

25 June 2019

<b>Report of</b>	<b>Assistant Director Policy &amp; Corporate</b>	<b>Author</b>	<b>Andrew Tyrrell</b> ☎ 282390
<b>Title</b>	<b>Colchester Commercial Holdings Ltd Annual Report 2018/19</b>		
<b>Wards affected</b>	All Wards		

## 1. Executive Summary

- 1.1 The purpose of this report is to provide the Committee, in its role as Shareholder Committee, with performance information for the first year of trading activities by Colchester Commercial Holdings Ltd (CCHL) and the subsidiary companies; Colchester Amphora Energy Ltd (CAEL), Colchester Amphora Homes Ltd (CAHL), Colchester Amphora Trading Ltd (CATL).
- 1.2 The “2018/19 Annual Report” is provided in Appendix A. The report explains how the companies performed and how, being solely owned by the Council, the companies achieved their profit target of £286k. This amount was returned to the Council, as sole shareholder, as a dividend payment for reinvestment.

## 2. Action Required

- 2.1 The Committee is invited to review the performance of CCHL (and its subsidiaries) during 2018/19, having regard to the performance information for the year provided in Appendix A.
- 2.2 The Committee is also invited to make any recommendations to the Portfolio Holder for Commercial Services on CCHL performance management arrangements for 2019/20 or beyond.

## 3. Reason for Review

- 3.1 CCHL is a wholly owned company of the Council and has a key role to play in contributing to the achievement of the Council’s strategic objectives. CCHL is the holding company for three separate subsidiaries, providing numerous products, services, and opportunities that reflect the Council’s strong public sector ethos as shareholder, but also see the companies operating in a commercial market.
- 3.2 The companies have a turnover of £4.2m and employ 135 people who help deliver projects that include (but are not exhaustive to):
  - The design and delivery of an innovative low-carbon heat network at the Northern Gateway that is 1 of only 9 pilots to gain Government funding.
  - The delivery of over 300 high quality mixed-tenure housing, including 30% affordable homes in Colchester
  - Continuing, and increasing, delivery of many events, products and trading services that expand the brand of Colchester as a place to work, live and visit.

- 3.3 This annual report is to be considered as the Governance & Audit Committee has the responsibility to act as the shareholder committee for these companies. As part of this role the Committee is required to:
- Consider and review the activities and financial performance of Colchester Commercial (Holdings) Limited and its subsidiary companies;
  - Monitor, challenge and make recommendations to Cabinet regarding Colchester Commercial (Holdings) Limited and its subsidiary companies; and
  - Make recommendations to Cabinet on how it should exercise the functions flowing from its ownership of shares in Colchester Commercial (Holdings) Limited and its subsidiary companies.
- 3.4 In addition, the Governance & Audit Committee also reviews Colchester Commercial (Holdings) Limited's Business Plan for 2018-2021 (including its subsidiary companies) annually. This most recently occurred in March 2019 and is an annual requirement.

#### **4. Background Information**

- 4.1 When the Council set up its wholly-owned companies the aim was to build a global brand of Colchester as a place to do business, invest, live, study and visit. This aim included goals to improve the quality and availability of homes (both for private sale and affordable rent) for local people, to create an innovative Heat Network at the Northern Gateway and to develop a range of other high-quality products and services. These beneficial aims are delivered whilst operating in a commercial manner, generating profitable returns through a dividend (to the Council as shareholder) or to re-invest in the companies to assist their growth. Consequently, the companies enable the Council to continue to provide public service functions within the ongoing challenges of increasing budget pressures that all local authorities face.
- 4.2 CCHL is a private company limited by shares, with the Council being the sole shareholder. The Council therefore retains full control over the direction of the companies, whilst the Directors hold the responsibility for making decisions, providing leadership and monitoring the performance of the company. The Directors are also responsible for obtaining appropriate legal, financial and tax advice to enable them to make informed decisions about the running of the company, as well as maintaining and regularly reviewing a robust risk management framework.
- 4.3 The Council signed a 12-year Management Agreement with CCHL in March 2018. The Management Agreement between the Council and CCHL sets out how the company will provide a range of services to the Council, as well as managing some budgets and services on behalf of the Council. The Company then manages its budget within the overall management fee and through income that the companies generate from their activities.
- 4.4 For 2018/19, the Board of CCHL consisted of four Councillors (Cllrs Barlow, Flores, Goss, and J. Young) and the Managing Director. The Managing Director of CCHL is the Chief Executive of the Council. This role has overall responsibility for ensuring compliance with the Shareholder Agreement.
- 4.5 The representation on the Board allows the Council to offer direction to the holding company (and its subsidiaries), whilst providing it with the freedom to operate in a fully commercial marketplace to drive forward delivery as outlined in the agreed Business Plans.
- 4.6 The performance is also monitored by the Council in monthly liaison meetings that include officers from both the Client Team and Finance Team; as set out within the Liaison Protocol appended to the Management Agreement. Both financial and non-financial KPIs are monitored, whilst a range of related matters are also discussed to ensure suitable governance is in place.
- 4.7 This is important because good governance, accountability and transparency are essential to the Council and form a cornerstone to improving our public services. In discharging this accountability, the Council is required to make proper arrangements for the governance of its companies and it was imperative that an appropriate governance structure was put in place to ensure the sound and robust management of the companies. This offers protection of the Council's financial and reputational investment in the companies.

