

CABINET
30 NOVEMBER 2021

3 Rivers Developments Limited – Business Plan 2022 - 2027

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

Responsible Officers: Deputy Chief Executive – Andrew Jarrett

Reason for Report: To provide Cabinet with a 5 year Business Plan.

RECOMMENDATION: That Cabinet endorses the 3 Rivers Development Ltd Business Plan and approves the inclusion of the associated borrowing requirement of £19.66m shown for 2022/23 in the Council's General Fund, Capital Programme and Treasury Strategy budgets. It also notes the total gross funding envelope included for 2023/24 to 2026/27 of £51.95m.

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. Once approved, the Council will need to embed all agreed borrowing proposals in to the General Fund, Capital Programme and Treasury Strategy budgets for 2022/23.

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

Risk Assessment: Detailed within the report.

Equality impact assessment: No direct equality issues identified for this report. However, the company will continually evaluate increased renewal investments set against other financial viability and other building metrics.

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 Attached to this report is 3 Rivers 2022 – 2027 Business Plan. Clearly 2021/22 has been a challenging year for the company, as it has been for the

whole development industry. Normal company activities have been delayed by the conclusion of the external governance and financial appraisal reviews and ongoing Covid19 issues directly impacting on the local and national supply chain and labour force.

- 1.2 The continued involvement of the 2 Cabinet representatives, the appointment of 2 new directors and the regular reporting on company progress appears to be helping the company progress, although set against a very challenging economic backdrop.

2.0 The 2022 – 2027 Business Plan

- 2.1 Attached to this report is the company's 5 year Business Plan. Any company Business Plan that projects in to the future, especially at the current juncture, is subject to change/revision, especially the further you move in to later years. What the Business Plan provides is a general overview of company ambitions, areas of focus, metrics it will use to judge itself by and report on, risk appetite and mitigation measures and finally an overarching budget envelope for the period.

- 2.2 This financial envelope will provide a reasonably accurate budget forecast for 2022/23 and the projects that are already committed to. Thereafter, the budget makes sound commercial estimates over the potential sums that will be required to keep the company viable and deliver the level of returns back to the Shareholder.

- 2.3 The total loan request included in the 2022 – 2027 Business Plan for 2022/23 which is spread across 6 projects is £19.66m. This will provide further funding for the St Georges Court, Tiverton and Bampton, plus new funding for 2 sites currently under consideration and then an estimate for the potential of 2 completely new sites. In addition there is the ongoing provision for the company's working capital requirements.

- 2.4 The future period shown in the Business Plan, 2023 – 2027 requires total funding by the Shareholder of £51.95m. This figure is the total gross borrowing requirement during the period and needs to be reviewed in conjunction with the total loan repayments made back to the Council, estimated at £78.72m during the 5 year life of this plan. These overall funding requirements are shown in more detail in Appendix B.

- 2.5 Embedded within the company's Business Plan, reference is made to the annual interest payments that will be made back to the Council and Members should also be aware of the recharged costs that the Council makes to the company. These relate to officer time, office accommodation, IT support, etc. To put this in to context the table below summarises these transactions since

the company's inception. For completeness, it also includes all financing costs and any loan impairments.

Financial transactions between 3Rivers and Mid Devon DC

	2017/18 2018/19	2019/20	2020/21	2021/22 Actuals	Total
Revenue Items £k					
Interest Received	69.7	274.7	474.4	492.2	1,311.0
Cost of Borrowing	-	-	-	-	-
Dividends Paid	-	-	-	-	-
MDDC recharges	201.3	116.7	124.5	10.4	452.9
Total	71.0	391.4	598.9	502.6	1,763.9

	2017/18 2018/19	2019/20	2020/21	2021/22 Actuals	Total
Loans £k					
Advanced	2,612.9	6,998.2	1,741.7	2,278.8	13,631.6
Repaid	-	-550.0	-640.0	-1,208.7	-2,398.7
Loans outstanding	2,612.9	6,448.2	1,101.7	1,070.1	11,232.9
Impairments	-	-790.0			-790.0

Notes:

1. 2021/22 figures for interest and recharges do not include an estimate for the final quarter's allocations.
2. The loans repaid figures relate to a VAT refund in 2019/20 and sale proceeds from the Threwstones, Tiverton development.
3. The impairment relates to £617k St Georges Court (estimated loss) and £173k working capital charge. This figure was reviewed and carried forward in to the 2020/21 end of year Accounts

2.5.1 The above table details the direct financial benefits that accrue from the Council's investment in 3 Rivers. However, Members should also be aware that other indirect benefits are obtained. For example:

- ✓ Increased Council Tax and Business Rate receipts
- ✓ Extra New Homes Bonus revenue
- ✓ Some control over timetable and quality of development
- ✓ Some influence over affordable/social housing delivery numbers
- ✓ Regeneration potential
- ✓ Greater use of local supply chains and contractors

2.6 The Business Plan also specifically focuses on key areas of company activity; ongoing governance, the prevailing market, risk, success metrics, future

strategy and includes a progress overview of 2021/22 and its goals for 2022/23. For the first time, it also includes an overview of potential project availability across the wider SW geography that have been considered by the company.

3.0 Conclusion

- 1.3 This Business Plan is based on a 5 year overview and forecast, which includes a number of commercially based estimates/assumptions and clearly relies heavily on the ongoing financial and corporate support of the Council. If approved, the total borrowing request for 2022/23 of £19.66m will be included in the Council's General Fund, Capital Programme and Treasury Strategy for the forthcoming financial year.
- 3.2 Provision of the loan repayments from the company, estimated for the same period, of £18.52m will also be included.

Contact for more information: Andrew Jarrett, Deputy Chief Executive

Circulation of the report: Leadership Team and Cabinet