

Title of meeting: Cabinet Meeting

Date of meeting: 8 March 2022

Subject: Ravelin Group of Companies

Report by: Tristan Samuels - Director of Regeneration

Wards affected: All

Key decision: Yes/No

Full Council decision: Yes/No

1. Purpose of report

- 1.1. This report follows on from the previous Cabinet and Full Council decision to setup the Ravelin Group of companies, most recently (15th December 2021) where the Five-year Business Plan and the Investment & Development Plan for Ravelin Housing Limited (RHL) were approved.
- 1.2. The Report seeks to provide members with further information and oversight on RHL's growth and development plans while also providing further clarity on how and when the Company will engage with its Shareholders and Directors.
- 1.3. The report also provides an update on RHL company business and any delegated decisions taken since the last report.

2. Recommendations

- 2.1. That Cabinet approves the following recommendations:-
- 2.2. That Cabinet notes the proposed future changes to the Ravelin group of company's directorships; and
- 2.3. Delegates authority to the Director of Regeneration in consultation with the Leader and the Council's Monitoring Officer, to make changes to the directorship of the Ravelin group of companies, where such changes involve the appointment or removal of Council officers.
- 2.4. For the avoidance of doubt, the delegation at 2.3 would not apply in relation to the appointment or removal of directors to the Ravelin group of companies who are independent non-executive or executive directors and who are also not Council officers. Such appointments would need to be agreed by Cabinet as shareholder.

3. Background

- 3.1. The Ravelin group of companies was established following a Cabinet decision on the 9 June 2016 which in general terms delegated responsibility to the City Solicitor and the s151 officer to set up a parent company (Ravelin Group) with arm's length subsidiary company for development.
- 3.2. On the 28 February 2019 further delegations were provided to the Director of Regeneration and City Solicitor in consultation with the s151 officer to create the arm's length subsidiary company (Ravelin Housing) with development management and project management services.
- 3.3. Delegations were also given to the s151 officer in consultation with the Leader to approve business justification cases for individual projects and to finance the entities.
- 3.4. On the 15th December 2021 the shareholder approved the five-year Business Plan for Ravelin Housing.
- 3.5. The report noted the need to share further information with the Shareholder on how the Companies would develop as they grew and provide further details on how they would work and engage with the Shareholder.

4. Reasons for recommendations

- 4.1. To affect the smooth running of the company, the recommendation seeks to remove decisions from the Shareholder meetings that could be more effectively dealt with by officers.
- 4.2. The ability of officers to carry out these decisions outside of the pre-agreed board scheduled meetings will enable the company to function more commercially.

5. Governance

Ownership

- 5.1. Ravelin Group Limited (RGL) is wholly owned by the Council but is run by its board of directors, acting in the best interest of RGL. The currently directors of RGL are all PCC officers. RGL acts as a holding company for tax purposes and will not actively trade.
- 5.2. RGL in turn wholly owns two subsidiary companies; Ravelin Property Limited (RPL) (which is not trading) and Ravelin Housing Limited (RHL) (an active Development company).
- 5.3. RHL is the company which will be developing properties and is currently on site doing so at Hambrook Street. The current directors running RHL are Council officers Wayne Layton and Tom Southall, who are acting in the best interest of RHL.

- 5.4. The Council has put in place bespoke Articles of Association in relation to RGL and RHL, which give the Council additional rights in relation to the company such as ensuring additional access to information and the conduct of the board of directors of the companies.
- 5.5. Closely linked to this, the Council has entered two separate contractual arrangements (known as 'Shareholder Agreements') with RGL and RHL. These Shareholder Agreements ensure that certain specific decisions (known as "Reserved Matters") can only be undertaken by the respective company boards on the prior approval of the Shareholder (i.e. the Council and specifically Cabinet).
- 5.6. The shareholder sub-committee approved a specific delegation of a Reserved Matter on the 15 December 2021. This related to the setting up by RGL of subsidiary companies and joint ventures where such a requirements was consistent with RHL's business plan. The delegation was to the Director of Regeneration in consultation with the monitoring officer and s151 officer.

