset Backed Vehicle structure to get the maximum return from the asset portfolio through a strategic medium to long term partnership.
- Rationalising the asset portfolio to ensure that the Council's accommodation is fit for purpose.

However, what is appropriate to Hambleton is the use of a Local Asset Backed Vehicle to deliver economic regeneration. If structured correctly, the Council could incentivise the private sector to create local job opportunities and unlock regeneration by delivering developments that have previously been passed over by the private sector. The Council, as an equal participant in a Local Asset Backed Vehicle, can control the pace, location, timing and type of development.

Local Asset Backed Vehicles should not be seen as 'selling the family silver', they create a development portfolio of assets which are fit for purpose ensuring that the Council receive maximum, financial, regeneration and economic returns from any disposal or revenue income.

2.5 The principle advantages of setting up Local Asset Backed Vehicles include:

- Economic Leadership – maximise financial returns, generate and sustain local jobs construction and enhance local economies.
- Flexibility – Local Asset Backed Vehicles can react to the market to allow proposals to be developed between the public bodies and investment partner to deliver optimal financial and regeneration outcomes.
- Investment partner revenue support – capacity and skills to deliver master plans, LDF's and viability studies at no or minimal cost to the Council.
- Significant procurement cost and time savings – procure once to deliver multiple sites over the medium to long term. This delivers sustainable cost and time savings to both the Council and the private sector partner.

2.6 Some of the issues the Council would need to consider in setting up a Local Asset Backed Vehicle include:

- Ensure that procurement is scoped carefully.
- Understand the commercial objectives of the Local Asset Backed Vehicle.
- Ensure that Members fully understand their role and the joint venture relationship.
- Ensure that the structure of the Local Asset Backed Vehicle provides accountability back to the Council.
- Agree a communication strategy between all parties and the public.
- Protect the position of the Council as planning authority and its other statutory functions.

- Ensure that property and corporation tax have been fully considered.
- Ensure that exit strategies are inserted into the contracts.
- Director appointments and mandates.

3.0 LINK TO CORPORATE PRIORITIES

3.1 Improving the economy of Hambleton is a key corporate priority.

4.0 LEGAL IMPLICATIONS

4.1 As stated in paragraph 1.2, the Local Government Act 2003 provided the power for Local Authorities to trade and generate profit through the establishment of Local Authority owned companies.

5.0 FINANCIAL IMPLICATIONS

5.2 The Council will need to procure specialist legal, financial and taxation advice in respect of producing a robust business case for the establishment of a Local Asset Backed Vehicle. It is estimated that this will cost around £25,000.

6.0 RISK ASSESMENT

6.1 There are no significant risks associated with this report.

7.0 RECOMMENDATION

7.1 It is recommended that Cabinet approve an investigation into the establishment of a Local Asset Backed Vehicle and that £25,000 for this purpose be allocated from the One-Off Fund.

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Background Papers: None

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Possible Structure for a Hambleton Local Asset Backed Vehicle

