

3. **The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan**

Funding the delivery of new homes will improve the quality of the built environment and the image of the town whilst providing much needed housing accommodation. Providing quality private rented and sub-market rented accommodation through the subsidiary companies will help cater for areas of housing need that are occupied by people who cannot access traditional social housing whilst not being in a position to purchase a home.

3b **Five Year Plan Outcomes**

Increasing the supply of well managed quality private rented accommodation address the five-year plans outcomes through:

- The introduction of HH and SH will increase choice and encourage people who work in Slough to also live in Slough, which will in turn help businesses of all sizes to locate, start, grow, and stay,
- Increasing the supply of quality accommodation will contribute towards children and young people in Slough being healthy and resilient,
- The introduction of Slough Homes will increase the supply of rented homes which are affordable to local people, will help prevent homelessness (where possible) and also help reduce the current financial burden of temporary housing costs.

4 **Other Implications**

(a) **Financial**

The financial modelling for the housing companies has been developed by external consultants with officers providing and agreeing assumptions.

The business plans assume the Council incurs additional capital expenditure in buying shares in and/or making loan advances to the housing companies. The interest charges on the loan advances will be sufficient over the life of both company's business plan (and agreed loan period) to at least meet the Council's financing and administrative costs in borrowing money to make these advances. The Council is able to lend funds to the housing companies using the powers outlined in section 4c) below. As long as the arrangements are deemed to be State-Aid compliant (i.e. effectively this means they do not provide a hidden subsidy to the company). The alternative of directly sourcing external private funding would be significantly more challenging, time consuming and would pass significant influence and potentially control over the housing companies business activities and decisions to the lenders.

Each company will submit an annual business plan that will set out future proposed loan requirements. The table below provides indicative funding requirements to allow the two companies to create the housing portfolios to fulfil their objectives.

	2016/17	2017/18	2018/19
Slough Homes – new units	-	£7.7m	£15.7m
Slough Homes – Pendeen & High St	£3.1m	-	-
Herschel Homes – new units	-	£17.5m (1)	£10.5m
TOTAL FUNDING REQUIREMENTS	£3.1m	£25.2m(2)	£26.2m*

Notes:

1. Whilst the sum of £17.5m is assumed to be spent in 2017/18, flexibility is requested to acquire suitable properties that may become available in 2016/17.

2. These loans are borrowed on an interest only basis and will need rescheduling and/or repaying by the sale of the housing units as the business plan and circumstances direct

(b) Risk Management

Risk	Mitigation	Opportunity
Collapse of Housing Market - Failure of a SHC	A slim, low cost structure is proposed, which the Council would control; either one or both companies could be wound up relatively easily if necessary. Each company will be independently registered and will be fire walled.	The properties could be sold, realising the appreciation on capital value to repay loans and generate a profit
Finance - The assumptions in the financial model are not robust or the financial model is flawed	The Business Plan model will be rigorously tested. Assumptions will be challenged and set at prudent levels. Sensitivity analysis and testing will be undertaken and a mitigation strategy for each scenario will be developed.	
Finance - Initial rental values are lower than forecast.	Scheme viability and affordability has been based on up to date and market information. Advice taken by lettings agents before acquisitions takes place.	
Finance/Management - Failure to collect all legally recoverable monies	The lettings policy will require the use of direct debits and rental deposits/ credit checks prior to the letting of property.	The Council could enter into an agreement with a Lettings Agent to deliver the service – this will transfer risk, but reduce profitability.
Finance/Management - Failure to make available for re-letting or to re-let in timescale	A bad debt and void provision in the Business Case will be monitored carefully, as will the cost of void turnover repairs and time taken to re-let properties.	The Council could enter into an agreement with a Lettings Agent to deliver the service – this will transfer risk, but reduce profitability.

