



<u>Committee and Date</u>
Housing Supervisory Board
20 January 2022

<u>Item</u>
6
PUBLIC

Cornovii Developments Limited: Increase in Share Capital

**Responsible
Officer**

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1. Synopsis

This report seeks approval for Cornovii Developments Limited to increase its share capital by an amount equal to the purchase price of the land at Overton Road, Ifton Heath. The Council, as previously approved, will transfer the land at Overton Road, Ifton Heath to Cornovii Developments in exchange for the newly created shares in the Company. Approval to increase the share capital of the Company will enable Cornovii Developments to proceed with the development of the site at Ifton Heath. In accordance with the planning approval and as detailed within its approved Business Plan.

2. Executive Summary

- 2.1. In accordance with the Shareholder Agreement between Cornovii Developments Limited (CDL) and Shropshire Council, the company requires approval from the Housing Supervisory Board (acting as shareholder) in all matters relating to changes in the company share capital. This report seeks the approval of the Housing Supervisory Board to increase the number of shares in the company by 320,492 shares at the nominal value of £1 per share.
- 2.2. On the 21st November 2019 the Housing Supervisory Board approved in principle for CDL to increase its share capital from the existing share capital of one £1 ordinary share in order to issue, 1,625,000 of ordinary shares to Shropshire Council. This amount represented the expected value of the land to be purchased from the Council owned sites of Frith Close, Shrewsbury and Overton Road, Ifton Heath. This had followed agreement by Full Council on the 19th September to provide an equity investment in the Company of £1.625m.
- 2.3. Subsequent to this, in the Addressing Unmet Housing Need- Company Disposals Report on the 17th December 2020, Council approved a new land purchase structure agreement for sites owned by Shropshire Council sold to CDL. This updated the previous decision (at 2.2) and approved instead to sell all sites at market value, with a value that reflects the actual planning permission received for those sites.

- 2.4. This resulted in the land value at both sites being revalued. The site at Frith Close was revalued at £250,000 and in order to affect the land transfer by way of purchase of additional shares in CDL the Housing Supervisory Board on 11 February approved CDL's request to increase the issued share capital to 250,001. The Ifton site has been revalued at £320,492.
- 2.5. At its board meeting, held on 19 November 2021, the CDL board delegated authority to its Managing Director and Company Secretary to seek approval from the shareholder to increase the share capital of the company by 320,492 ordinary shares of £1 each in the capital of the company. It is under this delegation that the resolution to increase the share capital of the company is put to the Housing Supervisory Board.

3. Recommendations

- 3.1. Approve the proposed resolution, shown at Appendix A, to increase the share capital of CDL by 320,492 ordinary shares at a nominal value of £1 per share, bringing the total share capital to £570,493. This authority to increase the share capital shall, unless renewed, varied or revoked by the Company, expire 12 months from the execution of the Shareholder resolution.
- 3.2. Authorise the execution of a written resolution, to allot shares in the Company up to an aggregate nominal amount of £320,492.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. The increase in share capital will enable the company to offer shares to the Council to an amount equal to the value of the land at Ifton Heath. The Council will transfer the land at the value of increased shares in the company.
- 4.2. If the increase in share capital is not approved, it will severely compromise CDL's ability to purchase and develop the Ifton Heath site and limit its ability to achieve the objectives of its approved business plan.

5. Financial Implications

- 5.1. The increase in share capital of the company will fund the purchase of the Ifton Heath site from Shropshire Council.

- 5.2. The transfer of the Ifton site, which will be a function of the approval of increase the share capital of CDL, will directly impact on the capital receipts the Council is able to generate to support the future Capital Strategy.

6. Climate Change Appraisal

- 6.1. This report does not have any direct impact on the Council's Climate Change Agenda.

7. Background

- 7.1. The relationship between the CDL and the Council is regulated via the Shareholder Agreement which sets out the terms of the relationship between the company and the Council and sets out a number of consent matters upon which CDL must seek approval from the Council as shareholder. One of the consent matters is for approval to be sought to increase the share capital of the company. This matter is set out in the Shareholder Agreement and is also a feature of CDLs Articles of Association.
- 7.2. The Housing Supervisory Board represents the Council as sole shareholder and has delegated authority to monitor the performance of the company and to provide approval for the consent matters set out in the Shareholder Agreement.
- 7.3. In the Council Report Addressing Unmet Housing Need Site Disposals to the Housing Company, 17th December 2020, recommendation (F) was approved which provided that an equity subscription investment via the purchase of shares in Cornovii Developments Limited, representing the updated land value of Overton Road, Ifton Heath site, to be determined in accordance with the reports recommendation B and D and to delegate authority to the Interim Executive Director of Resources to implement the investment further to the equity subscription agreement with the Company. To further this approval and to implement the investment in CDL it is necessary to increase the share capital of the company to a number of shares at a nominal value of £1 per share equal to the purchase price of the land at Overton Road, Ifton Heath.
- 7.4. The current CDL business plan approved by the Housing Supervisory Board was built on the basis that the land at Ifton Heath would be purchased through a share offering to the Council at a number equal to the purchase price of the land. In furthering the development of this site, the transfer of the land from the Council to CDL is required under the terms assumed within the business plan.
- 7.5. On the 03 August planning consent was granted to CDL to develop 35 homes on the Ifton Heath site, to include 13 affordable homes, comprising of 7 affordable rents and 6 shared ownership. It is anticipated that the affordable homes on this site will be purchase by the Council's HRA and managed by STAR Housing.

8. Additional Information

- 8.1. The requirement for approval for CDL to increase its share capital is set out in Schedule 1, Shareholder Consent Matters, Part A Corporate Matters, item 3 on page 13 of the Cornovii Developments Ltd and Shropshire Council Shareholder Agreement.
- 8.2. The Company shall not, unless it has Shareholder Consent *'increase the amount of its issued share capital except as provided in this agreement, grant any option or other interest (in the form of convertible securities or in any other form? Over or in its share capital, redeem or purchase any of its own shares or effect any other reorganisations of its share capital'*

9. Conclusions

- 9.1. It is this report's recommendation that the Housing Supervisory Board approve an increase in the share capital of CDL of 320,492 bringing the share capital of the company to 570,001.
- 9.2. The additional shares created in the company will be purchased by the Council. The Council will transfer the land at Overton Road, Ifton Heath to Cornovii Developments by consideration and at the value of £320,492 in full for the subscription.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Addressing Unmet Housing Need Site Disposal to the Housing Company. 17 December 2020.
Cabinet Member (Portfolio Holder) Cllr Dean Carroll
Local Member Cllr Steve Davenport
Appendices Appendix A Resolution to Increase Share Capital