

NORTH HERTFORDSHIRE DISTRICT COUNCIL

**CABINET SUB-COMMITTEE (LOCAL AUTHORITY TRADING COMPANIES'
SHAREHOLDER)**

**MEETING HELD IN THE FIRST FLOOR ROOM 2, COUNCIL OFFICES, GERON ROAD,
LETCWORTH GARDEN CITY ON THURSDAY, 15TH MARCH, 2018 AT 3.30 PM**

MINUTES

Present: *Councillors Julian Cunningham, David Levett and Ray Shakespeare-Smith.*

In Attendance: *David Scholes (Chief Executive), Anthony Roche (Deputy Chief Executive), Ian Couper (Head of Finance, Performance and Asset Management), Steve Crowley (Contracts and Projects Manager), David Charlton (Senior Estates Surveyor), Marie Searle (Property Solicitor) and Ian Gourlay (Committee and Member Services Manager).*

1 ELECTION OF CHAIRMAN

RESOLVED: That Councillor Julian Cunningham be elected as Chairman of the Sub-Committee for the remainder of the 2017/18 Civic Year.

2 NOTIFICATION OF OTHER BUSINESS

There was no notification of other business.

3 CHAIRMAN'S ANNOUNCEMENTS

- (1) The Chairman reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question; and
- (2) The Chairman announced that he would be varying the order of business on the agenda so that, following the exclusion of the press and public, Item 8 (the Part 2 item on Options for Housing Investment Company) would be considered in advance of Item 6 (the Part 1 item on the same matter).

4 PUBLIC PARTICIPATION

There was no public participation.

5 PURPOSE OF THE SUB-COMMITTEE

The Deputy Chief Executive presented a report informing Members of the purpose of the Sub-Committee, specifically its role and function in the operation of the Council's commercial activities operated via trading companies. The following appendix was submitted with the report:

Appendix A - Extract from Council Constitution setting out Sub-Committee's terms of reference.

The Deputy Chief Executive advised that the overall spirit of the Terms of Reference was that the Sub-Committee should consider as shareholder all those matters that related to the Council's ownership or potential ownership in wholly or partly owned local authority companies. Given that the Terms of Reference were based on examples found in other

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authorities, it would of course be necessary to keep these under review as the Council's involvement in such companies developed. In this regard, proposals will be put to the 10 April 2018 Council meeting as part of the Constitution Review report to amend the Terms of Reference so as to clarify the proactive approach of the Sub-Committee in considering matters relevant to local authority companies, prior to the establishment of the relevant company by Cabinet.

The Deputy Chief Executive explained that there were elements of the decision making around trading companies which were not the responsibility of the Sub-Committee. The Cabinet's terms of reference included the following, which was added in the 2017 Constitution Review:

"5.6.34 To agree to the establishment or wind up of a Council wholly or partly owned Local Authority Company, and to approve investment, loans, resource arrangements and asset transfers, act as corporate shareholder, save as otherwise delegated to the Cabinet Sub-Committee (Local Authority Trading Companies' Shareholder), Executive Members or Officers under the Sub-Committee terms of reference."

The Deputy Chief Executive stated that there would be many decisions that were the responsibility of the directors who would be appointed to manage the company. The role of the Sub-Committee was to maintain an oversight on the company and to take ownership decisions, as defined within the memorandum and articles of association establishing the company. Those areas of responsibility could, in theory, be different from company to company, but in practice were likely to be broadly similar. Members would be fully aware of the need for a trading company to be 'light on its feet' and be able to make commercial decisions quickly (ie. 'act commercially'), without local authority processes unnecessarily slowing down those decisions. Therefore, it was anticipated that the emphasis would be on delegating decisions to the directors wherever it was sensible to do so.

The Deputy Chief Executive reminded Members that the Sub-Committee's decisions were subject to scrutiny, and that with a quorum of three Members, the Delegation arrangements included as part of Appendix A to the report provided emergency arrangements should a decision needed to be made in the event that it was not possible to convene a quorate Sub-Committee meeting within suitable timescales.

In response to a Member's question, the Chief Executive confirmed that Careline was not included in the remit of the Sub-Committee, as it was currently a service provided by the Council. However, if Careline showed an on-going net surplus, then there was the possibility for its governance arrangements to be reviewed, with the further possibility of it being added to the Sub-Committee's remit in the future in the event that it was determined that the service should be delivered through a company structure.

RESOLVED: That the content of the report be noted and taken into account when considering future reports to the Sub-Committee

REASON FOR DECISION: To ensure that the sub-committee understands its role in taking forward commercial activities through trading companies.

6 OPTIONS FOR HOUSING INVESTMENT COMPANY

[Note: this item was considered after Minute 8.]

[Prior to the consideration of this item and Minute 8 below, Councillor David Levett made a Declarable Interest in that he was a director of a property letting company which was currently dormant, but that he had applied to Companies House to wind up this company.]

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The Deputy Chief Executive presented a Part 1 report setting out the investigations that had been undertaken with regard to the potential options for investing in residential property on a buy to let or development basis. The following appendix was submitted with the report:

Appendix A – Proposed Scheme of Delegation.

The Deputy Chief Executive advised that the Overview and Scrutiny Committee had requested to see this report and accompanying Part 2 report at its meeting to be held on 20 March 2018, and so the views of that Committee may be referred to Cabinet for consideration at its meeting to be held on 27 March 2018.

The Deputy Chief Executive stated that the Sub-Committee had considered the Outline Business Case (OBC) for a Housing Investment Company appended to the Part 2 report (See Minute 8 below). In summary, the OBC showed that the return on investment would be marginal and less than other potential ways in which the Council could invest its capital. There are a number of reasons for this, including:

- The cost of property in North Hertfordshire;
- A mature rental market;
- The cost of buying in the necessary expertise; and
- Small size of the likely property portfolio meaning costs were not spread/diluted.

The Sub-Committee noted that the findings of the Outline Business Case suggested that the Council should cease work on buying existing residential property on the open market for private rental and should instead focus on other housing options which could provide greater returns. Additionally, the model of buying existing residential properties would not provide the community benefits of bringing new housing stock into circulation, whereas conversion/development options could provide new housing for the area.

The Sub-Committee therefore supported the proposed recommendation that no further work be undertaken to investigate buy to let investment options.

The Deputy Chief Executive referred to the £3Million allocation in the Capital Programme for Housing Investment. Although purchasing existing residential properties for renting did not provide sufficient return to be an attractive investment option, the Council currently owned property which could potentially be rented out as residential lettings to generate income. The Council owned the bungalow adjacent to Town Lodge in Gernon Road, which was vacant and could be rented out in order to generate an income, thereby ensuring the Council was obtaining value from its asset. Alternatively, the site could be redeveloped as part of any proposals for the wider Gernon Road site. The Council also owned the current Careline offices in Harkness Court, Hitchin which would be vacated later this year when Careline relocated to the District Council Offices. Options had been explored for the conversion of the building to residential flats for letting on the private rental market.

In addition to letting existing assets, the Deputy Chief Executive explained that the Council could explore options for developing its land holdings, where appropriate, either on its own or in partnership with others. These would need to be considered on a site by site basis and would be subject to individual business cases in due course. Any housing developed could be retained for letting through the trading company, or sold to generate a capital receipt, or a mixture of both.

The Deputy Chief Executive advised that, where it carried out an activity that was primarily for a commercial purpose, the Council was required to do this through a trading company. In order to facilitate any future letting opportunities it was proposed that the Council established the relevant company structures now. Under the terms of the Council's Constitution, the setting up of a company required a decision from Cabinet. It was proposed that a typical structure be adopted of a parent holding company with the potential for a number of separate trading companies operating in different markets. The proposed breakdown of responsibilities

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(between the Cabinet, Cabinet Sub-Committee, Officers and Board of Directors) was attached at Appendix A to the report. Going forward, the Sub-Committee would act as the Council's shareholder in the company, with the Directors taking day to day decisions. It was proposed that Cabinet be recommended to delegate authority to the Chief Finance Officer and Executive Member for Finance and IT to determine the detail of the company structure.

Members noted that initially the Council would set up the holding company and one trading company for letting residential property at market rent. Further work would need to be undertaken on the best mechanisms for the company to acquire the property and providing a return to the Council. This would be subject of a further report in due course.

In response to a Member's questions, the Chief Executive and Deputy Chief Executive confirmed that investigation of the potential development of commercial property would be a task for the new post of Commercialisation Service Director, as would the formulation of a Commercialisation Strategy.

The Sub-Committee supported the recommendations in the report, and felt that it was appropriate to set up both the proposed parent company, and two subsidiary trading companies. The Sub-Committee therefore amended the recommendation to Cabinet to incorporate reference to "trading companies" and "development; and letting", as set out below.

RESOLVED:

- (1) That it be agreed that no further work be undertaken to investigate buy to let investment options; and
- (2) That further work be undertaken to investigate potential conversion/development opportunities, subject to future consideration of the business plan for specific proposals.

RECOMMENDED TO CABINET: That the principle of setting up a wholly owned holding company and trading companies for the purposes of development; and letting existing and future assets as residential dwellings be approved, and the Chief Finance Officer and Executive Member for Finance and IT be given delegated authority to determine the detail of the structure.

REASON FOR DECISION: To explore the options for making best use of existing assets.

7 EXCLUSION OF PRESS AND PUBLIC

RESOLVED: That under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the said Act (as amended).

8 OPTIONS FOR HOUSING INVESTMENT COMPANY

[Note: this item was considered before Minute 6.]

The Deputy Chief Executive presented a Part 2 report containing details of commercially sensitive information relating to the proposals for a housing investment company. The following appendices were submitted with the report:

Appendix A – Outline Business Case and Addendum; and
Appendix B – Initial Assessment of Potential Development Sites.

The Sub-Committee considered the Outline Business Case and Addendum and the initial assessment of potential development sites. Members further considered information relating

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to the letting of existing assets, opportunities for development and establishing a trading company.

RESOLVED: That the contents of the report be noted.

REASON FOR DECISION: To consider commercially sensitive information to inform its decision making on the proposals for a housing investment company.

The meeting closed at 4.40 pm

Chairman