
**Morehomes (for the Bay) Investments Limited &
Morehomes (for the Bay) Developments Limited
Local Authority Trading Company (LATCO)
Inaugural Business Plan**

September 2022

LANCASTER

CITY COUNCIL

Promoting City, Coast & Countryside

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1. Introduction

1.1. About our Companies

In June 2021, following an options appraisal exercise to determine how Lancaster City Council (LCC) could deliver a mixture of affordable and other tenures of new properties our two Local Authority Trading companies (LATCOs) were formed:

- Morehomes For the Bay (Investments) Limited

The purpose of this LATCO is to acquire properties to let at either affordable or market level rents, directly linking to our existing and future housing properties and extending LCC's housing portfolio and service offering.

- Morehomes For the Bay (Developments) Limited

The incorporation of this LATCO is seen as the catalyst for LCC to develop its own land assets, to explore and acquire new sites that could be acquired exclusively or contain an element of residential accommodation in appropriate locations within the Lancaster district.

Any homes developed that LCC wished to retain would either be sold to Morehomes For the Bay (Investments) Limited or the Housing Revenue Account.

The rationale of creating the LATCOs is to maximise the borrowing opportunities available to LCC and deliver a number of key housing and regeneration priorities along with proposed prudential borrowing within the Housing Revenue Account.

1.2. About our Business Plan

This joint business plan for our LATCOs sets out our vision, objectives and activities and how we intend to deliver these.

At this stage there are no confirmed projects that we will progress as part of this inaugural plan. However, there is much potential in a forthcoming pipeline that could see properties being developed or acquired within the next 3year period through the Mainway estate regeneration programme and Canal Quarter.

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.

LCC has identified a number of key housing and regeneration priorities in its Homes Strategy 2020-2025. A key component of the new strategy is climate change and LCC's ambition to build zero carbon homes, as well as improving the quality, supply and access of the existing housing accommodation across the district.

2. Our Objectives

2.1. Our Vision & Mission

Morehomes For the Bay (Investments) Limited

Morehomes For the Bay (Investments) Limited (MFBI) aspires to be an entrepreneurial housing provider, developing and delivering exemplary, energy efficient housing. Our vision is to play a dynamic role in increasing the provision of genuinely affordable housing in Lancaster but also seeking to improve the offer and quality of private rented homes within the district.

Morehomes For the Bay (Developments) Limited

Morehomes For the Bay (Developments) Limited (MFBD) will seek to work alongside LCC, developers, registered providers, architects and other housing specialists to develop homes and help create communities that will thrive for many years to come.

2.2. Housing Need in Lancaster

LCC undertook a Strategic Housing Market Assessment (SHMA) via arc4 and was published in September 2017.

Our LATCOs can draw upon the need for affordable housing as demonstrated in the table below:

Tenure	No. H'holds in need	% H'holds in need	Total no. households
Owner Occupied	2,888	6.9	42,003
Private Rented	1,963	16.7	11,763
Affordable (Social/Affordable Rented and Intermediate)	1,242	17.8	6,970
Total (All households in need)	6,092	10.0	60,735

Source: 2017 Household Survey (SHMA Sept 2017)

The SHMA identified an annual imbalance of 288 affordable dwellings across Lancaster each year. Whilst this is not a target for LCC and the Registered Providers that operate within the area it does show that current supply does not meet need.

It also identified the need for new housing to provide a mix of tenures, property types and sizes to meet the broad range of need in Lancaster district.

Therefore, we will focus on developments and an acquisition programme that deliver both a full mix of affordable and market rented houses but also homes for ownership to facilitate the need of families.

2.3. Our Objectives

Our overarching objectives for both LATCOs are as follows:

Affordable Housing

Our first objective is to contribute to LCC's aspirations to meet local housing demand by providing the right type of genuinely affordable housing to local residents who may have lower priority on the Housing Register (operated as the Ideal Choice Homes Choice Based Lettings scheme) or who are not currently eligible for social rented housing, but who are not able to afford to buy or rent in the private market. In this way MFBI will complement LCC's provision of social rented homes which it delivers through its Housing Revenue Account.

Private Sector Rental Housing

In order to ensure a viable financial position for MFBI but also to increase our rental offering, we will seek to offer homes for rent at market levels. Not only will this extend the stock holding for MFBI and LCC, indirectly, but also offer economies of scale in respect of covering the costs of organisational overheads.

