

AUDIT COMMITTEE
24th January 2023

Subject Heading:	Report on Mercury Land Holdings
SLT Lead:	Neil Stubbings, Director of Regeneration
Report Author and contact details:	Kirsty Moller, Head of Programme & Support (Regeneration) Tel: 01708 434707 E-mail: kirsty.moller@havering.gov.uk Paul Walker, Assistant Director of Development (Regeneration) Tel: 01708 434282 E-mail: Paul.Walker@havering.gov.uk
Policy context:	To provide the committee with information relating to the purpose and activity of Mercury Land Holdings.
Financial summary:	There are no financial implications arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

The subject matter of this report deals with the following Council Objectives

People - Things that matter for residents

Place - A great place to live, work and enjoy

Resources - A well run Council that delivers for People and Place

SUMMARY

This report advises the Committee on the background, activity and financial status of Mercury Land Holdings, the Council-owned development company. This report is presented in six sections:

Section 1: Purpose and Background

Section 2. Company Structure

Section 3. Governance

Section 4. Delivery to Date

Section 5. Costs & Income

Section 6. Future Plans

Appendices: Provide supporting detail for Member's information:

Appendix A – Mercury Land Holding accounts for year ending 31st March 2022

EXEMPT Appendix B – Further financial information relating to Mercury Land Holdings

The report will be supported by a PowerPoint presentation to Committee.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

Section 1: Purpose and Background

- 1.1.1 MLH was incorporated in November 2015 following the May 2015 Cabinet decision to establish a commercially focused company that would deliver housing for private rent and sale.
- 1.1.2 The Council's main objectives for entering into the private sector housing market were:
- To contribute to, and where possible accelerate the provision of housing supply in the borough
 - To ensure a mix of housing, in terms of type, size and tenure, best matched to the needs of Havering;
 - To support the Council's regeneration and growth aims, bringing forward high quality development on regeneration sites in key parts of the borough.
 - To generate an acceptable financial return to the Council by operating a business.
- 1.1.3 The Council borrows capital funding and provides funding to MLH through either equity or onward lending with interest via loan arrangements. The loan repayments are usually scheduled over 50 years and the interest generates an income to the general fund.
- 1.1.4 The company has a portfolio of private sector rented (PRS) homes that provide an income to cover debt and company running costs.
- 1.1.5 The Council, as sole shareholder, will receive dividends from MLH equity in future.

Section 2. Company Structure

2.1 Mercury Land Holdings

- 2.1.1 Mercury Land Holdings Limited is a private limited company that is wholly owned by the Council, which is the sole shareholder.
- 2.1.2 It is subject to UK Company Law and is required to make returns to Companies House and submit annual audited accounts. All statutory filings are currently up to date. The accounts for the year ending 31st March 2021 are included as Appendix A.
- 2.1.3 Mercury Land Holdings is staffed by three full time staff and a non-executive director and is managed by a Board of Directors. The board directors are: Andrew Blake-Herbert, Garry Green, Anthony Huff and Ian Rhodes. The Company Secretary is Shahana Jeewa.
- 2.1.4 The nominated Council Shareholder Representatives at Member level are the Leader and Lead Member for Finance.

2.2 Mercury Design & Build Ltd

- 2.2.1 Mercury Design and Build is a limited company and subsidiary of Mercury Land Holdings. It was formed to undertake design and construction activities, such as Winterberry Court. This company can manage and reclaim VAT charges incurred in the development process.
- 2.2.2 Mercury Design and Build is subject to the same UK law and accounting practices as MLH, consolidated accounts are filed annually at Companies House. The company directors are also the same as those of Mercury Land Holdings Limited.

Section 3. Council Governance

- 3.1.1 Whilst the company is staffed and managed independently of the Council, the level of strategic Council control is high. This is because the Council is the exclusive funder to the company and in deciding whether to provide working capital and development loans – all at commercial rates – the Council reviews company business plans and individual development business cases, using appropriate legal, financial, and regeneration/property expertise.
- 3.1.2 The financial activities of Mercury are monitored in depth on a monthly basis by the Council and the integration and liaison of the company's activities into the overall regeneration activities of the Council is achieved under a close liaison role provided by the Regeneration Service. MLH attend various meetings and report on finances and activity every six weeks at the Regeneration Officer Board (chaired by the Council's Section 151 Officer).
- 3.1.3 MLH's operation and funding is regulated by its business plan, which sets out the funding required and developments to be brought forward. Approval of the business plan has to follow the usual Council executive decision process and ultimately has to be approved by Cabinet.
- 3.1.4 Before development activity can start, further governance steps are undertaken to set out the terms of lending and provide funding against approved business cases. Development schemes are considered as commercial investments.

