

Guildford Borough Council

Report to: Executive Shareholder and Trustee Committee

Date: 8th August 2024

Ward(s) affected: All

Report of Director: Housing, Communities and Environment

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Report Status: Open

North Downs Housing Limited – Options Appraisal

1. Executive Summary

The Council needs to decide the future of its wholly owned housing company, North Downs Housing Limited (NDH). The company's Board provided exit recommendations in 2023. In order to update market assumptions and to review options the Council intends to procure an external expert to advise on future operations and governance of North Downs Housing Limited.

2. Recommendation to Committee

That the Committee approves:

- 2.1. Procurement of a suitably qualified company to carry out a review into the most effective governance structure of North Downs Housing Limited (NDH).
- 2.2. That the review includes a detailed options appraisal into the future operation of NDH – including options to wind up the company or to continue operations in a commercially viable manner.

3. Reason(s) for Recommendation:

- 3.1. NDH has experienced difficulties meeting its interest and debt repayments from its operating surpluses. A review of the company's viability is required.
- 3.2. The Board of Directors of NDH have asked the Council to consider options for the future of the company, following an options review undertaken by NDH by Savills.

4. Exemption from publication

The content of Appendix 1 is to be treated as exempt as specified in Paragraph 3 of the revised Part 1 of Schedule 12A to the Local Government Act 1972 because the information relates to the financial or business affairs of Guildford Borough Council. It will remain exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Financial or business affairs includes contemplated, as well as past or current activities.

5. Purpose of Report

To make sure the Council commissions expert and up to date advice on the future of its wholly owned housing company, and best practice in its governance.

6. Strategic Priorities

NDH as a landlord contributes directly to two of the Council's strategic priorities: decent and affordable housing and resilient, well managed council.

7. Background

- 7.1. **NDH background:** North Downs Housing Limited is a local housing company that is wholly owned by the Council. It was incorporated in 2016 to purchase and provide homes for rent. In doing so, it was intended to increase the local housing offer and provide a financial return to the Council.

- 7.2. 91 homes have been bought by NDH from the open market at a range of locations in the Borough. These are offered to tenants as private rented accommodation.
- 7.3. The homes were purchased through loan finance of £17.956million (on-lent by the Council and inclusive of rolled up unpaid interest) and with equity investment of £10.120million. The Council has financed the on-lending and equity investment via internal borrowing in its own right and benefits from an interest premium on the borrowing.
- 7.4. In March 2023 the Board of NDH commissioned a report from Savills into options for either continuation of operations or closing down, and disposal of all property assets. The report was prompted by NDH having difficulty meeting their financial commitments and struggling to maintain a profitable operating margin.
- 7.5. The report was sent by NDH to the Council in October 2023. Savills found that NDH could have a viable future, but this would need additional equity investment from the Council, adoption of new assumptions around management and maintenance and void rates, and a reduction in the overheads levied by the Council for its services to NDH.
- 7.6. The report also examined options for sale of the assets, either by drip feed to the market over a four year period, immediate sale on the open market, or sale to a Registered Provider. Savills concluded that at March 2023 market conditions the likely prices received by NDH would not cover repayment of the £27.8 million initial investment by the Council.
- 7.7. Savills also looked at potential disposal of the assets to the Council's Housing Revenue Account (HRA), i.e. become part of the Council's housing stock. This would potentially allow NDH to repay the council's investment. Savills highlighted this option would still require cross-subsidy in the terms of Right to Buy receipts in order to be viable. Furthermore, that the HRA has a duty to demonstrate best value in any stock purchase and would have to show that an over-inflated price had not been agreed.

