

EXECUTIVE BOARD

4TH JUNE 2018

CARTREFI CROESO LTD

Financing requirement, appointment of directors and shareholders agreement delegation

Purpose: The purpose of this report is to secure an appropriate finance facility, by way of a loan, to the housing company to sustain its operating and scheme development costs. It is also to agree the process for appointing directors and delegating authority to deal with issues relating to the shareholder agreement.

Recommendations / key decisions required:

Financing requirements:

1. To note the Company's high level 2018 – 2023 Business Plan as developed by the Council's Housing Department/Communities Directorate, which will be refined following the detailed project feasibility studies and site investigations.
2. To agree to meet the Company's 2017/18 establishment costs from existing revenue budgets to a maximum of £100,000.
3. To agree an Operating Cost Loan to the Company in respect of its 2018/19 operating costs to a maximum of £280,000. This to be transferred in 25% tranches, quarterly, in advance.
4. To agree a further Project Development Loan of a maximum of £750,000, to be released in agreed tranches, to develop the detailed business of the Company for further Council consideration. This loan will be utilised to progress:
 - Further development appraisals of eight sites, including 2 rural projects. This to include detailed valuation, state aid, legal and taxation advice.
 - Detailed and comprehensive scheme development proposals/site investigations for three sites, including one rural, including:
 - Completing detailed financial modelling and securing associated legal and taxation advice.
 - Developing an effective procurement strategy.
 - Commissioning detailed technical appraisals and associated surveys such as site, soil, transport and ecological.
 - Undertaking liaison with utilities and statutory bodies.
 - Commissioning of detailed design brief and specification statement (which will also be utilised for following projects).
 - Receiving pre planning advice and completing pre planning consultation.

5. An initial £250,000 of the detailed Project Development Loan will be made available to the Company to progress the proof of concept. Approval of the release of further tranches of funding (up to the loan limit) is delegated to The Chief Executive and Director of Corporate Services, which will be released upon satisfactory commercial appraisal of the initial three proof of concept sites.
6. It is noted that requests for further loans for major development expenditure (for example, land transfer, professional fees, construction costs) will come forward as and when necessary and will form part of the detailed business plan to be completed once the individual site appraisals have been finalised.
7. Loan finance will be available at 3.5% above the rate set by the Public Works Loan Board (PWLb) for the Operating Cost Loan and 2.2% above the PWLB rate for the Project Development Loan. The conclusion of the detailed loan agreement to be delegated to the Chief Executive and Director of Corporate Services.

Appointment of Directors

8. The appointment and removal of Company Directors will be made by the Chief Executive, in consultation with the Leader of the Council, on behalf of the Executive Board.
9. That the Director for Communities (Jake Morgan), and Director of Regeneration and Policy (Wendy Walters) are appointed as directors of the company.
10. That a formal process is agreed for the appointment of the remaining Directors.

Delegation of issues relating to the shareholder agreement

11. To delegate (where possible) to the Chief Executive, following consultation with the Director of Corporate Services, authority to act on behalf of the shareholder with relation to the Shareholder Agreement.

Reasons

To agree financial assistance to support the Company to deliver its detailed business plan.

To ensure a clear process for the appointment and removal of Directors of the Company.

To ensure delegated authority is used in a timely and appropriate way to progress the business of the Company.

Relevant scrutiny committee to be consulted

No – A Member Seminar was held on 19th March 2018

Exec Board Decision Required YES

Council Decision Required YES

EXECUTIVE BOARD MEMBER PORTFOLIO HOLDER:-

Cllr David Jenkins, Executive Board Member for Resources

Directorate: Communities

Designations:

E Mail Addresses:

Name of Head of Service:
Chris Moore

Director of Corporate Services

cmoore@sirgar.gov.uk

EXECUTIVE SUMMARY

EXECUTIVE BOARD

4TH JUNE 2018

CARTREFI CROESO LTD

Financing requirement, appointment of directors and shareholders agreement delegation

Background

The Executive Board agreed on the 27th November 2017:

1. That a wholly council owned Housing Company ('the Company') is created to build homes for sale and rent and act as a catalyst for further regeneration activities.
2. That the Company is incorporated as a limited company with the Council as the sole shareholder.
3. That the Articles of Association and Shareholder consent for the Company be approved.
4. That the Company's Business Plan is prepared and agreed by the Board of the Company and submitted for formal approval by the Executive Board of the Authority prior to its implementation.
5. Any loan from the Council, as agreed in the Company's business plan, be repaid at a commercial rate of interest as agreed by the Director of Corporate Services.
6. That the set up costs of the Company (estimated to be £100,000 in 2017/8), be recovered by way of a loan arrangement (at a commercial rate set by the Director of Corporate Services) with the duration to be agreed within the detailed business plan. In the event that the Company is not established, then the costs of implementation will be met from reserves.
7. That the board of directors comprises one member of the Council, two officers and two external appointments.

The purpose of the Company is to:

- Deliver the affordable housing commitment, and offer additionality to the commitment
- Support economic growth and strategic regeneration initiatives
- Respond to demographic trends and meet housing needs & aspirations
- Generate a return on investment and dividend for the Council by delivering a commercial return
- Develop housing for rent and sale
- Provide additional temporary accommodation to meet housing needs
- Pursue a mixed tenure approach to maximise the level of affordable housing
- Act as a catalyst to unlock development potential
- Help to ensure that the housing market has sufficient competition to drive value for money and choice.

Following the agreement to establish the Company, the attached business plan shows the Company's significant commercial assumptions regarding its scheme development costs, including:

- Land purchase and Section 106 obligations
- Completion of detailed financial modelling and associated legal and taxation advice
- Developing an efficient procurement strategy
- Detailed technical appraisal and associated site, soil, transport and ecological surveys
- Liaison with utilities and statutory bodies
- Commissioning of detailed design and specification
- Managing the planning process and planning fees
- Legal, sales, tax, marketing and home purchaser warranty fees
- A reasonable contingency provision
- Loan financing
- Corporation tax obligations

It is assumed that the social housing provision will be cost neutral as it will be resold to the Council, via outright purchase or a lease agreement.

The Plan also makes assumptions regarding the Company's operating costs, including:

- Staffing costs and Board remuneration fees
- Charges levied by the Council for support services
- Insurance, tax, audit and legal costs
- Office, administration, IT and company infra structure costs

Some assumptions have not been explicitly identified as they are commercially sensitive and need to remain confidential. Assumptions have been constructed reasonably cautiously to ensure the Plan is not over ambitious or undeliverable. It is also designed to mitigate unknown costs. The Plan shows that the Company will begin to generate revenues in 2019/20 and will move to a position of surplus in 2021/22. Based on the working assumptions, the key financial expectations set for the Company are:

	2018/19	2019/20	2020/21	2021/22	2022/23
Revenues	0	684	1734	1877	1078
Operating costs	-396	--288	-285	-280	-280
Pre tax profit	0	396	1449	1597	798
Corporation tax	0	-75	-275	-303	-152
Net profit	-396	321	1174	1294	646
Brought forward	0	-396	-75	1098	2392
Surplus (deficit)	(396)	(75)	1098	2392	303

n.b. forecast figures exclude the impact of any loan financing

Appointment of Directors

The Company has a board of five directors as defined in its Articles of Association. This comprises two officers of the Council (unpaid), one member of the Council (unpaid) and two external independent directors (remunerated). A clear process is required to make these appointments. It is

recommended that these appointments are made by the Chief Executive following consultation with the Leader of the Council.

Delegated authority regarding the Shareholders Agreement.

As part of the decision to establish the Company, a shareholders agreement was ratified which details any decisions which must be referred back to the shareholder before the company can proceed. The issues covered in the Shareholders Agreement vary in terms of impact and significance. It is therefore recommended to delegate authority to the Chief Executive, following consultation with the Director of Corporate Services, on those issues which do not require consent of the Executive Board or Council.

DETAILED REPORT ATTACHED?

YES

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: **Chris Moore** Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
YES	YES	YES	YES	YES	YES	YES

1. Policy, Crime & Disorder and Equalities

The housing company will help to deliver the Council's strategic objectives regarding economic growth and delivering additional affordable housing. It will also contribute to ensuring the Council's commitment to enabling sustainable communities and prosperous & healthy future generations are met.

2. Legal

The legal background to establishing the Company and the Council's powers to do so are set out in the report to the Executive Board of the 27th November 2017.

3. Finance

The development of the new housing company, like all new ventures, inherently carries higher risk until the concept is proven and projects are successfully delivered. The release of funding and phasing of project development has been set to balance the financial risk to the council with its aspiration of rapid progress. On the approval of this report, the maximum value at risk for the council will not exceed £1.130 Million, albeit a significant element is mitigated as surveys etc are all on council owned sites and may have value to outside developers if not progressed by the housing company.

It should be noted that, following successful completion of this feasibility development work, substantial additional loan funding will be required by the company to enable site acquisition and project construction, which can be repaid from the proceeds of sales or rentals. A further approval for this funding will be sought at the appropriate time.

4. ICT

The Company will utilise the Council's IT section. A charge will be made to the Company for the supply of these services.

5. Risk Management Issues

The Council will manage the risks faced by the Company by the appointment of suitably qualified and experienced directors. The Company will produce its own risk register and be explicit in terms of how these risks are managed and mitigated.

An initial risk assessment forms part of the report approved by Executive Board on the 27th November 2017.

6. Physical Assets

It is envisaged that the company will be in a position to purchase assets from the Council in due course (subject to additional loan funding being agreed by the Council). The process for this will follow general disposal procedures and guidance.

7. Staffing Implications

The Company will utilise council staff. A charge will be made to the Company for the supply of these services.

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below
Signed Chris Moore Director of Corporate Services

1. Scrutiny Committee

Communities Scrutiny was consulted on the establishment of the Company on the 24th November 2017.

2. Local Member(s) - An all member seminar took place on the 19th March 2018 regarding the Company.

3. Community / Town Council - None

4. Relevant Partners - None

5. Staff Side Representatives and other Organisations - None

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THESE ARE DETAILED BELOW

Title of Document	File Ref No.	Locations that the papers are available for public inspection
Report to the Executive Board	27 th November 2017	www.carmarthenshire.gov.uk