

Report to Cabinet
16 December 2020
Report of Director of place
Subject Update on Business Activities of Norwich Regeneration Limited

Item

11

Purpose

To consider the mid year trading position of Norwich Regeneration Limited (NRL) and how it is performing in the light of Covid-19.

Recommendation

To note the positive progress that has been made by NRL in improving governance and responding to covid-19

Corporate and service priorities

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

Financial implications

The company continues to manage within the resources approved by Council in June 2020. Further details are included at paragraphs 17 to 21.

Ward/s: All Wards

Cabinet members:

Councillor Stonard - Sustainable and inclusive growth

Councillor Kendrick - Resources

Contact officers

Graham Nelson, director of place

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Dave Shaw, Managing Director of NRL

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. The Rayne Park Sections 2-4 Business Case, as approved by Council in November 2019, provided for a maximum loan of £11.4m for the completion of the project.
4. In March 2020, Cabinet approved the 2020/21 Business Plan for Norwich Regeneration Limited, supported the completion of the Rayne Park development, and noted the scale of development that is required for the company to return to making an annual profit within 5 years.
5. At the same time, Cabinet recommended that a review be taken forward of the Council's approach to the commissioning of housing development, including the identification of a future pipeline of sites to be taken forward for development by NRL. Further details of this review were reported to Cabinet in July and November 2020 including the identification of three priority sites for delivery of social housing and the strengthening of in house capacity to deliver.
6. As a result of changing housing construction and market conditions arising from the impact of Covid-19, Norwich Regeneration Ltd wrote to the Council in the spring to request both shareholder support and financial backing to complete the Rayne Park project as well as provide an update on the impact of Covid-19 on the build programme.
7. This led the Council through Cabinet on 10th June and the subsequent full Council meeting 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 (previously £11.4m).
 - 3) adjust the capital programme to increase the equity investment in Norwich Regeneration Ltd up to a maximum of £6.2m (currently £2.724m) by acquiring up to 3.5m of £1 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.

8. This report updates on the company's response to difficult trading conditions created by the covid-19 pandemic, contract variations that have been necessary, sales performance achieved and improvements to governance of the company.

Progress made by NRL since March

9. Construction activity was required to stop on 26th 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.
10. 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.
11. 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.
12. To date 3 separate phases of new homes have been released to the market comprising a total of 39 out of the 41 homes that have been identified for open market sale on phases 3 and 4. 2 properties are held as the sales and marketing suite.
13. The 39 properties, are a mixture of 2, 3 and 4 bed properties. It is important to note that as some of these properties have yet to be finished, sales cannot be completed until March 2021 (20 properties). It is now a considerable focus for the company and its main contractor to ensure that the properties are completed to a high standard in a timely manner and the conveyancing process runs smoothly. The company is confident that once practical completion is secured it will be in a position to exchange with purchasers quickly. The company is aiming to recognise all of the revenue from the current reservations by April 2021. If it succeeds this will provide cash sales income to the company of £9.63m.
14. The managing director of NRL will verbally update Cabinet on the progress with sales at the meeting.

Governance

15. Alongside the work to respond to covid-19 and deliver sections 2-4 of Trinity Gradens at Ryane Park, NRL has continued to work closely alongside the Company to improve its governance. In particular it 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 non-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.

Financial Performance

16. The financial update is based on the first half of 2020/21, with key sales information at the date of writing this report. Construction of homes at Rayne Park has continued with 30 deposits for homes under construction received by 30 September rising to 39 at the time of writing.
17. The company has subsequently converted 12 sales receipting £2.880m since the end of Q2 (net of sales commission).
18. The company is continuing to manage within the financial approvals agreed by Council in June 2020. Council approved a maximum investment limit of £21m, but the company is now projecting to only need to a maximum of £16.8m, a reduction of £4.2m. The financial accounts for 2020/21 are therefore projecting an improved position.
19. 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.

20. In light of the improved sales forecasts for quarter 3 and 4 of 2020/21 there is no requirement to do an interim impairment review. The review in April 2021 will be based on the latest balance sheet and P&L for the company.

Integrated impact assessment



NORWICH
City Council

Report author to complete

Committee:	Cabinet
Committee date:	16.12.20
Director / Head of service	Graham Nelson
Report subject:	Update on Business Activities of Norwich Regeneration Limited
Date assessed:	30.11.20

	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"/>	When the NRL business plan was approved it was noted that the business plan will require additional council funds to be set aside in an earmarked reserve to manage the risk over the loan recoverability. This update notes a generally improving financial position.
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"/>	Activities of the company continue to support economic development especially 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
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"/>	The company continues to build a standard of new home which exceed the environmental standards that would likely to be delivered if the development was built out by other builders
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
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"/>	The company continues to build a standard of new home which exceed the environmental standards that would likely to be delivered if the development was built out by other builders

(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Whilst there is still an earmarked reserve to manage the risks that created by the Company, the financial position reported is improving so risks are considered to have reduced.

Recommendations from impact assessment
Positive
Negative
Neutral
Issues