

AGENDA



For a meeting of the
SHAREHOLDER COMMITTEE
to be held on
MONDAY, 9 JANUARY 2017
at
2.00 PM
in the
WITHAM ROOM - COUNCIL OFFICES, ST. PETER'S HILL, GRANTHAM. NG31 6PZ
Beverly Agass, Chief Executive

Committee Members:	Councillor Bob Adams, Councillor Ashley Baxter, Councillor Terl Bryant, Councillor Mrs Frances Cartwright and Councillor Michael Cook
Committee Support Officer:	Jo Toomey Tel: 01476 40 60 80 (Ext. 6152) E-mail: j.toomey@southkesteven.gov.uk

Members of the Committee are invited to attend the above meeting to consider the items of business listed below.

1. MEMBERSHIP

The Committee to be notified of any substitute members.

2. APOLOGIES

3. DISCLOSURE OF INTERESTS

Members are asked to disclose any interests in matters for consideration at the meeting.

4. MINUTES OF THE MEETING HELD ON 3 OCTOBER 2016

(Enclosure)

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5. DRAFT HOUSING BUSINESS PLAN AND GOVERNANCE ARRANGEMENTS

Report number CFM403 of the Corporate Finance Manager. **(Enclosure)**

(Please note that appendix 1 of the draft business plan is exempt under paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended because it contains information that is commercially sensitive)

6. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASON OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT

MINUTES

SHAREHOLDER COMMITTEE
MONDAY, 3 OCTOBER 2016



COMMITTEE MEMBERS PRESENT

Councillor Ashley Baxter
Councillor Teri Bryant (Chairman)
Councillor Mrs Frances Cartwright

Councillor Michael Cook
Councillor Nick Craft

OFFICERS

Chief Executive (Beverly Agass)
Strategic Director (Tracey Blackwell)
Corporate Finance Manager (Richard Wyles)
Business Manager, Legal & Democratic (John Armstrong)
Principal Democracy Officer (Jo Toomey)

1. MEMBERSHIP

The Committee was notified that Councillor Craft would be substituting for Councillor Adams for this meeting only.

2. DISCLOSURE OF INTERESTS

No interests were disclosed.

3. COMPANY DRAFT BUSINESS PLAN AND ASSOCIATED GOVERNANCE ARRANGEMENTS

The Strategic Director introduced report number CFM390 and explained that the appended draft business plan was for the overarching company and that separate, specific business plans would be drawn up for each subsidiary company. The intention was for the business plan to be distinct from the documents traditionally produced by the Council to distinguish that the company was a commercial entity operating in its own right. The Corporate Finance Manager added that, based on the discussions of the workshop meeting of the Committee held in July 2016, officers had developed a draft mission statement that outlined the vision and values for the new company. Members were asked to consider whether the environment that they wanted to create through the company had been captured in the draft business plan.

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The Committee was also given an update on the governance arrangements, which had been approved via a non-key decision made since the Committee had last met by the Executive Member, Finance and IT.

Officers were asked to clarify how policy development group (PDG) members had shaped the early stages of the development of the company and its draft business plan. A working group, which consisted of members of the Communities and Resources PDGs had looked at the purpose and potential focus of the company. It had also considered its priorities including confirmation that the company would be commercially focussed with an element of social value. The work undertaken by the PDGs had informed the business case that had been approved by the Executive in December 2015.

Members gave their feedback on the draft mission statement, with some discussion concentrating on specific words within the draft vision. A suggestion was made that customers could be referred to as clients so that the terminology was distinct from that used by the district council. A suggestion was also made that 'the company' could be referred to as 'the organisation' as there was concern that the use of the word company could become confusing when subsidiaries were created. Following some debate members agreed that they did not wish to change the terminology.

The attention of members turned to the name of the company; a list of suggestions was circulated. The names favoured by members of the Committee were taSK and Gravitas Group Ltd. The overall consensus of members was that the overarching company should be named Gravitas, while taSK would make a good name for one of the subsidiary companies.

It was anticipated that the detailed business plan for the housing subsidiary of the company would be available for members to look through at the Shareholder Committee meeting scheduled for January 2017. An estimate was also made that the company would be in a position to begin operating from April 2017.

Questions were raised about section 7 of the draft document which related to charging arrangements between the company and its subsidiaries.

The business focus part of Section 4 of the draft business plan referred to the company reviewing the use of existing land and property assets. Members noted that at the start of its life, the Company would have no assets. Officers advised that the business plan covered the first three years of the company's operation. A suggestion was made that the next iteration of the business plan should reflect different levels of priority that indicate when during the company's first three years different activities were anticipated.

Discussion ensued on a potential government policy that would see the sale of any high value housing stock that the Council owned when it became void. Members recognised an opportunity for the company to purchase that stock and use it to provide larger rental properties.

Some concern was expressed about the possibility of the company being in direct competition with the Council. Members noted that the intention behind the company was that it would have greater freedoms and flexibility and it would be able to operate competitively in a commercial environment complementing the Council's offer

Members noted that in circumstances where the company was wholly owned by the Council it would be subject to the requirements of the Freedom of Information Act. Concerns were expressed that if the company was required to divulge commercially sensitive information, it would potentially impact adversely on the commercial success of the company. Members were advised that any request for information would be assessed against possible exemptions including an exemption related to commercial sensitivity. Each request would need to be assessed against the relevant exemption criteria.

Discussion turned to the Memorandum of Understanding and the Articles of Association, and the Shareholder Agreement which was signed off by the Executive Member, Finance and IT through the non-key decision process. It was suggested that clarification might be necessary in regard to who was entitled to speak at directors' meetings (paragraph 14.5 of the Memorandum of Understanding and Articles of Association). There was also discussion around the identity of the company secretary and the remuneration of directors, noting particularly the potential need to 'buy-in' specialist expertise and the transaction limit of £500,000; anything above this level would need to be referred back.

Members noted that the Company would be subject to audit arrangements. Reassurance was also given that lessons learned from other authorities that had set up commercial companies were taken into account during the development of the company's governance documents.

Members of the Committee were advised that they would be able to submit any further comments on the draft business plan until the end of October 2016, after which the plan would be amended to form the final version.

Exclusion of the Public

It was proposed, seconded and, on being put to the vote, agreed that:

The press and public be excluded from the meeting during discussion of the following item of business under paragraph 5 of Schedule 12A of the Local Government Act 1972 as amended because of the likelihood that information exempt under that provision would be discussed.

Members of the press and public were excluded.

4. LOCAL AUTHORITY CONTROLLED COMPANY - GOVERNANCE ARRANGEMENTS

The Business Manager, Legal and Democratic presented exempt report

number LDS185 on governance arrangements for the local authority controlled company.

The report gave an overview of, and legal advice on, the application of the Public Contract Regulations 2015 in the context of the local authority controlled company operating commercially. Explanations were also given about how the ways in which the company would be able to procure goods compared with the way in which the Council carried out its procurement activity.

On concluding discussion, the committee noted the advice.

5. CLOSE OF MEETING

The meeting was closed at 15:23.

REPORT TO SHAREHOLDER COMMITTEE

REPORT OF: Corporate Finance Manager

REPORT NO: CFM 403

DATE: 9 January 2017

TITLE:	Company Draft Business Plan and Associated Governance Arrangements	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	N/A	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr T Bryant – Finance and IT Portfolio Holder	
CONTACT OFFICER:	Richard Wyles – Corporate Finance Manager r.wyles@southkesteven.gov.uk 01476 406080	
INITIAL IMPACT ANALYSIS: Equality and Diversity	Carried out and Referred to in paragraph (7) below See paragraph 7	Full impact assessment Required:
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	Business Case for the formation of the LACC http://moderngovsvr:8080/ieListDocuments.aspx?CId=164&MId=3194&Ver=4	

1. RECOMMENDATIONS

- 1.1 The Shareholder Committee is asked to agree to the formation of a single company structure.
- 1.2 The Shareholder Committee is asked to comment and agree on the contents of the Housing Business Plan with its focus on the development of new quality housing.
- 1.3 The Shareholder Committee is asked to recommend the incorporation of the necessary funding arrangements (as set out in the Business Plan) into the budgetary framework proposals for 2017/18.
- 1.4 The Shareholder Committee is asked to approve the appointment of the directors for the company.
- 1.5 The Shareholder Committee is asked to approve the formal registering of the company.

2. PURPOSE OF THE REPORT

- 2.1 The purpose of the report is to update the Shareholder Committee on the latest proposals with respect to the formation of the Local Authority controlled company (LACC), the proposed company structure and the focus of the housing business plan.