Schedule of future meetings

- 5.7. RHL intends to hold at least 4 board meetings in each financial year and these are planned to be quarterly however the timings could be varied if urgent decisions are required.
- 5.8. RGL will hold board meetings as and when decisions are required. As most of RGL decisions are linked to RHL, it is anticipated that board meetings of RHL will be followed by a board meeting of RGL, to ensure the decision-making process is as efficient as possible.
- 5.9. The Shareholder and RGL will have unlimited and unrestricted access to RHL's information. In addition, the Council and RGL will receive regular updates from RHL by way of provision of (*inter alia*):
 - 5.9.1. Draft annual accounts
 - 5.9.2. Minutes of Board meetings
 - 5.9.3. Quarterly reports on the development programme (to include an update on individual projects)
 - 5.9.4. Annual Business Report which among other things will include:
 - balance sheet forecast
 - report on performance against the Business Plan
 - annual operating revenue plan and capital expenditure requirements
 - risk register
 - annual profit and loss account; and
 - such other content as RGL and the Council may reasonably require.

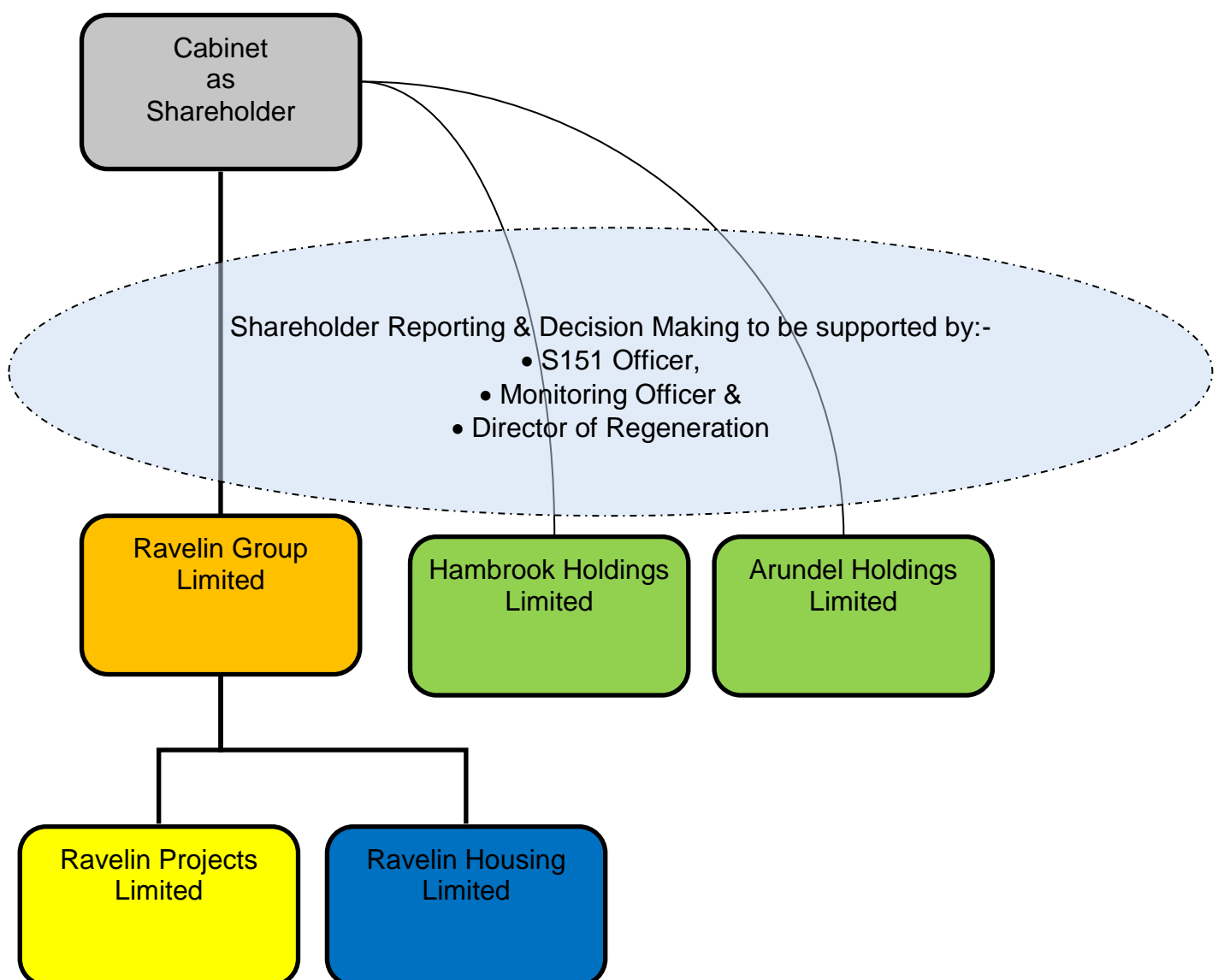
- 5.10. Such other information as the Shareholder and RGL may reasonably require.
- 5.11. The Council has recently reviewed the overall governance arrangements for all its wholly owned companies in a report by PCC legal team. The report considered advice relating to best practice for the membership operation of company boards.
- 5.12. The recommendations flowing from that report are now being reflected into the Ravelin Board structure as noted below.

