Appendix A
Local Housing Company

Report date: November 2020

Contents

1. Introduction

The Business Case (BC) has been prepared in relation to proposals to create a Local Housing Company (LHC) to help deliver Warwick District Council's (WDC) housing and development needs; to provide a wider mix of tenures and to make sales; and to return an income to the General Fund and/or Housing Revenue Account.

The BC has been prepared using the principles of HM Treasury Green Book Five Cases Model. These are that the business case in support of a new policy, strategy, programme or project must evidence:

- That the intervention is supported by a compelling case for change that provides holistic fit with other parts of the Councils strategy – the "strategic case";
- That the intervention represents best public value – the "economic case";
- That the proposed Company is attractive to the market place, can be procured efficiently and is commercially viable – the "commercial case";
- That the proposed spend is affordable – the "financial case";
- That what is required from all parties is achievable – "the management case".

As a part of the BC, the options for alternative ways of addressing the needs have been examined, including the delivery of housing by the Council itself. The BC has taken account of advice from Warwickshire County Council Legal Services, independent specialist legal advice from Trowers & Hamlins LLP, treasury advice from LINK and tax and Treasury advice from KPMG.

2. Background

The five key objectives for the Company are to:

- Be Profitable
- Enable the Council to meet the housing needs of a wider range of customer groups than solely through the HRA
- Provide good quality rented homes at market or sub-market levels
- Provide a return to the Council.
- Deliver housing needed within the District on either council-owned sites or other sites within the area

It is intended that the Company will primarily develop properties for market sale and market rent. Any affordable housing developed by the Company will be delivered in accordance with s106 requirements and sold to the Council for use as general needs social housing, accounted for in the Council's Housing Revenue Account (HRA). It may be that some affordable (but not social) housing (where developed in accordance with planning requirements) will be retained by the Company and let at an affordable rent, with the Council having nomination rights in perpetuity. The Company will also acquire properties on the open market for market rent or to otherwise generate profit. The Company may seek development opportunities outside of the local authority's administrative boundary.

It is generally accepted that the most suitable corporate form for the Company is a company limited by shares (CLS). The company is structured to be wholly owned by the Council with Executive taking the Shareholder Role. The company will be managed by a Board of Directors (BoD).

For the Company to take advantage of development opportunities presented by developers or landowners, it is important for it to be able to respond quickly and not to be encumbered by the often expensive and time consuming Procurement legislation. For these reasons, the Company is structured in order that it is not a 'teckal' Company and therefore it will not be a 'Contracting Authority' and the Public Contracts Regulations 2015 will not apply.

3. STRATEGIC CASE

3.1. Background

The Council has committed to the delivery of new housing, thereby accelerating housing delivery in the district, providing much needed affordable housing, ensuring the delivery of income whilst also contributing towards delivery of the objectives of the climate emergency declared by the council. The overall vision is to create healthy and sustainable developments, neighbourhoods that are inclusive, improve the lives of both new and existing residents and that will stand the test of time. The new homes are being built to high environmental standards and thus respond to the climate emergency declared by the council.

In delivering new homes the Council is using a combination of:

- Council owned land
- Land purchase
- Securing investment from the HRA and the use of prudential borrowing where appropriate
- Securing investment through a partnership with Homes England

The Council's current focus is on the delivery or acquisition of good quality affordable housing to meet local housing needs and support the delivery of the Local Plan.

The form of delivery adopted to date means that properties are statutorily required to be contained within the HRA. The HRA and its associated activities (such as rent setting, major works, tenancy type, disposals) are heavily regulated and directed by central government. Access to these properties is also legislatively directed with housing needs being the key driver. As a consequence, the Council is unable through the HRA to offer a wider range of products that would meet the needs of alternative customer segments and particularly those who would not normally qualify for Council accommodation including the 'squeezed middle' or high income earners. There is a vibrant market rental market in the district with which the Council is unable to compete with without doing so through a LHC.

3.2. Fit with other Council objectives and priorities

The Council's Fit for the Future (FFF) Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands, People, Services and Money, and each has an external and internal element to it, the details of which can be found on the Council's website.

