

READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	POLICY COMMITTEE		
DATE:	31 OCTOBER 2016	AGENDA ITEM:	17
TITLE:	HOMES FOR READING - BOARD AUTHORITY TO ALLOT SHARES		
LEAD COUNCILLOR:	COUNCILLORS	PORTFOLIO:	FINANCE
SERVICE:	LOVELOCK/ PAGE FINANCIAL	WARDS:	BOROUGHWIDE
LEAD OFFICER:	ALAN CROSS	TEL:	01189372058 (x72058)
JOB TITLE:	HEAD OF FINANCE	E-MAIL:	Alan.Cross@reading.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 Further to the report to Council last March setting out the arrangements for the establishment of Homes for Reading Ltd, and the Shareholder Agreement, this report sets out arrangements for the initial capitalisation of the company, prior to purchasing its first property, and in particular authorises the board to allot shares.

2. RECOMMENDED ACTION

- 2.1 That Homes for Reading be authorised to increase its share capital by 5 million £1 shares
- 2.2 That Homes for Reading be permitted to issue the 5 million part paid by 1p each shares to the Council, so the company is initially capitalised to the sum of £50,000.
- 2.3 Authority to Allot

That, in accordance with section 551 of the Companies Act 2006 (CA 2006), the Directors (Directors) be generally and unconditionally authorised to allot shares in the Company to the Council up to an aggregate nominal amount of £5,000,000 provided that this authority shall, unless renewed, varied or revoked by the Company, expire on 31 March 2018 save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted and the Directors may allot shares in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This This authority revokes and replaces all unexercised authorities previously granted to the Directors.

- 2.4 Disapplication of Pre-Emption Rights

That, subject to the passing of resolution 1 and in accordance with section 570 of the CA 2006, the Directors be generally empowered to allot equity securities (as defined in section 560 of the CA 2006) pursuant to the authority conferred by resolution 1, as if section 561(1) of the CA 2006 did not apply to any such allotment, provided that this power shall:

be limited to the allotment of equity securities up to an aggregate nominal amount of £5,000,000; and expire on 31 March 2018 (unless renewed, varied or revoked by the Company prior to or on that date), save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

3. BACKGROUND

- 3.1 At the meeting of Council in Mach 2016 you agreed to establish Homes for Reading Ltd and you set out the Shareholder Agreement.
- 3.2 Whilst you authorised the Head of Finance to make funding available to the company, the Shareholder agreement restricted the effective operation of that delegation in that it provided that the company could not without Shareholder Agreement
 - increase the amount of its issued share capital except as provided in the agreement, grant any option or other interest over in its share capital, redeem or purchase any of its own shares or effect any other reorganisation of its share capital; or
 - issue any loan capital;
- 3.3 The Company Board has now formed, and is moving towards being able to begin to trade (effectively by buying and letting its first homes). Prior to being able to do that the company needs some share capital to cover its initial administrative and set up costs.
- 3.4 The outline business plan envisages that the company will fund dwelling purchases from a mix of equity (share) and loan finance, with the loans being secured on the property. Until the company has purchased a property it is therefore not reasonable for the Council to offer loan finance, as it would not be secured. It is however reasonable to provide some initial capital and £50,000 is suggested.
- 3.5 The structure of the business plan will require regular increases in share capital.
- 3.6 To address both issues above the following solution is proposed;

- 3.6.1 The Council authorises the company to increase its share capital by 5 million £1 shares
- 3.6.2. The Council authorises the company to issue these 5 million £1 shares part paid to the value of £1 each
- 3.6.3 The Council purchase these shares for £50,000, by part paying 1p each for the shares
- 3.6.4 As the company begins to buy property it asks for an appropriate number of shares to be fully paid (i.e. the remaining 99p would be paid, so for example if the company were buying a property for £250,000 it might ask for 93,500 shares to be paid up to receive £92,565 and ask for £157,600 of loan finance)
- 3.6. By issuing part paid shares in this way, which become fully paid when the company purchases property, Homes for Reading should be in a position to purchase its first c. 50 properties without needing to revert to Policy Committee for authority to issue and allot further shares. This should enable a reasonably efficient purchase process for property.

4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 Homes for Reading has been set up to contribute to both the Council housing aims, and in due course to contribute to financial stability.

5. COMMUNITY ENGAGEMENT AND INFORMATION

- 5.1 None arising directly from this report.

6. LEGAL IMPLICATIONS

- 6.1 As set out in the report to Council in March.

7. FINANCIAL IMPLICATIONS

- 7.1 The purchase of shares scores as capital expenditure against the budget approved by Council in March.

8. EQUALITY IMPACT ASSESSMENT

- 8.1 None arising directly from the report.

9. BACKGROUND PAPERS

Council Report - March 2016