3. DETAILS OF REPORT

- 3.1 The Council has agreed to establish a LACC in order to create opportunities to deliver the Council aims and ambitions outside of local government operating arrangements and to create an entity that will, over time, deliver financial benefits back to the Council.
- 3.2 The draft Business Plan sets out the background need for establishing the company and details the LACC's Mission statement , Vision , Values, Strategic Aims – effectively providing the cultural framework within which the Board will make operational decisions. More specifically it has a clear operating focus on the provision of quality housing developments in the district bringing forward sites that are not necessarily of interest to the private sector.
- 3.3 It is useful to remind members of the Shareholder Committee that the strategic aims are to:
 - Support the Council's ambition of financial self-sufficiency as set out in its developing commercial blueprint
 - Raise the standard in terms of high quality service provision
 - Exploit gaps in the market and maximise opportunities for income generation and/or capital growth
 - Maximise commercial opportunities where available in a wider market, i.e. work closely with other public bodies and private sector organisations
 - Be known as providing flexible and trusted services that are defined by quality
 - Aim to procure good and services locally where possible

- 3.4 The original business case suggested that over time the organisational structure could be that of a parent and subsidiaries that are focussed on specific work activities. Given that the initial focus on the company will be housing related it is not necessary to initially formulate two registered companies as the parent (holding) company would effectively only be passing everything through it to the trading (subsidiary) company. This will create unnecessary processes and governance arrangements that are not required at this stage of the business development. It is prudent at this early stage of the life cycle of the company to formulate and register only one company and consider future modifications and additions once the company has matured and our business plans for further expansion and diversification is underway. The attached business plan has been modified to reflect the new company structure.

Housing & Property Services Company Business Plan

- 3.5 To date an overarching business plan has been provisionally agreed by the Shareholder Committee. The work has since moved on to the development of the specific business plan for the trading activity of the company. Should the Committee approve the formation of a single focussed company then a single business plan will be presented.

The proposed initial business focus has been centred on acquiring housing in the district for letting purposes on an assumed level of 20 per annum (for financial modelling purposes). In reality this level of procurement could be very challenging from both a staffing resource and availability of properties perspective. However the benefits of a strategy of this type are:

- Ability to enhance the quality offer of the rental market with specific interventions.
- 'Raising the bar' of the street scene and neighbourhood
- Contributing towards reducing fuel poverty
- investment in properties

Clearly an investment strategy of this scale will require significant financial contribution from the Council in the early years of the company both in terms of capital but also staffing resource. From a modelling perspective an assumed level of 60:40 debt equity basis would be necessary in order to enable the company to undertake the procuring and managing of the residential properties. This suggested split is to enable the company to be both financially viable but also enable the Council to receive a financial benefit (via the loan to the company) from the arrangement. Other funding splits have been used for similar purposes by other local authorities but the ratio of equity to loan can be reviewed but it needs to reflect the local market and the absolute need for the company to make a profit.

An alternative proposal is to focus on a specific new build development project at Wherry's Lane Bourne. In terms of focus there is a clear rationale for focussing on initially with the development for the following reasons:

- It is a well defined and clearly modelled development

- It will enable the governance and the operating model of the LACC and the Shareholder Committee to be embedded before the company embark on wider projects
- It will assist in developing skills and working practices to operate with a commercial company environment
- The receipts generated from the project could provide a financial pipeline for other property projects going forward
- It will bring forward a development in a key town centre site for quality housing
- It will generate both Council Tax and New Homes Bonus receipts

Further details of the proposed development are provided in the draft business plan which is shown at Appendix 1.

Following the completion of the Wherry's Lane development, the Committee will then be presented with options for further activity for the company will could be focussed on further housing development, the rental sector or a blend of both.

Depending upon the focus agreed for the company, the financial considerations will need to be included in the budget proposals that are currently being prepared for the financial framework for 2017/18. The Committee are reminded that the Council will also be required to provide working capital to the Company in order for it (the company) to procure services from the Council whilst undertaking the development activities.

3.6 Directors

In order to formally register the company it is necessary to appoint directors to it. It is necessary to ensure the appropriate level of skills and competency for the operational aspects of running the company although it is recognised that suitable training and support will be provided. The recommended directorship is:

Chief Executive
 Strategic Director – Growth
 Strategic Director – Environment and Property
 Business Manager – Legal
 Corporate Finance Manager

3.7 Service Level Agreement (SLA)

There will be a requirement to provide a SLA that will sit between the Council and the company that will set out how the company will procure services from the Council and the financial arrangements that will underpin those services. The services required will be largely dependent upon the agreed focus of the company and therefore a proposed SLA will be presented to the Committee at their next meeting.