3.3. FFF Strands

People - Health, Homes, Communities - Increasing the supply of good quality housing for rent or sale will extend housing options for a range of income levels and enable more people to establish roots in their desired neighbourhoods. This should therefore make a positive contribution toward community cohesion.

Services - Green, Clean, Safe - Empty buildings and derelict building land can be targets for a range of anti-social behaviours and provide opportunities for criminal behaviours. Bringing property back into use and possibly redeveloping land can therefore make a positive contribution to community safety.

Money- Infrastructure, Enterprise, Employment - The financial implications are set out in the body of the report and the attached business plan.

Services - Maintain or Improve Services - The model has the aim of making significant contributions to the Council's income in the face of funding shortfalls, and by doing so, put services on a more sustainable footing to support local people as well as raising money to invest in our priority outcomes.

Money - Firm Financial Footing over the Longer Term - The model has the aim of making significant contributions to the Council's income in the face of funding shortfalls, by getting a good return on investment and making good use of assets. This directly maximises our income earning opportunities as the Council will receive a return in three ways: loan interest; margin applied to professional services; dividend. By doing so, the initiative puts services on a more sustainable footing to support local people as well as raising money to invest in our priority outcomes.

3.4. Housing Supply and Demand

Across the whole of Coventry and Warwickshire there is an objectively assessed need for 4,272 new homes per annum from 2011 to 2031. Of this total Warwick District's objectively assessed housing need is 600 new homes per year. In addition to meeting its own housing need, Warwick District's Draft Local Plan is accommodating 332 new homes per year to address unmet need from Coventry. This means the total annual housing provision in Warwick District will be 932 homes per year. Based upon the definition of affordable housing set out in the National Planning Policy Framework (NPPF) 2012 (i.e. not including starter homes) the annual affordable housing need is 1,462 new homes across Coventry and Warwickshire and 280 in Warwick District. As Warwick is accommodating a proportion of Coventry's overall housing need, it follows that it should, as part of the overall need, also accommodate some of the City's affordable need. The Council has therefore reached an agreement with Coventry City Council to accommodate 94

affordable dwellings per annum from Coventry. This makes a total affordable housing requirement for Warwick District of 374 dwellings per annum (280 + 94), equivalent to 40% of the District's overall housing requirement of 932 new homes per year. Council Tax band data shows Warwick to have 61,386 properties on the Valuation List as at 2015, an increase of almost 1,000 properties (1.6%) since the census in 2011. The census in 2011 found that there were 60,427 dwellings in the district. 18.5% of the stock is flats or maisonettes and a further 4.6% is flats in converted or shared houses, easily the highest in the county on both indicators: the overall figures for Warwickshire are 12.5% and 2.2% respectively. Data from recent stock condition surveys shows that the housing stock is mainly post-war with 73% of private housing and 85% of council housing having been built since 1945, compared to 59% and 81% respectively nationwide. In relative terms this is quite a "young" profile but it is worth noting that many of these post-war dwellings are now over 50 years old.

There are estimated to be around 42,500 homes in the owner-occupied sector in the district (67%) and the "for sale" market is very strong, characterised by high and rising prices for all property types. Data from Hometrack showed that the average price for a home in the district was £338,600 compared to a regional average of £205,200. Prices had risen by 12.3% over the 12 months to November 2015, properties were taking just 2.3 weeks to sell and the selling prices obtained were 99.3% of the asking price. The ratio of house prices to average earnings in the District was 9:1.

Extra Care Housing (ECH) is now available in all five Boroughs and Districts, with 9 schemes for those aged 55+ now in operation across Warwickshire, yielding a total of 631 units of which 442 are rental units. The overall objective of developing ECH in Warwickshire is to modernise housing with care and support services by offering older people a very real alternative to a residential care home – a 'home for life' – as well as responding to current demographic pressures and changes. (Extra Care Housing in Warwickshire, October 2016, Warwickshire County Council).

The Councils Housing and Homelessness Strategy states:

Meeting the need for housing across the District by addressing the need for new home provision. Achieving this outcome, will ensure WDC is a great place to live, work and visit by:

- Promoting a range of new housing opportunities which meet the affordable housing needs of our district.
- Supporting the sustainability and improvement of our local communities
- Managing the continued economic and population expansion of the district.

3.5. Why is this important?

As a local authority we recognise that unaffordable housing affects household budgets, health and education and the ability to gain and sustain employment. A balanced approach to developing housing that will maximise productivity, mobility and choice involves giving attention to the contributions of both new and existing housing.

The quality of housing greatly affects the health and wellbeing of residents. Inadequate housing can cause many preventable diseases and injuries, including respiratory diseases such as asthma and bronchitis, nervous system and cardiovascular diseases and cancer.

To meet the Councils vision, aims and objectives for the provision of homes there is a real need to open up every opportunity and channel to provide the numbers and type of homes needed. A Local Housing Company can be a very impactful additional channel that can offer the Council a 'triple dividend':

- Much needed extra housing
- A greater stewardship role in place shaping and meeting climate change objectives.

- A financial return to the council

Providing new homes 'commercially' using council assets and public borrowing (with no capital grant) effectively frees the council from the limiting controls that govern the HRA. It also gives councils a much-welcomed degree of flexibility to offer a mix of housing tenures, rather than just council housing.

The combination of the challenges faced in the housing crisis, coupled with the Council's ambition and the constraints of the current system create a compelling case for change. A new housing delivery vehicle is an option that will enhance the Council's ability to respond to the challenges faced. Providing capacity and capability to move beyond the current constraints is especially important for the development programme.

4. ECONOMIC CASE

Currently the Council can influence housing development however there are considerable constraints:

- Rent control, security of tenure and Right to Buy within the HRA
- Constrained human and financial resources including significant immediate revenue pressures
- Disposal of sites provides for limited Council control over development delivery outputs
- An inability to hold residential assets within the General Fund for income producing purposes.

HRA activity is set to use the available resources of the HRA. Expanding provision in the HRA is therefore at its limit and, particularly for tenures other than social and affordable rent, the Council must look to using other delivery vehicles. Legal advice is that models such as Joint Ventures and a wholly owned company which can access alternative funding sources and provide intermediate and market rented properties are options.

Establishing a local housing company would assist Warwick District Council to take the commercial approach available to it through trading as a company whilst offering a range of products which can meet local housing needs. Furthermore, it can offer an alternative to traditional private rented options by offering a good quality product by an organisation that is trusted and familiar.

The model has the aim of making significant contributions to the Council's income in the face of funding shortfalls, and by doing so, put services on a more sustainable footing to support local people as well as raising money to invest in the Councils priority outcomes. At this stage, the priority outcomes being worked on are forecast to deliver significant financial benefits to the Council.

The LHC is not limited by the constraints of the HRA and can access finance by the Council borrowing through PWLB and on lending to the LHC. The LHC can also access s106 commuted sums for housing, council land and voids, equity investment through the Council purchasing shares, or third party investment. The LHC can purchase services from third parties and the Council.

Best consideration requirement still exists for transfer of assets from the Council to the LHC subject to affordable housing and State Aid considerations.

Main advantages –

- Can hold residential assets outside the HRA
- Can engage in development and access development surpluses otherwise flowing to the private sector
- Can retain control over development outputs including timing and mix of housing developed
- Risk and reward has the potential to be flexed through delivery route
- Financial flexibility to raise debt and equity from a variety of Council and private sources
- Provides an opportunity for the Council to access returns from development outside of the constraints of the HRA
- Retention of ownership and ability to access long term value from housing price inflation and improvement in areas
- Retain control and flexibility for future changes to respond to changing housing needs and changing Council policy objectives
- Can generate revenue returns to the Council through dividend structure and loan repayments, supporting the Council's General Fund revenue budget
- No OJEU procurement is required to set up the vehicle. The vehicle itself is structured to be outside the ambit of the Public Contract Regulations (PCR) depending on the activities it undertakes.
- Management and support can be provided from within the Council for a fee.

Main disadvantages –

- Requires human resource through a combination of employees and external support – this may mean external consultancy support and partnering with the private sector given pressures on existing Council resources and required competency.
- Financial risk sits with the Council – could create constraints in early years if solely focused on development.

Therefore, the establishing a Local Housing Company represents best public value when considering the traditional alternatives.

In conclusion, there is a strong economic case to establish a Local Housing Company to deliver the Councils development objectives and to provide an income stream to the General Fund.

5. COMMERCIAL CASE

It should be noted that potential housing company developments will be individually assessed on their financial viability and suitability; and that the primary focus will remain on delivering affordable/social rented units through the Housing Revenue Account (HRA), which affords significant efficiencies.

5.1. Housing Companies are attractive to the market place

The notion of Councils setting up trading companies is nothing new. Local authorities have a long history of commercial activity. More recently the Local Government Act (2003) and the Localism Act (2011) allow councils to establish trading companies (or subsidiaries), into which a council can transfer businesses and assets and return a profit. These companies often form part of council owned holding companies, which may lead on joint ventures, land deals, development agreements etc. Some take the form of special purpose local delivery vehicles, usually involving the private sector.

Councils have in fact been setting up trading companies across a range of business sectors, from airports and energy supply companies to conference centers and care homes. Some of these companies are holding companies with subsidiaries in housing related areas. A recent count (CIPFA) reported 750 Local Authority trading companies.

Local Housing companies have been seen to be commercially viable for some time particularly amongst stock-owning councils restrained by borrowing limits on their Housing Revenue Accounts (HRAs) who have established new housing development vehicles that are wholly owned by the council.

In 2011, Wokingham became one of the first councils to adopt the wholly owned housing company model. Funded entirely through commuted sums received from developer contributions in Section 106 planning agreements, the company builds on land transferred from the council, with a proportion of profits returned to the council to help fund services.

Councils are using their housing companies to provide a wide range of housing types – but very few, if any, are exclusively producing the social rented homes that have historically been provided within HRAs as this is viewed by Government as being the role of Local Government and not Local Housing Companies.

Cross-subsidy is commonplace, with many councils using their housing companies to produce profits from homes for sale or at market rents to enable a proportion of affordable homes to be delivered for a lesser cost. Salford City Council’s housing company, provides as much stock as they can for social housing – so they use money raised by the company through higher affordable rents to help pay for it.

However, local authorities often use their housing companies to address specific needs – outside the social housing realm – which private developers are failing to meet.

Many councils have created more than one housing company, each targeted at tackling a different sector or need. Some councils develop for-profit homes through one company and set up a separate company as a registered provider that can benefit from government grants to provide affordable homes.

In most if not all cases, a major driver for setting up housing companies has been to earn income for councils’ general funds.

5.2. Commercial spirit

Most housing companies receive all, or a large proportion, of their development cash from their parent councils. Local authorities can borrow at cheap rates from the government’s Public Works Loan Board and on-lend it to the companies. State aid law requires the councils to charge a commercial rate, creating further profits that the council can put towards services.

In addition, the strategy of using housing companies to return profits in the form of dividends to parent councils holding 100 per cent of the shares is now very prevalent.

The revenue-raising motive for many housing companies, and the related focus on markets that are not in direct competition with the HRA's social housing product, means that most councils are unlikely to abandon their housing companies.

Key commercial considerations

The following summarises the key commercial arrangements for the Local Housing Company:

- A LHC is proposed in line with the Companies Act 2006 with the Council owning 100% of the shares
- The Board of the company will manage the Company on a day to day basis.
- Memorandum and Articles of Association and any other relevant documents are drafted for approval.
- Governance arrangements are proposed to ensure the directors of the company act in accordance with their fiduciary duty. Governance arrangements will ensure accountability whilst providing flexibility for day to day operations
- The Shareholders Agreement sets out the parameters the company must operate within and the overarching framework for operational documents. This is the mechanism through which the Council will provide control over the company.
- Resourcing arrangements are proposed to deliver the Business Plan for the LHC using a combination of services provided by the Council (which could include housing management, maintenance, technical support, project management, development management, planning and accounting services) and those provided by the private sector (which could include lettings, development consultancy, design and viability).
- All commercial arrangements between the Council and the LHC have to be on market terms (to mitigate risk of unlawful State aid).
- Other key documents being put in place are:
    - Business Plan and financial model
    - Company objectives (as established in the Shareholder Agreement)
    - Governance arrangements
    - Operational plans
    - Letting and tenure strategy / policy including rent setting (i.e. market or sub-market).
    - Acquisition and disposal policy
    - Property management and maintenance regime.