Tax - The accounting and tax treatment set out in the Business Case is challenged	Expert external tax advice will be taken and considered as part of the Business Plan.	
Governance – The Governance structures do not allow appropriate decision making and/or enable the project to be properly set up or delivered	Expert legal advice has been sought to introduce appropriate governance structures. Final Governance arrangements are proposed within this report.	
Demand - Properties prove difficult to rent and impact on the financial projections/profitability	Thorough market research has been undertaken to inform the financial projections and external expertise will be commissioned to support the development of a robust marketing plan.	The Council is potentially establishing a group of SHC's. Should one company fail, properties could be sold between companies at the relevant market value and/or properties could be sold to repay debt.
Capacity – the Council does not have the internal capacity to introduce the company without negatively impacting on business as usual.	Enter into agreements with a local lettings agent for the early years of the HH, allowing the focus to concentrate on business development.	Second SBC staff to the Lettings Agent with a view to developing in-house expertise before bringing the company in-house.

(c) Human Rights Act and Other Legal Implications

The Council have a general power of competence under Section 1 of the Localism Act 2011 to do anything that individuals generally may do. Accordingly the Council may own shares in companies, make loans and provide financial and other assistance to companies, dispose of assets to companies, and receive dividends from companies in the same manner as individuals generally may do. The Council, therefore, will be able to incorporate or acquire the companies and to operate them as proposed, under this general power of competence.

Furthermore, if the Council wish to do anything for commercial purposes under this general power of competence, they must do so through a company.

This general power of competence is, however, subject to the limitation that the Council cannot do anything which they were not able to do by virtue of any statutory restriction on their powers which applied before the Localism Act 2011 came into force.

In connection with its relations with the proposed companies, therefore, the Council will be subject to EU Rules on State Aid, to restrictions in relation to financial assistance given for privately let accommodation contained in the Local Government Act 1988 and, in relation to any disposal of any assets to the proposed companies, to the rules in relation to the disposal of its assets.

Similarly the companies, whilst they will be distinct legal entities, they may, by virtue of their links to the Council, be considered to be “bodies governed by public law” and hence to be “contracting authorities” for the purposes of the Public Contracts

Regulations 2015 and hence subject to those regulations. They may also be considered to be controlled companies for the purposes of Part V of the Local Government and Housing Act 1989 and subject to the requirements the Local Authorities (Companies) Order 1995.

In the light of the above the Council will need to be astute to the following:

State Aid

Under State Aid Rules the Council will not be permitted to give the companies any form of financial assistance unless they do so on terms which are generally available in the market place or unless the Council are able to rely on exemptions contained within those rules. There are “de minimis” rules permitting assistance not exceeding 200,000 Euros in aggregate for all assistance by the Council in any three year rolling period and exemptions, subject to compliance with conditions, for assistance related to provision of affordable housing.

Disposal of HRA Land

Any disposal of land held in the Council’s Housing Revenue Account to the companies would require consent from the Secretary of State unless any such disposals satisfy the conditions set out in The General Housing Consents 2013 issued by the Secretary of State in which case the need for specific consent is dispensed with. Under those consents the Council are permitted to dispose of land (which could include dwelling-houses, houses and flats) for a consideration equal to its market value to a body in which it has an interest provided any such disposal is among the first five disposals in any financial year.

Disposal of General Fund Land

Any disposal of land held in the Council’s General Fund the companies would, under Section 123 of the Local Government Act 1972, have to be at the best consideration that can reasonably be obtained otherwise it would require consent from the Secretary of State. The Secretary of State has issued a general consent permitting disposals at an undervalue not exceeding £2 million for the promotion of social, environmental or economic well-being of persons residing within the area but any reliance upon such general consent may amount to breach of EU State Aid rules

Financial Assistance & the Local Government Act 1988

Under Section 24 of the Local Government Act 1988 the Council have power to provide the companies with financial assistance for the purposes of acquisition, maintenance or management of any property which is intended to be privately let as housing accommodation. Such assistance (and any such assistance which is given gratuitously) requires the consent of the Secretary of State unless any such assistance satisfies the conditions set out in The General Consents under Section 25 of the Local Government Act 2010 issued by the Secretary of State (as updated). Any assistance given without such consent, or which does not meet the conditions set out in the General Consents, would be void. The General Consents allow the giving of assistance other than the disposal of an interest in land or property or the giving of assistance or a gratuitous benefit consisting of the disposal of a dwelling house or hostel whose value in aggregate in any financial year does not exceed a sum ascertained by multiplying £3.00 by the population of the area but any reliance upon such general consents may amount to breach of EU State Aid rules.

