

CABINET
29 OCTOBER 2020

3 Rivers Developments – Options Report; Interim Funding Request and Update

Cabinet Member: Councillor Bob Evans - Housing & Property
Councillor Andrew Moore – Finance

Responsible Officer: Chief Executive – Stephen Walford

Reason for Report: To provide Cabinet with the usual monthly update report and a summary of the options explored regarding the future direction of 3 Rivers developments and to consider an interim funding request made by the company.

RECOMMENDATION:

1. That Cabinet notes the update from 3 Rivers Developments Ltd
2. That Cabinet agrees the funding request for £1.41m, in accordance with the approved capital programme, subject to these (and all subsequent) transactions utilising the newly-commissioned loan agreement templates.
3. That Cabinet agrees the proposed expenditure to secure legal advice on exploring the advantages of new governance arrangements to include a holding company and Teckal-compliant subsidiary, in order to deliver the most benefits for Mid Devon. This advice to be brought back to Cabinet as soon as practicable for future consideration.

Financial Implications: The Council has a duty to obtain value for money. All financial interactions between the Council and 3Rivers are carried out at commercially evidenced rates and subject to individual loan agreements.

Budget and Policy Framework: All funding made to 3 Rivers Developments is approved as part of the Council's budget setting process and is therefore included in the; Revenue and Capital Programme budgets and is also integrated in the Treasury Management Strategy.

Legal Implications: None to this report, however this report is prepared in accordance with the Shareholder Agreement, Company's Memorandum and Articles of Association and currently Approved Business Plan.

Risk Assessment: Detailed within the report.

Equality impact assessment: No equality issues identified for this report.

Impact on climate change: 3 Rivers is a commercial organisation and where it is practicable to deliver Carbon zero or equivalent sustainable options these will be considered. However, as a commercial organisation it is acknowledged that where there is a significant cost differential and what the market will sustain, that this plays heavily in the choices made.

1.0 Introduction

- 1.1 This is the second in a series of monthly updates on the progress of 3 Rivers since the recommendations made by the Cabinet at its meeting on the 13 July 2020. The report also includes a brief overview of the options that were considered prior to the previous Cabinet recommendations to support the company and require a range of transactional and governance-related improvements to address any issues with perceived and actual transparency. Finally, in light of the long-term commitment to supporting the company in achieving its ambitions, the company has been asked to provide a six month interim funding request to clearly indicate the level of required funding needed to move forward with the 4 projects that were effectively put on hold whilst the Council undertook 2 external commissions as part of a strategic review earlier this year.
- 1.2 Since the previous meeting of Cabinet on the 1 October 2020, the two new Cabinet ambassadors continue to provide key support and oversight of the company and encourage all Members to contact them regarding any issues or information they want regarding company business. A number of members have also made direct contact with the company raising operational queries and it was reported at the council's Scrutiny committee on 12 October that responses were always swift. This is to be welcomed and further encouraged, since continued openness in communication has been a priority for the new Cabinet members, who have been keen to underline the importance of wider understanding in relation to this area.

2.0 Company Project Update

- 2.1 Below shows a brief overview of project progress since the previous report and any associated issues as at the end of September, which is the last full financial month of company accounting information. Detailed financial information is not included in the below in order to ensure that this report can be considered in open session (part 1).

2.1.1 Current Projects

Threwstones, Tiverton – project completed. The development generated a positive financial return while creating an additional 3 high quality units in the heart of Tiverton.

The Orchard, Halberton – This development consists of 4 semi-detached market houses and a barn conversion - the 4 semis are now substantially completed and offers are being considered. There have been planning issues in relation to the barn following some structural issues that required resolution, however these have now been dealt with (via the planning committee) and we expect full project completion in May or June 2021. The project will deliver a positive financial return in addition to creating additional high quality homes in the village.

St George's Court, Tiverton – 39 market flats/houses – unfortunately work on site was suspended on 25/3/20 due to Covid19 and the site saw a soft re-opening on 14/9/20 with a small number of contractors back on site. Full scheme reopening commenced from 21/9/20 and a revised project timetable was received on 9/10/20. This revised timetable is currently subject to review by the company.

