

Appendix 3

BUSINESS PLAN – December 2015
Rev C

Property and CLT Development

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1 EXECUTIVE SUMMARY

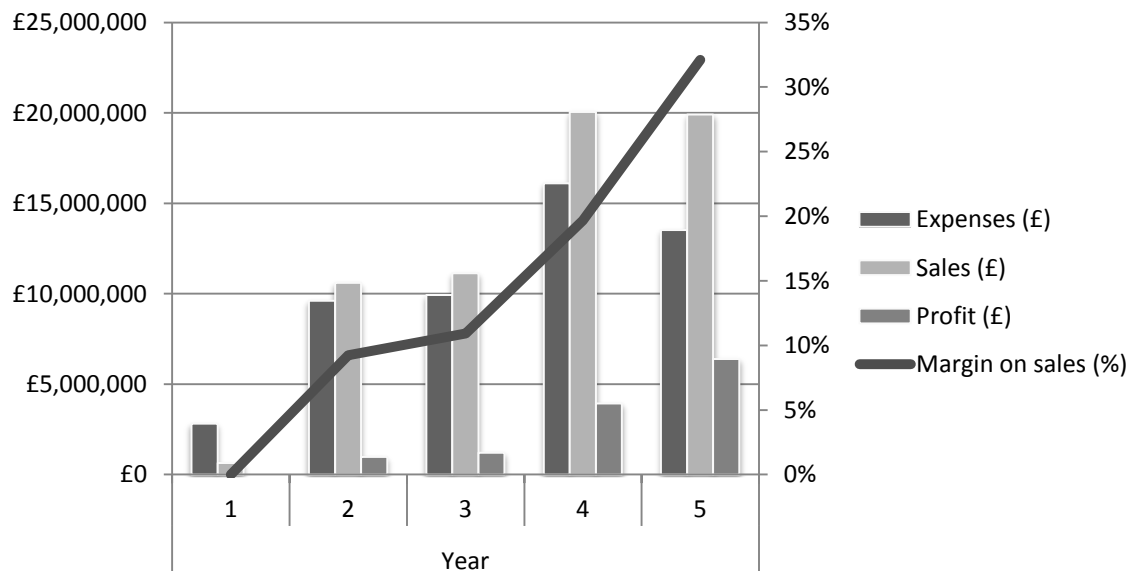
The Property and CLT Development Division of the LATC will harness community experience and local knowledge to deliver successful well-designed property developments which bring significant community benefit, are right for their place and respond to needs of the local market.

In doing so, in the first 5 years it will:

- Help to deliver a financially sound Council and enhance its reputation by maximising return from Council property assets and generating profits;
- Act as an exemplar, demonstrating to the Council the benefits of a commercial culture;
- Deliver genuinely affordable housing by accelerating the delivery of Community Land Trusts (CLTs);
- Make East Cambridgeshire an even better place to live by building at least 200 high quality homes across all sectors of the housing market;
- Improve local infrastructure by delivering appropriate, well-designed property developments;
- Create new jobs and funding by procuring goods and services locally;

The Property and CLT Development Division of the LATC will engage directly in commercial markets to deliver Development Consultancy Services, undertake Property Development and accelerate CLT Development across East Cambridgeshire, and potentially, beyond.

FINANCIAL PROJECTIONS YEAR 1 - 5



2 INTRODUCTION

2.1 Background and purpose

On 3 March 2015, Commercial Services Committee approved, in principle, the development of a business case for the establishment of a Local Authority Trading Company (LATC).

The Local Government Act 2003 restricts local authorities from making a profit from its services, although they are able to offset on costs. The Localism Act 2011 enables local authorities to undertake activities to make a profit but only if delivered within a company.

A LATC is a company established by the local authority in order to offer its services on a commercial basis. Local authorities can establish LATCs through the powers in Section 95 of the Local Government Act 2003, and the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009.

The Council is legally able to establish a wholly owned trading company where the Council retains full control over the direction of the LATC, and manages its risks and receives the benefits in full. The Council will be the sole shareholder.

