

Agenda Item No:

Report To: Overview & Scrutiny Committee

Date: 27th January 2015

Report Title: Progress report on the Council's commercial companies

Portfolio Holder: Cllr Galpin, Portfolio Holder for Finance & Budget, Resource Management and Procurement

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Summary:	This report sets out the steps that were taken as a result of the Committee's recommendations to Cabinet following the call-in of the Trading Companies Report, and presents a progress report on both of the commercial companies.
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Key Decision: NO

Affected Wards: All

Recommendations: **The Committee be asked to note:**

- 1. The steps that were taken as a result of the Committee's recommendations to Cabinet in July 2013; and**
- 2. The progress made by the Companies to date and the Financial Statements attached at Appendices 1 and 2.**

Policy Overview: The Companies are the result of the Council's ambition to be more commercial and generate innovative sources of income.

Financial Implications: None

Risk Assessment No

Equalities Impact Assessment No

Other Material Implications: None

Exemption Clauses: **Appendices 1 and 2 are not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.**

Background Papers: Previous Cabinet and Overview & Scrutiny Reports and Minutes.

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Report Title: Progress report on the Council's commercial companies

Purpose of the Report

1. To provide the Committee with confirmation as to how the recommendations of the Committee following the call-in of the Cabinet decision have been implemented.
2. To provide the Committee with an update on the progress the Council's two commercial companies have made since they commenced trading.
3. To provide the Committee with the financial statements attached at Exempt Appendices 1 and 2.

Issue to be Decided

4. Members are asked to note the implementation of the original recommendations and the progress made by the companies to date.

Background

5. In June 2013, the Committee called-in the decision of the Cabinet to create two commercial trading companies. As a result of the call-in the Committee made a number of recommendations to Cabinet, all of which were accepted by the Cabinet.
6. An update report was presented to Cabinet on 12th September 2013, which explained the steps that were being taken to implement the recommendations and approval was given for the creation of the Building Consultancy Company as the recommendations had been satisfied in respect of it.
7. As a result, A Better Choice for Building Consultancy Limited was registered at Companies House on 7th January 2014 and it started trading on 1st April 2014.
8. A further progress report was presented to Cabinet on 13th February 2014 regarding the Property Company, which set out the findings of the independent review of the business model and approval was given for the creation of the Property Company.
9. As a result, A Better Choice for Property Limited was registered at Companies House on 17th April 2014.
10. Both companies have entered into a Shareholder's Agreement with the Council, which set out what each company can and can't do and when it needs consent from the Council, Cabinet or Trading & Enterprise Board.

Original Committee Recommendations

11. There were seven original recommendations made by the Committee and accepted by Cabinet. These are set out below with a note explaining how these have been implemented.

- i. **No payment will be made to any Director/Officer other than expenses and no Officer should be paid other than contractual overtime.**

Under the terms of the Shareholder's Agreement, both companies require the consent of Council before "any Director (or any person recruited to work for the Company) shall be entitled to remuneration in connection with the performance of his or her duties for the Board and determining the level and terms upon which the remuneration will be payable." This means that before either company can employ any staff in its own name, Council will have to approve that employment and the terms on which the employment is to be made.

The Articles of Association of each company also contain a provision that states that Directors may only be remunerated if it is approved by the Council as Shareholder.

- ii. **Each company will hold an AGM and all Councillors will be invited to attend (but not have any voting rights).**

The requirement to hold an Annual General Meeting is contained in the Articles of Association. This obligation is also included in the Shareholder's Agreement, where it also says that all Councillors shall be invited to attend and that the companies shall report to the AGM on those matters that the Trading and Enterprise Board require it to report on annually.

- iii. **Not to appeal against Council planning decisions.**

Under the terms of the Shareholder's Agreement, both companies require the consent of the Council through the Trading and enterprise Board, before "making any application for planning permission or lodging an appeal against a planning authority".

- iv. **The Council to have an independent review of the financial model to include an opinion on being a going concern.**

This was carried out by Grant Thornton and reported to Cabinet on 13th February 2014.

- v. **That the Section 151 Officer should not be a Director of either company.**

The Section 151 Officer has not been appointed as a Director of either company. The Head of Finance has been appointed as a Director of A Better Choice for Building Consultancy Limited. A request will shortly be made to the Trading and Enterprise Board and the Leader to appoint the Head of Finance as a Director to A Better Choice for Property Limited.

- vi. **In respect of the Property Company – should consider options to support home ownership models, including staircasing.**

A Better Choice for Property Limited has been considering all options when looking at its acquisitions programme and possible development schemes and any revisions to its business plan will reflect this.

vii. That the release of each tranche of the £10M be subject to the approval of Council.

It is a conditions precedent of the Facilities Agreement between the Council and A Better Choice for Property Limited that the consent of the Council is provided prior to the drawdown of each tranche of £2million. Without the consent, the Council will refuse to release the funds and any drawdown request is invalid.

Progress of A Better Choice for Building Consultancy Limited

12. The first 9 months of trading has seen higher levels of activity and income than anticipated within the initial business plan. This has been achieved without undertaking any significant marketing or advertising due to long term staff sickness. With active marketing and advertising it should see even higher levels of commissions in the next few months.
13. Progress is being made towards making an application to the Construction Industry Council for the Building Consultancy to become an Approved Inspector. This will provide a significant new area of work and provide greater opportunities to sell current consultancy services to this new market.
14. A review of the current business plan will be undertaken after the first year's trading and revised to focus efforts in marketing to develop the business further.
15. The levels of staff resources within the Building Control Team who deliver the consultancy work has increased by 0.5 FTE recently, however there will be a need to consider seeking additional resources at some time in the near future.
16. The Building Consultancy has been very well received by regular agents and also by members of the public who have been appreciative of the additional services offered.
17. A copy of the latest Board report on business activity and financial statements is attached at Exempt Appendix 1, a verbal update will be provided to the Committee.

Progress of A Better Choice for Property Limited

18. Although the Company was registered at Companies House in April 2014, officers didn't begin actively pursuing properties for purchase until the Autumn once the loan agreement with the Council had been completed.
19. Whilst the property market tends to be quieter during the last quarter of the calendar year the Company still managed to view approximately 35 properties up until the beginning of January 2015. As a result of these viewings two properties have been purchased (one three bedroom terraced house and one terraced house which is split into two flats) and offers on another 3 properties have been accepted and are currently subject to due diligence.

20. At the time of writing this report one flat has been let, we have received an expression of interest on the second flat and we anticipate letting the three bedroom house in early February.
21. Whilst the ultimate aim of the Company is to make a profit in its trading activities, it was agreed that the first phase of properties that were purchased would be rented at a less than market “affordable” rent. This enables the Company to compliment the work that the Council undertakes reducing homelessness and increases the number of potential tenants who can afford to rent their own property, possibly for the first time.
22. A financial statement is attached at Exempt Appendix 2.

Risk Assessment

23. Not applicable as this is a progress report, risk assessments were presented as part of the Business Case for each company.

Equalities Impact Assessment

24. Not applicable as this is a progress report, an assessment was carried out for the original reports.

Conclusion

25. All of the Committee’s recommendations were accepted by the Cabinet and have been implemented through the legal documentation that governs the companies and through the companies’ business plans.
26. The companies are making steady progress for their first year of trading.

Portfolio Holder’s Views

27. The cabinet was grateful for the recommendations made last year. This report shows that the companies have worked to comply with those recommendations and as a result are more accountable, robust and effective trading companies. These companies will, in future, supplement the income of the shareholder and support responses to potential homelessness.

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