

<b>Agenda Item No:</b>	<b>10</b>	
<b>Committee:</b>	<b>Investment Board</b>	
<b>Date:</b>	<b>11<sup>th</sup> July 2022</b>	
<b>Report Title:</b>	<b>Fenland Future Ltd Business Plan</b>	

**This item comprises EXEMPT INFORMATION at Appendices 1 to 4 which is not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act, 1972 (as amended).**

## **1 Purpose / Summary**

1.1 This paper seeks FDC Investment Board endorsement of the revised Fenland Future Ltd (FFL) Business Plan for the period April 2022 to March 2025.

## **2 Key Issues**

2.1 FFL is the wholly owned subsidiary of FDC.

2.2 FFL has been set up to generate financial returns to FDC.

2.3 FFL has been operating since June 2020 and the articles of association set out the need to annually update the Business Plan setting out the direction and focus on the company.

2.4 A revised Business Plan has been approved and adopted by the FFL Board on 27 May 2022.

2.5 The Business Plan sets out new scheme parameters and hurdle rates for all new schemes to be considered against.

2.6 The financial parameters are updated based on the build out of the priority schemes.

2.7 Attached to this report in the FFL approved Business Plan, updated cashflow, revised profit and loss account plus the current project programme

## **3 Recommendations**

3.1 Members are requested to note the report.

3.2 Endorse the adoption of the revised FFL Business Plan (April 22 to March 25)

3.3 Receive further reports on the progress of FFL projects against the approved Business Plan in accordance with the approved articles of association for FFL.

<b>Wards Affected</b>	<b>All wards</b>
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Forward Plan Reference	KEY/16JUN22/01 – notice of the proposed decision will be provided to the Chairman of Overview and Scrutiny in accordance with Rule 15 of the Access to Information Procedure Rules.
Portfolio Holder(s)	Cllrs Boden, Benney, Tierney
Report Originator(s)	Adam Broadway
Contact Officer(s)	Dan Horn
Background Papers	Original FFL Business Plan. Supporting scheme information from consultant advisors including valuation reports.

## Report:

### **1 Reasons for Exemption**

- 1.1 The Appendix Cover Sheet and all Appendices are **NOT FOR PUBLICATION** in accordance with paragraph 3 Schedule 12A of the Local Government Act 1972 in that it contains commercially sensitive information relating to financial and business affairs of Fenland District Council and 3<sup>rd</sup> party organisations. The public interest test has been applied to the information contained within this exempt report and it is considered that the need to retain the information as exempt outweighs the public interest in disclosing it.

### **2 BACKGROUND AND INTENDED OUTCOMES**

- 2.1 FFL was incorporated in June 2020.
- 2.2 The initial Business Plan was prepared in-line with the articles of association by 31<sup>st</sup> January 2022.
- 2.3 Since adoption two FDC owned sites have been identified for FFL to focus on and bring forward proposals for development.
- 2.4 Consultant teams have been procured in-line with FDC procurement rules and a series of technical reports have been commissioned to support outline planning applications for these sites.
- 2.5 Endorsing the FFL Business Plan provides the business framework for FFL to move into a period of delivery and future profitability.

### **3 REASONS FOR RECOMMENDATIONS**

3.1 Endorsing the FFL Business Plan will enable FFL to progress and meet its business purpose.

3.2 The Business Plan sets out the priority projects and an agreed set of project parameters.

## **4 CONSULTATION**

4.1 The FFL Business Plan has been consulted with FFL Board and senior FDC officers

## **5 ALTERNATIVE OPTIONS CONSIDERED**

5.1 FFL is required to produce a Business Plan and it is good governance it to do so. In the circumstances no other options are available.

## **6 IMPLICATIONS**

### **6.1 Legal Implications**

6.1.1 Paragraph 3.2(e) of Table 3 of the Council's Constitution provides delegated authority for the Investment Board to approve the business plans of the Council's companies and partnerships.

### **6.2 Financial Implications**

6.2.1 The numbers included in the Business Plan that pertain directly to Fenland District Council are included within the Council's budgets and are primarily financing and support services recharges. The financial risk to the Council of the Business Plan for FFL not being achieved are in the range £0 to £400k for 2022-23.

### **6.3 Equality Implications**

N/A.

### **6.4 Any Other Relevant Implications**

6.4.1 As outlined in the Business Plan, two priority projects are identified as FFL's focus for the next year.

6.4.2 Both schemes are being prepared for outline planning applications to be submitted, as previously approved, by FFL on land owned by FDC.

6.4.3 Project budgets form a key part of the revised Business Plan and all consultants have been or will be appointed within the FFL approved Procurement Rules.

6.4.4 Subject to the Scheme Update Report tabled at this meeting, a recommendation to progress the process of legal transfer of the priority sites is being proposed.

6.4.5 For clarity this paper is not seeking to approve the land transfers at this point. Further papers will be presented seeking approval to transfer subject to the outcome of the legal and due diligence work requested.

## **7 DOCUMENTS AND APPENDICES**

7.1 FFL Business Plan (April 22 to March 25)

7.2 FFL Business Plan Appendix Cover Sheet

7.3 Appendix 1 - Summary Cashflow

7.2 Appendix 2 - Profit and Loss Account

7.3 Appendix 3 - Scheme Thresholds (contained in FFL BP Appendix Cover Sheet)

7.4 Appendix 4 - Project Programme

## UPDATED BUSINESS PLAN

**Period of Plan is April 2022 to March 2025**

**Fenland Future Ltd**

**11 May 2022**

### 1. Introduction

This is the paper sets out an updated Business Plan for Fenland Future Ltd (FFL) for the period April 2022 to March 2025. It builds on the adopted initial Business Plan of January 2021 and the Commercial and Investment Strategy adopted by Fenland District Council (FDC) in January 2020.

The purpose of this paper is to move FFL into the next stages of development so that it can commence operating as a profitable business at a future date. The paper sets out more detail regarding the operating requirements and finances needed. Further detail will be set out, once this paper is adopted, in a delivery plan.

### 2. Fenland Future Ltd

FFL is a wholly owned subsidiary of FDC. FFL was incorporated on 10 June 2020 (registration number 12659496) and is a private company limited by shares having a share capital of £1.00.

### 3. Purpose and Objectives

The Articles of Association of FFL were approved in 2020 and set out below are a set of principal objectives of the company. These are to:

- Maximise the return to the Council as shareholder from its asset portfolio and exploit opportunities for acquisitions, development and commercial return from assets.
- Create a delivery model that operates with a degree of commerciality in line with aspirations that mirror the Council's Business Plans and Commercial Investment Strategy.
- Hold, manage and operate private lettings directly or via procuring landlord services to the tenants of any rented housing.
- Act as a responsible and equitable landlord.
- Deliver capital appreciation.
- Generate income from commercial investments.
- Always seek to acquire assets at the most competitive price and obtain best consideration on sales.

The shareholder agreement will be updated and set out the shareholder expectations.

### 4. Governance

FFL has three Directors. These are currently:

- Chief Accountant of FDC (Mark Saunders)
- Head of Housing & Community Support of FDC (Dan Horn)
- There is one Director vacancy at present.

The Head of Governance and Customer Services (Anna Goodall) is the Company Secretary.

The Directors form the FFL Board which meets quarterly.

## 5. Activities

FFL's main activities remain as:

**Residential Property.** To use existing FDC owned land and where viable buy land for residential use and subject to planning approval and a procurement strategy build out the scheme for a commercial return. This is to be the primary function of FFL for this Business Plan period. Residential sites will comprise of:

- homes for sale
- private rented
- affordable rent
- shared ownership
- housing for extra care
- discounted market housing

For the period of this plan, FFL will focus on developing out two priority sites currently owned by FDC (see section 12 below).

**Commercial Property.** To source, purchase, or lease, operate and maintain a portfolio of commercial property where appropriate. This is considered a secondary function at present and for the period of this plan. Properties will include:

- Light industrial
- Office space

A more detailed business case for the investment in commercial property will be undertaken during 2022/23 supported by an independent assessment of the Fenland wide commercial market. This business case will be presented to the shareholder for approval.