- 7.8. In a letter to the Council's Chief Executive Tom Horwood in October 2023 the NDH Board proposed the HRA disposal route as their preferred option, and they wished to step down from the Board and close down NDH.
- 7.9. **Current position.** The Council has not formally responded to NDH over their proposal. This was due to change in CEO and leadership teams changes, combined with the need to focus on other critical housing issues.
- 7.10. Two of the four members of the Board tendered their resignation in July 2024, due to the perceived lack of progress. This leaves the Board non-quorate and needs to be addressed urgently. Officers are seeking to recruit interim Board members to ensure a quorate Board is put in place whilst an options appraisal is carried out.
- 7.11. The NDH preferred option of HRA purchase has been examined but has been discounted at the present time. It is unlikely that the HRA could afford to take on the purchase given other development commitments including Guildford Park Road. A review of HRA capacity is underway but will take some time to complete. If it were to purchase the NDH assets, the HRA would need to do so at an independently assessed market value. As with other disposal options this would not be at a price that enabled NDH to repay their obligations to the Council.
- 7.12. **Options appraisal.** As a result, officers intend to commission an independent report on behalf of the Council to examine future operation and governance of NDH, or whether (or when) disposal and closure might be possible.
- 7.13. The report will be commissioned from experts in the asset management, property and rented housing industry. They will be able to assess current market conditions in the region and provide appropriate analysis of options to dispose of the stock or to create a viable business from NDH. They will also advise on the appropriate governance, assurance and finance structure required for a local housing company of this size and stock.

7.14. The brief for the external options appraisal includes:

7.14.1 Updated market assessment, i.e. are conditions now more favourable for disposal at a higher price?

7.14.2 Future market assessment, both of the private rented and market sale sectors (the latter for potential future disposal).

7.14.3 Evaluation of assumptions underlying the NDH operating model.

7.14.4 Options for outsourcing lettings, management and maintenance of the portfolio (these services are currently provided by the Council, even though private renting is not core business or area of expertise for the housing service).

7.14.5 A review of rent and lettings policy. Properties are currently let at rates below market rate.

7.14.6 Risks and opportunities for the Council of increasing the equity stake in NDH.

7.14.7 Recommendations for fit for purpose governance, assurance, finance and audit for NDH (some of these functions are provided by the Council).

7.14.8 Recommendations for the future NDH Board, in terms of expertise, skills etc.

7.15 Market engagement has already commenced with potential companies who could undertake this work, with a full brief in development. Procurement will commence subject to the Committee's approval of this report.

8. Consultations

None

9. Key Risks

9.1. That NDH is unable to meet its financial commitments and ceases to be a going concern. Carrying out a review will help to identify

options for the company's ongoing viability or the most financially effective way of winding up NDH.

- 9.2. NDH does not meet the required standards of governance and assurance, and/or does not have appropriate Board level expertise to run a local housing company.
- 9.3. The Council does not have the capacity to deliver effective services to NDH, including management, maintenance, lettings, finance. The review will examine whether alternative models of service provision are appropriate and might offer value for money.

10. Financial Implications

- 10.1. The Council has made a significant investment in North Downs Housing and is benefiting from interest payments on the loans made to the company and charges made for services provided to the company.
- 10.2. The company is struggling to cover the costs of current administrative arrangements. These need to be reviewed and all options for the future of the company considered to ensure the Council meets its Best Value obligations.

11. Legal Implications

- 11.1. The Council, acting through the Executive Shareholder and Trustee Committee, has the power to operate and manage Guildford Borough Council Holdings (GBCH) and through it North Downs Housing (NDH) using the General Power of Competence under s1 of the Localism Act 2011. In exercising its powers over GBCH, and NDH, the Council remains subject to its general duties, such as its fiduciary duty, and must exercise the power with a proper purpose.
- 11.2. The Council's role as the shareholder is to safeguard the public money that has been invested and ensure that the company is performing against its business plan to deliver the objectives. This report provides for the Council to obtain appropriate advice in order to fulfil the shareholder role.

11.3. This report has been prepared in consideration of the above legislation and the Companies Act 2006.

12. Human Resource Implications

None

13. Equality and Diversity Implications

None

14. Climate Change/Sustainability Implications

None

15. Summary of Options

15.1. Do nothing. The Council allows NDH to continue to operate as it is. This option may mean the company ceases to be a going concern, with impact on the Council as shareholder and to the Council's on-lending and equity investment. NDH may not be able to fulfil its governance and assurance requirements. This option is not recommended.

15.2. Review the governance and viability of NDH, using external expertise. The review will offer recommendations for NDH's commercial future, or whether winding up the company is desirable at this juncture (or at a point in the future). This is officers' preferred option.

16. Conclusion

A review and options appraisal for NDH is required in order to protect the Council's position as sole shareholder and investor in the company. The Committee is asked to approve this.

17. Background Papers

None

18. Appendices

Appendix 1 Savills Options Appraisal for NDH 2023 (RESTRICTED)