

CABINET
13 MAY 2021

3 Rivers Developments Limited - Performance Update as at 31/3/21

Cabinet Members: Councillor Bob Evans – Deputy Leader and Housing & Property
Councillor Andrew Moore – Finance

Responsible Officers: Deputy Chief Executive (S151) – Andrew Jarrett

Reason for Report: To provide Cabinet an update on current project performance and any key risks.

RECOMMENDATION: That Cabinet note the update report on current performance and key risks.

Relationship to Corporate Plan: 3 Rivers Developments Limited's (3Rivers) primary objective is to generate future returns in order to grow the business and to recycle monies made back to the Council to mitigate some of the cuts in Government funding.

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.

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: 3Rivers is a commercial organisation and where deliverable sustainable options are available they are utilised; 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 now the 8th 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. This report continues to provide the Council with a regular update on company performance, including associated risks and also gives a progress update on the recommendations made at the aforementioned Cabinet meeting.

2.0 Company Update

- 2.1 Attached to this report is the commercial company update provided by the Directors of 3Rivers Developments Limited for Cabinet's consideration. In order to provide members and the public more insight into the company's operations this report continues with the process of including an overarching part 1 summary of activities and a detailed part 2 report from the company.
- 2.2 Below shows a brief overview of project progress and any associated issues as at the end of March 2021, which is the last full financial month of company accounting information.

Current Projects

The Orchard, Halberton – 4 semi-detached market houses and a barn conversion - the 4 semis are complete and 3 units are now occupied and viewings are still ongoing for the remaining one. Work is well under way on the new barn and is estimated to be completed by the end the beginning of June 2021.

St Georges Court, Tiverton – 39 market flats/houses – work is ongoing. Estimated completion of the whole project is planned for May 2022.

Bampton – 9 market houses. Pre-construction work is progressing well and start on site is estimated for July 2021.

Rental properties

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

Future Schemes

The company is currently considering 2 new developments; a medium sized development which is likely to be a mixed unit site and has recently made an offer on a medium sized site in Tiverton.

Financial Overview

No sales have been made since the last update.

Project and Company Risk Analysis

This information is provided within the company report and reflects on changing markets, land availability, changes to the prevailing economic position, etc.

- 2.3 The table below summarises all the major financial transactions that have been made between the company and the Council during 2020/21.

Financial transactions between 3Rivers and Mid Devon DC during 2020/21

	As at 31/3/20	2020/21 Actual	Total
Revenue Items £k			
Interest Rec'd	322.4	496.4	818.8
Cost of Borrowing	0	0	0
Dividends Paid	0	0	0
MDDC recharges	318.0	124.5	442.5
Total	640.4	620.9	1,261.3

	As at 31/3/20	2020/21	Total
Loans £k			
Advanced	9,611.1	1,741.7	11,352.8
Repaid	(550.0)	(640.0)	(1,190.0)
Loans outstanding	9,061.1	1,101.7	10,162.8
Impairments	(790.0)	TBC	(790.0)

Notes:

- 1 All borrowing advanced to 3Rivers in 2020/21 has been made from internal cash resources.
- 2 The loans repaid figure of £550k relates to a VAT refund in 2019/20.
- 3 The £640k relates to sale proceeds from the Threwstones, Tiverton development.
- 4 The impairment relates to £617k St Georges Court (which is the estimated loss recorded at the end of a financial year assessed on all the known and potential future factors – including sale timings/proceeds) and £173k working capital charge. The 2020/21 assessment is currently being reviewed as part of the Council's year end closedown process.

Note - £800k of sale proceeds from the Orchard, Halberton and a retention sum from Threwstones was received on the 1/4/21 which was clearly just outside of this accounting period.

3.0 Progress on Cabinet Recommendations

3.1 Since the last Cabinet report the following actions have been progressed:

- The 2 Cabinet ambassadors continue to hold detailed monthly progress meetings on all aspects of company activities.
- Work on the revised Shareholder agreement is still progressing. We have received additional feedback/comments from 3Rivers for consideration and have held a recent meeting with ACS in order to finalise this document.

3.2 Members should be aware that 3Rivers have just been subject to an annual audit review by DAP which will be reported to the Audit Committee at its next meeting.

3.3 During recent meetings of Scrutiny and Audit Committees it has become clear that some members would like to receive additional clarity with regard to some of the key controls that the Council exercises over the financial activities of 3Rivers. Annex 1 attached to this report attempts to clarify the current arrangements.

4.0 Conclusion

4.1 The company will provide the Council with its annual review of delivery/performance for 2020/21 to the June Cabinet meeting.

Contact for more information: Andrew Jarrett, Deputy Chief Executive

Circulation of the report: Leadership Team and Cabinet

Council controls exercised over 3Rivers financial activities

The Annual Business Plan – this is the company’s overarching vision/objectives for the forthcoming 5 financial years and attempts to set out the key vision, projects, returns, risk strategy and other associated metrics which it will attempt to deliver over that period. In previous years this has been received by the Council at a Cabinet meeting in February for recommendation to FC. However, in order to assimilate 3Rivers budget information in to the Council’s budgets, including Treasury and Capital forecasts we have asked the company to provide this in October in future years. The approval of this business plan gives the company the go-ahead to progress the projects within the confines of the agreed budgetary envelope for the forthcoming year only.

Business Cases – these are the individual project forecasts of costs, revenues, associated risks, etc. and are currently taken to Cabinet for approval if it exceeds £1m (even if it already appears in the 3River’s Business Plan).

Loans – the Council has agreed one summary loan agreement with 3Rivers which states the basic summary conditions which will be applied to all individual agreements. This includes; interest to be charged depending on what the loan is requested for and based on the prevailing commercial rate on offer. In addition every individual project has its own more detailed loan agreement. This includes the estimated total amount to be borrowed, payment tranches/dates, interest rate to be charged, etc.. Both the summary and individual loan agreements have been enhanced as part of the recent review undertaken by ACS and have a clear flowchart process of what has to be done in order to create a new loan or add to an existing one. It should be noted that to secure these individual loan agreements charges have been applied at Land Registry.

Release of Funds - when 3Rivers make a request for funds from the Council this request has to be made in writing and received by the Finance Dept. The request is then reconciled to a pre-existing loan agreement (or the request would be declined) and then needs to be approved by either the S151 or their Deputy prior to release of funds.

Review of key performance measures – currently the Cabinet receives a monthly performance report (in both part 1 and 2) which summarises all the key performance data that the Council requires in order to track ongoing company activity.

Proposed review mechanism - After recent discussions with both of the Chairs of Scrutiny and Audit Committees it is recommended that in addition to the regular reporting to the Cabinet agreed as part of the Shareholder Agreement that these key

financial controls receive at least half yearly review by the Audit Committee, which should also include an update on the current or emerging risk conditions. This should also include the review of any new business cases. This is being proposed as it is the Audit Committee's role to identify, manage and control/mitigate both financial and operational risk and review financial exposure.