The purpose of this document is to set out the business case for the Property and CLT Development Division of the company.

2.2 Strategic fit

The Council's Medium Term Financial Strategy (MTFS) 2015/16-2019/20 has an overall objective of achieving self-sufficiency from Revenue Support Grant by 2020.

In July 2015 the Council adopted the Corporate Plan 2015-2019. The Corporate Plan contains six key aims and each aim has objectives, priorities and promises.

(1)	Delivering a financially sound and well managed Council	A customer driven efficient Council with a 'can do' attitude and pro-business approach and commercially focused to ensure financial self-sufficiency for the taxpayer
(2)	Genuinely affordable housing	Genuinely affordable housing by local people for local people
(3)	A fantastic place to live	Making East Cambridgeshire an even better place to live
(4)	Improving local transport	Making it easier to get around the District and do business
(5)	Improving infrastructure	Appropriate developments with better infrastructure and improving Planning Service
(6)	New jobs and funding	Driving economic success by creating the infrastructure to attract businesses and create jobs

The Local Authority Trading Company (LATC) is a key part of achieving the aims of both the MTFS and the Corporate Plan. The LATC will provide the Council with the ability to do things it cannot currently do, specifically:

- Act as the developer and build out good, high quality homes,
- Accelerate the delivery of Community Land Trusts (CLTs),
- Procure goods and services locally,
- Create a commercial culture,
- Win contracts outside of the District, and
- Generate profits to meet the aims of the Council.

The LATC will focus on four key areas of work, specifically:-

- Maximising asset return,
- Increasing the delivery of CLTs,
- Delivering the Council's commercial services, and
- Providing consultancy services to both the public and private sector.

3 VISION

We believe in improving the quality of life of the taxpayer of East Cambridgeshire and we believe in the Council's objectives that are set out in the Corporate Plan 2015-2019. Our Property and CLT Development Division will support the Council in achieving these objectives.

4 MISSION STATEMENT

The Local Authority Trading Company Property and CLT Development Division will harness community experience and local knowledge to deliver successful well-designed property developments which bring significant community benefit, are right for their place and respond to needs of the local market.

5 STRATEGIC OBJECTIVES

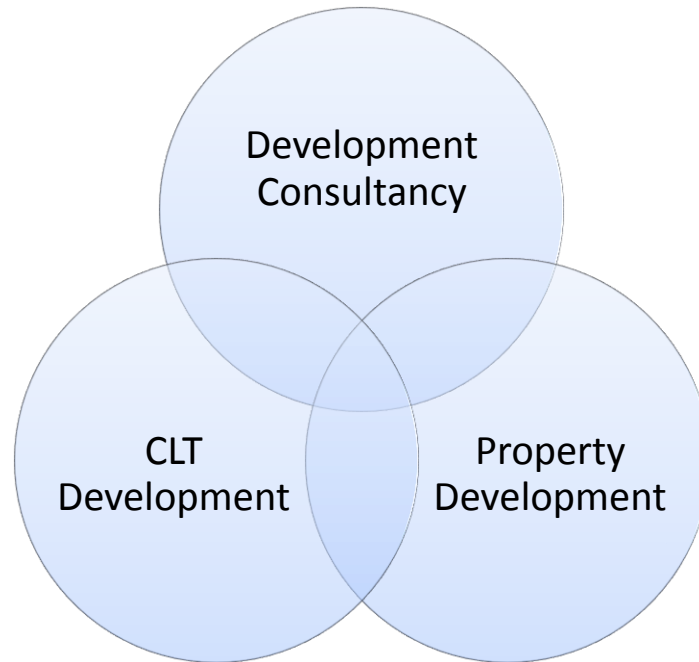
1. To establish the Company as a successful local developer with a reputation for delivery of high quality, well designed residential property.
2. To optimise the financial return from Council owned land and property.
3. To make a positive contribution to the delivery of more housing across the District to meet housing need in all segments of the market.
4. To recycle funds generated from these projects to support the corporate objectives of East Cambridgeshire District Council and enhance its reputation and financial viability.
5. To stimulate the growth of the Community Land Trust sector in East Cambridgeshire and open up a large enough market for the Company to thrive.

