



## Examples of local authority companies

### Ashford Borough Council

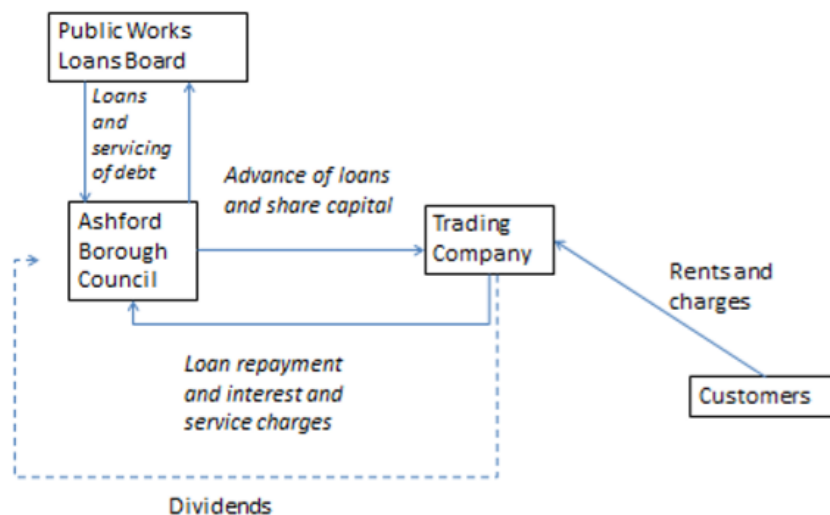
Ashford Borough Council established two council-run Private Sector Housing Company (which is split into two entities - *A Better Choice for Property Limited* and *A Better Choice for Building Consultancy Limited*) which operates outside of the Housing Revenue Account (HRA); they are wholly-owned subsidiaries of the council. The Council is 100% in control of Member/Shareholder decisions, including the appointment and removal of Directors and winding up of the companies. Service Level Agreements are in place with the Council regarding the use of Council staff and resources.

The companies were established in April 2014 and currently comprises of 50 homes which are rented on the private rental market at true market rents.

The company currently only employs one person who is the surveyor which has been appointed on commercial terms and they are not entitled to be part of the Local Government Pension Scheme (LGPS) but are entitled to a private pension. The company has its own set of accounts and its own bank account and produced group accounts at year-end. The commercial development aspect is retained within the General Fund in order to benefit from VAT. The council has a contract with the Housing Company to provide services such as maintenance.

The cash flows for the company have been modelled as follows:

### Model of Cash Flows

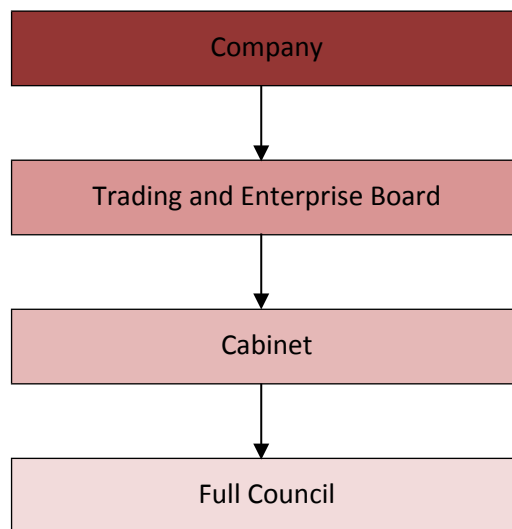


The council draw down a loan from the PWLB which it then loans to the Trading company in order to build/establish new private sector rented housing. The trading company is then responsible for providing this housing to the customers/tenants and recovering rents and service charges. The loan is repaid to the council with commercial interest and service charges PLUS additional dividends paid to the council

The Board for the Housing Company is currently in the process of being reviewed but the *likely* structure is as follows:

- Chief Executive
- Deputy S151 Officer
- Deputy Leader of the Council
- Surveyor employed by the Housing Company (Non-executive)
- Private individual (Non-executive)
- Directors of the company and any officers undertaking activities on the behalf of the company do not receive any additional payment for this role/work.

The reporting structure for the company is as follows:



The Trading and Enterprise Board is a sub-group of the Cabinet and consists of Members of the Cabinet who do not have a direct interest in the Housing Company itself. The Board is chaired by the Vice-chair of the cabinet and consist of five Cabinet Members in total. The first meeting of the Board took place in November 2015. The Board is responsible for the appointment of the external auditors for the company and can make recommendations for Cabinet approval, such as the agreement of the Business Plan and the agreement to draw down funds from the loan pool (as per the Shareholder’s Agreement’).

## East Cambridgeshire District Council

In January 2016, the council established a Local Authority Trading company (LATC) as a wholly owned trading company where the council retains full control, manages the risks and receives the benefits in full. The council is the sole shareholder.

The LATC has in place individual service level agreements with council support services which includes measurable performance indicators, break clauses and remedies for non-performance. These are reviewed on an annual basis. IT assets are eased from the council as part of the service level agreement with IT Services.

The LATC has been established as a company limited by shares with a Teckal exemption. The Board of Directors comprises (the quorum of which is three):

- An independent chairman;
- 2 elected members of the council; the Leader of the Council and the Deputy Leader;
- 2 senior officers of the council; the Chief Executive and the Director (Commercial & Corporate Services).

Board meetings are held at least quarterly on such dates that the Board agrees; failure to reach an agreement will result in the decision being made by the Chairman.

The Managing Director of the LATC is the Chief executive of the council and acts as the conduit between the company and the council and is responsible for overseeing compliance with the Shareholder Agreement. The Company Secretary is the Chief Financial Officer of the council.

The LATC is split into company divisions:

- Commercial Services Division managed by the council's Director (Commercial & Corporate Services)
- Property & CLT Development managed by the Head of Property Services and CLT Development (new post which was appointed to by the Board)

The Shareholder Committee role is undertaken by the council's Asset Development Committee; elected Member appointed to the LATC cannot be members or substitutes of the Shareholder Committee. The role of the Shareholder Committee is not operational; it has no power to make decisions on behalf of the council or the LATC. The Shareholder Committee meets at least quarterly and is able to call extraordinary meetings to accommodate additional business as required.

## Guildford Borough Council

The council has set up a wholly-owned local authority housing company– North Downs Housing Limited – as a separate limited company, owned by Guildford Borough Council. A parent company called 'Guildford Holdings Ltd was also established.

The company was established in February 2016 to enable the council to provide homes across a range of tenures other than social rent and aims to “tackle the shortage of homes in Guildford and in particular, the shortage of affordable homes and a mixture of other tenures that are ‘affordable to everyone’”.

The WOLAHCo was initially set up to purchase properties from the open market to provide to tenants for private rent.

The structure of the company is a company limited by ordinary shares in which the Council is the sole shareholder. To avoid the provision of illegal state aid, the Council capitalises the company through a mixture of share equity and debt financing of a ratio typically seen in private companies and housing associations. The debt to equity ratio was initially set at 25% equity and 75% debt.

Using the equity to debt ratio, the Council made an initial equity investment in the company of £0.6 million and provided an initial start-up loan to the company of £1.8 million. The drawdown of the equity and loan by the Company from the Council was agreed to be undertaken in stages as properties are acquired.

The initial start-up loan was provided to the WOLAHCo at a variable interest rate but with an initial rate of 6.5%, the loan was secured against the assets of the WOLAHCo. The interest on loans to the WOLAHCo was to be recognised in the Council's General Fund revenue account and targeted to provide income of £2.7 million over the 25-year life of the business plan, equating to approximately £111,000 per annum on a straight-line basis.

The management of the properties within the WOLAHCo is undertaken through a commercial contract arrangement with the Council's housing and finance departments.

A summary of the high level business plan of the company is set out below:-

Summary Financial Position	Years 0-5	Years 6-10	Years 11 - 15	Years 16-20	Years 21 - 25	Total
WOLAHCo Total expenditure / (income ) after tax	324,935	253,473	143,177	(15,770)	(239,571)	466,245
Balance on P&L reserve at end of period	324,935	578,409	721,585	705,815	466,245	466,245
Cash balance at end of period	581	2,701	10,795	54,088	151,635	151,635
Net Assets at end of period	968,233	1,526,614	2,367,874	3,592,355	5,332,084	5,332,084
GBC Interest Income	(201,791)	(353,125)	(523,527)	(728,525)	(979,321)	(2,786,290)
GBC Capital Receipts	(178,131)	(244,055)	(334,377)	(458,125)	(627,671)	(1,842,360)

In July 2017, the council approved a plan to provide the housing company with £22 million to implement its latest business plan.

As the Council is the sole shareholder of the company, it appointed the first company directors. It was agreed that the Executive delegated the appointment of directors to the company to the Head of Paid Service, in consultation with the Monitoring Officer and the Leader of the Council. Following experience from other local authorities who have set up companies, they agreed that the company has three directors of which a minimum of two officers or elected members were nominated as directors of the company.

To ensure that the directors understand their statutory duties under the Companies Act 2006 and that there are no real or perceived conflicts of interest relating to the dual role of being an officer/elected member of the Council and a director of the company, the Council ensured that relevant training was provided to the directors and any other officers or elected members that were closely involved in the WOLAHCo.

Company structure is as follows:

3 x Directors:	Sarah Kreedy	(Councillor - Lead Councillor for Housing and Social Welfare)
	Gordon Jackson	(Councillor – Lead Councillor for Innovation and Transformation)
	Susan Reekie	(Officer (although now retired?) – Principal Accountant (Financial Management & Projects))

## Hastings Borough Council

Hastings Borough Council established a wholly owned private housing company, limited by shares, in 2017. At this time, delegated authority was given to the Chief Executive, in consultation with other officers, to establish other trading arms as required. The company is entitled 'The Hastings Housing Company Ltd.' (HHC) and is solely owned by the council.

The purpose of the Housing Company was to, initially acquire and provide housing for both sub-market and market rent in the Borough but with the potential to undertake development activities (and provide housing for sale or rent) either inside or outside the Borough.

Approval for the company, business plan and governance arrangements was subject to Full Council approval.

The intention when establishing the Housing Company was for it to be financed by the Council through loans provided the Council; this would be through the council using its own resources, or by borrowing from the Public Works Loan Board. The council established the company to ensure that it would be the sole beneficiary of any future dividends, capital growth in the value of the property portfolio and would realise a premium for lending monies to the Housing Company.

As sole shareholder, the Council appoints the directors to the Housing Company and approves the business plan and monitors and holds the Housing Company to account.

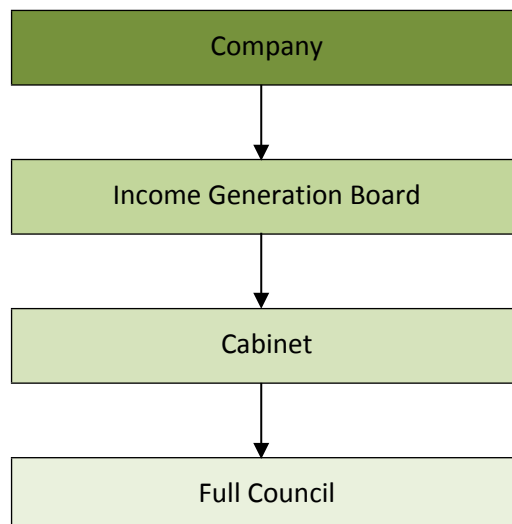
The initial intention for the company was to establish a Board which comprised solely of Senior Council officers i.e. no member involvement. The reason for this initial proposal was to avoid any potential conflict of interest for Members between their role as an elected Member of the Council and the day to day operational management of the Housing Company. Members would still exercise control of the Housing Company at a strategic level with Officers tasked with managing the Housing Company within a framework and through delegated authority provided by Members and documented in the Shareholder Agreement.

However, in the final report in September 2017, the Board structure was updated as follows:

- Four directors who take decisions collectively.
- The quorum for the transaction of the business will be three directors.
- The four directors will be the chair of the Charity Committee, the Assistant Director of Housing & Built Environment, Income Generation Manager and the Chief Accountant.

- The directors will appoint a chair for company meetings.
- The council will retain the power to appoint and remove Directors.
- For the avoidance of doubt, directors of the company will not receive a salary under the approved business plan.

The reporting structure for the company is as follows:



The detailed Company Business Plan and governance arrangements developed for the wholly-owned Local Authority Housing Company are subject to final approval by Full Council. Funding for the company would follow the production of a viable Business Plan.

## London Borough of Barking and Dagenham

In October 2017, the council launched its new development and regeneration company – Be First – which is wholly owned by the east London council and plans to work on large regeneration sites across the borough. In addition to running Barking & Dagenham’s planning functions and its estate regeneration projects, it will seek to turn a profit through planning consultancy and development management services, as well as developing. Staff from the council’s planning department transferred to the new company in October 2017.

Veteran civil servant and Peabody chair Lord Bob Kerslake will sit as Be First chair

The council expects to see a return of £10m a year by 2021 on its initial investment – a loan of around £4m. Through its own development, Be First could eventually deliver up to 1,000 homes a year, with most transferred to the council’s housing company Reside and others for market sale.

## London Borough of Newham

Red Door Ventures is a commercial residential developer established in 2014 and is a wholly council-owned company. When established, the aim of the company was to build at least 3,000 new homes in Newham over a 13-year period and to also acquire a further 500 existing properties. All the homes will be available for residents at market rent or below with a third of the homes set at affordable rent subsidised by the council with plans to increase this. Two-years into the programme, a revised business plan was developed to deliver 3,140 homes by 2023, at a cost of £1 billion, all on already-identified, Newham Council-owned sites.

Establishing the company made Newham Council the first local authority to deliver a large programme of private rented homes for residents. To finance the early stages of the programme of development, the council will provide loans to the company as a commercial investment.

Red Door has completed four schemes:

- Stratford (The Tanneries) 36 two bedroom maisonettes /apartments for private rent.
- East Ham (Nelson Street) 6 homes (converted from 3 old firefighter cottages)
- Plaistow (Gregory House) 17 one and two bedroom apartments for rent
- Whitechapel (Cheviot House) 97 studio apartments for rent

To ensure the quality of the homes is matched by the quality of its services, Red Door is working in partnership with Hera Management Services, a multi-divisional company that specialises in residential property management and software project management.

### **The Board:**

Chairman	Chris Wood	Previously CEO of London Borough of Newham and is now MD of Red Door Ventures.
Finance Director	Patrick Shaw	Joined in April 2017; experience of working with social housing providers in London and the south east.
NED Board Member	Sarah Gaventa	previously the Director of CABE Space - the UK government's advisor on public space and currently Director of the Illuminated River Foundation.
NED Board Member	David Christie	Councillor in the London Borough of Newham for 6 years and currently leads the council's Small Business and Newham 2020 Transformation programmes
NED Board Member	John Swinney	Chief Executive of Just Housing Group a niche consultancy working in social housing and considerable experience of the public private partnership space.

NED Board Member	Joe Montgomery	Previous roles include being the Chief Executive (Europe) at Urban Land Institute, Director General at the Department for Communities and Local Government, Director General, Office of the Deputy Prime Minister and Executive Director for Regeneration, London borough of Lewisham.
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## Oxford City Direct Services

Local Authority Trading Company (LATCo) established in 2017 and named *Oxford Direct Services*. The company structure had two elements; a 'Teckal' element to primarily service the council and the other element to trade with third party entities. Council employees who were already delivering the services to the council, were TUPE transferred to the Teckal company. Therefore, two companies were established and registered with Companies House:

- Oxford Direct Services Limited (Teckal Arm)
- Oxford Direct Services Trading Limited (Trading Arm)

The companies are wholly owned by the City Council who is the single shareholder and is represented by the City Executive Board. Each company has a specific board set up which initially, met monthly to get the companies up and running and, in due course, the delivery of the business plans. The intention is for at least two Shareholder meetings to be held each year with the City Executive Board representing the Shareholder Group. The Scrutiny Committee is able to scrutinise the decisions taken by the Shareholder Group.

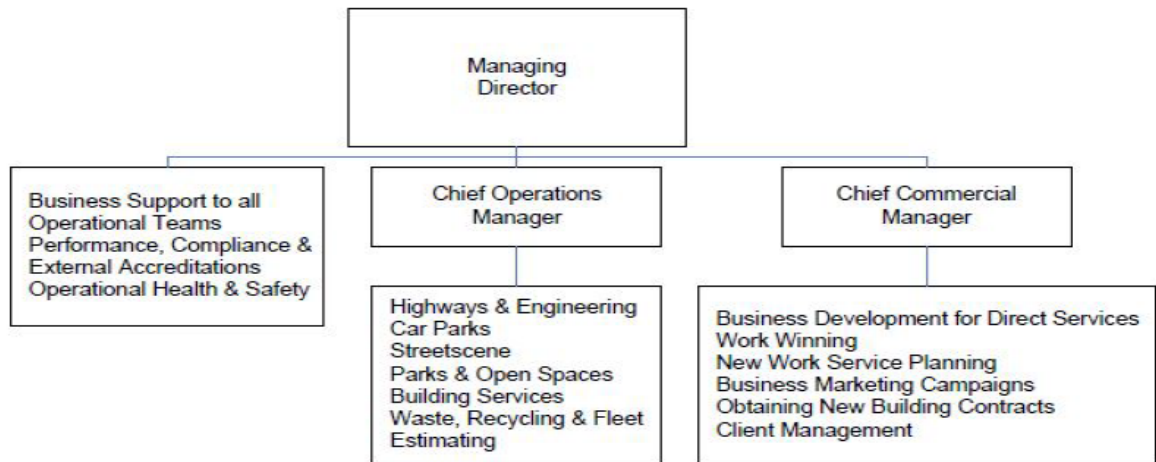
The companies' Board of Directors takes decisions on matters not reserved to the Shareholder and delegates day-to-day running of the company to the Managing Director. An appropriate scheme of delegation to the Managing Director is in place.

The Board composition is for a minimum of three and a maximum of six Directors for both companies. The Board is made up of the following officers:

- |                  |  |                   |
|------------------|--|-------------------|
| • Tim Sadler     | Executive Director (Oxford City Council) | Director (Chair)  |
| • Jackie Yates   | Executive Director (Oxford City Council) | Director          |
| • Graham Bourton | Direct Service (Oxford City Council)     | Director/MD       |
| • VACANT         | External post                            | Director          |
| • Lindsay Cane   | Law & Governance (Oxford City Council)   | Company Secretary |

A company structure has been put in place (detailed overleaf) which undertakes both the Teckal and Trading arm company activities:





## Reigate and Banstead Borough Council

In September 2016, the council agreed to set up a commercial property and investment company to boost the local economy and to help plug the future funding gap caused by the termination of government grant. The Council's Executive agreed to set up the company at their meeting on Thursday 15 September 2016.

The company is a commercial trading company wholly owned by the Council. It is funded through a combination of council reserves, the Public Works Loan Board (via the Council) and commercial sources and is expected to generate a minimum of 6% return on investment.

At its meeting in September 2016, the Executive agreed that:

- The Shareholder function of the Council be delegated to an Executive Sub-Committee to be known as the Property Sub-Committee.
- The membership of the Executive Sub-Committee to be the Leader, Deputy Leader, and Executive Members for Finance and Property, and the Leader be authorised to make any future changes or further appointments required in accordance with the terms of reference of the Sub-Committee.
- The Property Sub-Committee in consultation with the Head of Legal Services and Head of Property be authorised to finalise and document specific arrangements between the Council and the Company (including the appointment of Directors).
- The Company would be managed by a small board of senior officers (Property Board of Directors) to allow for maximum speed of response and flexibility. The Board will work within established structures for member / officer liaison on property matters. In addition the Property Sub-Committee will exercise the Shareholder function of the Council to hold the Directors to account for the performance of the Company.

