

Valley Housing Outturn and Business Plan Update

Report of the Finance 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 2020/21 to 2022/23, as shown in Annex 2 to the report, be approved.

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 2019/20 financial year and updates its business plan for 2020/21 to 2022/23.

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.

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 2019/20 financial year and includes an update to the business plan that was approved by Cabinet in December 2019.
- 2.3 The company's property portfolio has increased from eleven to fifteen properties during the year.

3 VHL reports to be considered

2019/20 directors' report

- 3.1 The company directors have prepared a report on the activities of the company in the 2019/20 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 in enough time to allow consolidation with the Council's main accounts, which must be approved by the end of November.

Updated Business Plan 2020/21 to 2022/23

- 3.3 The Finance Portfolio Holder presented the VHL business plan for 2019/20 to 2022/23 to Cabinet in December 2019.
- 3.4 Annex 2 shows an update to this business plan in light of the actual income and expenditure in 2019/20 and the experience gained over the past few months.
- 3.5 The financial summary included with the business plan includes two scenarios based on: a) no further growth in the company beyond what is already known; and b) a continuation of the current annual growth in the portfolio.

4 Corporate Objectives and Priorities

- 4.1 The activities of VHL will continue to contribute to the Corporate Plan 2019 – 2023, particularly in the context of the objective to *Grow the potential of people to be able to live well and fulfil their aspirations*.

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.

6 Option Appraisal

- 6.1 The business plan is an essential document for setting the company's direction over the medium term. If Cabinet do not accept the Business Plan as presented, the reasons for this should be made clear so that the directors can prepare a revised plan to be re-presented to Cabinet in the near future.

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 was last reviewed and updated in April 2020. There were no red risks identified.

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, particularly in the early years where the company is expected to make losses.
- 8.2 At 31 March 2020, £25,000 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 Although the VHL draft accounts have reported cumulative losses to 31st March 2020, 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 £90,000 of additional income in 2020/21, with this figure set to grow further as the company continues to expand.

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.
- 8.7 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 Legal Implications

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

10 Equality Issues

10.1 No equality issues have been identified in this report.

11 Conclusion and reasons for recommendation

11.1 The report presents the directors' report on the activities of VHL in 2019/20 and an update to the company's business plan for the medium term.

11.2 The forecasts in the business plan are based on experience gained over the past three years.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
Report - 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.			
Annexes - It is considered that the annexes 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
(Portfolio: Finance) Councillor M Flood			
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Report to:	Cabinet	Date:	17 June 2020