

Valley Housing Outturn and Business Plan Update

Report of the Finance and Resources Portfolio Holder

Recommended:

1. That the Directors' annual report, as shown in Annex 1 to the report, be noted.
2. That the updated Business Plan for 2023/24 to 2025/26, as shown in Annex 2 to the report, be approved.
3. That approval be given to appoint the Head of Strategy and Innovation as a Director of the company.

SUMMARY:

- Valley Housing Ltd, a company wholly owned by the Council, was established in April 2016.
- There is an Operational Agreement between the Council and VHL that requires the company to present regular financial reports and business plan updates to the Council.
- This report presents the directors' report on the activity of the company in the 2022/23 financial year and updates its business plan for 2023/24 to 2025/26.

1 Introduction

- 1.1 Valley Housing Ltd (VHL) was established in April 2016. Test Valley Borough Council is the 100% shareholder.
- 1.2 The arrangements put in place to ensure control of VHL by the Council include an Operational Agreement. A requirement of this agreement is that the company shall deliver regular financial reports and business plan updates to the Council.
- 1.3 The operational Agreement also requires that Cabinet (as the "Council Representative" in accordance with the Operational Agreement) approval is obtained before any new directors are appointed.

2 Background

- 2.1 Since the incorporation of VHL, the Council has purchased a number of houses and developed one of its own sites to deliver market-rent housing within the borough.

2.2 This report updates Cabinet on the company's activity in the 2022/23 financial year and includes an update to the business plan that was approved by Cabinet in February 2023.

2.3 The company's property portfolio consists of twenty-three properties. The property at Crosfield Hall, following a refurbishment, is ready to let.

3 VHL reports and items to be considered.

2022/23 directors' report

3.1 The company directors have prepared a report on the activities of the company in the 2022/23 financial year. This report is shown in Annex 1.

3.2 The report is based on figures in the company's draft accounts that are currently being audited. The audit will be completed to allow for the consideration of whether consolidation with the Council's main accounts is appropriate.

Updated Business Plan 2023/24 to 2025/26

3.3 The Finance and Resources Portfolio Holder presented the VHL business plan for 2022/23 to 2025/26 to Cabinet in February 2023.

3.4 Annex two shows an update to this business plan in light of the actual income and expenditure in 2022/23 and the experience gained over the past few months.

Appointment of Director

3.5 The former Head of Housing and Environmental Health and Director of the company left Test Valley Borough Council at the start of July 2023. His successor was appointed shortly thereafter. The company therefore currently has two, rather than the usual three Directors.

3.6 Valley Housing's arrangements provide that the Board shall consist of the following persons: the Heads of Estates (now Property and Asset Management), Housing and Environmental Health, Community and Leisure and such other persons as may be nominated by the Council.

3.7 It is proposed that the newly appointed Head of Housing and Environmental Health is not appointed immediately as a Director to allow them to focus on establishing themselves in the Head of Service role (as was the case with the previous Head of Housing and Environmental Health when newly appointed). It is therefore recommended that the Head of Strategy and Innovation be appointed as a Director of the company.

4 Corporate Objectives and Priorities

4.1 The activities of VHL will continue to contribute to the Corporate Plan 2023 – 2027 and the priority of "Inclusion and Prosperity".

5 Options

- 5.1 Cabinet can either approve the business plan or ask the directors to re-work it and bring it back at a later date. Insofar as the appointment of a Director is concerned, the company may not appoint to the Board without the prior approval of the Council (acting via Cabinet). In the interests of ensuring robust operation it is recommended that a further Director is appointed to bring the number of Directors up to the usual number of three. It is recommended that the Head of Strategy and Innovation, who is an experienced officer, well equipped to take up the role, be approved for appointment to the Board. It would be open to Cabinet to approve or decline the recommended approval. For the reasons set out above approval of the additional Director is the recommended option.

6 Option Appraisal

- 6.1 The business plan is an essential document for setting the company's direction over the medium term. The updated business plan has been prepared by professional officers and presents an appropriate and realistic proposal for operation of the company for financial years 2023/24 to 2025/26; approval of the business plan as presented is therefore the recommended option.

7 Risk Management

- 7.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified significant (Red or Amber) risks as detailed in the risk assessment.
- 7.2 The main risk to the Council is the financial risk arising from its investment in the company. This risk will continue whilst the company has outstanding borrowing from the Council.
- 7.3 The Council has entered into long leases with VHL for the properties that it manages. However, the long-term impact of changes to the capital value of the properties (either up or down) rests with the Council. There is therefore a risk that the Council's long-term valuation of the properties may be less than was paid for them.
- 7.4 The directors maintain a risk register for VHL. This is reviewed and updated on a monthly basis. There were no red risks identified at the time of his report.

8 Resource Implications

Operational Financing

- 8.1 There is an operational loan facility approved whereby the Council can loan up to £250,000 to VHL for day-to-day cashflow management.
- 8.2 At 31 March 2023, £40,000 had been lent to VHL. Interest on the loan is charged at a commercial rate in accordance with the loan agreement between VHL and the Council.

Transactions between VHL and the Council

- 8.3 A significant proportion of VHL's expenditure relates to transactions between the company and the Council.
- 8.4 The biggest of these charges are property lease rentals; recharges of time spent by Council staff in carrying out duties for the company; and interest on loan financing.
- 8.5 It is estimated that, after allowing for the financing costs associated with purchasing / developing the properties let to VHL, the Council will generate over £40,000 of additional income in 2023/24, with this figure set to grow further as the company continues to expand. In addition to this, the company will pay the Council for management recharges and interest on the loan provided to it. This is estimated to be in the region of £16,300.

Control and Liability

- 8.6 The Council maintains a large amount of control over the activities of the company. This includes a requirement that the directors must seek approval before adding any new properties to the portfolio; and prohibition of loan finance from any organisation other than the Council. As the 100% shareholder in VHL, the Council is ultimately the beneficiary of any profits made by the company. The Council's liability is limited to its share capital investment (£100) and any loan and trade creditor amounts outstanding.

9 Company Governance

- 9.1 Three directors were appointed at the time the company was incorporated.
- 9.2 The current Head of Housing and Environmental Health has submitted his resignation from the company. It is expected that a replacement director be appointed shortly following the appointment process.

10 Legal Implications

- 10.1 The performance report and updated Business Plan are presented to Cabinet in accordance with the Operational Agreement in place between the Council and VHL.

11 Equality Issues

- 11.1 No equality issues have been identified in this report.

12 Conclusion and reasons for recommendation

- 12.1 The report presents the activities of VHL in 2022/23 and an update to the company's business plan for the medium term.
- 12.2 The forecasts in the business plan are based on experience gained to date as well as the amended lease structure.

Background Papers (Local Government Act 1972 Section 100D)

None

Confidentiality

Report and Annexes 1 and 2a - It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

Annex 2b - It is considered that the annex to the report contains exempt information within the meaning of paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. It is further considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information because the information relates to the financial or business affairs of both the Council and third parties.

No of Annexes:	2	File Ref:	N/A
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(Portfolio: Finance and Resources) Councillor M Flood

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Report to:	Cabinet	Date:	23 August 2023
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