



NORWICH City Council

Committee name: Cabinet

Committee date: 14/12/2022

Report title: Norwich Regeneration Ltd Business Plan 2023-2030

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Executive director of development and city services

Wards: All

OPEN PUBLIC ITEM

KEY DECISION

Purpose

To consider the Norwich Regeneration Limited (NRL) Business Plan for 2023/30, which the company is required to produce annually under its articles of association and to make a recommendation to Council that appropriate provision is made within the Council's budget for 23/24 to deliver the plan in that year.

Recommendation:

For Cabinet to:

- a) Thank the company and its directors for their efforts and impressive performance over financial years FY 2021/2022 and FY 2022/2023
- b) Endorse the NRL Business Plan on behalf of the shareholder
- c) Note that any individual business cases for developments and the disposal of sites to facilitate development will be subject to approval by Cabinet prior to moving to construction phase.
- d) Invite NRL to undertake work on business case development for investment in phase 4a of Threescore and a further residential development site as outlined in the exempt appendix for consideration at Cabinet during 2023/24; and
- e) Invite RL to undertake work on an outline Business Plan for the establishment of a new company primarily aimed at holding assets in the private rented sector for presentation to the Council in 2023/24.

Policy framework

The council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.

- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report addresses all the above priorities but especially the “Norwich has the infrastructure and housing it needs to be a successful city” and the “Norwich City Council is in good shape to serve the city “ corporate priorities.

This report addresses the ‘provide and encourage others to provide new homes, open spaces, and infrastructure for residents’ and the ‘secure and manage funds from a range of sources to invest in the city’ priority actions in the Corporate Plan

This report helps to meet housing strategy adopted policy of the Council

This report helps to meet the housing, regeneration, and development objective of the COVID-19 Recovery Plan

Background

1. Prior to making any investments in housing sites, Norwich Regeneration Limited (NRL) is required to bring a business plan to the Council, as its shareholder, for approval. This report provides the context to the NRL business plan, through setting out the current financial and operation of the company, and the details of the business plan itself which is recommended for endorsement.
2. Throughout FY 2022/23 to date NRL has delivered well against the previous business plan (agreed by Cabinet in January 2022). This has involved a continued focus on stabilising the company's financial position, improving its governance and interactions with the Council, and building the skills and expertise within the operational team of the Company. Noticeable steps taken by the company in the past year include:
 - Further strengthening of the board of directors with one of the non-executive directors taking over the role of Chair of the company during the year further strengthening the expertise to assist the company grow as a housing developer and to offer greater support and challenge to the managing director;
 - Reporting of progress against the current business plan on a quarterly basis through the Shareholder Panel. This included the panel receiving a presentation on the emerging business plan. The panel endorsed the principles of the business plan at its meeting on 25 November 2022 which the Chair and Managing Director attended (although the Panel have not commented on the detail of the Business Plan);
 - Recruitment and development of the housing delivery team. The team supports both the company's activities (the costs of which are recharged to the company) and the Council's own housebuilding programme. It is now established and stable with specialist expertise in aspects of residential construction from pre-construction through to finishing and sales.
3. This has led the company to set out a longer-term vision within the business plan. The plan not only addresses the 23/24 financial year but also sets out a longer-term pipeline of possible residential development sites that could be developed over the period up to 2030.
4. Separately on Cabinet's agenda is a report on the development of a pipeline of sites. Whilst this may serve to demonstrate the continued potential of NRL's business plan, it must be emphasised that any decision to dispose of sites to NRL to progress for housing development remains with the Cabinet to make independently of this NRL business plan.
5. The company also reports progress in relation to delivering the approved 22/23 business plan. It is on track to deliver outturns better than those set out in the approved business plan.

Activity in 2022/23

6. Key activities in the current year have focussed on delivery of the next phase (Phase 3) of development at the Threescore site in Bowthorpe. Following the strong sales of the Trinity Meadows in phase 2 of the development the company commenced the construction of 24 dwellings alongside development being conducted by the HRA on a new parcel of land to the west of Saxoncoate

avenue. Construction is progressing well with completion scheduled for April - December 2023.

