



Corporate Policy & Resources Committee

9th December 2024

Title	<i>Knowle Green Estates Ltd, Annual Report 2023/24</i>
Purpose of the report	To note the report
Report Author	<i>Anne Fillis and Darren Levy (Non-Executive Directors of Knowle Green Estates Limited)</i>
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	<i>n/a</i>
Corporate Priority	Community Addressing Housing Need Services
Recommendations	<p>Committee is asked to</p> <ul style="list-style-type: none"> • note the Annual Report as part of the presentation to the Committee by the Board of Directors of Knowle Green Estates Limited (KGE); • give consideration to future Council representation on the Board following the Chief Finance Officer of the Council stepping down from the Board; and • give consideration as to how the Council wishes to see KGE move forward set out in para 1.4 of this report.
Reason for Recommendation	<i>Under the terms of the Shareholder Agreement this Committee is the Shareholder representative body</i>

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> • Knowle Green Estates Limited (KGE) is wholly owned by Spelthorne Borough Council • KGE manages on a long term basis a portfolio of 174 units made up of affordable rental, keyworker 	<ul style="list-style-type: none"> • Important that Corporate Policy and Resources Committee as the Shareholder representative is kept informed as to KGE activity and has a chance to challenge, scrutinise and raise queries with the Directors of KGE

<p>rental, private rental and Temporary Accommodation</p> <ul style="list-style-type: none"> • The Council last operated a Housing Revenue Account in the mid-1990s, prior to it undertaking a large scale voluntary transfer of its housing stock to the entity which subsequently would become A2D • Currently the KGE Board consists of 4 individuals, the current Chief Finance Officer of Spelthorne Borough Council, Cllr Nichols; and two Non-Executive Directors Anne Fillis and Darren Levy • There is a tight Shareholder Agreement which limits the decisions the Board can make, so KGE cannot, without Shareholder's agreement, make acquisitions or disposals or seek external finance. • The new Government is changing the housing regime, including allowing Councils in the future to retain right to buy receipts and reducing the value of right to buy discounts. 	<ul style="list-style-type: none"> • Whilst KGE is very much a delivery vehicle to support one of the Council's strategic priorities, on grounds of transparency it is important to reduce perceptions of conflicts of interest • Consider options for future Council representation on the Board of KGE. • The Shareholder should give strategic consideration to the future direction of KGE, including whether to consider the option of bringing the residential units back onto the Council's balance sheet by re-opening a Housing Revenue Account (HRA)
<p>This is what we want to do about it</p>	<p>These are the next steps</p>
<ul style="list-style-type: none"> • Note the Annual Report for 2023-24 and question the Directors on the performance and approach of KGE • Note that the Council's Chief Finance Officer will be stepping down from the Board • Give consideration to future Council (as Shareholder) representation on the Board 	<p>Agree the terms of reference to set up a Task Group to consider the options for the second and third recommendations</p>

Key Issues

- 1.1 Knowle Green Estates Limited (“KGE”) is wholly owned by Spelthorne Borough Council and exists to manage on a long term basis a portfolio of 174 units covering affordable rental, key worker rental, private rental and temporary accommodation to meet the needs of residents of the Borough. KGE manages the properties and sustains the tenants in their accommodation.
- 1.2 The Directors of KGE present the 2023/24 Annual Report and will talk through the report at the Committee meeting. Anne Fillis and Darren Levy were re-appointed as NEDs in December 2023 for a further term of two years.
- 1.3 Whilst there is a tight Shareholder Agreement which limits the decisions the Board can make, so it cannot for example without the Shareholder’s agreement, make acquisitions or disposals or seek external finance, it is acknowledged that there could be perceptions of conflicts of interest in having the Chief Finance Officer on the Board of KGE. The rationale for having the Chief Finance Officer on the Board was to take a Group approach and seek to ensure that the Council had a good understanding of the financial risks generated by its subsidiary company. This approach is consistent with the paper on Conflicts of Interest the Monitoring Officer is considering bringing forward to the Standards Committee. It is therefore proposed that the Chief Finance Officer steps down from the Board of KGE from 1st January 2025. This in turn means the Council should give consideration as to its future representation on the Board. Currently Cllr Nichols is the sole councillor representative on the Board.
- 1.4 In July 2024, the Council approved a £2.5m debenture loan to KGE. This has put KGE’s financial position on a stable basis. In this context, it is now appropriate for the Council as Shareholder to consider options as to the future strategic pathway for KGE. These options include:
 - (a) KGE continuing as a subsidiary company. This generates additional costs with respect to recharges from the Council to KGE which have to be VAT rated and KGE cannot recover the VAT. It requires a set of loan financing arrangements between the Council and KGE. It requires the additional cost of KGE paying for its own separate external audit of its annual accounts. KGE does have 50 year financial projections and is about to begin the process of refreshing its business plan.
 - (b) Resuming the process of becoming a Registered Provider. The benefits of this is that it would need to demonstrate robust governance in order to meet the Social Housing Regulator’s criteria, and KGE would be able to directly access Homes England grant streams. However, there would be significant cost and resource involved in making an application to become a Registered Provider (the process takes 18 to 24 months on average) and would require some specialist consultancy support. Additionally given that whilst Spelthorne Council is not formally restricted from securing additional debt finance, and indeed had approval from the Ministry of Housing Communities and Local Government to use

