

## READING BOROUGH COUNCIL

### REPORT BY THE DIRECTOR OF RESOURCES

TO:	POLICY COMMITTEE (ACTING AS SHAREHOLDER OF HOMES FOR READING LTD)		
DATE:	18 FEBRUARY 2019		
TITLE:	SHAREHOLDER CONSENT: HOMES FOR READING LTD APPOINTMENT OF EXTERNAL AUDITOR FOR 2018/19		
SERVICE:	COUNCIL-OWNED COMPANY	WARDS:	BOROUGHWIDE
LEAD OFFICER:	MARK GREEN	TEL:	74896
JOB TITLE:	MANAGING DIRECTOR - HOMES FOR READING LTD	E-MAIL:	Mark.green@Reading.gov.uk

#### 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Shareholder Agreement entered into between the Council (Shareholder) and the company (Homes for Reading Ltd.) requires the company to submit its annual accounts to the Shareholder, to facilitate their incorporation into its main accounts within a reasonable period after the end of the financial year.
- 1.2 Following the appointment of Wilkins Kennedy by the Board of Homes for Reading Ltd. for 2017/18, approval is requested from the Shareholder to appoint an auditor to prepare the accounts for the 2018/19 financial year.

#### 2. RECOMMENDED ACTION

Policy Committee is asked to:

- 2.1 Provide Shareholder Consent to Homes for Reading Ltd. to appoint Wilkins Kennedy as its external auditor for the preparation of its 2018/19 financial accounts, or recommend an alternate firm should it prefer.

#### 3. POLICY CONTEXT AND BACKGROUND

- 3.1 Homes for Reading Ltd is a private company limited by shares and registered in England. The company was incorporated on the 6<sup>th</sup> April 2016 and commenced trading (i.e. acquiring rental property) in September 2017.
- 3.2 As with any limited company, Homes for Reading Ltd.'s statutory financial statements are subject to audit under the requirements of the Companies Acts subject to certain statutory exemptions from audit for non-trading companies or those that meet at least 2 out of the 3 criteria below:
  - Annual Turnover less than £10.2m
  - 50 or fewer employees on average

- Assets worth no more than £3.26m
- 3.3 Irrespective of the available exemptions, the Shareholder(s) can request for the company's results for any specific financial year to be audited.
- 3.4 Homes for Reading Ltd. filed unaudited accounts with Companies House in 2016/17, the first year for which accounts had to be filed.
- 3.5 Although the company met the audit exemption thresholds in 2017/18, RBC as Shareholder requested audited financial statements for Council purposes.
- 3.6 HfR's shareholder agreement with RBC stipulates that the Council's Auditors must also be the Company's auditors. However, the Council's Director of Corporate Resources acting on behalf of the Council, preferred a firm independent of the Council's auditors in the interest of good governance and transparency.
- 3.7 Messrs Wilkins Kennedy were appointed by the Homes for Reading Board in February 2018 as the company's initial auditors following a detailed selection process as permitted by the Companies Acts.
- 3.8 Homes for Reading Ltd.'s 2017/18 financial statements were audited by Wilkins Kennedy within the prescribed Council deadlines and delivered to RBC as Shareholder in August 2018.
- 3.9 In terms of formality, the appointed Auditor then holds office until the end of the first meeting of the shareholders at which the accounts are laid before the members. At that meeting, the members (shareholders) can re-appoint the auditor, or appoint a different one to hold office from that date until the end of the next shareholders' meeting at which accounts are laid.
- 3.10 Since presenting its accounts to RBC, Homes for Reading Ltd. has not received confirmation from the Shareholder on the re-appointment of the auditor in this manner, hence approval is now sought for the company to make the appointment directly.

#### **4. THE PROPOSAL**

##### **Homes for Reading Ltd. Auditor**

4. Wilkins Kennedy is a national practice with the skills and resources to service HfR. They also have a working arrangement with PSTax who RBC have existing service agreements in place.
- 4.1 Wilkins Kennedy provided a timely and quality 2017/18 audit, with a competitive fee that also covered Companies House and HMRC filing.
- 4.2 It is HfR's preference for Wilkins Kennedy to continue in the role of auditor and to prepare the 2018/19 accounts. The Board of Directors have resolved to appoint Wilkins Kennedy subject to the approval of the Shareholder.

#### **5. CONTRIBUTION TO STRATEGIC AIMS**

- 5.1 This proposal will contribute to the service priorities set out in the Council's Corporate Plan. Additionally, it will accord with the preference of RBC's Director of Resources, to have Homes for Reading Ltd.'s accounts reviewed by an external auditor.

## **6. COMMUNITY ENGAGEMENT AND INFORMATION**

- 6.1 There is no requirement in legislation or in guidance to consult with other agencies or stakeholders on the operation of a housing company. However, it continues to be important for members, council staff, applicants, tenants and the wider community to understand the role and offer provided by the housing company and how this differs from the provision of Council housing.

## **7. EQUALITY IMPACT ASSESSMENT**

- 7.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to—
- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 7.2 An Equality Impact Assessment (EIA) does not indicate that recommendations will have a disproportionate impact on any protected group.

## **8. LEGAL IMPLICATIONS**

- 8.1 Homes for Reading Ltd. is required to present accounts to Companies House in accordance with the Companies Act, which governs all operating companies.

## **9. FINANCIAL IMPLICATIONS**

- 9.1 The cost of appointing an external auditor will be met by Homes for Reading Ltd.

### **Risk Assessment**

- 9.6 Investing in property presents a number of significant risks and opportunities to the housing company and the Council. The HfR Risk Register is based on the Council model. These risks are regularly reviewed and updated by HfR Executive Management Team and the HfR Board. Any new business carries risks and this is no different for Homes for Reading Ltd. Many of the risks are outside the direct control of the company, but where HfR can influence matters, it will focus on managing and minimising risk.
- 9.7 In the event that the company cannot meet its interest payments to the Council and in turn the Council is not receiving sufficient return to meets its

own financing costs, the company could realise capital from the sale of a property to cover the shortfall. This situation is not ideal as the company would be a forced seller with a tenanted portfolio - but it would give the company time to then address the root problem of why it was unable to meet its interest payments. However, the Council would be exposed if property values had fallen since purchase - so that sale proceeds would not cover the Council's borrowing and initial investment. As part of the funding arrangements, HfR is expected to achieve a property value to loan ratio within 3 years that provides sufficient buffer against market forces to the extent that only the shareholding value remains at risk.

- 9.8 Likewise should the rental market in Reading go into decline and rents do not increase in line with costs, then this will require a re-alignment of the company's strategy, which may include starting to sell properties and reduce the size of the portfolio.
- 9.9 Part of the company's management responsibility is monitor the property market and its property portfolio (and costs and incomes) to forecast any changes and adjust its strategy to manage any difficult periods or indeed, take advantage of opportunities. In this context, the Company will report to the Council as shareholder if it foresaw significant risk of problems emerging from a changing property market.
- 9.10 As well as shareholder risks above, the company will carry operational risks of managing a housing portfolio; in many ways, these continue to be similar to those the Council already carries as a social housing landlord.

## **10. BACKGROUND PAPERS**

- i) PROPOSAL TO ESTABLISH A COUNCIL OWNED HOUSING COMPANY: Report to Council - 22 March 2016
- ii) APPOINTMENT/NOMINATIONS TO OTHER BODIES FOR THE MUNICIPAL YEAR 2016-17: report to Policy Committee - 25 May 2016
- iii) HFR - BOARD AUTHORITY TO ALLOT SHARES: Report to Policy Committee - 31 October 2016