Current Board Structure

- 5.13. The current board composition for the Ravelin Group have not varied since the company's incorporation in 2017 and are no longer fit for the company's or Portsmouth City Councils purposes.
- 5.14. The approval of the new 5-year RHL Business Plan which includes pipeline of potential development sites alongside the arrival of two new Non-Executive Directors is commitment by the Council to RHLs future which needs to be resourced appropriately.
- 5.15. Building on these positive steps and in line with the legal advice on best practice, the Shareholder is being asked to consider the following key structural changes to the existing Ravelin boards as follows:-
- 5.15.1. For any company to function effectively, clarity on how the company works with its shareholder is essential. These links must be clearly defined.
- 5.15.2. Management of the Shareholding is a Cabinet function and reporting must flow through senior council officer with any conflicts either removed or managed clearly so as not to undermine the process.
- 5.15.3. The shareholder will occasionally delegate decisions to these senior officers to enable efficient and timely responses to what will often be commercial matters.
- 5.16. Currently the roles that are delegated to senior officers are as follows:-
- The S151 Officer - Will advise the shareholder on all financial matters and how these align with the Shareholders wishes. There is a current delegation to the S151 officer to manage any company funding via the Facility Agreement which allows RHL to draw down finance under a Working Capital agreement or Project specific Facilities Agreement.
 - The Monitoring Officer - Has oversight on all delegated decision making

- The Director Regeneration - Holds the role of commercial lead for the Council, supporting both the Shareholder and S151 officer in its decision making, to ensure that the Company proposals represent best value for the Council and the Company. Current delegations include the formation of new companies, Joint ventures etc as required to support the growth of the business in line with the current 5-year business plan.

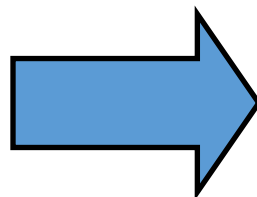
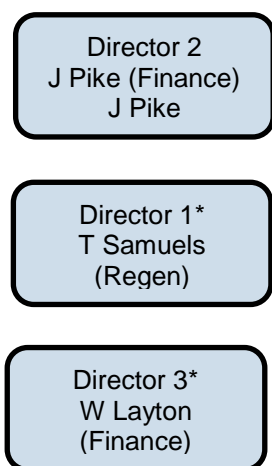
RAVELIN FAMILY & FUTURE HOLDING COMPANIES



