

Part A

**Report to:** Cabinet

**Date of meeting:** 5 June 2023

**Report author:** Head of Finance

**Title:** Watford Commercial Services Business Plan update

**1.0 Summary**

1.1 This report updates the Members with the Watford Commercial Services (WCS) five year Business Plan 2023/24 to 2027/28. This report is authored by the Executive Director of Place in his capacity as Chair of the WCS Board and on behalf of the other board members.

**2.0 Risks**

2.1

<b>Nature of risk</b>	<b>Consequence</b>	<b>Suggested Control Measures</b>	<b>Response</b> (treat, tolerate, terminate or transfer)	<b>Risk Rating</b> (combination of likelihood and severity)
That Cabinet does not approve the WCS annual Business Plan	Will cause delay to the delivery of programme and the councils housing objectives	Cabinet to approve the annual Business Plan	Treat	1x4=4
Investment with a counterparty that subsequently defaults	Recovery of principal will take longer	Invest in accordance with the Council's Treasury Management Policy	Treat	2x4=8
That the estimates used in the Hart Homes Business Plan will not be sufficiently accurate.	Budget not correct	Mitigate through regular budget monitoring and sensitivity/scenario planning	Treat	2x4=8

Delay of programme delivery	Delay to housing targets and potential budget overspends	Mitigate through regular progress monitoring	Treat	3x2=6
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### 3.0 Recommendations

- 3.1 Approve the Watford Commercial Services Business Plan for 2023/24 to 2027/28 attached as appendix 1;
- 3.2 Note that the business plan reflects an indicative timeline for the progression of development schemes within the Hart Homes Development LLP. The WCS Board note that due to market conditions schemes are likely to slip from projected timelines, with the implication that investment and returns will happen later than those projected.

**Further information:**

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**Report approved by:**

Tom Dobrashian, Executive Director of Place

### 4.0 Detailed proposal

- 4.1 Whilst the full Business Plan is appended as a part B report due to the commercial sensitivity of potential schemes a brief summary of the plan is set out below:
- 4.2 WCS has been established by Watford Borough Council (WBC), for the purpose of facilitating the joint venture arrangement with Watford Community Housing Trust to form Hart Homes (Watford) Development LLP (HHWDLIP) and to also enable the Council to trade and act for commercial purposes beyond the joint venture.
- 4.3 The objectives of the LLP are: -
- To increase the supply of housing for sale and rent
  - To generate additional income streams to enhance the core objectives of WBC and the Trust
- 4.4 This will be achieved through maximising the potential of existing assets within Watford and actively seeking opportunities inside and outside the Borough, although the latter is constrained by government guidance.

4.5 Additional commercial purposes beyond the joint venture are yet to be developed in detail and as such this business plan will focus on the activities of the LLP. Further business plans will be prepared for approval as additional commercial activities are developed.

### **Business Model**

4.6 WBC and the Trust have agreed that the LLP will be a Limited Liability Partnership with equal investment by the members to facilitate projects and equal subsequent profit distribution.

4.7 To maximise the return generated by the initiative, a structure has been devised which will ensure

- that the regulatory requirements of the members are met
- the most efficient use of assets and capital to generate returns
- enable the venture to develop housing for sale
- act as developer for Hart Homes (Watford) Ltd for housing for rent

4.8 The LLP will undertake development of property for sale and will be instructed by WBC and the Trust, through their subsidiaries WCS and Clarendon Living, to deliver any schemes. It will also act as developer for the Ltd Company in respect of properties to be retained for rental.

### **Aims and Objectives**

4.9 WBC and the Trust have agreed that the joint-venture will seek to increase the supply of affordable housing, primarily in Watford Borough and undertake development opportunities which will generate profit for the benefit of the members' organisations

4.10 It is an aspiration that the LLP's activities should increase the supply of affordable housing through the sites which it develops and, dependent upon the individual circumstances, may provide a greater proportion than would be required through any planning obligations. It is noted that viability issues are impacting the level of affordable housing in many schemes in Watford, with the rise of construction costs, and cost of living impacting values. Affordable housing which has an element of rented tenure will be developed on behalf of Hart Homes Watford Limited, which will own and manage such properties.

4.11 Affordable housing in this case may mean low-cost home ownership products, or other variants which may become appropriate through changes in subsidy arrangements, or enactments of new legislation.

- 4.12 The members are also cognisant of the national shortfall in housing production as a whole and sees its production of market sale homes as a significant contribution to ameliorating this aim.
- 4.13 Both WBC and the Trust has a significant stake in developing and improving the Borough of Watford, however the LLP activity is not constrained by its boundaries. The LLP will consider projects which lie within one-hour's travel from the registered office, which will broaden the opportunity-base, whilst not overstretching management capability.
- 4.14 Similarly, projects containing an element of non-residential accommodation would be considered if appropriate commercial returns are achieved.

## 5.0 **Implications**

### 5.1 **Financial**

- 5.1.1 The Shared Director of Finance comments that the budget to enable Hart Homes Development LLP to progress further development opportunities is included within the agreed capital programme budget which was approved by the Council in January 2023. However, these values are estimated as the exact value and timing of the transfer of land into the Joint Venture is uncertain. Updates will be provided to the Shareholder Board and through the Financial Monitoring Report to Finance Scrutiny Committee and Cabinet.
- 5.1.2 The business plan includes an indicative requirement for a development loan. This will be added to the Council's capital programme subject to and upon agreement of a loan facility between the Council and the Hart Homes Development LLP.
- 5.1.3 The Council holds the Riverwell reserve to manage the timing impact of delays in the receipt of expected returns from the Joint Venture which will arise if the progress of development schemes is delayed as a result of market conditions.
- 5.1.4 It is anticipated that a dividend will be received by WCS Ltd in the first quarter of 2023/24 from HHWLLP. Following this, the board of WCS will meet to agree the onward distribution of the dividend through a dividend to the shareholder or Gift Aid donation. In making the decision, the company's tax position will be considered.

### 5.2 **Legal Issues (Monitoring Officer)**

- 5.2.1 The Group Head of Democracy and Governance comments that the Business Plan must be approved by Cabinet on behalf of the council as sole shareholder. Currently the main business of the Company is to act as a 50% partner in a joint venture with Clarendon Living Limited (the commercial arm of Watford Community Housing) to develop housing.

### 5.3 **Equalities, Human Rights and Data Protection**

5.3.1 Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

### 5.4 **Staffing**

5.4.1 There are no implications.

### 5.5 **Accommodation**

5.5.1 There are no implications.

### 5.6 **Community Safety/Crime and Disorder**

5.6.1 There are no implications.

### 5.7 **Sustainability**

5.7.1 Hart Homes is bound by planning and building regulation requirements on sustainability. Sustainability measures in current developments include:

- modern energy efficiency methods and all electric.
- electric vehicle charging points
- relocation of protected species prior to development
- maintenance of existing cycle during developments and improvements within the completed scheme.

## **Appendices**

- Part B Appendix 1 WCS Business Plan 2023/24 to 2027/28

## **Background papers**

No papers were used in the preparation of this report.