

Cabinet 30 November 2022	 TOWER HAMLETS
Report of: Will Tuckley, Chief Executive Officer	Classification: Unrestricted
Dissolution of Seahorse Homes Limited and Mulberry Housing Society Limited	

Lead Member	Councillor Kabir Ahmed, Cabinet Member for Inclusive Development and Housebuilding
Originating Officer(s)	Nicola Klinger, Housing Companies and Shared Services Manager
Wards affected	All wards
Key Decision?	No
Reason for Key Decision	This report has been reviewed as not meeting the Key Decision criteria.
Forward Plan Notice Published	21 October 2022
Strategic Plan Priority / Outcome	All priorities

Executive Summary

This report recommends the dissolution of Seahorse Homes Limited, the Council's wholly owned housing company, due to changes in local and national policy and lack of viable position for the Council. It also recommends that the Council note the decision taken by the Shareholders of Mulberry Housing Society Limited to dissolve the Society. This is also due to changes in local and national policy and lack of a viable delivery option.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Approve the dissolution of Seahorse Homes Limited.
2. Note the dissolution of Mulberry Housing Society Limited.
3. Approve the write off of the unrecovered sum of £26.4K for Seahorse Homes Limited.
4. Approve the write off of the unrecovered sum of £7.4K for Mulberry Housing Society Limited.

1 REASONS FOR THE DECISIONS

- 1.1 National and local policy changes since the inception of Seahorse Homes Limited and Mulberry Housing Society Limited in 2017 have removed the need to use housing companies as delivery vehicles to build new Council homes.
- 1.2 As the sole Shareholder, the London Borough of Tower Hamlets can choose to dissolve Seahorse Homes Limited. This is recommended as an external review conducted by Savills in 2022 found that there is no viable position in respect of Seahorse Homes in short to medium term returns. This is due to recent cost environmental changes in respect of interest rates and repayment mechanisms.
- 1.3 The Shareholders of Mulberry Housing Society Limited have passed a resolution to dissolve the community benefit society. The primary reasons for this include that the Council is delivering its new build programme via the Housing Revenue Account, and the review conducted by Savills in 2022 found no option that would put the Society in a financially viable position due to recent policy and cost environmental changes in respect of available subsidy, interest rates and repayment mechanisms.

2 ALTERNATIVE OPTIONS

- 2.1 Seahorse Homes Limited could continue as a non-trading company. However, there are costs associated with administering a company that the Council would need to fund. There would be no prospect of financial returns as the company would not be trading.
- 2.2 The Council could use Seahorse Homes Limited for other commercial activity not related to housing. However, it is suggested in this case a separate Local Authority Trading Company (LATCO) is set up following a full business case related to such activity.
- 2.3 The Council could choose to fund the activities of Seahorse Homes Limited (via the General Fund). However, any financial benefits would not be seen before a 50-year period, so this option is not recommended.
- 2.4 As a minority Shareholder the Council cannot chose whether Mulberry Housing Society Limited is dissolved or not so there is no alternative option in this regard.

3 DETAILS OF THE REPORT

3.1 Background

- 3.2 In 2017, the then Cabinet agreed to set up two companies: Mulberry Housing Society Limited and Seahorse Homes Limited to provide an additional

housing delivery option outside of the Housing Revenue Account (HRA).

3.3 Seahorse Homes Limited was set up to acquire and develop housing for market rent. The Council would provide Seahorse Homes with equity and loans at commercial rates. Seahorse Homes Limited would then return a dividend to the Council (as its sole Shareholder) and potentially grant funds to Mulberry Housing Society to cross-subsidise affordable housing.

3.4 Mulberry Housing Society was set up to acquire and develop housing at social and intermediate tenures. The Council would provide loan funding, as well as Right-to-Buy 1-1 receipts and commuted S106 sums.

3.5 At the time the companies were set up, boards for each company were established. However, the companies were not provided with any dedicated officer support which limited their ability to identify and assess acquisition opportunities and pursue business activities.

3.6 Neither company has traded to date.

3.7 **Changes in national and local contexts**

3.8 A key driver for establishing the companies in 2017 was that there was a borrowing cap on the Housing Revenue Account (HRA), which meant it was difficult to build new housing within the HRA. This was removed in 2018 and the Council is now progressing with a new build programme within the Housing Revenue Account.

3.9 This has meant that the original purpose for Mulberry Housing Society is no longer necessary. Additionally, both the Council's Housing Revenue Account and General Fund have utilised Right to Buy 1-1 receipts for acquisition and development of affordable properties and have a future pipeline in place. That means the availability of this type of funding for Mulberry Housing Society is significantly reduced.

3.10 In November 2020, the Public Works Loan Board (PWLB) reformed its lending terms which meant that should a local authority buy investment asset(s) primarily for yield, or on-loan to a company that does so (for example Seahorse Homes Limited) it will not be able to take out new loans from the Public Works Loan Board in the three years following the acquisition of the asset. Though there is an exemption category in regard to housing that would apply to Seahorse Homes Limited, this would only apply to housing within Tower Hamlets (so the company could not choose to acquire housing in areas with high rental yields).

3.11 Following the pandemic, Corporation Tax is higher than originally assumed which would reduce Seahorse Homes Limited's ability to make debt repayments and dividend repayments.

3.12 There has also been a national trend of rising interest rates, including the Bank of England base rate and Public Works Loan Board rates. This is a

significant risk for Seahorse Homes Limited.

3.13 Furthermore, high levels of inflation will impact directly and indirectly on operating costs for Seahorse Homes Limited. It may also impact on the housing market.

3.14 **Financial viability**

3.15 Savills conducted robust financial modelling for several delivery options that could be pursued by Seahorse Homes Limited. These were:

- a) Acquire properties from the Open Market (new and existing)
- b) Acquire properties from forthcoming Housing Revenue Account developments
- c) Develop in Joint Venture with Mulberry Housing Society Limited
- d) Explore other commercial opportunities

3.16 No option provided a viable position for the Council in terms of short to medium-term returns.

3.17 Savills also conducted financial modelling for several delivery options that could be pursued by Mulberry Housing Society Limited. These were:

- a) Acquire properties for the open market (new and existing)
- b) Acquire properties from forthcoming Housing Revenue Account Developments
- c) Develop in Joint Venture with Seahorse Homes Limited
- d) Acquire properties for the provision of specialist housing
- e) Leasing of s106 properties acquired

3.18 No option provided a viable position.

4 EQUALITIES IMPLICATIONS

4.1 There are no specific equalities implications arising from this report.

5 OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

6 COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 Since 2017 there have been a number of factors both legislative (borrowing rules) and economic (interest rate increases and rising inflation), which mean it is unlikely that Seahorse Homes will deliver the financial returns envisaged at its inception. An independent review has established the companies lack of viability.
- 6.2 Dissolving the company will save on ongoing unrecoverable operating costs as well as relieving the administrative burdens on associated with a dormant company.
- 6.3 The council expects that it will be able to recover up to £3.7K of the £30K paid to Seahorse Homes in working capital when it was set up.

7 COMMENTS OF LEGAL SERVICES

- 7.1 The Council has the legal power to undertake the recommendations of this report.
- 7.2 The membership of Seahorse Homes belongs to the executive under the constitution and is not delegated. Therefore it is legally appropriate that the activity and decisions of the member of the company is under taken by the Mayor in cabinet.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- NONE

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE

Officer contact details for documents:

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