This approach will also support MFBD, where the non-affordable element of developments could be sold to MFBI for market rent rather than being sold on the open market, de-risking schemes.

Housing Standards

The standard of rented housing, particularly in the private sector, is a concern. We would see that MFBI would be intervening in the market, in providing high-quality well managed and maintained properties therefore, providing competition to other landlords and seeking to drive up their standards.

We have already stated LCC's ambition to deliver zero carbon homes and both LATCOs will be contributing to this strategy in the type of homes developed, acquired and managed.

Increase the Housing Provision in Lancaster District

There are opportunities for the LATCOs to ensure that the provision of housing within the district increases over the coming years. We would seek to take opportunities to develop on LCC owned or to acquire land from the private sector with a view to maximising the housing offer, particularly within the affordable sector.

Providing a Financial Return to LCC

To be a financially robust company, generating a profit to be used for the purpose of providing more affordable housing and delivering financial returns to its shareholder.

3. Our Governance

3.1. The Company Structure

Both LATCOs will be operated through a Board of Directors. The Board will be responsible for ensuring effective delivery of each of the LATCO's objectives in accordance with this Business Plan. The majority of the day-to-day operations will be contracted to the LCC's service teams through a service level agreement. A Chair will be selected for the Board and the Chair of each LATCO will be the principal point of contact for the Board.

LCC will have interests in the LATCOs through two roles:

- As sole shareholder
- As secured lender

The LATCOs Board of Directors will be responsible for the delivery of the Company's Business Plan; LCC as shareholder will require performance and financial reporting in line with the usual expectations of a shareholder.

3.2. Governance

The board for each LATCO will be made up of at least three Directors who will bring relevant knowledge and experience in housing and other related disciplines. As the LATCOs progress up to a further four Directors may be sought externally to bring wider skills and knowledge from other disciplines, although a non-executive director appointment will be sought sooner with expertise within the sector to support the LATCOs set-up and development.

A range of supporting strategies and policies will be developed, so that the LATCOs can comply with all of its legal obligations and to ensure clear frameworks for service delivery in line with its Business Plan, and its aims and objectives. The Board will maintain and review all policies to ensure they remain up to date, legally compliant and relevant.

In terms of corporate infrastructure, the Board will ensure that:

- ICT systems for data management and email (which will be fully compliant with all prevailing data protection legislation and statutory guidance).
- Appropriate insurance provision is made for:
 - Day to day operations of the LATCOs, including indemnity cover for staff and Directors
 - The protection of companies' assets, including its properties
- Appropriate financial management systems are in place
- Appropriate development management tools are available.
- There is a functioning website and supporting e-communications

LATCO Group Inaugural Business Plan

In terms of professional registrations, the Board will be responsible for ensuring MFBI and MFBD are registered appropriately with all statutory and trade bodies required to support the effective functioning of the LATCOs.

It is important to note that at this stage MFBI will not be seeking registration as a Registered Provider with the Housing Regulator at this stage but does not rule this out in the future in order to access additional grant funding.

The Companies' decision making will be overseen by the Board of Directors with day-to-day operations being delegated to LCC officers. The Board will establish systems of control (including functions that are reserved to the Board) alongside performance and financial reporting arrangements which will operate on a regular basis, and in conjunction with advisers and officers, devise a comprehensive system of internal reporting at scheme, programme and company level.

LCC's interests will be operated through two principal routes.

1. As shareholder, through a Shareholder Agreement, which sets out the basis for the investment into the company and the mechanism by which the companies will report back to the LCC's appointed representative. LCC will approve the companies' Business Plan on an annual basis, as part of its own budget setting processes. In approving the Business Plan, LCC will also approve the funding support to be provided to the LATCOs. Performance against each of the business plans will be reported to LCC on a quarterly basis.
2. As lender, LCC will agree the basis for loans to be made to the company, and the terms upon which those loans are made. A drawdown trajectory will be established and agreed annually in advance via the business plan and budget setting process. A mechanism to ensure flexibility in drawing funds whilst protecting the interests of LCC will be established. This will allow for the LATCOs to operate in a commercial manner, respond to market conditions and not get caught up in unnecessary bureaucracy.

4. Delivery of our Schemes

4.1. Identifying Opportunities

The schemes that will come under consideration of the Board will be derived from LCC. For each property, land or potential acquisition LCC will consider the appropriate course of action and determine if it shall be delivered with the HRA, sold or developed or acquired by either MFBI or MFBD.