Requirements of the Local Authorities (Companies) Order 1995

This statutory instrument imposes requirements on companies deemed to be local authority controlled companies. These requirements include matters such as the need for the Council's participation to be identified on official business stationery, directors' remuneration not to be excessive, the provision of information to Council Auditors, provision of financial information to the Council, approval of auditors by the audit commission and the minutes of general meetings of the companies being open to public inspection.

(d) Equalities Impact Assessment

There are no identified needs for an EIA at this juncture.

(e) Property

Based on the findings of an external property market analysis, the outlook for rents is stronger and more stable than for house prices over the next five years. Like the sales market, the rental market faces uncertainty. However, rental values are more closely linked with incomes than with measures that drive house price growth such as interest rates and mortgage availability. Rental growth is anticipated to slow next year because of tightening affordability and the effects of Brexit. Greater uncertainty, higher inflation, and a weak pound will impact how much households can spend on rents. However, the barriers to home ownership remain high. Renting will remain the tenure of choice for younger households.

The residential occupational market in the South East and more specifically Slough has been steady over the past sixteen months leading to November 2016. According to the Land Registry House Price Index, residential property values in Slough increased by 16% over the 12 months to April 2016. Local agents in Slough report that historic sales evidence and market activity has shown a good demand for residential property over the past twelve months, and mentioned that on certain developments, demand has maintained strong.

The decision for the United Kingdom to leave the European Union has undoubtedly had an impact on house prices in prime locations. From conversations with local agents in Slough, we understand the market remains active with values being maintained and new enquiries continuing to come in.

Taking into consideration the above, The Council's external advisors are of the opinion that as residential property is becoming increasingly unaffordable in London, Slough's popularity will increase with the aforementioned development and prospect of Crossrail servicing Slough from December 2019. Furthermore, Slough is in close proximity to London and Heathrow, so provides a good commuter location, in addition to the businesses location at the nearby SEGRO's Slough Trading Estate. It is therefore the opinion of external advisors that Slough's residential status is becoming increasingly popular for professional couples, families and investors alike.

5. Supporting Information

- 5.1 Following Cabinet approval in September 2016, Slough Borough Council ("the Council" or "SBC") has been developing the business case and detailed business

plans to establish two wholly owned subsidiary housing companies. In agreeing to this recommendation, it was noted that the introduction of the subsidiary housing companies had the potential to improve choice, increase quality, meet varying forms of housing need and generate independent income streams to improve the financial resilience of the Council. The outputs and outcomes were therefore closely tied to outcomes 2 and 7 in the Council's 5 Year Plan.

5.2 Whilst both companies will acquire homes for rent and will act as exemplar private landlords, supporting SBCs efforts to promote excellent standards in the Private Rented Sector ("PRS"), they will have distinct objectives and operating models:

5.2.1 The operating model for **Herschel Homes**, which will focus exclusively on full market rents, is described in sections 5.3 – 5.9; and

5.2.2 **Slough Homes**, which is summarised in sections 5.10 to 5.16, will provide a blend of affordable and market rent homes. The objective is to apply a discount on rents for as large a proportion as possible of these homes to accommodate people who are homeless or threatened with homelessness or otherwise fall within policy objectives. This will be achieved through cross-subsidy being provided from homes let at market rents.

