

Subject: **Equinox Enterprises Ltd. update**

Report to: **Policy & Resources Committee – 11 June 2019**

Report by: **Neil Shaw, Strategic Director**

## **RECOMMENDATION**

**To note the update on the activities of Equinox Enterprises Ltd.**

### **1. INTRODUCTION**

- 1.1. Equinox Enterprises was set up in 2015/16 as a Local Authority Trading Company to enable the council to take a more commercial approach to developing new homes. Over the last two years Equinox has developed out a modest number of small sites and infill opportunities. It has been planning a larger-scale development at East Wood on the Gorleston/Bradwell border since 2016. The East Wood development (phase 1) comprises 56 properties in total: 50 for market sales and 6 affordable homes which will be returned to the council and added to its housing stock.
- 1.2. This report provides members with an update on the activities of Equinox Enterprises Ltd. The last update to members was to the Policy & Resources Committee on 16 October 2018. Work on the East Wood development is progressing well. The project is still within the financial parameters of the original business case, within budget and timescales.

### **2. RECENT PROGRESS**

- 2.1. The building contract with Lovell was signed on 25 July 2018. Groundworks commenced in October 2018.
- 2.2. Construction is currently taking place on 47 plots. The foundations of all properties have been laid and work is progressing at various stages in tranches of 6/7 plots at a time. Work on the first 15 plots are well progressed, with brickwork nearing completion on all of them and 7 of these plots progressed to roofing. In recent weeks work has now moved to the internal fit out of the properties in tranche 1. Tranche 1 also includes the show home for the site. It is anticipated this first tranche of properties will be complete in July 2019.
- 2.3. Working is progressing on the pumping station. Roads linking the properties and connecting to Woodfarm Lane have been completed. Overall, the construction phase of the project overall is on track.
- 2.4. Bycrofts have been appointed as an estate agent partner. Bycrofts will be marketing the properties, with on-going dialogue between Lovells and Bycrofts to ensure practical sale

of plots and completed properties is sequenced appropriately. The council was appointed in April 2019 to produce the brochures.

- 2.5. In summary, the next stages of the project are as follows:

June 2019 -	completion of brickwork/roofing on first 15 plots and fit out of show home
July 2019 -	first 7 properties inc show home complete
December 2019 -	completion of tranche 2 (6 plots) and progression of tranche 3

- 2.6. Since the last update to Policy & Resources Committee Equinox has not considered any further new developments.

- 2.7. On 20 June 2019 the Housing & Neighbourhoods Committee will consider a report on setting up a Property Rental Company under the Equinox name. If approved, its recommendations will be considered by Full Council in July. If then approved, this will enable the council to reconfigure Equinox with two 'arms': one focused on development and the second focused on holding market rental properties. This would enable Equinox to acquire and hold market rent properties and build a portfolio of rentals over time.

### 3. FINANCIAL

- 3.1. An updated financial summary for East Wood was produced and approved by the Board on 24 April 2019:

<b><u>East Wood Phase 1</u></b>	<b><u>April 2019</u></b>
Projected sales proceeds	12,429,588
Land	1,293,180
Construction	9,022,640
On costs (including fees)	766,368
Interest	255,000
Overheads	64,504
<b>Total costs</b>	<b>11,401,692</b>
Projected pretax profit	1,027,896
Add back in land sale	1,293,180
<b>Total value returned to GYBC</b>	<b>2,321,076</b>

- 3.2. There has been a small increase in the projected sales proceeds since the last time the overall financial summary was updated in May 2018. The overall projected pretax profit has remained slightly above £1m and within the parameters of the 2016 business plan. The council will also receive six new affordable homes, which were valued in the original business case at £839k (and is currently being reviewed for an updated estimate). The £2.3m represents potential value which could be returned to the council and is made up

of land value for which the council had previously received a receipt and also pre-tax profit. Payment of profit to the council would be via a dividend. However, equally the profit could be retained by Equinox for future investment.

- 3.3. It is also useful to remind members that some upfront construction costs were absorbed by this first phase of the East Wood development, most notably £109k of cost for a mains pumping station, which will serve this and future phase(s) of the East Wood development.
- 3.3. The company's cash flow forecast is principally based on the East Wood scheme. This is reviewed at every Board meeting. The existing £8.933m facility to finance Equinox was approved by the Shareholder's Committee on 25 April 2018. Based on current cashflow projection Equinox will need to drawdown £6.8m of the loan facility as sales receipts will be used to partially fund the overall costs of the project.
- 3.3. The forecast, summarised in the table, below, assumes that Equinox and the council will agree a repayment plan for the £5,250k loan commencing November 2019 and concluding June 2020. The proposed repayment plan is calculated to use cash receipts efficiently to minimise the interest payable by the company.

## Equinox Cash Requirements 2018-2020

Date of draw down	Mar 2018	Oct 2018	Jan 2019	Apr 2019	Sum	Headroom	Maximum facility
	£000	£000	£000	£000	£000	£000	£000
Cash investment							
Equity	£500	£250	£425	£525	£1,700	£533	£2,233
Loan	£1,500	£750	£1,275	£1,575	£5,100	£1,600	£6,700
<b>Total investment</b>	<b>£2,000</b>	<b>£1,000</b>	<b>£1,700</b>	<b>£2,100</b>	<b>£6,800</b>	<b>£2,133</b>	<b>£8,933</b>

Date of Board meeting 21/05/2018 01/10/2018 13/11/2018 19/02/2018

## 4. RISK

- 4.1. Equinox regularly reviews a range of risks using the risk register it developed in 2018. This was last reviewed at the Board meeting on 27 February 2019. The majority of risks are rated 'low' and all risks are being actively mitigated. More operational risks for the East Wood developed are monitored at each Board meeting during the regular progress report on the development.
- 4.2. The single greatest risk to the council is the rate of sales and the overall condition of the local housing market. Fluctuations in the local housing market in 2019 may (or may not) be affected by Brexit. The financial projections contained in section 3.1. are based on up to date market projects based on data from Bycroft's which have been consistently

used for all of the business plan projections. Equinox will continue to monitor the rate of sales closely in 2019.

## **5. LEGAL**

The last update to Policy & Resources Committee on 16 October 2018 approved the replacement of Jane Beck (Head of Property & Asset Management) as an Equinox Director and the appointment of David Glason (Development Director) as a new Director of Equinox Enterprises. This has now taken place.

## **6. RECOMMENDATION**

**To note the update on the activities of Equinox Enterprises Ltd.**

*Areas of consideration: e.g. does this report raise any of the following issues and if so how have these been considered/mitigated against?*

<b>Area for consideration</b>	<b>Comment</b>
Monitoring Officer Consultation:	Yes
Section 151 Officer Consultation:	Yes
Existing Council Policies:	No
Financial Implications:	Yes
Legal Implications (including human rights):	No
Risk Implications:	Yes
Equality Issues/EQIA assessment:	No
Crime & Disorder:	No
Every Child Matters:	No