

Report to Cabinet
10 March 2021
Report of Director of place
Subject Norwich Regeneration Ltd Business Plan

Item

8

KEY DECISION

Purpose

To consider the Norwich Regeneration Limited Business Plan 2021/22 that the company is required to produce under its articles of association

Recommendation

- 1) To welcome the Business Plan for Norwich Regeneration Limited for 2021/22 and agree that:
 - a) NRL should move forward to develop a detailed business case for the development of Three Score Phase 3 as described in the Business Plan to allow the shareholder to consider further investment in this scheme;
 - b) Invite NRL to continue work on the design and feasibility of the Ber Street development; and
 - c) The Council as shareholder should support both above activities so that robust business cases can be established to enable the Council to make investment decisions.
- 2) To instruct that officers to obtain expert independent advice, scrutiny and assurance in relation to the NRL business Plan and its underlying assumptions before agreeing to detailed business cases.
- 3) To extend the remit of the Shareholders Panel set up to provide scrutiny of NCSL performance and objectives to also include NRL.

Corporate and service priorities

The report helps to meet the corporate priority Great neighbourhoods, housing and environment.

Financial implications

The financial consequences to the council of agreeing the Business Plan are detailed within the report. The council budget papers for 2021/22 includes £420k of interest income from NRL and a level of return of shareholder funds.

The costs associated with the independent advice will be funded from the corporate underspend in 2020/21 and is estimated to cost no more than £25k.

The development of the proposed businesses cases have been budgeted within NRL and approved by the NRL Board subject to cabinet approval.

Ward/s: Multiple Wards

Cabinet members: Councillor Waters - Leader

Contact officers

Graham Nelson, Director of Place

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Background documents

None

Report

Background

1. The Norwich Regeneration Limited company (wholly owned by the City Council) was set up in 2015 with three main aspirations in mind:
 - Help the council to meet housing need
 - Build properties to high environmental standards
 - Take a more commercial approach to generate income for the council in a time of budget austerity
2. In 2017, work began on the Rayne Park development at Bowthorpe to deliver approximately 170 homes (a mixture of private and social housing) for Norwich residents.
3. 79 homes were completed on section 1 of Rayne Park but this development has been built at a substantial loss, due partly to lower than expected property sales and private sector rental returns.
4. This led to significant revisions to governance of the company and its operating procedures. The company has moved forward substantially over the past 18 months. It has learnt lessons from early phases of development and has brought in a new Managing Director who – as evidenced from the business plan - has moved to:
 - Introduce improved cost control in the business;
 - Improve commercial information in the company and underpinning decisions;
 - Complete the redevelopment of former Council offices at Bullard Road delivering a profit for the company;
 - Improve design and renegotiate contracts for sections 2-4 of Rayne Park to allow the scheme to proceed;
 - Develop a pattern book for future development to allow better cost control and sales values to be delivered on future schemes.
5. Following the approval of the Business Plan for NRL in March 2020 the Council, through Cabinet on 10 June and the subsequent full Council meeting agreed to:
 - 1) approve that the council, as shareholder, supports Norwich Regeneration Ltd to continue the build out of Sections 2-4 at Rayne Park;
 - 2) the council, as lender and shareholder, agree to an increase in the loan facility for Norwich Regeneration Ltd up to a maximum of £21m from £11.4m (current loan £15.65m).
 - 3) an adjustment the capital programme to increase the equity investment in Norwich Regeneration Ltd up to a maximum of £6.2m from £2.7m by acquiring up to £3.5m of £100 ordinary shares.
 - 4) approve the issuing of new shares by Norwich Regeneration Ltd; and
 - 5) request Norwich Regeneration Ltd work alongside council officers to investigate and appraise options for the housing assets as further

information becomes available on the wider impacts of Covid-19 on the housing market.

6. Alongside the work to improve operation and stabilise the financial position of the company efforts have continued to improve its governance. In particular the Council has sought build the expertise, competency and experience to support the company so it build on operational improvements delivered over the past two years. Steps taken include:
 - The recruitment of two non-executive directors to the board. Both non-executive directors hold a wealth of experience and expertise to assist the company grow as a housing developer. Their role will be to support and challenge both the company board and Managing Director.
 - The Articles of Association for the company have been amended in various ways with the agreement of the Council in September 2020. Among other things the amendments incorporate the appointment of the two non-executive directors and include the Managing Director as a director onto the board.
 - To further support the company, improve communication between it and the Council and strengthen the governance, Norwich City Council section 151 officer and director of place are now attending board meetings as participating observers. The participating observers are not part of the final decision making of the company board to avoid any potential conflict of interest.
 - Staff from NRL, including its managing director have been temporarily seconded on a part-time base to the Council in order to increase capacity and pace with regard to the delivery of social housing. This not only builds the Council's capacity but reduces operating costs of the company.
7. The above measures have contributed to significant improvements in performance of the company over the past year. These are considered further below.

