



Report of: Executive Member for Housing and Development

Meeting of:	Date	Ward(s)
Executive	26 November 2015	All

THE APPENDIX TO THIS REPORT IS NOT FOR PUBLICATION

SUBJECT: ISLINGTON LIMITED (ICO) – EXTENSION OF ARTICLES AND DISPOSAL OF COMMERCIAL PROPERTIES TO ICO

1. Synopsis

- 1.1 This report recommends that the council's wholly owned company, iCo, purchases property assets from the council. This would allow the council, through its ownership of iCo, to purchase assets from the HRA and deliver a range of benefits including increased income to the council's general fund.

2. Recommendations

- 2.1 To approve the Business Case for iCo to carry out activities related to the buying, selling, renting and/or management of properties, including properties that are sold to or transferred to the Company by Islington Council.
- 2.2 To agree, as sole shareholder of iCo, to amend iCo's articles as set out in Paragraph 3.5.
- 2.3 To grant 125 year leases of the Properties listed below to iCo at market value, as determined by the Corporate Director of Finance and Resources:
- 29 – 33 Old Street
 - 49 – 59 Old Street
 - 69 – 85 Old Street
 - 41-47 Old Street
 - Car Park (rear of 29-85 Old Street)
 - 168 Mackenzie Road
 - Grant Street (off Chapel Market),
 - 48 Seven Sisters Road
 - 90-92 Upper Street.
- 2.4 To agree to make a loan to iCo on commercial terms sufficient for iCo to purchase the Properties.
- 2.5 To agree that iCo's accounting reference date be revised to 31 March.

3. Background

3.1 Earlier this year, the council established iCo which is a company wholly-owned by the council to deliver trading (profit-making) activities on the council's behalf. Profits generated by iCo through selling services flows back to the council to be reinvested in services for residents. The council intends to use any profit from iCo to help mitigate the impact of central government budget reductions and reduce the need to cut services. iCo is run by a board of council officers and councillors and has a commercial focus. As it is a separate company it is free from local authority bureaucracy and as a result iCo is able to take decisions much more quickly and respond more nimbly to new market opportunities.

3.2 Islington Council owns a number of commercial properties that are held under Part 2 of the Housing Act 1985 in the council's Housing Revenue Account. The council originally bought these properties in the 1960s and 1970s under the powers contained in the Housing Act 1957, even though in many cases they have never been used as residential dwellings. The majority of these properties were sold between 2006 and 2009 however a small number remain, focused in the Old Street area. Central government guidance suggests that wholly commercial properties should not be accounted for in the Housing Revenue Account.

3.3 It is recommended that the council sells some of the commercial properties currently held in the council's housing revenue account, to iCo. This proposal includes the sale of three high value commercial properties (over £1.5M):

- 29 – 33 Old street,
- 49- 59 Old street,
- 69 – 85 Old Street

The Properties will be sold to iCo subject to any existing leases. This proposal would help to achieve the objective of maximising the rental income produced by the Properties.

3.4 The Loan

It is proposed that the council would loan iCo the funds required to purchase these properties. These loans would be issued on a commercial basis and therefore generate income for the General Fund. iCo would use the rental income to repay the interest on these loans.

3.5 The Business Case

The full business case for this proposal is attached at appendix A It is recommended that Executive approve this business case.

3.6 iCo Articles

It is recommended that iCo's Articles are amended to add a new Article 3.19 under heading of reserved matters as follows:

'Activities related to the buying, selling, renting and/or management of properties, including properties that are sold to or transferred to the Company by Islington Council.'

This would allow iCo to take decisions around the ownership and management of properties.

4. Accounting Reference Date

4.1 iCo's financial year currently ends on 31 December. To simplify company accounting practices, the iCo Board has requested that the accounting reference date be revised to 31 March, mirroring the council's own financial year. Under the company's Articles of Association, altering the accounting practices of the Company (other than any such change which is required by law or by the rules of any regulatory

body to which the company is subject) is a matter reserved for decision by Islington Council as the sole shareholder. It is therefore recommended that the Executive approve this amendment to the company's accounting practices.

5. Implications

5.1 Financial implications

The value of the commercial properties is expected to be £21.25m but will be subject to valuations at the date(s) of sale.

The Council will lend iCo the funding to purchase the properties through its treasury management services. We will charge commercial interest rates on the loan, currently 5.5% which would equate to approximately £1.17m per annum. The Council has these funds available to lend to iCo.

The receipt from the sale of the properties will be classed as a capital receipt and used for regeneration or affordable housing.

The rents iCo will charge tenants are expected to total approximately £1.5m per annum once all properties are occupied and full rent is charged.

5.2 Legal implications

iCo's constitution

iCo is the trading name of Islington Ltd. iCo's existing articles restrict its scope of business activity to those specified in the articles. The articles reserve to the council, as iCo's sole shareholder, the power to alter the scope of iCo's business activities. The council, as shareholder, also has power under iCo's articles to appoint directors. Copies of resolutions affecting a company's constitution must be notified to Companies House within 15 days after it is made. A copy of the amended articles must also be submitted within the same time period.

Trading

The council has power to carry out trading activity under s95 of the Local Government Act 2003 supplemented by the Local Government (Best Value Authorities)(Power to Trade)(England) Order 2009/2393. In order to exercise the power to trade under s95 the council has to prepare a business case in support of the proposed exercise of that power and approve that business case (Regulation 2(2)).

Disposal

The council owns the [freehold] of the Properties which are held under part 2 of the Housing Act 1985. The Properties are subject to a number of existing commercial leases. [There are no restrictions on the titles of the Properties which will restrict their disposal to iCo].

The council has power to dispose of the Properties under s32 of the Housing Act 1985 with the consent of the Secretary of State. The Secretary of State has issued a general consent for the disposal of properties under s32 (the General Housing Consents 2013). Consent A3.2 covers the proposed disposals.

The proposed disposals are to be at market value. This will enable the council to satisfy its fiduciary duty to its council tax payers.

Loan

The council has power to grant a loan to iCo for the purchase by iCo of the Properties under s1 of the Localism Act 2011. The loan will be made on commercial terms. Therefore state aid issues should not arise.

Accounting Reference Date

Companies are permitted to change their accounting reference date under s392 of the Companies Act 2006. The resulting accounting period may not be longer than 18 months. The proposed change to the accounting reference date would extend iCo's current financial year from 1 January 2015 to 31 March 2016, a period of 15 months.

Such changes to the accounting practices of the company require approval by Islington Council under the company's articles. The change to the accounting reference date must be notified to Companies House. Barring certain exemptions, companies are not permitted to change their accounting reference date more than once in a five year period.

5.3 Environmental Implications

None

5.4 Resident Impact Assessment:

None

6. Conclusion and reason for recommendations

This report recommends that a number of council commercial assets are sold to iCo. This would deliver financial benefits to the council's general fund. It is estimated that if the nine Housing Revenue Account commercial properties are sold to iCo this will generate approximately £15M in income to the council's general fund over a ten year period.

Final report clearance:



Signed by: Executive Member for Housing and Development

Date: 10/11/15

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