Section 4. Delivery to Date

4.1.1 North Street, Hornchurch – 44 PRS homes in operation



4.1.2 Cathedral Court, Romford – 65 PRS homes in operation



- 4.1.3 Victory Place, Romford (previously Crow Lane)
MLH facilitated the delivery of 38 larger affordable homes for the HRA, there are also 34 PRS homes in operation and 10 market homes sold.



- 4.1.4 The units that MLH have in operation have proved popular with Havering residents, achieving very high rates of occupation and excellent rates for rent collection.

Section 5. Costs & Income

5.1 Financing Developments

- 5.1.1 The Council funds the development costs of Mercury through equity and loans.
- 5.1.2 Development loans are made on commercial terms to be within the Subsidy Control Act (formally state aid compliance). The interest on loans generates an income to the Council's general fund, bank fees are also paid by MLH.
- 5.1.3 If the units from the development are kept for PRS stock, then the development loans and capitalised interest is refinanced as fixed interest operational loans, usually repaid over 50 years.

5.2 Company Costs

5.2.1 MLH uses rental income from PRS to fund running costs and debt repayments.

5.2.2 The company structure is designed to work in a controlled deficit during early years of growth until economies of scale on rented stock and development profits from sales place the company in a long-term sustainable position. This arrangement is endorsed by Auditors for the Company (reporting also to the Council as shareholder).

5.2.3 MLH currently own 143 PRS units. Another 20 units have secured funding. A portfolio of 400+ units is assessed to be the benchmark where returns from its rental portfolio cover all company costs. Until then, the business plan requires development profit from sales to balance investment and management costs.

5.2.4 At current costs, based on a 2-bed property, £100m of Council funding would be required to increase the portfolio to 400 units. The approved MLH capital budget is currently £204m.

5.2.5 A summary of company assets, liabilities and equity is as follows:

- 3 schemes in operation – Cathedral Court, Winterberry Court, Victory Place
- Current debt level equals £30.9m
- Equity equals £11.3m
- Value of Portfolio equals £47.2m

5.3 Council Finance for MLH

Details of MLH payments to the Council, capital profiling and loan repayments can be found within Exempt Appendix B

5.4 Financial Risks for Development

5.4.1 As with all commercial activity, there are risks to regeneration and development, which are closely monitored to ensure that developments remain viable. The key risks to highlight include:

- Interest Rates Affecting Costs & Financing – current uncertainty around the rate of inflation could impact on construction prices and borrowing rates.
- Housing Market Conditions – sales can be at risk of fluctuating market conditions. If the cost of living goes up and wages stagnate, people could find saving for a deposit and securing a mortgage become more challenging. This is less of a problem for PRS housing

- Changing Planning and Building Requirements – can be more expensive, requires additional work during the design phase which can extend the programme – upside is safer, better insulated and more energy-efficient buildings.
- Availability & Cost of Suitable Land – cost of land for residential development can change and requires regular market testing, professional advice, early engagement, mitigation plans to adjust tenure mix if required.

5.5 Business Planning and Sensitivity Analysis

A refresh of the Mercury Land Holdings business plan is currently underway, to be brought forward for Cabinet consideration in Spring 2023.

Each Business Plan review incorporates a comprehensive set of sensitivity analysis to assess the robustness of the proposed plans. Sensitivity analysis provides an indication of how potential market volatility would impact on viability. The following stress tests are modelled: -

- Interest rate (PWLB) volatility
- Construction costs
- Sales values (impairment)
- Combination of factors

Section 6. Future Plans

MLH have a number of schemes in the development process or under investigation, including:

- Quarles College Campus – 120 homes, 47 affordable units (for LBH), 53 open market sale and 20 PRS
- St Georges, Hornchurch – Facilitating 14 affordable rent and 22 shared ownership for LBH housing department

Further opportunities for Mercury Land Holdings to provide residential units on Council-owned sites are due to be considered by Cabinet in February 2023.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

Any requested financial support towards Mercury Land Holdings' activities is assessed via the Council's established governance processes.

The company is liable to provide regular filings to HMRC and annual audited accounts to Companies House. All filings are currently up to date.

Climate Change implications and risks:

None arising directly from this report.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.