SLOUGH BOROUGH COUNCIL

REPORT TO:	Audit & Corporate Governance Committee
DATE:	1st March 2022
SUBJECT:	Update on Council Subsidiary Companies
CONTACT OFFICER:	Steven Mair, Director of Finance (s151 Officer)
WARD(S):	All Wards
APPENDICES:	None

1 **Summary and Recommendations**

1.1 This report sets out the current position of the Council's subsidiary companies and the proposed actions for 2022/23.

2 **Recommendations:**

2.1 The Audit and Corporate Governance Committee is requested to note and comment on the content of the report.

3 **Report**

3.1 **Overview**

3.1.1 The Council has acquired or established various companies over several years. Excluding Slough Children First Ltd, the Council currently has ten companies that are wholly owned, partly owned, or are considered to undertake activities related to the Council. Four of these (GRE5, JEH, SUR and DISH) are operational and six are dormant and have never traded. This report focuses on the four trading companies.

3.1.2 Of the six dormant companies, five are already in the process of being closed with Companies House and this process is expected to be completed for the start of FY 22/23. The remaining company will require further discussion with the external directors to agree action in FY 22/23. This will significantly simplify the Council's corporate structure, reduce administration and focus resources on core operations only.

3.1.3 The companies and their status are outlined in Table 1 below.

Table 1: Company Overview

Company	Activity	Council interest	Date incorporated/ acquired	Status
ACTIVE COMPANIES				
Ground Rent Estates 5 Limited, ("GRE5")	GRE5 owns the freehold to Nova House, a tower block of 68 apartments located in Slough Town Centre. The company's main business activity is the collection of ground rent and management of core building services (c£20k per annum). Due to ACM defects, Nova House is in the middle of a major redevelopment programme.	100% shareholder	March 2018	Active – trading
James Elliman Homes Limited, ("JEH")	JEH was set up with the aim of increasing the Council's housing supply whilst providing housing options to vulnerable groups within the Borough. The company has several properties and temporary accommodation units which are let out by the Council and used to support the Council in discharging its Homelessness Duty. JEH employs no people – all services are provided by the Council under the terms of an SLA.	100% shareholder	6th February 2017	Active – trading An Options Review is underway to consider a Council exit strategy / disposal strategy. JEH has been prioritised over DISH due to the higher risk associated with the Council's loan facility with JEH, high asset value and the associated impact on the Council's debt reduction strategy
Development Initiative Slough Housing Company Limited, ("DISH")	The aims of DISH include the development, improvement of national housing stock and the rationalisation of the use and availability of housing. Following its incorporation in 1998, DISH entered into an Access Licence Agreement with SBC under which it was granted access to land off Long Readings Lane to build 54 properties (42 two bed and 12 four bed). In November 1989 DISH then entered a 30-year lease with SBC in relation to the properties which was extended a few years ago up to 2027. Under the lease the company is required to offer the provision of housing management and letting services to the Council. DISH employs no people – all services are provided by the	Company limited by guarantee with the Council acting as guarantor Directors are Council members	27 January 1988	Active – trading This is a longstanding lease agreement – and is considered to be lower risk compared to the Council's other companies. A separate piece of work will be commissioned in early FY 22/23 to consider the ongoing rationale for DISH as a separate legal entity

Company	Activity	Council interest	Date incorporated/ acquired	Status
	Council in line with the lease conditions.			
Slough Urban Renewal LLP, ("SUR")	SUR is a Local Asset Backed Vehicle (LABV) formed as a 50:50 Limited Liability Partnership between the Council and Community Solutions for Regeneration (Slough) Limited (a wholly owned subsidiary of Morgan Sindall Investments Ltd (MSIL). SUR operates as a commercial development and regeneration partner to the Council with joint governance. SUR adopts the construction, programme, delivery and demand risk for development sites after paying the Council Market Value of the site where it is the landowner. The overriding purpose of SUR is to assist the Council in meeting its objectives in regenerating the residential, educational, leisure, social and commercial infrastructure of Slough.	Member of the LLP (50%). Council has representatives on the various Boards	16th October 2012	Active – trading An Options Review has been undertaken and due diligence is underway across several sites to realise value in early FY 22/23 and reduce activities within SUR
DORMANT COMPANIES				
Herschel Homes Limited	Herschel Homes (HH) was established to provide new build properties for open market rent. It was envisaged that HH would acquire 365 new build units over a five-year period to provide high quality housing for market rent and that most of these properties would be high-end new apartments, with a mix of one and two bed properties. The company has been dormant since incorporation.	100% shareholder	6th February 2017	Dormant – Companies House has accepted the application to strike off the company. Strike off notice expected in the Gazette in February 2022
Slough Asset Management Limited, ("SLAM")	SLAM's objective related to the acquisition of commercial properties on behalf of the Council with a purpose of generating rental income. However, SBC decided in 2017 that SLAM was no longer required due to an overlap in purpose with the Strategic Acquisition Board (SAB). The company has therefore remained dormant since incorporation.	100% shareholder	22nd December 2016	Dormant – Application to strike off to be sent by mid-February 2022
Slough Direct Services Limited	The nature of business is stated as collection of non-hazardous waste, collection of hazardous waste, urban planning and	100% shareholder	3rd April 2019	Dormant – Application to strike off to be

Company	Activity	Council interest	Date incorporated/ acquired	Status
	architectural services and landscape service activities. However, the company has remained dormant since incorporation.			sent by mid-February 2022
DISH RP Limited	DISH RP was set up to provide, develop, acquire, and manage affordable homes that are developed as part of the Council's development strategy for affordable housing. The company was also directed to seek opportunities to acquire affordable housing outside the immediate Slough area. Opportunities not pursued due to financial challenges. The company has remained dormant since incorporation.	Company limited by guarantee with the Council acting as guarantor	28th January 2020	Dormant – Future close down to be discussed with directors for close down in early FY 22/23
DISH RP (FP) Limited	The nature of business is stated as renting and operating of Housing Association real estate. However, the company has remained dormant since incorporation.	The Council is 50% shareholder. It holds 100% of the Ordinary B class shares (can receive dividends)	28th February 2020	Dormant – Companies House has accepted the application to strike off the company. Strike off notice expected in the Gazette in February 2022
DISH CLS Limited	The nature of business is stated as that of a Hold Co. The intention for the company was for it to act as a holding company for the DISH companies (DISH, DISH RP and DISH RP (FP)). However, the company has remained dormant since incorporation.	100% shareholder	12th December 2019	Dormant – To be closed down by the end of FY 21/22

3.1.4 The four trading companies owe the Council £69.0m against total loan Council facilities of £86.6m (ref: 3.3.13). Based on the interest rates charged on the facilities, this provides interest income of £2.1m, ie an effective rate of c3.0% per annum.

3.1.5 In addition to this, the companies pay costs to the Council under Service Level Agreements of c£0.5m per annum (ref: 3.3.10). This income stream covers housing management and repairs and maintenance costs incurred by the Council on behalf of the companies in question.

3.1.6 The Council has received dividend income of £5.0m from SUR in the past (ref: 3.3.2). However, no further dividends are expected due to the change in the relationship with SUR. The Council does not receive dividends from the other companies. This is covered later in this report.