7. The company has also progressed a development of 9 homes at Ber Street. A planning application was submitted over the summer which is awaiting determination due to the issue of nutrient neutrality. This represents a development of the product of the company as it is a more dense "urban" style of development that the lower density "suburban" development that it has been successfully building at Bowthorpe. Whilst the townhouse led scheme represents a different design style the company remains committed to high environmental standards.
8. The financial accounts for 2021/22 are currently being finalised for lodgement by the end of December however, the current version highlights that the year ending 31 March 2022 ended with turnover of £9.8m and a loss of £0.753m.
9. For the current year there have been no sales as at the end of quarter 2 with income consisting of rental and other sources of income being in line with budget expectation. The budgeted position at the end of Q2 was for an in-year loss of £0.397m - the actual loss was £0.284m and this is projected to be maintained for the remainder of the year with a lower than budgeted loss. NRL holds no completed projects in stock at the end of Q2 although construction has commenced on the Trinity Meadows project.

The Business Plan 2023/30

10. The business plan for the company is contained in the attached exempt appendix. It sets out NRL's vision, mission, values, objectives and business principles. It describes how financial performance and governance will be managed. It has been approved by the company's board and is submitted to the Council for consideration.
11. The business plan is commercially confidential. It is ambitious document that suggests a number of significant changes to the way the company operates are under consideration. This ambition is welcome. A number of the significant element of the business plan are described at a high level and are response to below:

Housing Development

12. The business plan proposes a pipeline of sites to allow the company to achieve its financial objectives. The development of this thinking assists the company being able to demonstrate how longer term financial objectives will be delivered and how the phasing of developments can be adjusted in the light of market circumstances to reduce risk and maximise returns.
13. As stated above, through endorsement of the business plan the Council is not approving any of these sites or guaranteeing that the company will be able to develop them. Each individual development will need to be subject to a detailed business case for investment which will need to establish the case for investment.

14. A business case for further development at the Threescore site for phase 4a on land south of the tree belt is due to be submitted for the Council's consideration early in the next financial year. The business plan also proposes that a business case be submitted for a further site in Council ownership during the year.
15. With regard to housing development the business plan sets out the ambition to enhance the currently high environmental standards that it is building to. The aim is for the company to move towards being able to describe its developments as zero carbon. This is a laudable aim and is consistent with the Council's own stated objectives. The costs and benefits of being able to drive further environmental enhancements will vary on a site by site basis and will need to be examined in individual business cases. The Council is keen to see this analysis undertaken and is supportive of the direction of travel and is keen to see the evidence that further enhancing already high environmental standards will not reduce the profitability and undermine the business case for undertaking future developments.
16. The company also remains committed to delivering policy compliant levels of affordable housing within its developments. On larger sites the business case assume that the affordable element will be sold to HRA. It should be noted that in endorsing the business plan the Council is not necessarily agreeing to purchase the affordable housing in this manner. Such investments will need to be the subject of separate business cases to ensure that this represents best value for the HRA and is in accordance with its own Business Plan.
17. In addition to satisfying itself in relation to individual business cases. It should be noted that the Council will also need to satisfy itself that the values obtained for any sites which are in Council ownership represents best consideration for the particular site.
18. The company has once again engaged independent expert analysis of the assumptions and forecasts in the business plan to provide for a greater degree of confidence in the plan. This analysis is attached as an appendix to the business plan and is available for councillors to review on request.
19. The production of this report gives assurance that the risks and rewards of each development proposed in the business plan have been thoroughly considered as part of its preparation. This increases the confidence in the commercial information, financial assumptions, forecasts, and risks identified in the business plan.
20. Notwithstanding the use of independent expert development advisors have worked alongside the company to examine such matters, this cannot eliminate risk. The recent financial turbulence, build cost inflation, increased interest rates and likelihood of entering a recession all pose increased risk to the company. However, it is considered that through such independent commercial advice the company has taken the appropriate steps to minimise risk and provide the council with assurance to inform any further investment in NRL and demonstrate that it has sought to minimise any further loss of shareholder value.