Services will be:

- *Flexible* – Innovative and responsive to the needs of the customer;
- *Local* – Wherever possible (and relevant) the Property and CLT Development division of the LATC will utilise local suppliers
- *Trusted* – Reliable services delivered by skilled, professional staff with a commercial attitude.
- *Well resourced* – Financial backing from the council will enhance its reputation and the credibility of the LATC.

6 SERVICES

The Company will be commercially driven, with three main services delivered to give a financial return.



6.1 Development Consultancy

6.1.1 For the Council

The Company will provide Development Consultancy services to the Council, identifying new development opportunities from within the Council Asset Register, preparing feasibility studies and managing planning applications to enhance commercial viability and add significant value to the property portfolio.

For this service, the Company will be paid a promoters fee equating to a percentage of Market Value. The fee will be payable when planning permission is obtained and the uplift in Market Value is crystallised. By linking the fee to Market Value, the Company will be incentivised to generate optimum financial return from these projects.

6.1.2 Other landowners

A similar consultancy service to that provided to the Council will also be softly marketed to other landowners or local authorities. However, care must be taken to ensure that any business opportunities of this kind do not lead to 'mission creep' or impact negatively on known existing / future local projects within the District.

6.2 Property Development

6.2.1 Council owned property

The first two sites that can be developed are land at Barton Road, Ely (6 houses and 5 flats), and land at The Vineyards, Ely (1 house). Other sites have also been identified within the Council portfolio as having significant development potential. Once planning permission has been obtained for development projects on Council owned sites the land will be transferred to the Company so that it can be developed or sold.

The land will be transferred to the Company at agreed Market Value with payment being deferred until completion of the project to assist with cash flow. Completed new homes will be sold on the open market or, in the case of affordable homes, transferred to an appropriate CLT or Housing Association at the best price obtainable.

The Company will adopt a minimum gross profit return target on these projects of 20% on ~~Sales~~ **Gross Development Costs (GDC)**.

6.2.2 Non Council owned property

It is highly likely that as the Company grows and develops a reputation for high quality residential development, other development opportunities will arise on land that is not within the ownership of the Council.

The Company may engage in acquisition and direct development of such land, provided the development project fits with the objectives and priorities of the council, is well designed, can be funded adequately without impacting on other projects and delivers the minimum gross target profit return of 20% on ~~Sales~~ **GDC**. Additionally, the Company may consider working in partnership with other developers, landowners or investors under joint venture arrangements on a case by case basis.

6.3 Community Land Trust Development

The Company will grow the CLT market by providing early stage expert support services to local communities that wish to establish a new Community Land Trust. Support will include assistance with project scoping, legal incorporation and site identification through a 'Call for Land' Process. This initial work is a necessary 'loss leader' to bring the CLT to the point where it can enter into a formal partnership arrangement with the Company to deliver a new CLT development project. The Council is aware of new CLTs emerging in Fordham, Kennet, Bottisham, Swaffham Bulbeck, Haddenham and Burwell and support services would be offered to these communities immediately.

Once a CLT partnership has been formed, the Company will act as lead developer, driving the consultation and planning promotion process to secure planning permission at the earliest opportunity so the Company can develop out the scheme. The first two CLT developments are likely to be in partnership with CLTs that have already been established in Soham and Witchford.

Private homes within the scheme will be sold on the open market and community assets (affordable homes, community buildings, open space etc) will be transferred to the CLT on practical completion. The cost of the community assets will be cross-subsidised by the private homes within the scheme, with the content of the scheme carefully balanced to ensure project viability.

As with the Council owned sites, the Company will adopt the minimum gross profit return target of 20% on ~~Sales~~ **GDC** for all CLT projects.