Herschel Homes Description

5.3 Herschel Homes ("HH") will acquire completed new build units to provide high quality housing for market rent. Financial modelling is based on the acquisition of an initial portfolio of 365 properties over a five-year period from 1 April 2017. The majority of these properties are a mix of high end new apartments, assumed to be largely a mix of 1 and 2 bed properties. This could include planned developments of SBC-owned sites at Alpha Street, Maria Cowland Centre, 150-160 Bath Road and Wexham South as well as sites developed by third parties

The fact that the Council already has a well-defined list of regeneration sites and an approved delivery vehicle (Slough Urban Renewal) in place to construct new build housing in Slough creates greater certainty that HH will realise its business objectives.

5.4 HH will require funding to acquire the properties. The intention is that this will be provided by the Council, and that the financial arrangements will enable the Council to earn a return on its funding in the most efficient way, taking account of the regulatory environment – in particular tax and state aid issues. To address both state aid and HMRC issues, the way in which HH is funded will reflect a normal commercial arrangement, with the Council acting in a way in which a private lender and/or investor would in similar circumstances in a market economy.

5.5 The Council's revenue return from its investment in the Company will be generated by the net rent receivable (less tax) and will be receivable as a combination of interest and dividends from profits after tax.

5.6 In addition to this projected revenue return to the Council, HH will own a portfolio of properties which are projected to appreciate in value over time. Whilst this growth in value will not be realised unless the properties are sold, the business plan shows the gradual increase in the underlying property values which could be realised at some point in the future to reduce debt and/ or provide capital for reinvestment.

5.7 The expectation is that within the first five years, capital funding for HH will be fully financed by the Council through loan funding and equity. However, the overriding principle of the financial modelling is that the company will introduce an independent income stream and there will be no overall cost to the Council from financing the housing company. In addition, the Council is likely to benefit from any future dividends (profits after tax) from the company and 100% of any growth in the value of the property portfolio.

5.8 It is envisaged that the Board of HH will consist of suitably experienced officers. Based on the existing staffing structure, the Board would include:

- Strategic Director – Regeneration, Housing & Resources
- Head of Finance (Transformation)
- Head of Housing
- Head of Asset Management

Due to the commercial nature and objectives of Herschel Homes, it may seek to augment the board by attracting external business expertise with commercial property and investment experience – potentially through part time non-exec Directors. It is anticipated that the Board of Directors will obtain operational support from the Council's Asset Management Team to deliver the company Acquisition Strategy

The governance arrangements describing the role of Councillors will be described in section 5.23.

5.9 It is assumed that:

- The Company will enter into agreements with SBC to acquire services as required.
- In the early years (1-3) of the company, the day-to-day lettings, management and marketing will be managed on behalf of HH by a lettings company. This will allow the Board of Directors to concentrate on business development (i.e. building the portfolio).
- Whilst selected existing properties could be acquired if they reflected the operating model of HH and were deemed to represent a good investment, HH will primarily focus on acquiring and managing new build properties within Slough.
- The business plan will assume that the service will be brought completely in-house by year 4.
- To reduce tax liabilities, all net profits will be transferred back to the Parent Company (the Council) in the most tax efficient manner.
- An individual business plan will need to be approved by the board and SBC.

Slough Homes Description

5.10 Slough Homes ("SH") will focus on providing homes to a wider range of people than those who have traditionally been council or housing association tenants. As reported in September 2016, local market housing failure means that an increasing number of residents are unable to afford decent homes in the area. This failure not only has an adverse effect for individuals but also threatens the local economy. The expectation is that SH will assist the Council to more easily discharge its responsibilities to homeless residents and others and in containing or reducing the cost of expensive temporary accommodation such as Bed and Breakfast hotels. It would also be

possible for SH to secure accommodation for specialist purposes such as housing for care leavers and key workers.