3.1.7 Key risks relating to the companies are summarised below, and covered in more detail under the individual company commentary later in this report:

- Total costs for remediation and associated works at GRE5 are currently estimated to be in the region of £19.6m but this continues to remain under review. There is a risk that these costs increase further and, unless they are eligible costs in terms of Homes England funding, that will increase the Council's liability. Based upon current estimates, the Council's maximum exposure is currently £10.3m, assuming no recovery of monies from legal action or from leaseholders.

- Following an Options Review, work is at an advanced stage to restructure the Council's commercial relationship with SUR and agree a way forward. This would enable the Council to receive land receipts at the earliest opportunity and avoid future capital commitments. However, a satisfactory arrangement still needs to be agreed between key parties. The OLS scheme has been fully built and apartments are not on sales. There is a risk that that the loan facility and/or loan notes may not be repaid.

- James Elliman Homes continues to operate at a loss due to lower levels of rent being received than was envisaged in the original Business Plan. An options review regarding the future of the company is being undertaken which will inform future actions.

- DISH is relatively low risk and has operated for over 30 years. However, there is little distinction between management of the Council's HRA stock and the DISH properties. This is being addressed in changes to governance and reporting processes, but this work will need to continue into 2022/23.

3.2 **Recent improvements and actions**

3.2.1 In the last 12 months a series of internal investigations, internal audit reports and external reviews have highlighted a range of issues across the Council's companies in relation to governance, oversight, reporting, financial planning, operations and decision making. In addition, the Council's financial challenges have necessitated a deeper review into the companies' commercial and financial arrangements to ensure that they remain aligned to the Council's strategic objectives and can support the Council in meeting its wider financial objectives. For example, an Options Review of the Council sites that are opted to SUR to consider restructuring the Council's commercial arrangements, reducing imminent capital investment and reducing financial risk to the Council.

3.2.2 Several changes have been made to strengthen the Council's arrangements with its companies, and in some instances further work will be required throughout FY 22/23 to establish actions and a clear way forward. In FY 21/22, actions have been prioritised on the highest risk areas/companies which has included GRE5 and SUR followed by JEH and DISH. Budgets for FY 22/23 onwards have been informed by the outcome of work to date and reflect plans to stop or significantly reduce the scale of activities across of the Council's companies. Future activities also build upon recent improvements and actions which have impacted upon the operation, governance and oversight of the four trading companies.

GRE5

3.2.3 Given the significant risks and uncertainties associated with the refurbishment works at Nova House with regards to scope of works, project costs, grant funding, insurance claim, Council loans and financial support, cost recovery from leaseholders, GRE5 has been prioritised in FY 21/22. Key improvements/actions include:

- Governance improvements including the appointment of two new directors, a new Statutory Reporting Officer (SRO) and new SBC's Shareholder Function to strengthen governance, reporting, financial oversight, performance management, risk management and decision making.
- Improved scrutiny and reporting - Reporting to Cabinet and Council on progress and issues in FY 21/22 with at least annual reporting in FY 22/23 onwards.
- Financial planning changes to improve transparency and quality of information to better inform management and decision making within the Council and GRE5.
- Revision of the Council's Investment Strategy to enable the Council to approve a loan facility of up to £10m to GRE5 and approval of a parent company guarantee to underwrite the Development Agreement to enable main works to start, including the removal of cladding.
- New loan facility drafted with seal expected for the start of FY 22/23.
- Homes England grant funding of £9.3m approved.
- Ongoing progress and action with regards to the litigation/insurance claim against the warranty provider – mediation expected to take place in May 22
- Development Agreement signed, all ACM removed and work on site started

<u>*JEH*</u>

3.2.4 A governance review was commissioned in June 2021 to identify immediate key issues and prioritise early activity. This has informed some of the activities and improvements in FY 21/22. JEH has been impacted by a high turnover of Directors, inconsistent management and governance arrangements and changes within the Council's housing services team that provides all services to JEH under the terms of an SLA. Key improvements/actions include:

- Governance improvements – review of Director skill sets and needs assessment for JEH, appointment of new JEH directors, new contracts including conflicts of interest awareness, and reinstatement of regular board meetings and board packs from January 2022.
- Appointment of new SRO and agreement on new shareholder function for 2022 including representatives from housing, finance and property.
- Review of original business plan rationale and underlying assumptions and current performance review.
- JEH Board review of management data and performance with an assessment of future Board reporting requirements.
- Appointment of Local Partnerships to undertake a JEH Options Review to consider a potential exit strategy for the Council - due to report at the end of February 2022.

- Revised SLA produced and reviewed by the JEH board. Revisions to align with the Council's housing services review and the outcome of the Options Review.
- Ongoing actions to make operational changes to improve tenancy management, debt recovery and maintenance matters – significant further work is required to improve the Council's services that are provided to JEH
- Revised SLA produced – reviewed by the Board but remains draft and will be updated in line with ongoing operational review and the outcome of the Options Review.
- All JEH services are provided by the Council. The Council is undertaking a review of its housing services ream, including a review of the services provided to JEH. Operational changes have continued to be made to improve processes and services. Although significant further work will be required to improve the Council's services for all HRA properties, including JEH.

SUR

3.2.5 SUR is a major strategic partner with several Council landholdings "opted" to the company under the terms of a Partnership Agreement (established in 2013). Given the scale of the Council's future capital commitments with SUR, activity has been prioritised on considering opportunities to reduce future investment by the Council, reduce potential abortive costs, maximise opportunities to secure site disposal proceeds, enable key sites to be developed and reduce financial risk to the Council. Key improvements/actions include:

- Governance changes - a series of changes to remove and appoint Council representatives, including skills review for new representatives and inductions.
- New SRO and shareholder function/Corporate Oversight Board established which meets every two weeks.
- Reinstatement of Partnership meetings in line with the terms of the Partnership Agreement.
- Regularising of performance management arrangements within SBC in respect of all SUR activities – including COB review of board packs and performance.
- Strengthening the Council's day-to-day engagement with SUR including improving accounting and financial arrangements.
- External Options Review completed for all key sites/partnership, including initial reporting to LM&D, Cabinet and Commissioners – focused on reducing the Council's financial obligations, managing risk, achievement of best consideration and enabling key sites to be developed. Disposal reports expected to be brought to Cabinet and Council in April 2022.
- Ongoing due diligence and engagement with Homes England with regards to the NWQ site to secure disposal in early FY 2022.
- Agreeing key principles with Muse Ltd regarding SBC's future relationship with SUR LLP including revised Heads of Terms, revised operating costs and potential changes to governance arrangements.

DISH

3.2.6 DISH was established in 1988 to increase the supply of affordable housing in the Borough. DISH has a lease with the Council for 54 properties off Long Readings Land and the properties are let at affordable rents on an assured shorthold basis. In line with the lease, all properties are managed and maintained by the Council on the same basis as the Council's housing stock. The Council operates on a breakeven basis (lease rental charges are calculated on an annual basis to generate a nil profit before tax). The company (and the lease) was established to be tax efficient and pay nil tax.

