

Shareholders Committee

Business Plan in relation to Morehomes for the Bay (Investments) Ltd and
Morehomes for the Bay (Developments) Ltd

25th October 2022

Report of Mark Davies

PURPOSE OF REPORT				
The report seeks to approve the inaugural Business Plan for Morehomes for the Bay (Investments) Ltd, jointly with Morehomes for the Bay (Developments) Ltd, prior to a final decision by Lancaster City Council's Cabinet as per the Companies Articles of Association.				
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input checked="" type="checkbox"/>	Referral from Cabinet Member
Date of notice of forthcoming key decision	N/A			
This report is public				

RECOMMENDATIONS:

- (1) That the Shareholders Committee approve the inaugural Business Plan.
- (2) That on approval of the Business Plan the Plan is then shared with the Council's Cabinet for final approval.

(1) Introduction

1.1 Following endorsement at 2nd March 2021 Cabinet to approve the Lancaster City Council Housing Companies - Morehomes for the Bay (Investments) Ltd and Morehomes for the Bay (Developments) Ltd, their structure and the companies Shareholder Agreement, incorporation took place on 21 June 2021.

1.2 In line with the Companies structure – an initial Business Plan has been prepared by Officers and approved by the Board of Directors of the Companies (Appendix 1). The Board of Directors approved the Plan at their meetings on 7th September 2022. The Plan now requires approval by the Shareholders Committee before finally being presented to the Council Cabinet for final approval and adoption.

1.3 Following endorsement the Business Plan will be updated annually.

(2) The Business Plan

2.1 This joint business plan for Morehomes for the Bay (Investments) Ltd and Morehomes for the Bay (Developments) Ltd sets out the Companies objectives, governance and management arrangements as well as detailing consideration for how schemes will be brought forward in the future and how they will be delivered.

2.2 At this stage there are no confirmed projects that will be progressed as part of this inaugural plan although there are clear links to a number of key housing and regeneration priorities Lancaster City Council has identified in its Homes Strategy 2020-2025. A key component of which is climate change and the ambition to build zero carbon homes, as well as improving the quality, supply and access of the existing housing accommodation across the district. As such there is much potential in a forthcoming pipeline that could see properties being developed or acquired within the next 3-year period namely through the Mainway estate regeneration programme and Canal Quarter at an appropriate time.

2.3 Once firmer plans have been established in respect of these and other opportunities, future iterations of the business plan will be accompanied with appendices that demonstrate detailed feasibility, modelling and sensitivity testing undertaken on each project.

3.0 Financial Considerations

3.1 The Companies have limited finances available at present. As per the Business Plan, Lancaster City Council will be requested to agree the basis for loans to be made to the companies and the terms upon which those loans are made. Lending will likely be from the Public Works Loan Board. A mechanism to ensure flexibility in drawing funds whilst protecting the interested of the Council will be established.

3.2 Following approval of the Business Plan a working capital facility will need to be established with the Council to support the Companies in its day-to-day operations and work to bring forward viable schemes for consideration.

3.3 As further iterations of the Business Plan are presented including viable schemes the funding facility and drawdown mechanism for the Companies will need to be agreed on an annual basis as part of the budget setting process.

3.4 As outlined within the Business Plan, economies of scale will be essential for the viability of the Companies. It is highly likely that initially schemes with a lower number of properties will not present a viable position – it is anticipated that to kick start the Business Plan a scheme of at least 50 properties is needed and thereafter each business case will assess the viability against the level of contribution against loan facilities that can be made.

(4) Options and Options Analysis (including risk assessment)

	Option 1: Approved the Business Plan	Option 2: Do not approve the Business Plan
Advantages	In so doing the Companies and the Council will be able to seek to realise its strategic ambitions around increasing affordable housing provision within the Lancaster District in the future. Whilst this inaugural Business Plan does not set out any schemes, to have an approved Business Plan is a requirement of the Shareholder Agreement, and puts the Companies in the right position for when it wishes to seek to bring forward schemes at an appropriate time.	None identified.
Disadvantages	None identified.	In so doing the Council and the Companies will be unable to seek to realise or be limited in its strategic ambitions around increasing affordable housing provision within the Lancaster District to its full potential in the future.
Risks	No risks identified at this stage, however there will undoubtedly be as a minimum, resource implications in exploring opportunities and undertaking viability assessments in the future as well as requests for working capital loans from the Council. In addition, any viable schemes put forward will require borrowing from the Council to be on-lent putting	That the Council's ambitions as set out in the recently approved Lancaster Homes Strategy would not be realised. Additionally, if delays in approval of the Business Plan are experienced there are risks that opportunities which could present themselves would be lost.