As per previous updates, it should be noted that this development remains on track to deliver the award-winning scheme design that was approved by the council. However, the cost overruns on this scheme mean that the overall company breakeven point has been delayed despite profitable activity elsewhere.

2.1.2 Rental properties

Banksia Close/Cemetery Lodge, Tiverton – all rental payments up to date.

2.1.3 Future Schemes

This issue is discussed in detail in the company's attached interim funding request. As noted above, it is important to accelerate new development opportunities where these are forecast to generate returns in order to bring forward the date in which positive cash flows are being returned to the council, offsetting cuts in government funding and protecting vital services for residents.

3.0 **Progress on Cabinet Recommendations**

3.1 Since the last Cabinet report the council has:

- Finalised all of the necessary loan agreements from Anthony Collins Solicitors, which includes the associated securities.
- Adverts for the 2 Director roles went live on the 12 October 2020. It is envisaged that a company recommendation for appointment will be put before the Cabinet at its meeting on the 1 December 2020.
- First draft of revised Shareholder agreement is being worked on.

3.2 Most if not all of the other recommendations are either a work in progress or are conditional upon a prior action being completed. Further progress will be provided at future Cabinet meetings.

4.0 Company Options

- 4.1 The current policy position of the council is to support 3RDL, address any perceived or actual governance shortfalls, and to consider the new business plan once additional Directors are in place. At the current point in time, and subject to best endeavours on the modelling front of a business case that has yet to be approved, this is forecast to deliver a breakeven date at the end of the 22/23 financial year.
- 4.2 The options in the short-term relate to what action to take over the remaining six months of this financial year prior to the new business plan being approved by Cabinet in the normal way.
- 4.3 In February 2020 council approved its budget including funding provision for a range of projects that have not yet been progressed as further funding drawdowns were not undertaken while the council conducted its strategic review. Following the conclusion of this, the options for the company have been limited (by design) until the additional Directors are in place, hence the options for progressing work during the remainder of this financial year are set out in the attached 3RDL report and form the basis of the interim funding request as detailed in the following section.

5.0 3 Rivers Interim Funding Request

- 5.1 The company has been asked to provide 2 key strategic planning documents. Firstly, and on the basis that no formal business plan was agreed by the Council as per normal arrangements in February 2020, to provide an interim funding request for the 6 months ending 31 March 2021 to maximise value for the shareholder during this interim period. And then secondly revert to the provision of an updated annual Business Plan for Cabinet to consider in February 2021 in the normal way.
- 5.2 The company has provided (see attached 3 Rivers report) an interim funding request for £1.4m in order to progress work on 4 key projects that have estimated gross returns of just over £3.9m. This interim funding effectively enables the company to recommence and move forward with planning and enabling work and potentially (subject to a financial viability assessment) the purchase of a site.
- 5.3 In addition to the more general development work the company is also looking to explore the opportunity that would be derived from having an additional Teckal subsidiary, sitting beneath the parent company. This would allow it to undertake work directly on behalf of the Council, which could be either housing or commercial developments. If the recommendation to undertake

this work is approved, then a future report will be brought to cabinet for its consideration.

6.0 Conclusion

- 6.1 By providing ongoing financial support to 3 Rivers the Council will see the potential of significant returns, both in the way of interest receipts in the short term and dividends in the medium term. The Council has already received £584k in interest receipts and it is currently estimated that the company will break even in the latter part of 2022/23. Thereafter it is expected that annual dividends will be transferred, providing an income to the council and protecting vital services as a way to replace other sources of direct funding.
- 6.2 Clearly, as with any commercial venture there are risks attached. But with effective management, developing across a range/portfolio of projects, seeking professional advice (when required), improving governance arrangements and appointing additional expertise, coupled to renewed Council support, the company should have the opportunity to thrive - accelerating housing delivery, focusing on quality developments and returning profits back to its Shareholder, which was the original rationale behind setting the company up in the first instance.

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Circulation of the report: Cabinet and Leadership Team