

Title: Milverton Homes Ltd Business Plan Revision
 Lead Officer: Andrew Rollins (01926 456013)
 Portfolio Holder: Councillor Wightman
 Wards of the District directly affected: N/A

| Approvals required | Date | Name |
|---|--|----------------|
| Portfolio Holder | | Cllr Wightman |
| Finance | 15/03/24 | Andrew Rollins |
| Legal Services | | |
| Chief Executive | | Chris Elliott |
| Head of Service(s) | | Andrew Rollins |
| Section 151 Officer | | Andrew Rollins |
| Monitoring Officer | | Graham Leach |
| Leadership Co-ordination Group | | |
| Final decision by this Committee or rec to another Cttee / Council? | Yes Cabinet / Council | |
| Contrary to Policy / Budget framework? | No | |
| Does this report contain exempt info/Confidential? If so, which paragraph(s)? | Confidential Appendices due to commercial and confidentially sensitive information | |
| Does this report relate to a key decision (referred to in the Cabinet Forward Plan)? | Yes | |
| Accessibility Checked? | Yes | |

Summary

Milverton Homes Ltd is the Council's wholly owned subsidiary Housing Company. The Company must prepare a Business Plan in respect of each financial year that shall include an overview of the planned activity for that financial year and an explanation of how that planned activity furthers the Company's Objectives, which shall be submitted to WDC no earlier than four months and no later than two months before the end of each financial year.

The Annual Budget for each financial year shall form part of the Business Plan. The Annual Budget shall be reviewed by the Board quarterly.

Recommendations

- (1)** That Cabinet notes the Milverton Homes Ltd Business Plan (Appendix 3) and its supporting appendices.
 - (2)** That Cabinet notes the confidential financial information as outlined in Appendix 2.
 - (3)** That Cabinet note the revised working capital requirements of the company, for the years 2023/24-2026/27, with a request for a further £490,745. This will be returned in the form of a dividend by 2027/28.
 - (4)** That Cabinet agree the release of the additional working capital requirements for the years 2023/24 (£21,193) and 2024/25 (£281,729) totalling £302,922, with future allocations subject to the annual business plan being presented to WDC to receive Cabinet approval.
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1 Reasons for the Recommendations

1.1 Milverton Homes Limited

- 1.1.1 Milverton Homes Limited (MHL) is a non Teckal Local Housing Company (LHC) which is wholly owned by Warwick District Council (WDC). At the end of March 2023 MHL will have been trading for 2 years.
- 1.1.2 Established in December 2020 to accelerate the provision of housing, including much-needed affordable housing in Warwick district, the ambition being to build housing to high environmental standards, contributing to reducing carbon emissions and creating an improved quality of life for those living in them. MHL was established to enhance the reach of the Council and support delivery of key projects. Its role is to act in the best interests of its shareholder (WDC) and in this regard, both parties share common interests and goals. MHL enables the Council to take a commercial approach to the delivery of new homes and to offer a range of products to assist in the delivery of local housing needs. A further ambition for the company was to act as a disruptor of the Private Sector housing market by providing a high quality product at competitive prices.
- 1.1.3 The catalyst for establishing Milverton Homes was to enable the Council to progress the opportunity for it to enter a joint venture and, with the assistance of a loan from the Council, secure the acquisition of 62 low-carbon market rented homes.
- 1.1.4 The model has the aim of making significant contributions to the Council's income in the face of funding shortfalls, and by doing so, put services on a more sustainable footing to support local people as well as raising money to invest in priority outcomes. The Council is unable to enter arrangements in the same way that Milverton Homes does as it is constrained by Procurement Contract Regulations. MHL can act outside these regulations allowing it to take advantage of direct approaches from developers. Together, these dynamics provide the unique USP that provide benefits to MHL and WDC alike.
- 1.1.5 The Company's board of Directors are responsible for the delivery of the Company's business plan; the Council as shareholder receives performance and financial reporting in line with the shareholder agreement.

1.2 Crewe Lane Kenilworth LLP

- 1.2.1 On 27th August 2021, Milverton Homes formed a Joint Venture (Crewe Lane KENILWORTH JV LLP, Company Number: OC426015) with Vistry Homes.
- 1.2.2 This venture will see the delivery of 620 new homes on land to the east of Kenilworth. The involvement of MHL has facilitated half of these to be low carbon/net zero carbon of which 248 will be sold to the Council to provide homes for people on the Housing Register and 62 sold to Milverton Homes to offer at market rents. We have taken receipt of the first 3 homes in April 2023 which are being leased back to Crewe Lane LLP at market rent for use as show homes.

This Business Plan sets out the activities for the third and subsequent years of operation and presents the latest projections for the Company. It includes an insight to objectives, priorities, and financial projections for a five-year period. Whilst it is normal for a business to present a shorter time frame with 3-5 years

being most common, it was thought useful to cover the period in which the Crewe Lane Joint Venture is planned to be active. In future years, it is likely that the Business Plan will revert to a more usual timeframe.

The MHL BP is a 5-year plan that incorporates all of the current approved schemes and the long-term financial impacts. The MHL BP must remain robust, resilient, and financially viable to ensure that the Council as 100% shareholder is protected from financial risk. Revising the MHL BP regularly ensures an accurate financial position is available for the Council and MHL Board.

Upon the Incorporation of MHL and since the first Business Plan was presented to May 2022 Cabinet, the following updates and policies have been agreed by the Board:

- Appointment of Fortus Accountancy as MHL's Accountants and Auditors
- Appointment of Warwickshire Legal Services as MHL legal advisors and company secretary
- Appointment of Board Members
- Creation of Company Expenses Policy
- Creation of Board Member remuneration policy
- Creation of a Market Rental Agent Management Service Policy
- Board Members have also been appointed to the Crewe Lane LLP Board
- Loan Agreements for the first 3 show homes
- Internal audit governance review has been commissioned.
- MHL Financial Regulations

Policies that are in progress or are due to be agreed and require agreement between MHL Board and WDC are noted below but are in progress:

- Draw down arrangements for the remaining 59 dwellings to be purchased from the Crewe Lane JV for further long term and short-term loans.
- Creation of a new Milverton Homes Shareholder Representative Board & Quarterly reporting schedule'

2 Alternative Options

- 2.1** The assumptions underpinning the MHL BP could be left unchanged from those that underpinned the version approved by Cabinet in July 2023. This has been rejected as it would result in the MHL BP not reflecting the most up to date policies, strategies, and research on the conditions of the local housing and land markets. The plan would therefore not be able to deliver services in a way that is viable, maintain services and service the debts taken on by the Council.
- 2.2** Members and the MHL Board could choose to vary the assumptions within the MHL BP or agree alternative policies, service standards and investment options. If these alternative options were financially viable and deliverable, the MHL BP could be amended.

3 Legal Implications

- 3.1** The proposals are in line with current legislation where applicable.
- 3.2** Due to the commercial nature of the Joint Venture the appendices to the report contain a significant amount of commercially sensitive data and information. The Council has taken advice from legal services, and worked with MHL to ensure as much information as possible is available in the public domain. In prior years, the report and all appendices have remained confidential. The

current approach therefore improves transparency on what information needs to remain confidential.

- 3.3** The Council have requested that future iterations of the business plan continue to enable more of its contents to be publicly available. The confidentiality of the business plan and appendices will be reviewed in line with Legal advice with each iteration.

4 Financial

- 4.1** There is a significant financial responsibility linked with MHL being a 100% wholly owned subsidiary of the Council.
- 4.2** Ultimately the Council could be at great risk if any of the various financial models linked with MHL were to fail so it is imperative that the governance and financial monitoring of all elements of MHL are regularly reviewed, refreshed, and prioritised. This also stands with MHL’s various financial interactions with the Council.
- 4.3** In recent years Local Authority Companies have been a “Hot Topic” with various material operational, governance and financial failings being reported.
- 4.4** In July 2023, governance arrangements were reviewed, with one recommendation being the establishment of a Shareholder Representative Board. The MHL Board must be transparent and report to the Council in line with the Shareholder’s Agreement, as outlined within the Shareholder Representative Board Terms of Reference (Appendix 1).
- 4.5** Numerous legal and financial controls and mitigations are in place between the entities involved with MHL as per the professional legal and financial advice received, with the risks linked with ensuring that MHL continues to be a viable going concern being reviewed regularly through the established process.
- 4.6** Appendix B shows a detailed summary of the MHL BP 5-year BP after factoring in the recommendations and updates contained in this report.
- 4.7** This BP is underpinned by Share Capital issued to MHL from the Council. To date £877,831 has been issued, with a further £213,970 approved for 2023/24 as part of the July 2023 Business plan update to Cabinet.
- 4.8** The below table shows the MHL Working Capital Requirement split out by financial year which will enable MHL’s operations to continue and provide sufficient budget to explore further opportunities. The table shows that the forecast working capital required has increased by £490,745 from that presented in the July 2023 Business Plan update, going from £1,655,030 to £2,145,775.

| | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | |
|--|-------|-------|-------|-------|-------|-------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | Total |
| Set up Shares Issue | 200 | | | | | | 200 |
| Working Capital (Cabinet July 23) | 77.7 | 600.2 | 214 | 185.5 | 193.9 | 183.8 | 1,455 |
| Working Capital (Cabinet April 24) | 77.7 | 600.2 | 235.2 | 281.7 | 376.6 | 374.5 | 1,945.8 |
| Additional Working Capital Requirement | | | 21.2 | 96.3 | 182.6 | 190.6 | 490.7 |

- 4.9** The use of the additional working capital is set out on page 12 of the business plan.
- 4.10** The cost of the additional share capital to the General Fund will be mitigated by a dividend of equal value being paid to the Council in 2027/28.
- 4.11** The Table below shows a summary of the loans issued and potential loans linked with this BP to demonstrate the total level liability linked with the various elements of the MHL BP.

| Loan Description | Loan Capital £'m | Loan Liability |
|--|---------------------|-----------------------|
| Crewe Lane JV LLP - £60m Loan from Council | 60.0 | Crewe Lane JV LLP/WDC |
| MHL - Loan for MH to purchase 62 Dwellings | 20.5 | MHL/WDC |

- 4.12** Since the last business plan was published, the Council has sought further specialist advice with regards to issuing loans to commercial entities such as Milverton Homes, to ensure that the treatment of minimum revenue provision (MRP) continues to adhere to national guidance. This has been used to help determine the type and length of loan/s that can be offered by the Council to ensure that any risk to the Council is mitigated through compliance.
- 4.13** Appendix 2 outlines further financial appraisal of the business plan, but due to commercial sensitivities, these need to be treated confidentially.

5 Corporate Strategy

5.1 Warwick District Council has adopted a Corporate Strategy which sets three strategic aims for the organisation. Council Tax supports all strands of the Business Strategy by way of ensuring the necessary financial resources are in place.

5.2 Delivering valued, sustainable services.

The Council's Medium Term Financial Strategy seeks to allocate the Council's financial resources, including Council Tax, to ensure the Council's services continue to be provided in accordance with Council policies and priorities, and resources for projects are similarly prioritised.

5.3 Low cost, low carbon energy across the District.

The Council in partnership with Milverton Homes is focused on delivering housing to high environmental standards, contributing to reducing carbon emissions and creating an improved quality of life for those living in them.

5.4 Creating vibrant, safe and healthy communities of the future.

Milverton Homes was established to accelerate the provision of housing, including much-needed affordable housing in Warwick district, help shape communities and to act as a disruptor of the Private Sector housing market by providing a high-quality product at competitive prices.

6 Environmental/Climate Change Implications

- 6.1** Milverton Homes is committed to ensuring dwellings and operations are delivered to standards that meet the response to the Climate Emergency declared by the Council. The Council in partnership with Milverton Homes is focused on delivering dwellings and services which enable both entities to meet their Climate Emergency strategic outcomes.

7 Analysis of the effects on Equality

- 7.1** There are no direct equality implications arising as part of this report.

8 Data Protection

- 8.1** There are no data protection implications arising as part of this report.

9 Health and Wellbeing

- 9.1** MHL budgets provide the necessary resources to enable future tenants' needs to be met and support improvement of services relating to MHL Housing Stock.

10 Risk Assessment

- 10.1** If Milverton Homes was to fail, there would be no liability to the Council due to the Ltd Company nature of the business, but there would be some loss and reputational damage.
- 10.2** All risks associated with the formation and operation of the company will be entered into the project or corporate risk registers, where appropriate.
- 10.3** The MHL BP will continue to be regularly monitored and an annual update provided to Cabinet to ensure the financial model remains robust.
- 10.4** The interest rate charged by the PWLB fluctuates daily and, at the time of publication of the report, has increased during the period since the last business plan was presented in July 2023. Where borrowing is assessed as the preferred method of funding each scheme will be evaluated on viability including the cost of borrowing and if PWLB rates are deemed to be too high alternative modelling will need to take place.
- 10.5** WDC has ensured that its work with MHL is underpinned by prudent capital practices in line with capital and treasury frameworks, in particular ensuring that any arrangements meet legislation relating to Minimum Revenue Provision (MRP) and subsidy control. Since the last business plan was published, the Council has sought independent professional advice in this area to provide the necessary assurance and guidance so that WDC remains committed to compliance, transparency, and fairness in its current and future operations. This is important as it is an area that Government continues to monitor and strengthen legislation, following a small number of Councils undertaking improper practices resulting in underpayment of MRP and resulting in them facing significant financial challenges as a result.

11 Consultation

11.1 The Business plan and its supporting appendices (provided confidentially with this report) have been considered by the Milverton Homes Shareholder Reference Group on 24th and 31st January. As part of the terms of reference, the group will meet on a quarterly basis, with dates in January, April, August and November.

11.2 It is recommended that the MHL Business Plan continues to be reviewed and approved by Cabinet on an annual basis.

Background papers:

- (1)** 10th December 2020 Cabinet - The formation of a Local Housing Company
- (2)** 13th April 2021 Cabinet - Purchase of 248 s106 Plots and 62 Private Rented Stock (PRS) Units, Glasshouse Lane, Kenilworth
- (3)** 13th April 2021 Cabinet - Warwick District Council Loan to Glasshouse Lane, Kenilworth Joint Venture
- (4)** 25th May Cabinet 2022- Milverton Homes Business Plan Revision
- (5)** 5th July Cabinet 2023 – Milverton Homes Business Plan Revision

Supporting documents:

Appendix 1 – Milverton Homes Shareholder Representative Board Terms of Reference
Appendix 2 – Confidential Section 4 Financial Assumptions
Appendix 3 - Milverton Homes Business Plan
Appendix A - Business Plan Financial Assumptions
Appendix B - Detailed Revised 5-year Business Plan
Appendix C - 62 Dwelling Rental Model