

CABINET
3 JANUARY 2023

3 Rivers Developments Limited – Business Plan 2023 - 2028

Cabinet Member: Councillor Bob Deed – Leader and Councillor Clive Eginton – Deputy Leader

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

Reason for Report: To review the Business Plan.

RECOMMENDATION: That Cabinet considers and then approves 1 of the 2 Business Plans submitted for consideration.

Relationship to Corporate Plan: 3 Rivers Developments Limited's (3Rivers) key aims are to: increase the level and quality of housing units within the District and look to help regenerate sites/areas in need of assistance and 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. Based on a total estimated loan envelope to the company of circa £27m in 2023/24 the General Fund Budget has included estimated interest receipts of circa £900k. This will be updated depending on which version of the Business Plan is approved.

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: All commercial lending to 3rd parties, will by default, expose the lender to a degree of financial risk. Risk identification, mitigation and control measures, financial processes, audit regimes, etc. embedded by both the lender and borrower can all reduce/control associated risk levels. The Council will always consider risk vs return in all lending activities in enters into and identify/evaluate the potential level of total exposure.

When reviewing these risks the Council will consider: demonstrable track record of delivery and financial forecasting (costs and sales), company qualifications / skills / knowledge, information from 3rd parties, prevailing housing market factors, local / regional supply issues, etc. and ultimately risk vs reward set against other investment opportunities.

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 plays heavily in the choices made.

1.0 Introduction

1.1 Recent meetings of the Council's Scrutiny and Audit Committees were held in order to feedback any questions or areas of concern in order to help better facilitate the deliberations of Cabinet when reviewing the 3River's Business Plan. The 3 main points raised during these meetings were:

1. That the Audit Committee recommend to the Cabinet that more detail of the risks and various options going forward be sought from the S151 Officer.
2. That the other options be included in the business plan and consequences of not supporting it need to be highlighted.
3. That the Audit Committee feeds back to Cabinet that it recommends that the business plan in its current form is not supported due to the level of risk to the Council from the likelihood of needing to impair loans on those projects with very narrow rates of return.

2.0 The 2023 – 2028 Business Plan

2.1 After reflecting on the 2 aforementioned meetings, the Cabinet fed back to the Company the considerations identified in paragraph 1.1 and then requested an amended Business Plan shown as the (Addendum).

2.2 Therefore, the Cabinet now have 2 Business Plans from the company to consider. Which are quite similar in funding requested for 2023/24, but have a different make-up in terms of project size/profile and level of future projects.

2.3 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.

2.4 This financial envelopes of both plans provide a reasonably accurate budget forecast for 2023/24 and the projects that they 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.

2.5 The total loan request for 2023/24 in both plans is circa £27m and then varying levels of loan exposure during the remainder of the 2 plans. This funding envelope will see the culmination of St Georges Court, Tiverton and another site in Bampton, plus a number of new sites currently under consideration and then an estimate for potential new developments that are being explored. In addition there is the ongoing provision for the company's working capital requirements.

2.6 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	2022/23 Actuals as at 30/11/22	Total
Revenue Items £k						
Interest Rec'd	71.4	251.0	496.4	558.4	525.5	1,902.7
Cost of Borrowing	0	0	0	0	0	0
Dividends Paid	0	0	0	0	0	0
MDDC Recharges	170.2	97.2	103.8	15.6	0.6	387.4
Total	241.6	348.2	600.2	574.0	526.1	2,290.1

	2017/18 2018/19	2019/20	2020/21	2021/22	2022/23 Actuals as at 30/11/22	Total
Loans £k						
Advanced	2,612.9	6,998.2	1,741.7	4,581.4	4,087.6	20,021.8
Repaid		-550.0	-640.0	-1,208.7	0	-2,398.7
Loan Movement	2,612.9	6,448.2	1,101.7	3,372.7	4,087.6	17,623.1
Impairments		-790.0				-790.0

Notes:

- 1 The loans repaid figures relate to a VAT refund in 2019/20 and sale proceeds from the Threwstones, Tiverton and The Orchard, Halberton developments.
- 2 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. The 2021/22 level will be reviewed as part of the External Audit process – which is still ongoing.
- 2.7 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
- 2.8 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 2022/23 and its goals for 2023/24.

3.0 Risks

- 3.1 In order to facilitate a structured conversation around risk to both parties pertinent to the Business Plan considerations, including the scope/size of projects will be held during the agenda item. Most of these discussions will need to be held in part 2 as it will be commercially sensitive.

4.0 Conclusion

- 4.1 The 2 Business Plans are 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 during the life of this plan will not exceed a net loan portfolio of circa £27m between 2023/24 and 2027/28. The approved Business Plan loan request, if approved, will be included in the Council's General Fund, Capital Programme and Treasury Strategy for the forthcoming financial year.
- 4.2 Provision of the loan repayments from the company, estimated for the same period, will also be included within the above mentioned budgets.

4.3 The Council's General Fund Budget currently includes interest receipts of £900k based on an estimated lending envelope of circa £27m for 2023/24.

Contact for more information: Andrew Jarrett, Deputy Chief Executive (S151)

Circulation of the report: Leadership Team and Cabinet