	<p>additional financial pressure on the Council and impact on the overall Capital Strategy programme. Currently there are risks surrounding all development opportunities within the current financial climate linked to increased PWLB rates and inflationary material / works costs which may make schemes previously considered viable as unviable – these details would be outlined in more detail with any future development opportunity reports.</p>	
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(5) Officer Preferred Option (and comments)

5.1 The preferred option is ‘Option 1’ – that the Shareholders Committee approves the inaugural joint Business Plan for Morehomes for the Bay (Investments) Ltd and Morehomes for the Bay (Developments) Ltd as detailed at Appendix 1. This will support the companies in having a working operational plan in how to conduct its business and lays down the parameters for bringing forward schemes in the future.

5.2 Should the Board approve the Business Plan – approval from both the Shareholders Committee and Lancaster City Council Cabinet will subsequently be required.

(6) Conclusion.

6.1 The report and associated Appendix outline the requirements and need for a Business Plan and whilst there are currently no schemes currently being put forward the documents outline how schemes will be bought forward in the future. Should the Shareholders Committee approve the Business Plan – approval from Lancaster City Council Cabinet will subsequently be required.

RELATIONSHIP TO POLICY FRAMEWORK

The decision contained within this report has limited scope / links to Policy Framework although there are clear links to rules set out in the Shareholders Agreement, and will be aligned to the Councils Treasury Management processes

moving forward.

The work contained within this report can also be seen to directly link with the following:

Council Priorities – Happy and Healthy Communities, a Sustainable District, an Inclusive and Prosperous Local Economy Local Plan – contributes towards the provision of housing to meet a locally identified need and opportunities to increase the choice and supply of good quality housing. Housing Strategy – directly aligns to the key actions identified in the Homes Strategy for Lancaster district 2020-2025.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

There are no implications relating to the above stemming from this report.

LEGAL IMPLICATIONS

Approval of the Business Plan does not commit the Council to any expenditure. It makes proposals as to the financing of the companies by the Council via loan or equity injection. However, the Authority is not bound by these proposals.

The Business Plan is an important document so far as ensuring that the Companies, that are controlled by the Council (as majority shareholder) has appropriate checks and balances, systems and controls in place to ensure that its proposed business projects have appropriate financial viability, due diligence, systems to ensure sound management and delivery. If the Business Plan is not sufficient then it may put the Companies' finances at risk and in turn could affect any financial interest the Council has in the same. Moreover, should a business project fail there could be reputational harm to the Authority

FINANCIAL IMPLICATIONS

There are no direct financial implications associated with approving the inaugural joint business plan as it is a strategic document and no specific financial information regarding aspirational schemes is included within it.

Further work is required surrounding several areas including borrowing rates, service level agreements and exit strategies. This work will influence the financial model as it moves forward and allow for a full financial appraisal of identified properties. As detailed in the report, further reports will follow as and when viability models of potential schemes are available.

As the companies have now been incorporated, there is a requirement for the Council to produce group financial statements. While the companies remain dormant (no financial activity), a disclosure note will be the only requirement in the Council's financial statements. Once either company begins to trade, the financial consolidation will need to be absorbed into the existing closedown timetable, so that the Council meets statutory deadlines. Consolidation adjustments will be required for

each company. This may require specialist knowledge, delivered through staff training and additional resources, or external expertise in the early phases. External audit of the companies' accounts will need to be completed within an agreed period, to allow the Council's external auditors to place reliance on them.

OTHER RESOURCE IMPLICATIONS

Human Resources:

There are no Human Resource implications arising from this report.

Information Services:

There are no Information Services implications arising from this report.

Property:

There are no Property implications arising from this report.

Open Spaces:

There are no Open Spaces implications arising from this report.

SECTION 151 OFFICER'S COMMENTS

The Council's s151 Officer has been consulted and would make the following observations

These types of arrangement typically operate at a subsidy for a number of years before they become financially independent and able to return a dividend to the Council. Financial analysis undertaken prior to the current cost of living increases and resulting inflationary and interest pressures suggested a minimum figure of 50 properties. Based on these factors this figure is likely to have increased.

Any financial assistance, or loans provided by the Council will need to reflect the risk to the Council and will attract a premium. Traditionally the Council would seek to undertake any long term borrowing from the Public Works Loan Board (PWLb) who's current rates range from 4.86% to 5.35% dependant on loan type and term. As a commercial entity the LATCo's are able to access finance from a range of external sources which may be beneficial to them, however as a wholly owned subsidiary the Council would be expected to underwrite any external financing.

The Committee may benefit from receiving detailed financial modelling and forecasts undertaken by the LATCo reflecting the current financial climate to allow it to assess the long term opportunities and viability of the LATCo's

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

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