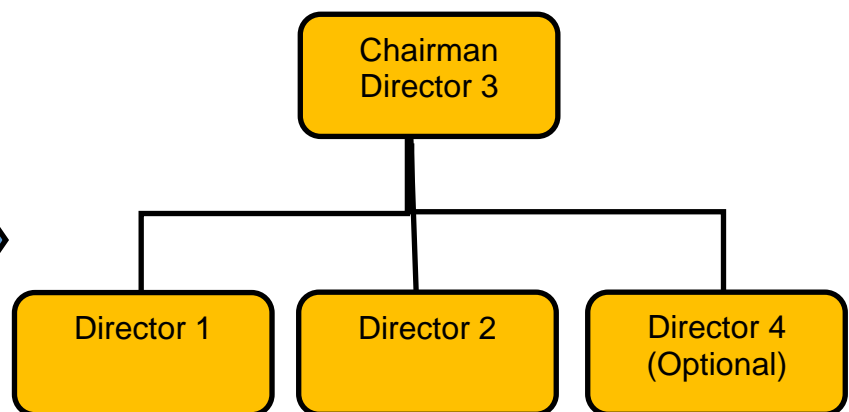
Changes to Ravelin Group Limited (RGL)

- 5.16.1. The RGL company requires a minimum of 2 directors to be quorate at any meeting. Specific duties can be carried out by single company directors under delegation subject to that decision to delegate being taken in a formal board meeting.
- 5.16.2. A register of conflicts should be held by the company secretary and available on request.
- 5.16.3. It is proposed that at one time there are 3 Directors in RGL. These directors will be PCC staff with relevant experience and an interest in supporting the aims of the company, chosen by the Shareholder, typically at an Assistant Director or Senior Manager Level (tier 3 / 4) from within the Regeneration, Housing, Finance or Legal directorates. As a holding company it is not envisaged that there would be a need for NED's in RGL.
- 5.16.4. It is proposed that a 2—3 year term is offered with staggered exits to ensure continuity of support for the company.
- 5.16.5. The Chairman role should be shared with a chair being chosen at the start of each board meeting, unless agreed otherwise by the Directors.
- 5.16.6. PCC will provide all necessary training, legal advice and appropriate indemnity insurance to enable these officers to carry out the role.
- 5.16.7. The action would be to remove the Director of Regeneration from the RGL board to remove conflicts and to replace him with the Assistant Director Property and Investment as soon as practically possible.

Current RGL Board Structure



Proposed RGL Board Structure

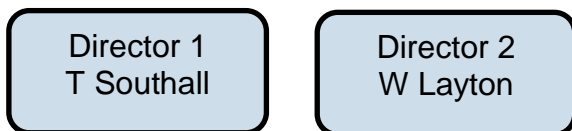


¹ * Represents officers currently acting as Directors of RGL managing conflicts

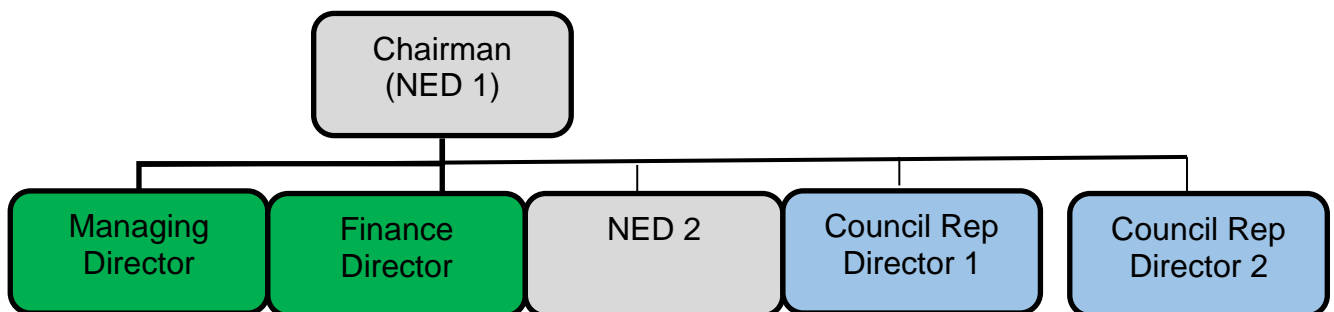
Changes to Ravelin Housing Limited (RHL)

- 5.16.9. RHL is now an operational company with 2 PCC appointed Directors, 2 Shareholder appointed Non-Exec Directors and a number of PCC staff supporting under SLA's and while there is a wish to appoint permanent staff to the company, officers are unable to justify the overheads without sufficient projects in the pipeline.
- 5.16.10. Therefore, the changes to structure will need to be managed over a period of time with permanent staff brought into the company structure as and when their costs can be justified. Proposal to consider secondments and further consultant support are being considered as interim solutions.