It is likely that LCC will provide direction to the Boards of the LATCOs in terms of the tenure mixes it wishes to be delivered, although this will be dependent on viability and the availability of loan finance.

MFBI will also actively explore the market for acquisition opportunities from both the open sales market but also possibly new housing developments within the area in order to let at affordable or market levels.

4.2. Decision Process

Morehomes For the Bay (Investments) Limited

MFBI will actively seek to acquire or suitably invest in homes that it will hold for rental at either affordable or market levels.

A structured business case will be developed for each opportunity that arises.

Each business case will detail the information about the scheme:

- Overarching details about the building or units that will be acquired or developed
- The number of type of units that will be delivered and their tenure (affordable or market rent)
- Confirmation for the demand for such units within the area
- How the scheme will be financed
- Financial Projections that demonstrate:
 - Loan repayment within a 50-year period
 - No requirement for additional financing post development or acquisition
 - Repayment of any working capital
 - Ability to cover both operational but share of overhead costs
 - Tax liabilities covered
 - Projected Returns to LCC
- Risk Analysis and appropriate mitigations

Each individual business case will be presented to the MFBI Board for approval, only if it meets the above objectives and then onto LCC to ensure that it meets their investment strategy.

Morehomes For the Bay (Developments) Limited

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MFBD differs in that the core focus is to develop land that is acquired or transferred for the development of homes where there is a mixed tenure including market sale.

It is most likely that where a development site will be wholly rented, be it affordable or market levels, that MFBI will contract to directly with developers to deliver the site, unless direction is given by LCC.

A structured business case will be developed for each site containing the following information:

- Overarching details about the building or units that will be developed
- The number of type of units that will be delivered and their tenure (affordable, market rent or sale)
- Confirmation for the demand for units (affordable, market rent or sale as applicable) within the area
- How the scheme will be financed
- Financial Projections that demonstrate:
 - The ability to repay both loan and equity investment, potentially before completion of the last sale
 - That include comparable evidence of sales / rents; growth of value / rents over past 2-3 years and predicted growth over the next 2-3 years
 - To aim to meet the following metrics and hurdles:
 - Above 20% GDV on open market sales
 - Between 18% to 20% on private rental sales (to MFBI)
 - Above 6% GDV on social/affordable rental sales (to MFBI or HRA)
 - Blended profit of above 15% on GDV for mixed tenure planning compliant scheme
 - Blended profit on cost of 18%
 - Repayment of any working capital
 - Ability to cover both operational but share of overhead costs
 - Tax liabilities covered
 - Projected Returns to LCC
- Risk Analysis and appropriate mitigations

Each individual business case will be presented to the MFBD Board for approval, only if it meets the above objectives and then onto LCC to ensure that it meets their investment strategy

4.3. Financing of the Schemes

Initial financing will be made available to each of the LACTCOs on the basis of requirement to cover:

- Set Up Costs
- Corporate (overhead) costs
- Direct staffing costs

The funding may be made via the options of a working capital facility (attracting an interest charge), equity share investment in exchange for shares or con-committal grant.

In terms of financing development expenditure or the stage payments on acquisitions, these will be financed by short-term loan arrangements. Dependant on the type of scheme these will be either 100% loan financed or lower percentage with equity input.

There may be the opportunity to transfer existing land or building in exchange for equity investment shares, which could be repayable at a later stage.

Loan finance that MFBI acquires or developments will convert to operational or asset based loans once the development loan is repaid.

Lending will be based on rates that reflect either sub-market rentals (deemed non-commercial) or market equivalent for other properties to ensure that any State Aid (subsidy control) requirements are met.

The funding facility for the Companies will be agreed on an annual basis through the business planning process after both Board and LCC approval as part of the budget setting process. This will provide certainty in terms of the total amount that can be drawn down within a year in order to acquire and retrofit properties. Towards the beginning of the year the actual drawdown mechanism will be agreed as to how the loan facility is drawn over the year.

4.4. Risk Management & Mitigation

Each Board will maintain a risk register, in order to support it in monitoring and managing the risks associated with all business activities proposed within this Business Plan.

The risk register is currently being established and will form part of the next business plan but will be in place before acquisitions commence in order to give assurance to each of the Boards.

The LATCOs will seek to mitigate its risks and will consider appropriate actions in order to ensure the viability of the companies with a range of alternative strategies for disposal.

5. Our Management

5.1. Corporate

As single legal entities the LATCOs will incur corporate overhead costs.