7 OPERATING MODEL

The Property and CLT Development Division of the LATC will operate in the buoyant local residential property markets across the District and will seek to consolidate the growth of the emerging Community Land Trust market.

For the Property and CLT Development Division of the LATC to flourish, it needs to be recognised as a credible and thoroughly commercial organisation, operating independently of the Council but with a clear mandate to help deliver the Council's objectives.

8 YEAR 1 OBJECTIVES

This business plan sets out the following specific targets for Year 1

- Secure planning permission on council owned land at Barton Road and The Vineyards.
- Commence development of these two sites completing 12 new homes by the end of year 2.
- Identify new development opportunities from Council owned property and promote these through the planning process on behalf of the Council.
- Provide early-stage specialist skills to establish further Community Land Trusts in the District by end of year 1.
- Progress new CLT projects to deliver at least 50 new homes by the end of year 3
- Develop a pipeline of future development projects that will deliver at least 200 new homes across the District by end of year 5.

These objectives will be reviewed on an annual basis.

9 STAFFING

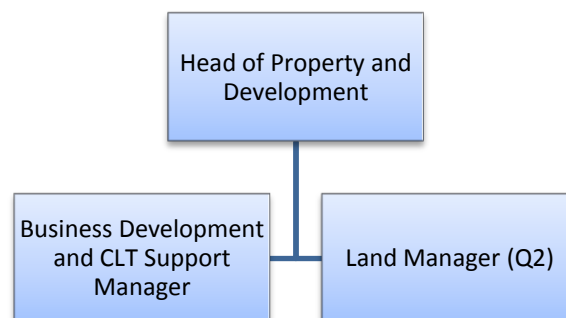
While the Council does currently provide some support services to CLTs, the establishment of the Property and CLT Development Division of the LATC will take the Council into competitive commercial markets where it does not currently have a presence. To do this, it is expected that most of the new staffing appointments for this Division of the LATC will be development professionals already operating in the local private sector market.

Potential recruits will be attracted by the exciting opportunity of being able to help build a small, but highly influential, local business with a strong reputation for high quality development, a commercial, but flexible, approach to working practice, and good remuneration packages that recognise effort through performance related pay / bonus arrangements.

The intention is therefore to recruit, develop and maintain a small dedicated team of highly skilled professionals who can drive the commercial growth of the Company to establish a strong presence quickly from a standing start. Initially, the team will be kept deliberately small to keep overhead costs to a minimum, with essential financial, legal, technical and construction expertise being sourced externally as required. In the medium to longer term, the Company will seek to grow its own people and develop its in-house capabilities in depth.

9.1 Key personnel – Year 1

In Year 1, the Property and CLT Development Division of the Company will employ the following full-time staff:



9.1.1 Head of Property and Development

The Head of Property and Development (HPD) has already been identified and will direct and control the Company's Property and Development operations. This person will also give strategic guidance and direction to the Managing Director and the Board to ensure that the Company achieves its mission and objectives. With strong land and property development skills and direct experience of bringing forward local CLT projects,

the HPD will take a hands-on approach to project delivery and development of a pipeline of business opportunities to secure medium to long term financial growth.

9.1.2 Business Development and CLT Support Manager

The Business Development and CLT Support Manager (BDCM) has already been identified and will work with the HPD to help improve the Company's market position and achieve financial growth. This person will help to build key relationships with Local authorities, Parish Councils, Community Land Trusts and Land and Property owners to identify and help secure new development opportunities. Given the Company's ambition to enter into partnership arrangements with CLTs, the BDCM will be responsible for planning and delivery of a programme of early stage expert support to local communities to help establish new CLTs as legal entities (and potential clients).

9.1.3 Land Manager

The Land Manager will be appointed in Q2 and will be responsible for identification, assessment, negotiation and acquisition of new development opportunities, as well as assisting with the promotion of projects by managing external consultants through the design and planning stages to maximise return. The Land Manager will help to deliver Development Consultancy services to the Council for Council owned sites and, working with the HPD and BDCM, provide important early stage Land and Development advice to CLTs.

