

Report of	Assistant Director Colchester Commercial Holdings	Author	Graham Lewis ☎ 288960
Title	Colchester Commercial Holdings Limited Business Plan		
Wards affected	All Wards		

1. Executive Summary

- 1.1. This reports sets out the business plan for Colchester Commercial (Holdings) Limited (CCHL) which combines all high level goals, financial targets and personnel functions from the subsidiary companies.
- 1.2. The report recommends that Cabinet approves the CCHL business plan including the revenue and capital assumptions and implications for the Council's budget.

2. Recommended Decision

- 2.1 To approve the CCHL business plan including the revenue and capital assumptions and implications for the Council's budget.
 - To include the borrowing forecast in the capital programme on the assumption of the £31m borrowing requirement shown within this report.
 - To approve the Direct Trading Income Targets and Council Asset Income Targets with the Council for the next three years of the business plan.
 - To approve that any Direct Trading Income surpluses above the Income Target will be retained by CCHL either for reinvestment or holding as future reserves.

3. Reason for Recommended Decision

- 3.1. Cabinet agreed to create CCHL to enable Colchester Borough Council to operate its direct trading services and development functions within a more commercial culture and environment to address the challenges of ongoing Council wide budget reductions. The business plan sets out the projected financial position for CCHL and the borrowing requirement from the Council over the next three years.

4. Alternative Options

- 4.1 The Council could decide not to approve the business plan but this would limit its ability to meet financial, economic and environmental targets within the Corporate Plan.

5. Supporting Information

- 5.1. In June 2017 Cabinet approved the creation of Colchester Commercial (Holdings) Limited (CCHL) on 14 June 2017 as a holding company solely owned by Colchester

Borough Council (the Council) with three separate trading businesses offering distinct products, services and opportunities;

- Colchester Amphora Energy Ltd (CAEL)
- Colchester Amphora Homes Ltd (CAHL)
- Colchester Amphora Trading Ltd (CATL)

The CCHL and subsidiary remit can be broken down into four distinct areas;

Build Houses

CCHL via its subsidiary Colchester Amphora Homes Limited (CAHL) will provide 300 high quality new homes within the Borough, delivering 30% affordable dwellings together with market homes for rent and sale. The first phase within this business plan period will build new homes on 4 sites transferred from the Council to CAHL at market value. The development will be funded by Colchester Borough Council by way of a loan at market rate. Interest on the loan will be rolled up and repaid to the Council as soon as the first housing sales are made.

The peak borrowing requirement for the development is £29.7m. It is anticipated that all borrowing will be repaid to the Council by 2030/31 or earlier if sales performance stronger than projected. The Company pays a minimum annual dividend to the Council of £0.7million per annum from 2030/31, or once all borrowing costs from this initial phase are repaid.

Provision of Energy services

CCHL via its subsidiary Colchester Amphora Energy Limited (CAEL) will deliver within this business plan period, new localised heat networks and subsequent energy service provision to the north of Colchester. The company will also take forward new initiatives for the generation of energy in the Borough which provide a commercial return for the Council. The total cost of the project is estimated to be £5.8m .CAEL has secured grant funding of £3.3m plus an additional £200k for commercialisation from BEIS and intends to take a loan direct form the Council for the remainder.

Trading

CCHL via its Colchester Amphora Trading Limited (CATL) will offer a range of commercial trading businesses and services to customers which will generate new levels of income for the Council. CATL business offering can be split into two key functions;

Firstly, it will deliver a range of direct commercial trading services, including Helpline, Monitoring and CCTV and Events.

Secondly, the company will offer a range of professional property and business services initially to the Council and to external clients as the company grows. These services include estates management of the Council's assets, economic development and business support services and commercial development and regeneration project management.

Senior Management

CCHL will provide the Senior Management service and strategic direction to the Council's Sport and Leisure function and across the other subsidiary companies. This ensures that the Sport and Leisure service takes advantage of the growing commercial culture and skills within CCHL and ensures the subsidiaries are managed and monitored in accordance with the target budgets and other KPI's agreed with the Council under its Management Agreement.

6. Financial Implications and Funding

6.1. Capital Borrowing

Financial models currently imply peak capital borrowing of £28.8m for CAHL and £2.5m for CAEL from the Council. The peak funding requirement is £31.3m. The quantum and timing of the funding is dependent on the phasing of the developments. The table below shows the anticipated drawdown of funds:

Financial Year	CAHL	CAEL	Total Borrowing
	£000's	£000's	£000's
2017/18	836	-	836
2018/19	2,671	-	2,671
2019/20	7,707	2,554	10,261
2020/21	11,301	-	11,301
2021/22	6,120	-	6,120
2022/23	-	-	-
2023/24	125	-	125
Total	28,760	2,554	31,314

The first housing sales receipts are anticipated towards the end of financial year 2021 and will be used to reduce the borrowing with the Council. However all debt is not paid off until 2030 as the affordable housing units are retained within CAHL and rented out once completed. If site sales perform better than expected then debt can be paid off sooner which means dividends also will be payable sooner to CCHL.

Capital expenditure in CAEL will be part financed by a grant originally from the government's Heat Network Unit, resulting in a borrowing requirement of £2.5m from the Council. The Council will loan the required capital to CAEL at market rates and It is anticipated that this will generate a return to the Council for its capital invested of approximately 7.34%.

6.2. Revenue Income and Expenditure Summary

The table below summarises the projected revenue income and expenditure for CCHL over the next three years:

Financial Year	2018/19 £000's	2019/20 £000's	2020/21 £000's
	£000's	£000's	£000's
Income	(1,583)	(1,592)	(1,595)
Expenditure	1,583	1,485	1,380
(Surplus) /Deficit	-	(107)	(242)

Any Direct Trading Income surpluses over and above the targets outlined will be retained by CCHL either for reinvestment or, in agreement with the Council, holding as future reserves.

6.3. **Asset Income Targets**

Asset income targets for the company to meet on behalf of the Council are £3.4m in 2018/19, £3.4m in 2019/20 and £3.6m in 2020/21. The income generated by these assets, which remain in Council ownership, will be paid direct to the Council with the company acting as a managing agent. This management agent role, alongside a range of other core professional services including programme and project management, strategic asset management and economic and business support will be “bought” by the Council from the company by way of a management fee.

7. **Governance**

- 7.1 The CCHL Business Plan will be delivered in full compliance with the governance requirements set out by Colchester Borough Council.

The Board will establish and maintain an effective service and financial performance management reporting system which will include effective reports to the CCHL Board and the Cabinet.

This business plan provides for sufficient support and leadership from Non-Executive Directors, a Managing Director and an Independent Chairman.

The CCHL Board of Directors shall comprise:

- The Chairperson
- 3 Elected Member
- 4 Senior Officers; Chief Executive, Assistant Director, Commercial Services Manager and Finance Manager.

Board meetings will be held every 6 weeks.

8. **Strategic Plan References**

- 8.1. The proposal contributes to the Council's aim to be more financially sustainable and also delivers against the following areas in the Strategic Plan of Regenerating our borough

through buildings, employment, leisure and infrastructure and bringing investment to the borough.

9. Consultation and Publicity Considerations

- 9.1 No specific issues in respect of this report, however, publicity and consultation will be considered for specific projects as appropriate.

10. Equality, Diversity and Human Rights, Community Safety and Health and Safety implications

- 10.1 None identified at this stage.

11. Risk Management Implications

- 11.1 The key financial risks associated with CCHL concerns the financial risk attached to the delivery of income targets (capital and revenue) and management of costs. This will be managed through regular monitoring and reporting on the company's financial position.

Appendices

Appendix A – Colchester Commercial Holdings Ltd Business Plan 2018-21

Appendix B – Report to Cabinet 15 March 2017 – Colchester Northern gateway Heat Network

Appendix C - Report to Cabinet 14 June 2017 - Colchester Housing Development Company



Appendix A

Colchester Commercial Holdings

Colchester
Commercial
Holdings Limited
Business Plan
2018-2021



Colchester Commercial Holdings Limited

Business Plan 2018-2021

Contents

Executive Summary	3
Outline Mission and Strategic Approach to Delivery	3
Our business and governance structure	5
Products and Services	5
Relationship with our parent company	7
CCHL Business goals	8
Financial summary	9
Taxation implications	14
Marketing Strategy	15
Procurement Approach	15
Risk Management	15





Colchester Commercial Holdings

Colchester Commercial Holdings Limited Business Plan 2018-2021

1. Executive Summary

Colchester Commercial (Holdings) Limited (CCHL) is a holding company solely owned by Colchester Borough Council (the Council) with three separate trading businesses offering distinct products, services and opportunities. This CCHL business plan consolidates the subsidiary company activities into a high-quality commercial offer which maintains the strong public sector ethos of its shareholder.

CCHL will ensure that the three trading companies Colchester Amphora Homes Limited (CAHL); Colchester Amphora Energy Limited (CAEL) and Colchester Amphora Trading Limited (CATL) deliver against their individual business plan targets, projected financial performance and key performance measures over the next three years. The Holding Company will at all times demonstrate a commitment to sustainability, providing senior management direction into the subsidiary companies to enable them to deliver new homes for local people, develop key infrastructure and provide low-carbon energy solutions to Colchester communities. In addition, we will monitor the direct trading activities and commercial income generation of Colchester Amphora Trading Limited (CATL)

The Board of CCHL is made up of four Councillors from the Council and the Managing Director of CCHL. This representation allows the parent company to offer direction to the holding company and its subsidiaries whilst providing it with the freedom to operate in a fully commercial marketplace, enabling swift decision making processes to capitalise on revenue generating opportunities as they arise and driving forward delivery as outlined in the agreed business plans.

To minimise costs and ensure maximum returns, all subsidiary companies will be co-located and will “buy” services from the parent organisation, Colchester Borough Council, through a service-level agreement.

The Company will provide a range of services to the Council through a management agreement which will comply with TECKAL regulations but will also, over time, develop and offer a range of services and activities to new markets, which may include other public sector bodies and private businesses.

2. Outline Mission and Strategic Approach to Delivery

CCHL provides the strategic direction, financial performance monitoring and senior management capacity for the three subsidiary trading companies. This approach ensures a strong blend of private and public ethos, with a consistent culture which suffuses the subsidiaries; and it allows the core skills of financial management, commercialism and leadership to be provided within the senior management of CCHL.

The diagram below outlines the CCHL and subsidiary structure.



Colchester Commercial Holdings

CCHL will ensure that its subsidiary companies develop and offer only the highest-quality products and services to the Council and other external customers. It aims to stimulate growth of its subsidiaries year on year, offering a growing source of income to its shareholder and meeting other key targets such as the provision of new homes and jobs in Colchester, new ways of supporting the care sector and improving the quality of life for local residents.

We believe we can achieve success over the next three years by building upon:

1. Strong leadership skills and senior management capability
2. Focused and achievable income targets – CCHL will monitor income and wider performance across all three subsidiaries
3. Strong project management and development management skills – we will continue to manage projects for the local authority whilst developing new packages of services to be offered externally
4. Clear marketing and business development goals – we will ensure business development and marketing expertise is appropriately resourced across all three companies
5. Low setup costs by using many existing council services through a service-level agreement (an SLA)
6. Existing partnerships and relationships within the business community

The holding company structure also allows for all three subsidiary trading company finances to be brought together into one consolidated account. The holding company also acts as a single point of reference to which the parent company (the Council) can present proposals in relation to funding and borrowing decisions, further commercial opportunities and scrutiny against plans, performance and delivery.

Although CCHL is a holding company, it does undertake some trading activities as it will provide the senior management service and strategic direction to the Council's Sport and Leisure function. This ensures that the Sport and Leisure service takes advantage of the growing commercial culture and skills within CCHL. The Council will pay a management fee to CCHL for performing this role alongside the other services provided by the subsidiary companies to the Council.

This consolidated CCHL Business plan combines all high-level goals, financial targets and personnel functions from the subsidiary companies. However, each subsidiary also has its own business plan outlining detailed goals, financial targets and operating processes and strategies.



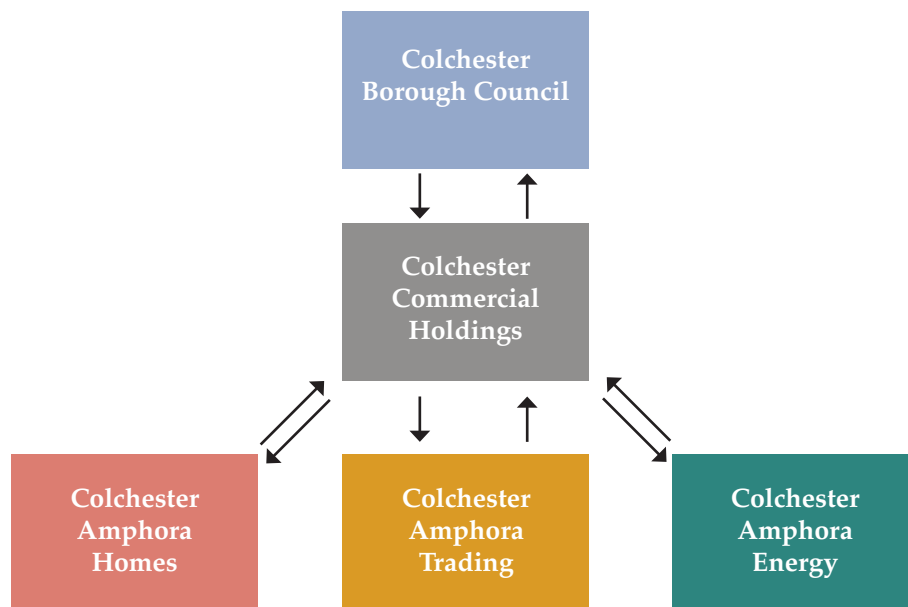
Colchester Commercial Holdings

3. Our business and governance structure

As a holding company providing monitoring, strategic direction and senior management support to the operational activities and services within the subsidiary companies, we have kept our staffing structure to a minimal level to keep costs low.

CCHL will have the following staff: a Managing Director (part time), Assistant Director, Finance Manager and Company Secretary, Senior Commercial Manager and Personal Assistant.

The diagram below outlines the CCHL and subsidiary structure.



Each of its trading subsidiaries - Colchester Amphora Energy Ltd, Colchester Amphora Homes Ltd, Colchester Amphora Trading Ltd, have their own business plan and Board of Directors. They will be responsible for the specific delivery of their targets.

CCHL, however, will look at the more strategic delivery of outcomes: the financial position including borrowing, repayments, cash flow and return; the professional services which CBC is asking it to provide; and the profit / loss position of its income-generating services.

4. Products and Services

As a Holding Company, CCHL has limited trading activities, instead providing a strategic and monitoring overview to its subsidiaries.

However, the company will provide senior management services to the trading subsidiaries through the Assistant Director and the Senior Commercial Manager.



Colchester Commercial Holdings

In addition, the Senior Commercial Manager will provide leadership and senior management, performance management and strategic direction to the Council's Sport and Leisure Service through a Management Agreement entered into with the local authority. Managing this Council-owned service through the Holding company will provide a strong level of performance scrutiny, increased commercial culture and high levels of customer service.

The Holding company will also monitor performance against both financial and non-financial targets of the following subsidiary companies and carry out a Company Secretary role for all:

Colchester Amphora Energy Ltd (CAEL)

This company will look to provide a range of energy services, projects and initiatives, including heat networks, within the Borough. Its initial major project is to create a District Heat Network at Northern Gateway in Colchester. As North Colchester is developed by CBC, the owners and tenants will take their heating requirements from CAEL. The infrastructure for the project will be funded from a government grant and by loan finance from the Council, who will be investing in the project to generate a commercial return. CAEL will then operate the heat network, either directly or via a third-party operating contract and generate a commercial return from heat sales.

Colchester Amphora Homes Ltd (CAHL)

CAHL is a housing development company which will initially purchase four sites, currently in Council ownership, to deliver 300 new dwellings within this business plan period. The company will ensure that 30% of all homes are delivered as offered on an affordable rent basis for local people in Colchester – this means 90 new affordable homes in this Plan period.

CAHL will pay market value to the Council for its sites. It will also take loan finance from CBC to fund the development phases and, once all borrowing has been repaid, CAEL will pay dividends back to the Council via CCHL.

During the business plan period, CAHL will be identifying further sites which can then be purchased to continue the pipeline of housing development. Further site purchase will require a business case to be presented to CCHL and to the Council if loan finance is required or Council assets have been identified.

Colchester Amphora Trading Ltd (CATL)

This company manages a range of trading businesses on a direct commercial basis to increase both income and improve profit which can then be returned to the parent company, CCHL. The company will also provide a range of core professional services to the Council and, in time, to other organisations and businesses in relation to property, estate management, economic regeneration and commercial development.

CATL will develop a unique commercial culture in order to maximise income generation and operate successfully with the diverse range of activities and services it provides. However, as a company wholly owned by the Council, it must counterbalance that commercial mindset with a public sector ethos.



Colchester Commercial Holdings

5. Relationship with the Parent Company

As a wholly owned local authority company, CCHL will be providing a large percentage of its services and that of its subsidiaries direct to the Council. These services include commercial development feasibility work, business sector developments, inward investment, estates and asset management, together with senior management support provided to the Council's Sport and Leisure service. The company and its subsidiaries will also be managing a range of direct trading businesses, delivering a pipeline of new homes in the borough and creating new commercial opportunities from energy projects. CCHL will also be paying CBC to provide a range of support services to the Company.

Services provided to the Council from CCHL and its subsidiaries will be set out in a management agreement. This agreement will outline a schedule of core services to be provided, together with a management fee which will be paid to CCHL for this plan period. The Agreement will also include a fee schedule for non-core services provided by CCHL, which the Council may wish to take up. The range of services may also be offered to external customers.

Services delivered to the Council in return for the management fee are outlined below:

CORE SERVICE DELIVERED	DESCRIPTION	INCLUDED IN MANAGEMENT FEE?	NON CORE ACTIVITY
Estates and Asset Management within CATL	Provision of a range of estates services including portfolio and valuation management, asset reviews, disposals and acquisitions, Right-to-Buys, investment and development advice, provision of GIS service to agreed internal CBC customer	Yes	GIS services provided to wider CBC and non-CBC customers
Commercial and Economic Development within CATL	Provision of business liaison, business sector support and development, inward investment activity, project feasibility and initiation and project management advice	Yes	Full development management service for new projects with approved business cases
Housing Development	Development of 300 new homes across 4 sites in Colchester with 30% affordable units delivered. Service delivered by Colchester Amphora Homes Limited.	Yes for senior management support and strategic direction, financial and performance monitoring by CCHL Board	Development management support for CBC's own council house development under Housing Revenue Account
Energy Company developments and services	Development of new district heat network at Northern Gateway, together with other new income-producing low carbon energy initiatives. Service to be delivered by Colchester Amphora Energy Limited	Yes for Senior Management support and strategic direction, financial and performance monitoring by CCHL Board	
Senior management and finance support of direct commercial trading companies	A range of direct trading activities will sit within CATL with senior management and finance management provided by CCHL	Yes for senior management support to direct trading activities	
Senior leadership and strategic direction, financial and performance management of the Council's Sport and Leisure service	CCHL Senior Commercial will provide ongoing leadership and senior management input into the running of the service, including Leisure World and the new Northern Gateway Sports hub		

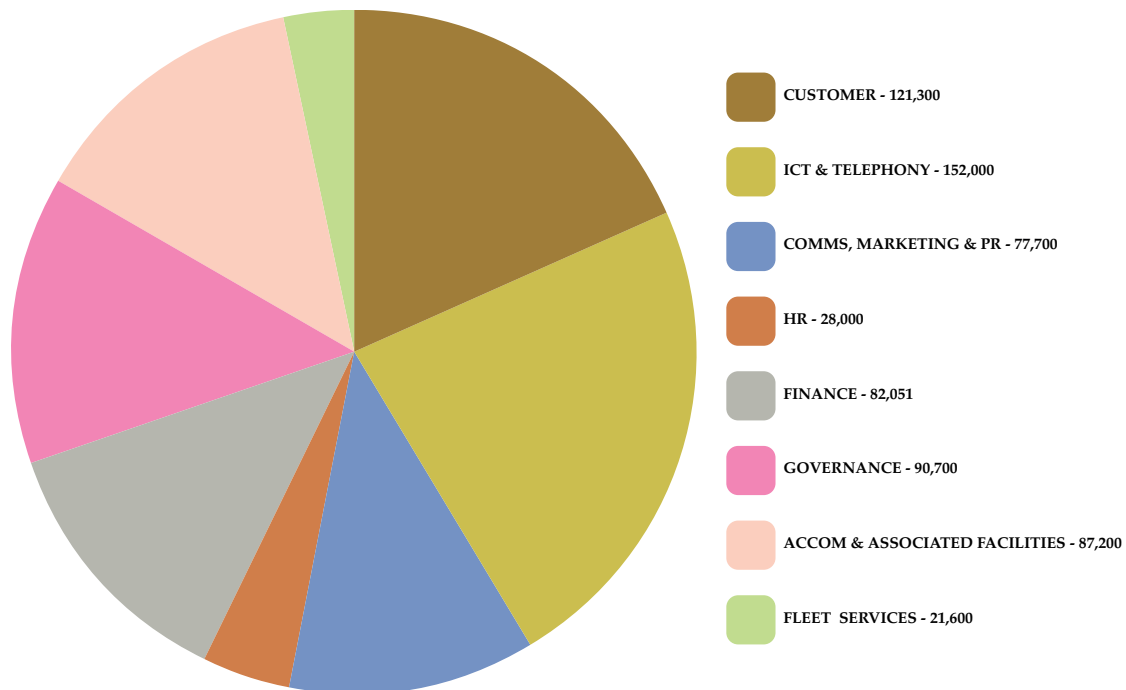


Colchester Commercial Holdings

CCHL will also “buy” a range of services from the Council during this plan period.

These services are outlined below together with the agreed fee to be paid to the Council:

Services provided by the Council to CCHL



6. CCHL Business Goals

As a holding company, our goals will relate to the financial targets and performance monitoring of the three trading subsidiaries. We will also strive to provide high levels of service provision back to the Council under the Management Agreement

Our goals are:

- To monitor performance of the subsidiaries against the financial, programme and delivery targets outlined in this Plan and within the individual business plans
- To generate new levels of commercial income for our parent company to support existing Council service delivery
- To promote and maintain a new company culture which is strongly commercial but retains the public sector ethos of our parent organisation
- To deliver sustainable services and activities through the development of more high-quality homes, commercial floorspace and infrastructure, low-carbon energy opportunities and new products and initiatives within our direct trading companies
- To provide leadership and strategic direction to the Council’s Sport and Leisure service
- To deliver high levels of service provision under the Management Agreement with the Council



Colchester Commercial Holdings

7. Financial Summary

Income Targets

CCHL will produce annually a set of consolidated accounts which take into account profit and loss, borrowing requirements and any assets and liabilities from each subsidiary.

We have agreed the following direct trading and service income targets with the Council for the three years of this business plan:

DIRECT TRADING INCOME TARGETS	2018-19	2019-20	2020-21
	£'000	£'000	£'000
Monitoring and Response			
Income	989	1,003	1,015
Expenditure	(885)	(899)	(913)
Profit / (Loss)	104	104	102
Events			
Income	660	785	980
Expenditure	(488)	(515)	(581)
Profit / (Loss)	172	270	399
Estates/Commercial and Economic Development			
Income	70	70	70
Expenditure	(887)	(905)	(922)
Profit / (Loss)**	(817)	(835)	(852)
Total Trading			
Income	1,719	1,858	2,065
Expenditure	(2,260)	(2,319)	(2,416)
Profit / (Loss)	(541)	(461)	(351)

** Estates income will be received in a number of ways. The largest portion will be by way of core services provided to the Council in return for a management fee. A small amount of income (£70k) will be generated by providing non-core services to the council and by providing services to third parties.

In addition, as part of the estate management and commercial development service we are providing to the Council, we will deliver against asset income targets set by the Council's Revolving Investment Fund committee.

COUNCIL ASSET INCOME TARGETS	2018/19	2019/20	2020/21
	£'000	£'000	£'000
Commercial Estates and Investment Properties	3,462	3,462	3,577
Broadband Project	25	25	25
Sport and Leisure	651	701	768



Colchester Commercial Holdings

Capital Borrowing

CCHL will also monitor financial expenditure and performance targets for Colchester Amphora Homes and Colchester Amphora Energy. Each of these subsidiaries will have its own set of trading accounts and both companies will require some loan finance, although CAEL also benefits from a grant from the Council (secured as part of a funding bid from the government Heat Network Unit)

Within this Business Plan period, a transfer of land assets is required between the Council and CAHL to facilitate the new developments. This transfer of the four Council-owned sites identified in the CAHL Business Plan will be at market value and these are currently valued at £6.8 million. It is anticipated that the transfer of sites will occur early in the Business Plan period:

Phase 1

£676,048 on 1 April 2018 –Military Road and Creffield Road sites

Phase 2

£6,142,569 on 1 Oct 2019 – Mill Road and Runwald Street sites

We will continue to monitor progress against CAHL Business Plan targets, particularly expenditure, capital borrowing and sales income from completed developments.

All capital borrowing required by the subsidiary companies will be from Colchester Borough Council during this Plan period. This will necessitate each company independently entering into loan agreements directly with the Council and all receipts or dividends from within these companies will be paid back to the Council in accordance with an agreed cashflow or until all loans have been repaid. Any dividends or sales receipts received after the loan finance has been paid off will be paid to CCHL and distributed to the parent shareholder as part of wider income targets agreed.

Financial models currently imply capital borrowing of £28.8m for CAHL and £2.5m for CAEL from the Council. The peak funding requirement is £31.3m. The quantity and timing of the funding is dependent on the phasing of the developments. The table below shows the anticipated drawdown of funds:

FINANCIAL YEAR	CAHL	CAEL	TOTAL BORROWING
	£000's	£000's	£000's
2017/18	836	-	836
2018/19	2,671	-	2,671
2019/20	7,707	2,554	10,261
2020/21	11,301	-	11,301
2021/22	6,120	-	6,120
2022/23	-	-	-
2023/24	125	-	125
Total	28,760	2,554	31,314



Colchester Commercial Holdings

The first housing sales receipts are anticipated towards the end of financial year 2021 and will be used to reduce the borrowing within CAHL. However, the entire debt will not be paid off until 2030, as the affordable housing units are retained within CAHL and rented out once completed. If site sales perform better than expected then debt can be paid off sooner, which means dividends will also be payable sooner to CCHL.

Capital expenditure in CAEL will be part-financed by a grant originally from the government's Heat Network Unit, resulting in a borrowing requirement of £2.5m from the Council.