Current RHL Board Structure



Proposed RHL Board Structure



Council Rep Directors (x2)

- 5.16.11. There should always be at least 1 PCC officer appointed by RGL Directors as a Director of RHL with the Shareholder currently responsible for the appointment of all other company directors.
- 5.16.12. It is suggested that these new RHL directors are offered the role to support their continued professional development by being exposed to working in a commercial development company environment with experienced staff, consultants, and Non-Exec Directors to help them develop.

- 5.16.13. To qualify these new Directors should be seen as potential future leaders in the property, finance, development, housing or asset management fields within PCC, where they are seen to hold the necessary skills or experience to support the company.
- 5.16.14. It is proposed that any term should not exceed 3 years, allowing churn to support as many developing staff members as possible.
- 5.16.15. It should be noted that these staff members will be required to spend c4 days per month on RHL business and both them and their line managers should be aware of this commitment.
- 5.16.16. PCC will provide all necessary training, legal advice and appropriate indemnity insurance to enable these officers to carry out the role.
- 5.16.17. The recommendation seeks a delegation to allow senior officers to manage the churn of PCC staff within the Ravelin companies and any associated holding companies whilst leaving all other director appointments to the Shareholder.

Independent Non-Executive Directors (NED)

- 5.16.18. The Shareholder has appointed 2 independent Non- Exec Directors with relevant development experience to provide independent professional support to the board, ensuring the company is able to operate in commercial and professional manner in line with the approved Business Plan.
- 5.16.19. It is hoped that one of these NED's will over time assume the role of chair and potentially as the company grows further NED's with complimentary skillsets will be asked to join the board.
- 5.16.20. Currently the term is proposed at 3 years with the opportunity for further terms, subject to the board and shareholders approval.
- 5.16.21. PCC will provide all necessary training, legal advice and appropriate indemnity insurance to enable these officers to carry out the role, along with a commitment to pay all reasonable expenses.

Executive Directors

- 5.16.22. As alluded to earlier in this paper it will be appropriate to bring on-board full-time staff at some point in the future.

5.16.23. The first appointments will be for a Managing Director and a Finance Director, it is envisaged these roles will be appointed to by the Shareholder. The roles will hold voting rights as directors of RHL, to function as full-time operations leads for RHL, to deliver the Business Plan.

5.16.24. Due to the commercial constraints and risks to the company these roles maybe considered as secondments or consultants in the first instance, but they will need to dedicate all of their time to this role.

6. Legal implications

6.1. The composition of a companies board is important as it is the company directors who are responsible for running the company. As such, they 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 decisions on behalf of the Council, as this will be unlawful, save where it concerns a Reserved Matter under the Shareholder Agreement.

6.2. The Council must also ensure that when it appoints its own officers to be directors, that it retains sufficient expertise and experience on the Council side to act as a knowledgeable client. Such a function is key to ensuring the Council retains the in-house knowledge to fully scrutinise and advise the Council on the function and performance of the companies without there being issues of conflicts of interest where officers have roles with both a company and the Council. A number of recent failings of Local Authority trading companies has been partly due to a failure to adequately resource the function as well as the Council itself and this is a risk that the Council should be conscious of and regularly review.

6.3. The proposals made in this report pose no significant additional risk to the Council.

7. Director of Finance's comments

7.1. There are no direct financial implications as a result of approving the recommendation within this report.

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Signed by: Tristan Samuels, Director of Regeneration

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 document	Location
Cabinet Sub-Committee Report "The Council as a Company Owner"	The Council as owner - signed.pdf (portsmouth.gov.uk)
Cabinet Sub-Committee Report "Ravelin Housing Limited"	Ravelin decision report final 241121.pdf (portsmouth.gov.uk)

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by: