

**CABINET
6 SEPTEMBER 2022**

3 Rivers Developments Limited – Funding Request

Cabinet Members: Councillor Bob Deed – Leader and Councillor Andrew Moore – Cabinet Member for Finance

Responsible Officers: Deputy Chief Executive (s151) – Andrew Jarrett

Reason for Report: To consider the recent funding request that has been received from 3 Rivers Development Ltd.

RECOMMENDATION: That Cabinet agrees to increase the current loan agreements by a total of £2,280,784 to cover; the identified project overspends on 2 projects included in the previously agreed Business Plan funding envelope agreed on the 30 November 2021 and increase the working capital loan agreement. In addition agree a transfer from a future projects budget of £0.58m in order for the business to work up new potential projects to replace the out of District ones that had to be removed from the company's business plan after changes to the Treasury's Public Works Loan Board loan arrangements.

Relationship to Corporate Plan: 3 Rivers Developments Limited's (3Rivers) key aims are 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, increase the level and quality of housing units within the District and look to help regenerate sites/areas in need of assistance.

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 The Cabinet has been receiving regular project updates from 3Rivers which have identified additional funding pressures on 2 of its current live schemes. The attached, part 2 reports, received from 3 Rivers Development Ltd., look to clarify these additional cost pressures. Which have been worsened by a combination of; Brexit, Covid19, the conflict in Eastern Europe, and now the cost of living crisis. In addition to this the Company has also reflected on the recent Council instruction to desist from any outside of District developments and considered how changes to current lending processes may be adjusted in order to allow the company to operate more expediently.
- 1.2 The part 2 report titled “3RDL funding request 30 July 2022 to March 2023” explains how the additional circa £2.3m of gross project expenditure allows for completion of the 2 current sites and has factored in cost increases in labour, materials and sub-contractor price escalations, scheme scope and quality change, resource availability, some sense of hostage pricing, etc. Countering this is strengthened expected sales income of the properties which should allow for net profit and loan repayment profiles to be in line with previously declared expectations.
- 1.3 The current business plan agreed by Cabinet and Full Council included a total lending envelope of £19.66m for 2022/23 which was the summation of 6 individual, live and new projects and a sum for working capital and company overheads.
- 1.4 To date only £2.518m has been spent on developments during 2022/23. Some projects haven’t advanced as quickly as had been originally anticipated and some estimated projects, after some initial scoping work, have been deemed non-viable propositions. So in order for the company to have a sufficient volume of projects other schemes are required and a number are under review/consideration by the company.

2.0 Further request

- 2.1 Reflecting on the comments included in paragraph 1.4, this overarching funding request also includes a sum of £0.58m in order to explore a number of potential new sites in order to make up for the lost potential due to the company being restricted from any out of District developments. This request is effectively reprioritising monies from the previously agreed 2022/23 available budgetary envelope and will ensure that the Company has a sufficient pipeline of work on its books.
- 2.2 This request has been necessitated after the company has reflected on the Council’s instruction to cease any project work outside of the District based on the changes announced by the Treasury in relation to Public Works Loan Board lending arrangements.

- 2.3 The additional paper titled “Business funding discussion paper” received from 3Rivers highlights some of their ongoing difficulties with the current funding arrangements/processes, looks to propose some solutions and welcomes the opportunity for a discussion on how these may be moved forward. Any potential new arrangements could be considered, or even introduced, when considering the company’s latest Business Plan in October 2022.
- 2.4. This funding request is required under the current terms of the shareholder agreement (and on previous cabinet decision) that funding approvals be at scheme level, rather than at ‘business plan’ level. As highlighted above, the total funding drawdown remains far below what was approved by full council, but these requests are necessary to ensure compliance with the agreed governance with respect to individual business cases.

3.0 Financial Summary – as at 31 July 2022

- 3.1 It is important to draw a distinction between projected losses or cost inflation at scheme level and the net impact on the council. The company’s accounts rightly reflect the cost of doing business; however, some of the costs within the company are in fact receipts for the council.
- 3.2 Since the company’s inception in March 2017 the company has finished 3 profitable schemes (Burllescombe, Threwstones and The Orchard) and to date the summary inter Council/company transactions are as follows:

Total loan value outstanding	£15.648m (incl. working capital)
Total loan repayments made	£2.406m
Interest paid	£1.553m
Recharges paid	£0.387m
Impairment provision	£0.790m

Note – the impairment provision relates to St George’s Court £0.617m and working capital £0.173m. The St. George’s Court sum is being written down over a 5 year period which commenced in 2020/21 and the working capital was written off in 2020/21. This calculation has been audited by Grant Thornton as part of their annual audit process.

- 3.3 The above table shows that since the company’s inception the Council has received an overall net benefit of £1.520m to its General Fund (£1.553m + £0.387m - £0.420m) and has an outstanding loan value of £15.648m.

Current impairment note – £0.617m * 2/5ths = £0.247m + £0.173m = £0.420m.

- 3.4 In addition to the above, the 2022/23 budget prudently includes a sum of £0.578m for the repayment of interest and recharges.

4.0 Conclusion

- 4.1 The agreement of these loan increases will effectively give the company the financial ability to conclude these 2 important developments and enable it to secure a package of new schemes for delivery. In October, the Cabinet will receive the annual Business Plan from the company, which will reflect on current progress and then put forward its future development plans.

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Circulation of the Leadership Team and Cabinet
report: