

EAST HERTS COUNCIL

COUNCIL – 19 DECEMBER 2018

REPORT BY THE DIRECTORS OF MILLSTREAM PROPERTY
INVESTMENTS LTD

MILLSTREAM 30 YEAR BUSINESS PLAN: 2019/20 ONWARDS

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report presents Millstream's Business Plan for the 30 year period commencing 2019/20. In line with the Shareholder Agreement between the Millstream and the council, the directors of the company are required to review the company's business plan on an annual basis and submit for the approval of its shareholder (the council) a revised plan each year, based on a rolling 30 year planning period.
- The council has asked the company to take a longer view of property acquisitions, development and disposals than just the coming year and so the proposed business plan includes a number of proposals which would see a pipeline of additional properties coming into the company's ownership up until 2022/23.
- In overall terms, the company is seeking approval of its business plan which would:
 - increase the company's portfolio of residential properties from three properties at December 2018 to 49 properties by 2022/23, consisting of a mix of private rented homes, affordable rented homes and low cost home ownership properties
 - provide the council with an annual revenue income

stemming from interest on commercial loans extended to the company, sale of services to the company and dividends payable by the company

- require loan capital and grant funding from the council.

<u>RECOMMENDATIONS FOR COUNCIL:</u> that:	
(A)	Millstream Property Investment Ltd's 30 Year Business Plan, including the programme of acquisitions, development and disposals, presented in the exempt Essential Reference Paper B, be approved;
(B)	<p>up to:</p> <ul style="list-style-type: none"> • £4.20m be loaned to Millstream on commercial terms or as shareholder cash loans • £0.26m worth of shareholder asset-backed loans be made available to Millstream and • £0.35m of state aid compliant grants be provided to Millstream <p>to (a) enable the company to acquire five open market properties in 2019/20 and (b) fund the delivery of the Kingsmead scheme;</p>
(C)	<p>subject to an annual review that the resources are still required, up to:</p> <ul style="list-style-type: none"> • £6.88m be allocated to cover commercial loans and shareholder cash loans to the Millstream and • £2.03m worth of shareholder asset-backed loans be made available to Millstream and <p>to enable delivery of the remaining elements of the acquisitions and delivery programme from 2020/21 onwards as laid out in Millstream's 30 Year Business Plan; and</p>
(D)	authority be delegated to the Head of Strategic Finance and Property to determine the balance of commercial

<p>and other loans relating the company's activity from inception, the terms of the loans and the conditions for grant payments to the company with due regard to state aid regulations.</p>

1.0 Background

- 1.1 At its meeting of 5th September 2017, the Executive approved the establishment of a property investment company wholly owned by East Herts Council. Subsequently, at its meeting of 18th October 2017, full Council approved the company's first 30 year business plan which included proposals to acquire a number of existing residential properties held by the council. On 2nd February 2018, the company, Millstream Property Investments Limited, was incorporated.
- 1.2 The council, as the company's sole shareholder, has entered into a Shareholder Agreement with the company. The Shareholder Agreement obliges the company to annually review its business plan and produce a revised 30 year business plan, rebasing the forthcoming financial year as the first year of this 30 year period. Thus, the company, having consulted council representatives, is now presenting its revised 30 year business plan for the period commencing 2019/20.
- 1.3 As required by the Shareholder Agreement, the company's 30 year business plan includes:
 - a schedule of properties and/or sites to be acquired in the next financial year whether described by name or the number and/or value of specific types of property at least differentiating residential and commercial and existing built properties and sites
 - a financial business plan covering not less than 30 years based on development and management and

maintenance of existing assets and acquisition of planned new assets

- a procurement plan which shall include details of contracts coming to an end and contracts to be tendered
- an asset management plan including management, maintenance, disposals and acquisitions plans
- key performance indicators with previous performance and targets for the coming financial year; and
- estimates, assumptions regarding reinvestment of profits, distribution of dividends and capitalisation of profits for the coming financial year including the amounts it will be prudent to retain in order to meet operational costs in the coming financial year and the amounts available for distribution to the Shareholder.

2.0 The report

2.1 The Millstream 30 Year Business Plan is presented in full at Essential Reference Paper B. It includes commercially sensitive information provided by a third party and so is exempt from consideration in public, however, its key elements are summarised below. The council's Shareholder Advisory Group has considered the plan and suggested amendments. The directors of the company have incorporated the amendments within the plan now presented.

Property acquisition, development and disposal programme

2.2 The business plan proposes the following schemes.

Scheme	Details	Shareholder requirements	Timeframe
Open market property acquisition	The acquisition of five properties in the open market each year for three years commencing 2019/20 <i>plus</i> acquisition of three open market properties to replace 1, 2 and 3 Old River	Properties with two or three bedrooms to be prioritised The portfolio to be predominantly houses rather than flats All properties to be within East Herts	2019/20 to 2021/22

	Lane if/when they are sold to the council as part of the Old River Lane redevelopment	The average purchase price listed in the business plan to apply A minimum gross rental yield (annual gross rent/property value, excluding stamp duty and fees) as listed in the business plan to apply to all private rented properties	
Kingsmead development	Scheme as approved in principle by the Executive on 11 th September 2018 Demolition of the current Pinehurst Community Centre and attached shops and flats to provide a new community centre, shop and additional flats for affordable rent and private rent	Inclusion of affordable rented properties Replacement of the community centre to a size and design as required by the existing pre-school Replacement of the shop (and associated flat) to a size and design commensurate with local needs Improvement to the immediate environment of the new building	2018/19 to 2021/22
Acquisition of Northgate End flats	Acquisition of the flats to be built by the council adjacent to the Northgate End multi-storey car park in Bishop's Stortford	Tenure mix is delivered in line with the planning approval, that is, six (40%) of the 15 flats to be of an affordable tenure	Anticipated 2021/22
Watton-at-Stone development	In line with the request of the council, the company is proposing a small infill development at a site in the council's ownership in Watton-at-Stone It is envisaged the site can accommodate four two-bedroom houses	Disposal of the site is subject to approval by the council Detailed requirements to be agreed Development in line with planning policy and requirements	2020/21 to 2022/23
Disposal of 1, 2 and 3 Old River Lane	Sale of these three properties to the council to assist in the redevelopment of the Old River Lane site	Disposal to the council in line with the overall Old River Lane redevelopment agreed with the developer once selected	Anticipated 2021/22

2.3 The revenue cashflows are presented in **Essential Reference Paper B**. The council's budget-setting has taken account of the income modelled to accrue to the council from interest paid by the company on loans from the council, services the company purchases from the company and dividends payable to the

council as the company 's shareholder.

Performance indicators and targets

2.4 The company proposes the following key performance indicators (PIs) for 2019/20. The list of PIs will be reviewed on an annual basis. All PIs will be reported to the Shareholder Advisory Group on a quarterly basis. The targets for each PI for 2019/20 are listed in the business plan.

Performance Indicator	Reason
Gross yield per private rented property – annual rent as a % of property value	'Industry standard' means of gauging the value and performance of private rental stock
Average price per property acquired in the open market	A means by which the shareholder can monitor that the company is acting within the financial envelope approved by the shareholder
Company's projected end-of-year financial position as a % of modelled position at year start	A means by which the shareholder can monitor the overall financial performance of the company

3.0 Financial implications

3.1 The 30 Year Business Plan includes full 30 year forecasts for the company's cashflows along with capital requirements to cover the acquisitions and developments in the period to 2022/23 included in the plan.

Revenue

3.2 The company will carefully manage its finances so as to ensure resources are available to manage and maintain its properties.

3.3 Realistic assumptions have been made for void periods and bad debt based on benchmarking with other organisations. In addition, resources for day-to-day repairs and replacement of capital items such as kitchens and bathrooms over the lifetime of ownership have been included in the financial modelling. Again, the financial provisions for repairs and investment have been based on benchmarked data.

- 3.4 Each year, actual expenditure and anticipated liabilities will be reviewed and, if necessary, the business plan will be revised accordingly.
- 3.5 Detailed tax advice was sought during the inception of the company and, where the company or the shareholder feels it necessary, further advice will be sought to ensure that the company's finances are managed in the most tax efficient way.

Capital

- 3.6 The company relies on meeting its capital requirements from funding provided by the council in the form of:
- loans made on commercial terms
 - shareholder cash loans
 - shareholder asset-backed loans (provided in cases where the company is acquiring an asset from the council and the council, as the shareholder, takes a charge on a proportion of property's value in lieu of a cash receipt from the company)
 - state aid compliant grants from the council's capital reserves and/ or s106 commuted sums held.
- 3.7 The capital requirements of the company over the period 2019/20 to 2022/23 are as follows.

Table 3: Summary of the company's capital requirements for acquisitions and developments net of disposals – £'000s						
	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	Total capital requirement 2019/20 – 2023/24 inclusive £'000s
Cash						
Commercial loans	1,572	2,942	3,452	0	0	7,966
Shareholder cash loans	596	609	1,908	0	0	3,113
State aid compliant grants	87	261	0	0	0	348
TOTAL cash	2,255	3,812	5,360	0	0	11,427
Asset-backed						
Shareholder asset-backed loans	0	0	1,792	497	0	2,289
TOTAL asset-backed loans	0	0	1,792	497	0	2,289

- All figures rounded so totals may vary by +/- 1

- Excludes funding for works to, and acquisition of, 6 Water Lane which has already been approved by the council
- Funding requirements are net of retention of developer profits by the company to offset the borrowing requirement at the point of refinancing of loans at scheme completion.

3.8 Specific advice has been sought from Cipfa regarding the handling of the commercial and shareholder loans to the company. This has confirmed the council's and company's existing understanding, that is, that the commercial loans should be made with interest charged at rates likely to be available to the company in the open market, with the council able to dictate its own rates for the monies it is lending in its capacity as a shareholder.

3.9 This report seeks Council approval of the funding required by the company.

4.0 Implications/Consultations

4.1 Information on how the proposals in Millstream's 30 Year Business Plan support corporate issues and consultation associated with this report can be found within **Essential Reference Paper A**.

Background Papers

None

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