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NOTICE OF MEETING

CABINET SUB-COMMITTEE

WEDNESDAY, 15 DECEMBER 2021 AT 1.00 PM

COUNCIL CHAMBER - THE GUILDHALL

Telephone enquiries to Karen Martin Tel 023 9284 1704 Email: Democratic@portsmouthcc.gov.uk

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Information with regard to public access due to Covid precautions

- Attendees will be requested to undertake an asymptomatic/ lateral flow test within 48 hours
 of the meeting. Around one in three people who are infected with COVID-19 have no
 symptoms so could be spreading the virus without knowing it. Asymptomatic testing getting
 tested when you don't have symptoms helps protect people most at risk by helping to drive
 down transmission rates. We strongly encourage you to take up the habit of regular
 asymptomatic testing to help prevent the spread of coronavirus to your colleagues and
 residents you work with.
- We strongly recommend that attendees should be double vaccinated.
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 encouraged to make use of hand sanitiser on entry to the Guildhall and are requested to
 follow the one-way system in place.
- Attendees are encouraged book into the venue (QR code). An NHS test and trace log will be retained and maintained for 21 days for those that cannot or have not downloaded the app.
- Those not participating in the meeting and wish to view proceedings are encouraged to do so remotely via the livestream link.

Membership

Councillor Gerald Vernon-Jackson CBE Councillor Kimberly Barrett Councillor Ben Dowling Councillor Suzy Horton Councillor Cal Corkery Councillor Claire Udy Councillor Ryan Brent

(NB This agenda should be retained for future reference with the minutes of this meeting).

Please note that the agenda, minutes and non-exempt reports are available to view online on the Portsmouth City Council website: www.portsmouth.gov.uk

Deputations by members of the public may be made on any item where a decision is going to be taken. The request should be made in writing to the contact officer (above) by 12 noon of the working day before the meeting, and must include the purpose of the deputation (for example, for or against the recommendations). Email requests are accepted.

AGENDA

- 1 Apologies for Absence
- 2 Declarations of Interests
- **The Council as a Company Owner** (Pages 5 100)

Purpose of report

The report outlines:

- the background to the establishment of the Sub-Committee and recent developments;
- the Council as a company owner and the role of the Sub-Committee;
- an outline of the Terms of Reference for the role of the Sub-Committee;
 and
- next steps.

RECOMMENDED that the Cabinet Sub-Committee

1) agrees to a Sub-Committee meeting in January 2022 to receive reports from all of the Council's companies and to meet quarterly thereafter;

- delegates authority to the City Solicitor to engage with all PCC companies and request relevant reports for the January 2022 meeting; and
- authorises the City Solicitor to engage the services of Local Partnerships to provide commercial advice to the Sub-Committee in relation to its companies going forward.
- 4 Ravelin Housing Limited (Pages 101 212)

Purpose of report

- to update the committee with progress made by Ravelin Housing Limited (RHL) against their current Business Plan.
- to seek approval of the company's new business plans. Noting the ambition of the company and the need for future growth and investment to support the aspiration.
- this paper builds on previous Cabinet and Full Council decisions taken in February 2019.

RECOMMENDED that the Cabinet Sub-Committee

- approves the new five-year Business Plan and Investment & Development plan as set out in this report, attached at Appendix 1 and 2.
- 2) notes the progress made on the existing projects, Brewery House conversion and Arundel Street sites, as recorded in the five-year business plan.
- 3) delegates to the Director of Regeneration, in consultation with the s151 Officer and Monitoring Officer, the authority to approve on behalf of the Council as shareholder, in accordance with the RHL Shareholder Agreement, any matter concerning RHL;
 - "Forming any subsidiary or acquiring shares in any other company or participating in any partnership or incorporated joint venture vehicle"
 - provided that it is in line with the Business Plan approved at 1) above.
- 4) notes that the sites listed in the development pipeline speak to the aspiration of RHL and that they are not currently in the company's ownership.

- 5) notes the content of the Skills Matrix at Appendix 3 and endorses the appointment of Non-Executive Directors (NED's) to Ravelin Housing Limited based on the outcome of the skills assessment contained in the skills matrix.
- 6) notes the need to appoint to permanent positions within RHL, as noted in the Business Plan and that this would be the subject of a future report, seeking approval to proceed.

Members of the public are permitted to use both audio visual recording devices and social media during this meeting, on the understanding that it neither disrupts the meeting nor records those stating explicitly that they do not wish to be recorded. Guidance on the use of devices at meetings open to the public is available on the Council's website and posters on the wall of the meeting's venue.

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Date: 7 December 2021

Title of meeting:

Cabinet Sub-Committee Meeting

Date of meeting:

15 December 2021

Subject:

The Council as a company owner

Report by:

City Solicitor

Wards affected:

ΑII

Key decision:

No

Full Council decision:

No

1. Purpose of report

- 1.1 The report outlines;
 - 1.1.1 the background to the establishment of the sub-Committee and recent developments;
 - 1.1.2 the Council as a company owner and the role of the sub-Committee;
 - 1.1.3 an outline of the Terms of Reference for the role of the sub-Committee:
 - 1.1.4 next steps.

2. Recommendations

- 2.1 It is recommended that Cabinet;
 - 2.1.1 agrees to a sub-Committee meeting in January to receive reports from all of the Council's companies and to meet quarterly thereafter;
 - 2.1.2 Delegate authority to the City Solicitor to engage with all PCC companies and request relevant reports for the January meeting; and
 - 2.1.3 authorises the City Solicitor to engage the services of Local Partnerships to provide commercial advice to the sub-Committee in relation to its companies going forward.

3. Background

Reasons for establishing the sub-committee of Cabinet

3.1 Following the winding up of the Council's wholly owned energy company, Victory Energy Supply Limited ("VESL"), a review and thorough audit was undertaken of the legality and best practice for management and governance of wholly owned local authority companies.



- 3.2 It was identified that the Council required an appropriate structure to enable the Council to discharge its role as a company shareholder in an efficient, legally accountable and transparent way. The aim to protect those involved (officer, councillors and directors) and ensure a uniform approach in terms of governance and oversight for all PCC.
- 3.3 The report noted Councillors and statutory officers being board members of Council owned companies and the conflicts that could arise.
- 3.4 Cabinet agreed on the 14 July 2020 to the setup of a distinct 'Shareholder Committee', a sub-committee of cabinet, to be responsible for the oversight of all Council companies. The need for a small committee, distinct from the functions of cabinet, is considered necessary and best practice due to the number of companies the Council has ownership of, the need for specialist knowledge & training of those Councillors sitting on the committee and the corporate need for a consistent approach by the Council in relation to the governance oversight of its companies.
- 3.5 The committee's purpose is not to run the companies but to approve and oversee the Council's strategic objectives and provide strategic oversight and assurance to the Cabinet that the companies are compliantly run, achieving best value for the Council and are fit for purpose and to make decisions in the best interests of the Council.
- The committee will govern and oversee by way of approving the business case of the companies and hold the directors (who will run the companies) to account for their performance (see from paragraph 4.1 for more details)
- 3.7 The importance of having well-informed, trained and commercially aware political oversight of Local Authority trading Companies, has been repeatedly reinforced by repeated governance issues identified at a number of local authorities in the last 18 months;
 - 3.7.1 <u>Liverpool City Council</u> Best Value Inspection (March 2021) by Max Caller CBE who reported that it was not evident that appropriate training had been provided to Councillors acting as Directors and it was noted that they may be unaware of the personal risks they are running (when acting as directors) and that the principles of good company governance in a local authority context were not understood and best value clearly not delivered. "*In reality, [the company] looked more like [a Council department] than a company*";
 - 3.7.2 The London Borough of Croydon Report in the Public Interest (October 2020) which criticised the Council for a lack of clear governance arrangements on how its interests (as sole shareholder) were safeguarded and the extent to which the original aims of the business plan were being achieved:
 - 3.7.3 Nottingham City Council Report in the Public Interest (August 2020) which



criticised the governance of the company; the lack of appreciation with the Council of the huge risks in the investment and ownership of their company; the insufficient sector (or general commercial) expertise at non-executive company board level (which was primarily staffed by Councillors); and a failure by the Council to establish an appropriate and consistent balance between holding to account and allowing the Company freedom to manage;

- 3.7.4 <u>Bristol City Council</u>'s review of Governance Arrangements (January 2021) which criticised the Council's governance of its companies and recommended that the Council should minimise the conflict of interest such as related to the role of elected members and officers and to ensure councillors had appropriate and regular training to be able to make decisions and scrutinise the operations of the Council;
- These high profile examples have resulted in a slew of supporting advice being published. Lawyers in Local Government published extensive guidance for the development of governance in relation to Council interest in companies (which instructed much of the framework for the establishment of the council's company committee) and more recently Local Partnerships has published a "Local Authority Company Review Guidance" (attached at Appendix C) which builds on and reinforces many of the lessons learned from the reviews cited in paragraph 3.7.
- 4. The Council as a company owner and the role of the sub-Committee
- 4.1 The Company ownership function is an executive function of the Council and therefore the responsibility of Cabinet to discharge.
- 4.2 Cabinet previously approved that the sub-committee will have a membership comprised of the Leader of the Council as Chair of the Committee with the Leader appointing 3 cabinet colleagues to join the Committee with him. The Committee' approved terms of reference also require Councillors from the opposition groups to be invited to attend as non-voting members. Representatives to attend the Committee were sought, and made, from the opposition parties.
- 4.3 As previously described, the sub-Committee perform a vital oversight and challenge role and direct the strategy of the company. It is only in this role that Councillors are able to freely exercise their wider objectives for the residents of the City without being constrained by the requirements that a Company Director has placed upon them through the Companies Act.
- 4.4 The sub-Committee will not run the companies. The day-to-day responsibility for the operation of the companies will be with the Directors of each company who will be personally responsible and required to make decisions in the best interest of the relevant Company (which are not necessarily the same interests as the Council).
- 4.5 An example of certain decisions the Council may be asked to make in relation to Portico Shipping Limited and Ravelin Housing Limited is set out in Appendix D.



- 4.6 As the owner (or part owner) of a company, the Council can exercise statutory oversight of a company (although the degree it can do so depends on the % of ownership the Council has) in relation to;
 - Changes to the constitution of the company
 - Declaring a dividend
 - Approving the financial statements of the company
 - Winding up of the company by way of voluntary liquidation
 - Any shareholder's reserve power
 - Appointing/ removing directors (in addition to board if relevant)
 - General meetings as requested (generally annual)
- 4.7 Depending on the nature of the company, the sub-Committee may also be required to:
 - Approve the annual business plan
 - Require or receive regular reports (issues/regular finance and budget updates)
 - Approving reserved matters.
- 4.8 The sub-Committee will in the main be responsible for holding the company, through its Directors, to account for its performance.
- 4.9 The sub-committee will also wish to prepare and maintain a strategic risk register in relation to the Company risks to report to Cabinet.
- 4.10 In future, the sub-committee may wish to consider delegating certain of its functions as shareholder to the City Solicitor in consultation with relevant Directors.

Confidentiality

- 4.11 As an offshoot of Cabinet, the sub-committee will function in the usual way with Councillor's bound to confidence in relation to the Council's business through their duties enshrined in their Code of Conduct and Officers through their employment contracts.
- 4.12 Much of the work of the sub-committee is likely to involve consideration of commercially confidential information. The sub-committee will be able to conduct such business in private in the usual fashion.

Establishment and recent developments

4.13 Following the Cabinet decision on the 14 July 2020, consultation was undertaken with the Governance & Audit & Standards Committee on the 20 November 2020 and consequently the Terms of Reference of the sub-committee were incorporated into the Council's Constitution by the City Solicitor. The Terms of Reference are attached



- committee, it meet quarterly with this being reviewed as the work of the subcommittee and its relationship with the Companies evolves.
- 6.2 It is proposed that the sub-committee meet on the 25 January 2022 to receive initial reports from all Council's Companies so that the sub-committee can understand the purpose of the Council's ownership of the Companies and make decisions where relevant or required.
- Note Ravelin Housing Limited will be bringing a decision paper to the meeting on the 15 December 2021 due to the pressure and need to commence development work and engage with key decisions prior to the 25 January 2022.

Commercial insight

- 6.4 At present the Council has no overall commercial strategy in relation to its companies, to ensure that the Council's ownership and investment in its companies is consistent with and advances the Council's corporate objectives and long term plans for the City.
- 6.5 It is recommended that the City Solicitor is delegated authority to engage the services of Local Partnerships who have an experienced team used to working with authorities to develop their commercial capabilities and supporting them to achieve and maintain financial resilience.
- The City solicitor will engage with a relevant representative of Local Partnerships to shore up a retainer/costing package for presentation to the sub-committee on 25 January for approval.

7. Integrated impact assessment

7.1 The contents of this report to do not have any relevant equalities impact and therefore an Integrated Impact Assessment is not required.

8. Legal implications

8.1 Legal comments are contained within the content of this decision report.

1 P.O. SMAF

9. Director of Finance's comments

9.1 The financial implications associated with the recommendations contained within this report relate to the cost of retaining Local Partnerships to support the Council's overall commercial strategy and governance arrangements. These are costs associated with the Shareholder function and therefore not chargeable to the Companies themselves. Whilst in the medium term, the dividends from the Council's companies are expected to exceed such costs, any costs in the current year will be funded from the Council's Corporate Contingency, with future costs built into future years' Budgets.

Signed by:

Appendices:



at Appendix A.

- 4.14 All members of the sub-committee, representatives of the opposition parties and the chair and deputy of the Governance & Audit & Standards Committee along with the key senior Officers (including statutory officers) attended a training session on the 6 September 2021 by lead legal advisors in the area Bevan Brittan and a representative of Local Partnerships. The training slides are attached at Appendix B.
- 4.15 The City Solicitor has also arranged training for Officers and Members who are company directors, to ensure that they are better informed as to their function. An initial training session was held on the 21 September with generally good attendance. It is intended that further regular training will be provided and will be a condition of PCC Officers or Councillors being company directors.

5. The Council's Companies

- 5.1 The Council wholly or part owns the following companies ("the Companies");
 - 5.1.1 Portico Shipping Limited (company no.02012886);
 - 5.1.2 The Ravelin group of companies, consisting of;
 - (a) Ravelin Group Limited (company no.10551072) which is the parent of two wholly owned subsidiaries;
 - (b) Ravelin Property Limited (company no.10552514);
 - (c) Ravelin Housing Limited (company no. 12644895);
 - 5.1.3 Springvale Management Company Limited (company no.02630602);
 - 5.1.4 Magna Park Management Limited (company no. 02224536);
 - 5.1.5 North Harbour Estates Management Limited (company no. 07833141); and
 - 5.1.6 HCB Holding Limited (company no. 9121398).
 - 5.1.7 Portsmouth Harbour Renaissance Ltd (company no 03290436)
- 5.2 Each company is unique in its function and purpose and the Council's role in them as owner (or part owner). A little more detail as to the Council's ownership and their respective boards of directors is set out in appendix D (Company visuals)
- 5.3 Is it proposed that detailed reports concerning these Companies is presented to a meeting of the Companies Cabinet on the 25th January 2022

6. Reasons for recommendations

Schedule of sub-committee meetings and delegation to Monitoring Officer.

6.1 The sub-committee should schedule meetings regularly to ensure a planned programme of oversight for the Council's companies and to allow the Companies themselves to plan their decision making around any decisions it needs from the sub-committee. It is therefore suggested that during the initial set up phase of the sub-



- Appendix A Company Ownership Committee terms of reference;
- Appendix B Training Slides role of Committee;
- Appendix C Local Partnerships Local Authority Company Review Guidance;
- Appendix D PCC company visual

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Location
pproved/ approved as amended/ deferred/

1. CABINET SUB-COMMITTEES

Shareholder Committee

The purpose of the Shareholder Committee is to approve and oversee the Council's strategic objectives across Portsmouth City Council's companies and to support the development of these companies in line with the Council's regulations and ambitions the constitutional instruments of each relevant company. The Shareholder Committee will provide strategic oversight of the Council's companies and provide assurance to the Cabinet that these companies are compliant with the Council's constitution, rules and procedures including achieving best value and, are fit for purpose.

The Shareholder Committee will not have operational control over the Council's companies. The day-to-day operation of each company is the responsibility of the Directors of each company. The Shareholder Committee will provide overarching oversight including business case sign off in line with the relevant company constitutional governance. Operational liaison with the Council's companies will be between the client service of the Council and the managing Director of each company.

1. Composition

- 1.1. The Shareholders Sub-Committee will comprise the Leader of the Council and 3 other Cabinet Members.
- 1.2. The Head of Paid Service, the Chief Finance Officer (Section 151 Officer) and the Monitoring Officer to exercise their statutory roles and representatives of the group companies shall be invited to all meetings on a non-voting basis.
- 1.3. Other Cabinet members and non-Cabinet members, together with one member from each opposition group, may be invited to attend meetings on a non-voting basis.
- 1.4. The Leader of the Council shall be Chairman.

Quorum

1.5. The Shareholders Sub-Committee quorum will be 3 Cabinet Members.

Reserves

1.6. Members of the Shareholders Sub-Committee may appoint reserve members from within the Cabinet.

Competency

- 1.7. All members of the Shareholders Sub-Committee and Cabinet members attending as reserves must:
 - 1.7.1. have undertaken mandatory training in the relevant law and procedures which relate to the Sub-Committee's work; and
 - 1.7.2. undertake further mandatory training, on an ad hoc basis, when there are changes to procedure or relevant legislation that are deemed significant by the relevant Director.

2. Function of Shareholders Sub-Committee

2.1. The Shareholders Sub-Committee has the right to access the following information from Council companies to undertake the work of the Sub-

Committee:

- 2.1.1. The statutory accounts of the company;
- 2.1.2. Business plans including risk registers;
- 2.1.3. Reports on major projects;
- 2.1.4. Any reports on engagement and commercial activity; and
- 2.1.5. Any additional information it considers necessary to undertake the work of the Sub-Committee.
- 2.2. To hold the Council's companies to account, providing strategic oversight of the arrangements with the companies including delivery by the companies of the Council's policy aims.
- 2.3. To be consulted on the following by the Council's companies:
 - 2.3.1. the strategy, business plan, financial and corporate performance of the company;
 - 2.3.2. Company policies;
 - 2.3.3. matters reserved for shareholder approval as and when appropriate; and
 - 2.3.4. emerging issues and opportunities which may impact the company, to discuss solutions proposed by the company.
- 2.4. To provide assurance that:
 - 2.4.1. strategic commissioning arrangements for the Council's companies are fit for purpose or provide recommendations to ensure that they are;
 - 2.4.2. the overarching performance arrangements for each of the Council's companies are fit for purpose or provide recommendations to ensure that they are;
 - 2.4.3. where applicable, that the arrangements for Council's companies comply with the Public Contract Regulations 2015; and
 - 2.4.4. all Council's companies are complying with the relevant statutory and regulatory framework for their respective areas of operation.
- 2.5. To prepare and maintain a strategic risk register in relation to the Council's companies.
- 2.6. To exercise any shareholder consents.
- 2.7. To approve as shareholder the business plans of each of the Council's companies including providing strategic advice on the robustness and suitability of each of the business plans.
- 2.8. To take any decisions necessary in relation to the overall commissioning arrangements with the Council's companies.
- 2.9. To approve, on advice of the Section 151 Officer, any proposals to make a significant capital or revenue investment in any of the Council's companies.
- 2.10. To review and analyse the annual statement of accounts of each of the Council's companies.

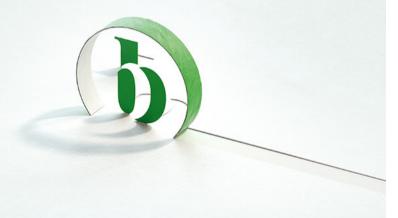
- 2.11. To determine the distribution of any surplus or the issue of any dividends from any of the Council's companies.
- 2.12. To prepare and present a strategic report to the Cabinet at least once a year on the overall governance, financial and performance arrangements for the Council's companies.





PORTSMOUTH CITY COUNCIL

Shareholder Committee - Training Session



Agenda

- Use of Company
- Board v Shareholder function
- Duties of Board
- Board composition and conflicts
- Role of Shareholder Committee
- Formation of Shareholder Committee
- Regulation of Shareholder Committee

Use of a Company

- Separate legal identity
 - Risk/ liability
 - Enter contracts
 - Perform commercial activities
- Relatively simple regulatory regime
- Directors subject to statutory and common law duties

Board v Shareholder Function

- Board operates the company
- Shareholder Committee overseas/ scrutinises/ holds to account the board
- Articles of association
- Shareholders Agreement

Directors – their role as a Board

- The board of directors is the company's decision-making body, responsible for the company's activities, its prosperity and future
- Direction, decision-making and leadership must come from the board of directors first if they are to be embedded anywhere else in the company

Statutory general duties under the Companies Act 2006

- To act within powers
- To promote success of company
- To exercise independent judgment
- To exercise reasonable care, skill and diligence
- To avoid conflicts of interest
- Not to accept benefits from third parties
- To declare interest in proposed transaction or arrangement

Composition of board

- We would typically advise against:
 - members
 - · must disclose any potential conflicts of interests; and
 - observe the requirements of the code of conduct of the Council required under the Localism Act 2011
 - · bias or predetermination
 - statutory officers (monitoring officer, s.151 officer and the head of paid service)
- "Retained Client" role where most knowledgeable individuals have company role the Council is not properly advised
- Remuneration members v officers

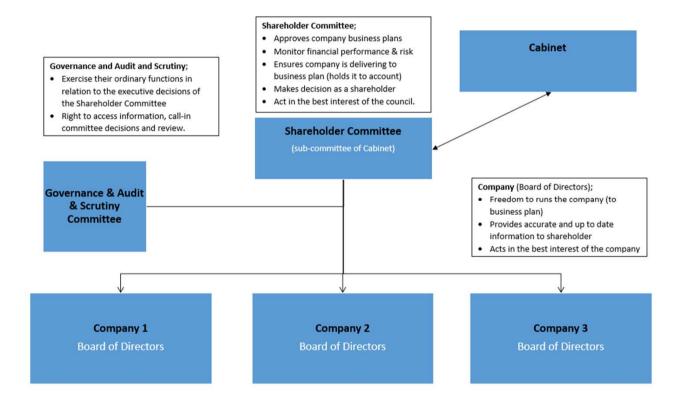
Shareholder Role

- Delegated by Cabinet to Shareholder Committee
- Corporately no obligations/ duties (ie. statute/ articles/ SHA)
- Oversite and scrutiny of Council investment
 - monitoring issues
 - reporting issues up the chain

Shareholder role

- Statutory oversite
 - Changes to the constitution of the company
 - · Declaring a dividend
 - Approving the financial statements of the company
 - Winding up of the company by way of voluntary liquidation
 - Shareholder's reserve power
 - Appointing/ removing directors (in addition to board if relevant)
 - General meetings as requested (generally annual)
- Possible additional oversite
 - Approving annual business plans
 - Requiring/ receiving reports
 - issues/ regular finance-budget updates/ regular meetings
 - · Approving reserved matters

The Shareholder Committee



Formation of committee

- Sub-committee of the Executive
- Best practice
- LLG Guidance 'The Governance of Council Interests in Companies'
- Common governance structure e.g. London Borough of Havering, East Hampshire District Council, Havant borough Council

Regulation of Shareholder Committee

- Duties of confidentiality
 - Members Code of conduct
 - Officers employment contracts
 - Non Disclosure Agreements
 - Duties under Freedom of Information Act 2000 (FOI) and Environmental Information Regulations 2004 (EIR)
 - Exemptions s.36 prejudice to effective conduct of public affairs, s.40 personal data, s.43 prejudice to commercial interests
 - NDA should acknowledge (as with any contract) that the Council is subject to FOI and EIR and may be required to disclose certain information:
 - the Council will consult with the other party before doing so
 - the ultimate decision lies with the Council as it cannot fetter its discretion
 - ICO could force disclosure





Thank you

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The information in this presentation is general in nature and is not intended to apply to specific circumstances. It should not therefore be regarded as constituting legal advice.

LOCAL PARTNERSHIPS



LOCAL AUTHORITY COMPANY REVIEW GUIDANCE

A toolkit for undertaking strategic and governance reviews of wholly or partly owned council comments.



1 FOREWORD



Max Caller Strategic Adviser and Lead Inspector for HM Government

Why is this guidance needed?

Being a director of a local authority controlled company requires officers and elected members appointed to those roles to operate in a completely different legal and philosophical framework to that they are used to inside their local authority.

It can lead to real conflicts between the duty owed to the company and the interests of your council. It can also lead to conflicts of interest on a personal level which makes holding some roles in a local authority unviable whilst continuing as a director. It is necessary to make different assumptions about how things operate and what issues you need to have demonstrated you took into account, and what had no influence.

When I first took over as the chair of a company, jointly owned by two London boroughs, I was surprised by the amount of time we spent considering cash flow, with profitability being a second order issue. I had never had such a conversation inside my authority because cash flow is never an issue.

Too often, this is not understood until problems arise, resulting in reputational and financial damage and in some cases, external intervention directly impacting on your authority. In some of the examples I have seen, it is not very clear why a company structure was chosen for the activity in the first instance as the council involved was not prepared to allow its company to exercise any of the freedoms that the structure would allow. In other examples, there were no controls at all.

In the right circumstances, using a company structure can facilitate change or outcomes that would be very difficult to deliver in a timely way under the constraints of a council's constitution, but it needs to be clear why that is.

In the report of the rapid review of Nottingham City Council, which I led in 2020, it was recommended that guidance was commissioned to aid local authorities in this area. Following the approach set out in this guidance and toolkit will help us all avoid the obvious traps.

In this guidance document



Section 1Foreword from Max Caller



Section 5
Alternative delivery models



Section 2
Introduction



Section 6Standard documents required for a review



Section 3Council governance arrangements



Section 7
Key reference documents



Section 4Entity governance arrangements



Section 8Evidence summaries



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2 INTRODUCTION

2.1 Background

Many councils have established wholly or partly-owned companies, covering a diverse range of offerings. These include selling services to other public bodies, providing leisure or cultural facilities or establishing vehicles to manage or invest in revenue generating assets such as affordable housing or commercial property.

Some of these companies have been successful, generating a healthy return on investment and delivering recognised benefits and positive outcomes. Others have generated negative headlines for the wrong reasons.

Whether successful or not, many councils have seen the need to review their companies. In some cases, councils seek assurance that the governance structures and processes for managing risk are sufficiently robust. Other local authorities want assurance that the entities are meeting councils' expectations, delivering real benefits, and providing value for money.

This desire to review entities has recently escalated in part due to the COVID-19 pandemic which has revealed areas where councils are exposed to significant risk.

We have also witnessed several well-publicised issues with company governance at a number of councils, with the Government making direct interventions, rapid reviews and best value inspections, some of which are highlighted as case studies in Section 7.

...a tool to help councils ensure that they strike an appropriate balance between allowing a company the freedom to manage its activities and ensuring that it is accountable for its actions.

2.2 Purpose

As this guidance is primarily aimed at reviews of *existing* council owned companies, the first sections focus on the effectiveness and appropriateness of governance arrangements that are critical so that the companies may be held to account and to protect the interests of taxpayers.

Sections 3 and 4 of this guidance provide a best practice checklist of issues to consider while conducting governance reviews. Section 3 focuses on councils' governance arrangements for overseeing wholly or partly owned entities and holding them to account.

Section 4 focuses on the establishment of effective governance arrangements for the entities themselves.

Section 5 has been included for context, and sets out the questions and challenges that we believe are relevant to the decision-making processes for establishing wholly or partly owned entities; why is establishing a company the right approach and would an alternative delivery model be more appropriate? It provides guidance as well as questions and issues to address as part of the process to plan and approve the establishment of a commercial entity.

This guidance can be used as a tool to help councils ensure that they strike an appropriate balance between allowing a company the freedom to manage its activities and ensuring that it is accountable for its actions.

A summary of evidence and an accompanying action sheet is provided in Section 8.



COUNCIL GOVERNANCE ARRANGEMENTS

3.1 Introduction

This section provides a best practice checklist of issues to be considered when reviewing of wholly or partly owned entities, focusing on councils' governance arrangements for overseeing the entities and holding them to account.

3.2 Governance aims

Good corporate governance requires councils to carry out their functions in a way that demonstrates accountability, transparency, effectiveness, value, integrity, and inclusivity.

The Governance arrangements for council owned entities should seek to ensure that:

- the entity should have sufficient freedoms to achieve its objectives
- the council should have sufficient control to ensure that its investment is protected, appropriate returns on investment can be obtained and that the activities of the entity are aligned with the values and strategic objectives of the council
- the entity continues to be relevant and required (in its existing form) and if not, appropriate steps are taken (for example, amending constitutional documents or changing form or terminating the vehicle)

Any so-called "Teckal" companies should remain compliant with relevant exemption requirements under EU procurement law.

¹ The case of Teckal Srl v Comune di Viano and Azienda Gas-Acqua Consorziale (AGAC) di Reggio Emilia (Case C-107/98) [1999] ECR *I-8121]* established how a contracting authority could procure direct from an external company in which it has control similar to that it exerts over its own departments. Subject to meeting certain criteria (Reg12 of the Public Contracts Regulations 2015), procurement would be outside rules regulating public contracts.

The audit report on Nottingham City Council's arrangements relating to its company, Robin Hood Energy, stresses the need to ensure that "sufficient checks and balances are in place and in particular that risks are appropriately recognised and managed, that there is an effective scrutiny function and that challenge of political priorities by both members and officers is seen as a positive" and provides an important message that all councils establishing commercial entities should be cognisant of the risk of what is referred to as "institutional blindness" whereby effective governance arrangements are overshadowed by a council's determination that the company should be a success.

Generally, although not in all cases, it would be expected that an entity which is a trading company will have more autonomy than a Teckal company. Also, the amount of autonomy will depend on the size and scale of the business, the board make up, the size of any debt owed to the council or wider dependency on public sector loans or grants.

EVIDENCE



- C1 There should be evidence that the council and senior management recognise the importance of establishing appropriate and proportionate governance arrangements for the oversight of entities
- C2 There should be evidence of a culture of challenge and clarity relating to the purpose, efficiency, effectiveness, specific objectives, and freedoms of the entity

3.3 The council's shareholder role

The council must have a designated "shareholder" to represent its ownership of the entity. The process for appointing a shareholder needs to be set out in the council's constitution which should also detail how the shareholder reports on the exercise of delegated powers.

The shareholder may also have responsibility for liaison between the council and the entity and for access to information, although this role may also be vested in a distinct "contract officer" role.

The council may require that certain decisions of the shareholder (within the council's typical levels of materiality and thresholds in its schemes of delegation) require ratification by the Section 151 Officer and/or Monitoring Officer.

Councils may decide to delegate the shareholder function to a shareholder committee or board of the council or to the executive rather than to a designated individual.

The role of the shareholder should be to provide:

- oversight of any decisions that can only be made by the shareholder, rather than left to the entity (known as "reserved matters"). These may cover areas such as approval of annual business plan, key appointments, setting up subsidiaries, borrowing money, giving guarantees or winding up
- a mechanism to review the implementation and development of the council's commercial approach through the entities it influences and owns
- the necessary oversight from a shareholder's perspective that the parameters, policies and boundaries that the council has established are being adhered to
- an articulation of what success looks like in terms of achieving social outcomes and/or a return on investment
- effective and systematic engagement between the Chair/CEO and shareholder role to assure effective performance against strategy and governance
- a mechanism to communicate the shareholder's views to the entity
- a means to evaluate the effectiveness of the company board and the delivery of the company performance against strategic objectives and the business plan
- a regular review of whether the entity provides the most effective vehicle to deliver the outcomes it requires and whether there are viable alternative models which might offer a more effective means of delivering its priorities
- > a holistic review of risk to the council offered by all active entities

Shareholders or their designated representatives may attend company board meetings as observers, but they should not be there as board members.

An up-to-date shareholder's agreement should describe the powers of the board of the entity and how and when the shareholder might influence those powers. This can help demonstrate the required level of council control over any Teckal companies. For trading and investment companies, it can lay out how the entity is independent from the council to ensure it is not treated as a public sector entity.

If the council is the sole shareholder, a formal shareholder's agreement may not necessarily be required. However, it is good practice to document such an agreement to ensure that there is no doubt about the powers of a company board to take decisions without the approval of the shareholder. It is also important to prevent unwarranted interference by council officers or members in the entity's affairs.