The services that both MFBD and MFBI will purchase from LCC will include:

- Legal Services – for any tenancy issues, conveyancing, acquisition transactions.
- Communications and Marketing
- .
- Directorate Support – to provide specialist support to the Companies (where available)

Other services that will require to be procured externally include:

- Valuation – annual basis (MFBI only)
- Banking / financial services
- Auditing
- Specialist Legal advice
- Insurance for both directors and property
- HR provision
- Company Secretary – to provide the company secretary duties and Board meeting facilitation

Economies of scale will be essential for the viability of MFBI. Potential costs for the above could amount to over c£74k per annum (based on a portfolio of 50) and therefore it is highly likely that a lower number of properties will not present a viable position for MFBI. Each business case will assess the level of contribution that can be made.

5.2. Management

MFBD may recruit its own staff when required in order to manage and deliver the eventual development programme. Up until this point any initial work will be carried out by appropriate LCC officers and recharged as part of the development costs.

MFBI are likely to rely upon existing LCC officers within the housing division to provide overall management and support to the Board, although it is acknowledged there is likely to be competing priorities and resources and therefore without dedicated resources delays in progress may be seen. It is possible that MFIB will eventually secure its own general management. This will assist with:

- Actively exploring the market for acquisition opportunities from both the open sales market but also possibly new housing developments within the area;
- Exploring and securing grants, resources and wider opportunities to increase the quantum of homes that are delivered, thereby enabling it to make a positive impact upon Lancaster's housing supply.

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- Effectively managing its housing asset, ensuring a comprehensive schedule of planned maintenance
- Delivering management and repairs services to its tenants, to the highest possible standards and acting as an exemplar to other landlords in Lancaster, inspiring improved standards across rented homes of all types within the district
- Promoting and raising the brand profile of MFBI to promote the benefits of quality, affordability and innovation in the delivery of homes to meet current and future housing need, with the aim of stimulating provision by private and registered landlords alike
- Representing LCC / MHFTB in forums with other providers
- Servicing the Board / Shareholders Committee with appropriate management / update reports.

MFBI will look to enter into a management agreement, subject to a financial/viability appraisal, with the LCC's landlord services to provide the following tenancy services:

Management Service

- Single contact Property and Lettings Manager (PLM) for tenants
- Rent collection and arrears management
- Transfer of rental monies to MFBI
- Monthly reporting on rental and works statements
- Tenancy and Repairs Management

Re-let Service

- Providing suitable forms of advertising and publicity for properties held within MFBI.
- Accompanying potential tenants to viewings.
- Cleaning of void properties and bringing to the appropriate lettable standard.
- Organising any necessary minor or major works.
- Ensure all necessary administration and eligibility checks for entering into tenancy agreement and are carried out as per contractual agreement.

Maintenance Service

- Through LCC's landlord services, undertake day to day repairs on properties via an appointment system.
- Recharge the costs of the repairs to MFBI
- Management of the life-cycle programme, recording and forecasting works that need to be undertaken through an asset register. This will adhere LCC's own asset management policy.

The annual fee payable to LCC's landlord services is likely to be based on a net percentage of rent collected, deducted from monthly payments along with the cost of works, reconciled to landlord statement.

5.3. Financial

It is likely that both LATCOs will source externally the following:

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- Financial Services – for the production of annual accounts, up keep of the financial systems, book keeping, management accounts and liaison with the external auditors.
- External Auditors – will be appointed by the Board for the sign-off of annual accounts and to provide ad-hoc advice. The auditors will be agreed in consultation with LCC, which will provide continuity and ease when consolidating group accounts.

As part of its due diligence LCC and Board of the companies will commission internal audits from time to time for relevant operations of the LATCOs.

The Board will approve a newly formed set of financial regulations devised specifically for the Companies but in-line where possible with the LCC's. These establish financial controls, authorities and delegations commensurate with the objectives of MFTBI and the regulatory context within which it operates.

We recognise that sound financial management will be critical to the success of the start-up of MFBI.

Outline budgets will be developed for the acquisition, retrofit and overheads each year. This will identify the financing required as part of the annual loan facility agreement.

In cash terms these will be neutral in that sufficient financing will meet the expenditure requirements.

The basis of financial viability for each acquisition will be agreed by the Board and delivery group prior to drawdown of funds, as part of the annual facility, and will be regularly monitored throughout the delivery period.

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