

Executive Shareholder and Trustee Committee Report

Ward(s) affected: All

Report of Director of Resources

Author: Claire Morris

Tel: 01483 444827

Email: claire.morris@guildford.gov.uk

Lead Councillor responsible: Joss Bigmore

Tel: 07974 979369

Email: joss.bigmore@guildford.gov.uk

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Guildford Borough Council Holdings Limited and North Downs Housing Limited - Variation of the Financial Arrangements

Executive Summary

North Downs Housing Limited (NDHL) is the wholly owned housing company established by the Council in 2016, together with its parent company Guildford Borough Council Holdings Limited (GBCH). This report provides a summary of progress to date and seeks a variation to the financing arrangement originally proposed.

On 10 February 2017, the Executive varied an earlier decision and approved the grant of a 25-year secure variable rate loan of £1.44 million and the investment of £0.96 million in equity shares to be drawn down alongside the loan. On 18 July 2017, the Executive approved the business plan of NDHL and the investment of £22 million on a 60/40 loan/equity investment split.

Recommendation to Committee

1. To approve the increase in the 25-year secure variable loan to NDHL to £15.18million.
2. To approve the investment of £9.22million in equity shares in GBCH, to be drawn down alongside the loan to NDHL, of which £7,786,408 has already been invested.
3. To request that GBCH corrects the position in relation to the shares issued to the Council and the shareholdings in NDHL to address the issues set out in paragraphs 3.5-3.7 of this report.
4. To request an updated Business Plan from NDHL to cover future funding.

Reason for Recommendation:

To fulfil the Council's corporate governance duties in respect of its subsidiary company.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

- 1.1 The purpose of this report is to set out and seek approval of the funding structure of North Downs Housing Limited (NDHL).
- 1.2 Good business practice requires NDHL to have a Business Plan to support any proposals for additional funding in excess of the approved £24.4million.

2. Strategic Priorities

- 2.1 The Company supports all the Council's strategic priorities set out in the Corporate Plan and at present particularly supports homes and jobs by providing and facilitating housing that people can afford.

3. Background

- 3.1 On 23 February 2016, the Executive resolved to establish North Downs Housing Limited ("NDHL") and the parent company Guildford Borough Council Holdings Limited ("GBCH"). The Council is the sole shareholder in GBCH.
- 3.2 The Council provides funding to NDHL through a revolving loan facility and equity funding by the investment in shares in GBCH which in turn invests in shares in NDHL. On 21 February 2017 the Executive approved a variation to the original funding arrangements so that the initial £2.4million investment was split with the grant of a 25 year variable rate secure loan of £1.44million and an investment of £0.96million in equity shares. Determination of the finance arrangements, including the interest rate, was delegated to the Head of Financial Services. Pursuant to this decision the Council entered into a facility agreement on 23 August 2017 for a secured loan revolving credit facility of £1.44million.
- 3.3 On 18 July 2017 the Executive approved the medium-term Business Plan prepared by NDHL which identified a requirement of additional funds of approximately £50million and sought a further investment of £22million over a five-year period with a proposed loan to equity ratio of 60:40. The Executive resolved to transfer the investment fund of £22million to enable the business plan to be implemented.

4. Equity investment

- 4.1 The Council provides equity funding to NDHL through the purchase of shares in GBCH which in turn purchases shares in NDHL.
- 4.2 The share allocations for GBCH filed at Companies House are as follows:

Date	Allotted Shares	Total Shares in Issue
28 April 2016	1	1
13/06/2017 – 27/11/2019	3,943,400	4,903,400 (figure taken from the SH01 but according to the filing history there should only be 3,943,401 shares in issue)
07/01/2020 – 07/02/2020	556,400	5,459,800 (figure taken from SH01 but according to the filing history there should only be 4,499,801 shares in issue)

- 4.3 As of 17 December 2021, the Council's total shares in GBCH should be 8,746,409 and that similarly GBCH should hold 8,746,409 shares in NDHL. A request should be made to GBCH to recognise the issue of the 960,000 shares to meet this requirement (as well as any adjustment in the number of shares in NDHL).
- 4.4 An investment of £22million has already been approved by the Council and approval is sought that £8,260,000 of this investment is made through equity shares. This would provide the Council with a total of 9,220,000 shares in GBCH.

Loan Facility

- 4.5 The Council granted a 25-year secure variable rate loan to NDHL on 23 August 2017 and NDHL entered into a debenture providing security for the loan. The loan agreement has been amended to increase the loan facility to £15.18million in order to formalise and regularise the relationship between the Council and NDHL.

Future structure

- 4.6 A review of the company structure is presently underway and consideration being given as to the future operation. This now needs to consider the objectives of the companies and whether the present structure is the most efficient for achieving the Council's objectives. A further report will be brought to address these matters once the review has concluded.

5. Consultations

- 5.1 No consultations have been undertaken in relation to this report.

6. Key Risks

- 6.1 It is important that appropriate governance arrangements are in place for both GBCH and trading entities such as NDHL. The Council's relationship with NDHL and the funding mechanisms need to be clear and transparent.

7. Financial Implications

- 7.1 There are no financial implications for the report as the budget has already been approved.

8. Legal Implications

- 8.1 The Council, acting through the Executive Shareholder and Trustee Committee, has the power to operate and manage the GBCH using the General Power of Competence under s1 of the Localism Act 2011. In exercising its powers over the GBCH, the Council remains subject to its general duties, such as its fiduciary duty, and must exercise the power with a proper purpose.

9. Human Resource Implications

- 9.1 No Human Resource implications apply to this report.

10. Equality and Diversity Implications

- 10.1 This duty has been considered in the context of this report and it has been concluded that there are no equality and diversity implications arising directly from this report

11. Climate Change/Sustainability Implications

- 11.1 No Climate Change and Sustainability Implications apply to this report

12. Summary of Options

- 12.1 The Committee may
- a. Approve the proposed funding arrangements – this provides good governance of GBCH and a structure for inviting further investment in NDHL;
or
 - b. Not approve any further equity investment in NDHL – this does not achieve the Council's objectives.

13. Conclusion

- 13.1 The Committee is asked:
- 1. To approve the increase in the 25-year secure variable loan to NDHL to £15.18million.

2. To approve the investment of £8.26million in equity shares in GBCH, to be drawn down alongside the loan to NDHL, of which £7,786,408 has already been invested.
3. Requests that GBCH corrects the position in relation to the shares issued to the Council and its share holdings in NDHL.
4. To request an updated Business Plan from North Downs Housing Limited to cover future funding.

14. Background Papers

Executive Report 21 February 2017 'North Downs Housing Ltd'
[Item 07 - North Downs Housing Ltd.pdf \(guildford.gov.uk\)](#)

Executive Report 18 July 2017 'North Downs Housing Ltd Business Plan 2016 – 2046'
[Agenda item number: "Click to insert number" \(guildford.gov.uk\)](#)

15. Appendices

None