4. OTHER OPTIONS CONSIDERED

- 4.1 A company requires a Business Plan to enable incorporation although it does not need to contain the level of detail included in the proposed draft. However it is suggested that this detail is required in order to ensure the Committee are fully informed of the proposed company focus.

5. RESOURCE IMPLICATIONS

- 5.1 This Business Plan identifies the resources the Company will require from the Council in order to fulfil the stated outcomes. Should the Shareholder Committee approve the business plan then the funding proposals will be incorporated in the budgetary framework proposals for 2017/18.
- 5.2 Following approval, the Business Plan will be designed to incorporate the agreed name for and published in a suitable format ready for incorporation of the company.

6. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

Category Risk	Action / Controls
Financial risk	The financial arrangements between the company and the Council will be formally established upon agreement of the trading activity of the company

7. ISSUES ARISING FROM IMPACT ANALYSIS

- 7.1 There are no issues arising with the development of this specific plan particularly as the plan proposes the adoption of employment, health and safety, data protection etc policies currently developed and used by the Council which has already taken into account equalities issues.

8. CRIME AND DISORDER IMPLICATIONS

- 8.1 None arising

9. COMMENTS OF FINANCIAL SERVICES

- 9.1 The financial implications of the funding arrangement between the Council and the company will be considered upon approval of the business plan that sets out the trading activity and the associated funding model.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

- 10.1 By virtue of the Local Authority trading powers contained in Local Government Act 2003 and section 4 (2) of the Localism Act 2011, Councils can only do things for a commercial purpose through a company (i.e. a LACC). In order to do this, the Councils must approve a business case. If it is the Council's intention therefore, to act commercially a LACC must be established.
- 10.2 Before undertaking any further work in relation to any development scheme a full report on title will be required.
- 10.3 The power to transfer general fund land to a LACC from a local authority is governed by s.123 of the Local Government Act 1972. Consent of the Secretary of State is not required where best consideration is received for the transfer. A general disposal consent from the Secretary of State permits disposals at less than best consideration up to a £2m ceiling in value difference provided the disposal complies with the terms of the disposal consent will achieve a wellbeing purpose.

11. COMMENTS OF OTHER RELEVANT SERVICES

- 11.1 N/a

12. APPENDICES:

- 12.1 Appendix 1 – Draft business plan

Local Authority Controlled Company

Business Plan 2017 - 2021

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- 1. Mission Statement, Vision and Values**
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Appendices:

1. Business Proposal – EXEMPT INFORMATION

1. Mission Statement, Vision and Values

Our Mission statement

We will harness our skills, knowledge and experience in order to bring about commercial benefits in the housing and property services market that will have a positive impact on the residents and communities of South Kesteven.

By using the skills and resources available to us we will create new opportunities through the development of places, homes, jobs and services supporting the growth of vibrant, sustainable and successful communities within South Kesteven”

Our Vision

“To develop and manage quality homes in the district supported by responsive and customer focused services that customers’ value.”

Our values

- Customers drive our business
- We are responsive and reliable
- Trusted to deliver and eager to improve
- We listen and learn
- We are focussed on outcomes
- Our people are empowered to be responsible and we work as one team
- Where possible, we will work with local businesses to help us deliver our plans
- We embrace innovation and set the standards for others to follow

2. Background

Local authorities have well established roles of significant influence within their boundaries to deliver a wide range of services, encourage and enable economic growth and create the places that people want to live, work and relax in. These opportunities are becoming increasingly more challenging to deliver as a result of the reduction in the availability of financial support from Government and the need to become essentially self-sufficient by 2020.

The ability for councils to influence and intervene in some areas, such as housing is limited by statutory constraints and resource availability as Council’s are not able to directly provide investment to or trade in the private sector housing market.

3. Rationale for Involvement in Private Sector Housing

Background & Context

Local authorities involved in commercial activities through a Local Authority Controlled Company (LACC) have demonstrated that there are wide ranging options for investment and the delivery of benefits for the local community. One of those options is private sector housing. It is clear that whilst some authorities have adopted a model for maximum financial gain, others have sought to balance financial gain with the delivery of wider benefits and the delivery of wider council priorities.

