

## **NEW FOREST DISTRICT COUNCIL'S PROPERTY HOLDING COMPANY– BUSINESS PLAN 2018**

### **1. INTRODUCTION**

- 1.1 The purpose of this report is to seek approval for the business plan for a new property holding company, wholly owned by the Council, through which to implement the Council's Residential Property Investment Strategy. Approval is also sought for the company's operating arrangements and articles of association.
- 1.2 On 6<sup>th</sup> December 2017, Cabinet approved the Residential Property Investment Strategy to invest in residential property, whether as existing private sector rental producing units or with vacant possession for letting to private sector tenants, and to develop sites that the Council owns or acquires to build dwellings to deliver a range of housing and tenures including private rental, sales and affordable housing under a range of different tenures.
- 1.3 A property investment task and finish group (comprising councillors A O'Sullivan, M Steele, W G Andrews, S Bennison, A McAvoy, M Harris, J Heron) have overseen the development of strategies for commercial and residential property investment, and to complete their work, have considered the proposed business plan for the new local housing company together with the associated arrangements, and support the proposals.

### **2. BUSINESS PLAN CONTENTS**

- 2.1 The business plan sets out the following;
- Vision objectives and culture
  - Business environment, market and competition
  - Operational arrangements
  - Financial assumptions
  - Risks
- 2.2 The Business Plan envisages a company structure comprising a new property holding company with two subsidiary companies, a lettings company and a development company, to implement the strategy. The Council will be the sole shareholder in the company. The lettings company will own and manage properties suitable for letting in the residential sector and also mixed use residential and commercial properties. The development company will develop out sites for a variety of housing tenures either for sale or rent. Suitable sites will either be acquired from third parties or procured at arm's length from the Council.
- 2.3 The proposed articles of association (see page 39) confirm in full the governance arrangements. In summary, each company will have its own board which will initially consist of the same 4 directors. The board make up will

consist of 2 officers, with one acting as company secretary, and 2 members with one acting as chairman. The chairman will have a casting vote.

- 2.4 It is anticipated that the company will commence trading during the 2019/20 financial year.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 Full details of the financial implications to the Council (as the shareholder) were set out in the original strategy document as presented to [Cabinet in December 2017](#). It confirms proposed initial capitalization of the company of £10m, funded through a mix of debt and equity. The return to the Council comes via the interest charges levied on the debt finance issued, plus dividend payments, when the availability of cash allows. The financial implications to the company group are set out in the business plan and are vitally important to establish the financial viability from the company's point of view.
- 3.2 The Business Plan at Appendix 1 demonstrates that over the initial period of investment, the company expects to be profitable by year 11 (loan interest payments will commence by year 2), building to annual profits before interest and tax in excess of £400k thereafter.
- 3.3 The Business Plan anticipates shareholder equity return over the 50 year business plan in the region of £41.806m, at an internal rate of return of 5.54% and a positive net present value of £2.45m. The initial losses in the company accrue to a peak of £205k in year 11 but then it has sufficient profit available for dividend distribution by year 18. Whilst a business owned by shareholders expectant of dividends may struggle to make this appear viable, the shareholder in this instance is receiving an income in the form of loan interest payments from year 2, and the Group has a healthy balance sheet with gearing of 67%, and long term assets of £10m by the end of year 4.
- 3.4 It is proposed that initial tranche funding of £2m be made available to the company, with further drawdown being made available subject to scrutiny of the initial tranche, and the company and Council objectives being met.

### **4. HUMAN RESOURCE IMPLICATIONS**

- 4.1 The company will not employ any staff initially. The board of directors will be responsible for procuring the services it needs and will look to manage its property portfolio through a series of service level agreements with the Council, and will support the services provided to it by the Council with specialist services from third party suppliers when needed.
- 4.2 The board of directors will comprise 2 officers of appropriate seniority and 2 Council members initially. The Council's indemnity to members and officers will apply in respect of their activities as directors of these companies. Additionally, the company will take out its own directors and officers liability insurance policy, likewise to cover the activities of the directors of the company.

## **5. CORPORATE OVERVIEW AND SCRUTINY PANEL'S COMMENTS**

- 5.1 The Panel considered the proposed Business Plan for the new property holding company, wholly owned by the Council, through which the Council's residential property investment strategy would be implemented.
- 5.2 In supporting the proposed Business Plan, the Panel suggested that the Cabinet should consider using external specialist non-executive positions on the board of directors of the company where appropriate.
- 5.3 In addition, Members felt that the financial gearing ratio (the ratio of capital funding versus funds borrowed by the Authority) should be less prescriptive in the debt to equity mix and evaluated as opportunities arose to ensure the maximum return. Members also wished to have regular updates, at least annually, but more often in the initial stages of the formation of the company. These comments have been reflected in the recommendations below.
- 5.4 Some members felt that a more "dynamic" name might be required for the property company and officers were asked to consider this.

## **6. PORTFOLIO HOLDER'S COMMENTS**

- 6.1 This business plan had been carefully considered by both officers and the Task and Finish Group over many months. It brings together the need for this Council to generate its own income, provide housing (which may include social, affordable and shared ownership) and to support the local economy, particularly in out towns and villages.

I fully support this important initiative.

## **7. ENVIRONMENTAL AND CRIME AND DISORDER IMPLICATIONS**

- 7.1 There are none

## **8. EQUALITY AND DIVERSITY**

- 8.1 This strategy is for the benefit of all of the Council's residents as set out in business plan and will have a positive impact by increasing the availability of housing within the Council's district.

## **9 RECOMMENDATIONS**

That it be a recommendation to the Cabinet and the Council:

- 8.1.1 that the business plan for the new company together with the proposed articles of association for the company and its subsidiaries be approved.
- 8.1.2 that the appointment of 2 members and 2 officers of appropriate seniority to the board of directors of the company and its subsidiaries

be approved, such individuals to be agreed by the Chief Executive in consultation with the Leader of the Council, and that the Panel suggests that consideration be given to use of external, specialist, non-executive positions where appropriate.

- 8.1.3 that authority be delegated to Cabinet in respect of those matters set out in paragraph 4.4 of the company's proposed articles.
- 8.1.4 that the property investment task and finish group be discontinued, but that regular progress updates be brought to the Corporate Overview and Scrutiny Panel as required, and at least every 12 months.
- 8.1.5 that the Council's indemnity to members and officers applies to the activities as directors of the company and the Executive Head Governance and Regulation to arrange for the company to have additional directors and officers liability insurance likewise to cover the activities of the directors of the company.
- 8.1.6 That the gearing of the company not be fixed at 67%, but instead the debt to equity mix be fluid and evaluated as opportunities arise, to ensure the maximum return to the Shareholder.

**Further Information:**

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**Background Papers:**

Business plan  
Articles of association