Other matters

21. In addition to its focus on the core housebuilding role of the company the Business Plan features a number of other significant matters.
22. It proposes that the company is rebranded during the next financial year. Details of the brand proposed and the timing of its launch are presently confidential. The creation of the right brand should help the recognition that the market places on both the quality of design and the high environmental standards that the company are delivering to. As the company diversifies into a different types of development it will be important to ensure that this diversification of product does not weaken any brand identity that is created.
23. The business plan also proposes further improvement to the governance of the company. In particular the recruitment of a further non-executive director is proposed and the establishment of two further internal committees to advise the board. One to address investments and to ensure greater scrutiny of emerging business cases and another to oversee audit and risk issues.
24. Elsewhere within the Business Plan two significant measures are mooted for the possible diversification of the company. These are in relation to the private rented sector and the decarbonisation of existing properties.
25. With regard to its involvement in the private rented sector this was one of the original objectives in establishing in NRL. The company still holds a limited number of properties for private rent and the Council can see potential significant advantages should the company be able to prepare a compelling business case for further investment in the private rented sector at scale. In respect of both measures identified in the plan, NRL and the Council recognise the need for further consideration of delivery options, and to understand how diversification of the company's business would not compromise the core existing company activities.

Implications

Financial and resources

26. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2022-26 and budget.
27. There have been no loan repayments during this year to date which is in accordance with previous business plans. The next planned loan request draw down is due in January 2023.
28. The current position is that the council has an equity investment of £3.42m in Norwich Regeneration Limited and the company has an outstanding loan balance of £6.15m with the council. This means the current debt to equity ratio equates to 64:36.
29. The delivery of the Norwich Regeneration Ltd Business Plan in 23/24 will not require any additional financial investment from the council over and above the currently agreed loan facility. Further lending may be necessary to support the company's activities in 2024/25.

30. If the proposals in the business plan are delivered as envisaged the business plan the company should be able to pay its debt in full by the end of 2030.

Legal

31. The company's Articles of Association require that any action it takes in respect of its activities must be undertaken within the parameters of the business plan agreed by the Council. The setting up and operation of the Council's companies is an executive function, however in line with the recommendations, the Council's funding for the business plan will need to be considered as part of the Council's budget for 2023/24.

Statutory considerations

| Consideration | Details of any implications and proposed measures to address: |
|------------------------------------|--|
| Equality and diversity | There are no direct impacts arising from this report. |
| Health, social and economic impact | There are no direct impacts arising from this report. |
| Crime and disorder | There are no direct impacts arising from this report. |
| Children and adults safeguarding | There are no direct impacts arising from this report. |
| Environmental impact | There are no direct impacts arising from this report. |

Risk management

The Business Plan, particularly in sections 14 and 15 set out approach to risk management and mitigation options.

| Risk | Consequence | Controls required |
|-----------------|---|---|
| Financial risks | <p>NRL not being able to repay or provide return on the investment.</p> <p>Changes to the Minimum Revenue Provision guidance increases revenue costs associated with providing loan financing to NRL.</p> | <p>See sensitivity testing in the business plan and the assurance report from Savills.</p> <p>Council continues to hold an earmarked reserve to help manage risk associated with the loan financing.</p> <p>Continue to monitor the outcome of the government consultation.</p> |

Other options considered

32. To not adopt the business plan: if the Council does not adopt the business plan, then NRL will not be able to progress further development and the Council will need to consider the options for sites currently earmarked for development by NRL.

Reasons for the decision/recommendation

33. In the light of the above it is recommended that the business plan be endorsed so that the company can move forward with its implementation and the Council can make appropriate provision with its budgets of 2023/24.

Background papers: None

Appendices: Business Plan is attached as an exempt appendix

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