The private rented sector has grown and improved significantly in recent years and accounts for approximately 18% of all households, and nearly 4 million homes in England. Three-quarters of English landlords are private individuals and couples; about 15% are property companies. Currently, the private rented sector provides lifetime homes for only a few households; instead it is a 'life style' or 'stage in life' choice. In addition, the private rented sector offers a flexible form of tenure and meets a wide range of housing needs. It contributes to greater labour market mobility and is increasingly the tenure of choice for young people.

Investing in the private housing market enables the council, through the LACC to secure a return on investment achieved either through sales or through rents. Sales enable a faster route to a capital return after repayment of debt, to provide further investment or profit. A solid rental stream enables borrowing costs to be repaid and management and maintenance costs to be met, with a capital return when the property is finally sold. The private rented market in the district is buoyant which has led to some tenancies being terminated after short periods of time creating uncertainty and instability for people relying on this option to meet their housing needs.

The development of new housing is a key factor in the delivery of successful growth with a range of options required for people at all stages of life. The district benefits from a good level of housing land supply but delivery at the required rate remains a challenge due to a range of factors often impacting on viability and development profit. The company is ideally placed to deliver additional housing growth on sites which are of marginal interest to the private sector utilising land formerly owned or acquired by the Council and potentially other public sector agencies.

Over time acquisitions may be made directly by the company in addition to utilising former public sector assets.

There are also a number of supporting key drivers including:

- The contribution to delivering council priorities in respect of housing growth
- The Council's extensive knowledge and expertise in the local rental market and a understanding of the property market generally
- The low risk nature of the private housing market as an investment
- The ability to help raise standards and encourage better quality housing across the district

4. Strategic aims

Accordingly, this Company will be limited by shares and the Council will be the sole shareholder. It will deal specifically with the provision of housing and related property services with a view to making a profit from rental income in the private rented housing market and from transactions involving the purchase and/or development of land and property. Whilst financial gain is a key driver, the delivery of social benefits and the contribution towards wider council priorities are also important

All assets associated with the business, which could be in the form of shares, intellectual property and real property will be held by the Council.

The company will:

- Operate as a successful commercial business and trusted partner.
- Develop flexible products, defined by quality, that 'raise the bar' in the housing and property development markets.
- Support the Council's ambition of financial self-sufficiency.
- Identify and exploit gaps in the market to benefit our customers, our communities and our shareholder(s).
- Work closely with public bodies and private sector organisations to maximise commercial opportunities associated with housing.
- Stimulate the local economy through the procurement of goods and services.

5. Business Development, Focus and Benefits

Business Development

In line with the strategic objectives, the approach to business development will be to:

- Use customer insight and principles of co-design to develop commercial housing offers and improve customer experience from housing projects
- Look for opportunities to fill gaps in commercial markets or intervene where existing housing market offers have failed

- Form strategic partnerships with organisations to deliver the aims of the business and share risks

Business Focus

The Company will take a measured approach to developing the scope of its business activities over time but initial activity will focus on the following key areas:

- Acquisition of development opportunities for bringing forward quality new build schemes
- The development of lease and tenancy management services in the private sector
- The development of commercial products/ services to the community through the rented housing market

Benefits

The following headline benefits will be delivered by the work carried out by the Company. In particular, it will:

- Support the availability of good quality private rented housing in the District-particularly town centres
- Bring forward new housing developments including those that are of low interest to the market
- Generate capital and revenue returns, e.g. from housing growth
- Capitalise on working/collaborating with public and private sector partners where there are opportunities to invest for a social (community benefit) and/or financial return
- Exploit opportunities where the use of resources could attract or leverage additional funding or support the generation of new income streams

6. Business Operations

Board of Directors

The quorum for the transaction of business of the directors will be 3. The Board will consist of officers from South Kesteven District Council with the option to appoint external directors if required. Appointments will be authorised by the Council's Shareholder Committee.

At a board meeting each director shall have one vote.

Board meetings shall be at least quarterly on such dates as they may agree. Same as above

An agenda for the meeting will be prepared and distributed not less than 5 business days prior to the meeting. Except where the information is commercially sensitive or such

matters that compromise the integrity of the Company, minutes of board meetings will be provided to the Shareholder committee for noting.