- 4.8 Similarly, all of the companies are subject to any audit and inspection requirements of the Council. The Management Agreement referred to above also sets out these audit requirements. External audit remains an essential element in accounting for public money and makes an important contribution to the stewardship of the Council's public resources. It also supports local democracy by helping to ensure that members and officers are accountable to the communities they serve and by providing assurance that the public money they manage has been properly spent.
- 4.9 Copies of audited accounts must be provided to the Council as soon as reasonably practicable after external audits. The Company also undertakes all internal and external audit to comply with the law. Similar requirements also exist for complaints, enquiries and legal proceedings related to any services provided by the companies.
- 4.10 Under a Service Level Agreement (SLA), the Companies also pay the Council a fee for the provision of a number of services, such as Human Resources, IT and Customer Services. The current SLA runs from 1 April 2018 to 31 March 2021 and sets out the respective roles and responsibilities of each party in the provision of the services. The annual fees for the services provided by the Council are also detailed.
- 4.11 The partnership Agreements help CCHL ensure that it, and the subsidiary companies, deliver against their individual Business Plan targets. The overarching Business Plan for CCHL sets out that the holding company provides the strategic direction, financial performance monitoring and senior management capacity for the subsidiary companies. In addition, although CCHL is a holding company, it does undertake some trading activities (e.g. senior management of the Council's Sport and Leisure function).

## **5. Strategic Plan References**

- 5.1 The services and projects delivered by CCHL contribute directly to the Strategic Plan 2018-2021 priority areas:

GROWTH... Ensuring all residents benefit from the growth of the borough

- Help make sure Colchester is a welcoming place for all residents and visitors
- Ensure residents benefit from Colchester's economic growth with skills, jobs and improving infrastructure
- Promote inward investment to the borough
- Develop jobs, homes, infrastructure and communities to meet the borough's future needs by creating new Garden Communities
- Work with partners to create a shared vision for a vibrant town centre.

RESPONSIBILITY... Encouraging everyone to do their bit to making our borough even better

- Promote responsible citizenship by encouraging residents to get involved in their communities and to identify solutions to local issues
- Increase the supply of good quality homes by using legal powers to reduce the number of empty homes and improve standards in the private rented sector
- Create new routes for walking or cycling and work with partners to make the borough more pedestrian-friendly.

OPPORTUNITY... Promoting and improving Colchester and its environment

- Promote and enhance Colchester borough's heritage and visitor attractions to increase visitor numbers and to support job creation

- Help business to flourish by supporting infrastructure for start-up businesses and facilitating a Business Improvement District

WELLBEING... Making Colchester an even better place to live and supporting those who need most help

- Work with Essex Police and partners in the Safer Colchester Partnership to make Colchester an even safer place
- Create new social housing by building Council homes and supporting Registered Providers
- Help residents adopt healthier lifestyles by enabling the provision of excellent leisure facilities and beautiful green spaces, countryside and beaches.

## **6. Equality, Diversity and Human Rights implications**

- 6.1 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; and
  - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 6.2 The performance reported herein will have no disproportionate impact on, nor disadvantage, any protected group.

## **7. Consultation**

- 7.1 There is no specific consultation requirement generated in relation to this report.

## **8. Publicity Considerations**

- 8.1 There is no specific publicity consideration in relation to this report.

## **9. Financial implications**

- 9.1 In terms of overall governance, the companies operate as separate organisations with financial regulations agreed by relevant company boards. Where the companies are spending money on behalf of the Council, such as sport and leisure, capital budgets within the RIF, etc, then all approvals are required to be in line with normal Council procedures.
- 9.2 In terms of the financial assumptions and dividend targets, when the companies were set up the financial targets and estimated dividend for 2018/19 was broadly based on existing budget assumptions when services were operating within the Council.
- 9.3 The performance in the first year shows that CCHL delivered against its target dividend for 2018/19. Further details can be found in the report within Appendix A.
- 9.4 Looking ahead to 2019/20, the target dividend set out in the CCHL business plan and council budgets assumes an increase in income for the Council of £107k. The Business Plan for CCHL sets out how it is expecting to deliver this increased dividend for the Council, so that the Council can benefit from this in providing our services to the public.

- 9.5 Turning to funding for CCHL, funding for the company (and certain CATL services) is via a management fee paid by the Council and through income that the companies generate. In addition, separate agreements will provide loan finance to the housing and energy subsidiaries. These have been subject to separate reports agreed by Cabinet and as such are not set out in detail within this report.

## **10. Health, Wellbeing and Community Safety Implications**

- 10.1 Health and wellbeing is influenced by a number of factors, many of which fall under the responsibility of the Council. The Company activities span various aspects and assist the Council to do all it reasonably can to promote positive health benefits to our residents; whilst reducing, removing or minimising any unintended consequences to health that may arise from services or decisions. Projects such as the CNG Sports Hub are designed to improve health and wellbeing, as are trading operations such as Helpline.

## **11. Health and Safety Implications**

- 11.1 The matters herein do not result in harm to the health and safety of the general public or raise any specific health and safety issues related to this report.

## **12. Risk Management Implications**

- 12.1 CCHL has a risk register that is actively managed. Each of the subsidiary companies also have their own risk register. All of the companies have a Business Continuity Plan. A key risk associated with the companies concerns the financial risk attached to the delivery of income targets (capital and revenue) and management of costs. This is actively managed through regular monitoring and reporting on the financial position and the governance arrangements detailed within this report.

## **Appendices**

Appendix A – 2018/19 Annual Report