- 5.11 It is proposed that the company will purchase up to 25 existing residential properties to rent in year 1 and 50 properties each year for the next 4 years with a total portfolio at the end of year 5 of 225 homes.
- 5.12 A significant proportion of this property will be let at a discounted rent and the overall aim would be to maximise this proportion. Rents would primarily be aligned with the Local Housing Allowance (LHA, the maximum level of Housing Benefit payments) and, in order for the model to remain cost neutral to the Council, a proportion will be let at full market rent. It will also be possible for the company to let at a range of rents below market level to reflect particular household or family circumstances. The initial proportion of homes able to be provided at discounted market rent levels is set out in the business plan and will be reviewed annually. Should the need for discounted market rent properties reduce in the coming years, the potential exists for the company to return an increased profit and make a return to the Council's General Fund in the form of a dividend from letting a greater number of properties at full market rent. In addition, the company will be able to assist the Council in identifying private sector properties for temporary use in discharging the Council's homelessness obligations.
- 5.13 The proposed operating model, which will involve acquiring existing properties, will provide an opportunity to respond quickly to growing demands and make a positive contribution towards tackling the escalating problem of households in inappropriate accommodation and the risk of material increases in temporary housing costs, which is having a detrimental impact on the General Fund.
- 5.14 It is envisaged that the Board of SH will consist of suitably experienced officers. Based on the existing staffing structure, the Board would include:
- Strategic Director – Regeneration, Housing & Resources
 - Head of Finance (Transformation)
 - Head of Housing
 - Head of Asset Management

It is anticipated that the Board of Directors will obtain operational support from the Council's Asset Management Team to deliver the company Acquisition Strategy and receive ongoing support from the Project Management Office. Similarly, the governance arrangements describing the role of Councillors will be described in section 5.26.

- 5.15 It is assumed that:
- SH will acquire lower valued properties and will purchase a mix of existing properties in various locations throughout Slough.
 - The Company will enter into agreements with SBC to undertake the day-to-day business activities associated with the sub-market rent properties (allocations, property management and marketing) will be managed on behalf of SH by SBC, operating under an agreement to provide services. However, like HH,
 - In the early years (1-3) of the company, the day-to-day lettings, management and marketing of the full market rent properties will be managed on behalf of

SH by a lettings company. This approach will be reviewed by the Board of Directors within 24 months.

- To reduce tax liabilities, all net profits will be transferred back to the Parent Company (the Council) in the most tax efficient manner.

5.16 The services provided by SBC will include: Allocations, Housing Management, Property Services and Rent Recovery.

Proposed Company Model – Limited by Shares (both companies)

5.17 Subsidiaries are separate, distinct legal entities for the purposes of taxation regulation and liability. The most common way that control of a subsidiary is achieved is through the ownership of shares in the subsidiary by the parent (in this case the Council). These shares, along with governance measures below give the Council the necessary means to exercise control.

5.18 The advantage of a Company Limited by Shares is that it can be grouped with the Council for Stamp Duty Land Tax (“SDLT”) and therefore transfers between the two organisations would not be taxable.

5.19 Whilst the Council could seek to enter into a partnership with an equity investor via some form of joint venture, the most effective way to control the company is to incorporate a wholly owned subsidiary. With such a model, the Council will have the maximum possible degree of control over the future activities of the subsidiary company and the Council (as sole shareholder) will have the ultimate sanction of either removing the Board Members and appointing replacements or, ultimately resolving to wind up the company. However, such a model means that the risks will not be shared.

Moving forward, to allow sustained growth and to share risk, the Council may chose to change the model to allow an equity partner in one or both of the companies – however this scenario is not assumed in years 1-5.

Proposed Governance Arrangements (both companies)

5.20 The Council's relationship with each company will primarily be governed by the Council's rights under the Memorandum and Articles; a Shareholders Agreement to be entered into by the Council and **each company**, future credit/funding financial agreements and Service Level Agreements. In this report the following terms are used:

- The Funding Role,
- The Shareholder Role,
- Service level Agreements, and
- The General Role.

Each of these roles are described in detail in sections 5.21 – 5.30 below.