The long-term management and maintenance issues relating to any new property secured/purchased, both commercial and residential, retained by FFL will need to be considered within a scheme delivery plan. The delivery plan (to be produced during the summer of 2022) will include the options and proposals as to how properties could be managed and maintained if this generates greater financial return.

Ad-hoc exceptional investment opportunities that may arise during the Business Plan period will be considered on a case-by-case period as long as they provide significant potential returns greater than the set-out parameters.

## 6. Area of Operation

FFL will operate during the next 3-years within the boundary of FDC. Commercial activities outside of the FDC geography will only be considered upon exceptional circumstances and subject to a detailed viability and issues paper being approved by FFL Board and the shareholder

## 7. Partnerships and Procurements

To deliver a successful business and deliver the expected financial returns, FFL will need to establish stronger local partnerships with suppliers, consultants, and contractors. The more detailed delivery plan will set out the opportunities for partnerships and with whom. The delivery plan will need to allow for flexibility and agility to ensure FFL makes best use of new opportunities as they arise.

It is expected that additional external suppliers will need to be procured to help provide appropriate information to enable informed investment decisions to be made.

The main partnership required during 2022, will be the sourcing and selection of a development partner who will work with FFL and build out one or potentially more of the identified residential sites. FFL will seek external advice and review options as to a development partner selection process. If approved the selection process will commence from summer 2022 using a priority site as the pilot project.

## 8. Financial Plan

Set out below is the high-level Profit and Loss Account based on the detailed projections included in the **exempt Appendices 1-4**.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£	£	£	£	
<b>TURNOVER</b>	0	0	100,000	16,007,000	11,500,000
<b>COST OF SALES</b>	0	0	0	12,507,079	-9,747,058
<b>GROSS PROFIT</b>	<b>0</b>	<b>0</b>	<b>100,000</b>	<b>3,499,921</b>	<b>1,752,942</b>
<b>Gross profit margin</b>				<b>21.9%</b>	<b>15.2%</b>
<b>ADMINISTRATION EXPENSES</b>	-204,808	-342,780	-345,944	-359,241	-373,203
<b>OPERATING PROFIT/(LOSS)</b>	<b>-204,808</b>	<b>-342,780</b>	<b>-245,944</b>	<b>3,140,680</b>	<b>1,379,739</b>
<b>FINANCE CHARGES</b>	-9,627	-137,411	-558,491	-917,585	TBC
<b>PROFIT/(LOSS) FOR THE YEAR BEFORE TAX</b>	<b>-214,435</b>	<b>-480,191</b>	<b>-804,435</b>	<b>2,223,095</b>	<b>1,379,739</b>

Set out as **Appendix 1** is a 3-year financial plan to support this document. This is a headline projection and will be reviewed and updated at each quarterly FFL meeting.

Key to this updated Business Plan is the setting up of a delivery structure with an operating budget. In addition, a budget is required to enable FFL to buy land and pay for all initial scheme associated costs. These funds will be supported by the Loan Facility between FDC and FFL.



The budget and cashflow sets out the annual operating budget as well as scheme specific costs. The financial element of this plan assumes the delivery on the two priority projects with the majority of the profit anticipated to be realised from year 2024/5.

Based on the Business Plan strategy, it is noted that income to FFL is not likely to occur until the first homes on the first development site are completed. This is unlikely to occur before quarter two in 2024, until then FFL will be running at a deficit.

Attached as **Appendix 2** is an updated Profit and Loss Account for FFL for the Business Plan period. The predicted future interest rates reflect the Treasury Advisory Report as reported to FDC quarterly.

FDC will provide a guarantee of last resort to FFL.

## 9. Financial Parameters and Returns

FFL's main objective is to provide an annual financial return to FDC. This return will be made up of the following:

- The annual distribution and return to FDC from FFL will be agreed following receipt of accounts and agreed at the FFL AGM
- A return on the loan finance from FDC at an interest rate of 6% over base for the initial period and to be reviewed annually.
- A return for services provided by FDC under agreed Service Level Agreements.