3.2.7 Following a recent internal audit report, Local Partnerships undertook a high-level governance review to enable a more risk-based approach to be taken regarding the prioritisation of actions across SBC's housing companies. As a result, some minor action has been taken with regards to DISH, and a more comprehensive review of DISH will be undertaken in FY 22/23 to consider the ongoing rationale and the case for continuing to have a separate DISH entity. This will require a legal and housing policy review before any changes are made to the existing lease arrangements and corporate structure.

3.2.8 Whilst DISH may have been established originally to remove properties from the HRA, the ongoing requirement to maintain this arrangement is not clear.

3.3 Financial overview

3.3.1 Each of the Council's four operating companies have different operating models, provide a range of services and activities and have different financing arrangements and risks which makes any comparison very difficult. As such, high level financial information is provided in this section and a more detailed review of each company is provided separately in this report

Table 2: SUR P&L

SUR – year ending 31 December	**2019**	**2020**	**2021**
£m	**Actual**	**Actual**	**Draft**
Turnover	40.56	32.56	11.66
Cost of Sales	(37.76)	(32.13)	(12.49)
Gross profit	**2.80**	**0.43**	**(0.83)**
Operating costs	(0.60)	(0.55)	(0.53)
Operating profit/(loss)	**2.20**	**(0.12)**	**(1.36)**
Other			
Council element of profit/(loss)	1.10	(0.06)	(0.68)
Council loan notes issued	-	(11.66)	-
Council loan repayments	7.88	-	1.88
Council interest payable	0.19	0.48	0.45
Council dividends	2.37	-	-

*SUR year end is different to the Council's (31/12 v 31/3)
*FY 22 budget not included. Small operating loss is anticipated due to reflect (a) no further development on key SUR sites and (b) SUR operating costs only to manage Partnerships until winding up (c) loss on OLS scheme reflected in FY 2021 results

3.3.2 SUR has been the Council's most successful company to date (in terms of dividend income) and has provided the Council with a source of income following completion of housing sales at key sites. After the payment of all site costs, loan notes plus interest, SUR has made dividend payments to the Council of £2.6m in 2017 for the development at Ledgers Road and £2.4m in 2019 for the development of Wexham Green.

3.3.3 The Old Library Site (Residential) Scheme, also known as the Novus apartment development, is the only current SUR scheme on a SUR opted site. The 64 Novus apartments have been fully built-out but have not yet been fully sold. Based upon current projections, the scheme may operate at a small loss (currently projected at £0.8m) and is not expected to result in any dividend payments to the Council or Muse. The SUR table above, includes a loss on the OLS scheme within the 31st December 2021 projections. A more detailed commentary on the OLS scheme is provided in the SUR section of the report, including the potential impact on the Council's loan and loan notes.

3.3.4 The projected 2021 operating loss relates to the expected outturn on the OLS scheme and core SUR operating costs that are normally funded out of the distributable profits from SUR scheme. Operating costs have been reduced for FY 22/23 onwards.

3.3.5 Looking ahead to FY 22/23 onwards, the Council's relationship with SUR is expected to change significantly and will see the Council adopt a different role in relation to its key sites. As a result, the SUR budget for FY 22/23 remains subject to change but is expected to cover core operating costs only, interest and any changes as a result of the OLS final outturn position.

3.3.6 The proposed changes are likely to result in the Council not having any equity investment in key sites in the future and it is therefore unlikely to share in any future dividend payments. This will enable the Council to receive disposal proceeds for key sites (for best consideration) at the earliest opportunity and will reduce the Council's capital commitments and financial risk over the coming years. Negotiations continue with Muse to agree a way forward and disposal reports are expected to be provided to Council in April 2022. This will include proposals for key sites opted to SUR including Wexham, Montem, Stoke Wharf, Haymill and NWQ.

3.3.7 As a result of the potential changed relationship, the ongoing resource and cost base for the SUR Partnership has been reviewed and revised downwards to reflect an anticipated change in scale of activity within the Partnership. In FY 22/23 onwards, SUR steady state operating costs are expected to reduce to approx. £0.2m per annum, of which the Council's share is 50%. Costs will be kept under review in FY 22/23 and will be influenced by the negotiations on the sites and changes to the Partnership Agreement. SUR running costs will be required to be met by partners until such time that the Partnership is wound up. No further costs are expected in FY 22/23 onwards. Additional exit costs associated with winding up will be considered next financial year.

3.3.8 The Council's capital programme excludes any further investment in SUR opted sites. Under the terms of the latest business plans, the Council's capital payments would be in the region of £33m over the next five years. Reducing these costs and generating capital receipts have been key drivers of the current negotiations with Muse.

Table 3: P&L: Council subsidiaries – JEH, GRE5 and DISH

£m	2020/21	2021/22	2022/23
	Actual	Forecast	Budget
JEH			
Turnover	2.30	2.25	2.36
Operating costs	(2.43)	(0.91)	(0.95)
Operating profit	**(0.13)**	**1.34**	**1.41**
Depreciation	(1.02)	(1.02)	(1.02)
Interest payable to the Council	(1.47)	(1.56)	(1.55)
Net profit/(loss)	**(2.62)**	**(1.23)**	**(1.16)**
DISH			
Turnover	0.38	0.38	0.39
Operating costs	(0.38)	(0.38)	(0.39)
Operating profit	**-**	**-**	**-**
GRE5			
Turnover	0.01	0.01	0.01
Operating costs	(0.00)	(0.00)	(0.00)
Operating profit	**0.01**	**0.01**	**0.01**

*Based upon information contained in the actual / draft financial statements
*Year end is the same at the Council's – 31/12

3.3.9 The Council's three trading subsidiaries are relatively small in scale in terms of turnover and currently operate at a near breakeven position, before depreciation and after interest. Two entities typically operate at a breakeven point (DISH and GRE5) and one traditionally generates a loss (JEH), with losses in the region of

£1m per annum after interest payable to the Council in the region of £1.5m. All are housing-related companies.

3.3.10 JEH and DISH do not employ any staff. The Council's housing services team provides services to both companies - including housing management, lettings management and housing maintenance services and corporate support services - for which the Council receives a payment of £0.2m from JEH and £0.3m from DISH.

3.3.11 As part of the ongoing work required across all companies, the basis for charging for these services is being reviewed to assess the true cost of providing these services compared to charges in the SLAs/lease details. The lack of information on Council service delivery costs makes it very difficult to accurately assess the true financial performance of the companies and the efficiency of services provided by the Council. For example, it may cost the Council significantly more to deliver core services than it charges to its subsidiaries.

3.3.12 The GRE5 P&L relates to core freeholder services only and does not incorporate any costs associated with the refurbishment of Nova House. Currently, all Nova House costs are included in the Council's capital programme as a Nova House cost centre (P181) and have been funded by the Council to date. A loan facility is in the process of being executed, following approval by the Council, which will enable the costs and loan to be passported to GRE5, which will enable clear separation of all transactions from the Council. It is highly likely that the financial statements for the FY 21/22 will include all costs and loans associated with Nova House as opposed to a note to the financial statements. See the more detailed GRE5 commentary.

Company loans

3.3.13 The Council has provided loan facilities of up to £86.6m to three companies, against which £69m has been drawn down to date. This includes:

- *GRE5* – the Council has approved a loan facility of up to £10m which is in the process of being executed. The Cabinet approved a loan in 2019 which was subsequently reapproved by the Council in July 2021. The GRE5 review in this report provides further details on the financial position of GRE5, including the uncertainty around the repayment of this loan. Loan repayments are dependent upon (a) the outcome of the current legal case against the building warranty provider, (b) the potential recovery of costs from leaseholders and (c) potential grant clawback from Homes England.
- *SUR* – the Council has provided a loan facility of up to £10.7m to SUR to fund the Old Library Site (Resi Scheme) which has a total market valuation of £17m (independent RICS valuation). Interest is charged at the higher of 5% or PWLB plus 2.5% and the loan is secured against the properties. To date, the loan facility stands at £7.3m (the scheme is fully built) and loan repayments are dependent upon apartment sales. All net sales proceeds are payable directly to the Council.
- *JEH* – the Council has provided a loan facility of up to £65.9m, split into tranches over a number of years. 60% of the loan attracts interest of 5% with the remaining 40% treated as equity (and does not attract any interest). To date, JEH has drawn down £51.7m under the loan facility and the Council has informed the JEH Board that it will not approve any further loan drawdown

requests. Annual interest payable to the Council is approximately £1.5m per annum. Properties are valued at £51m.

3.4 Company Review – GRE5

Overview

3.4.1 Nova House is a block of 68 apartments in the town centre which failed flammability tests following the Grenfell fire and further survey work revealed significant defects with the compartmentation within the building. GRE5 Ltd owns the freehold lease of Nova House.

3.4.2 In 2018, the Council decided to acquire all of the shares of GRE5 Ltd for £1 due to concerns about the capacity of GRE5 to undertake the substantial remediation works required and concerns about the safety of residents. Whilst the scope of works was unknown at that stage, costs were anticipated to be less than £10m, and the Council assumed that any costs would be recoverable following a legal claim.

3.4.3 GRE5's core activities are the collection of ground rent, freehold extensions and management of some services at Nova House. Its income and costs are approximately £20,000 per annum and it has very limited options in terms of raising finance as it has minimal assets and value.

3.4.4 Interim fire safety measures were put in place, and continue to be in place, in the building to ensure the safety of residents, pending the completion of remediation works. These have included a high-quality heat detector system, the presence of a 24-hour waking watch and immediate evacuation procedures in the event of fire.

3.4.5 The project has been delayed due to covid restrictions and the requirements to undertake additional tests and surveys in 2020/2021, which identified a range of defects and technical issues. A scope of works and Development Agreement were agreed in 2021 and all ACM was removed by the end of January 2022. The main phase of works is in progress and is expected to be completed in early 2023.

3.4.6 In FY 21/22, the Council introduced a range of changes to strengthen governance, management, oversight, decision making and reporting. This included the recruitment of new GRE5 directors, new shareholder function arrangements, a new SRO and SBC project manager and improved risk and financial reporting arrangements. Further changes will be required in FY 22/23 to continue with this improvement programme.

Financial position

Nova House refurbishment costs

3.4.7 Total costs have increased significantly and are now estimated to be in the region of £19.6m, although this continues to remain under review.

3.4.8 Costs have increased since the July 2021 Council report which provided an update to members. Total costs have increased from £18.8m v £19.6m; an increase of £0.8m. This remains an estimate and is subject to ongoing discussions with advisors and RBFRS.

3.4.9 Costs relate to the main external development works (under contract), internal works, legal costs, waking watch costs, project management costs, tests, surveys, and advisor costs.

3.4.10 Total costs incurred to date are estimated to be in the region of £10m (as at the 31/1/22) which includes some pre-development works funded by Homes England (see below). The remaining costs are projected to be incurred in FY 22/23.

Table 4: GRE5 Funding Position

	Up to 31 Mar 21	2021/22	2022/23	Total
£m	**Actual**	**Forecast**	**Forecast**	
Ongoing Costs - Legal, Waking Watch etc.	3.14	1.08	1.27	**5.49**
External Works - Development Contract	2.21	5.58	2.75	**10.55**
External Works - Other	0.20	0.12	-	**0.32**
Internal works	0.03	-	3.23	**3.26**
	5.58	**6.78**	**7.26**	**19.62**
Funding				
HE grant funding	1.66	4.38	3.24	**9.27**
SBC loan facility	3.93	2.40	4.02	**10.34**
	5.58	**6.78**	**7.26**	**19.62**

3.4.11 It should be noted that this table excludes interest payable by GRE5 on its loan (see below for details of the loan facility).

3.4.12 A summary of the statutory accounts for GRE5 (P&L and balance sheet) have not been provided in this report as they primarily relate to GRE5's core services which are to collect ground rent and provide basic Nova House services. Annual revenues are in the region of £0.02m and costs are similar. Most costs associated with the Nova House refurbishment programme have been included on the Council's balance sheet (P181 code) within its capital programme pending the execution of a Council loan to GRE5 (see loan summary below). Accounts for FY 21/22 will need to reflect the new loan and associated costs for Nova House.

Grant funding

3.4.13 During FY 21/22, the Council and GRE5 successfully agreed grant funding of £9.3m from Homes England for eligible development costs. This includes £1.7m for pre-development works which have been completed and grant funding drawdown. The Grant Funding Agreement (GFA) has been agreed with all parties and has been signed by GRE5 and the main contractor. A number of Conditions Precedent (CP) remain outstanding with a target completion date of mid-February. Once CPs are signed off, the GFA can be signed by DLUHC and grant drawdown requests can be processed with immediate effect. Discussions continue to take place with Homes England with regards to changing the scope of eligible costs which may result in additional grant funding being made available to GRE5. This will reduce financial risk to the Council.

3.4.14 It is assumed that a grant claim will be submitted in February 22 following the discharge of the GFA CP matters, , with funds then received in March 22. Further applications will then be made monthly.

Legal claim – warranty provider

3.4.15 GRE5 is currently engaged in legal proceedings with the building's warranty provider which is expected to conclude before the end of FY 22/23, with mediation proceedings expected in May 22. A separate paper will be produced for Members and Commissioners which will inform the establishment of mediation principles for the mediation process. As with any mediation process, a negotiated settlement is normally less than the value of the Particulars of Claim (POC). The POC is due for submission by the end of March and a Member/Commissioners paper will be produced in April 2022.

3.4.16 As per the GFA, Homes England may clawback a proportion of its grant should GRE5 be successful in its legal claim against the warranty provider. The clawback mechanism has not yet been agreed with Homes England and will be set out in a Deed of Variation/side letter to the GFA. This may result in the full grant being clawed back by Homes England (£9.3m), although it is anticipated that the clawback mechanism will reflect the Council's costs in pursuing the claim.

3.4.17 The total value of the POC is greater than the GFA (amounts noted disclosed in this paper) although there is a shortfall between the total costs and any amounts recovered as part of the legal proceedings.

3.4.18 Should the legal claim be unsuccessful, the maximum financial exposure to GRE5, and therefore the Council as 100% shareholder, is up to £10.3m (£19.6m costs less £9.3m Homes England grant). Alternative funding strategies are being considered to meet any funding shortfalls, including potential recovery of costs from leaseholders. A tribunal has already determined that leaseholders, and not the freeholder, are liable for waking watch costs.

Loan facility and PCG

3.4.19 In July 2021, the Council approved a loan facility to GRE5 of up to £10m to meet its short-term cash flow requirements, pending the:

- outcome of the legal proceedings;
- approval of the grant funding agreement with Homes England;
- completion of works to determine total final costs; and
- recovery of monies from leaseholders.

3.4.20 Latest cash flow projections estimate that GRE5's loan facility requirement is now in the region of £10.3m. The peak loan facility requirement will be dependent upon the agreed GFA drawdown schedule and any impact on the accrual of interest on the Council loan facility. The outcome of the legal case and timing of any associated financial payments will also impact upon the peak facility requirement.

3.4.21 A draft £10m loan facility agreement has been produced and is scheduled be executed before the end of the FY 21/22. This loan facility agreement formalises a loan facility that was originally approved by the Cabinet in 2019 but was not approved in accordance with the Council's Investment Strategy. The Council has funded GRE5 costs to date; costs have been included in a separate capital programme cost centre on the Council's balance sheet. These costs will be recharged/passported to GRE5 following the execution of the loan facility. The terms of the loan will be similar to the Council's other commercial loans with third parties such as SUR.

3.4.22 Any increased loan facility requirement will require Council approval in line with the Council's Investment Strategy. The capital programme includes a potential maximum loan facility of up to £10m to allow for cash flow variations as a result of the Homes England grant.

3.4.23 In FY 21/22, the Council entered into a Parent Company Guarantee (PCG) to enable the works under the Development Agreement to be completed. The majority of the Development Agreement costs are considered to be eligible costs under the terms of the Homes England GFA but there is a shortfall in the region of £1m which would be covered under the terms of the PCG should GRE5 be unable to pay the total costs under the Development Agreement. It should be noted that the Council is not a party to the GFA or the Development Agreement.

FY 22/23 risks, issues and actions

3.4.24 FY 22/23 is a critical year for GRE5; it is expected that works to Nova House under the Development Agreement should be substantially completed and legal proceedings should be concluded. There will be more certainty across a number of critical areas.

3.4.25 Based upon current projections, GRE5's existing loan facility of up to £10m is insufficient to meet its short-term cash flow requirements unless the court rules in favour of GRE5 and monies are received in mid 2022. The recoverability of the Council's loan remains unclear and can only be assessed in light of the outcome of the warranty claim, resolution on any potential grant clawback by Homes England and further consideration of cost recovery from leaseholders.

3.4.26 If project costs and Homes England funding remain in line with current estimates, GRE5 could face a deficit of up to £10.3m if the legal proceedings are not successful. A legal settlement in excess of the Homes England grant will reduce the funding shortfall and reduce the Council's risk in relation to its loan to GRE5 (amounts not disclosed in this report). GRE5's loan repayments to the Council will be dependent upon (a) the proceeds of the legal claim, (b) the amount of clawback on the grant, (c) potential recovery of costs from leaseholders and (d) outturn of final costs.

3.4.27 Whilst improvements have been made in FY 21/22 to strengthen management, governance, general reporting, financial reporting, risk oversight and decision making in relation to GRE5, several risks and areas of significant uncertainty remain in FY 22/23:

- *Costs may increase further* - it is critical that variations are reported and managed effectively to improve decision making, financial planning and risk management for all parties.
- *Viability of a refurbishment solution versus rebuild* - alternative options should continue to be considered if there is a major change to the development programme costs and/or a change in the risk profile.
- *Grant funding risk* - the GFA has not yet been signed by DLUHC and remains a significant risk to the Council's financial position.
- *Insufficient funding to meet cash flow obligation / going concern risk* – the current approved loan facility may not be sufficient to meet obligations and may require further Council financial support.

- *Legal claim uncertain* which impacts on the Council's short to medium term financial position - outcome unknown and a considerable risk.
- *Leaseholder recovery strategy not in place* - may not be able to recover costs and any recovery may take a considerable period of time. GRE5's strategy for engagement with leaseholders and residents is critical.
- *Loan facility not yet executed* - GRE5 transactions continue to be coded to the Council's capital programme until the loan is executed and sealed.
- *Loan impairment* issues- the Council's loan may not be recoverable and may require an impairment adjustment.
- *Known issues with accountancy treatment and accounting arrangements* - a range of adjustments will be required due to GRE5's/Council's treatment of ongoing costs, the execution of the loan facility and treatment of Council acquisition costs. There is a need to separate the transactions between both entities.
- *There is no exit strategy* - GRE5 is resource intensive and high risk and is not part of the Council's core services. A Council exit strategy is required which will be a key consideration for FY 22/23.

3.5 Company Review - Slough Urban Renewal ("SUR")

Background

3.5.1 SUR is a Local Asset Backed Vehicle (LABV) formed as a 50:50 Limited Liability Partnership between SBC and Community Solutions for Regeneration (Slough) Limited.

3.5.2 SUR operates as a flexible, innovative and commercial development and regeneration partner to SBC with joint governance and a shared equitable balance of risk and reward between the JV Partners.

3.5.3 SUR adopts the construction, programme, delivery and demand risk for development sites after paying SBC Market Value of the site where it is the landowner. The development proceeds are split between SBC and MSIL as JV Partners. The overriding purpose of SUR is to assist the Council in meeting its objectives in regenerating the residential, educational, leisure, social and commercial infrastructure of Slough through two main mechanisms, namely:

- Developing sites for residential, commercial or other uses and with these sites being acquired either from the Council or a third party (Site Developments); and
- Carrying out building or infrastructure works for the beneficial use of the Council, the general public or any third party (Community Developments).

Current status

3.5.4 A number of Council owned sites are optioned to SUR including Montem, Wexham, Haymill, Stoke Wharf and NWQ. Discussions have been underway with Muse to consider opportunities for the Council to restructure its relationship with SUR to enable key sites to come forward for development, provide the Council with capital receipts, reduce the Council's future capital requirements and minimise any future potential abortive costs. In the next five years, the Council's capital commitments are anticipated to be in the region of £33m. These costs will be avoided should the Council agree to not proceed in line with the existing SUR business plan. The Council's capital programme excludes these commitments.

3.5.5 An independent Options Review was carried in Summer 2021 which recommended a series of preferred options for the Council's key sites and these have been progressed in the last quarter of 2021 and Q1 2022. LM&D were presented with an update in September and Commissioners were updated in December with a course of action agreed for Q1 and Q2 2022.

3.5.6 It is anticipated that a series of disposal reports will be presented to the Council in April 2022, in line with the Council's disposal policy, following a period of scheme review, diligence, market analysis and negotiation with Muse and other parties. Given the Council's financial challenges, SUR is unlikely to be used a vehicle to deliver Council schemes in the future and its activities will therefore be scaled back and stopped imminently.

Table 5: SUR financial position

SUR – year ending 31 December	**2019**	**2020**	**2021**
£m	**Actual**	**Actual**	**Draft**
Turnover	40.56	32.56	11.66
Cost of Sales	(37.76)	(32.13)	(12.49)
Gross profit	**2.80**	**0.43**	**(0.83)**
Operating costs	(0.60)	(0.55)	(0.53)
Operating profit	**2.20**	**(0.12)**	**(1.36)**
Other			
Council element of profit/(loss)	1.11	(0.06)	(0.68)
Council loan/loan notes issued	-	(11.66)	-
Council loan repayments	7.88	-	1.88
Council interest payable	0.19	0.48	0.45
Council dividends	2.37	-	-

3.5.7 SUR has provided the Council with dividend income following the completion and sale of houses on its Site Developments. It does not declare a dividend on annual basis. Results in previous years as set out in the table above, reflect the successful delivery and sales associated with a number of schemes including Ledgers Road and Wexham Green.

3.5.8 The only remaining SUR Site Development in 2021 and 2022 is the Old Library Site (Resi) Scheme (OLS) which is unlikely to result in any dividend income to the Council. The development of 64 apartments adjacent to the Moxy Hotel has been completed and apartments are currently being sold. The 2021 projected results in the table above reflect ongoing operating costs associated with the SUR Partnership and a projected loss (£0.8m) on the OLS scheme. This is a projected outturn position – and is not an actual result.

3.5.9 The recent award of First Homes funding from Homes for first time buyers at the OLS scheme, is expected to increase the number of apartment sales in 2022. This may improve the overall financial outturn of the scheme however this will be kept under review throughout the FY 2022/23. The Council and the SUR Board receive regular progress updates at the quarterly SUR Board meetings however this remains a risk to the Council. The Council has provided a loan facility of £10m to OLS (£7m has been drawn down to date). The development is valued at £17m and the loan is secured against the property. To date, 14 apartments have been sold, 4 are reserved and there is a pipeline of interest and offers. Total sales/reserves to date are £4.4m and SUR expect the scheme to be fully sold by the end of the next FY. However, the Council's loan is at risk if the apartments are not sold.

3.5.10 Given the potential reduction if SUR activities, a revised operating resource requirement and budget has been provisionally agreed with SUR. Costs in FY 22/23 – 24/25 are estimated to be in the region of £0.2m per annum and these will no longer be able to be funded out of distributable profits. The capitalisation directive includes an amount for SUR operating costs for the next few years and assumes that SUR will be wound up by FY 24/25 (£0.2m per annum).

Table 6: SUR balance sheet

SUR - Balance Sheet as at 31 December	**2019**	**2020**	**2021**
£m	**Actual**	**Actual**	**Draft**
Tangible fixed assets	-	-	0.00
Current assets	15.28	25.88	22.23
Current liabilities	(7.09)	(6.93)	(5.11)
Net current assets	**8.18**	**18.96**	**17.12**
Long term liabilities	(7.96)	(18.85)	(18.38)
Net assets	**0.22**	**0.10**	**(1.26)**

3.5.11 In addition to the OLS loan facility agreement, the OLS has been funded by a series of loan notes provided by Muse and the Council (loan notes of £815k and £2.1m for each partner). Based upon current projections for the OLS, the loan notes (and interest) may not be fully recoverable. Loan note repayment will be dependent upon the final outturn of the scheme. The capitalisation directive includes an adjustment to reflect a potential loan note impairment although this will continue to be assessed in FY 22/23. The current scheme loss is estimated to be £886k, of which the Council has a 50% share.

FY22/23 risks, issues and actions

3.5.12 Whilst significant progress has been made as part of the Options Review and subsequent negotiations with Muse, a number of risks and areas of significant uncertainty remain in FY 22/23:

- *Inability to agree a way forward for the key sites* - further work is required to assess the latest appraisals for key sites, agree heads of terms, assess best consideration and prepare Council reports to approve disposals. Various workstreams are underway and Council reports are targeted for April 2022. Due diligence is nearing completion and QS consultants will advise the Council on costs, value for money and best consideration implications.

- *Loss of third-party grant funding* - the Council has received funding to bring key sites forward for development and improve viability. This is subject to key milestones being achieved which must be kept under review to prevent grant funding from being returned. Meetings with grant provider have been arranged.
- *Uncertainty over the future SUR role and operating costs* – revised budgets have been developed, although they remain dependent upon the timing of changes to the Council's relationship with SUR. Currently estimated at £0.2m per annum.
- *Realisation of OLS losses and non-repayment of loan/loan notes* - the scheme faces several challenges and risks, which have an impact on the risk profile of its loan notes and loan facility with SUR. The Council arguably shares more of the risk on this scheme due to its loan facility to part-fund the development. Some risk is reduced as a result of the offset arrangement which means that all apartment sale proceeds are payable directly to the Council. The Council should consider its rationale and approach to this scheme and continue to assess overall viability, loan repayment and loan note impairment.
- *Need an agreed exit strategy* – this has not yet been approved by the Council however the Council's budget assumes that (a) the Council's activities with SUR will be scaled down and stopped completely within the next 2 -3 years, (b) there are no further Council capital commitments for any SUR opted scheme (c) operating resources/costs will be significantly reduced and shared between both parties, (d) WIP costs on key opted sites are not abortive and will be reflected in any disposal proceeds and in line with the Partnership Agreement.

3.6 **Company Review - James Elliman Homes**

<u>*Overview*</u>

3.6.1 JEH was incorporated in 2017 with the primary objective of supporting the Council in its aim to improve affordable housing supply and provide good quality affordable temporary accommodation for key workers as well as homeless families and individuals.

3.6.2 The decision to establish JEH was underpinned by a business plan, prepared by Savills in November 2016, and assumed that JEH would acquire properties over a five-year period and that properties would be rented at a mix of market rents (60% of properties) and Local Housing Allowance ("LHA") rent (40% of properties). On this basis, the business plan was financially viable. The business plan did not consider alternative strategies in relation to rental mix.

3.6.3 However the proportion of properties rented at a discounted rent level is higher than the 40% envisaged in the business plan, which has had an impact on the financial viability of the company. JEH has operated at a loss each year (after interest) and is forecast to operate at a loss of £1.16m in FY 22/23, if there is no change to the property portfolio or rental mix. This is not a financially sustainable position for JEH.

3.6.4 JEH housing placements are determined on a case-by-case basis following an assessment of housing need and affordability. This has resulted in JEH being used to support the Council in discharging its homelessness duty and has resulted in an increased proportion of lower rents. Improvements to management information, clearer SLA requirements and improved management oversight can improve decision making and financial planning. These changes are underway – see actions.

3.6.5 JEH employs no staff. All properties are managed by the Council under an SLA with all tenancy management, property maintenance and general management undertaken by the Council.

3.6.7 The JEH property portfolio includes approx. 200 temporary units/houses (a combination of street properties and temporary accommodation units including Pendeen Court and 81-81 High Street). These were valued as at 31/3/21 at £51.4m. All properties were acquired, not built, by JEH and financed by borrowing from the Council. During FY 21/22, JEH's housing acquisition strategy was stopped in light of the Council's financial situation.

Financial position

Table 6: JEH P&L

	2020/21	2021/22	2022/23
£m	**Actual**	**Forecast**	**Budget**
Turnover	2.30	2.25	2.36
Operating costs	(2.43)	(0.91)	(0.95)
Operating profit	**(0.13)**	**1.34**	**1.41**
Depreciation	(1.02)	(1.02)	(1.02)
Interest payable	(1.47)	(1.56)	(1.55)
Net profit/(loss)	**(2.62)**	**(1.23)**	**(1.16)**

3.6.8 In previous years, JEH has made annual operating losses due to the initial costs of repairing newly acquired properties before they could be tenanted. Losses have steadily decreased as property acquisitions have stopped/slowed down.

3.6.9 In 2021/22, JEH had an operating profit of £1.34m as a result of not acquiring any additional properties. However, the operating profit remains below expectations due to the rental mix. Turnover in 2019/20 and 2020/21 includes "top-up" payments from the Council to JEH of £145k and £350k respectively to cover the shortfall between LHA and market rate. These payments were approved by the previous s151 officer and have since stopped in April 2021 and no further top-up payments will be made to JEH in 2021/22. These top-up payments have artificially reduced the level of losses in JEH and resulted in additional budget pressure in the Council. These payments have been funded from the Council's Homelessness Prevention Grant. The conditions of this grant have been reviewed by the Council and early findings suggest that this is an appropriate use of the grant however this work should be concluded by the end of February.

3.6.10 All services provided by the Council's housing team across all of its properties are currently being reviewed, including the arrangements in place for tenancy management which is critical to maintaining a sustainable rental mix. In addition, a JEH Options Review is under way, being led by Local Partnerships, which will set out an analysis of the market/demand and options for future service delivery. This will include consideration of a potential exit strategy by way of property disposals and/or a corporate transaction. This could result in a significant capital receipt(s) to enable JEH to repay its loan to the Council. Local Partnerships are expected to provide a draft report at the end of February/early March 2022.

3.6.11 Depreciation on properties is 46 years on houses and 45 years for flats, which is in line with the previous policy followed by the Council.

3.6.12 Although services are set out in the SLA, together with a proposed costing mechanism, this needs to be revised further in FY 22/23 to establish the true cost of service provision. It is unclear if the Council's costs are being fully recovered from JEH. The Options Review will inform the scale of short/long term changes required to the SLAs.

3.6.13 For the company to operate at in a cash breakeven position (i.e. net profit excluding depreciation), rental income would need to increase by 6%, or £0.14m, based on the 2022/23 budget. The ability to increase rental levels is constrained by a number of factors although these will be considered by the JEH board over the next few months, as agreed at its January Board meeting.

Balance sheet: loan facility and property assets

3.6.14 The properties owned by JEH are currently valued at just over £51.4m against which the Council has provided funds of £51.7m. The Council loan is split as follows:

- 60% with interest charged at 5.0% per annum and payable quarterly; and
- 40% which does not attract interest (considered to be equity).

3.6.15 The Council was advised to structure its financing arrangement with JEH on a 60:40 split of loan to equity to reflect a typical commercial financial structure.

3.6.16 Interest is payable quarterly, although none has been paid to date in 2021/22 as a regular of the Council not invoicing JEH for interest payable. The catch up of invoicing has been actioned and will be up to date by the end of 2021/22.

3.6.17 The Council loan is due to be repaid in October 2028. Given the current financial position of JEH, the only options available to repay the loan are refinancing, either with the Council or with an external party, or by selling properties. The outcome of the Options Review will inform the loan repayment strategy. JEH was established without a viable loan repayment strategy.

3.6.18 JEH has a loan facility agreement providing up to £65.9m (as set out in the restated facility agreement dated 2021). However, the Council has stated that no additional amounts should be drawn down against this facility.

Table 7: JEH Balance Sheet

JEH - Balance Sheet as at 31 March	**2019**	**2020**	**2021**
£m	**Actual**	**Actual**	**Actual**
Tangible fixed assets	27.04	44.97	52.12
Current assets	2.83	2.84	1.96
Current liabilities	(1.22)	(0.74)	(2.15)
Net current assets	**1.61**	**2.10**	**(0.19)**
Long term liabilities	(29.92)	(47.70)	(51.70)
Net assets	**(1.27)**	**(0.63)**	**0.23**

3.6.19 The balance sheet is currently reporting a net current liability position, which raises concerns as to its liquidity. Currently annual interest costs exceed the operating profit made by the company and, as such, this position is unlikely to improve unless rents can be increased or operating costs reduced. Both are highly unlikely.

3.6.20 The properties held by JEH are revalued each year by external valuers in accordance with the Royal Institution of Chartered Surveyors Professional Standards. The last valuation was undertaken for the purposes of the 31st March 2021 year end accounts and resulted in a revaluation gain of £2.4m. As a result of this, net assets are now positive.

3.6.21 As at 31st March 2021, the company held assets of £52.1m, including the properties valued at £51.4m, which is marginally over the loan drawn down of £51.7m.

3.6.22 It should be noted that due to the Council's financial position, the planned housing acquisition strategy has been stopped. There are no further plans to acquire homes.

FY22/23 risks, issues and actions

3.6.23 Some improvements have been made to governance and reporting processes, with new directors and SRO appointed. Following a period of no board meetings in 2021, the first new JEH board meeting took place in January 2022 and board meetings will now take place monthly whilst new arrangements are established/ embedded and to enable the JEH Board to consider the findings of the Options Review. Several risks and areas of significant uncertainty remain in FY 22/23:

- *Outcome of the Local Partnerships review* - Local Partnerships are reviewing options for JEH. This will consider the original and ongoing rationale for JEH, its performance against strategic objectives, an assessment of the housing stock, market analysis, evidence of market failure and implications for future service delivery. It is anticipated that this review will recommend the full/partial disposal of properties to enable JEH to repay its debt to the Council. This will have a significant impact on the future role of JEH and services provided by the JEH/the Council. Future decisions need to consider the wider impact on JEH and the Council.
- *Poor service delivery and continued lack of performance management* - there are a number of issues with current services provided by the Council. The SLA has been updated and reviewed by the JEH Board in January 2022 however further changes will be required to clarify a range of matters in relation to rent setting, to agree minimum service levels and clarify expectations between both partners, establish KPIs and agree performance reports. A revised SLA is due to be presented to the JEH Board in March 2022 with further revisions expected to be required following the outcome of the Options Review. The SLA will also have to be informed by the outcome of the housing services review.
- *Council cost recovery is not sufficient / inefficient service delivery* - whilst the basis for SLA charges is set out in the SLA, the Council's costs associated with service delivery are not clear and will require further review. All costs may not be coded, and further analysis will be required to assess this.
- *Continued unviable financial operating model* - due to the number of properties being rented at below market rent, the Council has topped up JEH rental income

in the past. This how now stopped, and therefore JEH is unlikely to be financially viable unless the rental mix changes. This will be considered by the JEH Board based on more detailed financial analysis on a "per property basis" and updated management information. Financial viability assessment will also be informed by the outcome of the Options Review. The capitalisation directive includes an amount for the next few years to meet JEH's short term cash flow losses. This is considered to be sufficient given the potential changes to JEH in terms of its scale and operations. However, this will be further considered following the LP Report.

- *JEH unable to repay loan* - there is no viable loan repayment strategy in place. Loan repayments to the Council will be dependent upon a corporate sale or individual property disposals. Loan terms will require further consideration given the increased risk profile of JEH.
- *Potentially complex lease arrangements* - several leases have been identified that will require further review to consider (a) accounting treatment and (b) implications for any potential future sale. For example, properties at Pendeen Court and High Street. The potential sale of JEH properties can be incorporated with the scope of works for the newly appointed asset strategic partner (including review of title and other related matters).
- *Change is not embedded* - new arrangements must become embedded to ensure that the JEH continues to receive regular updates on risks, costs, issues and progress to enable it to be focused on the most appropriate course of action.
- *Potential grant clawback* - work will be completed to consider grant conditions and any potential risk around grant clawback for homelessness duties. This is specifically in relation to the Council's use of its grant.

3.7 Company Review - DISH

Overview

3.7.1 Development Initiative Slough Housing Company Limited ("DISH") was incorporated in 1988 and was created to increase the supply of affordable housing in the Borough to residents who might not otherwise be able to access it.

3.7.2 DISH has a lease with the Council over 54 properties off Long Readings Lane and the properties are let at affordable rents on an assured shorthold tenancy basis. The original lease ran until 2019 and this was extended to 2027. In accordance with the lease, the properties are managed and maintained by the Council on the same basis as the Council's housing stock.

3.7.3 The lease requires that the Council offers the provision of these services to the Council and that the Council can, but is not obliged to, provide them at reasonable cost. Services continue to be provided by the Council in line with the details as set out in the lease. The lease agreement effectively acts as the equivalent of an SLA; there is no separate SLA between the Council and DISH which will be addressed in FY 22/23 should it be agreed that DISH should continue to operate as a Company (see actions).

Financial position

Table 8: DISH P&L

	2020/21	2021/22	2022/23
£m	**Actual**	**Forecast**	**Budget**
Turnover	0.38	0.38	0.39
Operating costs	(0.38)	(0.38)	(0.39)
Operating profit	-	-	-

3.7.4 The lease costs payable to the Council are calculated based on the rental income received net of the costs incurred by the Council on behalf of DISH and the costs of delivering the housing management service. It is set to result in £nil profit crystallising in DISH, although there is little transparency on the costs of the services provided by the Council. The Council's actual costs could be above or below this level.

3.7.5 As per the lease agreement, DISH rents are tracked to levels set for the HRA and DISH has no autonomy to determine rental level. Reporting of the performance of the properties within DISH is covered as part of the overall HRA reporting, although DISH specific reports will be prepared in 2022/23 for communication with the DISH Board. As the DISH properties are relatively stable, reporting on performance quarterly will be sufficient.

3.7.6 Historically, DISH has not prepared an annual budget as its cost base is very simple and comparable year on year, and the biggest cost (lease charge) is a balancing figure. The DISH Board does approve rental levels on an annual basis.

3.7.7 As budgets should be prepared for all of the Council's entities a DISH budget has been prepared for FY 22/23. It shows expected performance in line with 20/21 and 21/22 with income in the region of £0.39m and costs in the region of £0.39m. i.e. no dividend payable to the Council as shareholder.

Table 9: DISH Balance Sheet

DISH - Balance Sheet as at 31 March	**2019**	**2020**	**2021**
£m	**Actual**	**Actual**	**Actual**
Tangible fixed assets	2.13	2.13	2.13
Current assets	0.02	0.02	0.03
Current liabilities	(2.15)	(0.00)	(0.01)
Net current assets	**(2.13)**	**0.02**	**0.02**
Long term liabilities	-	(2.14)	(2.14)
Net assets	**-**	**-**	**-**

3.7.8 DISH holds tangible fixed assets of £2.1m, which is the 54 properties held as investment properties. The value has been maintained since the earliest accounts available to review (year ended 31 March 1995).

3.7.9 The company has a long-term creditor of £2.1m being an amount due to the Council, which only becomes due at the end of the lease. The Council have provided an undertaking not to call in the debt to the Council until the expiration of the lease.

3.7.10 As the company makes £nil profit and loss each year, net assets remain £nil.

FY 22/23 issues and actions

3.7.11 This lease agreement has been in existence for more than 30 years, with the latest extension running until 2027. The company is deemed to be low risk due to the stable nature of the properties and the income and cost streams. However, the following actions are currently being undertaken in relation to DISH:

- *Outcome of options review* - Local Partnerships undertook a light touch review of the Council's housing companies in summer 2021 and recommended that further review would be required to consider the Council's longer-term strategy for each entity, including JEH and DISH. A review of the options for DISH is planned to take place in 2022/23, which will consider whether a standalone company is still required, whether the properties can be brought into the HRA or an alternative course of action.
- *Poor service delivery continues* - there are issues with current services provided by the Council and the quality of management information. This is being reviewed as part of a review of the Housing Team. Future DISH service requirements will be informed by the outcome of the options review for DISH. If the review proposes maintaining DISH as a separate entity, an SLA will be drafted to cover service provision and charging mechanisms.
- *Poor governance and reporting* - the future governance and reporting arrangements for DISH will be informed by the Options Review. As a company, DISH needs a functioning Board, with regular reporting to allow that Board to make decisions on the company's behalf, including stock condition, service performance and void levels. The new reporting information and supporting structures will be put in place in 2022/23 if the options review recommends maintaining DISH as a separate entity. The DISH Board meets on an annual basis to agree rental levels, approve accounts and any other statutory requirements. Consideration will be given to changing this in FY 22/23 to enable the Board to receive the outcome of the Options Review.
- *Insufficient performance reports and oversight* - DISH properties are manged in line with other HRA stock. The Council can produce reports from the housing management system to provide key property reporting data. This has been requested and will be considered by a small Council housing team (same as for JEH) to consider the new reports and establish regular stand-alone management within the Council before presentation to the DISH Board.

4. Other implications

4.1 Financial implications

There are no direct financial implications of the proposed recommendation.

The financial implications of the subsidiary companies, as referred to in this report, have been factored into the 2022/23 Budget and Capitalisation Directive.

4.2 Risk management implications

Recommendation from Section 2 above	Risks/Threats/ Opportunities	Current controls	Using the Risk Management Matrix Score the risk	Future controls
To note and comment on the content of the report.	Reputational risk if Subsidiary Companies are not correctly managed and reported.	Improved governance processes in place at subsidiary companies, including new directors and reporting processes.	Likelihood – Very Low – 2, Impact – Negligible – 2 Risk Score – 4	Future updates on subsidiary companies and associated actions as required.

4.3 Human Rights Act and Other Legal Implications

There are no Human Rights Act or other legal implications in this report.

4.4 Equality implications

There are no direct equalities implications in this report.

4. Background Papers

None.