5.21 **The Funder Role** is where the Council acts as a funder and would in determining whether to lend money to HH and SH. To provide resilience and deal with potential conflicts of interest it is recommended that the Funder Role is discharged by the section 151 officer. In effect the Funder Role will act as a bank credit committee. The Funding Role's primary task will be to assess viability (as an entity) for each project which loan funding will be used for and using this analysis to determine whether to release loan funding.

- 5.22 It will also be necessary for the Funder Role to regularly monitor and analyse financial information generated by each company during the lifetime of each loan to ensure that they are not in breach of key financial requirements (which will be stipulated as funding conditions/covenants in each loan). For State Aid reasons the Council and its Funder Role will need to establish that for each loan a notional private lender would make that loan in identical circumstances to the Council.
- 5.23 The Funder Role will also have to satisfy itself that each particular loan is made in compliance with State Aid requirements and that any statutory or constitutional changes (e.g. a change in the Secretary of State's consent regime and internal changes to the Council's constitution and procedures) do not render a proposed loan and/or proposed development ultra vires. For these assessments the Funder Role is likely in part to rely upon the Council's General Role and functions such as legal services.
- 5.24 **The Shareholder Role** is the Council acting as the shareholder in HH and SH and ensuring (as a shareholder would) that they deliver. It will be concerned with HH and SH maximising their economic performance. It will also be interested in HH and SH:
- Complying with good company governance, financial management/audit practices;
 - Having due regard for "brand"/reputation the consequences of their business practices; and
 - It may at some point have to make difficult decisions such as whether to sell all or part of its interest to a private sector organisation, cease expansion of either company's activities and/or in extreme circumstances consider dissolution/winding one of the companies.
- 5.25 Whilst the Shareholder Role is not a vehicle for the Council to remotely manage HH or SH, it provides a framework within which the companies will operate and run their business. This will include approving the annual business plan. The terms of reference for the Shareholder Role are set out in confidential Appendix Three to the Cabinet report with the draft Shareholder Agreement included as confidential Appendix Four.
- 5.26 To minimise conflict of interest, the person appointed to undertake the Shareholder Role in the Council should not be a Director of either company. This is because part of the Shareholder Role will be to hold each company's performance to account and a Director of HH or SH will be responsible for that performance. With this regard, this report suggests that the Shareholder Role should be undertaken by the Section 151 Officer in consultation with the Commissioner for Housing & Urban Renewal & Leader of the Council. This approach will be reviewed annually, thus ensuring that an appropriate mechanism is in place for Cabinet to oversee the business activities of the companies.

Avoiding Conflicts of Interest

5.27 As set out above, if an officer or Member is required to make decisions about approving funding to either HH or SH or hold performance to account (either through the Shareholder Role or monitoring) then there will be a conflict in that same individual acting as a Director for either company. This is because as a Director, that individual must in that role put the interests the company first. This would prove difficult and create the potential for conflicts of interests in number situations (where the named post is also a Director) including:

- An officer or Member considering whether to agree a loan from the Council for a development;
- An officer or Member monitoring/reviewing financial/commercial performance (as a Director they would be responsible for that performance);
- An officer or Member or member reviewing a business plan in the Shareholder Role (such a plan may seek expansion which could conflict with other Council funding priorities).

5.28 To avoid these potential conflicts, the Council should avoid appointing individuals responsible for the Funder Role, the Shareholder Role or 'scrutinising' the performance of either HH's or SH's performance as a Director of either company.

Service Level Agreement

5.29 The underlying intent of a Service Level Agreement ("SLA") is to provide reassurance that there is transparency in relation to the use of the Council's core staff and facilities for purposes which relate to the activities of the subsidiary companies and ensure there is a robust mechanism for recovery by the Council of all associated costs. The SLA will set out the range of services (for example office space, IT support, Housing Services, Legal Services and Asset Management support) that will be provided and clarify the cost of each element.