To deliver a successful financial return, a set of Scheme specific thresholds has been updated and is set out in the **Appendix 3**. The purpose of these thresholds is to enable the FFL delivery team to focus on those projects which will maximise return. As the project programme develops these will be reviewed and updated annually.

## 10. Loan Arrangement

To enable FFL to set up and function, FDC and FFL have agreed a call off loan agreement. This agreement allows FFL to borrow finance to enable it to carry out its activities. The headline terms of this arrangement are:

- 6.0% over base interest rate
- Draw down of funds will be based on the agreed FFL cashflow and subject to the actual delivery programme of the agreed projects.
- Period of 2-years and annual review

The agreement will be reviewed annually.

## 11. Monitoring and Reporting

FFL Board will meet and receive scheme and project reports quarterly. The delivery plan will set out the Performance Indicators for the delivery programme and will include a Risk Map per scheme.

## 12. Current Project Pipeline

Attached as **Appendix 4** is the current list of projects which form the pipeline. This is reviewed quarterly. A schedule of project opportunities will be maintained and updated.





The delivery plan will set out the process as to how potential new schemes will be assessed.

Each scheme will have a detailed scheme business case prepared and presented to both FFL Board and FDC Investment Board for approval.

### **13. Delivery**

To successfully deliver this and future FFL Business Plans a delivery team is required.

Within the operating budget it is assumed that FFL will:

- Recruit and appoint a full time Managing Director
- Recruit and appoint a project manager to support the MD (later in 2022/early 2023)
- Purchase the following services from FDC under a Service Level Agreement. These to include:
  - Office space
  - IT support
  - Finance advice and support
  - Procurement services
  - Legal advice and support on property transactions
  - FDC Staff and Director support
- Support from additional professional advisors will be required and individual cases for their services and appointment will be made to FFL Board for approval. Additional professional advice and service support is likely to include:
  - External legal advice on setting up a development partnership and special purpose vehicle
  - An employer's agent (EA) to provide cost and build contract advice and services and certify monthly contractual payments throughout the build contract/s.
  - Accountancy and Tax advice if required
  - The above services will be tendered under the FFL procurement rules and costs allocated to each scheme where appropriate.
- Recognise that additional expenditure will be required to investigate the viability and potentially bring forward the further secondary sites.

### **14. Key Actions (year one)**

This revised Business Plan is focused on setting up FFL and moving it into a delivery stage of activities.

Subject to the adoption of the plan the following actions are required:

- External legal advice to complete the FFL governance and operational structure
  - Complete the loan agreements
  - Set up and complete an FFL Directors Indemnity Agreement
  - Complete service level agreements.
- External legal team to be appointed to act for FFL in the land transfer of the two priority sites from FDC to FFL based on existing use values before the Outline Planning Applications are submitted
- FFL to produce a Delivery Plan for each of the two priority sites.

- The Delivery Plan/s will set out the process to maximise returns while minimising costs and risk to both FFL and FDC.
- The Delivery Plan will include updated programmes including indicative dates for land transfers, outline planning application and approvals together with partner selection timescales.
- At this point, it is anticipated that the principal delivery mechanism to be pursued, is subject to legal and financial advice. An options paper will be produced by our external legal advisor which will inform the most efficient delivery route.

## 15. Conclusions

As set out, this updated Business Plan seeks to move FFL into a delivery phase of operation. It focusses on two residential sites which it will build out through the most efficient and profitable delivery mechanism.

Financially, FFL will be supported with finance from FDC which will be drawn down when required, accrued, and returned with interest upon the completion of each scheme.

In summary during 2022 (year one) FFL will seek to:

- Secure the land transfer of the two priority sites from FDC to FFL
- Secure outline planning permission on both priority sites
- Agreed the most efficient delivery mechanism for either priority site
- Complete the various legal agreements with FDC and FFL.