EVIDENCE



- C3 There should be a clearly designated council shareholder role or function which is both understood and recognised by the council and the entity (and documented in terms of reference)
- C4 There should be clarity regarding the role of shareholder, with reserved matters clearly documented and updated as required, reflecting any changes made as the entity has developed, in a shareholder's agreement, or as set out in the company's governing articles of association
- C5 There should be evidence that the individual undertaking the shareholder role is provided with suitable training and support commensurate with the role
- C6 There should be evidence of formal periodic shareholder/ Chair/CEO meetings with effective supporting papers to inform subsequent company board meetings

3.4 Council oversight, scrutiny, and governance framework

The council should have a clear, systematic framework which underpins arrangements for overseeing, interfacing, and engaging with entities to ensure its interests are safeguarded.

The framework should be underpinned by clear governance principles, such as keeping the role of shareholder separate from that of the board and applying arrangements in a similar legal model, by using standard articles of association or shareholder's agreements so that the overall approach is standardised.

The council should regularly undertake an objective assessment of how successfully each entity supports its policies and strategies.

The council should regularly review risks relating to its entities and establish whether they are effectively managed and scrutinised. Different types of entities will be exposed to different risks. For example, development/asset-based companies will be constrained by any changes to council borrowing powers, whereas service-based companies will potentially be impacted by Teckal constraints around growth.

The council's approach to governance should be determined by whether it wholly or partly owns several distinct entities or whether it funnels its interests through a holding company. A group structure may provide a single point of focus for managing the council's commercial activity and an effective use of resources.

For councils with a cabinet system, the council should establish a company management committee which should be a sub-committee of cabinet to look at the totality of a council's holdings and the decisions of that body should be subject to scrutiny.

The council may also want its overview and scrutiny committee (or equivalent) to provide overview, pre-decision scrutiny and call-in of decisions regarding the council's shareholding interest in its entities.

The council may wish to programme formal oversight and scrutiny reviews which focus on whether the financial and social objectives of the entity are being delivered.

One of the roles of the council's audit committee should be to pay specific attention to how the integration of the various external auditors across all its entities is achieved.

The council should ensure, for the sake of openness and transparency, that reviews of entities by committee or executive can be viewed by the public where feasible.

EVIDENCE



- C7 There should be documented evidence of transparent member and officer scrutiny, oversight, and approval of business plans
- C8 There should be evidence of a clear set of KPIs that fall out of the business planning process
- C9 There should be evidence that senior company staff are performance managed against KPIs
- C10 There should be evidence of ongoing assessment of value-for-money and quality offered by the entity through an adequately resourced monitoring function
- C11 There should be ongoing assessment of risks relating to the entity, supported by processes to ensure that risks are managed as part of the council's overall risk management approach, with appropriate escalation and reporting
- C12 There should be evidence of a consistent approach across the council when it comes to engaging with its entities
- C13 The council should have clear and unfettered access to audited accounts for its entities

3.5 Business case for the entity

The council should have a clear understanding of what it wanted to achieve by establishing an entity and be able to articulate clearly what success looks like in terms of achieving social outcomes and/or a return on investment.

Form should follow function; the model adopted should derive from its intended purpose, not the other way round.

The decision-making process should have been informed by the development of a detailed business case, ideally using the HM Treasury five-case model, based on the Government's green book².

The business case should have been produced prior to the establishment of the entity and have set out the rationale, enabling stakeholders to review and challenge the establishment of the entity.

The Green Book is issued by HM Treasury on how to appraise policies, programmes and projects. It also provides guidance on the design and use of monitoring and evaluation before, during and after implementation. The business case should cover:

- > a clear strategic case which identifies direct and indirect benefits
- a rigorous appraisal of the options available for delivering the service or desired outcomes
- the objectives of the entity
- the expected financial results of the company, together with any other relevant outcomes that the business is expected to achieve
- the investment and resources required to deliver the objectives of the entity
- any risks involved
- other important legal, commercial and financial considerations for setting up a company including company law issues; the cost of bidding for contracts; tax liability (corporation tax and VAT); procurement law and state aid/subsidy rules and employment law (TUPE and pensions)

Market conditions and changes will affect commercial activity and therefore assumptions underpinning the activities of an entity may need to be revised over time.

Once set up, councils should continually re-assess the business case and challenge the ongoing existence and relevance of their entities and review the extent to which their objectives remain relevant over their lifetimes.

EVIDENCE



- C14 It should be possible to review the business case which assessed the risk involved in establishing the entity and recommended its establishment, taking account of other potential delivery models
- C15 Objectives of the entity should be clearly defined and documented, and regularly reviewed to ensure that its operation continues to support council policy and strategy, including periodically reviewing the business case to ensure it is still valid

3.6 Agreements with the entity

The council should have commercial agreements which set out any assistance provided to the entity and the terms for that assistance, such as a loan or a parent guarantee.

The terms of any support provided to the entity in the form of goods, services or staff should be captured in appropriate legal agreements.

Where there is a service contract between a council and an entity, contract management arrangements should be established and may include a joint liaison committee to review issues (relating to performance, disputes, or changes in the relationship, for example).

Additional agreements should be established as required, including data protection and information sharing protocols.

EVIDENCE



- C16 Agreements should be documented between the council and the entity for any support or services provided by either party to the other party
- C17 All agreements should be clear, up-to-date, and regularly monitored and reviewed, with any changes to agreements documented so that a clear audit trail exists

3.7 Avoiding and managing conflicts of interest

Local authority members and officers should be aware of potential conflicts of interest when carrying out their roles for their authorities, or when acting as directors of trading companies.

Council officers and members also have fiduciary duties to the council. Situations can inevitably arise where the same person will be a decision maker or advisor both for the council and one of its entities. Examples of this include matters of reporting, contractual discussions, investment requests or resourcing agreements.

When acting as director of the entity, a council officer or member is obliged to act in the best interests of the entity. As the Institute of Directors' Corporate Governance Guidance and Principles states "an important principle of company law is that directors have a duty to promote the success of the company as a whole. They are specifically prohibited from directing the activities of the company in favour of themselves or particular shareholders and/or stakeholders".

If there is a risk of a conflict of interest, the officer or member should not act for both the council and the entity unless they agree that they are both seeking the same common objective.

Conflicts of interest can arise in a wide variety of ways. The council should use its internal and external audit functions to regularly review the governance arrangements relating all of its entities to ensure that potential conflicts do not arise.

Examples of areas where conflicts can arise include:

- Individuals acting as representative for both the entity and the council. For example, given that it is likely that certain decisions of the shareholder will require ratification by the Section 151 officer, it is not considered good practice for a Section 151 officer to hold a position with a council owned entity
- holding a council role which involves potential oversight and scrutiny of the entity, while also holding a position with the entity. For example, an entity board member who also holds a position on the council's audit committee would clearly be conflicted
- holding a position as a company board member while having private financial or non-financial interests which may conflict or may be perceived to conflict with the role. For example a company board member, or member of the family, having an interest in a supplier or competitor to the company
- board members receiving benefit (such as gifts and hospitality)
 from third parties (such as potential suppliers to the company)
- the exploitation by a board member of any asset, information or opportunity related to the entity

Officers and members who hold roles with the entity must declare any interest they have in a proposed transaction in advance of the transaction being entered into. The declaration of an interest in an existing transaction must be declared as soon as reasonably practicable.

The council should have a formal policy to deal with conflicts.

All potential conflicts of interest should be referred to the council's Monitoring Officer for a decision about whether a conflict exists.

In the event of a conflict of interest, the Monitoring Officer should operate an "ethical wall" policy, whereby an information barrier is erected to prevent communication that could lead to the disclosure of information which is confidential to one organisation or the other.

Officers and members should report back to the council on their involvement in outside entities to which they have been nominated by the council.

This should involve making themselves available for council scrutiny committees and other council governance forums which oversee the entity (although they should not be obliged to disclose commercially confidential information about the entity).

EVIDENCE



- C18 There should be evidence that a culture exists whereby actual or potential conflicts of interests are identified, declared, and acted upon, including evidence of appropriate training across the organisation
- C19 The council should have clear and up-to-date policies and processes to consistently manage actual conflicts or potential conflicts of interest, including a clear process for investigations and procedures for appropriate disciplinary actions in the event of breaches
- C20 The roles, responsibilities and reporting lines of officers and members who are involved in council oversight of the entities, the provision of services between the entities or the running of the entities should be clearly defined and documented

3.8 Council appointments to the board

The council should carefully consider nominations to the board, taking account of:

- the benefits of appointing independent directors to the entity
- the need to avoid council members and officers also being appointed to senior positions in the company, if such an eventuality is likely to lead to a conflict of interest

Potential appointees to the board should complete declaration of interest forms.

Appointments to the board should relate to the relevant post or office of the council, not to a specific individual. It follows that, if a council appointed director ceases to be an employee or office holder of the council, then they should automatically no longer be able to hold board membership.

The process for the appointment and renewal of directors should be set out in the articles of association, which should state those appointments which are wholly reserved to the council. For those appointments which are not reserved to the council, the company may establish a remuneration committee to make appointments and remuneration decisions and recommendations to the council.

Appointments should be based on a review of the skills, qualifications, diversity, and other attributes required for the role.

Where a board member is eligible for renewal and reappointment, this should be subject to considering their performance to date and skills, and the needs of the board.

EVIDENCE



C21 There should be evidence that appointments to the board are subject to a documented formal, rigorous, and transparent procedure based on merit and published objective criteria which also promote diversity



4 ENTITY GOVERNANCE ARRANGEMENTS

4.1 Introduction

This section provides a best practice checklist of issues to be considered when reviewing a wholly or partly owned entity, focusing on governance arrangements for the entity itself.

4.2 Articles of association

The entity should have articles of association, documenting its constitution and addressing purpose, conduct of meetings and appointment of directors³.

For the purposes of applying the relevant exemption under procurement law, the articles for a Teckal company should be consistent with the need to demonstrate that:

- the council exercises over the company a control, similar to that which it exercises over its own departments
- more than 80% of the activities of the company are carried out in the performance of tasks entrusted to it by the controlling council or by other legal persons controlled by that council
- there is no direct private capital participation in the company⁴

EVIDENCE

E1 The entity's articles of association should be clear, up-to-date, and reflective of how the entity is run

- 3 See under
 "Starting a company"
 at www.gov.uk/
 government/
 organisations/
 companies-house
 for model articles
- 4 Regulation 12(1), Public Contracts Regulations 2015 www.legislation.gov.uk/ uksi/2015/102/ contents/made

4.3 Business planning

The entity should have an annual business plan which sets out its objectives and how the objectives are to be resourced and achieved. Key areas of focus should include:

- a description of the core offering and articulation of potential future services and/or innovations
- strategy and implementation; a description of the value proposition, underpinned by effective marketing, communications, and branding strategies
- financial break-even analysis, projected surplus or deficit, cash flow, balance sheet and reliance on trading income
- operations and management; an analysis of the entity's capacity and capabilities to fulfil its purpose, in terms of commercial skills, workforce planning, board development, support services, managing the supply chain and clients
- market analysis and a description of market trends and competitors

Requirements to meet the legal criteria in relation to any Teckal companies should also be reflected in the business plan.

EVIDENCE



E2 There should be evidence of an up-to-date business plan that is reflective of the current circumstances and environment in which the entity operates

4.4 Role and behaviours of the board

The board should operate openly and transparently. According to the Cadbury Report⁵ "the basic procedural requirements are that the board should meet regularly, with due notice of the issues to be discussed supported by the necessary paperwork, and should record its conclusions".

Meetings on at least a quarterly basis would be considered good practice.

⁵ The Financial Aspects of Corporate Governance – "The Cadbury Report"

The Cadbury Report states that "the responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship".

The Higgs Review⁶ suggests that the role of the board includes:

- promoting the success of the company by directing and supervising the company's affairs
- providing entrepreneurial leadership within prudent and effective controls where risk is assessed and managed
- setting strategic aims and ensuring sufficient resources (financial and human) are available to meet objectives
- reviewing management performance
- > setting corporate values and standards
- ensuring obligations to shareholders and others are met

The board should have processes to ensure that the entity continues to be financially viable, supported by the role of internal audit and its external auditor.

Larger entities or holding companies should have:

- an audit committee to provide independent scrutiny, challenge, and assurance
- a remuneration committee, which will manage appointments and remuneration decisions (where an appointment is not reserved to the council)

The board should ensure processes are in place to confirm how financial issues are to be dealt with including business planning, budget control, financial systems and financial monitoring and reporting.

The Cadbury Report recommends that boards should "recognise the importance of the finance function by making it the designated responsibility of a director, who should be a signatory to the accounts on behalf of the board and should have access to the audit committee".

⁶ Review of the Role and Effectiveness of Non-Executive Directors – "The Higgs Review"

The board should undertake in-depth consideration of company matters that are deemed significant including new projects, existing projects, approvals and endorsement of advice.

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

There should be a record of the essential functions and other matters which are reserved for board decision and cannot be delegated.

EVIDENCE



- E3 There should be evidence that the board meets regularly to consider, review and record discussions and conclusions
- E4 There should be evidence of delivery of strategies and plans, including scrutinising key operational and finance performance information
- E5 There should be evidence of the desired culture and behaviours
- E6 The company structures should be regularly scrutinised in order to ensure they remain fit for purpose
- E7 There should be evidence that the board has clear policies and procedures for its members to ensure that actual or potential conflicts of interests are identified, declared, and acted upon

4.5 Role and behaviours of company directors

The Companies Act 2006⁷ (sections 171-177) states that directors must:

- act within their powers
- promote the success of the company
- exercise independent judgement
- exercise reasonable care skill and diligence

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- avoid conflicts of interest
- not accept benefits from third parties
- declare an interest in proposed transactions or arrangements with the company

⁷ The Companies Act 2006 www.legislation.gov.uk/ ukpga/2006/46/contents

Directors of wholly or partly owned council entities must also act in accordance with the seven Nolan Principles⁸:

NOLAN PRINCIPLES

SELFLESSNESS

take decisions solely in the public interest (may conflict with board members duties as directors to a company)

INTEGRITY

should not be under any financial or other obligation to outside organisations or individuals

OBJECTIVITY

choices should always be based on merit

ACCOUNTABILITY

submission to public scrutiny and be held accountable for actions

OPENNESS

decisions should be made openly with reasons given

HONESTY

duty to declare any private interests in relation to public duties and actively take steps to resolve any interest that arises

LEADERSHIP

the above principles should be supported and promoted through example

EVIDENCE



- E8 There should be evidence that directors have sufficient skills and experience to run the entity
- E9 There should be evidence that directors' behaviours are aligned with the requirements of the Companies Act 2006 and the Nolan Principles as well as Cabinet Office's Code of Conduct for Board Members of Public Bodies⁹
- E10 The scope of directors' authorities should be documented and clear to all parties

The Seven Principles of Public Life – "Nolan Principles"

⁹ Code of Conduct for Board Members of Public Bodies published by the Cabinet Office in 2011 as updated/replaced in June 2019

4.6 Company board composition

Achieving the right board composition should facilitate good governance and minimise the scope for conflicts of interest.

The optimal size of a board should be between five and 10 directors, although this will be dependent on the circumstances of each entity.

Boards of wholly or partly owned council entities are often a mix of council officers, members, and independent directors. Board skills and expertise can be improved through the effective use of independent directors with both public sector and market specific experience. The UK Corporate Governance Code¹⁰ advises that at least half the board (excluding the chair) should be independent non-executives.

Appointments to the board should be subject to a formal, rigorous, and transparent selection procedure based on merit and published objective criteria.

Board composition and individual director performance should be reviewed periodically to evaluate board composition, the effectiveness of individual contribution, and how effectively board members work together to achieve the objectives of the entity.

EVIDENCE



- E11 There should be evidence that the board has a diverse membership with the collective skills and attributes needed to lead the entity effectively
- E12 There should be evidence that board membership is reviewed regularly for composition and fitness for purpose

4.7 The board and risk management

The board should have ultimate responsibility for risk management within the entity and ensure that appropriate risk management arrangements are in place.

The board should regularly review risks and how they are being managed, and potentially delegate the detailed scrutiny and evaluation of risk to a committee.

The UK Corporate
Governance Code,
Financial Reporting
Council, July 2018
www.frc.org.uk/
getattachment/
88bd8c45-50ea-484195b0-d2f4f48069a2/
2018-UK-CorporateGovernance-CodeFINAL.pdf

The board should be aware of its appetite for risk and determine the risk profile for the entity. The board's approach to risk should be proportionate and appropriate to its model. For example, an entity which has borrowed money from the council and needs the council's support for working capital and revenue will have a different risk profile to a trading company which relies exclusively on external revenue.

EVIDENCE



- ¹¹ The Insolvency Act 1986 www.legislation.gov. uk/ukpga/1986/45/ contents
- ¹² The Bribery Act 2010 www.legislation.gov. uk/ukpga/2010/23/ contents
- ¹³ The Modern Slavery Act 2015 www.legislation. gov.uk/ukpga/2015/30/ contents/enacted
- ¹⁴ Data Protection Act 2018 www.legislation.gov. uk/ukpga/2018/12/ contents/enacted
- ¹⁵ Health and Safety at Work etc. Act 1974 www.legislation.gov. uk/ukpga/2018/12/ contents/enacted

F13 There should be evidence that the board understands the organisation's risk profile and the effectiveness of key controls and regularly reviews risks and risk appetite

4.8 Board members' skills and development

Training should cover legal roles and responsibilities, company directors' roles and companies generally. The training should include responsibilities under the Companies Act 2006, Insolvency Act 1986¹¹, Bribery Act 2010¹², Modern Slavery Act 2015¹³, Data Protection Act 2018¹⁴ and Health and Safety at Work etc. Act 1974¹⁵.

The entity should seek a board which includes a range of skills and backgrounds including commercial, financial, business development, technical, legal and HR experience. Those skills may either be provided by council nominees or by engaging non-executive directors.



The Cadbury Report states that "given the varying backgrounds, qualifications and experience of directors, it is highly desirable that they should all undertake some form of internal or external training; this is particularly important for directors, whether executive or non-executive, with no previous board experience. Newly-appointed board members are also entitled to expect a proper process of induction into the company's affairs. It is then up to individual directors to keep abreast of their legislative and broader responsibilities".

There should be an annual evaluation of board, committee, chair, and director performance. UK Corporate Governance Code suggests that the chair should consider having this evaluation externally facilitated.

EVIDENCE



- E14 There should be documented evidence that the board regularly undertakes a skills audit to ensure that it has an appropriate balance of skills and experience
- E15 There should be evidence of ongoing professional training provided to ensure that all board members are up-to-date in their understanding and supported in their roles

4.9 Role of executive directors and non-executive directors

It is important to distinguish the between the roles of executive director, non-executive director and independent non-executive director. Legally, they all share the same individual and collective duties and responsibilities. However, they should all bring a distinct focus to their roles.

The role of executive directors will vary greatly from entity to entity. Essentially, they are focused on running the entity's business activities and implementing the board's plans and policies. They may be expected to be board members, although this is not essential.

Non-executive directors have a wider role, providing independent and constructive challenge.

Council appointees to boards will generally be expected to fulfil the role of a non-executive director. However, council officers who are appointed to undertake a dedicated role within an entity may be appointed in an executive capacity, such as to undertake the role of a finance director.

The Cadbury Report states that "non-executive directors have two particularly important contributions to make to the governance process as a consequence of their independence from executive responsibility... The first is in reviewing the performance of the board and of the executive. The second is in taking the lead where potential conflicts of interest arise".

Independent non-executive directors are external appointees who do not hold a role as officers or members within the council. Entities should consider the use of independent non-executive directors to improve the quality of board representation. These appointments should be external to the council and provide detailed experience and insight into the company's particular area of activity as well as providing independent and constructive challenge.

According to Higgs¹⁶, the role of a non-executive is to:

- challenge, and contribute to the development of the company's strategy
- scrutinise performance of management in meeting agreed goals and monitor reporting of performance
- > satisfy themselves on the accuracy of financial information and that financial controls and risk management are robust and defensible
- determine executive directors' remuneration and prime role in appointing/removing senior management

Higgs describes a number of desirable personal attributes and behaviours of non-executive directors:

HIGGS'
DESIRABLE
PERSONAL
ATTRIBUTES AND
BEHAVIOURS OF
NON-EXECUTIVE
DIRECTORS

Sound judgement and an enquiring mind

Knowledge of the business, its operating environment, and issues it faces

¹⁶ Review of the role and effectiveness of nonexecutive directors, Department of Trade and Industry, January 2003 web.archive.org/ web/20080910081648/ http://www.berr.gov.uk/ files/file23012.pdf Integrity, probity, and high ethical standards Objectivity as the basis for questioning and challenging accepted thinking of executives Strong interpersonal skills

EVIDENCE

- E16 There is evidence that the role of executive directors is clearly defined and documented
- E17 Non-executive directors are in place to bring an independent judgement to bear on issues of subject matter expertise, strategy, performance, resources including key appointments, and standards of conduct
- E18 There is documented evidence that the board values the role of non-executive directors, and their views are influential in the board's decisions

4.10 The role of the board chair

The Cadbury Report describes how the chair's role in securing good corporate governance is crucial. Chairs are primarily responsible for the workings of the board, for its balance of membership subject to board and shareholders' approval, for ensuring that all relevant issues are on the agenda, and for ensuring that all directors, executive and non-executive alike, are enabled and encouraged to play their full part in its activities.

Chairs should be able to stand sufficiently back from the day-to-day running of the business to ensure that their boards are in full control of the company's affairs and alert their obligations to their shareholders.

In addition, the chair should have the following leadership responsibilities:

- formulating the board's strategy
- promoting the efficient and effective use of staff and other resources
- delivering high standards in terms of integrity and propriety

The Cadbury Report states that the chair's role "should in principle be separate from that of the chief executive. If the two roles are combined in one person, it represents a considerable concentration of power... therefore, there should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision".

EVIDENCE



E19 There is evidence that the chair provides clear board leadership, supporting the directors and chief executive and taking account of the shareholders views

4.11 Financial management

The business plan and business planning process are critical parts of the governance culture and environment. They are the basis for monitoring financial performance and should also feed into the medium-term financial planning of the council in situations where it expects to receive dividends, loan repayments, capital receipts or provide financial support in terms of working capital or longer-term finance.

Board reports should feature clear articulation of the current financial position of the company in terms of its trading position (income and expenditure), liquidity (cash flow) and solvency (balance sheet).

The company should have an independent financial status from the council. This should include separate bank accounts and designated signatories.

The financial transactions of the company should be recorded on the company's own, separate ledger system and the council should be able to demonstrate how the results of the company are consolidated into its own group accounts.

The company should have a set of documented financial policies and procedures which describe areas such as borrowing and overdraft limits and levels which are reserved for council approval. These reserved matters should also be documented in the company's articles of association.

It should operate a system of internal controls that are consistent with these policies and procedures. The company's internal controls should be the subject of periodic testing by internal auditors, whether they be the council's own internal audit function or separately appointed by the company.

EVIDENCE



- E20 There should be a fully documented and approved business plan that is consistent with and no more than 12 months older than the previous business plan. The changes within the updated business plan should accord with the trajectories that are apparent from monthly financial and non-financial performance reports
- E21 The financial transactions and values attributable to the company within the council's medium term financial plan should agree with the projections in the business plan
- E22 Board reports should include clear presentation of the monthly income and expenditure position of the company as well as a cash flow statement and balance sheet
- E23 There should be evidence of an annual audit letter from the council's external auditors, confirming the degree of confidence they hold in respect of consolidation or treatment of financial instruments entered by the company
- E24 Documented financial policies and procedures should be available
- E25 There should be evidence of an effective annual internal audit programme



5 ALTERNATIVE DELIVERY MODELS

5.1 Introduction

The Localism Act 2011 gave local authorities new and broader general powers of competence to trade and since that time there has been a surge in the creation of new companies. These range from wholly owned and partly owned companies, joint ventures with either the public or private sector, and social enterprises.

The main benefits of an alternative delivery approach are perceived to be:



Establishing an alternative delivery approach such as a wholly or partly owned entity is a significant strategic decision that should be given consideration with an appropriate level of analysis and attention.

This section of guidance aligns with HM Government's Sourcing Playbook **Delivery Model Assessments** process. It covers the approach councils should adopt and suggests questions they should address when thinking about setting up a new Local Authority Trading Company (LATCo).

5.2 Framing the challenge

The initial challenge is to determine whether the council's service and the outcomes it delivers can be best delivered by alternative means.

If there is insufficient oversight and assurance placed on this fundamental analysis, particularly where a commercial initiative is progressed at speed, this will create significant operational, commercial, and reputational risks.

From the outset, it is important to clarify the objectives, timescales, and drivers of change.

A dedicated core team of suitably skilled individuals should be appointed that will input into the process. This may include finance, commercial, programme and operations and technical experts.

The approach to governance needs to be established, as well as a clear understanding of the decision-making process.

Identifying the final approvers of the recommendations to establish (or not) LATCos is critically important.

A good understanding of all the key stakeholders who will be involved in and/or affected by the outcomes needs to be developed, ensuring that all relevant parties can be engaged in the assessment process.

There should also be suitable administrative and project management support available to keep things on track.

5.3 Defining the service, delivery model options and data inputs

It is important to identify the service components to be delivered and the outcomes sought and the options for how they might be delivered. It is essential to develop a clear definition of these before starting the delivery model assessment to enable an effective comparison of alternative delivery models.

Once a long list of options has been developed, potential delivery models should be short-listed based on critical success factors, practical limitations, and discussions with senior stakeholders.

The final list of potential delivery models should be signed off at member and senior officer level before evaluation.

5.4 Potential options for consideration

In this section, we outline the main options for delivery models that local authorities may choose to consider:

MAIN
OPTIONS
FOR
DELIVERY
MODELS











In-house delivery

Local authority company (limited by shares or guarantee) Joint service delivery (or public sector consortium) – public public partnership Joint venture company with private sector partner Outsourced service delivery – public private partnership

A description of potential options is provided below, including an overview of the benefits and risks of adopting each model. It should be noted that this list is not exhaustive, and the specific options considered by each council will differ depending on its priorities and local circumstances.

The most important thing is that councils should not jump to a specific model without a comprehensive consideration of the potentially viable options for delivering the outcomes required. For example, in addition to the option of establishing a company or participating in a joint venture, councils may consider other options including in-house delivery, outsourcing, and sharing services with another public body.



In-house delivery

Description	This option involves services/functions being delivered in-house
Benefits	The council retains full control of service delivery and of any efficiencies achieved
	Existing skills and knowledge of service are retained
	Familiarity of relationships, experience, and expertise
Risks and issues for consideration	Ability to invest in, resource and upskill the service/ function may be constrained
	No benefits of scale or sharing of resources/expertise
	All risk and responsibility retained by the council



Council owned company (for example, company limited by shares or company limited by guarantee)¹⁷

Description This option involves the council establishing a company The company limited by shares model is designed for profit distribution to the participating organisations A company limited by guarantee is not designed for profit distribution

Benefits Limited liability for shareholders

Ringfences risks and liabilities, but council still retains reputational risk

Freedom from direct management or standing orders of the council. A company has the capability to employ its own staff. Employees can be given greater incentive to succeed through new employment opportunities and financial reward, thereby promoting cultural change and developing a commercial mind-set

Under this model, commercially delivered incidental services can be provided to the private sector (under Section 95 of the Local Government Act 2003)

Commercial focus on business plan and goals

Flexibility for the company to buy/sell/hold assets

Risks and issues for consideration

Can be administratively time consuming both in terms of set up and ongoing running

This model requires compliance with the requirements of the Companies Acts and the administration of setting up and operating a separate entity

There are additional regulatory requirements to comply with e.g., company audit and annual returns. Income may be liable to corporation tax

VAT structures will be changed

Potential loss of control to directors whose primary duty is to the company, not the council

Risk exposure will vary depending on whether services are provided solely to the council or more widely to external organisations

On paper, the "limited by shares/guarantees" structure limits councils' liabilities. However, there is a question as to the extent to which a council would realistically allow a company to fail without meeting their liabilities. Consideration would be needed with regard to what interventions the council would make should the company make significant losses

Potential for reputational damage to the shareholders in the event of non-performance

¹⁷ There are a range of legal structures that can be considered under this broad commercial entity option which may include Community Interest Companies (intended for social enterprises that wish to use assets and profits for public benefits, with mandatory asset lock and controls on dividends to reassure potential participants, donors, or investors) and Industrial & Provident Societies for Community Benefit (organisations with social objects to run a trade or business for the benefit of the community).



Joint service delivery or public sector consortium (shared services)

Description	Two or more councils or other public bodies join to effect service delivery and deliver better outcomes
Benefits	Potential economies of scale Scope for seamless service delivery
	Sharing of skills and improved resilience
Risks and issues for consideration	Potential impact of future changes in political control
	Problem of co-ordinating objectives and requirements of each local or public body
	Problem of assimilating procedures and IT systems of each public body
	Available capital will not necessarily be increased
	Long period of complex negotiation may be needed



Joint venture with the private sector

Description	Council enters into a joint venture with a private sector partner to facilitate the provision or delivery of services, investment and/or development This can include the creation of a separate legal entity
Benefits	May introduce capital resources which would not otherwise be available to the council
	Improved access to skills, resources, and systems of the partner (commercial acumen, technology)
	Potential wider opportunities for employees
	Risks in service delivery identified and allocated – enables some risk transfer
	Council influence can be preserved through controls on company decision-making
Risks and issues for	Potentially significant time and costs involved in establishing the vehicle
consideration	Additional regulatory requirements (company audit, annual returns) and potential tax implications
	Challenges in matching diverse organisational cultures in one entity
	Need for council vigilance in relation to commercial risks and cost structures

Outsourcing

Description	The council contracts with a private sector provider to provide certain services This generally involves a total transfer of the service provision to the service provider
Benefits	The competitive nature of the procurement should ensure the most economic price Scope for investment in the service from the partner A mature market exists
Risks and issues for consideration	Potential concerns over loss of direct control of service and risk of becoming "locked in" with a single provider TUPE ¹⁸ issues may prevent savings and lock in terms and conditions that would otherwise change over time Potential loss of key people from the council Additional costs of client-side arrangements Intense public scrutiny and reputational damage if the service provider performs poorly

5.5 Establishing strategic and operational evaluation criteria

There are many potential issues to consider in the selection of a delivery model.

Evaluation criteria will be specific to the service or function under consideration, but the following areas give some examples of the potential issues that might help to determine the most appropriate strategic approach for delivery.

Individual criteria should be given weightings reflecting the importance of that criterion to the council and the nature of the specific service.

The criteria should be signed off at member and senior officer level board before the evaluation of the delivery options begins.

Transfer of Undertakings (Protection of Employment) regulations (TUPE) www.gov.uk/ transfers-takeovers

Description	Issues to consider
Strategy and policy	How well does the delivery model align with corporate strategies and policies?
Transition and mobilisation	How easy will it be to transfer existing services into the new model?
People and assets	What capabilities and skillsets are needed and what is the existing capacity (internal or in the external market)?
Service delivery	How will the delivery model help to deliver ongoing quality, innovation and continuous improvement?
Risk and impact profile	Have the risks that may impact the delivery of services or on the council's finances been identified?

5.6 Assessing the cost and benefits of the options under consideration

A financial model should be used to help evaluate different delivery model options. For example, a council may wish to compare the expected cost and benefits of establishing and running a wholly or partly owned entity with the cost and benefits of other delivery models under consideration.

An appraisal of the company model against the in-house delivery model will typically focus on a comparison of the expected whole life cost of procuring a service from an outside supplier, including the cost of additional market factors such as risk and profit, against the whole life cost to deliver a service using internal resources and expertise.

5.7 Conducting the evaluation and aligning the analysis

A cross-functional team should evaluate each criterion against the agreed weightings.

Learning should be derived from objective evidence, past projects, and colleagues across the public and private sector (this may include engaging with the market) to test and sense-check findings.

There are several critical success factors in completing a successful assessment:

- appropriate governance and sponsorship with appropriately qualified individuals
- senior leadership should be clear about why the evaluation is taking place, provide sponsorship, clear governance, and allocate suitably experienced and skilled individuals
- good availability of input data
- data should be available to input into the model design and evaluation
- informed strategic and operational criteria
- independent facilitation should take place to bring together stakeholders, clarify objectives and drive credible outcomes
- realistic timelines
- enough time should be allocated to run a comprehensive process

5.8 Key questions at the evaluation stage

Specific questions should be asked when evaluating the viability and benefits of establishing a new commercial entity.