The SLA will be reviewed annually and approved by the Assistant Director Finance and Audit on behalf of the Council in consultation with the Commissioner for Housing & Urban Renewal and Leader of the Council.

5.30 **The General Role** is the Council's ordinary governance (including financial governance) role.

Summary of Roles & Responsibilities

5.31 In the event that Cabinet approves the introduction of the subsidiary companies, detailed arrangements will be put in place to demonstrate high levels of governance and operational effectiveness. The agreements will be required to demonstrate that:

- The group structure is established in a way that allows the Council to meet its statutory obligations,
- The strategic planning process allows the Council to guide the activities of each company in the management and delivery of services,
- The Council manages the performance of the subsidiary to ensure that standards are consistent.
- There are formal mechanisms for the control of the quality of service delivery by each company.
- There are appropriate opportunities for Councillors to be involved in decision making at a strategic level and ensure that appointments made to its subsidiary board is as transparent as possible.

- Costs are allocated correctly to each subsidiary company in order to get an accurate assessment of the total costs incurred,
- Financial reporting to the Council, include preparing 'group' accounts that will be consolidated into the Council's annual financial statement, and assessing results against group budgets and reviewing performance against key financial targets is undertaken.
- A clear distinction is made between the various companies within the group to ensure that the Councillors, Staff and third parties are clear about which part of the group they are dealing with at any given time.

5.32 The Role & Responsibilities of each party will be set out in the above agreements. These will include but are not restricted to:

Council	Subsidiary Company
<ul style="list-style-type: none"> • Approval of the overall strategy of the Group, • Following sign-off by the Chairperson of the subsidiary, approval of the subsidiary's accounts, • Consideration and approval of subsidiary organisations' annual Business Plans and annual budgets, • Monitoring the performance of the subsidiary against financial and performance targets, • Consideration and approval of all constitutional changes, and • The establishment of governance policies for the subsidiary, including standing orders and codes of conduct for board members. 	<ul style="list-style-type: none"> • Works within limits approved by SBC- but with operational independence from SBC. • Purchases staffing and other services from SBC. • In relation to Slough Homes, be appointed by SBC to provide housing related services • Provide high quality, effective and customer- focused services • Comply with all the agreements in place between the subsidiary and the Council.

Proposed Disposals to Slough Homes

5.33 To deliver the aims of Slough Homes the business plan prepared by external consultants has been augmented by a separate plan that involves the company acquiring the Council's temporary accommodation hostel type stock and provides services to accommodate people in Emergency and Temporary Accommodation on behalf of the Council. This portfolio consists of only two properties at:

- 5.33.1 Pendeen Court, and
- 5.33.2 High Street, Langley

Pendeen Court

- 5.34 Pendeen Court is a purpose built temporary accommodation housing scheme comprising 29 units plus:
- a communal laundry
 - a common room
 - internal children's play area
 - staff office and cloakroom
- 5.35 The property has not been refurbished since it was built 26 years ago and requires significant capital investment. The benefit of Slough Homes acquiring Pendeen Court is that the refurbishment costs would be funded to ensure its ongoing use as temporary accommodation, making it fit for purpose for the next 20 years.
- 5.36 Pendeen Court is currently owned by the HRA and the disposal of the property is subject to the rules limiting the Council to disposing of 5 properties per year and the HRA receiving a full market capital receipt for the property. Disposal from the HRA should be a straightforward process once the valuation has been agreed as no disposals have taken place this financial year.
- 5.37 The Council has already agreed the erection of 5 x 2 bed units on the garage site at Pendeen as part of the HRA small sites development programme, which do not form part of this initial proposal.
- 5.38 The final valuation, prepared by an independent chartered surveying firm, was attached as a confidential Appendix Five to the Cabinet report.

High Street, Langley

- 5.39 This property, consisting of 12 single rooms with shared facilities across two adjoined houses is a General Fund acquisition of obsolete stock from a housing association earlier in the year. In approving the acquisition, the Capital Strategy Board agreed an additional capital allocation to refurbish the building, which is nearing completion.
- 5.40 The final valuation, prepared by an independent chartered surveying firm, was attached as a confidential Appendix Six to the Cabinet report.

Business Case – Disposals to Slough Homes

- 5.41 The business case supporting the disposal of Pendeen Court and High Street, Langley was approved by the capital Strategy Board on 22 November 2016 and was contained in confidential Appendix Seven to the Cabinet report.

6 Comments of Other Committees

- 6.1 The Cabinet considered the establishment of a subsidiary housing company structure at its meeting on 19th December 2016. In addition to the recommendation to approve the capital funding as outlined in section 2 of the report, the Cabinet resolved the following matters which the Council is asked to note:

- That the business plan for Herschel Homes, set out in Appendix One to the Cabinet report 19/12/16 (which contains exempt information), which seeks to establish a company that will acquire, manage and lease new build properties for full market rent be approved.
- That the business plan for Slough Homes be approved, as set out in Appendix Two to the Cabinet report 19/12/16 (which contains exempt information), which seeks to establish a company that will aim to acquire, manage and lease existing properties in a manner that will provide an offering of homes for people facing particular difficulties in accessing suitable accommodation, possibly through cross-subsidy provided from homes let at market rents.
- That it be noted that both Herschel Homes and Slough Homes will be companies that are limited by shares with the Council being the sole shareholder.
- That the Head of Legal Services, following consultation with the Commissioner for Housing & Urban Renewal and Leader of the Council, be authorised to seek the incorporation or acquisition of companies to be wholly owned by the Council to operate under the names of Herschel Homes and Slough Homes and to complete all necessary procedures for this purpose.
- That authority be delegated to the Assistant Director Finance & Audit, following consultation with the Leader and Commissioner for Housing & Urban Renewal to approve the draft Heads of Terms for the Facility Agreement for the Council to provide loan and equity finance to Herschel Homes and Slough Homes and agree that the Assistant Director Finance & Audit, in consultation with the Leader of the Council is authorised to finalise the Facility Agreement and to enable up to £28m to be lent to Herschel Homes and £26.5m to be lent to Slough Homes in the period to 31 March 2019 and for a temporary cash facility of up to £50k to be available from the Council to the two Companies for the initial 18 months as 'working capital' (charged at the base rate plus 2%).
- That the proposed governance arrangements for each company set out in Section 5 in the Cabinet report and the Shareholder Agreement included in Appendix 7.4 of the Cabinet report (which contains exempt information) be approved and authority be delegated to the Assistant Director Finance & Audit in consultation with the Head of Legal Service to complete the draft terms.
- That the Assistant Director Finance and Audit and the Head of Neighbourhoods be authorised to agree prices for services provided by the Council (such as Housing, Property and Asset Management), between the Council and both housing companies.
- That the Head of Legal Services, following consultation with the Strategic Director Housing, Regeneration & Resources in consultation with the Commissioner for Housing and Urban Renewal, be authorised to select an alternative company name for Slough Homes (which will be subject to availability at Companies House).
- That the disposal of the Housing Revenue Account ("HRA") asset at Pendeen Court and General Fund asset at High Street, Langley to Slough Homes be authorised for a sum that represents no less than best value.

- That delegated authority be given to the Assistant Director Assets, Infrastructure and Regeneration following consultation with the Leader, the Council's section 151 Officer and the Head of Neighbourhood Services to agree the final valuation sum for Pendeen Court and High Street, Langley and agree all non-financial terms.

6 **Conclusions**

- 6.1 The Council is asked to consider the Cabinet recommendation to approve the capital funding requirement for the two wholly owned housing companies, Herschel Homes and Slough Homes and is asked to note the other matters resolved by the Cabinet on 19th December 2016.

7. **Appendices Attached**

None.

8. **Background Papers**

Cabinet report, 19th December 2016