Activity in 2020/21

8. Company activities in 2020/21 have been impacted by the pandemic. Construction activity was required to stop on 26 March due to the impact of covid-19. Work on sections 2-4 of the Trinity Gardens at Rayne Park development ceased. The development is controlled via two separate JCT (joint contracts tribunal) Design and Build contracts. The contract for Section 3&4 providing for 48 new homes for completion by January 2021 and the contract for Section 2 providing for 26 new homes for completion by May 2021.

9. NRL worked closely with the main contractor to assess and mitigate the risk of covid-19. NRL are now satisfied with the safety measures in place both from the perspective of general construction and those new measures which mitigate risk imposed by CV-19. In the light of the lockdown period and new measures necessary on site revisions to both contracts were necessary. These revisions see extensions to the two contracts of 10 and 15 weeks respectively meaning the revised date for completion of section 3 and 4 is now April 2021 and section 2, July 2021.
10. The impact led the company to postpone the marketing of homes on sections 3 and 4 from when originally planned. This was delayed by 18 weeks and commenced in July. Significant amendments to show home viewing arrangements also needed to be made. These included an appointment system for show home viewing, all visitors to marketing suite asked to use NHS track and trace app, masks and sanitiser being used with a cleaning regime daily and between visits.

Financial Performance

11. An update on the financial performance of the company was given to cabinet in December 2020 based on the first half of 2020/21. Since then strong performance has continued.
12. All 48 properties in Sections 3 and 4 of Trinity Gardens at Rayne Park are now reserved. 18 of these properties have completed with a gross sales receipt of £4.242m in quarter 3, 12 properties are exchanged with a gross sale that will amount to £5.385m in quarter 4 on completion and the remaining 18 properties have been reserved and are expected to have all been exchanged by March 2021. Following completion this will result in a further gross sales revenues of £2.105m making the gross sales of all 48 properties of £11.732m.
13. Work is now continuing on section 2 of the development. The company launched sales on this phase of the development on 1 February 2021. This sales launch created further interest which in turn generated reservations on 8 properties (on completion this will gross £2.045m). The company expect a further 5 more reservations to be confirmed by the end of this February meaning that half of the development will be reserved. Remaining phases of the development are due to be released to the market in spring, bringing the total gross forecast sales for section 2 to £6.332m.
14. The company is continuing to manage within the financial approvals agreed by Council in June 2020. Council approved a maximum investment limit of £21m debt plus £6.2m equity, but the company is now projecting to only need to the current maximum of £19.5m for completing Rayne Park, a reduction of £7.2m. The financial accounts for 2020/21 are therefore projecting an improved position with a forecast gross profit of £171k (previously £7k gross loss) and forecast retained losses of £4.3m (previously £4.6m retained losses).
15. The board has continued to review all costs and approved a reduction in overheads which will also be reflected in the improved 2020/21 financial accounts.

16. In light of the improved position of the company during the year it was not considered necessary to review the £4m provision for impairment of the NRL loan that the Council had previously made. It is intended that this level of impairment will be reviewed by the Council following April 2021 to be based on the latest financial information from the company at the end of the financial year.
17. The business plan for the company for 2021/22 is contained in the attached exempt appendix A. It sets out NRL's vision, mission, values, objectives and business principles. It describes how financial performance and governance have been improved. It has been approved by the Company's board and submitted to the Council for consideration.

Proposed response to the Business Plan for 2021/22

18. The NRL business plan for 2021/22 is welcomed as an ambitious plan for the future of the company and of high quality house building in Norwich.
19. At its heart is the proposition is that the Council as shareholder and lender provides considerable additional resources to the company in order to deliver the business plan. The precise level of investment is uncertain at this stage as this will be set out in the detailed business cases that need to be prepared for finance to be advanced on individual developments. Although the total level of investment in loan and equity to the company to deliver the business plan is likely to be in excess of £20m.
20. It is the council's role as shareholder to strike the right balance between risk and reward and – although the company has undoubtedly turned around over the past 18 months – there are clear risks which need to be weighed up. There are considerable uncertainties in the private housing market arising from the impact of the covid-19 and resultant economic conditions. Whilst the market has proved to be resilient to date, and recent announcements of government support in the mortgage market may assist, there is no guarantee that it will remain so going forward. The business plan shows a good level of awareness of risks and how they can be mitigated.
21. Given the potential scale of future council investment in NRL to develop new homes for the city, and the significant risks in relation to the UK housing market and construction sector, particularly in the context of ongoing disruption from Covid-19 and emerging issues relating to Brexit. It is recommended that independent expert analysis of the assumptions and forecasts in NRL's business plan is commissioned before further investment is confirmed.
22. This would provide the council with a higher degree of confidence in any future investments. It would also give confidence that the council has given due consideration to the risks and rewards of investment decisions and that there is an appropriate level of return for the risk involved.

23. Independent commercial development advisors, working with the council and the company, will be asked to scrutinise the commercial information, financial assumptions, forecasts and risks identified in the business plan and provide assurance that the information and assumptions support a sound and deliverable plan.
24. Such an examination cannot eliminate risk. However, it is considered that such independent commercial advice can provide the council with an additional layer of assurance to inform any further investment in NRL and demonstrate that it has sought to minimise any further loss of shareholder value.
25. As further investment in new NRL projects will need to be subject to the preparation of detailed business cases which will be subject to considerable scrutiny and will need Council approval, it is considered that having this level of independent assurance will aid the process of considering the detailed business cases.
26. In order to minimise delays in the meantime it is proposed that NRL be provided with shareholder support to continue with the development of two of the schemes in the business plan: Three Score phase 3, where development may be able to commence later this year (subject to approval of the detailed business case and various other approvals) alongside the direct delivery of housing by the HRA: and Ber Street, where the design and feasibility work would add considerable value to the Council's land holding.
27. Additionally, it is suggested that officers work with the company to revisit to charges being placed on the company, particularly through its Service Level Agreement to establish whether this remains fit for purpose or whether this may be reduced to reflect a reduced level of development that may be delivered by the company.
28. Furthermore it is proposed that work continue to improve the governance of the company, to bring it into line with best practice and to minimise the potential for conflicts of interest to emerge.
29. There is a member/officer Shareholder Panel being set up to oversee the performance of the council's new wholly-owned company, Norwich City Services Ltd. It is recommended that the remit of the Shareholder Panel is expanded to also cover NRL, so that both of the council's WOCs face the same level of oversight and scrutiny.
30. The Panel will be comprised of senior councillors, including the Leader, relevant portfolio holders, and senior officer including the CEO and relevant Executive Directors. It will meet quarterly to scrutinise the performance of both NCSL and NRL.

Integrated impact assessment



NORWICH
City Council

Report author to complete

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|-----------------------------------|--|
| Committee: | Cabinet |
| Committee date: | 10 March 2021 |
| Director / Head of service | Director of Place |
| Report subject: | Norwich Regeneration Limited Business Plan |
| Date assessed: | 23 Feb 2021 |

| | Impact | | | |
|--|-------------------------------------|-------------------------------------|--------------------------|---|
| Economic (please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |
| Finance (value for money) | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <p>The business plan suggests that undertaking the three schemes listed will improve the financial position of the Company and generate additional income to the Council. Furthermore there would also be non-financial benefits associated with these projects as they will deliver new housing in the city; preserve the value in the rest of the council-owned Threescore site; and enable to company to continue trading and recoup losses through future development schemes.</p> <p>Seeking further specialist advice on the risks should offer further confidence that the risks inherent in backing the company to undertake further development are proportionate.</p> |
| Other departments and services e.g. office facilities, customer contact | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| ICT services | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Economic development | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The completion of further new housing will assist with economic development particularly in Bowthorpe ward. |
| Financial inclusion | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| | | | | |
| Social (please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |

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|--|-------------------------------------|-------------------------------------|--------------------------|--|
| | Impact | | | |
| Safeguarding children and adults | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| <u>S17 crime and disorder act 1998</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Human Rights Act 1998 | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Health and well being | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| | | | | |
| Equality and diversity (please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |
| Relations between groups (cohesion) | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Eliminating discrimination & harassment | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Advancing equality of opportunity | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| | | | | |
| Environmental (please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |
| Transportation | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Natural and built environment | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Further housing development by NRL will continue to be built to environmental standards considerably in excess of standards likely if the scheme were to be built out by other builders. |
| Waste minimisation & resource use | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

| | Impact | | | |
|------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---|
| Pollution | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Sustainable procurement | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Energy and climate change | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Further housing development by NRL will continue to be built to environmental standards considerably in excess of standards likely if the scheme were to be built out by other builders. The design approach will lead to a reduction of energy consumption and therefore environmental impact compared to reasonable alternatives. |
| | | | | |
| (Please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |
| Risk management | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are clearly risks in providing finance to the company to undertake further development as proposed in the business plan. To assist with mitigating these risks the report proposes that further advice be taken. However, it notes that it will not be able to eliminate these risks entirely. |

Recommendations from impact assessment

Positive

Negative

Neutral

Issues