Criteria	Issues to consider
Strategy and policy	How will the delivery model ensure delivery of strategic objectives, such as social value?
	What will be the internal council impact on officers and elected members (including training and recruitment implications), service and departmental structures, staffing requirements, and financial budgets?
Legal and financial	What is the optimum legal authority for activities which the new activity will pursue?
	What is the most appropriate and beneficial legal form and structure for a new entity (taking account of the objectives of the council)?
	What external legal and financial obligations which will be placed upon the entity and to what extent will these impact upon the objectives of the council and the relationship between the council and the new entity?

Criteria	Issues to consider
Governance and risk	Who will control the entity and what does that mean for governance, leadership, and the legal status of the entity?
	What is the optimum form of and limits to the relationship between the entity and council officers and elected members?
	How will performance be managed and monitored?
	What are the commercial and operational risks that relate to the establishment of the new entity?
	Who is best placed to manage these risks and how might they be mitigated?
People and assets	Is there a clear understanding of TUPE considerations or asset transfer/ownership considerations?
	Has the council ensured it has sought legal and commercial advice on any issues and considered potential pension liabilities?
Commercial	Has sufficient data on market demand both locally and wider afield been gathered and investigated?
	Has sufficient financial, operational, past performance and governance data on potential competitors been gathered and interrogated?
	Has the impact of the new entity been considered on existing local infrastructure and particularly on public, private and third sector organisations that are currently operating in the market sector that the entity will enter?
	Does the impact that has been considered include financial and relationship issues?
	Does the entity intend to trade and if so, will this be with other local authorities? Or to a wider market?
Stakeholders	Is there evidence of support by relevant members and senior officers in relation to the establishment of the new entity?
Skills and capability	Have suitably qualified subject matter experts been engaged to provide appropriate input into the evaluation?
	Has suitable and appropriate specialist financial and taxation advice been sought from independent consultants?

5.9 Developing a business case

Before setting up a company a council must prepare a business case. This should follow the HM Treasury Green Book approach to public sector investment, adopting the five-case model, as set out in the Guide to Developing the Project Business Case, Better business cases: for better outcomes¹⁹.



The strategic case demonstrates that the spending proposal provides business synergy and strategic fit and is predicated upon a robust and evidence based case for change. This includes the rationale of why intervention is required, as well as a clear definition of outcomes.

The economic case demonstrates that the spending proposal optimises public value (to the UK as a whole).

The commercial case demonstrates the "preferred option" will result in a viable procurement and well-structured deal.

The financial case demonstrates the "preferred option" will result in a fundable and affordable deal.

The management case demonstrates the "preferred option" is capable of being delivered successfully, in accordance with recognised best practice.

5.10 Key activities at business case stage

Specific activities should be undertaken when developing the business case for the establishment of a new commercial entity. They include activities to develop and communicate the business case.

¹⁹ Guide to Developing the Project Business Case, Better business cases: for better outcomes assets.publishing. service.gov.uk/ government/uploads/ system/uploads/ attachment_data/ file/749086/Project_ Business_Case_2018.pdf

Criteria	Issues to consider
Strategy and policy	What are the compelling reasons for establishing the entity and what should be achieved?
	Which options have been considered and what are the reasons for selecting a commercial entity as the way forward?
	Which form and type of entity has been chosen as the preferred option and what are the reasons for that choice?
	What are the desired outcomes and objectives and how do these fit with and contribute to the overall strategy of the council? This should include consideration of any dependencies with other projects, programmes or initiatives
	Why it is the right time to establish the new entity?
Legal and financial	What are the legal considerations relating to the establishment of the entity?
	What levels of control and freedom are required for the organisation?
	What set-up costs will be incurred by both the entity and the council?
	Has the high-level viability of the new entity been assessed?
	Are there any affordability issues given other commitments?
	Where appropriate, how will the new entity enable the maximisation of possible commercial and grant funded income streams? And, also the minimisation of VAT and other taxation impacts?
	What financial, legal, taxation and operational advice has been obtained from external consultants and other sources?
Governance and risk	What are the key risks and how they will be managed?
People and assets	Has advice been sought on staffing issues, including TUPE arrangements, union negotiations and pension transfers?
Commercial	Has the competitive landscape been assessed, as well as the positioning of the new entity within that landscape?
	What will be the impact on the local and wider operating environment and market?
Stakeholders	What is the appetite for change, including stakeholder engagement and the level of support provided?
Skills and capability	What are the capabilities of existing staff to oversee and manage the new entity and what will be the future training and recruitment requirements?

5.11 Recommendations and approvals

From the outset councils should be clear about the assurance and approval process at each stage.

A board or cabinet decision should be made at each stage to progress, or to stop the process, if a viable option cannot be moved forward.

5.12 Key activities prior to approval

Specific activities should be undertaken prior to the council approving the establishment of a new commercial entity.

Criteria	Activities to be undertaken
Legal and financial	Ensure all legal, financial, taxation, operational and governance duties, responsibilities and obligations of the chosen legal form of entity are understood and communicated to all officers and members and all potential executives and non-executives of the new entity
	Ensure that the proposed arrangements comply with procurement and state aid legislation
	Ensure that all external legal, financial, taxation and operational advice has been understood and acted upon
	Confirm the financial, legal, and reputational impacts if the entity fails
Governance and risk	Identify possible exit or alternative strategies if the new entity is unsuccessful or there is a change in strategy within the council
	Identify and clarify the council officer and/or member involvement on the entity board
Commercial	Ensure understanding of updated realistic demand projections based upon third party sector expertise
	Ensure that monitoring information requirements and arrangements are clearly identified in both the council and the new entity

5.13 Implementation

Once the final delivery model recommendation has been signed-off through appropriate governance forums there should be a clear plan in place for implementation.

5.14 Key transition activities

Specific transition activities should be undertaken prior to the formal establishment of the new entity.

Criteria	Activities to be undertaken
Strategy and policy	Ensure that arrangements are in place for both leading the new entity and leading the transition to put it in place
Legal and financial	Confirm that the choice of entity delivery vehicle chosen maximises the possibility of commercial and grant funding income streams and minimises the impact of VAT and other taxation and is based on clear analysis of external legal, financial, taxation and operational advice
	Test the adequacy of the entity's opening financial projections including that the opening cash flow arrangements are adequate
	Confirm any contract arrangements, including arrangements for annual review, initial contract length and projected longer term budget impacts on both the council and the entity
	Ensure that adequate financial controls are in place
	Ensure that the formation and start-up of the entity has been notified to all relevant statutory and regulatory bodies
	Confirm that any ongoing services or assets that might be provided by the council are underpinned by agreements between the parties and can legally be provided, including consideration of the leases and/or licences relating to all assets and buildings to be used by the entity
	Ensure that the entity's systems and processes, including financial and payroll processes, are fit for purpose
	Ensure that the council have adequate insurance cover for the new entity's liabilities and assets
	Ensure that the entity's Articles of Association and other governing documents are fit for purpose and allow the organisation to fulfil its obligations and meet its objectives

Criteria	Activities to be undertaken
Governance and risk	Confirm that the business case still makes sense in terms of funding, affordability and expected benefits
	Ensure that the plan through to completion of transition is appropriately detailed and realistic, including risk management arrangements
	Identify and document service and financial risks
	Develop the performance measures and tools to be used
	Confirm the limits of council officer and member involvement in the day to day operational and strategic management of the entity
	Ensure that potential conflicts of interest have been addressed for council members or officers who will also holding positions with the new entity
	Confirm that the necessary and appropriate assurance bodies such as auditors, have been appointed or are in the process being appointed
People and assets	Ensure that all TUPE and pension transfer arrangements have been finalised
	Develop the processes for appointing entity non-executives, executives and any external appointments and commencing any recruitment processes
Commercial	Review the business model and commercial model and whether these appear to be viable given the overall environment within which the new organisation will be operating
	Develop a detailed, credible business plan which is subject to challenge and review
Stakeholders	Confirm that stakeholder support remains strong
	Develop and implement a public relations strategy
Skills and capability	Confirm that the right capacity and capability is in place to both transition to and then run the new organisation
	Develop requirements for training and support of officers and members and for prospective entity non-executives, executives and staff on new arrangements and relationships
	Identify areas of expertise and personnel to appoint to entity board

5.15 Review

Once the entity is operational, it should be subject to effective oversight and regular review. Sections 3 and 4 cover the governance arrangements which need to be in place, within both the council and entity, to enable that oversight and review.



6 STANDARD DOCUMENTS REQUIRED FOR A REVIEW

When carrying out a review, documentation should be made available as evidence, to provide assurance that the governance structures and processes for managing risk are sufficiently robust and the entities are meeting councils' expectations.

As a minimum, these documents should include:

12 months of minutes (to cover the full business planning cycle) for all entity boards, any shareholder group(s), and engagements between shareholder groups and entity board members

Key executive and scrutiny reports

The entity's business plan and other key documents which document performance to date

Key governance documentation such as:

- articles of association
- shareholder's agreement
- members' agreement
- any financial agreements (covering any support or services provided by either party to the other)

Governance and structure charts and any descriptions of key roles and responsibilities for:

- the entity
- council oversight of the entity

The original business case which resulted in the creation of the entity and any updates

Terms of reference for:

- the shareholder role
- the board
- the entity's audited accounts

The risk logs for:

- the entity
- the council

The policies and processes to manage conflicts of interest for the council and the entity

Board member training plans



7 KEY REFERENCE DOCUMENTS

Code of Conduct for Board Members of Public Bodies published by the Cabinet Office in 2011 as updated/replaced in June 2019

This code sets out the personal and professional standards expected from non-executive board members of UK public bodies and forms part of their terms of appointment. The 2019 code includes new provisions making clear that bullying, harassment, or other discriminatory behaviour will not be tolerated. It also introduces a new requirement for the board member to notify the sponsor department of any bankruptcy, current police investigation, unspent criminal conviction, or disqualification as a company director. The new code also reminds office holders of their role in promoting diversity and inclusivity within their organisation, including at board level.

The Seven Principles of Public Life – "Nolan Principles"

The Seven Principles of Public Life outlines the ethical standards those working in the public sector are expected to adhere to. They were first set out by Lord Nolan in 1995 in the first report of the Committee on Standards in Public Life and are included in a range of Codes of Conduct across public life.

The Financial Aspects of Corporate Governance -

"The Cadbury Report"

This report was published in December 1992. The committee, chaired by Sir Adrian Cadbury, had a remit to review those aspects of corporate governance relating to financial reporting and accountability and to make recommendations to raise standards in corporate governance.

The 2018 UK Corporate Governance Code

This code builds on the Cadbury Report, revising and expanding the guidance to take account of the increasing demands on the UK's corporate governance framework.

Review of the Role and Effectiveness of Non-Executive Directors – "The Higgs Review"

This report was authored by Derek Higgs and was published in January 2003. It was commissioned by the Secretary of State for Trade and Industry.

Corporate Governance Guidance and Principles for Unlisted Companies in the UK

This document was published in November 2010 by the Institute of Directors and European Confederation of Directors' Associations.

UK Government Investments Framework Document April 2018, Updated July 2020

A framework document drawn up by HM Treasury in consultation with UK Government Investments Limited, a private limited Government-owned company.

Nottingham City Council – Report in the Public Interest concerning the Council's governance arrangements for Robin Hood Energy Ltd – Grant Thornton

This report was issued in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. It addresses failings in the Council's governance for Robin Hood Energy (RHE), which was established in 2015 as a wholly owned not-for-profit subsidiary of the Council.

Public Interest Report – Governance issues in relation to remuneration of Council officers for work as Directors of City of York Trading Ltd February 2016 – Mazars

This report related to payments made in March 2015 by City of York Trading Ltd (a trading company specialising in the provision of temporary staff and wholly owned by the Council) to two of the company's executive directors who were also officers of the Council. It provides lessons to be learnt and to ensure the future good governance of a Council's relationships with its trading companies.

The Green Book guidance - HM Treasury, 2018

This document provides guidance for public bodies on how to appraise policies, programmes and projects. It also provides guidance on the design and use of monitoring and evaluation before, during and after implementation. It contains the 'Five Case Model' – the required framework for considering the use of public resources to be used proportionately assess costs and risks.

The Sourcing Playbook - Cabinet Office, May 2021

This document provides guidance on choosing the best model for delivering public services.



SUMMARY OF EVIDENCE

	Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
C	iovernance aims					
$\stackrel{\circ}{Page}$ 80	There should be evidence that the council and senior management recognise the importance of establishing appropriate and proportionate governance arrangements for the oversight of entities	 The council has sufficient control to ensure that its investment is protected, appropriate returns on investment can be obtained and that the activities of the entity are aligned with the values and strategic objectives of the council "Teckal" companies demonstrate compliance with relevant exemption requirements under EU procurement law 				
(There should be evidence of a culture of challenge and clarity relating to the purpose, efficiency, effectiveness, specific objectives, and freedoms of the entity	 There is a culture of challenge There is a clarity of purpose The entity has clear objectives The entity has sufficient freedoms to achieve its objectives 				

	Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
	The council's shareholder role					
	C3 There should be a clearly designated council shareholder role or function which is both understood and recognised by the council and the entity (and documented in terms of reference)	 The council has a designated "shareholder" role to represent its ownership of the entity The shareholder provides oversight of any decisions taken by the entity The shareholder provides a regular review of whether the entity provides the most effective vehicle to deliver the outcomes it requires and whether there are suitable alternatives The process for appointing a shareholder is set out in terms of reference 				
Page 81	C4 There should be clarity regarding the role of shareholder, with reserved matters clearly documented and updated as required, reflecting any changes made as the entity has developed, in a shareholder's agreement (or as set out in the company's governing articles of association)	 The council has sufficient control to ensure that its investment is protected, appropriate returns on investment can be obtained and that the activities of the entity are aligned with the values and strategic objectives of the council "Teckal" companies demonstrate compliance with relevant exemption requirements under EU procurement law 				

What evidence

RAG rating

Actions

Responsible

What should you be able to find?

Evidence

		Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
-	C8	There should be evidence of a clear set of KPIs that fall out of the business planning process	 The council regularly undertakes an objective assessment of how successfully each entity supports its policies and strategies KPIs are relevant to "SMARTER" goals KPIs are reported and monitored within the context of the governance framework 				
	C9	There should be evidence that senior company staff are performance managed against KPIs	 Board, committee, chair, and director performance is evaluated annually, including against agreed KPIs 				
	C10	There should be evidence of ongoing assessment of value-for-money and quality offered by the entity through an adequately resourced monitoring function	Regular reviews take account of value-for-money and performance quality				
	C11	There should be ongoing assessment of risks relating to the entity, supported by processes to ensure that risks are managed as part of the council's overall risk management approach, with appropriate escalation and reporting	 The council regularly reviews risks relating to its entities and establishes whether they are effectively managed and scrutinised The council's overview and scrutiny committee (or equivalent) provides overview, pre-decision scrutiny and call-in decisions in relation to the entity 				

	Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
C1:	There should be evidence of a consistent approach across the council when it comes to engaging with its entities	 All council entities are managed in a consistent way with appropriate support, guidance and controls 				
C1:	The council should have clear and unfettered access to audited accounts for its entities	 The council's audit committee pays specific attention to accounts and audit reports The council's internal auditors are able to gain clear and transparent access to financial information and oversight of internal controls 				
U Bus	siness case for the entity					
age 84	A business case which assessed the risk involved in establishing the entity and recommended its establishment, taking account of other potential delivery models, should be available to review	 There is a clear and comprehensive business case that recommended the creation of the entity The business case took account of alternative delivery methods, with the case for the entity's creation having clear benefits over other methods 				
C1:	Objectives of the entity should be clearly defined and documented, and regularly reviewed to ensure that its operation continues to support council policy and strategy, including periodically reviewing the business case to ensure it is still valid	 The objectives of the entity are clearly articulated, defined and documented The objectives are regularly reviewed The objectives continue to reflect council policy and strategy The business case and objectives are regularly reviewed to ensure they are still valid 				

- that appointments to the board are subject to a documented formal. rigorous, and transparent procedure based on merit and published objective criteria which also promote diversity
- of interest forms
- Appointments to the board are relevant to the post or office of the council
- ▶ Council appointed directors cease to be members if they leave their qualifying roles
- ▶ The process for the appointment and renewal of directors is set out in the articles. of association

What evidence

RAG rating

Actions

Responsible

What should you be able to find?

Evidence

	Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
Rol	e and behaviours of the boa	ard				
E3	There should be evidence that the board meets regularly to consider, review and record discussions and conclusions	 The board meets regularly, and all decisions are recorded and documented Decisions are taken at the appropriate place, including deferral and recommendations of decisions on matters that are reserved for the shareholder 				
Page	There should be evidence of delivery of strategies and plans, including scrutinising key operational and finance performance information	 The board has delegated detailed scrutiny to committees or directors with appropriate skills, including financial management The board challenges performance and key financial and operational reporting 				
88 E5	There should be evidence of the desired culture and behaviours	 The board promotes the success of the company The board provides entrepreneurial leadership Prudent and effective controls are demonstrated where risk is assessed and managed The board sets strategic aims and ensures sufficient resources (financial and human) are available to meet objectives The board reviews management performance, including that of the CEO/MD and leadership team The board sets corporate values and standards The board ensures obligations to shareholders and others are met 				

	Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
Eδ	The company structures should be regularly scrutinised in order to ensure they remain fit for purpose	 The company structures are regularly reviewed Financial and performance benchmarking exercises are carried 				
E7	There should be evidence that the board has clear policies and procedures for its members to ensure that actual or potential conflicts of interests are identified, declared, and acted upon	▶ The board regularly monitors conflicts of interest, including with suppliers and users				
Page	ole and behaviours of compa	ny directors				
89 E8	evidence that directors have sufficient skills and experience to run	 Directors' skills align well to the organisation's purpose and objectives Directors are trained so that they are competent in undertaking their roles 				
	the entity	and responsibilities				
E9	There should be evidence that directors' behaviours are aligned with the requirements of the Companies Act 2006 and the Nolan Principles as well as Cabinet Office's Code of Conduct for Board Members of Public Bodies	 Directors: act within their powers promote the success of the company exercise independent judgement exercise reasonable care skill and diligence avoid conflicts of interest do not accept benefits from third parties declare an interest in proposed transactions or arrangements with the company 				

		Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
	E12	There should be evidence that board membership is reviewed regularly for composition and fitness for purpose	Board composition and individual director performance is reviewed periodically to evaluate board composition, the effectiveness of individual contribution, and how effectively board members work together to achieve the objectives of the entity				
	The	board and risk managemer	t				
Page 91	E13	There should be evidence that the board understands the organisation's risk profile and the effectiveness of key controls and regularly reviews risks and risk appetite	 The board demonstrates ultimate responsibility for risk management within the entity and ensures that appropriate risk management arrangements that are in place The board regularly reviews risks and how they are being managed The board is aware of its appetite for risk and determines the risk profile for the entity The board's approach to risk is proportionate and appropriate to its model 				
	Boar	d members' skills and deve	elopment				
	E14	There should be documented evidence that the board regularly undertakes a skills audit to ensure that it has an appropriate balance of skills and experience	 The board regularly undertakes skills audits The entity has a board which includes a range of skills and backgrounds including commercial, financial, business development, technical, legal and HR experience 				

		Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
	E15	There should be evidence of ongoing professional training provided to ensure that all board members are up-to-date in their understanding and supported in their roles	 Regular training and updates cover legal roles and responsibilities, company directors' roles and companies generally Directors' training includes responsibilities under the Companies Act 2006, Insolvency Act 1986, Bribery Act 2010, Modern Slavery Act 2015, Data Protection Act 2018 and Health and Safety at Work etc. Act 1974 				
	The	role of executive directors	and non-executive directors				
Page 92	E16	There is evidence that the role of executive directors is clearly defined and documented	 Executive directors' roles are clearly defined and documented Directors' roles are focused on running the entity's business activities and implementing the board's plans and policies 				
N	E17	Non-executive directors are in place to bring an independent judgement to bear on issues of subject matter expertise, strategy, performance, resources including key appointments, and standards of conduct	 Non-executive directors: challenge, and contribute to the development of the company's strategy scrutinise performance of management in meeting agreed goals and monitor reporting of performance satisfy themselves on the accuracy of financial information and that financial controls and risk management are robust and defensible determine executive directors' remuneration and prime role in appointing/removing senior management 				

	Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
E18	There is documented evidence that the board values the role of non-executive directors, and their views are influential in the board's decisions	 The board values its non-executive directors, so that they are able to demonstrate: sound judgement and an enquiring mind knowledge of the business, its operating environment, and issues it faces integrity, probity, and high ethical standards objectivity as the basis for questioning and challenging accepted thinking of executives strong interpersonal skills 				
The	role of the board chair					
Page 93	There is evidence that the chair provides clear board leadership, supporting the directors and chief executive and taking account of the shareholders views	 The chair is primarily responsible for: the workings of the board its balance of membership subject to board and shareholders' approval ensuring that all relevant issues are on the agenda ensuring that all directors, executive and non-executive alike, are enabled and encouraged to play their full part in its activities The chair is able to stand sufficiently back from the day-to-day running of the business to ensure their board is in full control of the company's affairs The chair is responsible for: formulating the board's strategy promoting the efficient and effective use of staff and other resources delivering high standards in terms of integrity and propriety 				

What evidence

RAG rating

Actions

Responsible

What should you be able to find?

Evidence

		Evidence	What should you be able to find?	What evidence have you found?	RAG rating	Actions recommended	Responsible person/body
Page 95	E23	There should be evidence of an annual audit letter from the council's external auditors, confirming the degree of confidence they hold in respect of consolidation or treatment of financial instruments entered by the company	 The council's external auditor has provided an annual audit letter annually The annual audit letter confirms the degree of confidence they hold in respect of consolidation or treatment of financial instruments entered by the company 				
	E24	Documented financial policies and procedures should be available	 The company has an independent financial status from the council, including separate bank accounts and designated signatories The financial transactions of the company are recorded on the company's own, separate ledger system and the council is able to demonstrate how the results of the company are consolidated into its own group accounts 				
			The company has a set of documented financial policies and procedures which describe areas such as borrowing and overdraft limits and levels which are reserved for council approval				
	E25	There should be evidence of an effective annual internal audit programme	The company operates a system of internal controls that are consistent with financial policies and procedures				
			The company's internal controls are subject to periodic testing by internal auditors				



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	Ownership/directors							
(1)	PCC owns 100%.	(2)	PCC owns 100%					
	Directors - Mike Sellers (PCC), Cllr Vernon-Jackson (PCC), Chris Ward (PCC) +		Directors - Wayne Layton (PCC), Tristan Samuels (PCC), Julian Pike (PCC)					
	non-PCC.		(2a) Ravelin Group Limited owns 100%					
	(1a) Portico Shipping Ltd owns 100%.		Directors - Wayne Layton (PCC), Tom Southall (PCC)					
	Directors - Mike Sellers (PCC), Chris Ward (PCC).		(2b) Ravelin Group Limited owns 100%					
	(1b) Portico Shipping Ltd owns 100%.		Directors - Julian Pike (PCC), Tristan Samuels (PCC), Tom Southall (PCC)					
	Directors - Mike Sellers (PCC), Chris Ward (PCC)							
(3)	PCC owns 14/965 shares	(4)	PCC owns 7/10 A shares and 117709/166422 B shares.					
	No directors related to PCC.		Directors - Tom Southall (PCC) + 1 non-PCC.					
(5)	PCC owns 18/112 shares	(6)	PCC owns 3750/6238 ordinary shares.					
	Directors - Tom Southall (PCC) + 1 non-PCC		Directors - Chris Ward (PCC) + 4 non-PCC					

Harbour

Ltd

03290436

PCC owns 25/100 shares (equally with Gosport Borough Council, Portsmouth Naval Base Property Trust & Portsmouth South East Hampshire Partnership) **Directors** - Stephen Hamilton-Baily (PCC) + 1 non-PCC

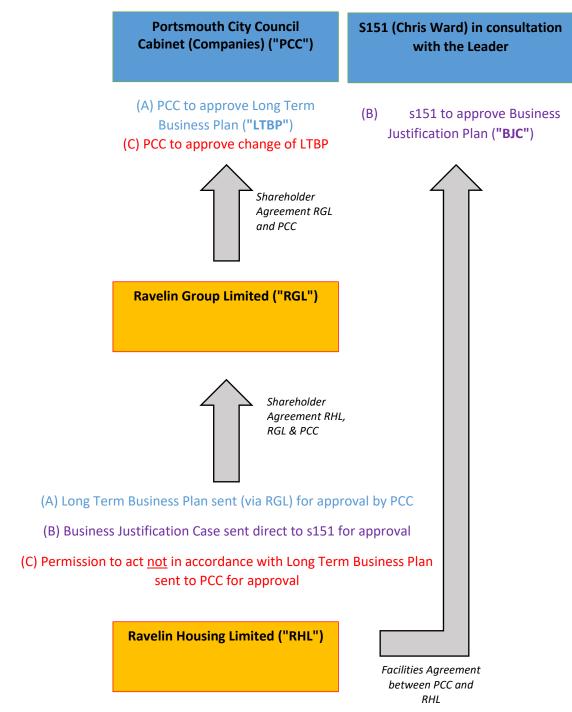
Decision of shareholder (Statutory rights)

- Changes to the constitution of the company
- Declaring a dividend
- Approving the financial statements of the company
- Winding up of the company by way of voluntary liquidation
- Appointing/removing directors (in addition to board if relevant)
- General meetings as requested (generally annual)

Decision of shareholder (Additional rights reserved by the Council)

Appointment & removal of company di

- Appointment & removal of company directors
- Forming of subsidiaries or entering into joint ventures
- Adopting & amend the business plan
- Agreeing spend over £100k not part of a business plan.
- Obtaining third party funding
- Making a loan or granting any credit or giving any guarantee or indemnity (other than in the normal course of training)
- Changing the financial year of the company
- Institute, settle or compromise any material legal proceedings (other than debt in the ordinary course of business)



Example Scenarios

(A) RHL must have an LTBP (5 year plan). This will set out RHL's growth plan, growth strategies, pipelines of sites and scaling of company, market assessment and viability of business plan, investment criteria, financial projections for 5 years, short and long term budget. **To be approved by PCC**

(B) RHL identify "Portsmouth Towers" for development.

Portsmouth Towers is consistent with RHL LTBP (approved by PCC at (A))

RHL must prepare a Business Justification Case ("BJC") for Portsmouth Tower. To be approved by s151 in consultation with the leader.

(C) RHL identify "Southampton Towers" for development Southampton Towers is <u>not</u> consistent with RHL LTBP Change in LTBP to be approved by PCC.



Agenda Item 4



Title of meeting: Cabinet Sub-Committee Meeting

Date of meeting: 15 December 2021

Subject: Ravelin Housing Limited

Report by: Director of Regeneration

Wards affected: All

1. Purpose of report

- 1.1 To update the committee with progress made by Ravelin Housing Limited (RHL) against their current Business Plan.
- 1.2 To seek approval of the company's new business plans. Noting the ambition of the company and the need for future growth and investment to support the aspiration.
- 1.3 This paper builds on previous Cabinet and Full Council decisions taken in February 2019.

2. Recommendations

That the Shareholder;

- 2.1. Approve the new five-year Business Plan and Investment & Development plan as set out in this report, attached at Appendix 1 & 2.
- 2.2. Note the progress made on the existing projects, Brewery House conversion and Arundel Street sites, as recorded in the five-year business plan.
- 2.3. Delegates to the Director of Regeneration, in consultation with the s151 Officer and Monitoring Officer, the authority to approve on behalf of the Council as shareholder, in accordance with the RHL Shareholder Agreement, any matter concerning RHL;
 - "Forming any subsidiary or acquiring shares in any other company or participating in any partnership or incorporated joint venture vehicle"

provided that it is in line with the Business Plan approved at 2.1 above.

2.4. Notes that the sites listed in the development pipeline speak to the aspiration of RHL and that they are not currently in the company's ownership.



- 2.5. Note the content of the skills matrix at Appendix 3 and endorses the appointment of Non-Executive Directors (NED's) to Ravelin Housing Limited based on the outcome of the skills assessment contained in the skills matrix.
- 2.6. Note the need to appoint to permanent positions within RHL, as noted in the Business Plan and that this would be the subject of a future report, seeking approval to proceed.

3. Background

Company Progress

- 3.1. In February 2019, Cabinet and Full Council approved the business case and purpose of the company, including delegation to allow the formation of a new company Ravelin Housing Limited.
- 3.2. Working within the Cabinet and Full council delegations officers have:
 - 3.2.1. Formed the new company, Ravelin Housing limited (RHL) and appointed Directors namely Tom Southall and Wayne Layton to manage the company.
 - 3.2.2. Agreed the articles of association and the shareholder agreements for both RHL and Ravelin Group Limited.
 - 3.2.3. Approved a business plan to support the delivery of the original five sites.
 - 3.2.4. Entered into a facility agreement with the Council which enables project to be funded which are consistent with the business plan.
 - 3.2.5. Agreed funding with the Council through the facilities agreement for the Hambrook Street development.

4. Reason for Recommendation

- 4.1. In order to trade a council owned companies must function in line with an approved Business Plan. The currently approved business plan was limited to the original five sites, of which three have now been developed, a fourth is in the process of being developed and the fifth is on hold pending a further decision by Cabinet.
- 4.2. For RHL to continue to grow and develop in line with the shareholders wishes it requires a new business plan that supports a remit to consider new opportunities.

Five-Year Business Plan (Business Plan 2021-2026)

- 4.3. Attached at Appendix 1 is the proposed Ravelin Housing Ltd (RHL) Business Plan 2021-26.
- 4.4. The plan sets out the aims & objectives, market context, resourcing considerations, planned development activity, and the financial return / commercial strategy.
- 4.5. This ambitious plan seeks to target the delivery of over 1,000 homes in the next ten years. The delivery of these homes is further detailed in the section on planned



- development activity and is phased 0-5 years, 5-8 years and 8+ years.
- 4.6. The Ravelin Investment & Development Strategy needs to be read alongside the Business Plan and is attached in Appendix 2.
- 4.7. The plan papers propose a pipeline of potential sites, these sites are for the most part but not exclusively in Council ownership. The list is not exhaustive, as the business plan allows space for RHL to intervene in the property market where specific criteria is met.
- 4.8. Having a pipeline list demonstrates the ambition of the company, it does not imply that RHL provides the only route to market for these sites.
- 4.9. Any decision on the final delivery route of Council owned assets is for the Council to take in line Portfolio delegations and with must be considered in the round and at a time when the concepts are more developed. Options should use comparable alternative routes to market to ensure the best interests of the wider Council are served. To that end RHL will work collaboratively with the Council teams to ensure best value for both parties and to minimise wasted spend.

Non-Executive Directors (NEDs)

- 4.10. The governance structure of Ravelin Housing Ltd requires the appointment of Non-Executive Directors (NEDs) with relevant skills to sit on the company's board. This is considered to be good corporate governance for all Council companies, see legal comments below.
- 4.11. Ravelin has advertised vacancies for two NEDs to bring some private sector commercial expertise and scrutiny to the existing board of Directors. A skills audit has been undertaken and is attached in confidential Appendix 3.
- 4.12. The skills matrix in confidential Appendix 3 shows the relative skills of the three Non-Executive applicants. Given this assessment it is the Directors recommendation that authority is given to the Directors to appoint candidates 2 & 3.

5. Legal comments

RHL governance

- 5.1. RHL is a wholly owned subsidiary of Ravelin Group Limited (RGL). RGL is wholly owned by the Council.
- 5.2. RHL as a separate legal entity to the Council is run by its board of directors, acting in the best interest of the company. The board of directors are required to operate and run the company in accordance with their duties under s171 to 177 of the Companies Act 2006, other relevant legislation and the company's Articles of Association and a Shareholder Agreement.
- 5.3. The Shareholder Agreement is a contract agreement between RHL, RGL and the Council. This sets out the governance framework in which the RHL directors are to



operate and run RHL. Within the shareholder agreement are listed a number of "reserved activities" which restrict the activities that can be undertaken by the RHL directors without the prior approval of the Council. This type of arrangement is very common with local authority owned trading companies and enables greater certainty to the Council than may usually be the case for a company owner.

- 5.4. One of the obligations on RHL under the shareholder agreement is that it must have its long term business plan, which must be approved by the Council.
- 5.5. Once its long-term business plan is approved, RHL is required to regular report back to the Council on its progression as a business, its achievements against its business plan and to provide information on their accounts and financial position. This will enable the Council to ensure it fully understand the risks in the company and the Council's ongoing appetite to support and invest in the company taking into account the Council's own corporate priorities.
- 5.6. Once the Council has approved the business plan, the directors of RHL will be able to run the company as they sit fit provided that such business it undertakes is consistent with the business plan as approved by the Council. Should the directors wish to operate the company in a way inconsistent with the approved business plan, then they must seek permission to do so from the Council (as a reserved activity under the shareholder agreement).

Appointment of directors

- 5.7. In general terms it is usual for either the shareholder or the company (through the decision of its board of directors) to appoint directors.
- 5.8. The board of directors of a company should be sufficiently skilled and knowledgeable in the subject in which the company is trading. Those directors are required to make decisions independently of outside influence and so cannot simply be proxy decision makers appointed by the Council to make decision on behalf of the Council, as this will be unlawful, save where it concerns a reserved matter under the shareholder agreement.
- 5.9. There is no legal requirement on the Council to appoint either council officers or councillors as company directors and indeed the advice in general is that Council decision makers (i.e. cabinet members and senior officers, particularly the statutory officers i.e. s151 officer, chief executive and monitoring officer) are not appointed as company directors so as not to fetter their ability to discharge the duties they owe to the Council. Where such individuals are appointed as company directors, not only may they find themselves unable to take decisions on behalf of the Council but they may also find it difficult to make decisions for the company where those decisions relate to issues concerning the Council. Directors have a duty under the Company Act 2006 to avoid conflicts of interest and act only in the best interests of the Company.
- 5.10. The City Solicitor has published a guidance note (attached at Appendix 4) for those linked to the Council (officers & councillors) who are (or considering being) directors



of PCC companies so that that there is some understanding of both the responsibilities involved in being a company director, the due diligence and training that the individuals should undertake before accepting such a role and ensuring that HR and insurance are aware of such appointments.

6. Chief Finance Officers Comments

- 6.1. In accordance with the delegations to the City Solicitor, Director of Regeneration and Director of Finance and S151 officer by Cabinet on the 28 February 2019, the Council has entered into two facilities agreements with RHL for the funding of the company.
- 6.2. The facilities agreement provides further strong oversight for the Council of projects funded by the Council and ensure that the Council has oversight and involvement in all aspects of development projects.
- 6.3. Funding is approved by the Director of Finance and s151 officer in consultation with the Leader based on very strict funding conditions and the Council has much leverage through the agreement to protect its investment and to step in and take over projects were RHL to fail.

Tristan Samuels							
Signed by:							

Appendices:

Appendix 1 - Business Plan 2021 - 2026

Appendix 2 - Ravelin Investment and Development Plan

Appendix 3 - Non-Executive Director Skills Audit - Confidential

Appendix 4 - Legal Advice Note

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

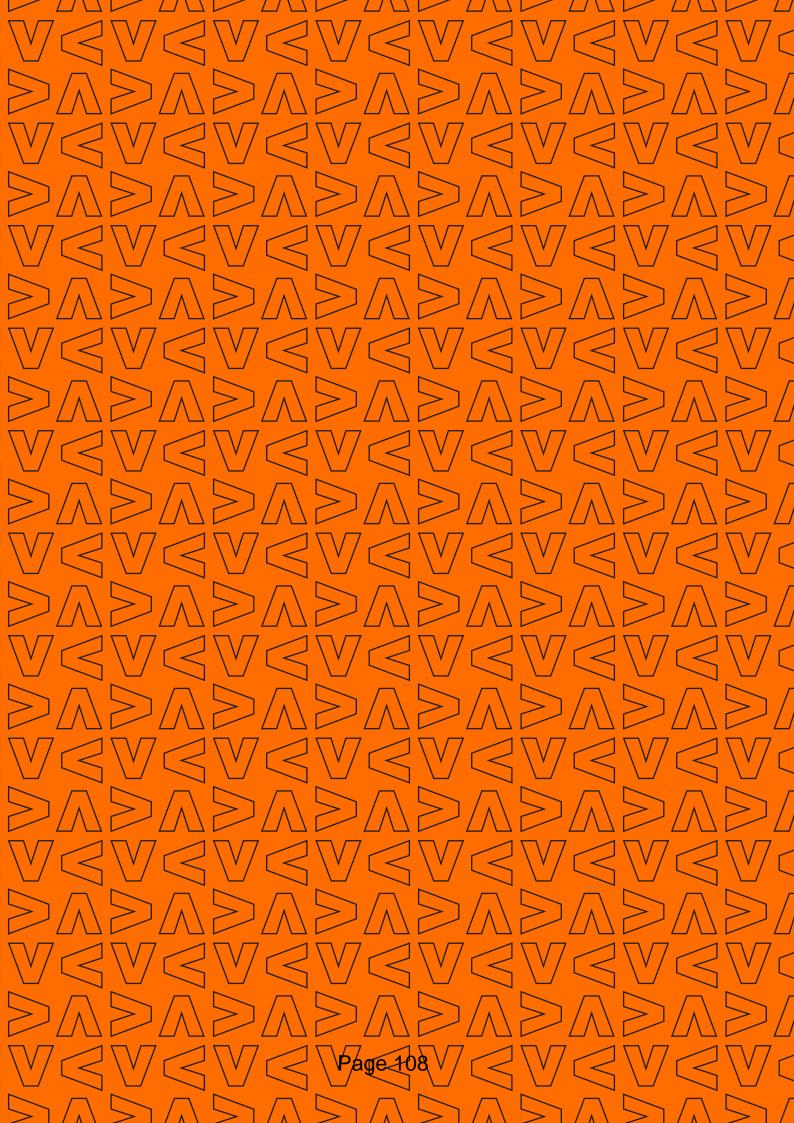
Title of	Location
document	
Ravelin	https://democracy.portsmouth.gov.uk/documents/s22020/Ravelin%20Gr
Group of	oup%20of%20Companies%20report.pdf
Companies	



Appendix A - Business Case	https://democracy.portsmouth.gov.uk/documents/s22021/Ravelin%20-%20Appendix%20A%20Business%20Case.pdf						
The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on							
Signed by:							

Ravelin





Ravelin

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EXECUTIVE SUMMARY

Ravelin Housing LTD (RHL) is a wholly-owned development company set up by Portsmouth City Council (PCC) to deliver both private and affordable housing for sale and for rent. RHL is the commercial development arm of the Ravelin Group Limited family of companies.

Portsmouth's traditional housing market has underperformed for a number of years, with the growth of student accommodation in the city centre accounting, most recently, for a large percentage of the city's housing growth. The city's housing challenges are exacerbated due to densely populated residential areas that consist predominantly of old housing stock, an absence of new build mixed-use housing development and more specifically a failure, where we have had new housing development, of the market to deliver affordable homes to meet the city's housing need.

RHL has been established by Portsmouth City Council as vehicle to disrupt and ultimately speed up the recovery of these broken markets. RHL will not to compete with but will aim to complement and enable private sector developers in the city, at a time where there is a regeneration opportunity and clear evidence of market failure.

RHL will deliver projects with outcomes that are aligned with the new city vision¹ and the council's corporate objectives, thereby supporting the city's economic growth and regeneration ambitions whilst specifically focusing on satisfying the demand for new housing of all tenures.

Simply put RHL's primary goal is to deliver multitenure housing for sale and rent with a target to deliver 1,000 residential units over the next 10 years, commencing delivery in 2022.

This document sets out the business plan for RHL for the next five years and should be read in

conjunction with the Ravelin Housing Investment and Development Plan 2021 - 2026. The business plan provides the company's vision and broad strategic objectives, as well as the financial forecasts that sit behind the business plan.

Broadly, the business plan and the investment and development plan together set out:

- The context and background to the company
- The longer term growth strategy of the business
- The plan for pipeline schemes and scaling of the company
- The financial projections of the company for the next five years

The council through a meeting of its cabinet originally identified five council-owned assets to be considered by RHL for development, of which only two will be taken forward by RHL. These two sites hold the potential to create 92 residential units which will form RHL's first tranche of projects as supported by the original business plan. This new business plan 2021- 2026 will build on these tentative first steps and look to ensure RHL delivers to its full potential.

The business plan will be complimented by the Ravelin Investment and Development Plan (RIDP) which demonstrates how, across Ravelin's current projected (10 year) pipeline of development projects, it will deliver housing products whilst breaking even across the portfolio.

The future of the business beyond the fifth year is truly exciting as the delivery programme accelerates, potentially delivering in excess of 1,000 homes by 2031.

The City Vision was launched at Shaping Portsmouth in January 2021 and a copy can be found at https://imagineportsmouth.co.uk/

SECTION 1 INTRODUCTION

1 INTRODUCTION

Purpose of the business plan

1.1 The purpose of this business plan is to set out the clear objectives, the governance structure and financial forecast, board and management structures and any potential risks for RHL.

Role and scope of Ravelin Housing

- 1.2 The role of RHL is to provide a commercially driven development company designed to specifically deliver housing aligned with the economic needs of the city.
- 1.3 RHL is not a traditional development vehicle and will apply a flexible approach when bringing homes to the market, adapting its approach to deliver maximum value for the shareholder. Surplus income will either be returned to the shareholder in the form of dividends or invested back into the business to support the delivery of additional housing.

Context and background

About Portsmouth

- 1.4 Portsmouth, the great waterfront city, is a unique coastal city with an unrivaled ambition for growth.
- 1.5 Located in the Solent arc, it is well connected to key hubs like London and Southampton but has an identity of its own. As a historic port town with over 500 years of naval history, a growing population and one of the highest small-business growth

rates in the country, Portsmouth is looking to buck the trends seen in many coastal communities across the UK. To ensure this happens the council is taking a proactive approach to developing and increasing employment opportunities in the city by:

- working closely with stakeholders like the Royal Navy, the University of Portsmouth, QA hospital and the NHS
- ensuring that local businesses are supported and given a fair chance to compete
- and investing in the city by taking the lead where market failure exists
- 1.6 The council's five corporate priorities are inclusive and support the wider agendas of all of the city's stakeholders. They seek to promote economic growth, inward investment and look to support the creation of mixed and balanced communities. These priorities form a golden thread that runs through a raft of policy documents and define the council's vision for the future of Portsmouth.
- 1.7 Part of the shared vision between the council and its stakeholders is the need for more homes people can afford, to meet the city's emerging housing need and support the city's economic growth ambitions.
- 1.8 In 2019 the council approved it's Economic Growth and Regeneration Strategy 2019-2036 which highlights its ambition to:
 - "Make Portsmouth Britain's premier waterfront technology and innovation city – a great place to invest, learn, live, work and visit and the most attractive place to start, grow and move your business to."



- 1.9 The city has received significant infrastructure investment in recent years, with which it is now regenerating Portsmouth, namely:
 - £48m of City Deal funding to support the development of the Tipner West regeneration.
 - Local Full Fiber Network (LFFN) grant of £3.8m to roll-out gigabit-capable fiber network in the city.
 - £98m from the Environment Agency to support the Southsea Coastal Scheme.
 - £50m is already committed to prevent flooding and enhance walking, cycling and public realm across the north of the island.
 - £29m has been granted by the DFT in a combined bid with Southampton for a Future Mobility Zone which promotes last mile consolidation and alternative travel solutions amongst other things.

- £56m has been allocated to the Transforming City Fund to support the SEHRT project which promotes modal shift linking people's homes to their place of work here in the city.
- £2bn Solent Freeport has been announced and is expected to create 52,000 jobs across the UK and enable the UK and our region to capitalise on the Solent's geographic advantage in a highly competitive global market following Brexit.

This all combines to create an unrivalled context for investment and growth in Portsmouth and an exciting time for a new development company like Ravelin Housing Ltd to start trading.

About Ravelin

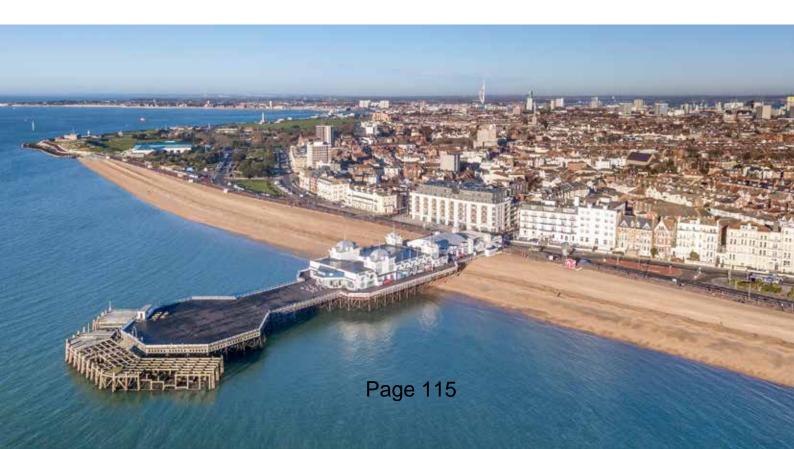
- 1.10 The Ravelin family of companies currently includes:
 - Ravelin Group Limited (RGL), a holding company
 - Ravelin Property Limited (RPL), a development company
 - Ravelin Housing Ltd (RHL), the commercial development company which is the focus of this business plan.
- 1.11 This structure is designed to be adaptable and may be expanded in future to include further subsidiaries, as and when the Ravelin Group board and shareholders see the need to do so.
- 1.12 This business plan picks up on the activities of RHL which is an arm's length development company (ALDC) that has been established by Portsmouth City Council (PCC) to deliver property and housing projects, using further subsidiary ALDCs for individual or groups of projects. RHL is 100% owned by PCC with the shareholding controlled by a cross-party shareholder committee in accordance with PCC's constitution.

- 1.13 A commercial wholly-owned development company like RHL can deliver a number of benefits for its shareholders and partners, including but not limited to:
 - The generation of income for the shareholder with capital and revenue returns possible depending on the projects i.e. build-to-rent projects could be used to deliver long term revenue streams.
 - The delivery of alternative affordable housing products that complement and support the private sector development market and PCC's Housing Revenue Account (HRA) housing products.
 - Enabling a separate, more responsive and commercial operation for the shareholder.
 - Provide a means by which third-party investment could be quickly leveraged in, if required.
 - Allowing the shareholder to develop when the usual market forces are on hold, RHL can act as a counter-cyclical developer where market failure is evident. Focusing on delivering quality housing products with a long-term sustainable investment view and not short-term profit making.

Portsmouth's challenges

- 1.14 Portsmouth is an island city with some of the densest neighbourhoods in the country, outside London but is still required deliver against its housing need. The target for housing delivery will be set through the Local Plan process. However, at present, the assessed local housing need for the city is around 863 homes per annum 2016-2036, a total of 17,260 homes.
- 1.15 PCC is currently reviewing Local Plan to help it meet its housing targets along with other emerging objectives. The new Local Plan will replace the current planning policy framework. It is due to be adopted in 2022 and will provide support for developers to meet these targets.

- 1.16 Part of the housing challenge that Portsmouth faces is the provision of a mix of tenure types at a variety of price points to suit the diverse housing and economic needs of the city's population.
- 1.17 PCC has significant land holdings within the city, with several under-utilised assets. The council has recognised this opportunity and is proactively looking, through RHL and the Housing Revenue Account (HRA) to develop mixed and balanced communities at a time when the private sector is not.
- 1.18 The Ravelin Housing team has been working to establish a pipeline of development projects to make the best use of the council's surplus land, to support the council's ambitions for the physical, social and economic regeneration of the city.



SECTION 2 COMPANY AIMS AND OBJECTIVES

2 COMPANY AIMS AND OBJECTIVES

Company aims and objectives

- 2.1 The purpose of the Ravelin Group was agreed by PCC's cabinet in October 2018 and subsequently confirmed in February 2019, as follows:
 - "Ravelin Group will deliver sustainable growth in a commercial manner through the development of council owned (and other) lands. Through its development, it will prioritise the creation of balanced communities, delivering a range of homes people can afford (in line with city's housing need) and other products to enable economic growth in and around the city of Portsmouth."
- 2.2 The aims of RHL are aligned with those of RGL and ultimately its outputs will support both these RGL aims and the need for economic growth in the city. Outputs will be clarified on a project-by-project basis as the business plan(s) are developed. Some consistent themes will be:
 - Delivering project outputs where there is alignment between RHL and the council's corporate objectives i.e. working together to shape a great waterfront city and where they will support some of the key focus areas, namely encouraging regeneration and investment.
 - Supporting the city's residents with their housing needs.
 - Support the city's economic growth and regeneration needs.

- Profits generated by RHL could be paid back to the shareholders as dividends, or reinvested back into the business to support future development.
- 2.3 Some of RHL's key deliverables have been incorporated into this business plan, they include (but are not limited to):
 - The delivery of multi-tenure housing for sale and for rent.
 - Prioritisation for local residents to purchase / rent private homes when they are launched to market (with a corresponding aim to priorities provision of homes to households and first-time buyers ahead of investors).
 - A commitment to work with the PCC housing needs team to house (if appropriate) Portsmouth residents within Ravelin developments.
 - The delivery of new commercial or retail developments where they support mixed use housing developments.
 - The delivery of cultural, community, educational, health, public realm or other developments as part of mixed-use schemes.
 - A target to deliver 100 residential units per annum from 2022 onwards and to have developed 1,000 homes by 2032.
 Maintaining a minimum of 30% affordable housing provision across the portfolio of projects (a mix of shared ownership and affordable rent).



 To carry out all of the above activities on a commercial basis in the best interests of the company with a view to maximising the dividends to its shareholder and social value to Portsmouth.

Alternative housing models

- 2.4 One of the opportunities RHL provides is the ability to disrupt failed markets and to establish new ones for the longer term benefit of the city.
- 2.5 To establish a new product in the city RHL would look to bring in professional experienced support and create a detailed business case built on local data and product need. By proving the concept, i.e. demonstrating it works in Portsmouth, RHL will pave the way for other private sector developers.

Build to rent model

2.6 Traditionally market values for sales products have been low in Portsmouth and this has been a barrier to developers in the past. RHL may be delivering sites that are difficult to deliver as a pure sales product. RHL will seek to take a longer term view where it will deliver a build to rent product which generates a long term income stream and will increase in market value in the future and therefore make these difficult sites viable for delivery.

Corporate social responsibility

- 2.7 RHL will aim to maximise the social benefit to the residents of Portsmouth from its development activity with social value being a consideration in all decision making of the company.
- 2.8 Going forward RHL will develop and implement a defined corporate social responsibility (CSR) policy aimed at ensuring there is the broadest possible positive impact from its work beyond housing delivery, making real, tangible improvements to the lives of PCC residents.
- 2.9 The corporate social responsibility (CSR) policy will pick up on the main themes adopted by PCC through its recently published policy in this area.
- 2.10 Portsmouth Social Value is: 'the lasting and positive impact that we create through the way in which we act to shape a resilient future, for our local and regional communities, businesses and environment'. Our definition will be achieved through delivering impact, with examples set out in the following areas:
- 2.10.1 Social impact improving the physical and mental wellbeing of local people, strengthening community spirit and collaboration to reduce poverty and social isolation, supporting young people, disadvantaged groups and addressing inequality, by raising aspirations of our future generations.

- 2.10.2 Economic impact improving opportunities for our local SMEs, greater inclusion of the VSCE and social enterprise sectors within our supply chains, driving down unemployment, upskilling the future workforce and addressing skills gaps through apprenticeships and similar schemes. Driving up inward investment and harnessing the green revolution to 'build back better'.
- 2.10.3 Sustainability impact working towards our 2030 carbon net zero goal, improving our air quality, and enhancing our biodiversity through net gains. Evaluating our approach to place making and taking care of our heritage as a 'port city.' Ensuring that communities and businesses are educated and empowered about the vital roles they play in delivering a sustainable future, one which builds back greener.
- 2.11 The policy is underpinned by the leadership role that we are committed to taking, both as an organisation, and within our wider remit both regionally and on the national stage to drive forward social value.

Ravelin's values



Social Heart, Commercial Mind.

Build happy, healthy, safe and connected communities through a bold and inclusve approach, that competes with developers in the urban private and urban social sectors.



Innovative.

Break down the traditional model of local authority home building to create high quality homes and something that works for everyone.



Ambitious Growth.

Build 1,000 new homes by 2032 including 300 homes people can afford, whilst delivering a commercial return to the council.



Sustainable Growth.

Deliver sustainable growth and balanced developments.



Reimagine Regeneration.

To build what is best for people and communities, breaking down barriers to do what's right for residents, Ravelin Housing puts people at the heart of regeneration.

MARKET ANALYSIS AND BUSINESS RISK ASSESSMENT

Market analysis and business risk assessment

- 3.1 The dynamics of the land and property markets in Portsmouth like the rest of the country is changing on cyclical basis.
- 3.2 Undoubtedly the impact of Covid-19 and Brexit remains the biggest driver of uncertainty across the property market, as it does across the wider economy. In many ways the challenges posed to property developers are consistent with those in other sectors, concerned as they are with the availability of labour and the potential for cost inflation throughout the supply chain. The more unique challenge will of course be the specific impact Covid-19 and Brexit has on the UK property market, in terms of both property values, the demand for housing, material costs and availability.
- 3.3 This section examines a number of key indicators and draws together evidence regarding the impact that a range of factors are having on the ability of Portsmouth residents to access housing. This is an important area of analysis in terms of the overall viability of the Ravelin Housing business model, with implications for overall market demand, the current and future demand for affordable housing and the value of Ravelin Housing products.
- 3.4 Evaluating the housing market requires an understanding of the real cost of buying or renting a property and the level of housing need. This analysis is RHL has commissioned Savills to undertake research into the need for homes in the

- Portsmouth market, the detail of which is provided within this section.
- 3.5 Vail Williams has also provided valuation advice which draws on comparable evidence in the area to derive rental levels that would be achievable at the subject development.

Local & national regulatory framework

- The current Local Plan for Portsmouth sets out a requirement for affordable housing to be delivered as part of larger for sale developments (15 units or more) at a minimum of 30% of the total number of dwellings.
- There are currently no policies in Portsmouth to support build to rent (BTR) developments and as such any BTR projects will be considered under the National Planning Policy Framework (NPPF) guidance and as such will require a minimum of 20% affordable housing.
- The South Hampshire Strategic Housing Market Assessment (SHMA) 2014 outlines the projections for housing mix, which are driven by long-term demographic factors. Over the last decade the analysis points towards a shift in the housing mix towards smaller properties, but also a growth in private renting. In Portsmouth owneroccupation has fallen.
- Additionally, in November 2011 the government published, Laying the Foundations: A Housing Strategy for England. The strategy includes initiatives to support growth and investment in the private rented sector (PRS), including build to rent (BTR).

- Affordable housing is defined in the NPPF
 as social rented, affordable rented and
 intermediate housing, provided to specified
 eligible households whose needs are not met
 by the market. To meet the affordable housing
 requirements in the Local plan affordable
 rented units are proposed, which are not
 subject to the national rent regime but are
 subject to other rent control that require a rent
 of no more than 80% of the local market.
- The SHMA also provides the housing mix for market and affordable provision in Portsmouth, which is as below and has been adopted in the financial projections in line with the desired apartment numbers outlined in the council's cabinet report dated 9 October 2018.

Macro trends in the UK housing market

3.6 Latest national trends:

The below commentary is provided by Vail Williams as at March 2021 (market reports by Mace (Q3 2020) have provided similar sentiment to corroborate these statements):

After months of negotiations, the UK and European Union finally agreed a deal that will define their future relationship. The UK stopped following EU rules at 23:00 GMT on 31st December 2020, as replacement arrangements for travel, trade, immigration, and security co-operation came into force. Although there will be no taxes on goods (tariffs) or limits on the amount that can be traded (quotas) between the UK and the EU from 1st January 2021, there is additional paperwork and checks relating

to goods entering the EU from this date and checks for controlled substances on goods entering the UK from 1st July 2021, with this additional bureaucracy having the potential to cause severe disruption to the flow of goods. In terms of the UK services sector, businesses such as banking, architecture, and accounting, will lose their automatic right of access to EU markets and will face some restrictions.

UK goods exports to the European Union fell 40.7% in January, according to the Office for National Statistics (ONS), while imports fell 28.8%. The ONS said temporary factors were likely to be behind much of the falls.

Since February 2020, the number of payroll employees has fallen by 828,000; however, the larger falls were seen at the start of the pandemic. The UK employment rate, in the three months to November 2020, was estimated at 75.2%, 1.1 percentage points lower than a year earlier and 0.4 percentage points lower than the previous quarter (ONS).

The labour market in London has been particularly affected. In the space of just three months, unemployment in the Capital has jumped by almost 2 percentage points, hitting 6.9% in November. London, with its higher proportion of service sector jobs (92% of the total), has leapfrogged the North East to become the region with UK's highest unemployment rate. By December, the number of workers on the payroll in London had fallen almost one-quarter of a million below pre-pandemic levels.

GDP shrank by 2.9% in January 2021, amid the third lockdown. The economy is 9% smaller than it was before the start of the coronavirus pandemic.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose 0.9% in the 12 months to January 2021, up from 0.8% to December 2020.

The Bank of England's Monetary Policy Report (November 2020) projects CPI inflation to remain well below the Bank's Monetary Policy Committee's 2% target in the near term, largely reflecting the direct and indirect effects of Covid-19. These include the temporary impact of lower energy prices and cut in VAT, as well as downward pressure from spare capacity in the economy. As these effects wane, inflation rises. In the central projection, inflation is projected to be around 2% in two years' time.

After a long period of static interest rates, the Bank of England raised its base rate in August 2018 by a quarter percentage point to 0.75% from 0.5%. As a response to the COVID-19 crisis, the Bank cut the rate to 0.25% on 11th March 2020, before a further emergency meeting saw base rate cut to 0.1% on 19 March 2020, together with a £200 billion package marking the resumption of quantitative easing.

The Halifax House Price Index reports that house prices decreased in February 2021, with the percentage change reported at 0.1% lower than in January 2021, continuing the slowing pattern from January.

Nationally, the RICS has indicated that there is a further easing in momentum for new housing market activity, meaning that the upturn in the housing market is starting to decline.

As a result of the economic difficulties arising from the Coronavirus pandemic, a temporary holiday on Stamp Duty Land Tax on the first £500,000 of all property sales in England and Northern Ireland is in place and has been extended until 30th June 2021, the tax threshold temporarily raised to improve the property market. As a result of the Budget 2021, the Furlough Scheme has also been extended until 31st September 2021.

Although market sentiments seemed strong and positive, this recovery is beginning to indicate signs that it is potentially short lived, with a declining market beginning to show in places.

Redundancies are growing and economic commentators are increasingly concerned that growth will not see the early-predicted V-shaped return to trend, and that purchasing power and confidence will inevitably decline in response.

Currently, we are not able to see the full impact on the housing market from this period of economic uncertainty, although the government continues to be in conversation with both banks and building societies about the housing market during the virus crisis to avoid a crash and to allow financial institutions to offer mortgages.



Market factors are currently driven by the extension of the temporary Stamp Duty Holiday, the extension of the Help to Buy scheme for new homes, with pent-up demand from those unable to move during the initial Spring 2020 lockdown, and those now assessing their housing needs and preferences.

If labour markets worsen, with material negative impact from the end of the Brexit transition period, these, coupled with winding down of government support policies such as the Furlough scheme and

Stamp Duty Holiday extension in due time, could instigate a down-turn in the market. In the longer-term, the performance of the housing market remains inextricably linked to the health of the wider economy. The pace and extent of recovery are still highly uncertain, and much will depend on the ongoing success of the UK's vaccination roll out.

Immediate outlook

3.7 The outlook for UK house prices in 2021 varies according to different reports. Actual house price growth in last part of 2020 was exceptionally strong with most market commentators now forecasting single digit growth year on year.

Table 1: UK property market forecasts

Organisation	
Savills	Projecting capital value growth from 2020 to 2025 of 21.1% within the UK, with the South East at 17% in the same period. In the rental market Savills projects growth in the UK at 17% between 2020 and 2025.
PwC	Forecast annual UK house price growth to remain around 3% until 2025, with an average of 3.4% between 2020 & 2022. PwC predict the South East to perform in line with the average at 3.3% in the same period.

- 3.8 Most analysts agree that the south coast is likely to perform in line if not slightly below the rest of the country over the next five years.
- 3.9 The other important macro-economic indicator for Ravelin Housing to consider is the Construction Price Index, given the significant impact that this has on the cost of development activity. This data is released quarterly by ONS with the most recent update available at Q4 in 2020 (see below).

Table 2: Construction Price Index

	All Construction	New Work	Repair & Maintenance
2020 Q2 Output Construction Price Index	112.2	114.5	108
12-month rate	1.4%	1.5%	0.9%

- 3.10 This data covers a wide range of construction activity, but the important measure is the one for new housing (public and private) which stands at 116.3 (12-month rate of 1.8%). The UK house price index (HPI) stands at 130.8 (January 2021) which equates to a 7.5% increase in 12 months. The relationship between these metrics is an important one as it often helps explain viability issues the market is facing.
- 3.11 Construction cost viability remains one of RHL's biggest risks, and the company intends to mitigate this risk through careful planning and procurement.

The Portsmouth market

3.12 Savills has undertaken market research into the Portsmouth market. Notably this has revealed Portsmouth is a net importer of workers, with 13,000 more people traveling into the city each day to work compare to those traveling out. In total, 41,000 people travel into the city each day to work. Therefore, there is an opportunity

- to capture some of these by providing additional, adequate housing.
- 3.13 Savills also reported: "In 2011 the economically active, in employment population of Portsmouth was 89,900 people. The 28,300 workers commuting out of the city represent 31% of the employed resident population. By comparison Southampton had an economically active, in employment population of 103,900 and so the 41,600 out commuters represented 40% of the total employed resident population. This suggests that Portsmouth has traditionally been a more captive market for local residents to be employed in the local area, with close to 70% of employed residents staying in the local authority. It is anticipated that this high proportion may be due to the naval base, with naval personnel being stationed at, and living in the same area."
- 3.14 At present, the assessed local housing need for the city is around 863 homes per annum 2016–2036, a total of 17,260 homes. This estimate was taken in early 2020 whilst awaiting MHCLG's final position on assessed housing need. The new Local Plan will replace the current planning policy framework and is due to be adopted in 2022.

Market Impact on RHL Business Plan

3.15 With the Construction Price Index running at 1.5% or more for new housing, Ravelin

- Housing faces a challenging market context over the short to medium term.
- 3.16 However, a number mitigating factors should be considered in terms of the durability of the business model. Firstly, scheme viability appraisals are always conducted using current prices. This insulates much of the programme given that the initial viabilities can now be considered to contain fairly conservative unit values.
- 3.17 Unlike many other developers Ravelin Housing has considerable potential to use tenure as a means of addressing any potential reduction in property values. This could include altering the proportions of private, shared ownership and affordable rent elements across the programme, or introducing new temporary tenures such as private rented, to address major value shifts. This is possible due to the established nature of the relationship between Ravelin Housing and the HRA business, and also the non-cyclical nature of demand for affordable tenures.
- 3.18 The Ravelin Housing pipeline programme, which is currently at an initial feasibility stage, (see section 5) is not forecast to deliver its first completed units until the second half of 2022. However the market advice demonstrates a clear need for new homes at market and affordable values which is not predicted to be sated in the life cycle of this development pipeline.

- 3.19 Viability of developments generally remains a key barrier to many private sector developers in Portsmouth. This has resulted in land banking or a high number of micro flat developments with little or no affordable homes resulting in market failure for traditional housing solutions.
- 3.20 RHL's role in these challenging markets is clearly to deliver more mixed-use housing, to reset the bar when it comes to the quality and space standards for new homes in the city and to demonstrate to the private sector that Portsmouth is a place where they can do business.
- 3.21 RHL has an advantage initially in that it can accept little or no profit margin in some projects provided this is supported by the Ravelin Investment and Development Plan (RIDP). RHL will also use its status to apply and benefit from grant funding to support the delivery of affordable housing products whilst noting that the variability of rent/sales

- levels are likely to weigh heavily on viability, this could be achieved through partnering with other registered social landlords in the city. Individual financial appraisals of potential sites with their own characteristics will determine whether to proceed with a development or not.
- 3.22 RHL also notes that new housing creates a wide range of benefits including the economic benefits for employers who would reap benefits from having new fit for purpose homes in the same city as their place of work.
- 3.23 While the market analysis conducted above and the specialist reports (see background documents) will guide the decision making on future projects, there remains an expectation across experts in the sector that HPI should recover and the new Ravelin Housing pipeline schemes can be expected to benefit from this bounce.



G COMPANY STRUCTURE, BOARD AND RESOURCING

Company structure, board & resourcing

- RHL is a limited company with a single 4.1 shareholder (Ravelin Group Limited). It has been established under s1 of the Localism act 2011 which says that a local authority may do anything that a person - i.e. a legal entity - may generally do; and s4 (2) of the same act, which provides a caveat to that power, such that if a local authority wishes to do something for a commercial purpose it must do so through a company. The company is governed by the Companies Act 2006. It was incorporated on with Model Articles of Association adopted (Amended Provisions). The core activities of the company are to:
 - Provide economic regeneration in Portsmouth
 - Deliver mixed tenure residential development
 - Better utilise surplus council sites that have previously been difficult to develop.
- 4.2 The core duties of the RHI board are to:
 - Set and deliver the strategic direction of RHL.
 - Put in place and effective governance structure.
 - Ensure the company optimises the return on investment using private sector experience brought in through the nonexecutive directors and consultants.

- Establish and grow RHL and support and the delivery of housing in Portsmouth for the full duration of the business plan.
- Operate RHL within a framework of prudent, commercial and effective controls which manages risks and rewards in line with the business plan.
- Be entrepreneurial and innovative to deliver acceptable returns and value to RHL.
- Ensure that all legal and regulatory obligations are understood and discharged.
- 4.3 A register of director interests is held, updated and monitored. Risk is monitored on an ongoing basis. Conflict of interests are managed and provided for within the articles.
- 4.4 The core duties of the shareholder include:
 - Consultation on the appointment of RHL directors (both executive and nonexecutive) and the external auditors.
 - · Holding the RHL board to account.
 - Receiving and agreeing the RHL Business Plan
 - Receiving financial and performance monitoring reports and accounts.

- 4.5 Information as to the operation and performance of the company is provided on an ongoing basis by the board to the shareholder. This takes the form of:
 - · Quarterly highlight reports on all projects.
 - A five year business plan agreed with the shareholder.
 - Annual report to the shareholder noting progress against the business plan.
 - Regular updates to Ravelin Group directors and shareholders committee, as and when requested.

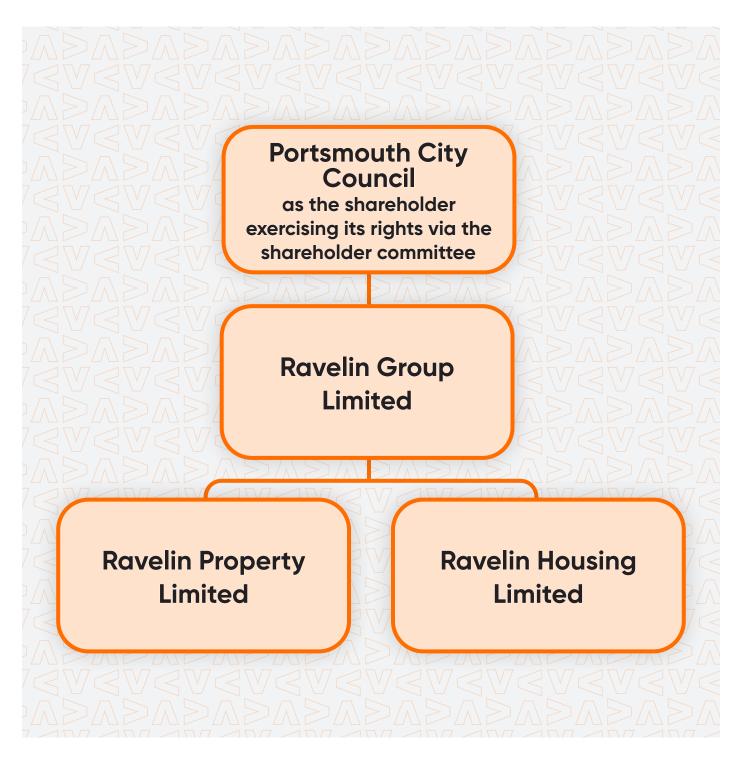
Resourcing structure

- 4.6 There are five main areas where in the future recruitment should be considered, within the executive structure of the company. The company currently does not have a directly employed staff complement but instead purchases services to fulfil these functions from various sources, including services purchased directly from Portsmouth City Council at market rates via Service Level Agreements (SLAs).
- 4.7 In future, roles that maybe considered by the board could include:
 - Chief executive: ultimately responsible for the corporate strategy and operation of the company including strategic, commercial and creative direction, organisational culture, financial management, business development and the delivery of all schemes. The chief executive also has a role on the board as managing director.

- Development management: including a head of development and several development managers whose role is to provide a holistic clienting function for all development activity and to oversee the progress of all phases of development.
 This team commissions the architectural and technical services required to deliver development schemes.
- Design management: including a head of design and several architects whose role it is to conduct feasibility on likely sites, specify design activity and provide design review, expertise and guidance through the development process. This team is also responsible for the dayto-day operation of Common Ground Architecture, RHL's in house trading architectural practice.
- Communications: including a head of communications whose role is to provide PR, media, and branding support across RHL's activities.

Note: A balanced scorecard will be agreed with the board and shareholders setting out a set of measures that provides a comprehensive view of the performance of the business. It will include financial, operational, development and regeneration and business growth metrics to measure achievement of outcomes, along with a list of required skillsets in both the executive and non-executive directors.

Ravelin structure chart



PROGRAMME

5 PLANNED PROGRAMME ACTIVITY

Ravelin Housing – planned programme activity

- 5.1 The development programme is planned over 10 years with the first projects commencing on site in 2021.
- 5.2 The business plan outlines the core activities for the first tranche of the programme. The detail on the second and third tranche of the programme, which will seek to deliver 907 homes between 2024 and 2032, can be found in the Ravelin Investment and Development Plan (RIDP). These projects are being subjected to further feasibility analysis prior to being agreed to be delivered as part of the RHL programme.
- 5.3 Acquisitions and collaborations RHL will continue to investigate and progress viable acquisition opportunities as they arise, in and around the city to add to the pipeline of development sites, if fundable. Similarly, RHL will evaluate the potential to undertake development in collaboration with public and private partners whose qualitative and commercial objectives align with RHL's.

Tranche one of the programme

- 5.4 The first tranche brings forward two projects (Brewery House and Arundel Street) which could deliver 93 homes across the period below.
- 5.5 These sites are all in the council's ownership and have either been vacant for a period of time or have failed to be developed for a variety of reasons. These two were agreed as part of a list of five sites by cabinet in October 2018 as sites where the council should be delivering housing.
- 5.6 RHL is actively developing proposals for these sites and planning consent has been granted for Brewery and Arundel Street. We are aiming for a planning compliant affordable housing provision across this tranche.
- 5.7 Based on our development programme timescales we are aiming to start these schemes on site in financial year 2021/22.
- 5.8 RHL is also in discussion with a third party to acquire the former Debenhams site at Hanleys Corner, Southsea with a view to bringing forward a development of 130 residential units and commercial space.

Approach to delivering the pipeline

5.9 For details on the tranche 2 and 3 sites see RIDP (background document 5)

RHL 10 year anonymised pipeline of potential projects

	Status	Total Dwellings (units)	Short Timescale (0-5 years) Private	Short Timescale (0-5 years) Aff.	Medium Timescale (5-8 years) Private	Medium Timescale (5-8 years) Aff.	Long Timescale (8–15 years) Private	Long Timescale (8–15 years) Aff.
Site A	Procurement	76	52	24				
Site B	Procurement	17	17	0				
Site C	Acquisition Options	134	98	36				
Site D	Acquisition Options	200	150	50				
Site E	None	100			80	20		
Site F	Concept	500	200	50	200	50		
Site G	Concept	500			100	25	300	75
Site H	Consultation & Construction	492	220	272				
Site I	Concept	25			17	8		
Site J	Concept	350			200	50		
Site K	Concept	10					10	0
Site L	Concept	3,500			1,000	200	1,800	500
		5,400	737	432	1,597	353	2,110	575

OPROGRESS TO DATE

Progress to date

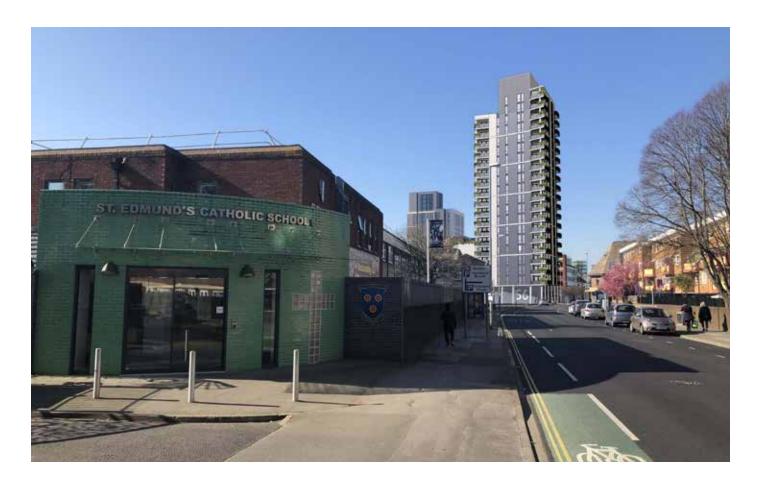
- 6.1 This business plan proposes that RHL commences operations during the financial year 2021 -2022 and for a five-year period thereafter (up to financial year end 2026).
- 6.2 The previous RHL business plan covered the 2020 to 2021 period and saw the initial projects being brought forward as per the cabinet decision (October 2018), with all progress to date being supported by the council. This temporary arrangement has allowed RHL to keep projects moving forward whilst establishing its governance and funding streams.
- 6.3 RHL is currently delivering one of the original five sites noted in the cabinet paper, steps to develop these concepts to date have been carried out and signed off by PCC as shareholder prior to execution and sign

off of this business plan, the shareholder agreements and any approval to allocate funding to RHL.

Old Brewery House (Hambrook Street)

- 6.4 The vacant site is currently allocated for D1 use, it has fallen into disrepair and is no longer viable as a leisure asset. The asset is held by PCC's General Fund but a decision to dispose of the asset to RHL was taken by the portfolio holder on the 14 September 2020.
- 6.5 A scheme has been developed by architects Reformat for 17 residential units with a refurbishment and extension of the existing building which has a locally listed façade. Consultation took place in November 2019 with local residents and the scheme was received positively.





- 6.6 Planning was granted on the 17 September 2020 for the conversion of Brewery House to form 17 dwellings with external alterations to include: construction of additional story; replacement windows and doors; replacement bay windows.
- 6.7 Work commenced on site in September 2021.

Arundel Street

- 6.8 This site was previously occupied by office and retail accommodation and currently comprises a temporary office for mobility services.
- 6.9 The site is suitable for the development of 76 flats over an estimated 21 stories. The asset was held by PCC's General Fund but a decision to dispose of the asset to RHL was taken by the portfolio holder on the 27 July 2020.
- 6.10 Consultation took place in December 2019 with local residents and the scheme was received positively.

- 6.11 Planning was granted on the 18 September 2020, for construction of 22-storey building (c.72 meters) comprising 76 dwellings (Class C3) and ground floor commercial unit (Class A3) with associated storage facilities and public realm works; alterations/relocation of windows to 54D, 54E and 56 Arundel Street.
- 6.12 Following demonstration of expected site viability, a two-stage procurement has been completed for a design and build contractor and a pre-construction services agreement (PCSA) will commence shortly.

New pipeline

6.13 The new pipeline of tranche 2 and 3 projects has now been identified, see the pipeline in chapter 5 and the RIDP in background document 5 for further detail.

SECTION 7 FINANCIAL PROJECTIONS

7 FINANCIAL PROJECTIONS & COMMERCIAL STRATEGY

Ravelin Housing – financial projections & commercial strategy

- 7.1 Ravelin Housing will mainly be financed through a facility agreement with the council. The release of funding through this agreement is controlled by a series of commercial gateways to ensure that full due diligence and alignment with the company's aims and objectives, as agreed in the business plan, is in place and adhered to.
- 7.2 These gateways are held at specific times in the projects evolution and capture in a project business justification case (BJC).
- 7.3 Ravelin Housing has been established to be wholly funded through borrowing, with all costs relating to the operation of the business covered by the proceeds of development. As such due diligence to establish the risks and mitigation is critical at all stages of the development.

Gateway stages

Concept Stage (RIBA 0/1)

- 7.4 Initial analysis work on potential sites takes the form of a desktop capacity study by the internal design and strategic development teams to test a number of options.
- 7.5 In most instances this work is funded by working capital and will only be capitalised into a development cost once the project BJC is approved. These are kept to

- minimum as working capital is provided in the form of a credit facility agreement from the council.
- 7.6 RHL will seek to balance the need to keep costs of this stage low by working collaboratively with our partners and the strategic developments team, whilst carrying our enough design and due diligence to understand the local market and project risks to allow directors to decide whether or not to proceed with a project. A high-level financial appraisal will be developed including market assumptions and local comparable data, if relevant
- 7.7 To commence the next stage a draft BJC is required. This BJC must capture the work done in the concept stages along with some market analysis to justify the assumptions in the financial appraisal. The draft BJC is presented to the S151 officer (acting on behalf of the lender) in line with the terms of the facility agreement, to release funding for the next stage.

Detailed Design Stage - including planning (RIBA 1-4)

- 7.8 This stage will see surveys carried out and on site due diligence (title searches, preplanning, geotechnical, utilities, etc.) as the site constraints necessitates. Along with detailed design of the preferred option.
- 7.9 This work informs further revisions of the BJC with an updated financial appraisal to agree and further checks on conformity with the business plan aims and objectives. The BJC once agreed by the RHL board is

- submitted to the S151 officer for approval in line with the facility agreement terms and PCC's financial controls.
- 7.10 Each financial appraisal will evaluate likely financial risk and provide appropriate sensitivity analyses which will form part of the decision-making process over the life time of the project.

Construction and Operation Stages

- 7.11 Subject to approval of the BJC, payments to RHL are made in line with the approved drawdown schedule and aligned with the direct costs incurred by the contractors.
- 7.12 RHL has the option to refinance post construction subject to agreement with the funder.

Project examples

- 7.13 One of the key aims of the company is to bring forward land with the potential for development and several suitable sites have been identified in Portsmouth, which are in council ownership.
- 7.14 These sites are suitable for development to be purchased by RHL at market rates, directly or under an option agreement, which is subject to conditions including those that are planning related or financial (i.e. overage).
- 7.15 The company can also purchase land or housing stock from the private sector, both strategically and speculatively, where there is a business case for doing so. Such purchases are reported to the board for approval along with a financial appraisal

- which details the financial reasoning for the acquisition and is supported by a BJC.
- 7.16 The full cost for each development site (including land, financing, construction and all associated fees) is then appraised against revenue generating potential with the aid of specialist consultants.
- 7.17 In general, RHL does not have a targeted level of profit on each development. It does however appraise each project on the basis that it is able to repay its borrowing to its lender and that each project is properly financially appraised using NPV. Each project must be able to demonstrate a positive NPV after taking account of 3.5% cost of capital.
- 7.18 These financial appraisals ensure that the company is able to meet all of its outgoings, including servicing and repaying its debt, against the potential income that could be generated from the development, after taking account of inflation and sensitivity analysis.
- 7.19 The financial appraisal will take account of:
 - An inflation element representing the forecast long term average inflation rate.
 - A return element firstly to ensure on-going commercial viability of the company and secondly for future reinvestment in challenged sites.
 - A risk element (including factors such as obsolescence) - this may vary from site to site depending on its characteristics and sales / tenure arrangements.

- 7.20 RHL, as a local authority owned company with aspirations to regenerate the city will often need to operate in a way that is different from normal commercial companies, which could mean any element of profit needs to be weighed up against its other strategic objectives. Whilst profit may be compromised to deliver strategic objectives, this will not be to the extent that the overall company viability is put in jeopardy.
- 7.21 RHL will assess project viability in a number of ways. When developing a build-to-rent product it will aspire to ensure that with any project that annual gross rental income is at least 4% of the development costs. Deviations from this will be discussed with the board. This will allow the organisation to be able to ensure that it is able to meets its maintenance and debt commitments throughout the project. Gross rental income for the purposes of this calculation is defined as income from private, social and commercial lettings.
- 7.22 Additionally, Ravelin will produce sensitivity analyses for each development within the business justification case in order to forecast the likely range of financial outcomes. The sensitivity analysis will seek to vary the most significant elements of cost and income that are of deemed the most at risk of variability and are likely to be of such significance as to materially affect the overall financial appraisal. The sensitivity analyses will compare the base case and seek, as a minimum, to show the impact of varying the following both individually and in combination, an example of which could be:

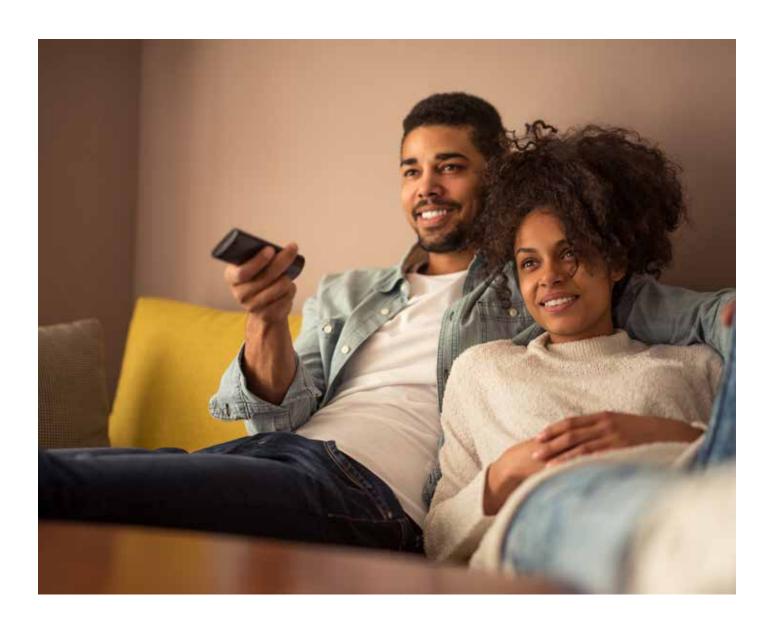
- Build costs by 10%
- Inflation on Rents by 0.5% per annum
- A void allowance of an additional 2% per annum
- Annual maintenance costs increase of 2% per annum
- Any development specific variables
- 7.23 Debt costs will not be varied as part of the sensitivity analyses and these will be known with reasonable certainty at the point of decision making.

Commercial strategy

7.24 The commercial strategy for Ravelin
Housing Limited is to provide a
commercially viable company capable of
delivering homes to meet both affordable
and general housing need over the medium
to long term. To establish viability the
company will seek to deliver the following:

Years 1 to 5 - build financial resilience

- Develop sites of a lower financial risk for sale and for rent
- Each development will be viable in its own right
- Seek to maximise return on capital deployed
- Cash flow surpluses from Year 5 onwards
- Profits will be retained in the business to the extent that it supports the financial resilience of the company, any profits in excess of this could be returned to the shareholder as dividends.



Years 5 to 10 – develop viable and some marginal viability sites

- Develop sites of up to a medium financial risk for sale and for rent.
- Each development will be viable in its own right.
- Seek to maximise return on capital deployed.
- Cash flow surpluses from Year 7 onwards.
- Seek to balance profit / surplus, retained within the business and returned as dividends to shareholders, prioritising the financial resilience of the company.

Year 10 onwards – develop viable, marginally viable and challenged sites

- Develop sites of up to a medium financial risk but with greater than medium risk considered on an exceptional basis and only if the balance sheet strength of the company could sustain a reasonably expected loss.
- The portfolio of developments to be viable.
- Seek to maximise return on capital deployed.
- · Cash flow surpluses from Year 8 onwards.
- Seek to balance profit / surplus, retained within the business and returned as dividends to shareholders.

Corporate funding structure

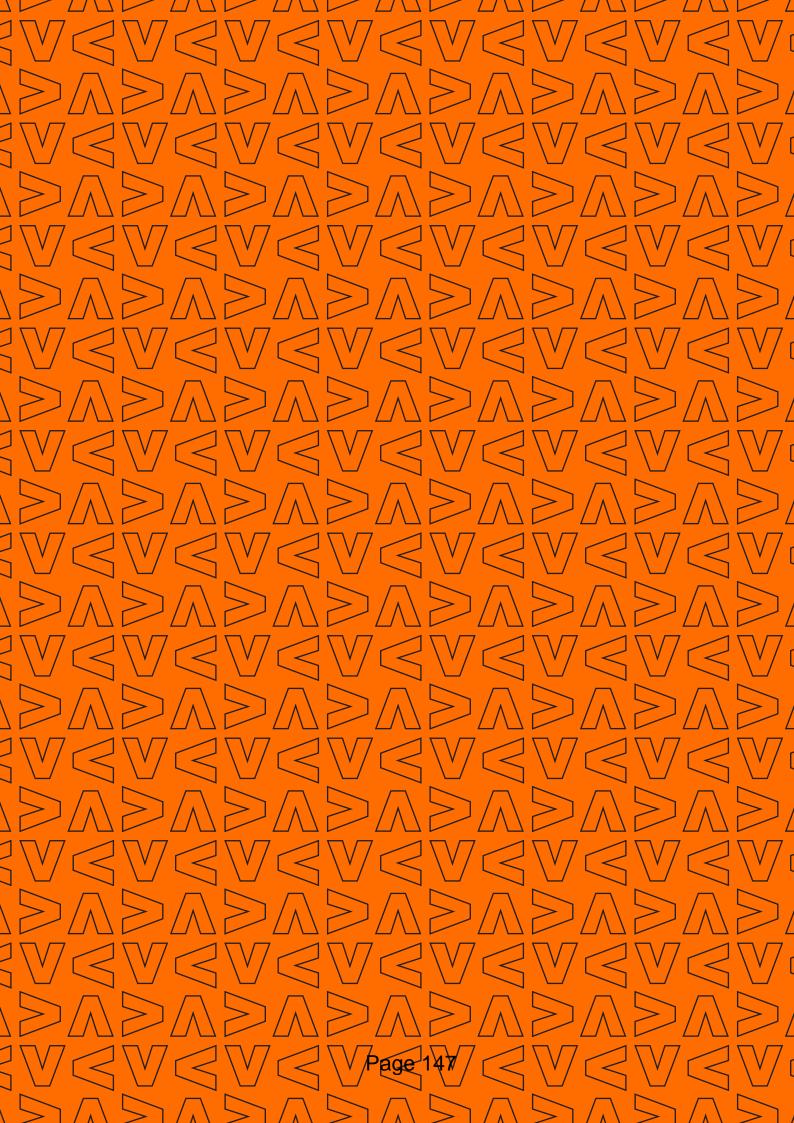
- 7.25 Initially, the council provides the sole source of development finance. The council would lend the money to Ravelin on commercial terms through a credit facility agreement. This is reflected in the financial appraisal for each site. Repayment of any debt by Ravelin Housing provides an additional revenue stream to the council as it can borrow at very competitive rates to service this lending. All borrowing by Ravelin Housing Limited is site specific and subject to an individual utilisation agreement. The borrowing is secured against land and buildings and will include pre-conditions on drawdown as well as ongoing performance measurements that are set out in the business justification case.
- 7.26 In addition, the council will provide a working capital loan facility although this will only be used where there is a reasonable degree of certainty that a financially viable scheme will be brought forward and delivered RHL can not borrow money without this certainty that it can repay this debt.
- 7.27 The viability of the developments is also dependent on RHL maintaining a positive cash flow throughout the project lifetime. This may mean that the structure of the debt financing needs to be bespoke to each project and the profiling of debt and interest may be negotiated on a project basis with the council. The project business justification case will set this out. This reprofiling cannot be to the financial detriment of the council.

- 7.28 This will allow RHL to ensure that it is able to operate in a sustainable and is able to cover its borrowing liability. Properties, land and work in progress will be valued on an annual basis and a gearing ratio will be calculated that evidences this in the audited accounts.
- 7.29 All this information feeds into a financial planning process which allows the company to make detailed projections as to the levels of planned expenditure and likely revenue. The gap between the two, which will largely be driven by timing (given the intention to generate returns on all sites), provides an estimate of the company's financing requirement which will need to be met for it to commence activity.
- 7.30 These estimates will be monitored and reviewed regularly as part of a robust financial management cycle in order to provide a periodic review of actual spending on a site-by-site basis against the granular elements of the detailed financial appraisals. A change process is initiated if appraisals need to be adjusted as estimates crystallise, and all key variations and exceptions are reported upwards (including a periodic board report). All this information is also integrated into detailed cash flow projections to give the company sufficient treasury control.

- 7.31 RICS published a guidance note, 'valuing residential property purpose built for renting' in July 2018, which highlights the broad characteristics of the BTR sector and has been used to develop the BTR financial analysis. It is important to highlight the financial appraisals associated with this document should not be relied upon as red book valuations.
- 7.32 The intention is that the company will be wholly financially self-sufficient, with all costs relating to the operation of the business covered by the proceeds of its activities.

BACKGROUND DOCUMENTS

1.	Vail Williams - The Build to Rent Sector in Portsmouth 16 November 2020
2.	Mace - UK Market View Q3 2020
3.	Vail Williams - Report and Valuation Arundel Tower 4 September 2020
4.	Vail Williams - Report and Valuation The Old Brewery 4 September 2020
5.	Ravelin Investment and Development Plan (RIDP) 2021 to 2026











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"Ravelin Housing is establishing itself at an exciting time for Portsmouth with the first wave of the council's £1.5bn residential programme commencing. We aim to help the city realise its regeneration aspirations by forming a private development company to deliver 1,000 new homes by 2032.

At Ravelin, we have a social heart and commercial mind. We aim to reimagine regeneration by delivering sustainable growth and balanced developments whilst delivering a commercial return to the council. Through a bold and inclusive approach, we will strive to adopt innovative methods to create high quality homes and places that work for all of Portsmouth residents.

The investment and development strategy aims to establish a framework for Ravelin that will inform future investment decisions. Through the successful adoption of this framework, Ravelin can be sure that our efforts will align with the interests of both the council and Portsmouth's residents, whilst ensuring the continued commercial viability of Ravelin to deliver our housing ambitions."



TOM SOUTHALL

Director of Ravelin Housing

EXECUTIVE SUMMARY

The objective of Ravelin Housing is to meet housing need by providing high quality sustainable housing across all tenures, seeking to provide appropriate housing solutions in all areas of Portsmouth which are effective and cost efficient. Recent changes in government policy have encouraged councils to build housing, using surplus assets within the Housing Revenue Account (HRA) and increased borrowing by lifting the borrowing cap.

Portsmouth City Council is seeking to support the local authority's underlying service delivery by generating a supplementary longer term revenue stream by investing in commercial development through Ravelin Group, a local authority development company.

Ravelin Housing is a subsidiary company which has been set up as an investment

vehicle to develop and manage housing related investments generated by Ravelin Group.

This report will outline the investment and development objectives for Ravelin Housing with the purpose of making investments in residential housing. The report addresses the strategic context for proposed residential housing investments, a summary of objectives for the investments and an overview of the different structures available to make investments.

The investment strategy will enable Ravelin to make informed investment decisions on the 1000+ new homes objective hoped to be achieved by 2032. The report clearly states the intention to support development of homes across all tenures to meet the need of the communities within Portsmouth.

To assess the potential housing investments,

it is imperative that Ravelin Housing consider the macro-economic outlook and property market trends before considering individual assets in greater detail.

This type of commercial investment is a new opportunity for Portsmouth City Council. Therefore, it is recommended that the strategy is reviewed regularly, on an annual basis, to ensure it continues to align with the core objectives set out in the Ravelin Housing business plan.



Social Heart, Commercial Mind

Build happy, healthy, safe and connected communities through a bold and inclusive approach, that competes with developers in the urban private and urban social sectors.

Ambitious Growth

Build 1000 new homes by 2032, 200 of which are affordable, all whilst delivering a commercial return to the council.

Reimagine Regeneration

To build what is best for people and communities, breaking down barriers to do what's right for residents. Ravelin Housing puts people at the heart of regeneration.



Innovate

Break down the traditional model of local authority home building to create high quality homes and something that works for everyone.



Sustainable Growth

Deliver sustainable growth and balanced developments.





INTRODUCTION

The report will address:

- I. The strategic context of the proposed
 Housing Investment strategy
- 2. The objectives for Ravelin Housing as aligned with the business case
- 3. An overview of the different structures available to make investments in housing, outlining the associated benefits, risks and opportunities

The report has been developed in a limited time period and draws upon various papers and analysis prepared by Portsmouth City Council and its specialist advisors. As such it is highly exploratory in nature outlining relevant issues and considerations but not making any final recommendation as to the detailed investment structure, nor does it explore every possible option.

In determining an effective investment and development strategy for Ravelin Group, evidence based data has been utilised in correlation with the core council objectives. This will help to shape the investment approach and bring an understanding of the risk profile to investment.

The strategy uses recent market evidence to set out key measurable critical success factors (CSF) that will enable Ravelin to measure the performance of its proposed developments. These CSF will ensure that Ravelin Housing responds to the market by delivering in line

with market; demand, price point, specification and understanding of future trends. This will allow Ravelin Housing to make well informed decisions that take into account long term economic trends in Portsmouth's dynamic housing market.

While this strategy is focussed on the investment objectives for Ravelin Housing, which aims to generate stable long-term revenues, it is important to consider the impact on Portsmouth City Council's broader policy i.e. economic development, infrastructure, health, social care and the environment.

The council's initial objective is to use Ravelin Housing to develop sites that have been previously difficult to take to the market due to development constraints. As such the initial sites considered for development are likely to have lower investment value. It is for this reason that the proposed residential portfolio is not representative of a typical residential investment holding.



2 INVESTMENT STRATEGY OBJECTIVES FOR RAVELIN HOUSING

The aim of the investment strategy is to establish a framework for the identification of properties or land for redevelopment.

These opportunities may deliver regeneration benefits, housing need, place making or socio-economic benefits, as well as positive financial returns for Portsmouth City Council in the form of future revenue income streams or capital uplifts in accordance with the Ravelin Housing Business Plan.

Developed properties may be retained for the benefit of their long-term rental income and will become an investment asset after completion. The decision on whether or not these investments would meet the overall objectives of this strategy will be informed by a financial appraisal.

The investment criteria will be designed to ensure that the financial returns delivered from investments are commensurate with the deemed levels of associated risk. A higher risk investment will therefore require the delivery of greater financial returns.

Ravelin Housing will be responsible for:

- The development of core housing sites for investment value
- The delivery of 1000 new homes over a 10 year period to contribute towards
 Portsmouth City Council's housing delivery
- The acquisition of further development sites from the council
- Asset management of the PRS housing units.

Ravelin Housing will aim over the period 2022-2032, to generate reliable income streams that can be reinvested into new development opportunities or contribute to the council's income stream. In order to deliver these objectives Ravelin Housing must generate appropriate risk adjusted returns.

Ravelin Housing will also focus on addressing the wider strategic objectives within its investment strategy:

- Accelerated build rates
- Modern methods of construction
- Improvement in the affordability of housing
- · Reduction in the strain on social housing
- Improvement in the quality of design standards and choice of housing available
- Prioritisation of the development of council owned land
- Address local housing requirements that are not being met by other providers e.g. growth of PRS
- Invest in neighbourhoods where there has been little development in recent years
- Create added value through training and jobs for local people

- Boost the local economy by supporting small and medium enterprises in the supply chain
- Develop in-house development skills that can also be used elsewhere in the council
- · Regeneration.

Ravelin Housing will prioritise its objectives in light of budgetary, risk and time constraints in order to get a balance between the most suitable project outcomes and return on investment.

Ravelin Housing will act as an exemplar for other housebuilders in the area providing high quality, sustainable homes.



SASSESSING VIABILITY AND AFFORDABILITY

Viability and affordability

To ensure that Ravelin Housing can continue to fund developments, it is important that each scheme has been properly assessed for viability.

Ravelin must identify the relationship between the cost of delivering housing and the rental income or capital receipt Ravelin Housing will receive. It is necessary to ensure that the impact of each scheme is calculated and properly understood. The cumulative effect of the development programme must be affordable and generate an income stream or break even where applicable.