Managing Director and Company Secretary

The Managing Director and Company Secretary will be appointed by the Board as required. The Managing Director will act as the key conduit between the Board and the Shareholder Committee and will have overall responsibility for ensuring compliance with the Shareholder Agreement.

Shareholder Committee

The role of the Shareholder Committee is to:

- Recommend, where relevant the appointment of the Directors and Chairman of the Board and approve best practice policies in relation to such an appointment
- Recommend where relevant the constitution of the Board of Directors
- Receive, review and recommend the business plans and each annual business plan
- Routinely review the financial performance of the Company in line with agreed reporting arrangements

The Shareholder Committee shall meet at least quarterly to consider and review the matters identified above and where necessary call extraordinary meetings to accommodate the business identified above.

Full details of the role of the Shareholder Committee are provided in the Shareholder Agreement provided at Appendix 2.

Property and Assets

The Head Office of the Company will be:

Company Name Limited
Council Offices
St Peters Hill
Grantham
NG31 6PZ

Accommodation and IT assets will initially be held by the Company and leased from the Council as part of a Service Level Agreement (SLA) when the Company starts trading. Small assets such as vehicles and equipment will be purchased/leased to the Company from the Council as part of a SLA.

Policies & Procedures

The Company will initially adopt and comply with existing Council policies in relation to health and safety, data compliance and publication schemes in the first instance but will seek to introduce its own operating principals, policies and procedures as appropriate, following shareholder approval.

Information Sharing

An information sharing protocol will be developed during implementation.

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.

Marketing Strategy

The Company will develop a marketing strategy in line with its strategic aims in order to achieve its stated outcomes.

7. Governance and Audit

The Company will introduce and maintain its own governance arrangements as required.

The Company will be subject to any audit and inspection requirements of the Council.

8. Performance Management

The Company will establish and maintain an effective service and financial performance management reporting system which will include reports to the Board and the Council Shareholder Committee in accordance with a pre-determined timetable.

Performance of the Company will be reported to the Board of Directors and to the Share Holder Committee at least every 6 months or a frequency as requested by the Committee. Reports will be submitted to the Board and the Council as required including the monitoring of the outcomes and the financial position and forecasting.

9. Financials

Financial Assumptions

Initially, the main focus of the business will be on the acquisition of a town centre site for the development of quality housing for either letting or sales (depending on prevailing market conditions at the time).

Against this background, the financial projections are based on acquiring and developing a site at a projected cost of circa £3M based on a debt equity split of 60:40. Upon completion of the development the company will recommend either a disposal strategy or ongoing leasing arrangements for the development based on financial models prepared at that time.

Funding Arrangements

For the duration of this business plan the Company will be funded by the Council by way of equity share capital and loan. The funds will be used to finance its business activities through investment capital and working capital, including start-up costs.

More specifically, the following funding arrangements have been agreed:

- Equity – 40% of funding will be classed as equity share capital and there will be no interest payable. In the event that the Company has sufficient funds, the shareholders could approve the payment of a dividend to themselves.
- Debt (loan) – 60% of funding provided will be classed as a debt/loan and initially, the Company will pay interest to the Council at a rate of 2 percentage points about prevailing PWLB rates at the time of the loan granted.
- Loan agreements will be subject to formal review at each new loan arrangement

Accordingly, the Council will provide the Company with funds for the acquisition of properties and provide working capital for improvements and property development.

Financial Accounting

The Council will prepare the accounts of the Company. Separate ledgers will be set up within the book of accounts. Where there are financial transactions arising from investments, the movement of assets or the treatment of profit/loss for tax purposes, etc.

these will be addressed in accordance with International Financial Reporting Standards and appropriate Company/tax law.

The cost of preparing and maintain the accounts, including obtaining professional advice for dealing with tax and VAT etc. will be recharged to the company as required.

10. Risk Management

A comprehensive risk assessment will be undertaken to ensure that all risks and uncertainties affecting the Company's financial position and performance are identified. To achieve this, the Company will maintain a strategic risk register that will be regularly reviewed by the Board.

Initially, the risk assessment will focus on specific development projects and will be kept under review as the focus of the company activities evolves over time.

The key risks to be considered are as follows:

- Managing the financial position in the early years – adhering to loan repayment and other obligations as set out in formal agreements
- Maintaining the condition of the properties over the period of the business plan in order to protect future growth in property values
- Acquisition of and disposal of properties in accordance with a robust financial framework.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted