

## **Cabinet Sub-committee (Medway Development Company Ltd Shareholder Board)**

**22 August 2024**

### **Financial Monitoring Quarter 1 2024/25**

Portfolio Holder: Louwella Prenter, Portfolio Holder for Housing and Homelessness

Report from / author: Phil Watts, Chief Operating Officer (Section 151 Officer)

#### **Summary**

This covering report introduces the first quarter's financial monitoring for MDC Ltd. under new governance arrangements established earlier this year. A summary of the financial forecasts provided by the company is attached as an appendix.

#### **1. Recommendations**

1.1. The sub-committee is asked to note the contents of the report and its appendix.

#### **2. Suggested reasons for decision**

2.1. In order to fulfil its role as shareholder, on behalf of the Council, the sub-committee must be appraised of the financial performance of the company.

#### **3. Budget and policy framework**

3.1. Medway Council is the sole shareholder of MDC Ltd. and its subsidiaries, with the exercise of the shareholder's powers and responsibilities being an executive function of the Cabinet. Cabinet has delegated these powers and responsibilities to this Cabinet sub-committee.

#### **4. Background**

4.1. At its meeting on 5 September 2017, the Cabinet agreed the business case for the establishment of a 100% Council owned housing company to develop local authority owned sites on a commercial basis.

4.2. The company was incorporated in October 2017 and is now in its seventh full year of trading.

#### **5. General Comments**

5.1. The Business Plan for the company was approved at the inaugural Shareholder Sub-committee meeting held on 30 May 2024. The consolidated overview provided is based on the budget projections set out in the approved Business Plan.

5.2. The attached appendix represents an overview of the forecast position provided by the company and presents it as budgets against actuals for the quarterly period, splitting the activities of the company into property development and revenue generating through private rented, shared ownership and commercial rent activities. It is summarised in a profit and loss format and aligns with basic accruals accounting principles, with cost of sales matched to the sales achieved. A review has been undertaken below which is focused on the key variances.

## 6. Property Development Revenue

6.1. The company projected a sale of £350,000 in April at the Garrison Point scheme, which has been delayed, however, it is expected that this will progress in the next period. The Business plan expected a further sale of four apartments in June at the Chatham Waterfront scheme, however, market conditions remain challenging due to high interest rates.

6.2. Currently one of the four is under offer and negotiations are under way in respect of a further four sales. The company has identified that better market sentiment is expected as interest rates reduce. Following fourteen consecutive rate increases, the first rate reduction following the Covid 19 pandemic happened on the 1 August 2024, therefore MDC expects that a slow improvement will come forward over the next two quarters.

6.3. It was also projected that a £23m PRS transfer would happen in May, but the actual date for this was 1 August and this will therefore be presented in the next quarterly update. This is the largest variance in the Q1 report.

## 7. Rent Revenue

7.1. In terms of rent activities, the company has designated 34 homes for private rent at its Garrison Point scheme. The revenue outlined shows a small variance of minus £17,000 for the quarter, however, the PRS Business Plan expects a deficit position in its first year whilst occupations are implemented, and the company has a revenue support budget during this period.

7.2. At the time of producing this report 30 homes are let, which represents 88% of the stock and it is expected that all properties will be let in the next period, which will increase revenue accordingly.

## 8. Group Overheads

8.1. Overall, the overhead expenditure aligns with the Business Plan with minor variances. The main variance related to the May period, where there were additional costs for marketing. MDC has advised that this budget is phased equally across each period, however, there will be periods of higher costs where advertising campaigns are launched throughout the year. MDC expects that the overall advertising costs for the year will remain within budget.

## 9. Summary

9.1. It should be noted that it is impossible to exactly forecast property development, because it is market driven, however broadly there are minor variations, with the most substantial being the £23m budget projection for the PRS transfer, however, as outlined this has now progressed in quarter 2 and will be reflected in the next update.

9.2. As outlined in the Business Plan, the company is progressing through a deficit period as it progresses through its Covid 19 recovery period and following major volatility in the last few years. 2024 continues to remain challenging due to high interest rates, therefore the company has diversified, with PRS and a forthcoming Shared Ownership proposal to increase its affordable provision.

9.3. Whilst there have been challenges, the ability to diversify has enabled the company to manage risks and deliver long term gains, which focus on social and economic improvements as part of the Council's future vision.

## 10. Risk management

10.1. The company's strategic risk register appears elsewhere on this agenda.

## 11. Consultation

11.1. The company's financial performance is reported monthly to the Board. The Board comprises a number of non-executive directors who all have experience and expertise in a commercial environment.

## 12. Financial implications

12.1. These are laid out in the appendix to the report.

## 13. Legal implications

13.1. There are no legal implications arising directly from the contents of this report.

## 14. Conclusions

14.1. The impact of global events has resulted in difficult economic conditions, characterised by high inflation over labour and materials and a challenged market, with interest rates affecting the demand for homes for sale. The diversification into private rental and other options for people seeking homes, has allowed the company to manage through this difficult period and it is anticipated that the company will emerge stronger and more profitable over the longer term.

## Lead officer contact

Phil Watts, Chief Operating Officer, Gun Wharf, 01634 334411,  
[phil.watts@medway.gov.uk](mailto:phil.watts@medway.gov.uk)

## Appendices

Exempt Appendix 1 – Medway Development Company Ltd. 2024/25 Quarter 1 Financial Monitoring

## Background papers

None