Viability and risk

Each project will be assessed to ensure it meets the following criteria:

 Objectives of the investment and development strategy and the current business plan.

- Financial viability is fully assessed and that the basis on which it can proceed is properly understood.
- Adequate risk assessment ensuring that proposals have a strategic fit with Ravelin's objectives.

Risks may not be completely eliminated but must be assessed and managed. The criteria for determining viability considers an expectation that an assessment is based on up to a 50 year life of the asset but we will always give consideration to the need for the type of housing and the impact such a development could have on the local community and economy.

All costs and expenses applicable to the scheme, internal or external, should be fully accounted for and charged to the scheme.

Schemes will be evaluated on the basis that they can be considered financially viable if all the viability parameters are achieved.

Delivery of alternative housing tenure remains the key objective combined with building a sustainable income stream. As with other forms of investment, there is a trade-off between risk and return. Given the more speculative nature of this type of investment activity the associated risks may be significant. It may be possible to share risks and rewards with partner organisations.

The assessment criteria needs to be agile enough to allow significantly different schemes to be assessed using the same overarching principles.

For a property investment to be considered by the Ravelin board it must:

- Deliver a rate of return commensurate with the deemed level of risk associated with the investment;
- Be accompanied by a business justification case (BJC) prepared in line with the requirements set out in Appendix A.

The investment opportunities considered could vary significantly and, due to the speculative nature of some schemes, there will be higher risks attached to some investment opportunities.

Qualitative and quantitative appraisals

Each potential investment will undergo a qualitative and quantitative appraisal and risk assessment to establish the financial returns, financial and legal implications and risks associated with the purchase. The findings of these appraisals will be reported to the Ravelin board as part of the business case assessment.

An investment opportunity that does not meet the minimum criteria may have separate investment or regeneration benefits and, therefore, may still be considered for progression, however, decision making in this case is to be reserved by the Ravelin board. For investments where there is a variable revenue stream, such as some energy projects, or a long time gap between investment and first revenue, such as development projects, alternative valuation options, such as the Internal rate of return (IRR) or net present value (NPV) may be appropriate as a measure of an investment's rate of return.





Project evaluation

- Ravelin Housing needs to understand if an investment today is the same as it is in the long-term in order to manage risk.
- Ravelin Housing would propose to use NPV to evaluate project viability as it provides a metric that incorporates the time value of money.
- NPV has an advantage over IRR when projects differ in size and differ in the distribution of their cash flows.
- Since NPV is an absolute measure, it will rank a project which adds more pound value higher, regardless of the initial investment required. Whereas IRR is a relative measure, and it will rank projects offering best investment return, higher, regardless of the total value added.

- IRR inherently assumes that any cash flows can be reinvested at the internal rate of return. Whereas NPV assumes that the reinvestment rate occurs at the cost of capital, which is more conservative and realistic.
- It is proposed that NPV is a better method for evaluating mutually exclusive projects than the IRR method. The NPV method employs more realistic reinvestment rate assumptions, is a better indicator of profitability and shareholder wealth, and mathematically will return the correct accept-or-reject decision regardless of whether the project experiences non-normal cash flows or if differences in project size or timing of cash flows exist.

NPV



- Use NPV as the key measure to rank various projects
- Keep in mind, NPV and IRR methods might show conflicting results when mutually exclusive projects are different in size or differences exist in the timing of cash flows
- NPV should govern which projects are selected

YIELD



- In the context of commercial real estate, yield can refer to the annual income from a real estate investment, expressed as a percentage of the total investment cost
- Yield(%) = $\frac{Annual\ Income}{Total\ cost}$
- Use Yield to get a sense of annual income

IRR



- Use IRR to gauge whether a project exceeds your WACC (or a specified hurdle rate)
- If the IRR shows a different result to the NPV's when various projects are ranked, always use NPV
- Every project will most probably not have the same rate of return each year, so keep in mind that the actual rate of return that a given investment ends up generating, will differ from the estimated IRR.



Risk management

Financing risk: As with all investments, there is a risk that capital values, rental values and development values can fall as well as rise.

Where the acquisition or development is reliant on increases in borrowing the business case will factor in fixed rate borrowing, costs commensurate with the anticipated holding period of the asset. By utilising fixed rate borrowing options, the council will be protected from future increases in financing costs.

Financial returns may come in the form of capital receipts either in place of or in addition to revenue returns. This would need to be considered carefully as part of the overall strategy given the requirement to achieve financial viability from the investment strategy overall.

Viability and affordability checklist

- Financial viability assessed?
- Does the investment align with Ravelin's strategic objectives?
- Assessed the rate of return against the level of risk?
- Qualitative and quantitative risk assessment given?





4 STRATEGIC CONTEXT

Before determining an effective investment strategy, it is necessary to consider Portsmouth City Council's existing strategies, policies, planning documentation and vision for the future. This will help shape the underlying investment approach and ensure the recommendations are aligned with the overarching strategic objectives of Portsmouth City Council.

Further consideration has been given to the objectives and strategies of The Partnership for Urban South Hampshire (PUSH), comprising of local authorities across southern Hampshire. South Hampshire's sub-regional strategy

primarily considers cross-boundary issues such as types and distribution of employment but also considers broad patterns of housing development.

A list of the objectives and strategies that have been evaluated is given to the right.

A full evaluation of the objectives and strategies relevant for Ravelin has been summarised in appendix F. The next page gives an overview of a number of common themes that emerge throughout as well as areas that should be of particular concern when making an investment decision.

Objectives, strategy and policy from Portsmouth City Council

- The Portsmouth Plan
- Portsmouth Economic Development and Regeneration Strategy
- Portsmouth's Ageing Population
 Strategy 2010 2020
- Portsmouth's Health and Wellbeing
 Strategy 2018 2024
- Homelessness Strategy 2018-2023
- Portsmouth Air Quality Strategy (2017– 2027)
- Greener Homes Policy
- Shaping the Future of Housing Strategic
 Plan
- Tenancy Strategy 2019-2034
- Nutrient Neutral Mitigation Strategy for New Dwellings

Objectives and strategy from PUSH

- South Hampshire GI Strategy 2017-2034
- Transforming Solent: Solent Strategic Economic Plan 2014-2020'.
- Partnership for South Hampshire Business Plan



Common themes throughout Portsmouth's strategies and objectives

Key Strategic Context Considerations

Aging Population

With the over 65 age group increasing between 43% and 55% over the next 20 years there is a strong and growing demand for accessible homes that retain elderly people's independence and promote access to housing for vulnerable and disabled people. Designs should also focus on 'designing out crime' to ensure people feel safe in their homes.

Target Tenures

Target tenures to increase the variety of homes and tenure available, to retain highly skilled workforce, whilst encouraging the delivery of mixed and balanced communities with homes local people can afford and working with the private sector to increase affordable housing provisions.

To provide an increase in family homes, which have been in short supply over the past few years. There is a strong demand for low cost and affordable homes to achieve this.

.

Regeneration Strategy

To address low employment growth and slowing GVA per capita growth, Portsmouth's Economic Development and Regeneration Strategy outlines the importance of realising the huge development possibilities at Tipner and Horsea.

Targeting regeneration initiatives at the most deprived neighbourhoods to reduce health inequalities and social deprivation, making improvements for marginalised groups fastest.

To generate social value through regeneration of sustainable communities.

Sustainable Growth

Working towards a carbon neutral council by 2030.

Developments should aim to create opportunities for generating and incorporating renewable energy technologies, greening the city through developing on brownfield sites, and protecting existing green and open spaces.

Public Transport

As part of the city's bid to reduce its carbon footprint, developments should be located where there is existing public transport routes and make the most of sustainable design and construction techniques.

Align with the council's Local Transport Plan 4 (LTP4), SEHRT and active travel initiatives.

Quality Design

To deliver and promote high quality deign in new homes combined with exceptional environmental performance whilst aspiring to high architectural quality and protecting the local architectural heritage.

To lead by example, raising the bar in quality standards with long term stewardship at the heart of all development in the city.



5 KEY CONSIDERATIONS

Development objectives

To directly provide, facilitate and enable good quality housing which sustainably meets the current and future needs of local communities throughout Portsmouth.

One of the major challenges facing us is how to increase the supply of homes across the city. The primary objective is to provide new homes to meet demand. Ravelin Housing will, wherever possible, create new homes that are suited to those with needs which are not being met by existing housing or new build. This will be informed by a broad range of evidence including market demand.

In order to provide new homes Ravelin Housing needs:

- a. land and/or properties
- o. Internal and external resources to undertake a variety of work including preconstruction, legal and valuation work

c. Contractors and developers to undertake the construction of the new homes.

To address the need to grow development capability Ravelin Housing will create a new housing development team to co-ordinate work, supported by specialist consultants.

Ravelin Housing knows that the challenge of the commitment to develop new homes and facilitate alternative providers building homes is not yet matched by the internal resource.

Further resourcing of the development team is recognised as being important to meet the challenging targets set out in the Ravelin business plan.

Ravelin Housing will aim to maintain a rolling three-year plan of realistic development opportunities. Ravelin Housing seeks to identify a pipeline of sites over 10 years from 2021 which will include undertaking strategic reviews of areas where there are significant council land holdings.

New build

The investment strategy identifies a broad need for new affordable homes for rent. To meet the need in the city a variety of dwelling types and sizes will be built, but the priority will be to provide smaller units for start up homes, key worker units and family houses and accommodation.

Regeneration

The investment strategy seeks to utilise underperforming assets which are underused, unoccupied or have been difficult to develop. Ravelin Housing will establish the means to monitor and assess existing council assets and potential acquisition opportunities for regeneration through housing development.

Acquisitions

While the programme will commence with council owned assets, there will be opportunities for strategic acquisitions to

further enhance the development value of strategic sites. Ravelin Housing will work in partnership with Portsmouth City Council to proactively identify strategic sites for intervention. The acquisition of property or land will focus on addressing wider regeneration aspirations in the city plan.

Available assets will be reviewed, and business cases will be developed against the established investment criteria for any acquisition.

Ravelin Housing is aware of the potential impact of the investment programme on the private market in terms of private developers, land values and properties prices.

The approach to intervene will only be taken where there are additional benefits which can be realised from purchases and there is a wider strategic ambition which can be achieved through this process.



Sustainable development

Environmental sustainability is essential in the creation of homes and communities in which people want to live and work. Lowering the carbon footprint of the developments will help occupiers save money and deliver lasting environmental, social and economic benefits.

The developments will align with the principles of the environmental policy, and the policies included within the new Local Plan. The developments will provide residents with the right tools to help them understand how to save energy and money.

Sustainability also relates to ensuring that the homes provided meet the needs of the city with the right homes regarding mix and tenure in the right locations. The health and wellbeing of residents will also be considered, together with the positive impact of greener design on people.

Initial feasibility assessments will determine the environmental impact of all potential development opportunities including the use of greener technology.

Procurement

Ravelin will ensure that procurement of all development services (consultants and contractors) takes place in accordance with its contracts and financial procedure rules and legal requirements.

Ravelin is aware of the benefits of working with local companies that have a good track record of delivering similar schemes and can contribute to the local economy by their own approaches to procurement, employment and training.

It is important that companies employed by Ravelin, either directly or indirectly (for example through lead consultants), will comply with the published policies.

Ravelin will seek to use framework agreements or have otherwise preselected contractors in accordance with the contracts procedure rules. Given the value of the construction element for each development, the building contracts will usually be let by way of formal competitive tender.



6 DELIVERY OPTIONS

To optimise its return on investment for the medium to longer term, Ravelin needs to consider its delivery routes and appetite for risk. It is the strategies and structures that provide the highest risk that also provide the highest returns. This section gives a high level overview of the key issues of the delivery options that Ravelin should consider.

Main considerations

- Control: What level of control does Ravelin wish to have?
- Ownership: To what extend does Ravelin need to own investment assets?
- Human resources: Adequacy of human resource to meet the ambition around development outputs?
- Funding: Willingness to access private finance?
- Risk: What is Ravelin's appetite for risk?

Direct delivery by Ravelin housing

This option is based on Ravelin implementing the planning permission itself, and delivering the scheme at its own cost and risk. Ravelin would be required to both fund and resource the development.

Ravelin would also need to procure and enter into contracts with a main contractor.

Funding will need to be secured for delivery of a multi-million pound scheme over a number of years through the facility agreement with the council. This long term debt funding structure will need to be serviced, irrespective of the success of the development.

Acquisitions and site disposals

Site disposal and acquisitions are lower risk and involves minimal level of investment from Rayelin. Ravelin Housing would only ever acquire property if it formed part of a land assembly to improve the marriage value of the sites.

Disposals may be considered where the capital receipt is required for reinvestment to support the capital programme. The agreement may also include an overage clause with the sale contract to secure a percentage of additional profit realised on completion of the development over and above the assumed profit level when calculating the land value on disposal.

Development agreements

Development agreements come in many forms, but most are conditional agreements for the transfer of land with obligations to deliver within defined time, cost and quality parameters. Ravelin may enter into development agreements as a developer, or as a landowner seeking to pass on development risk to the private sector.

Special purpose vehicle/joint venture

A special purpose vehicle (SPV) can be set up as a legal entity for a specific project to isolate risk. It is more likely that an SPV would be set up as a subsidiary of Ravelin. An SPV may be considered where Ravelin chooses to partner with another party to deliver greater regeneration benefits or optimise the return to the council.

Ravelin may also enter into joint ventures with developers. This would allow Ravelin to share and spread risks with other parties, unlock sites, access private finance and use specialist skills.

A joint venture (JV) represents a higher risk strategy and involves larger levels of investment over a longer duration. This places a large share of the risk on Ravelin but in return a higher share of the profits should be expected.





	Pros Pros Pros Pros Pros Pros Pros Pros	Cons
Direct Delivery	In House Doesn't rely on a new structure More accountable and flexible	Funding restrictions Organisational barriers within councils Risk of political micromanagement
Acquisition and Site Disposal	Lower risk and minimal investment Short timeframe of returns Possibility to secure % of future profits	Purchaser requires large share of the profits
Special Purpose Vehicle	Access to finance outside the council facility agreement Can generate a return for a general fund	Difficult to setup Less accountable Reduces debt liability
Joint Venture	Works for large sites which councils haven't got capacity to delivery for Shares risk	Complex Harder to get a good deal for councils and communities Shares reward
Procurement	Able to work with local companies to support local development	Extra expense of procurement process reduces profit



7 FUNDING OPTIONS

Local Government Framework **Local Governnet Finance** Regulation, Codes and Compliance Your Risk Profile **Strategy Objectives** Unique Financial Strength Ratings Rating Advisory Capital Expenditure Projects Debt Portfolio Management **Public Rating Execution** Strategy and Rating Risk Management **Objectives Advisory Bank Financing Hedging Instruments** Hedging **Funding** Policy and Process **Private Institutional Debt Advisory Options** Risk Analysis **Public Bonds Commercial Paper** Execution **Local Authority Loans** Portfolio Restructuring Post trade support (accounting, reporting, management)



Available council funding routes

Ravelin will consider strategic partnerships in order to access these funding opportunities.

Facility agreement

Our predominant funding option is borrowing and Ravelin will do this through a facility agreement with the council, the main shareholder of Ravelin on commercial terms.

Homes England Affordable Homes Programme 2021-2026

Homes England has recently announced funding and support availability for all organisations with an interest in developing affordable housing – including housing associations, local authorities, developers, institutional investors, for-profit registered providers, community-led organisations and others. Ravelin will not be a registered social landlord and would seek to partner with one to access this funding.

Up to £7.39 billion will be made available from April 2021 to deliver up to 130,000 new affordable homes outside of London. The fund aims to:

- Support the cost of building housing for rent or sale at sub-market rates.
- Support the delivery of housing of all types and tenures including; homes for rent, social Rent, affordable rent.

The fund's wider objectives

The fund's wider objectives place a significant focus and investment in modern methods of construction (MMC). But also focus on:

- Encouraging the uptake of the National Design Guide.
- Improving the energy efficiency and sustainability of new affordable housing supply
- Encouraging the use of SME contractors.

Homes England will include these elements in in the assessment criteria for funding applications, as well as in their standard conditions of funding.

How to apply for funding

1. Continuous Market Engagement (CME)

Information required for an application will cover two areas:

- Applicant details (e.g. type of organisation, location).
- Scheme details (e.g. geography, tenure, number of homes, costs, land, planning, grant requested).

Applications will be assessed on their individual merits against cost minimisation and deliverability criteria. Ravelin Housing will also consider how schemes demonstrate alignment with the strategic objectives.

2. Multi-year strategic partnership deal

These will be assessed, scored and ranked to determine the successful applications against the following criteria:

- Value for money.
- Strategic priorities.
- · Delivery of home ownership tenures.



8 INFRASTRUCTURE AND PLANNING CONSIDERATION

The investment strategy should consider the planning considerations and requirements that could impact on the investment decision. These need to be considered in line with the council's requirements.

This section sets out the main items within the planning system that are expected to have an impact on the decision made when developing/acquiring a site. Ravelin Housing will run through these in high-level, set out the key items that will have an impact, and the ramifications of these to development.

Local Plan/Area Action Plan

New development should align with Portsmouth's ambition to become a more sustainable city and so the priority for housing locations should be in areas that are close to existing public transport routes and everyday facilities.

Portsmouth's spatial strategy outlined that the majority of new housing, employment and retail development will be directed towards the strategic sites of Tipner, Port Solent, Horsea Island, Lakeside Business Park, the City Centre and Somerstown and North Southsea.

The findings of the Land Availability Assessment of the city for housing, is 14, 467 dwellings over the period 2016–2036. This includes an allowance for 1,200 homes at Tipner West and the firing range.

This compares to a local housing need (using the government's standard method) of 17,260, leaving a shortfall of almost 2,800 homes.

Contamination (nitrates) – requirement for capping and cost implications

On 26 July 2017, the government published the UK plan for tackling roadside nitrogen dioxide (NO2) concentrations (the UK Plan). This set out how the government would bring the UK NO2 concentrations within the statutory annual limit of 40 micrograms per cubic metre (μ g/m³) in the shortest possible time.

At the time Portsmouth City Council's Air Quality Strategy was produced, there were five locations where the annual mean NO2 EU Limit Value of 40µg/m3 was modelled as being exceeded by either the DEFRA PCM model or by local modelling work, with all forecast to remain above the 40µg/m3 limit until at least 2020. These locations are shown in Figure F.1 in appendix F.



9 INNOVATION AND MODERN METHODS OF CONSTRUCTION

The adoption of MMC is crucial to tackle the productivity, skills and materials challenges faced by the housebuilding industry and to drive improvements in quality, safety and sustainability. Adopting a higher level of MMC has the potential to diversify the market and help to increase the numbers of new homes delivered.

Following a specific commitment made in the 2017 housing white paper, Fixing the Broken Housing Market, the UK launched the Ministry of Housing, Communities and Local Government (MHCLG) joint industry working group which was tasked with defining and promoting a greater use of MMC within residential development. The group has since defined a new categorised definition framework for different forms of innovative construction methodologies falling within seven distinct categories. This ranges from pre-manufacturing of 3D primary structural systems and additive manufacturing to traditional building product led site labour reduction/productivity improvements.

Main market considerations for MMC

Quality assurance

The lack of long-term data on the durability of MMC homes in the UK is a considerable barrier. It is very difficult to assess the long-term durability of homes built using new and innovative techniques, which has led to difficulties obtaining financial products such as insurance and mortgages on MMC homes. However, digital technology makes it possible to collect, store and share data about the construction, maintenance and materials used in MMC buildings. This can be beneficial to customers wanting to make changes to their homes.

Workforce and training

Current skill shortages will be exacerbated unless new people are trained in both modern and traditional techniques and brought into the workforce. However, adopting MMC will take some of the work off-site and provide opportunities for more digital working which

could help to attract young people into the sector and increase capacity.

Supply chain

It is clear that for both suppliers and developers there is a lack of robust supply chains and this is a major barrier to greater uptake of MMC. Homebuilders must deliver a product which is well designed and desirable to homebuyers; homes need to be adaptable and provide ample living space and storage if they are to meet the needs of buyers. When designing homes, methods of construction and transportation need to be considered at an early stage.

There is a plethora of MMC techniques being developed and utilised by different homebuilders. This means designs and components are developed to suit a particular method but may not be compatible with another type of MMC.

Target tenure

MMC has huge potential to meet the demand for social housing. MMC are particularly well suited to mass production because the large volumes of standardised accommodation help to bring down unit costs. Some forms of MMC have also proven to be more energy efficient than traditional construction techniques which helps to reduce fuel bills and running costs for tenants.

Site constraints

Some types of MMC will be appropriate for certain sites but not others, for example, if there are limitations on site access it might not be possible to install externally produced, modular homes. Therefore, it is not desirable to concentrate too narrowly on certain types of MMC.



Building regulation and energy efficiency

The current suite of approved documents is confusing and difficult to comply with. It is particularly difficult for homebuilders that use MMC to apply the regulations to their developments. This could result in compromised safety standards in MMC buildings. The adoption of MMC can help meet PCC's carbon footprint targets, reduce air quality issues through reduced construction traffic and help contribute towards the greener homes policy objectives.

Access to finance

The up-front investment needed for MMC developments is an additional barrier that limits take-up among homebuilders. New government funds such as the Homes England Affordable Homes Fund will include minimum MMC requirements as conditions of funding and funding assessment criteria will require developers to display how they intend to adopt MMC.

Future potential for modular construction

Modular construction has huge potential in helping Ravelin achieve its housing targets whilst achieving its strategic objectives.

For decades, construction has lagged other sectors in productivity performance. Now there is an opportunity for a step change: shifting many aspects of building activity away from traditional onsite projects to offsite manufacturing-style production.

A report undertaken by Mckinsey in June 2019 outlined the huge potential for modular construction both globally and in the UK. They estimate that modular construction could claim

\$130bn of the market globally by 2030, deliver annual savings of \$22bn and help fill a \$1.6 trillion global productivity gap identified in 2017 and prominent throughout the UK construction market.

The report highlighted that, adopted correctly, modular construction can speed construction by as much as 50% and in the right environment and trade offs it can cut costs by 20%. Furthermore, with labour and housing shortages widespread throughout the UK the market potential for modular construction to gain traction is huge.



10 OPERATIONAL MANAGEMENT

Stage 1: Understanding the requirement Stage 2:
Development of overview
of market strategy and
industry best practice

Stage 3:
Strategy development and ratification from option paper

Stage 4: Strategy approval and sign off

Stage 5: Phased strategy implementation

Operational strategy development

The asset model is split into three main components; the built asset, the service offer and the operational model. When developing the operational strategy there are several stages that must be considered by Ravelin.

Understanding the requirements:

- What does the market want/demand, need, afford for a given location as a function of demographics, employment and affordability trends. This will shape the brand strategy and product definition.
- What is the programme, size, scale, nature and the shape thereof. What are short, medium and long term priorities for strategy development.

- What is financially viable across the project lifecycle and investment programme and how are the asset model components formulated to minimise yield attrition.
- Who leads this activity on behalf of Ravelin Group?
- Which stakeholders need to be considered?

Develop overview of market strategy and industry best practice

- Market analysis to define and shape requirements across all model components.
- Obtain best practice market examples across all asset model components. Focus on current and future trends to be the basis of assessment.
- Completion of investment strategy and development programme to inform asset model components.

 Review financial model, obtain and determine clear parameters to inform strategy definition.

Initial decisions

- Tiered approach to built asset bronze, silver, gold. Built asset specification to be developed and refined in conjunction with market data and financial model on project basis.
- Tiered approach to service offer bronze, silver, gold. Baseline standard to be developed and refined in conjunction with market data and financial model on project basis.
- Operational model: Sublet to housing team of external provider with operational governance and directorate to be determined but sat with RPG.

 Design steering group to inform built asset specification. To comprise design and contractor representatives. PMC, HGP, Mace & Re-Format.

Summary

For Ravelin to adopt an effective operational strategy it is critical to accurately assess the market requirements as this forms the basis for the entire operational plan. Once identified the build and operational specification can then thoroughly be considered and weighed up against the cost and programme considerations.

Operation of built assets may be undertaken by an associated company for tax efficiencies.



11 INVESTMENT PROGRAMME

The development programme is planned over 10 – 15 years with the first project commencing on site in 2021. The programme will seek to deliver 950 homes in the short term (0–5 years), 2150 homes in the medium term (5–8 years) and 2800 homes in the long term (8–15 years).





Site	Approx. dwelling	Topuro	Estimated GDV	Timeline to complete	Maturity	Notes
Site	numbers	Terrure	Latimated GDV		Score (1-3)	
Α	76	52 market 24 affordable	£25m	Short 0-5 years	2.7	Scheme has planning and D&B contractor has been appointed.
В	17	70% market rent 30% affordable	£4m	Short by 2023	2.7	Scheme is on site. Professional team appointed. Need to identify site for affordable.
С	134	70% market / PRS 30% affordable	£40m	Short 0-5 years	2.0	Refurbishment scheme. Site in other ownership.
D	200	70% market 30% affordable	TBC	Short 0-5 years	Not yet assessed	Assumed policy compliant tenancy. Site in other ownership.
E	100	70% market 30% affordable	£27m	Mid 5-8 years	1.2	Assumed policy compliant tenancy.
F	500	70% market 30% affordable	TBC	Mid 5-8 years	1.3	Assumed policy compliant tenancy. PCC advancing scheme to planning.
G	500	70% market 30% affordable	TBC	Long 8-15 years	Not yet assessed	Assumed policy compliant tenancy. Site in other ownership.
Н	492	45% market/PRS 55% affordable	£95m	Short 0-5 years	2.2	Strategic site for Ravelin & PCC.
I	25	70% market 30% affordable	£6m	Short 0-5 years	1.2	Assumed policy compliant tenancy.
J	350	70% market 30% affordable	£75m	Mid 5-8 years	1.7	Assumed policy compliant tenancy. Strategic site for Ravelin & PCC. Site in other ownership.
K	10	100% market	£3,5m	Long 8-15 years	1.2	Reprovision of existing services may be required.
L	3500	80% market 20% affordable	TBC	Mid /Long 5-15 years	Not yet assesses	Assumed future policy compliant tenancy. Strategic site for Ravelin & PCC.
Total	5900					



12 MONITORING AND CONSULTATION

Critical success factors

As set out within the Ravelin Housing business plan and confirmed through works held with the RHL directors, the investment objectives of Ravelin Housing as set out in section 1 have been agreed. To bring focus on the key results that Ravelin Housing is seeking to achieve a set of critical success factors (CSF) have been determined.

These will be used to develop the key performance indicators (KPIs) to enable investment activity outcomes to be measured and demonstrate how effectively the investment objectives are being achieved, answering the question, how will success be measured?

CSF are the elements vital to the successful delivery of the investment objectives. It is important for them to be both specific and measurable.

Detail of how each project is expected to perform will be included in the project BJC.

CSF01	Increase local housing supply and affordability
CSF02	Delivery of mixed and balanced communities
CSF03	Delivery of sustainable homes, to assist PCC in meeting climate emergency objectives
CSF04	Priority given to local residents on all open market and rented homes
CSF05	Supporting planning policy compliant schemes
CSF06	To deliver 1,000 new homes by 2032
CSF07	High residents satisfaction score



13 SUMMARY CHECKLISTS

Stage 1: Consider the strategic context

- Sufficient consideration given to the objectives, strategy and policy from Portsmouth City Council?
- Objectives and strategy from PUSH considered?

Stage 2:

Evaluate investment against the key considerations

- Land and/or properties acquired?
- Access to required internal and external resources?
- Contractors and developers considered?
- Is the build sustainable/ a new build / regen site / site acquired?

Stage 3:

Consider the different delivery options

- Level of control?
- Extent of ownership?
- Adequacy of human resource?
- Willingness to access private funding?
- Appetite for risk?

Stage 4: **Assess the viability** and affordability

- Financial viability assessed?
- Does the investment align with Ravelin's strategic objectives?
- Does the rate of return align with the level of risk?
- Qualitative and quantitative risk assessment given?

Stage 5: Consider the funding options

- MMC assessment requirements?
- Considered the requirements for Homes England Affordable Homes Programme 2021-2026?

Stage 6: **Assess infrastructure and** planning requirements

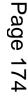
- Have the CIL / S106 / S278 requirements been met?
- Has the Local Plan / Area Action Plan been considered?
- Has Portsmouth Contamination (Nitrates) Requirement For Capping And Cost Implications been considered?

Stage 7: Assess the feasibility of innovation and MMC

- Quality assurance measures in place?
- Supply chain considered?
- Workforce and training practices in place?
- Target tenure decided?
- Site constraints assessed and mitigated?
- Are there any access restrictions that may limit modular construction?
- Access to finance specific for MMC? Insurance?

Stage 8: **Operational management** considerations

- Understand the requirements?
- Marketing strategy complete?
- Industry best practice?
- Drivers and opportunities?
- Operational management considerations?
- Programme and cost?
- Build and operational spec?







1 HAVE YOU CONSIDERED THE STRATEGIC CONTEXT?

Sufficient consideration given to the objectives, strategy and policy from Portsmouth City Council?

Objectives and strategy from PUSH considered?

2 HAVE YOU EVALUATED INVESTMENT AGAINST THE KEY CONSIDERATIONS?

Land and/or properties acquired?

Access to required Internal and external resources?

Contractors and developers considered?

Is the build sustainable / a new build / regen site / site acquired?

3 HAVE YOU CONSIDERED THE DIFFERENT DELIVERY **OPTIONS?**

Level of control?

Extent of ownership?

Adequacy of human resource?

Willingness to access private funding?

Appetite for risk?

4 HAVE YOU ASSESSED THE VIABILITY AND **AFFORDABILITY?**

Financial viability assessed?

Does the investment align with Ravelin's strategic objectives?

Does the rate of return align with the level of risk?

Qualitative and quantitative risk assessment given?

5 HAVE YOU CONSIDERED THE FUNDING OPTIONS?

Considered the requirements for Homes England Affordable Homes Programme 2021-2026?

MMC assessment requirements?

6 HAVE INFRASTUCTURE AND PLANNING REQUIREMENTS BEEN MET?

Have the CIL / S106 / S278 requirements been met?

Has the Local Plan / Area Action plan been considered?

Portsmouth Contamination (Nitrates) Requirement and cost implications been considered?

7 HAVE YOU ASSESSED THE FEASIBILITY OF **INNOVATION AND MMC?**

Quality assurance?

Supply chain?

Workforce and training?

Target tenure?

Site constraints?

Access restrictions?

Access to finance?

8 OPERATIONAL MANAGEMENT CONSIDERATIONS?

Understand the requirements?

Marketing strategy complete?

Industry best practice?

Drivers and opportunities?

Management considerations?

Programme and cost?

Build and operational spec?



14 NEXT STEPS

Actions:

- 1. Build the capability within the housing development team to deliver a successful development and enabling programme.
- 2. Develop and publish a five-year rolling development programme with an objective of achieving 100+ units p.a.
- 3. Review corporately all council land ownership to identify potential housing development sites for new housing.
- 4. Potential development sites across the programme to be reviewed and internal negotiations to be carried out following necessary approvals.
- 5. Establish effective working relationships with a range of development partners.





Appendix A: Business Case Outline for Investments

Appendix B: Portsmouth Housing Market

Appendix C: UK Housing Market

Appendix D: Private Rental Sector

Appendix E: Target Rental Market

Appendix F: Strategic Context

- Portsmouth Plan
- Portsmouth Spatial Strategy
- Portsmouth Economic Development and Regeneration Strategy
- Ageing Population
- Health and Wellbeing
- Homelessness Strategy 2018-2023
- Portsmouth Air Quality Strategy (2017-2027)
- Greener Homes Policy Objectives
- Shaping the Future of Housing Strategic Plan
- Tenancy Strategy

Appendix G: Demographic Analysis



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A BUSINESS CASE OUTLINE FOR INVESTMENTS

The business case will include the following as a minimum:

Reasons

Why is the investment needed?

Options

What are the options available?

Benefits

What would be the benefits of the investment? How would it help deliver the Ravelin business plan objectives?

Investment appraisal

A detailed financial appraisal setting out the projected income and costs associated with a potential acquisition along with an assessment of the proposed financing options and associated risks and considerations over the term of the loan.

Risk management assessment

A detailed risk assessment of the potential investment, including mitigation measures that can be employed:

- Specific risks associated with the proposed investment
- Risk of failure (sales / letting void risks)
- Costs of ownership and management
- Differing ownership structures (e.g. wholly owned subsidiaries).
- Sector risk (portfolio spread)
- Provide an exit strategy financial assessment as a 'worse case' scenario
- Liquidity assessment
- LTV ratio assessment

Market risks

Market risks, including risks of structural change or market failure, which may affect the market as a whole or particular subsectors or groups of property:

- Illiquidity upon sale (e.g. lot size, transaction times, availability of finance)
- Failure to meet market value expectations (forecast value growth and rental growth)
- Failure to meet market yield expectations (forecast yield shift)
- Risk of locational, economic, physical and functional depreciation through structural change
- Risks associated with legislative change (e.g. planning or changes in fiscal policy)

Portfolio assessment

An assessment to establish suitability against the council's existing property portfolio which will consider rental levels, location, property type, rent review and lease expiry patterns, industry sector, tenure, lease covenants, market exit constraints and physical and environmental factors.

Legal

- Report on title (to confirm ownership)
- Options for legal structures (e.g. use of wholly owned subsidiaries)
- Advice on SDLT and VAT linked to use of legal structure options
- Ongoing SLA/construction/development agreements

Estimated timescale

- Proposed start date
- Estimated end date
- Duration

Estimated project resources

- Identify role and name of resources
- Estimate the demand on resource time
- Identify resource gaps and whether these can be met
- Identify external resources required and estimated budget cost



B PORTSMOUTH HOUSING MARKET

The South Hampshire Strategic Housing Market Assessment (SHMA) 2014 outlines the projections for housing mix, which are driven by long-term demographic factors. Over the last decade the analysis points towards a shift in the housing mix towards smaller properties, but also a growth in private renting. In Portsmouth owner-occupation has fallen consistently over the past few years.

Part of the housing challenge Portsmouth faces, is the provision of a mix of tenures types at a variety of price points to suit the diverse housing and economic needs of the city's population as Ravelin Housing enter into another recession.

Defining the housing need

At present, the assessed local housing need for the city is around 863 homes per annum 2016–2036, a total of 17,260 homes. This estimate was taken in early 2020 whilst awaiting MHCLG's final position on assessed housing need. The new Local Plan will replace the current planning policy framework and is due to be adopted in towards the end of 2021 and will provide new support for developers.

Affordability is a key feature of the housing market. One in five households in Portsmouth lack the income necessary to engage with the housing market unless assisted by the housing benefit system, or have access to housing at cheaper rents.

Affordable housing

The current Local Plan for Portsmouth sets out a requirement for affordable housing to be delivered as part of larger for sale developments (15 units or more) at a minimum of 30% of the total number of dwellings.

Affordable housing is defined in the NPPF as social rented, affordable rented and intermediate housing, provided to specified eligible households whose needs are not met by the market.

Affordability is a key feature of the housing market. One in five households in Portsmouth lack the income necessary to engage with the housing market unless assisted by the housing

benefit system, or have access to housing at cheaper rents.

To meet the affordable housing requirements in the Local Plan affordable rented units are proposed, which are not subject to the national rent regime but are subject to other rent control that require a rent of no more than 80% of the local market.





Build to rent

There are currently no policies in Portsmouth to support Build-to-Rent (BTR) developments and as such any BTR projects will be considered under the NPPF guidance and as such will require a min of 20% affordable housing. However, this will be discussed in more detail in section xxx.

Opportunities

Savills has undertaken market research into the Portsmouth market. Notably this has revealed Portsmouth is a net importer of workers, with 13,000 more people traveling into the city each day to work compared to those traveling out. In total, 41,000 people travel into the city each day to work. Therefore, there is an opportunity to capture some of these by providing additional, adequate housing.

Effect of the pandemic on housing demand in Portsmouth

The city has recently been named second in eMoov's national hotspots index which looks at the property market across the UK's 150 most populated towns and cities. Portsmouth was only behind Rugby for buyer demand in properties for sale – with estate agents saying many people from London are attracted by relatively low prices.

This represents a greater need for affordability. There are shared concerns that Portsmouth will struggle to cope with the increased demand, leading to prices rising and locals being priced out of the market. Whether this remains to be a long term trend is yet to be established. However, if the pandemic has taught us anything, its that flexibility of the workplace will continue to make people question their work life balance and the location in which they chose to live.



CUK MARKET ANALYSIS

Current market uncertainty as a result of Covid-19 is having an impact on investors' decision-making processes, with many choosing to adopt a defensive investment strategy which in turn has meant that investment value and market risk is difficult to determine. Given this period of increased uncertainty Ravelin Housing recommends reviewing the investment value over the next 18 months to determine and manage potential risks to the council.

To determine an effective investment strategy, it is necessary to consider the economic and political background within which Ravelin Housing will be starting to invest.

This will shape the underlying investment approach and ensure risk is identified and managed in an effective manner. The following section will focus on summarising the UK economic background, the impact of the current epidemic and political uncertainty on the property investment market, and the impact this could have on the Ravelin Housing investment Strategy.

UK economic conditions

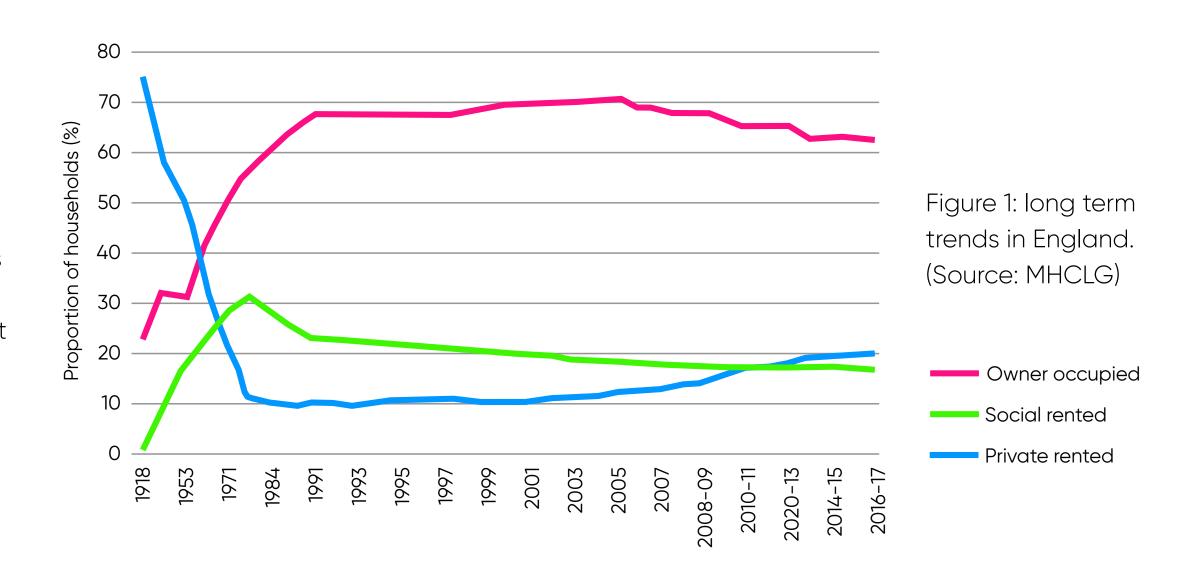
A key driver of economic growth in recent years has been consumer demand but household spending power has been curtailed over the last year because of the pandemic. Falling real earnings and lower savings may limit future activity.

Brexit

One item almost forgotten in recent months, following four years at the top of the news, is Brexit. It is prudent to remain mindful of ongoing issued related to Brexit and in particular its impact on the supply chain and labour market.

Long-term tenure trends

Long term trends show that occupation rates are decreasing, dropping from 70.4% in 2005 to 63.8% in 2017. In contrast, the private rental sector has increased over the same period, a trend forecasted to continue over the coming decade. This trend is shown in figure 1.



Recent government commitments

Recently, the government has also committed to building more homes. However, its new housing reforms won't improve conditions in the near term. Assuming the reforms outlined in the Ministry of Housing, Communities and Local Government's August White Paper are implemented, they will not take hold for a number of years. Additionally, with the plans set to change incentives to developers, it is possible they will actually have a negative short-run effect. If returns look likely to be better after the changes in

policy, housebuilders could hold developments back. An overview of recent government commitments is given below:

- £12bn to be spent over eight years on the affordable homes programme
- £96m to improve town centres
- £760m for repairs and upgrades to schools and colleges
- £900m to support local growth and infrastructure projects
- £100m on road projects



D PRIVATE RENTAL SECTOR

The recent growth of the PRS and the subsequent decline of home ownership, has been fuelled by a combination of political, social and economic factors. One of the main drivers is the affordability barrier of home ownership.

A combination of significant house price growth and tighter mortgage regulation following the 'credit crunch' has meant that the average deposit for first-time buyers has risen from £2,200 in 1998 to £26,000 currently. This will continue to constrain home ownership, particularly for low and middle income earners.

BTR is beginning to gain significant traction in the UK. As of October 2020, there are 50,800 completed purpose designed BTR homes in the UK. Forecast investment in the sector is £75 billion by 2025 (source: Knight Frank 2020) and the proportion of households expected to be in the private rented sector generally will rise to 22% by 2023.

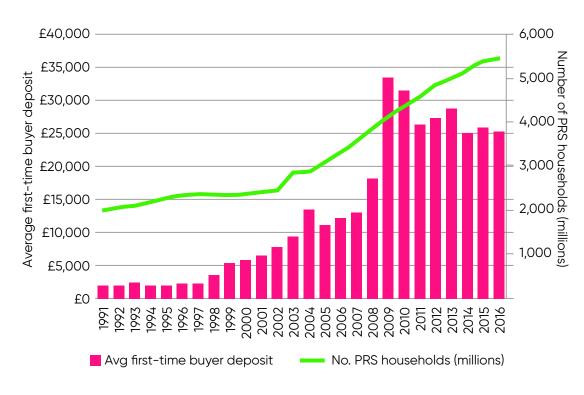


Figure 2: long term trends in England. (Source: MHCLG)

It is also forecast that 2020 will be a record year for investment in BTR stock in the UK with £2.7 billion spent in the year to date and a figure exceeding £4 billion anticipated for the whole year (source: Savills, Oct 2020). It is proving to be a resilient asset class, with research indicating that rent collections have remained high throughout the coronavirus pandemic, averaging 95.2% between March and August 2020.

Key figures:

- £4.02 billion anticipated investment in UK institutional BTR in 2020.
- £41 billion capital already committed to the sector to date with a further £19 billion ready to be deployed in schemes with planning.
- 95.2% average rent collection rate for institutional BTR schemes between March and August.
- 50,800 completed purpose designed BTR homes in the UK.

Trends of the PRS model

Currently the average size of a completed scheme is 212 units. This increases to 264 units for homes currently under construction and 316 for schemes with planning granted. Some 10% of the total number of schemes in the pipeline include plans for more than 500 homes.

Local PRS schemes

Bow Square is the Solent region's first BTR scheme, on the site of the former fruit & veg market in Southampton city centre. A £60m development, delivered in three phases, the scheme provides 279 one and two bed apartments, as well as commercial space and communal amenity areas for residents. Amenity space for residents includes a gym, yoga suite, communal garden, residents' lounge and kitchen. A concierge service is provided.

Current rents at Bow Square range from £915 pcm for 1 bed apartments to £1150 pcm for 2 bed apartments.

Key features

One of the defining features of BTR is that the entire building/development is in single management. This is an essential requirement for many investors and operators, who want to control the whole property for efficiency reasons, and to have complete autonomy over their asset.



ETARGET MARKET

Drivers of PRS

- Younger workers especially have taken advantage of the increased flexibility of renting, as it is a tenure which allows moving between locations without any of the costs associated with buying or selling a property.
- Affordability constraints in the sales market have curtailed some tenants plans for house purchases, resulting in a longer stay in the rental sector as they save for a deposit.
- The lack of a mortgage deposit is the key driver for those renting.
- People want to live within a short commute time of their workplace.

Who is renting

Generally, tenants are becoming older with 26% of all privately renting households aged between 35 and 44 years, up from fewer than 10% in 2000. This also means more families are living in privately rented accommodation, with

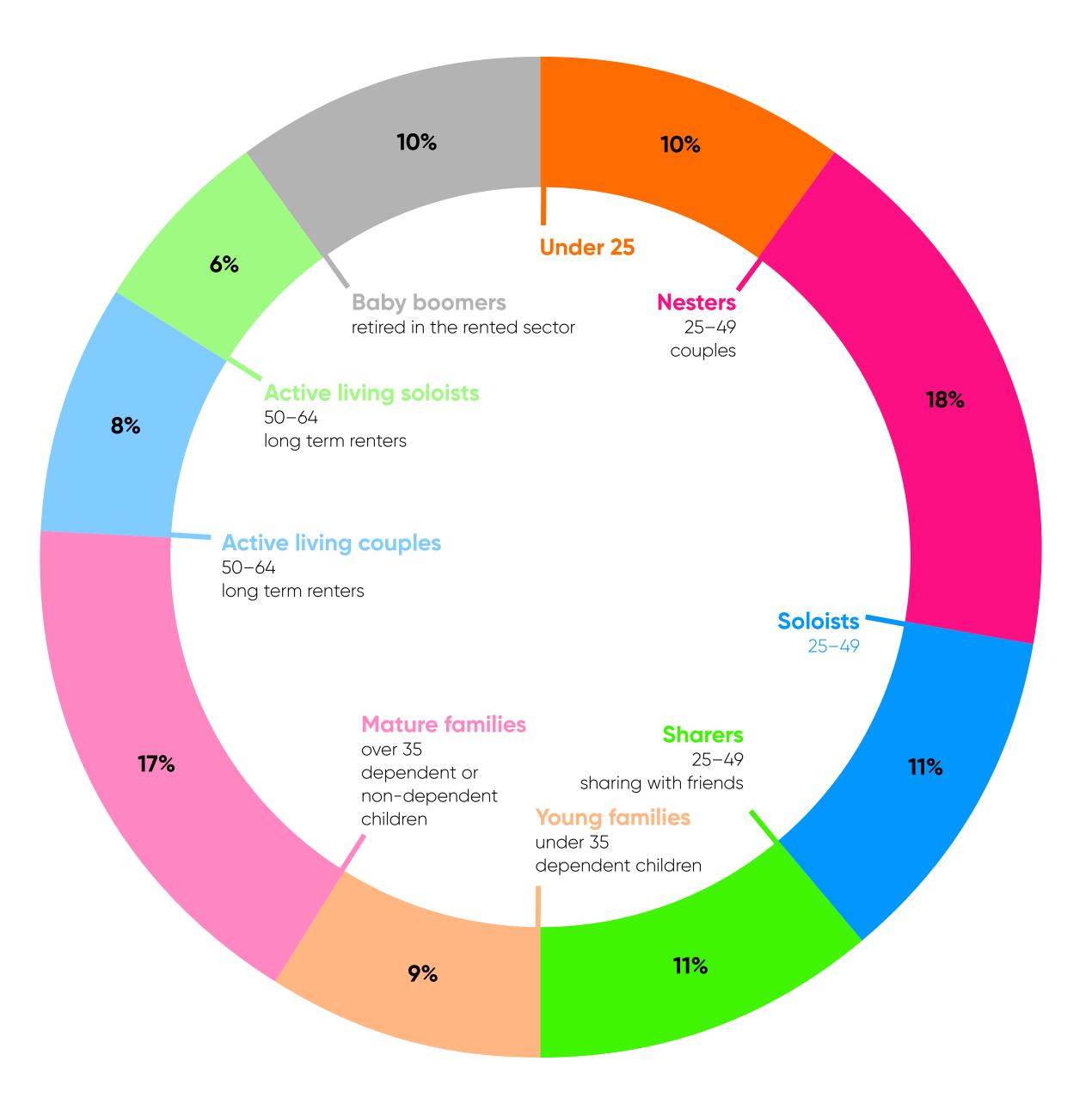
the number of households with children who are privately renting nearly doubling over the past 10 years alone.

Young professionals no longer make up the largest group living in the private rented sector having been overtaken, albeit marginally, by 35 to 49 year olds. This age group is also expected to show the biggest growth in households in the private rented sector over the coming years, with difficulty in obtaining a mortgage deposit to buy a home remaining a hurdle.

Relative rents of PRS schemes

Vail Williams' research within the Solent region is necessarily limited, given that only one BTR scheme has completed. However, analysis of rents at Bow Square compared to comparable modern rental stock in the immediate area demonstrates the following:

- 2B4P apartments a rental premium of 18%
- 1B2P apartments a rental premium of 15%





FSTRATEGIC CONTEXT

The Portsmouth Plan

The vision and objectives of the Portsmouth Plan sets out what kind of place Portsmouth should become by 2027. The strategy for the plan firstly outlines a Vision and then breaks down the vision into eight overarching objectives in which to achieve the vision statement. For the purpose of this document, only objectives relating to housing development will be considered.

The strategy assumes that any potential alternative use is consistent with the Local Plan.

Portsmouth vision statement

"To make Portsmouth the premier waterfront city, with an unrivalled maritime heritage – a great place to live, work and visit."

Housing delivery

Portsmouth is a built up city with tight boundaries, numerous physical constraints and no greenfield sites available for development and as such there are a limited number of locations for new housing sites. PUSH home delivery strategy focuses on new homes in urban areas to regenerate the cities and to relieve pressure on the surrounding countryside.

New development should align with Portsmouth's ambition to become a more sustainable city and so the priority for housing locations should be in areas that are close to existing public transport routes and everyday facilities.

Findings from the Local Plan Land Availability Assessment

The findings of the assessment are as follows – for housing, the assessed capacity of the city (including an assumption on the allowance to be made for student accommodation) is 14,467 dwellings over the period 2016–2036. This includes an allowance for 1,200 homes at west and the Firing Range.

This compares to a Local Housing Need (using the government's standard method) of 17,260, leaving a shortfall of almost 2,800 homes.

For economic land, the study identifies a capacity for schemes to deliver some 74,211 square metres of office floorspace and 82,749 square metres of floorspace for mixed business uses over the period 2016–2036. The targets for employment land are currently under review.





In terms of housing and development, the plan outlines the following objectives:

- All development aspiring to high architectural quality and protecting the local architectural heritage.
- Greening the city through developing on brownfield sites, protecting existing green and open spaces and creating a green network through the city.
- As part of the city's bid to reduce its carbon footprint, new development will have to make the most of sustainable design and construction techniques opportunities for generating and incorporating renewable energy technologies.
- Focussing developments around the town centres and public transport routes so that communities have easy access by a choice of modes of transport for getting around the city and are within easy reach of goods and services.

- Requiring travel plans from new residential developments, businesses, shops and schools.
- Supporting development that strengthens the marine sector and supports the commercial port.
- Improving community safety through designing developments to reduce opportunities for crime, ensuring safe walking routes in the city, working with transport operators to provide safe public transport and improving the green and open spaces so people feel safe in them.
- Ensuring that the types of homes built meet the city's needs - this means an increased focus on family homes which have been in short supply over the past few years, a requirement on housing developments to provide affordable housing and the provision of a range of housing for the elderly.

- Creating quality places to live where facilities and services are close to new housing development is well designed to high environmental standards and open spaces are provided or improved as part of development.
- Making it easier for people to adopt healthier lifestyles through active travel, and ensuring there are enough play and open spaces for people to exercise and relax.
- Targeting regeneration initiatives at the most deprived neighbourhoods to reduce health inequalities and social deprivation.





A spatial strategy for Portsmouth

Currently, Portsmouth does not have a large range of choices for development sites as it is largely built up and tightly constrained by administrative boundaries, the sea and nature conservation and flood risk designations.

Spatially the majority of new housing, employment and retail development will be directed towards the strategic sites of Tipner, Port Solent, Horsea Island, Lakeside Business Park, the City Centre and Somerstown and North Southsea.

Summary of development proposals in the development cells

	New homes	New employment floorspace (m2)	New retail floorspace (m2)
Eastern coast	401	30,178	O
Western corridor	2,401–3,971	152,275	51,000-52,500
Southsea and the southern waterfront	982	0	Ο
Central spine	655	9,000	O
Portsdown Hill	656	49,100	O
Total	5,095-6,665	240,553	51,000-52,500



Portsmouth Economic Development and Regeneration Strategy

The strategy addresses two major problems for Portsmouth; low employment growth and slowing GVA per capita growth. The strategy looking to the competitive advantages within Portsmouth and proposes a radical approach to improve the city's performance.

With regard to housing and development, the strategy has identified, through a consultation and evidence based approach, three key challenges to address:

- The huge development possibilities at Tipner and Horsea must be realised.
- The city's housing offer is still not attractive enough.
- The decline of the city centre as a retail centre must be tackled.

The strategy outlines that parts of Portsmouth are highly attractive and still very affordable but overall there is still a need to improve the city's housing offer to attract highly qualified people.

The strategy aims to increase the variety of homes and tenure available whilst improving neighbourhoods so that city can retain more graduates and retain more spend from more highly paid senior managers in the city.

A further SWOT analysis identified the following:

Strengths

Council and public sector land holdings, housing stock owned and managed by the council.

Opportunities

Council active investors and use of land holding for regeneration, Tipner, Horsea, the Port and other public sector land holdings

Improve the city's housing offer, neighbourhoods and city centre.

Weaknesses

Perceived lack of attractive housing/ neighbourhoods and high quality environment.

Threats

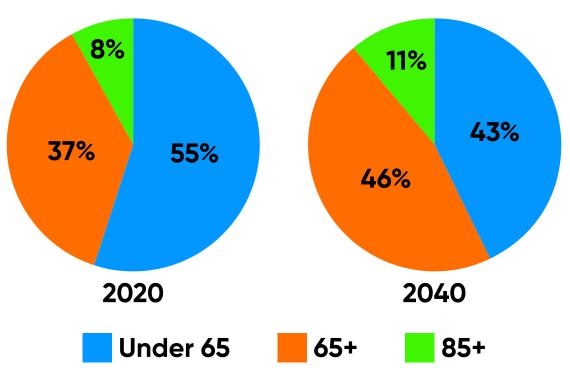
Businesses feel squeezed out by residential and university demands for space and do not feel planning policy is defending them.

Major new infrastructure is not delivered, e.g. coastal defences, city centre road, city centre north and Tipner/Horsea.



Aging population

The vast majority of older people in the city live at home (between 90% and 95%), and when asked, most people value their independence, and want to retain it for as long as possible. This raises challenges around ensuring housing needs of the older population are met, to allow a greater number of older people to live independently at home. The challenges derived from aging population is particularly prominent in Portsmouth where the proportion of over 65s is predicted to increase by 8.5% over the next 20 years.



Portsmouth City Council has produced the 'Portsmouth's Ageing Population Strategy 2010 – 2020' with strategic aims falling into four lifecycle stages:

- 1. Creating an age-friendly city
- 2. Preparing for later life
- 3. Living well in later life
- 4. Stronger support and protection

Housing forms an essential role in the successful adoption of this strategy. The ability to provide a range of housing options for older people, that are adapted to their personal needs, particularly in allowing easy accessibility to move around the home, and to local services and transport requirements, is an important part of making Portsmouth age-friendly.

At present there is a mismatch between the availability of specialist accommodation and lifetime homes and the council would like to see more flexibility in the housing provided. This is because a key component of the council's 'living well in later life' strategy focuses on its desire to provide elderly people with their independence, thus improving their quality of life and reducing the need for specialist care facilities.

The strategy also outlines the importance of older people, as well as the wider population, to feel safe in their homes. The council aims to ensure that all new housing has regard to the designing out crime supplementary planning documents.

Health and wellbeing

Many of the key objectives of the aging population strategy are replicated in Portsmouth's Heath and Wellbeing Strategy 2018–2024. The key themes are based around the impacts that community has on mental health and wellbeing. Housing plays a critical role to 'make improvements for marginalised groups fastest', a key theme of the strategy. New developments should promote access to housing for vulnerable people, recognising that having stability is the first step in addressing substance misuse and helping people deal with poor mental health.

Ravelin should take particular notice to ensure new developments allow easy accessibility to services and transport and ensure developments actively reduce barriers for health and wellbeing opportunities. Particular focus should be on encourage healthy lifestyle choices to promote physical, emotional and mental wellbeing.





Figure 3: Map showing NO2 exceedance locations throughout

Portsmouth

Homelessness Strategy 2018-2023

Portsmouth City Council's homelessness strategy identifies the significant role housing in the health and wellbeing of Portsmouth's residents. It remains vital that the strategy to prevent homelessness is aligned with the health and wellbeing strategy for the city to help residents resolve health challenges, ensuring the provision of good quality accommodation that promotes and supports wellbeing.

The strategy concludes:

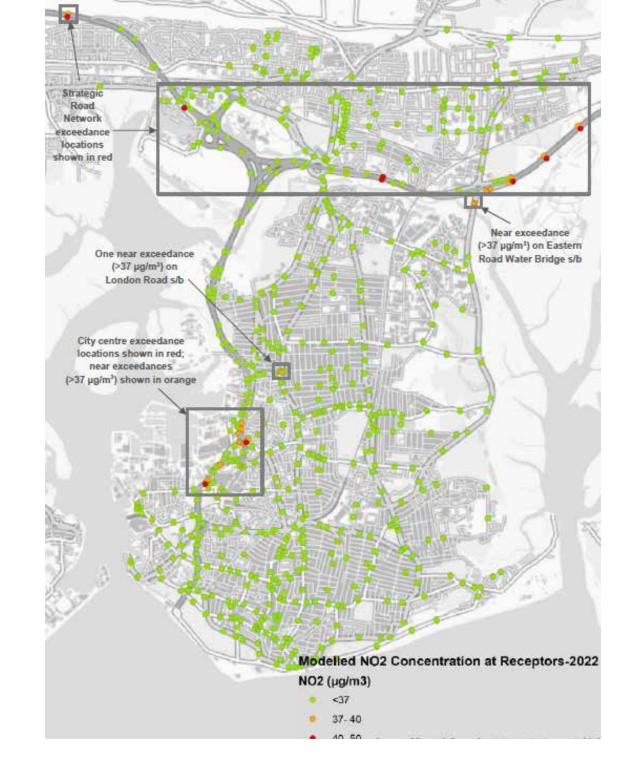
- Develop the working relationship between partner agencies to inform and develop practical and effective Personalised Housing Plans (PHPs).
- Work with the private rental sector to explore how additional advice, support or guidance could increase availability and affordability for tenants.
- Explore the potential to extend the Local Authority
 Housing tenancy management approach to
 offer similar support in the private rented sector.

 Explore innovative funding solutions to help people access private rented sector.

Portsmouth Air Quality Strategy (2017–2027)

On 26 July 2017, the government published the UK plan for tackling roadside nitrogen dioxide (NO2) concentrations ('the UK Plan'). This set out how the government would bring the UK NO2 concentrations within the statutory annual limit of 40 micrograms per cubic metre ($\mu g/m3$) in the shortest possible time.

At the time Portsmouth City Council Air Quality Strategy was produced, there were five locations where the annual mean NO2 EU Limit Value of 40µg/m3 was modelled as being exceeded by either the DEFRA PCM model or by local modelling work, with all forecast to remain above the 40µg/m3 limit until at least 2020. These locations are shown in figure 3 above.



Greener Homes Policy objectives

Portsmouth City Council's Green Homes Policy outlines eight key objectives to improve the environmental performance of all housing in the city and to create homes in which people choose to live with lifestyles which make a low impact on the environment.

- 1. To Raise environmental standards for existing housing.
- 2. To deliver and promote high quality deign in existing and new homes combined with exceptional environmental performance.

- To identify opportunities for micro-generation and other innovative and effective approaches to energy use in housing.
- To drive down housing construction and supply chain costs through economies of scale.
- 5. To incorporate lifestyle features in housing that cut emissions within the community, through good design that encourages behavioural changes in the use of electrical appliances and to include changes in transport, waste collection and food production and delivery.

To ensure that affordable and low cost homes are included, especially for families.

To meet or exceed benchmarks which encourage urban and housing design quality and engagement, access for the elderly and people with disabilities, good public spaces, sound delivery arrangements and long term management.



Shaping the Future of Housing Strategic Plan

Throughout Portsmouth household incomes vary significantly. This is shown in figure 4 below where neighbourhoods marked with darkest tints have the highest household incomes averaging over £40,000 annually; while those with the lightest tints have the lower household incomes of less than £25,000.

Renting distinguishes the Portsmouth housing market. In Portsmouth the proportion of dwellings that are owner-occupied (roughly six out ten) is below the regional average, and in consequence the number of rented properties (four out of ten), is well above the norm for most urban areas in the South East.

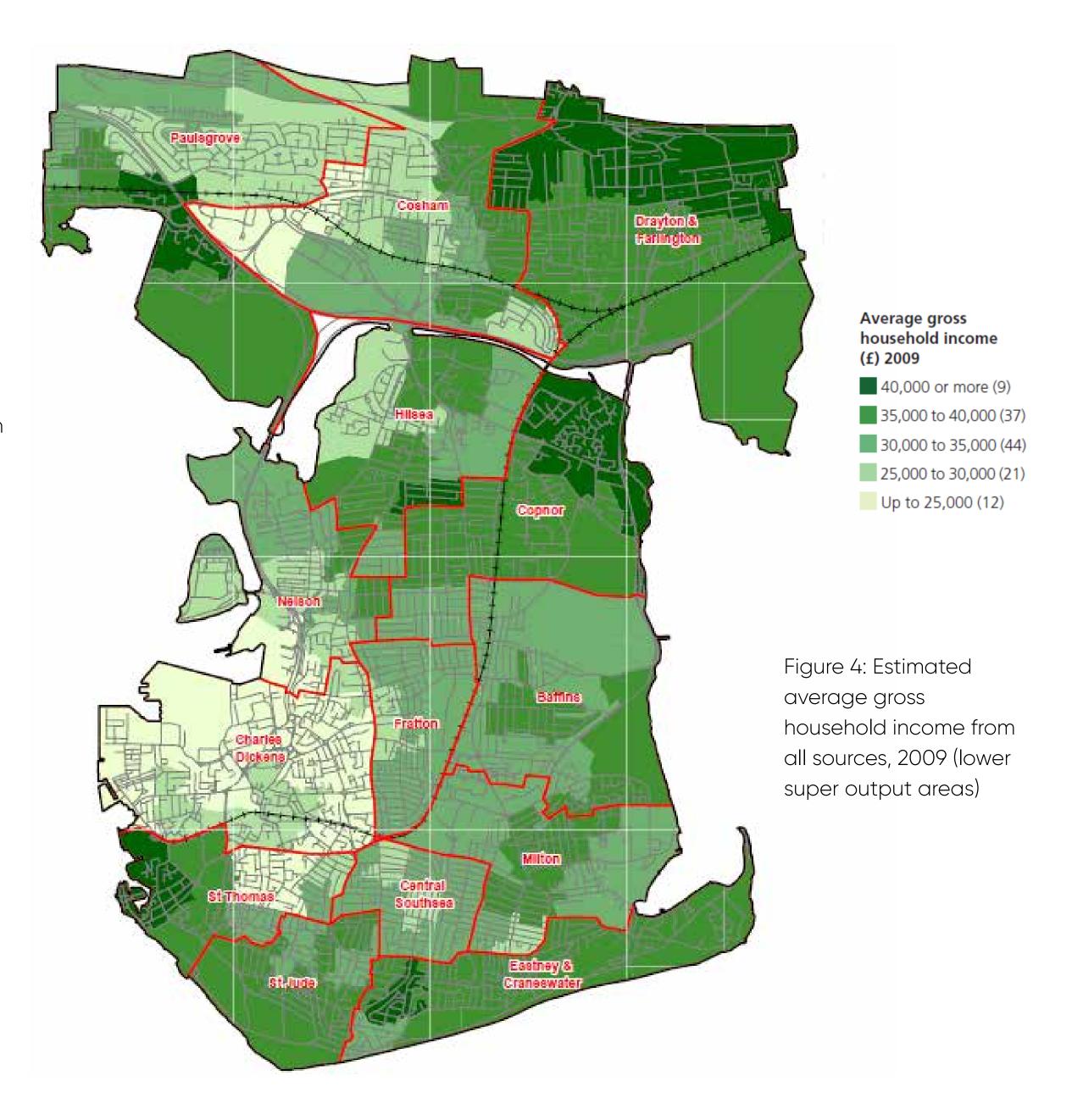
The city's rented sector is divided almost equally between social (not-for-profit) renting and private (commercial) renting, with trends

showing that private renting is increasing.

Data from the 2011 census on the proportion of socially and privately rented homes is shown on the next page in figures 5 and 6.

However, Portsmouth's property prices and rents are often lower if compared to other nearby towns and cities. This is mainly due to a surplus of private housing to rent. A relatively large stock of older terraced properties provides a regular supply of housing at more affordable rents and purchase prices.

Nevertheless, affordability is a key feature of the housing market. One in five households in Portsmouth lack the income necessary to engage with the housing market unless assisted by the housing benefit system, or have access to housing at cheaper rents.





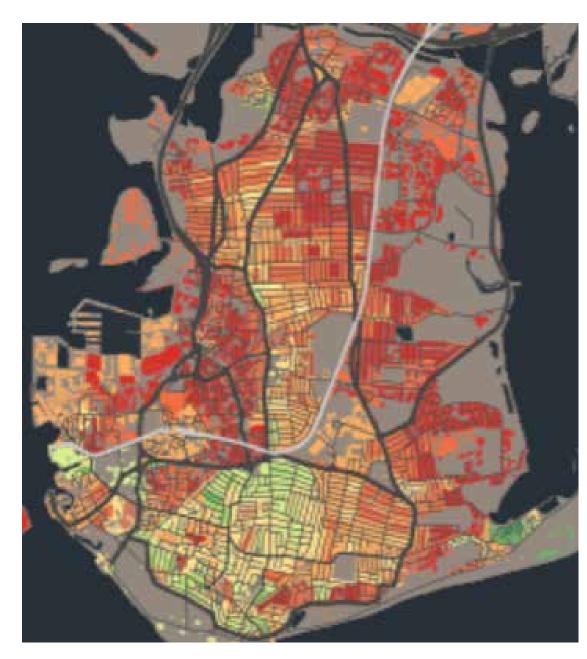


Figure 5 Proportion of Privately rented homes

Tenancy Strategy 2019-2034

The council outlines in the tenancy strategy that it prefers and encourages RPs to deliver homes at social rent/target rent levels, and as a minimum that all tenancies be within Local Housing Allowance (LHA) rates. It will take rent levels into consideration when nominating applicants from the central Housing Register via the Portsmouth Allocations Scheme.

The council also believes that affordable housing products, of all different types, should be available for those who would have traditionally been housed in social rented properties. It does not therefore expect RPs to require deposits, or to exclude applicants on the basis of onerous referencing.

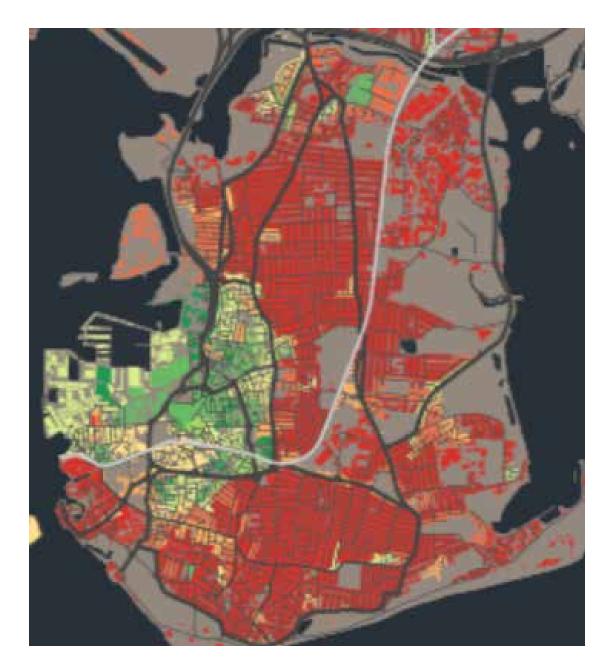


Figure 6 Proportion of socially rented homes



Nutrient Neutral Mitigation Strategy

High levels of nitrogen draining from the Solent catchment area have caused excessive growth of green algae (a process called eutrophication) which is having a detrimental impact upon protected habitats and bird species.

The interim strategy details the three routes currently available to applicants to achieve nutrient neutrality, which are as follows:

Mitigation Option 1: Offsetting against the existing lawful land use (water use) on an application site, extant permissions or other land controlled by the applicant; and/or

Mitigation Option 2: Other bespoke direct and in-direct mitigation measures, agreed in discussion with the council and Natural England, such as Sustainable Urban Drainage Systems (SUDS), interception or wetland creation.

Mitigation Option 3: Purchasing of 'mitigation credit' from the control of, and water efficiency improvement works to, the council's own property assets or other recognised source of 'credit' in perpetuity.

Use of the council's mitigation credit will require resourcing in order to cover both the cost of the works and the 'in perpetuity' costs of maintenance over the life of the development (the duration of the impact). The intention is to resource this through a proportionate contribution from developers, collected and pooled through S.106 agreements, secured prior to occupation (the point of impact requiring mitigation).

The costs of the scheme are set out in the table:

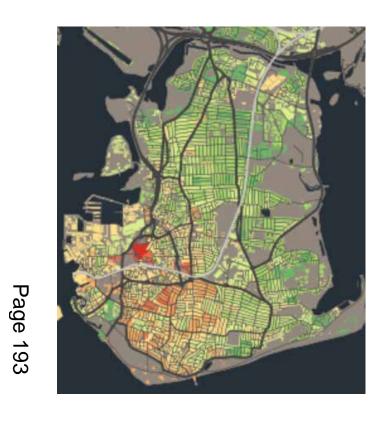
Mitigation credit bank charging schedule (cost recovery in perpetuity) for major development

	Savings (litre per household* per day)	Cost per unit	Maintenance contribution per unit
Over shower bath	96	£1,200	£500
Dual flush cistern	19.2	£200	£O
Total efficiency intervention	115.2	£1,900	
Average cost for efficiency upgrades to allow one nre overnight stay (54.8 L/bedspace/day2)		£903.82	
Average cost for effeciency upgrades to allow one new dwelling (2.4 occupants x 110l pppd = 264l/d)		£4,345.17	

^{*}a dwelling/household is considered to consist of 2.4 occupants



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Proportion of family homes



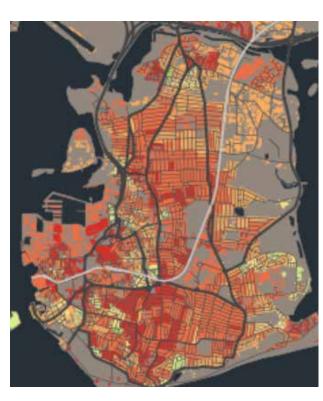
One person households



People aged 18-65 living alone



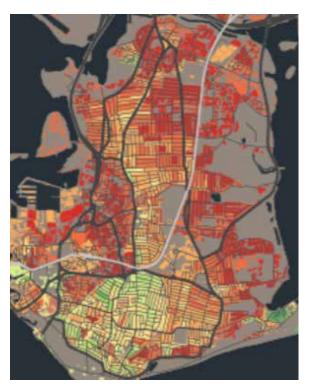
Married couple household with no dependent children



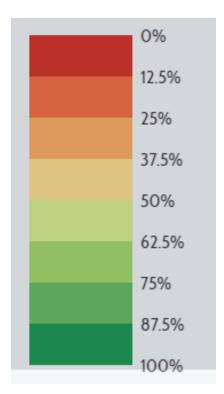
Household life stage of 65 and over



Proportion of people with no second address

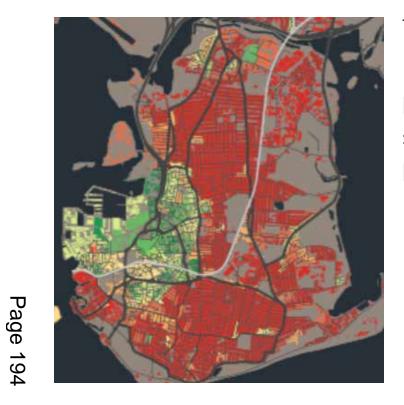


Tenure type - households, proportion of privately rented homes





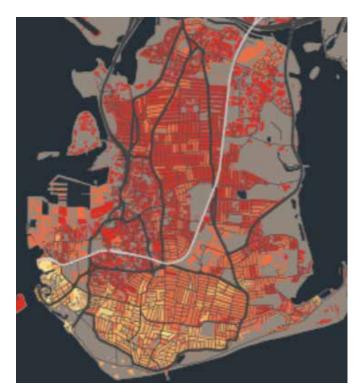
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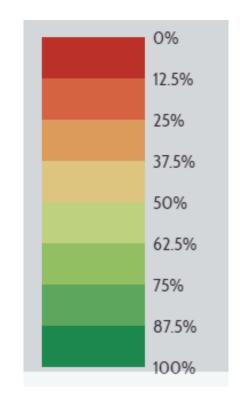
Tenure type - households, proportion of socially rented homes

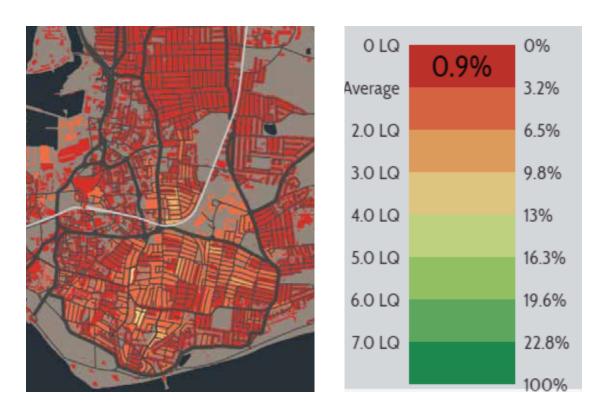


Tenure type - households, proportion of owned homes



Tenure type proportion of people with degree qualification





Proportion of people that commute by train

Conclusion

- A higher proportion of people in the eastern suburbs own their own home
- Socially rented homes account for the majority of homes in the CBD
- A large proportion of homes in the south are privately rented
- More highly educated people and people who commute by train tend to live in the south of the city
- People over the age of 65 live towards the east of the city
- Up to 50% of households living in Central Southsea have a second address.



By virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted



Guidance for Councillors and Officers on being company directors.

1. Introduction

- 1.1. For Portsmouth City Council ("PCC") to be able to "trade" (i.e. "to do something for a commercial purpose") the Council must do so through a company (i.e. as a separate legal entity to PCC).
- 1.2. The responsibility for supervising PCC owned companies is through PCC's Shareholder Committee, a committee of the political cabinet which meets regularly in public and which ensures that PCC owned companies are meeting their business objectives in accordance with company Business Case and are held to account for performance.
- 1.3. PCC may from time to time appoint its own Officers or Councillors to be directors of PCC owned companies in accordance with relevant company constitution. This guidance is intended to provide an overview to Officers and Councillors who are asked by PCC to become directors of PCC companies so that they can ensure that they are prepared for the obligations and responsibilities of being a company director.
- 1.4. More detailed training and guidance can be requested by contacting the Legal Corporate, Commercial and Regeneration Team.

Overview of Director responsibilities

2. What is a Company Director

- 2.1. Directors will be appointed by either the company itself or by its shareholder/s (PCC). Directors are legally responsible for running the company.
- 2.2. Under the Companies Act 2006 (referred to from here as "the Companies Act") directors owe a number of General Duties to their appointing company as well as other duties under both the Companies Act and a wide variety of other laws and regulations (such as insolvency and health and safety legislation). Executive Directors (see section 3.4.1) may also be subject to employee duties.
- 2.3. The General Duties of a director (explained in more detail in sections 4) under the Companies Act are;
 - 2.3.1. To act within their powers
 - 2.3.2. To promote the success of the company
 - 2.3.3. To exercise independent judgement
 - 2.3.4. To exercise reasonable care, skill and diligence
 - 2.3.5. To avoid conflicts of interest
 - 2.3.6. To not accept benefits from third parties
 - 2.3.7. To declare interest in proposed or existing transactions or arrangements with the company.

- 2.4. The consequences of breach of General Duties are that the company may seek an injunction, damages or compensation from its directors. Failure to disclose an interest in an existing transaction or arrangement with the company carries the risk of a criminal fine
- 2.5. If a director has acted in a way which breaches the general duty then;
 - 2.5.1. It maybe possible for the breach to be ratified by a resolution of the companies' shareholders;
 - 2.5.2. It maybe possible for the court to grant relief if the director acted honestly and reasonably;
 - 2.5.3. The company may have arranged insurance for the benefit of its directors which would cover some or all of the liability of the director.
 - 2.5.4. The company may indemnify the director against costs incurred in successfully defending a claim for breach of duties owed to the company.

3. Types of Company Director

- 3.1. A director is not defined in the Companies Act, it is simply provided that a director "includes any person occupying the position of director, by whatever name called" (s250).
- 3.2. Directors can either be;
 - A De jure director this is someone validly appointed as a director;
 or
 - 3.2.2. A de facto director this is someone who assumes to act as a director, although never actually or validly appointed. There is no single definitive test for such a director and as such the question is whether they were part of the corporate governance system of the company and whether they assumed the status and function of a director so as to make themselves responsible as if they were a director.
 - 3.2.3. A Shadow Director a person in accordance with whose directors or instructions the directors of a company are accustomed to act. Such a person is <u>not</u> to be regarded as a shadow director by reason only that the directors act on advice given by them in a professional capacity, in accordance with instructions a direction, guidance or advice given in the exercise of a function conferred by or under an enactment:
- 3.3. PCC would expect there to only be *de jure directors* of its own companies. *De factor and shadow directors* may owe similar or identical fiduciary duties to the company as *de jure directors*. It is important therefore that PCC Officers and Councillor's are aware of the distinction as it is possible for them to be lawfully considered directors irrespective of a formal appointment process. In cases where the reality appears unclear to a PCC Officer or Councillor, PCC legal services should be contacted.

- 3.4. In addition to the above, PCC companies will also likely have a mixture of Executive Directors and non-executive Directors as prescribed by the relevant company constitution;
 - 3.4.1. Executive Directors general used to refer to a de jure director who carried out executive functions in the company and is usually a full-time employee of the company.
 - 3.4.2. *Non-executive Directors* is used to refer to a *de jure* director who is not an employee of the company or holder of an executive office. Such a director would usually devote part of their time to the affairs of the company as an independent adviser or supervisor.
- 3.5. PCC Officers or Members will most often be appointed as *de jure non-executive Directors* of PCC owned companies.

4. The General Duties of a Director

4.1. There are seven general duties under the Companies Act owed by the company's directors. The duties are owed to the company and only the company will be able to enforce them. Directors do not, by virtue of the office of director, owe fiduciary duties to the company's shareholders or creditors (i.e. PCC) although in certain circumstances shareholders may be able to bring a derivative action on the company's behalf. The General Duties are as follows:

Duty to act within powers (s171)

- 4.2. The Director of a company must;
 - 4.2.1. Act in accordance with the company's constitution¹; and
 - 4.2.2. Only exercise powers for the purposes for which they are conferred.

Duty to promote the success of the company (s172)

- 4.3. A Director must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so, the Directors must have regard (among other matters) to:
 - 4.3.1. The likely consequences of any decision in the long term.
 - 4.3.2. The interests of the company's employees.
 - 4.3.3. The need to foster the company's business relationships with suppliers, customers and others.
 - 4.3.4. The impact of the company's operations on the community and the environment.
 - 4.3.5. The desirability of the company maintaining a reputation for high standards of business conduct.

¹ The constitution will include the company's articles of association, decisions taken in accordance with the articles and any resolution and agreement affecting a company's constitution such as shareholder agreement.

- 4.3.6. The need to act fairly as between the members of the company.
- 4.4. In having regard to the listed factors, the duty to exercise reasonable care, skill and diligence will apply.

Duty to exercise independent judgment (s173)

- 4.5. A Director must exercise independent judgment. In relation to a PCC company, this particularly means that the Director could not agree to vote with a third person (such as the appointing shareholder i.e. PCC) to vote at board meetings in any particular way, even if voting in that way would not otherwise have breach the Directors duties to the company.
- 4.6. The duty will not be infringed by a Director acting in accordance with an agreement entered into by the company that restricts the future exercise of the directors' discretion (such as a shareholder agreement) or in a way authorised by the company's constitution (such as a provision permitting a nominee director to follow the instructions of the person who appointed him or her). Any powers of delegation should therefore be set out in the articles.
- 4.7. The duty does not prevent directors relying on advice, as long as the directors exercise their own judgment in deciding whether or not to follow the advice.

Duty to exercise reasonable care, skill and diligence (s174)

- 4.8. A Director must exercise the care, skill and diligence which would be exercised by a reasonably diligent person with both;
 - 4.8.1. The general knowledge, skill and experience that may reasonably be expected of a person carrying out the functions carried out by the director in relation to the company (*the objective test*).
 - 4.8.2. The general knowledge, skill and experience that the director actually has (*the subjective test*).
- 4.9. As a minimum therefore, a director must display the knowledge, skill and experience set out in the objective test but where a director has specialist knowledge, the higher subjective standard must be met.
- 4.10. A Director will be required to exercise their duties diligently, keeping themselves informed about the company's affairs and join with their codirectors in supervising and controlling them.

Duty to avoid conflicts of interest (s175)

- 4.11. A Director must avoid situations in which they have or can have a direct or indirect interest that conflicts with, or may conflict with, the company's interests. That applies, in particular, to the exploitation of property, information or opportunity, and whether or not the company could take advantage of the property, information or opportunity. The test of whether there is a breach of the duty is objective, and does not depend on whether the director is aware that what they are doing is a breach of their duty.
- 4.12. The duty will not be infringed;

- 4.12.1. If the situation cannot reasonably be regarded as likely to give rise to a conflict of interest;
- 4.12.2. If authorisation has been given by directors who are genuinely independent (in that they have no director or indirect interest in the transaction)
- 4.13. The relevant company's articles may also set out how a director is to deal with conflict of interest noting the reality that PCC officers and councillors will have existing pre-existing conflicts due to the existing office post held.

Duty to not accept benefits from third parties (\$176)

4.14. Directors must not accept any benefit (including a bribe) from a third party which is conferred because of his or her being a director or doing or not doing anything as a director. "Benefit" is not defined but the government has stated that it intended to mean "favourable or helpful factor, circumstance, advantage or profit".

Duty to declare interest in proposed transaction or arrangement with the company (s177)

4.15. Directors must declare to the other directors the nature and extent of any interest, direct or indirect, in a proposed transaction or arrangement with the company. The director need not be a party to the transaction for the duty to apply. An interest of another person in a contract with the company may require the director to make a disclosure under this duty, if the other person's interest amounts to a direct or indirect interest on the part of the director. It would therefore be prudent for directors to do some due diligence into the interests of their connected persons.

5. Consequences of a breach of the General Duties

- 5.1. The General Duties are owed to the company and only the company will be able to enforce them, although in certain circumstances shareholders may be able to bring a derivative action on the company's behalf.
- 5.2. The remedy for a breach of the duty of care, skill and diligence is usually damages
- 5.3. Remedies for breaches of the other fiduciary duties include;
 - 5.3.1. An injunction.
 - 5.3.2. Setting aside of the transaction, restitution and account of profits.
 - 5.3.3. Restoration of company property held by the director.
 - 5.3.4. Damages.
- 5.4. It may also lead to the termination of an executive directors' service contract or disqualification as a director including future appointments.

6. Indemnity and insurance from the company

6.1. The company will not be able to exempt a director from any liability for negligence, default, breach of duty or breach of trust in relation to the

- company.
- 6.2. The company may however indemnify the director against defence costs, or costs incurred in an application for relief provided that the director repays the costs if he or she is unsuccessful.
- 6.3. The company may also purchase insurance for its directors, and those of an associated company, against any liability attaching to them in connection with any negligence, default, breach of duty or breach of trust by them in relation to the company of which they are a director. For example, a director may incur liability:
 - 6.3.1. To the company for breach of the director's general duties under the Companies Act or for wrongful trading under the Insolvency Act 1986;
 - 6.3.2. To third parties, such as an investor for misrepresentation;
 - 6.3.3. To employees for discrimination under the Equality Act 2010;
 - 6.3.4. Under legislation imposing personal liability on directors, such as health and safety legislation, environmental legislation, the Financial Services and Markets Act 2000, the Corporate Manslaughter and Corporate Homicide Act 2007 and the Bribery Act 2010; and
 - 6.3.5. For costs incurred in defending civil, criminal or regulatory proceedings.

Before you come a Director

7. Due diligence on the company

- 7.1. As a director off a PCC owned company you must ensure that you are comfortable with what you are being asked to do and that you understand the consequences of being a director.
- 7.2. You should first undertake some due diligence of the company itself. You should understand what the company does and what its aims and objectives are. Please engage with PCC legal Services to discuss any queries.
- 7.3. You should ask to see copies of the constitutional documents of the company so that you understand how it is run. This will include;
 - 7.3.1. The Articles of Association (also publicly available on companies house);
 - 7.3.2. The shareholder agreement (which the company should be able to provide you with);
 - 7.3.3. Your (proposed) letter of engagement;
 - 7.3.4. Business Case/ Annual Business Plan;
 - 7.3.5. Insurance policies;
- 7.4. You should ask the directors what insurance the company has in place for being a director. Ask to see the insurance policies so you can understand

- what you would be covered for and what you wouldn't.
- 7.5. You should ask to speak with the current company directors and ask them any questions you have. Some of those questions could include;
 - 7.5.1. Why do you want to appoint me?
 - 7.5.2. What skills do you think I'll bring?
 - 7.5.3. What support will you make available to help me discharge my duty as a director e.g. will there be accountants and lawyers available for me to speak to, and who are they?
 - 7.5.4. Will you provide regular training to me as a director?
 - 7.5.5. How often will I need to attend meetings?
 - 7.5.6. Will I be responsible for anything in particular at the company?

8. Your role at PCC

As an Officer

- 8.1. As an employee of PCC, you must ensure that you comply with your employment contract and the Employee Code of Conduct. You particularly will have duties in relation to the confidentiality of PCC information such as business or commercial information.
- 8.2. Acting as a director of a company, your duties to the company may at times conflict with your duties as a PCC Employee and visa versa.
- 8.3. You will be required to have evidence of permission for your appointment from the relevant Head of Service to ensure that they are supportive of you acting as a company director. You should discuss any areas of your PCC work that may conflict with your areas of work as a company director and ensure that you and your line manager/Head of Service are comfortable with the arrangements and how you may need to act if there is a conflict.
- 8.4. You should, having spoken to other directors of the company, have an idea of what sort of time commitment you will need to make. You should ensure that your line manager/Head of service permits you to make time during your PCC working day to carry out your company director duties and role. You may wish to keep a written record of that discussion.
- 8.5. The Employee Code of Conduct requires there to be consent from the relevant Head of Service if you wish to engage in any business, take up additional employment or work outside the authority. Being a director of a PCC company would be considered under this requirement. You must therefore ensure you have Head of Service (or where you are a director, the Chief Executive) consent in writing (to be retained with a copy of your signed code of conduct) to the appointment before you agree to become a company director. You may wish to keep a record of this approval in your own personal records.
- 8.6. The consent referred to in paragraph 8.5 must be reviewed annually during

- the Performance and Development Reviews to ensure that the declaration remains the same and that there is either nothing further to declare or anything to stop declaring.
- 8.7. The Council provides a very specific indemnity² for Officers who are appointed as a director of a PCC company. For more information about this indemnity contact legal services.

As a Councillor

- 8.8. As Councillor of PCC, you must ensure that you comply with the Councillor Code of Conduct. You particularly will have duties in relation to the confidentiality of PCC information such as business or commercial information.
- 8.9. Acting as a director of a company, your duties to the company may at times conflict with your duties as a Councillor and visa versa. If you have any concerns about this then you should seek advice from the City Solicitor.
- 8.10. Being a director of a company, even one owned by PCC, will be a Personal Interest and also likely a Prejudicial Interest under the Councillor Code of Conduct. If you are appointed as a company director, you must ensure that it is registered with the Council's Monitoring Officer in accordance with the code of conduct. The Council provides a very specific indemnity³ for Councillors who are appointed as a director. For more information about this indemnity contact legal services.
- 8.11. Councillors should include their appointment as a PCC company director in their register of interests, and advise the Monitoring Officer of any change to those interests within 28 days. Councillors will have a **Personal Interest** in any business of PCC that relates to or is likely to affect the company.
- 8.12. This means that if a Councillor is present at a meeting where an item of business arises which relates to or affects a company to which that Councillor has been appointed, that Councillor must declare that personal interest and the nature of that personal interest before the matter is discussed or as soon as it becomes apparent to that Councillor.
- 8.13. Where a Councillor has a **Personal Interest** then they will also have a **Prejudicial Interest** in PCC business when the interest is one which a member of the public with knowledge of the relevant facts would reasonably regards as so signification that it is likely to prejudice that Councillors judgement of the public interest.
- 8.14. If the Councillor has a prejudicial interest in a matter under discussion then they must declare it. They must then leave the meeting room, unless members of the public are allowed to make representations, answer questions or give evidence about the matter. If that is the case, the Councillor can make their representations etc., but must leave the room

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² As approved by a meeting of the Full Council 4th April 2006

³ Ibid.

immediately after doing so. The Code of Conduct supports Councillor's role as a community advocate and enables Councillors, even with a prejudicial interest, to represent their community and speak on issues that are important to them and to the Councillor.

Bias and Predetermination

- 8.15. If a Councillor believes that they have no prejudicial interest, then that Councillor's duties as a director may well be regarded, on an objective appraisal, as giving rise to a legitimate fear of lack of impartiality, especially having regard to the desirability of maintaining public confidence. Participation in the decision making at a PCC committee meeting by a Councillor who is biased or has predetermined the decision potentially invalidates the decision.
- 8.16. Councillors who are directors of companies to which they have been nominated by PCC are under the following obligations⁴:-
 - 8.16.1. That the remuneration they receive from the company should not exceed that received from the local authority, and should be declared.
 - 8.16.2. To give information to other councillors about their activities as required by the local authority (save for confidential information).
 - 8.16.3. To cease to be a director immediately upon disqualification as a councillor

9. Becoming a director

- 9.1. By this stage you should understand the legal duties expected of you as a director. You should have done some due diligence on the company itself so that you understand how it functions and you will have the written approval of your head of service to becoming a director. You now need to decide whether you wish to accept the offer.
- 9.2. You should not take on a directorship unless you are sufficiently qualified or experienced to be able to fulfil the functions that you might reasonably be expected to carry out.
- 9.3. Being a director of company comes with a lot of responsibility, it is difficult and time consuming. The appointment as a director will be personal to you and it is your responsibility to ensure that you can discharge the duties of a director.
- 9.4. You should not feel pressurised to be a director. If you are uncomfortable with the role, for example you don't feel that you have time to do it, you don't understand what it involves or simply don't want to do it, then you must ensure that you make the decision that is right for you.
- 9.5. If you feel that you need training before you accept the role, then you should

⁴ Local Authorities (Companies) Order 1995 (SI 1995/849).

- ask those proposing to nominate you for such training.
- 9.6. Acting as a director is different to being an Officer or a Councillor of PCC. Although PCC will have nominated you to the role, this does not mean that you are PCC's representative on the board. PCC cannot tell you how to vote or act (unless there is a shareholder agreement or other constitutional document which limits your power to do so) and if an Officer or Member tell you how to vote then you must ensure that you comply with the law and demonstrate independent judgment in how you decide to act, not just follow what you are told.
- 9.7. Once you are satisfied that you wish to be appointed as a director, you should ensure that the company issues you with a letter of appointment as a director. You should keep a record of that letter of appointment in your own private records.

Being a director

10. Directorship

- 10.1. Once you have been appointed as a director, you will have all of the rights of a director to information about the company. You must ensure that you act in accordance with the General Duties of a Director and other legislative requirements.
- 10.2. If you need support with your role as a director, then that is the responsibility of the company itself. The role is independent of PCC and PCC will not be responsible for providing you with advice on your discharge of that role (i.e. legal, finance, HR etc) unless there is a contract in place between the company and PCC for PCC to deliver those services.

11. Conflict

- 11.1. Conflict issues may arise with your role as PCC officer or councillor (1) as Company Director, and (2) as an employee / councillor of PCC. There is an obligation on you as an individual to observe the legal duty under company law (s175 Companies Act) to avoid conflicts of interests by avoiding a situation in which you have (or can have) a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company.
- 11.2. The fact that you as a Company Director are appointed by and may also be an officer or councillor of PCC is likely to place you in a position of potential conflict between loyalty to PCC and duties to the company.
- 11.3. Conflicts of interest can be actual, potential or perceived;
 - 11.3.1. Actual there is a real conflict between duties and interests
 - 11.3.2. Potential there could be conflict between duties and interests
 - 11.3.3. Perceived a third party could form the view that there is a conflict between duties and interests
- 11.4. It is impossible to define all instances of a conflict of interest, so in many

- cases a reasonable degree of openness and judgment is required to assess the nature and extend of conflict of interest. This should be addressed at the outset and discussed with the City Solicitor to access whether your appointment as Director may be affected by any such conflict.
- 11.5. The company articles will have been drafted to automatically require the need to address any conflicts of interest arising purely by virtue of a director being a councillor and/ or officer of PCC, and for you to be able to participate in discussions on the matter in question and to vote on decisions concerning the matter. Other conflicts that arise, for example, a personal interest in a site to be developed, would need to be managed in the normal way with declarations and exclusion from related discussions / votes unless authorised by non-conflicted directors.
- 11.6. The company will have a register of interests which will require selfdeclaration and management with the relevant company secretary. Please liaise with PCC legal services to discuss such conflict and relevant declarations.
- 11.7. All conflicts of interest must be disclosed to the board of Directors (excluding the director affected). If you are unsure whether you have a conflict of interest it is always better to disclose it to your board and consider seeking independent legal advice.
- 11.8. A failure to acknowledge and manage a conflict of interest could cause a significant reputational risk, may result in disqualification and have financial consequences for the Director. Moreover, some conflicts can also have criminal implications. Remember, if you think you might have a conflict of interest, always disclose it and consider seeking independent legal advice.
- 11.9. The duty to avoid conflicts of interest will continue to apply after a person ceases to be a director as regards the exploitation of any property, information or opportunity of which he became aware when he was a director.

Appendix 1 - Checklist for being a director

(Non-exhaustive list)

Before you become a director				
Ensure that you understand why you are being asked to be a company				
director - what skill in particular are they asking you to bring to the table.				
Ensure you have a copy of your letter of appointment so that you understand				
the conditions of your engagement as a company director.				
Ask for copies of the Constitutional Documents of the Company - the key				
documents are;				
The Articles of Association (also available publicly on Companies House);				
The Shareholder Agreement (the document between the company)				
and PCC which sets out how the company is to act and the role of				
· •				
PCC in its governance)				
Ensure that you understand the purpose of the company - what is it there to do and how will it do it?				
Speak to the company directors (particularly if they are PCC				
officers/Councillors too) to get their insight on the role				
Do you understand the commitment required of you such as the frequency				
of meetings, when you will be asked to make decisions, other time				
commitments etc?				
Ensure you are familiar with the legal obligations placed on you as a				
company director. Ensure that you understand the General Duties of a				
Director (part 4 above). If you feel you need to know more then;				
Undertake additional research				
Seek guidance/training from PCC Legal Services.				
Ensure that you understand the insurance position in relation to your role as				
a director - what insurance does the company have and what will it cover				
you for?				
Ensure you understand how your role as a company director will affect your				
role as a PCC Officer or Councillor. Consider any issues which may cause				
you difficulty when discharging one role or the other and any potential				
conflicts that may arise.				
Officers only - Discuss your potential appointment with your line manager.				
Particularly issues such as;				
How the role as a director may affect the time you have to do your				
ordinary PCC role and how you and will manage this;				
Whether you will have time out from your ordinary PCC working day				
to undertake 'company work' (or whether it will need to fit in on top of				
those obligations)				
Discuss any issue of conflict that you may have anticipated and				
discuss how such issues can be mitigated.				
Becoming a director				
Officers - Obtain written approval from your line manager (or the Chief				
Executive if you are a PCC Director) to be included with your signed code of				
conduct.				
ondo.				

Update your declaration annually as part of your Performance and	
Development Reviews	
Councillors - declare the interest with the Council's Monitoring Officer in	
accordance with the Councillor Code of Conduct.	
Sign and return your formal letter of appointment. Ensure you keep a record	
yourself.	