borrowing to part fund acquisition of Local Authority Housing Fund properties, the Spelthorne group is no longer looking to take on additional debt finance to fund additional housing units, and there is not a need to access Homes England grant.

- (c) Consider, in the context of the Government's proposal to amend the Right to Buy regime to allow Councils retain fully Right to Buy receipts and to reduce the attractiveness of RTB by reducing the discounts, the pros and cons of re-opening a Housing Revenue Account. (HRA). Appendix 2 summarises the pros and cons for re-opening HRAs.

2. Options analysis and proposal

2.1 Option 1 (preferred) -

- (a) agree to note the Annual Report, see Appendix 1, and record any further clarifications requested.
- (b) To note and accept the stepping down from the Board with effect from 1st January 2025 of the Chief Finance Officer. Note that the Board would find it useful for the Chief Finance Officer to attend the Board as an observer and to offer advice.
- (c) To give further consideration to future Council representation on the Board.
- (d) To give further consideration to forming a view as the sole Shareholder, as to how now it wishes KGE to move forward; for example, continuing on its existing basis as a company, resuming the previous process of seeking to become a Registered Provider and therefore able to apply for Homes England grant streams, or seeking to move the housing managed by KGE back onto the Council's balance sheet by re-opening a Housing Revenue Account.

To facilitate c) and d) above it is suggested that the Committee sets up a Task Group to consider the options. The Terms of Reference will be brought back to the next CPRC meeting in January which would. It is suggested that the Group be made up of 7 members to include the Chair and Vice Chair of this Committee. It may be useful to also include representation from Community Wellbeing and Housing Committee. It is also proposed that the timetable for the task and finish group would require formulation of options and recommendations by representation on the Board. by March 2025

2.2 Option 2 – amend and refine the options set out above.

2.3 Option 3 - do not agree to the proposals set out above.

3. Financial management comments

- 3.1 The Council in July 2024 approved a £2.5m ten year debenture loan to KGE to stabilise its financial position. KGE makes loan interest and principal repayments to the Council.

4. Risk management comments

5. Operating a subsidiary company creates a range of operational, health and safety, financial and reputational risks. KGE maintains a regularly reviewed Risk Register.

6. Procurement comments

Not applicable.

7. Legal comments

7.1 KGE Annual Report provides financial accountability and affords the Council as the sole Shareholder an opportunity for scrutiny.

7.2 The Shareholder Agreement with KGE requires the prior consent of the Shareholder to any appointment of a director to KGE. The Shareholder is represented by the Corporate Policy & Resources Committee under the Constitution.

7.3 Company directors owe certain duties to the company, including a duty to avoid conflicts of interest (section 175 of the Companies Act 2006).

7.4 Portfolio management necessitates KGE to seek its own specialist housing advice from time to time which creates additional expenditure on external legal fees.

8. Other considerations

8.1 None.

9. Equality and Diversity

9.1 There are none.

10. Sustainability/Climate Change Implications

10.1 The Company seeks to maintain the accommodation to a high environmental standard.

11. Timetable for implementation

11.1 Not applicable.

12. Contact

12.1 T.Collier@spelthorne.gov.uk

Background papers: There are none.

Appendices:

Appendix 1 – Text of Knowle Green Estates Annual Report for 2023-24

Appendix 2 – Pros and Cons of Re-opening a Housing Revenue Account

Appendix 3 – Knowle Green Estates Annual Report for 2023-24 for publication (to follow)