- The LHC could act as a developer in its own right with funding from the Council or in a JV with a Private Sector Partner which enables expertise and experience to be brought to the activity.
    - Where the LHC engages in pre-development activities it will appoint appropriate technical, commercial, legal, financial and agency advice
    - Where the LHC develops sites it will, where not in a JV, appoint contractors.

- Where the LHC enters into Joint Ventures it can appoint relevant support services and enter into a range of Development, Funding, Members and Land Transfer Agreements as well as leases and licenses.
- Where the LHC disposes of sites it will appoint relevant support services and seek best value and market prices.
- Where the LHC holds residential assets it will enter into Assured Shorthold Tenancies (ASTs), Assured Tenancies or Leasehold Tenancies with its occupiers as well as appropriate management and lettings arrangements.

The LHC could acquire completed units developed directly by the Council or third party sites/ properties and these may be acquired on a freehold or leasehold basis.

Conclusions

Local Housing Companies are tried and tested development vehicles, which are attractive to the market place as they can deliver much needed homes, can access competitive rates of borrowing and can provide valuable income to the Councils general fund. They can also be procured and set up efficiently to ensure there is sufficient control and governance to ensure they remain commercially viable.

6. FINANCIAL CASE

This BC has been prepared to consider the establishment of a LHC to help generate income for the general fund and meet the stated objectives of the Company.

The business case is based upon detailed assumptions of creating two priority areas of activity within the LHC. These are summarised below and detailed in the paragraphs which follow:

- the first activity has its focus on a Joint Venture with a Developer to deliver housing on a large site within the district and generate a return for the general fund by the Council on lending to enable the homes to be built. The rate differential between the rate that the Council is able to borrow at and the commercial rate that the Council is obliged to charge the Company effectively creates 'profit which ultimately generates an income for the general fund. The opportunity will allow the Company some influence in place shaping and achieving carbon reductions.
- the second activity involves the purchase of 50 units of existing homes to be provided at a market rent. It is proposed that these are managed by the LHC on an ongoing basis. This activity can be financed using a loan from the general fund to the LHC. In this way, a second stream of interest profit is generated, further supporting the general fund and helping to finance the continuation of vital Council services to the people living in the district.

The intention is, over time, for the LHC to undertake a number of housing development projects.

It is important to note that the balance of affordable housing to market housing built will affect potential income generation, as will the scale of any building programme on revenue costs for staffing and support services. However, these should be considered alongside the wider benefits.

Joint Venture

A Joint Venture is proposed with a view of the LHC borrowing from the General Fund via a PWLB Maturity Loan with this being used to fund construction on the site with a mix of Market Sale, Affordable and Social Housing as per local planning regulations. The developer will offer the Land purchase/parent company guarantee as security. Outside of this agreement there will be an opportunity for the HRA to purchase affordable housing units. Negotiations are underway with the developer for the LHC to purchase an additional 62 homes on the site to offer at Market rents. Alternatively, the homes could be made available to the HRA to acquire these additional properties.

At the end of the development the construction loan will be repaid to the general fund by way of sale profits. A further profit split is expected which will be retained in the LHC reserves and could be used to fund growth.

It is forecast that the General Fund will receive investment income from facilitating the loan over the 6-year period. The Loan will be secured on the land Title.

Market Rental

The LHC will purchase 50 units of existing homes which would be funded by borrowing from the General fund on a 40 year PWLB Annuity Loan of which the capital and interest repayments are fixed of a 40-year term and are met solely by rents received.

It is anticipated that this initiative could achieve £195k income per year for the General fund over the lifetime of the loan which is expected to be repaid in full by 2060/61.

Financial Summary

A 50-year Local Housing Company business plan has been drafted to ensure the model of the Local Housing Company remains financially robust. This document provides the full financial position.

The Council is seeking Expert Treasury, Joint Venture and Local Housing Company Financial Advice from KPMG which is ongoing at the time of writing this Business Case. A number of assumptions have been used to calculate the financial position which are likely to change upon the final advice being received; at which point all financial assumptions and models will be revised.

The combined effect of the Market Rental and Joint Venture over the 7-year period, it is forecast that the General Fund will receive approximately £8.5m in investment income and after this period it will continue to receive approximately £220K per year in investment income and staff time recharges.

It has been estimated that the HRA could receive approximately £63K over the period from recharging staff time to the LHC.

The LHC will generate c£10K from its share issue in Year 4 and then will continue to generate income from surplus rents up to £18.5k per year until the £7m profit share from the developer Joint venture is received in 2026/27. After this time, the reserve balance for the LHC is forecast at c£5.67m.

Future opportunities will be appraised on housing numbers, percentage of affordable housing, number of properties retained for open market rent, and numbers of sales. The financial modelling will also take into consideration land values, construction costs, potential rents and house sales.

Strategic aims, revenue forecasts, savings, cashflow and portfolio growth estimations will all be used to assess how best to viably meet the County's needs.

Indirect revenue returns

Additional financial returns which may arise to the Council, from new opportunities, other recharges to/from the LHC from the HRA or GF or savings in its existing budgets will be assessed each year during the council's budget setting process and will be revised in the LHC Business Plan.

LHC funding arrangements

Whilst it may be possible to source funding for the LHC from third party providers, the working assumption is that the Council provides funding for the LHC. This is the option which is being pursued by almost all local authorities setting up new housing companies, largely based on simplicity and value for money, and the flexibility it provides to return surpluses to the Council as revenue.

Funding Structure and Costs

The overriding principle which will underpin decisions on development and investment projects carried out by the LHC is that they need to be viable and generate a return in the context of the Council's cost of funding. Within this, it needs to be recognised that:

- The LHC is a separate legal entity which needs to operate with a financially viable business plan
- The Council will need to have a sound business case for investing in and lending to the LHC and, at worst, cover its revenue costs of funding
- The funding arrangements between the Council and LHC will be set up so that they satisfy HMRC and state aid concerns (see below).

The funding arrangements will need to take account of each of these issues.

State aid and HMRC

As a lender, the Council can properly charge interest on its loan funding to the LHC, in accordance with the terms of its funding agreement. This provides a convenient and tax efficient way of generating a revenue return for the Council. However, there are two main constraints on the nature and terms of the funding arrangement, and underlying interest payments:

- **State aid –** If it is considered that the Council is providing funding on terms which are considered to give it an unfair advantage over competition (for example if interest charges are unduly low), then a state aid challenge is possible.
- **HMRC –** Interest payments made by the LHC are likely to be tax deductible in the LHC, and not taxable in the Council. However, as the LHC is controlled by the Council, then the terms of its funding will need to satisfy HMRC that the interest charges are not unduly high.

To address both state aid and HMRC issues, the way in which the LHC is funded by the Council will need to 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.

Under the market economy investor (or lender) principle, if the Council is acting in a way that a private lender and / or investor would in similar circumstances in a market economy then the Council's investment is considered a market activity and not state aid. For example, if the Council provided a loan on commercial terms and at a commercial interest rate, properly taking into account risks and / or made an equity investment on terms and for the return which a private investor would do, then such activity would not constitute unlawful state aid. Similarly, funding arrangements which reflect those of a normal commercial arrangement are likely to provide protection from any HMRC challenge.

Whilst there are a number of variations, in most cases the simplest way to address this issue is for funding to be provided from the Council to the LHC as a combination of equity and debt:

Equity – investment (by shareholders) in the share capital of the LHC. There is no automatic right to any interest or financial return. In the event that the LHC has sufficient profits, the payment of a dividend to the shareholders could be made.

Debt – loans to the LHC, on which interest would be paid under the terms of the loan agreement.

Whilst the reality is that the Council is borrowing to lend to the LHC (and receiving a margin on its lending), for state aid and HMRC reasons the funding would be classed as a mix of equity and debt. There are now a number of reasonably well-established principles, and examples at other local authorities of such state aid compliant funding arrangements.

Conclusions

Local Housing Companies are tried and tested development vehicles, which can provide valuable income to the Councils general fund. They can also be procured and set up efficiently to ensure there is sufficient control and governance to ensure they remain commercially viable.

7. MANAGEMENT CASE

The research undertaken both desktop and meeting with directors from existing local Housing Companies and the legal advice received have been taken into consideration in putting in place the arrangements for the LHC to work effectively.

A board of directors will be established to provide strategic direction and oversee performance. The directors hold the responsibility for making decisions, providing leadership and monitoring the performance of the company. The directors are responsible for obtaining appropriate legal, financial and tax advice to enable them to make informed decisions about the running of the company. the directors are also responsible for maintaining and regularly reviewing a robust risk management framework. The board will meet on a monthly basis and are bound by the articles of association and Shareholders Agreement.

The LHC will access professional services from the council through a Service level agreement. The operational requirements through service level agreements have been identified including the job titles of those posts which have been costed and included in the LHC Business plan

The shape for governance and operation of the company is set out in the Shareholders Agreement and Articles of Association. They can be summarised as:

- Board of Directors formed of: Head of Housing (Local Housing Company Board experience), Strategic Finance Manager (Role and financial expertise), Non-Executive members x2 (Development and Estate Agency Expertise).
- Monthly Board meetings to be held
- Executive to take the shareholder role: and the detail of the governance role is set out in the Shareholders Agreement.
- Executive/Scrutiny: Scrutinise and Approve an Annual business plan
- Small support team for the company and Board (officers from Internal Audit, Finance, Housing Development etc.) with costs paid by the company.
- The day to day running of the Company will be undertaken by officers of the Council with costs being recharged.
- S151 officer acts as the Shareholder Representative on behalf of the Council – approves loans/staff and service recharges
- Company sits on the balance sheet of the Council
- Separate Accountancy/Audit accounts company to be appointed.

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The LHC will produce an annual Business Plan to be approved by the Council's Executive Committee.

Day to Day Management and Operation

The Executive Directors will ensure the day to day running of the Company purchasing support to do so from officers of the Council (with costs being recharged) and some external companies/organisations.

Most professional services will be provided by the Council and include the following:

Teams	Work type	Description
Landlord Services	Housing Management	manage & sustain tenancies
Compliance	Property Maintenance	Repairs & maintenance, compliance and surveying
Business Admin	Accounting and Rents	Rent amendments, reconciling rents, Direct Debits
Business Development	Performance management & supporting the board	Producing data, reports, analysing performance, research
Strategy & Development	Development & Acquisitions	Managing acquisitions, analysis, development schemes
Media	Press and Social Media	Articles, maintaining website, branding of company
HR	Human Resources policy and procedures	Advice, guidance and monitoring of HR aspects of the company
Finance	Financial management and systems	Book keeping and preparing paperwork for the auditors
Insurances	Manage insurances that will protect the company's assets	Risk reviews and management
Information Governance	Advice and compliance of GDPR	Monitoring and management of data
Health and Safety	Advice and compliance of Health and Safety	Monitoring and development of risk assessments and production of procedures
Asset Management	Asset consultancy, compliance and support	Activities to facilitate assets that are provided, maintained and utilised to meet the current and future needs of the company.
Marketing	Marketing the company and activities	The Company will develop a marketing strategy in line with its strategic aims in order to achieve its stated outcomes.

Teams	Work type	Description
Performance Management	Monitoring and reporting on performance	The Company will establish and maintain an effective service and financial performance management reporting system which will include reports to the Board in accordance with a pre-determined timetable. Performance of the Company will be reported to the Board of Directors and to the Shareholder representative periodically.

Properties will be logged on the Councils property management system which will assist to ensure compliance with regulatory requirements and good practice. The systems cover matters such as rent accounting, tenant profiles and asset based information such as around gas safety.

It is likely that there will be some external support and services bought in by the Company, including but not limited to:

- **Company secretary** – Warwickshire Legal Services

- **Auditors** – To be appointed by the Board to audit the financial position and to prepare the annual Company Accounts.

- **Lettings** – Agent to be appointed by the Board

Policies & Procedures

The Company will seek to introduce its own operating principals, policies and procedures as appropriate, following Board approval.

Information Sharing

An information sharing protocol will be developed prior to the Company letting its first home.

Data Protection

The Company will comply with all relevant legislation and guidance concerning Data Protection, including adopting suitable policies and procedures to ensure data is adequately safeguarded.

Freedom of Information

The Company may be subject to requests for the disclosure of information under the Freedom of Information Act 2000 (FOI). Accordingly, it will maintain a record management system that complies with the relevant guidance concerning the maintenance and management of records.

The Company will liaise with the Council as appropriate to ensure consistency in answering FOI requests and provide such information, where appropriate to do so, to the Council to respond to requests it has received. In some cases, it may not be appropriate to respond to FOI requests where it compromises commercial ability. In such cases, the Company will work closely with the Council to ensure that it complies with the requirements of the Freedom of Information Act and seeks clarity from the Information Commissioner when the matter is not clear.

The Shareholders Agreement sets out the process for how requests for information will be treated.

Risk Management

External legal and financial advice in respect of the options available to the council has been received in order to identify and have measures in place to mitigate their consequences.

All risks associated with the formation and operation of the company will be entered into the project or corporate risk registers, where appropriate.

It should be noted that the establishment of the company in itself does not create risks or commit the Council/LHC to undertake any development projects.

The key risks, mitigations and opportunities are set out in the table below:

Risk	**Mitigation**	**Opportunities**
Property		
High and increasing development costs	Detailed financial modelling based on current building costs and stress-testing for price increases	Property values increase
Property values fall	The business plan recognises that short-term fluctuations in the market are inevitable but the outturn is positive over the length of the plan	Flexibility and control of the portfolio
Insufficient demand	Each development will be subject to its own business case which will identify a suitable mix of	Evidence demonstrates that there is a consistent demand for market and

Risk	Mitigation	Opportunities
	tenure reflecting current demands in the market	sub-market rented housing
Community Support		Capacity to meet housing need that cannot be met by the HRA Raising standards in the private rented sector
Timescales Company not established in time to support specific initiatives	Resources are in place to ensure that the company is incorporated in December 2020.	
Project capacity There is insufficient capacity to enable the project to be a success	Key officers have been identified and are deployed on the project.	
Financial / VfM The housing company is not profitable and is unable to pay dividends to the Council and/or defaults on loan interest	The Board will require detailed financial modelling, including sensitivity analysis, to ensure careful selection of	Generation of profit on Disposal

Risk	Mitigation	Opportunities
and repayments, resulting in the Council's Investment not achieving the projected return.	investment options that excludes those that fall short of the necessary viability criteria.	
Tax rules/HMRC requirements impacting on viability	Additional tax advice to be acquired	Maximise available tax relief where possible
Future Government restrictions on prudential borrowing rules to limit allowable public sector debt forces the housing company to borrow at higher interest rates	The housing company would need to consider commercial debt in order to continue its expansion taking into consideration any effect this may have on the viability of individual schemes	Potential receipt of dividends
Brexit - worst case scenario: shortage of labour and materials; house price downturn; rising demand for affordable housing as a result of rising unemployment; rising cost of loan finance	Potential development is continually appraised before contracts are agreed and any loan finance is based on fixed rates	Potential reduction in borrowing costs for the General Fund if gilt yields, and therefore PWLB borrowing costs, fall leading to greater margin for the General Fund
Financial risk sits with the Council – could create constraints in early years if solely focused on development.	Advice from KPMG is sought to ameliorate risk and the portfolio of work is balanced through acquisitions for market rent.	
State Aid rules breached	Advice from Trowers and Hamlins and KPMG sought. The financial arrangement between the Council and the company will be on a commercial basis.	

Risk	Mitigation	Opportunities
Legal Council acting outside of relevant powers Personal risk arising from the duties and liabilities of company directors	External specialist legal advice on company governance obtained Appropriate insurance against claims for negligence, breach of trust etc. will be obtained	
Reputation Reputational impact of the company on the council Reputational damage in the event of the company's failure	A marketing and communications plan will be developed to ensure that the branding and image of the company contribute to a positive view of the Council's services Risks reviewed and evaluated on a regular basis as part of corporate risk management process	

Conclusion

The proposed governance and operational management arrangements have been well thought through and based on what works and what is required from a legal perspective and will therefore ensure the LHC can be managed effectively.