9.2 Key personnel – Year 2 - 5

As the Company develops, additional staff will be employed and additional expertise will be developed in-house. The decisions to make all new appointments will be subject to a full business case but it is anticipated that the following key roles will need to be filled by Year 3.

9.2.1 Development Manager

The Development Manager is responsible for the management of projects from completion of the planning stage through the pre-design and pre-construction phases; overseeing all design issues and coordinating with the external consultants and contractors that will progress the build process to completion.

9.2.2 Sales Manager

The Sales Manager will create marketing strategies and materials, and manage new site set ups, sales releases and pricing. The Sales Manager will manage and motivate an external Sales and Legal team that is capable of achieving the Company's objectives through support, control and development whilst at all times ensuring the team enhance the Company's reputation to prospective and existing customers and deliver high standards of customer service.

10 Supplies, Systems and Infrastructure

ECDC will continue to provide support services to the Property and CLT Development division of the LATC through a managed service agreement.

The LATC will establish contractual Service Level Agreements (SLAs) with each support service from its first day of trading. This will include measurable performance indicators, break clauses and remedies for non-performance.

Once the LATC is operational there will be an annual review process whereby SLAs are refined to more accurately reflect the support the Property and CLT Development division of the LATC needs.

Support Services include:

- HR Support, including recruitment and training
- Payroll
- Finance- transactional finance functions and financial controller activities
- IT- provision of IT equipment and services- including helpdesk support
- Insurance provision (buildings, vehicles, employers and public liability)

11 Use of External Suppliers

The company will seek to use local external suppliers where the appropriate service can be competitively sourced. For large construction works contracts exceeding the EC threshold of £4.3 million, OJEU procurement principles will apply.

12 Property and Assets

The Head Office of the LATC will be The Grange, Ely.

12.1 Property and CLT Development Division

For the first six months of operation, the Property and CLT Development Division will operate from the Grange, Ely and a reasonable rent will be charged by the Council to the LATC. In order to be flexible, office accommodation requirements will be reviewed again after six months of operation.

13 Information sharing

An Information Sharing protocol will also be developed during implementation.

14 Data Protection

The Property and CLT Development division of the LATC will comply with the relevant legislation and guidance concerning Data Protection, including adopting suitable policies and procedures to ensure data is adequately safeguarded.

15 Freedom of Information

As a company wholly owned by ECDC, the Property and CLT Development division of the LATC will be subject to requests for the disclosure of information under the Freedom of Information Act 2000 (FOI) in its own right. As such, the Property and CLT Development division of the LATC will maintain a record management system that complies with the relevant guidance concerning the maintenance and management of records.

The Property and CLT Development division of the LATC will liaise with ECDC as appropriate to ensure consistency in answering FOI requests and provide such information to ECDC as it may require to answer requests it has received.

16 Marketing Strategy

In line with our Vision and Values, the Property and CLT Development Division will build its Marketing Strategy and an identifiable brand by presenting a Unique Selling Proposition (USP) to potential customers.

- For the council the Company will provide the opportunity to optimise financial return from Council owned land and property and have greater control over how and when it is developed.
- For other landowners the Company will provide reliable and professional expertise and an ability to generate value from land and property more quickly.
- For CLTs and local communities the Company will be a trusted, well-resourced development partner that shares its local focus and has particular expertise in working with CLTs and local Communities.
- For property purchasers is the Company will provide high quality homes, within exemplar design-led developments and will offer a high standard of customer service.

17 Business Development

The Property and CLT Development Division will build key customer relationships from a network of potential clients that will include local Land and Property owners, Local authorities, Parish Councils and existing / emerging Community Land Trusts. The future success of the company will depend on its ability to unite this divergent set of clients around a common aim; to

build high-quality, well-designed new developments that are both commercially successful and right for their place.

18 Future Commercial Opportunities

Opportunities may arise in the future to develop a range of property management services specifically targeted at local CLTs and other landlords. Some local CLTs may not have the capacity, or the desire to actively manage Housing and Commercial property that they acquire from some of the Company's projects on a day to day basis. It is quite conceivable that the Company could develop property management services by utilising some of the skills already in place at the Council.

The annual review of the business plan will identify opportunities for business development. A business case will be brought before full Council proposing new or extended services to be offered by the Company.

19 Financial Projections

The financial projections for years 1 - 5 are outlined in the table below.

PROPERTY AND CLT FUNCTIONS		Year 1	Year 2	Year 3	Year 4	Year 5
5 Year Summary						
INCOME						
Development Consultancy Fees		47,500	-	-	150,000	-
Property Sale Receipts		600,000	10,600,000	11,141,667	19,906,667	19,906,667
Total Income		647,500	10,600,000	11,141,667	20,056,667	19,906,667
EXPENDITURE						
Professional fees		246,500	300,000	120,000	-	-
Land Costs		150,000	1,650,000	1,500,000	-	3,000,000
Construction costs		1,866,667	6,734,333	6,779,000	14,265,000	9,510,000
Sales and marketing costs		9,000	270,000	305,000	540,000	540,000
CIL and S106 costs		276,250	242,500	770,000	850,000	-
Abortive Project Costs		20,000	20,000	40,000	40,000	40,000
Staff Costs		239,173	370,710	370,710	370,710	370,710
Staff Travel		12,000	20,000	20,000	20,000	20,000
Staff Training		8,000	12,000	20,000	28,000	36,000
Total Expenditure		2,827,589	9,619,543	9,924,710	16,113,710	13,516,710
Gross Profit	-	2,180,089	980,457	1,216,957	3,942,957	6,389,957

Note: Some of the costs shown will be incurred in the period leading up to the Company being formed. Additionally, some of the costs e.g. Community Infrastructure Levy, S106 Commuted sums, Planning fees, Interest payments and some of the Contribution to Main overheads will be paid by the Company to the Council.

20 SWOT and Risk Analysis

20.1 Strengths:

- Opportunity for the LATC to capitalise on ECDC reputation and develop the business as a trustworthy and well-funded development partner for local communities and CLTs.
- Strong existing connections with Communities, Parish Councils and Planners will allow the LATC to respond quickly emerging local initiatives and proactively progress them.
- Specialist commercial expertise, with professionals that can drive mainstream Property Development and Community Land Trust Development Projects.
- Existing expertise available 'in house' with rare ability to provide early stage support to emerging CLTs.
- LATC will have immediate access to Council portfolio of land and property with potential to create a strong pipeline of future development projects that will underpin the business.

20.2 Weaknesses:

- ECDC inexperienced at developing commercial companies working in competition.
- Decisions will need to be taken quickly if the LATC is able to respond to market opportunities when they arise.
- CLTs projects have historically been slow to progress unless they have had access to excellent professional support and the required levels of finance.
- There is the potential for perceived political bias in the way that the Company operates.

20.3 Opportunities

- High demand for new housing at all levels of the market and low level of current supply so investment risk is reduced.
- Few local competitors producing design-led, high quality property will make the LATC the developer of choice for landowners and communities.

- Growing local interest in CLTs sparked by successful projects in Stretham and Swaffham Prior will create new market opportunities.
- Most other commercial developers are reluctant to engage in CLT development as they perceive it as difficult and time consuming.

20.4 Threats:

- Property market can be subject to volatility in cost and sales.
- As the CLT market develops, new competitors may emerge.
- As house prices strengthen, other local developers may up their game in terms of design quality and presence in the local market.
- Housing and Planning are key policy areas for all political parties and future changes to legislation have the potential to create adverse conditions for the Company.

20.5 Commercial Risk

The key risk is around the Council's inexperience in delivering commercial services through a Company. It is, however, a shift in approach taking place throughout the Council, building on the broader work being done, and the appointment of key personnel with strong market experience will allow the risk to be managed.

The level of risk exposure is deliberately small in the formative years of the Company, with risk limited to specific projects for which there is a clear financial objective.