Business Plan revenue and income expenditure summary

During this Business Plan period CCHL will have the following ongoing revenue cost areas:

- Salary costs
- Other company running costs
- Service-level agreement costs (to buy back services from the Council)

and the following income lines:

- Management fee (for providing services to the Council)
- Income from direct trading companies
- External income from external professional services

The management fee and the SLA costs will be divided between CCHL and each of the subsidiary companies as follows:

SLA Costs

COMPANY	SLA 2018-19 £	SLA 2019-20 £	SLA 2020-21 £
CCHL	48,036	46,400	46,400
CATL	588,441	568,400	568,400
- Estates			
- Commercial and economic growth			
- Monitoring and response			
- Events			
CAEL	12,009	11,600	11,600
CAHL	12,009	11,600	11,600
Total	660,495	638,000	638,000



Colchester Commercial Holdings

Management Fee income from the Council

COMPANY	2018-19 £	2019-20 £	2020-21 £
CCHL	204,000	210,000	186,000
CATL	1,221,000	1,230,000	1,253,000
CAEL	76,000	76,000	78,000
CAHL	76,000	76,000	78,000
Total	1,577,000	1,592,000	1595,000

Note 1 –CAHL and CAEL will not carry out direct services for the Council

Note 2 – CATL management fee relates to costs of staff for estates and economic growth and core commercial development activities (outlined in activities section of Management Agreement)

Business Plan Financial Summary

	2018-19 £000'S	2019-20 £000'S	2020-21 £000'S
CATL Net Costs	541	461	349
Holding Company Costs			
Staff Costs	325	330	337
Other Costs	56	56	56
	381	386	393
Service Level Agreements	661	638	638
	661	638	638
Total	1,583	1,485	1,380
Income:			
CBC Mgt Fee	(1,557)	(1,566)	(1,595)
Additional finance manager contribution from CAHL	(26)	(26)	(27)
	(1,583)	(1,592)	(1,622)
(Surplus) / Deficit	-	(107)	(242)

Company Financial Assumptions

- All subsidiary company accounts will be consolidated into CCHL accounts with the exception of any assets or capital loans and loan repayments.
- Expenditure forecast includes 2% pa salary increase for staff
- It is assumed that the management fee from the Council will have an inflationary 2% increase applied annually
- For this business plan period, it is assumed that any additional income from trading businesses or services over and above the agreed net income targets will be retained by the company for further investment



Colchester Commercial Holdings

- It has been agreed with the Council that the Service Level Agreement fee for provision of support services to the Companies will remain static for the life of this plan, subject to review to ensure they meet actual service provision
- Reports on financial performance against targets will be reported to each CCHL Board meeting

General Financial Assumptions

- Current banking and national economic trends continue
- Current legislation regarding living wage, pensions and other factors affecting staff costs remains as current
- Demand for activities and services grows
- Overhead and operating costs grow as projected

In addition to the income targets outlined above, CCHL has also put in place a number of key financial indicators against which performance should be measured:

- Income targets for direct trading businesses rise after Year 1
- Expenditure is managed to ensure no rises of more than 1% (with the exception of Events as costs rise in accordance with number and type of activity)
- External estates and commercial development activity income is expected to remain stable until Year 4.
- CCHL net income targets of

	2018-19	2019-20	2020-21
		000	000
Income	0	(107)	(242)

It is assumed that any income surpluses over the above targets will be retained by CCHL, either for reinvestment or, in consultation and agreement with the Council, for holding as future reserves. If the reinvestment is for specific projects which will use Council assets, then a full business case will be provided for Council approval.

Non financial performance targets

In addition to the financial targets above, CCHL, as a company and subsidiaries wholly owned by Colchester Borough Council, has been tasked with delivering additional benefits, which enhance the lives of people in the Borough through the creation of new jobs, new high-quality affordable homes, leisure opportunities and activities and sustainable initiatives.

CCHL will be responsible for ensuring its own KPIs and those of its subsidiaries are met during the life of this business plan.



Colchester Commercial Holdings

A number of the KPIs below will also form part of the Management Agreement between the Council and CCHL:

- 300 new high-quality homes delivered in the Borough, of which 90 will be affordable
- 3 brownfield sites brought forward for housing
- 4 placemaking events delivered each year during the plan period (does not include capital cost, for which a separate business plan is required)
- Deliver £115,000 capital investment into Charter Hall to drive up the numbers of performances and visitors
- Increase business development activities to increase Helpline user base to over 4000
- Implement 5 of the 9 work packages within the Council's Digital Strategy
- Meet the regeneration and commercial development targets set out in the Management Agreement delivery programme
- Deliver the carbon savings identified in the CAEL Business Plan of 600t CO₂ per year in 2021
- Creation of a brand new sports and leisure facility at Northern Gateway, managed as part of the Leisure World brand with strategic management input from CCHL

8. Taxation implications

CCHL's financial advisors have reviewed the VAT, Stamp Duty and Corporation Tax implications arising from the setting up of CCHL and its subsidiaries.

VAT

Given the diversity of businesses, services and activities within CCHL and its subsidiary structure, it is appropriate that VAT will continue to be monitored and reviewed as the Plan period progresses. In respect of CAHL, VAT is unlikely to be a major concern for the development of new housing units for sale or the granting of long leases, as the sale of new dwellings is zero-rated for VAT purposes. This means that no VAT is charged on the selling price and any VAT incurred on the land or construction costs would be recoverable. However, where dwellings are to be retained for investment, the rental income will be exempt and this may adversely impact CATL's ability to recover its input tax.

For this business plan period it is assumed that the single project (Colchester Northern Gateway Heat Network) within CAEL will not incur any irrecoverable VAT. This position will be monitored as the project progresses.

Stamp Duty Land Tax (SDLT)

As a Company Limited by Shares wholly owned by the Council, group relief will apply, so no SDLT liability will fall on any of the subsidiaries in respect of any property purchases from the Council. However, SDLT would apply to any land or properties bought into any of the companies from external sources.

Corporation Tax

CCHL will be subject to Corporation Tax on profits made on its activities. CCHL intend to minimise any tax incurred and intend to carry out a financial modelling exercise to produce detailed tax analysis.



Colchester Commercial Holdings

9. Marketing Strategy

Each subsidiary company will have its own marketing strategy, bespoke to that individual business' need. CCHL will have a brand and logo, although, as a holding company, we do not expect to be offering public-facing services and activities, so direct marketing resource will be low-key.

CCHL may in time offer strategic and leadership services to organisations that sit outside of the Borough Council. At that point, any branding and marketing material will be reviewed to ensure it is fit for purpose.

The CCHL Board will review spend on marketing, communications and PR as part of the wider review of services offered by the Borough Council to the Company under the SLAs. This review is likely to be carried out annually alongside a review of the other activities provided.

10. Procurement Strategy

All procurement carried out either by CCHL or its subsidiaries will be subject to local authority procurement rules as it is a 100% Council-controlled company.

The Company will work with the Council's procurement team to ensure all formal processes are being carried out in a proper manner.

Where the Company is carrying out procurement in respect of land and property transactions, it will follow guidance set out in the Council's constitution.

11. Risk Management

CCHL will own and maintain a high-level risk register which will be reviewed quarterly.

Each subsidiary shall have its own detailed risk register which will be reviewed at the subsidiary board level and each project within the companies will also have their own risk registers, which will be owned and managed by programme and project managers.



Cabinet

15th March 2017

Item
7(i)

Report of	Director for Commercial and Place	Author	Jan Warren
			☎ 282107
Title	Colchester Northern Gateway Heat Network		
Wards affected	Mile End and Highwoods		

This report seeks approval for the recommended proposal to create a Heat Network and supporting infrastructure on a site at the Northern Gateway, to approve the detailed business case for the proposed development project including the capital and revenue assumptions and implications for the Council's budget and to approve the proposed delivery structure for the proposed Heat Network.

1. Decision(s) Required

- 1.1 To approve the recommended proposal to create a Heat Network and supporting infrastructure on sites at Northern Gateway, south of Axial Way subject to the approval of a full business case which is set out in Part B of this Report.
- 1.2 To note the recommendations in Part B being;
 - To approve the detailed business case set out in the for the proposed development project including the capital and revenue assumptions and implications for the Council's budget and Medium Term Financial Forecast.
 - To include the scheme in the capital programme on the assumption of the figures and funding shown within this report, noting that further commercialisation work would be required prior to appointment of a contractor.
 - To approve the proposed set up of a company for the development and management of the network noting that a further report to Revolving Investment Fund Committee with details on the governance arrangements of the company will be brought back prior to the creation of any structure.
 - To approve the use of New Homes Bonus monies for initial start-up of the company.

2. Reasons for Decision(s)

- 2.1 To enable the installation of an "infrastructure first" heat network scheme within the new Colchester Northern Gateway destination to provide a sustainable, affordable district heating system to businesses and homes.

- 2.2 To create a new commercial income stream for the Council and to ensure that the financial costs to the council of delivering the scheme over the programme period are clear and accounted for.
- 2.3 To provide the first phase of delivery in a strategy at the Northern Gateway to deliver the heat network infrastructure alongside proposals to create ultrafast broadband and other areas of environmental sustainability enabling delivery of a “best practice” case-study which can be applied to other new business locations and can be considered as an option for the new Garden Communities.
- 2.4 To create developments with a lower Carbon footprint in line with Council Strategic objectives.

3. Alternative Options

- 3.1 Do nothing. The population of the borough is set to grow from 180,420 to 193,806 residents by 2020. If the Council were to carry on with business as usual, without taking any mitigating action such as implementing low carbon projects such as this, Colchester could see a potential increase in carbon emissions of 11% by 2020 compared to current levels.
- 3.2 Deliver this at a later date – this would mean that the opportunity would have gone to deliver an infrastructure first scheme, as the wider development would have commenced and there would be no lever and incentive to get businesses and developers to sign up to this form of heat network. The ability to secure external match funding may also be less likely as this project is being viewed as a pilot scheme.

4. Supporting Information

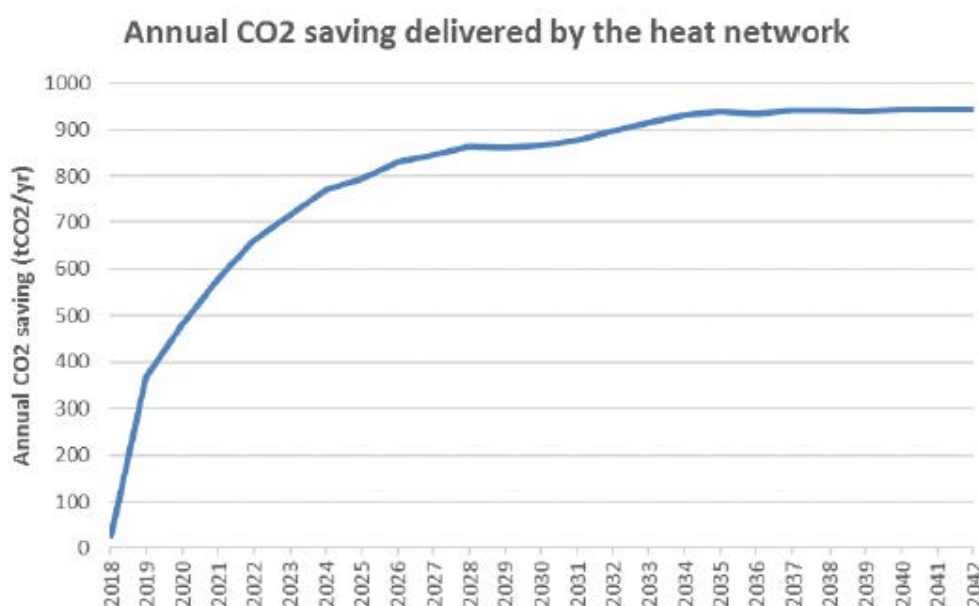
- 4.1 The Council has been working with the Heat Network Delivery Unit which is part of Department for Business Energy and Industrial Strategy (BEIS) for circa 18 months looking at feasibility options for bringing forward an “infrastructure first” model of heat network on land at Northern Gateway. As the Council currently owns the land at Northern Gateway and will be bringing forward development in due course, it is a unique opportunity to consider whether it is possible to deliver new highly sustainable infrastructure package which can be installed in advance of the main build development. This proposal meets with the wider Northern Gateway Masterplan vision which includes an exemplar approach to sustainability.
- 4.2 The feasibility studies have considered; the physical nature of the site, the range of heat plant options, costs of delivery and models of delivery and have led to the creation of a robust financial model which demonstrates that a low carbon scheme is viable on this site.
- 4.2 Please see Appendix 1 which shows a plan of the proposed site area.

5. Proposals

- 5.1 The proposal which is outlined in further detail in the confidential business case on Part B of this Agenda, is for the development of a heat network using a groundwater source heat pump, which will serve a core area and will supply heat to a range of businesses and new homes to be developed on the Northern Gateway site. The groundwater source option utilises innovative technology that has a significantly lower carbon footprint than other forms of heat.

The preferred option of an open loop water source heat pump system makes use of the naturally occurring groundwater (i.e. the aquifer layer) and initial high level investigations show that there should be no reason why the Northern Gateway should not be suitable for this system, but borehole testing will be required as part of the next stage of delivery.

- 5.2 In addition it is planned that the Energy Centre which will house the heat network boiler is also to be used as a visitor centre. This will offer educational opportunities to schools and colleges as well as providing a learning model for heat networks and low carbon practices, allowing excellent dissemination of low carbon practices.
- 5.3 These aims fit with those within the [Colchester Borough Council - Environmental Sustainability Strategy](#) and will enable savings to both domestic and commercial premises, while helping to reduce CO2 within the borough. Estimates show that 14% of UK heat demand could be met by heat networks by 2030, compared to 2% currently, making them a cost effective contributor to the UK's decarbonisation targets. See table below for projected CO2 savings from the heat network;



- 5.4 The scheme has also been developed to be financially sustainable once built. The total capital cost is £5.9m (including inflation costs). It is shown within the financial model that the project seeks to provide a return to the Council for its investment in the project but grant funding has also been applied for to help viability; and the Council through the creation of a wholly owned company for the development and management of the project, will ensure its future sustainability and ongoing benefits to participants in the heat network. The financial model and implications for the Council are outlined in more detail in Part B of this Agenda.
- 5.5 To ensure that the project satisfies state aid requirements with regards to being the only heating solution on offer to residents and businesses which are attached to the scheme, when the scheme is agreed the Council or its wholly owned company will ensure that it meets standards associated with Heat Customer obligations including but not limited too;
- Performance Standards;
 - Heat Customer service,
 - Reporting a fault or emergency, access and repair costs;
 - Joining and leaving procedures;

- Heat Meters and Heat Cost Allocators; Heat Interface Units, Contingency and maintenance plan
- Heat Bill and Heat Charge calculations;
- Paying the Heat Bill and payment difficulties; Registered Participant Complaint handling;
- Monitoring performance; and Privacy policy and data protection of Heat Customer's personal data.

6. Strategic Plan References

This project addresses the following targets from the [Strategic Plan 2015-18](#).

- 6.1 Vibrant – This project creates the right environment for people to develop and flourish
- 6.2 Prosperous - Promoting Colchester to attract further inward investment and additional businesses, providing greater and more diverse employment opportunities.
- 6.3 Prosperous - Supporting people to develop skills, as this enables upskilling of staff.
- 6.4 Business –Become commercially focused and even more business-like in order to be free of government grant by 2017. This scheme creates a new income source and promotes innovative ways of thinking
- 6.5 The aims of this project fit with those within the [Colchester Borough Council - Environmental Sustainability Strategy](#)
- 6.6 District heating networks such as the proposed provide the following direct benefits:

Quantitative benefits

The following benefits indicate the range of economic additionality which the Project will deliver:

- Helping to efficiently manage supply and demand of energy and enable carbon emissions reduction (heat networks can deliver lower emissions than a conventional heating system)
- lowering costs of energy generation, reducing business costs, increasing inward investment and reducing fuel poverty
- dramatically increasing fuel efficiency through use of CHP
- reducing labour and maintenance cost as compared to individual systems
- Improving air quality and providing a means of securing significant reduction in CO2 emissions through the optimisation of heat supply in the Borough
- Creating opportunities for local labour in constructing the network, gaining additional skills

These in turn deliver a range of beneficial outcomes:

Qualitative benefits

- Extending the reach of renewables, by using renewable heat efficiently and providing opportunities for the deployment of renewable technologies that otherwise wouldn't be viable
- Improving security of supply
- Enabling the efficient transportation and use of heat for a wide variety of users

- Allowing a broad range of energy generation technologies to work together to meet demand for heat
- Economic and financial benefits such as
 - reduction in fuel poverty
 - reducing energy costs to customers
 - Reducing Local Authority costs (when the LA is a heat customer or a landlord, a well-designed, efficient heat network can offer lower long term costs than alternative heat supply options)
- Job creation and stimulation of the local economy (the establishment of a local heat network and a municipal energy company can help to retain spend on energy from residents and businesses to stay within the local economy)
- Revenue sources for LA (revenues may be from the heat network or from ancillary activities such as electricity sales)

Technical - such as

- Energy security and resilience (heat networks provide short-term resilience in the form of the heat stored within the system and can provide long-term resilience through the connection of local, multiple heat sources.
- Local renewable heat sources can provide price stability through reduced exposure to wider market changes in gas and electricity markets)
- Innovation opportunities include heat supply technologies. Innovation can also be pursued through procurement, governance structures and tariff policies.
- Enabling fuel flexibility, future-proofing energy generation towards use of renewables
- Local Authority capacity and skills development (e.g. developing a heat network can trigger upskilling of officers because operating of heat networks goes beyond the local authority's narrow statutory remit)
- Providing greater awareness by business, industrial and domestic users of the benefits of district heating schemes, encouraging extension of the network and the formation of additional local networks

However other benefits in the local area are;

Output	Description
Jobs	1.5 FTE To operate the energy centre and maintain the scheme through the Company
Construction jobs supported during development	20

Visitor and education centre	To provide educational support to visitors
Development of truly sustainable new buildings and spaces	Development land provided with early heat network infrastructure

7. Consultation

- 7.1 Whilst detailed consultation on the scheme has not yet be carried out, the Council has been in discussions with BEIS for over 18 months.
- 7.2 The scheme has already been taken to senior management for discussion on several occasions and should it progress to a planning application then it will be subject to the usual consultation process.
- 7.3 The scheme has also been subject to scrutiny at SELEP level as it is on a pipeline of projects across the SELEP area which have been reviewed in terms of deliverability, financial sustainability and economic benefits.

8. Publicity Considerations

- 8.1 A communications plan is to be developed as part of the next stage of the project.
- 8.2 The heat network is an exciting innovative project for Colchester and there are many opportunities to work with communities and businesses to showcase the proposals. The Energy Centre will be open to the public and will host information on the technology and its low carbon credentials.
- 8.3 The Council has bid to BEIS for capital funding for the scheme which, if successful, would be one of a handful of pilot schemes across the country. BEIS are likely to showcase these schemes at a national level which would enable Colchester to gain further publicity.

9. Financial implications

- 9.1 The feasibility work has confirmed that the scheme is viable as set out in the financial model (detailed in the confidential Appendix – Part B) This requires a mix of grant funding and Council investment and has the following assumptions:
 - The model assumes the Council is investing in the company for this project as follows:
 - 'Equity Investment'
 - Injection of Prudential Borrowing -
 - Leasing the land that the Energy Centre is being built on to the company.
 - The Council is receiving a return on the project as follows:
 - Any dividends that the project generates
 - Interest received from the borrowing at the rate at which this is lent into the Company to be state aid compliant (this is detailed further in the confidential part of this agenda
 - The lease rental which is being charged on the land to the Company.

10. Equality, Diversity and Human Rights implications

10.1 There are no implications.

10.2 Please see the link to the [North Colchester Equality Impact Assessment \(EIA\)](#)

Your Council • How the Council works • Equality and Diversity • Equality Impact Assessments • Commercial Services

11. Community Safety Implications

11.1 As a result of this decision being approved there will be no expected harm to members of the public.

12. Health and Safety

12.1 The design of the scheme and its delivery will comply with all relevant health and safety legislation.

13. Risk management Implications

A full risk register has been appended to the confidential business case however the high level risks in developing the scheme are outlined below;

Risk	Impact	Mitigation
Further technical work means the scheme is unviable	The scheme cannot proceed without a review of the plant options creating delays and potential cost increases	The feasibility work carried out to date suggests the technical proposals are viable but further borehole testing is required as part of the next phase of commercialisation work.
Occupiers do not sign up to the heat network	Would reduce scheme viability	The Council has all land ownership in this area. As it sells land or brings it forward for development, relevant clauses will be added into legal agreements to ensure take up of the heat network.
Construction costs rise	Would reduce viability	A contingency has been added into the financial model for cost rises in the project.
The programme of delivery cannot be met	Would add to delays and cost overruns	The programme will be reviewed at the start of the project and constantly managed to ensure the infrastructure delivery is carried out in accordance with the plans for wider site delivery.

Appendix 1

Map of Northern Gateway Heat Network Area

Appendix C



Cabinet

14th June 2017

Item

Report of	Director of Commercial and Place	Author	Holly Brett ☎ 508830
Title	Colchester Housing Development Company		
Wards affected	All		

This report seeks approval of a full business case for the creation of a new Housing Development Company which will be wholly owned by Colchester Borough Council

1. Decision(s) Required

- 1.1 To note the decisions required in the confidential Part B paper.

2. Reasons for Decision(s)

- 2.1 The Council has ambitious plans to bring house building to the forefront of its housing aspirations; to build homes year on year that meet the needs of local people and to lead the way in developing levels of affordable homes in line with the emerging Local Plan and that enhance local areas by building sustainable communities
- 2.2 The creation of the Housing Wholly Owned Company (HWOC) is the first step in developing a business plan that will see the company develop homes now and into the future. The business case contained within Part B of this report outlines the initial pipeline of schemes that will be the building block for future opportunities to be delivered
- 2.3 The model is flexible and adaptable and able to meet market demands and the needs of local people with the ability to bring more sites on stream as the company grows and homes are provided for the community
- 2.4 The objectives behind creating a (HWOC) to deliver new housing are:
- Increase the supply of homes including a high level of affordable homes and the Council maintain influence over the type of housing that is built and where it supports local community needs
 - The HWOC will look to make best use of Council assets
 - To set high standards for housebuilding and energy efficiency
 - To increase the number of construction apprentices
 - To generate local employment
 - To control the pace of delivery and the completion of units
 - The HWOC will generate a commercial return to the Council

3. Alternative Options

- 3.1 The Council could decide not to proceed with a Housing Company but this would limit the number of new homes that could be delivered over the programme period. 34 new homes were delivered previously within the HRA in 2015, but plans to carry out further development were halted by government changes to rents which removed borrowing headroom within the HRA.
- 3.2 The Council would also not benefit from the commercial income opportunity offered by the Company structure.
- 3.2 If the Council is committed to delivering new build homes the Company structure is currently the most effective way to bring forward development and to provide a commercial return on capital borrowed.

4. Supporting Information

- 4.1 In 2015 the Council completed the development of the first new Council homes in over twenty years. The Council delivered 34 highly sustainable homes on garage sites across the borough, these were delivered directly by the Council on time and on budget using a local building contractor. Colchester Borough Homes (CBH) were employed by CBC to act as intelligent client on the project; providing advice in areas such as the internal specification of the homes. CBH were responsible for letting the homes upon completion.
- 4.2 Following the successful completion of the first tranche of units, there were plans for a second phase of units using the HRA borrowing headroom to fund the development as well as some right to buy receipts. However due to the 1% rent reduction, the HRA headroom and therefore borrowing capacity was significantly reduced and therefore this phase was put on hold due to lack of sustainable funding
- 4.3 Officers were tasked with exploring alternative ways to deliver housing without relying on the HRA headroom. There are many examples of Councils setting up WOC's to deliver housing and there are many variations to the model depending on the individual Councils' objective. The Council appointed Ridge Property Consultants to produce a development strategy for Colchester spanning the next ten years. Ridge was appointed as they had recently completed the HRA Asset Management Strategy for the Council and Colchester Borough Homes and had a good understanding of Colchester stock profile. This strategy identified a number of asset opportunities which could be used to bring forward new homes.
- 4.2 The report that Ridge produced also highlighted that the development of new homes presents a commercial opportunity for the Council should it wish to develop the homes directly and explore future revenue sources e.g. private rented and or generate capital receipts. It also identified that in order to create more affordable homes, private homes would need to be developed in order to cross subsidise at a time when the HRA is under pressure and grants are diminishing.
- 4.3 As part of this initial feasibility process carried out by Ridge, research was carried out to explore the various delivery vehicles available to the Council should it wish to develop

mixed tenure housing. Experiences from other local authorities were reviewed alongside legal advice from Pinsent Mason and financial advice from the Chartered Institute of Housing.

4.4 In March 2016 an initial proposal was presented to Cabinet which led to the approval in principle for the creation of a wholly owned company for building new homes. At that time it was acknowledged that further detailed work was required to develop a business case and in late 2016 consultants, Grant Thornton, were engaged by the Council to give specialist legal and financial advice. The early stages in the development of the project sought to integrate:

- The Councils objectives for developing more housing
- Developing a sustainable income to the Council
- Building resilient communities
- Identifying suitable areas for development including underutilised CBC owned land
- Possible company structure and their impacts to the Council
- Legal and financial impacts of setting up a WOC to develop homes
- Best practice from other local authorities

4.5 Grant Thornton have set out the taxation advice, proposed company structures, the financial model for assessing the viability of the sites and advice on the sites themselves. This work has been reviewed and revised in order to generate a financial model that is viable and satisfies the councils housing objectives and formed the basis of the Business Case in Part B.

5. Proposals

5.1 To establish the HWOC as set out in the business case at Part B in order to deliver a pipeline of new homes in the borough

6. Strategic Plan References

6.1 This proposal contributes directly to the following Strategic Plan priority area:-

- Provide opportunities to increase the number of homes available including those that are affordable for local people and to build and refurbish our own Council houses for people in significant need

7. Consultation

7.1 The proposed Housing Company has not been subject to formal consultation at this stage but a report on the principle of such a company has been to Cabinet and been approved (see Background Paper). Once the programme of delivery and associated

sites have been agreed then work can commence bringing specific sites forward for planning applications. Each site brought forward will be consulted on as part of the planning process in the usual way. Some sites form part of the emerging Local Plan and have been subject to consultation through this process.

8. Publicity Considerations

- 8.1 It is anticipated that there will be significant public interest in the new Housing Company and a Communications Plan which relates to the company but also to specific sites within this first programme of delivery will be completed. It is anticipated that this Communications Plan will form part of the Business Plan of the HWOC which will be approved by the HoldCo.

9. Financial implications

- 9.1 The full financial implications are set in out in full in Part B of this report

10. Equality, Diversity and Human Rights implications

- 10.1 <http://www.colchester.gov.uk/CHttpHandler.ashx?id=20652&p=0>

11. Community Safety Implications

- 11.1 N/A

12. Health and Safety Implications

- 12.1 N/A

13. Risk Management Implications

- 13.1 There is a full risk register relating to this project and is managed to ensure risks are identified and mitigated where possible
- 13.2 The principle risks are outlined in the business case contained in the exempt Part B paper.