

Decision Pathway – Report



PURPOSE: Key decision

MEETING: Cabinet

DATE: 04 September 2018

TITLE	Creation of the Housing Company		
Ward(s)	Citywide		
Author:	Steve Blake	Job title:	Interim Housing Company Director
Cabinet lead:	Cllr Paul Smith	Executive Director lead:	Colin Molton
Proposal origin: Councillor			
Decision maker: Cabinet Member			
Decision forum: Cabinet			
Purpose of Report: To seek approval for the creation of a Housing Company wholly owned by the City Council.			
Evidence Base: Not enough new homes are built each year in Bristol so the creation of the Housing Company will add another mechanism to increase the number of homes built and meet the corporate target of 2,000 homes per year. It will also give the Council greater influence over what is built and when, as well as sharing in the potential profits whereby creating a greater financial return for the Council. The shareholding arrangements for the company are yet to be finalised.			
Recommendations:			
<ol style="list-style-type: none"> 1. That Cabinet approve the Detailed Business Case to establish a local housing company, a Housing Trading Company (HTC) to carry out housing development, 2. That Cabinet approve the governance arrangements recommended in the Detailed Business Case, and specifically the establishment of the Housing Trading Company (HTC) registered as a company limited by shares (CLS). 3. That Cabinet authorise the Executive Director Growth & Regeneration, in consultation with Service Director Finance, Service Director Legal and Democratic Services and the Deputy Mayor for Finance, Governance and Performance to determine the appropriate shareholder for the HTC, approve the Articles of Association, Shareholder Agreement and reserved matters for the company, registration of the company and recruitment of the independent non-executive directors and such other matters and agreements as are required in order to enable the establishment and ongoing operation of the company. 4. That Cabinet approve the initial Business Plan for the HTC which will allow it to commence operations. 5. That Cabinet note that a separate report will be brought forward at a later date to consider the benefits of establishing a Housing Investment Company to hold new homes. 6. That Cabinet authorise the Executive Director Growth & Regeneration in consultation with the Cabinet Member for Housing and the Service Director Finance to approve the transfer of land at Romney House, Lockleaze and the Baltic Wharf Caravan Club site to the HTC on terms to be agreed. 7. That Cabinet approve the drawdown of up to £250k in 2018/19 of existing capital budget provision to fund the set-up of the company and authorise the Executive Director Growth & Regeneration in consultation with the Service Director Finance, Service to secure sufficient PWLB borrowing [not expected to exceed £10m] to on-lend to the HTC to enable it to deliver its HTC Business Plan. 8. That Cabinet authorise the Service Director Legal Services in consultation with Deputy Mayor for Finance, Governance and Performance to establish and implement a process for the selection and appointment (and appropriate training) of Directors to the Board of the HTC. 			
Corporate Strategy alignment: This supports the 'fair & inclusive' commitment to be building 2,000 homes per year by 2020.			
City Benefits: Decent housing can contribute much to the overall health and wellbeing and quality of life for Bristol residents.			

Currently demand for housing in the city far exceeds supply, resulting in high rents and house prices. This proposal will increase the availability and affordability of a range of housing types and create communities where people want to live and work.

Consultation Details: Presentations to Exec Teams, Shareholder Group. Scrutiny meetings on 13th August and 3rd September 2018.

Revenue Cost	£ See Business Plan	Source of Revenue Funding	See Business Plan
Capital Cost	£ See Business Plan	Source of Capital Funding	PWLB borrowing
One off cost <input type="checkbox"/>	Ongoing cost <input type="checkbox"/>	Saving Proposal <input type="checkbox"/>	Income generation proposal <input checked="" type="checkbox"/>

Required information to be completed by Financial/Legal/ICT/ HR partners:

1. Finance Advice: Support to the Council by its consultants Lambert Smith Hampton has included specialist external finance and tax advice from Grant Thornton¹ which has addressed the relevant finance and taxation matters, including the supply of a detailed financial model for the housing company. This has been in conjunction with the City council's finance team.

A detailed financial appraisal of the Local Housing Company (HTC) has been undertaken that has considered the funding requirements of the HTC to deliver housing developments through a Joint Venture (JV), borrowing costs and corporation tax implications based on the HTC being established within the Bristol City Council group of companies. The financial appraisal has included detailed financial modelling of the implications for the JV, HTC, BCC Holding Company and BCC itself. The Financial modelling has been based on a model developed specifically for BCC by Grant Thornton to model the financial implications of the establishing a HTC, the model was handed over to BCC in December 2017 following thorough testing.

Key inputs to the model included the set-up and running costs of the HTC, procurement costs of JV partners for the initial two sites and estimated development costs and sale proceeds for the first two sites to be developed within the HTC structure.

The potential financial benefits that accrue from establishing the HTC are the profits distributed after tax and margin on any lending made to the HTC by BCC. It is expected that the HTC will breakeven before tax in May 2023 following the first profit distribution from the JV. As the HTC is being treated as a commercial operation any lending for cash flow purposes must be close to commercial rates. As BCC will be borrow from the Public Works Loan Board (PWLB) at rates at or below 3% there will be an opportunity to achieve a margin on borrowing. Appendix 2 sets out illustrative outputs of the financial modelling, in terms of potential returns to the council from the development of the initial two sites.

To provide the necessary cash flow to set-up and fund the recurring costs of the HTC there will be a required cash injection into the HTC from BCC by way of a loan at commercial rates. In addition funding will be required to support the establishment of the HTC and fund the procurement process to identify a JV partner. Once the two developments are underway the HTC will repay the loan at agreed commercial rates.

Capital provision has been set aside in the approved capital programme for 2017/18 to 2022/23 totalling £178.026m to support the housing development across the city, through direct development and sale, grants to the registered providers and fund the local housing company to develop sites through joint ventures. The approved programme is as follows:

Ref	Scheme	Description	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
PL30	Housing Strategy and Commissioning	Utilise appropriate Housing Delivery Vehicles to enable the council to build housing for sale, a proportion of which will be affordable homes, and support other initiatives to deliver affordable housing targets.	7,106	20,920	50,000	50,000	50,000		178,026

This initial investment plan has been refined as clarity has been gained over the level of actual investment required, funding available nationally and pace of delivery. For the LHC, based on the detailed financial modelling of the set-up, operating costs and investment for the JV to develop the initial two sites, the funding and payback of that funding from a BCC perspective is as follows:

¹ Please note that Grant Thornton's direct engagement as Financial Advisors to this proposal was ceased following their appointment in December 2017 by the Public Sector Audit Appointments Limited (PSAA) as the Council's External Auditors. The current appointing period covers the audits of the accounts for 2018/19 to 2022/23.

	2018/19 £	2019/20 £	2020/21 £	2021/22 £
PWLB - Council Drawdown	798,352	1,046,506	7,030,914	269,018
PWLB Repayment	-	(849,356)	-	(8,295,434)
Net Cash From Financing Activities	798,352	197,151	7,030,914	(8,026,416)
Cumulative Position	798,352	995,503	8,026,416	-

Modelling suggests that the HTC will need just over £8m of funding to cover any cash flow requirements. As these are modelled costs and is dependent on progress of the site development and sales it is estimated that £10m should be maximum funding that the HTC will require based on the initial two sites.

Overall the current capital spend for last financial year and estimate for the current financial year and future spend on the wider Housing Strategy and Commissioning is as follows:

		2017/18			Current Year (FY2018)			Scheme Total for Current Timeframe (FY2017 to FY2022)		
Gross expenditure by Programme		Budget	Outturn	Variance	Budget	Forecast	Variance	Budget	Forecast (including prior years actuals)	Variance Total scheme budget vs total scheme forecast
PL30	Housing Strategy and Commissioning	7,545	9,079	1,534	15,607	14,081	(1,526)	191,522	191,885	362

The balance of the programme for 2019/20 to 2022/23 is being reviewed in the light of the funding needs of the LHC, current delivery plans for direct development and disposal of sites, the grant funding support of schemes being developed by registered providers and grant funding available nationally to accelerate house building. Of the future funding as it stands £104m has yet to be attributed to individual schemes.

Finance Business Partner: Neil Sinclair, Interim Finance Business Partner - 14/08/18

2. Legal Advice: Support to the Council by its consultants Lambert Smith Hampton has included specialist external legal advice from Trowers & Hamlin which has addressed all the relevant vires and powers issues associated with setting up the HTC and they have also advised on the relevant legal agreements and company formation documents, and generally on governance and related issues, including procurement and state aid issues. In addition financial and related advice has been obtained from Grant Thornton. The proposals are consistent with this advice however, please note the Detailed Business Case refers to the HTC being a subsidiary of Bristol Holding Company, and further advice is being obtained in relation to the most appropriate shareholding arrangements for the company.

Legal Team Leader: Eric Andrews, Legal Services – 15/08/18

3. Implications on ICT: There are IT implications in this initiative in ensuring that that the Housing Company(s) have the appropriate IT support arrangements in place (e.g. web presence, hardware, software). Work is underway regarding the appropriate model for delivering these services and it is noted that provisions have been made in the project plan and costings.

ICT Team Leader: Ian Gale, Head of IT – 13/07/18

4. HR Advice: The Housing Trading Company Business Plan (Appendix J) sets out the detailed staffing arrangements for the company. Although there will be a small number of job roles, work will need to be undertaken promptly to determine the remuneration and terms and conditions for those roles. A permanent Managing Director will not be recruited until the independent non-executive directors have been appointed. This represents best practice and good governance. In the meantime an interim Managing Director will need be recruited. The recruitment of independent non-executive directors will need to be led via the Council's Shareholder Group and specialist advice will be provided by the Council's HR team as required. The appointment to these roles is a reserved matter and any appointments will require the approval of the Council's shareholder group. The same will apply to appointment of the Interim Managing Director and the subsequent permanent recruitment and the Finance Director. The Housing Investment Company will not employ any staff directly.

HR Partner: Mark Williams, Head of Human Resources – 18/07/18

EDM Sign-off	Peter Mann	11 July 2018
Cabinet Member sign-off	Councillor Paul Smith	17 July 2018
CLB Sign-off	Mike Jackson	24 July 2018
For Key Decisions - Mayor's Office sign-off	Mayor's office	6 August 2018

Appendix A – Further essential background / detail on the proposal – TO FOLLOW	YES
Appendix B – Details of consultation carried out - internal and external – Various presentations already made to executive teams and shareholders group.	NO
Appendix C – Summary of any engagement with scrutiny –13 th August 2018 and 3 rd September 2018	NO
Appendix D – Risk assessment – include in attached Detailed Business Case and attached Business Plan.	NO
Appendix E – Equalities screening / impact assessment of proposal – TO FOLLOW	YES
Appendix F – Eco-impact screening/ impact assessment of proposal - TO FOLLOW	YES
Appendix G – Financial Advice – See Grant Thornton Financial Advice in attached Detailed Business Case.	NO
Appendix H – Legal Advice - See Trowers & Hamlins Legal Advice in attached Detailed Business Case	NO
Appendix I – Combined Background papers – See explanation in Appendix A above.	NO
Appendix J – Exempt Information - TO FOLLOW	YES
Appendix K – HR - advice received, see above	NO
Appendix L – ICT - advice received, see above	NO