

**Extract from the draft minutes of the Governance and Audit Committee meeting on 27 July 2021**

**268. Annual report of Colchester Commercial Holdings Limited for 2020/2021**

Andrew Tyrrell, Client and Business Manager for Colchester Borough Council, and Paul Smith, Group Commercial Director for Colchester Commercial Holdings Limited (CCHL), attended the meeting to present the report and assist the Committee with its enquiries.

The Committee heard that CCHL was the Council's principle commercial company, with three subsidiary companies underneath it; Colchester Amphora Energy Limited, Colchester Amphora Homes Limited and Colchester Amphora Trading Limited. The Council is the sole shareholder for CCHL and the Amphora Companies, and as such retained control over their strategic direction and what it was hoped that they would achieve. The companies have been active for the past three years and have recorded two successful first years where the expansion dividend targets had been achieved, before a difficult third year which was adversely affected by the Covid-19 pandemic, the impact of which has been felt across all sectors and activities of the companies. Although some of the areas of operation of the companies, such as Helpline, had been able to provide a positive reaction to the pandemic, other areas, such as events, has been badly affected. It was, however, highlighted that the companies had been set up with a diverse range of activities in order to provide resilience which had been particularly important during the pandemic, and which had allowed a dividend to be paid to the Council in year three. Although it was particularly difficult to predict the future, it was considered that under the circumstances the companies have provided a relatively successful financial return in the year.

One of the key elements of the companies was that they maintained a public sector ethos, in support of the Council's Strategic Priorities, including the provision of affordable homes and the commencement in construction of the heat network which will be one of the largest of its type in the United Kingdom. The Committee heard that the Council had received two awards in 2020 which both related to the setting up of the companies and the decisions that the Council had taken in 2018; the Local Government Chronicle's 'Entrepreneurial Council of the Year', and the Municipal Journal's 'Best Commercial Council' award. The prestigious awards provided external acknowledgement of the achievements of Colchester Borough Council.

Paul Smith advised the Committee that although the previous year had been a difficult one, CCHL had still been able to deliver a dividend of £226,000. The achievements of the Capital Projects Team were highlighted, with a key achievement being the delivery of the completed Northern Gateway Sports Park, partially funded by secured partnership funding from British Cycling and Cricket totalling £690,000. In addition to this, work had been completed on the infrastructure design of the Colchester Northern Gateway project, including highways outline approval and the development of a hybrid planning application. Amphora Trading had also provided support for the strategic priorities of the Council, including development and community engagement with the creative industries, and helping the Council secure

£3.7m funding from the South East Local Enterprise Partnership in relation to the development of the Queen Street Bus Depot site. It was confirmed to the Committee that the commercial companies were set up to support the strategic priorities of the Council and this included ensuring that any grants that were awarded to the Council were allocated to the scheme that they were intended to support.

With regard to the work of the Estates and Asset Management Team, the Committee heard that this team managed all commercial leases of the Council and during the pandemic all tenants had been managed in accordance with Government requirements. The Council's property investment portfolio was worth in the region of £42.5m, and a high rent collection rate had been achieved in spite of the pandemic.

The restrictions on mass gathering which had been in place over the preceding year had a major impact on the events and weddings which had been able to be held, with associated impact on revenue from the Events business. The impact of the pandemic had been managed as far as was possible through the delivering of weddings where permitted and rescheduling events in line with Government advice, and a successful bid had been made to the Cultural Recovery Fund for £90,000 to support recovery from Covid. The opportunity had been taken to review the operation of the Events business during the pandemic, and events would now be run as cashless events to improve safety and efficiency, and the Old Library building had been brought back into use for events.

The Helpline service had proved to be an essential service for local residents over the past year, through both monitoring and the use of its 'lifting' service which assisted customers who had experienced a fall, and it was emphasised that this was a local service provided by local people. With regard to the sports and leisure activities of the companies, the Committee heard that the Sports Park had opened, and Leisure World had been operating as far as was possible in accordance with Government guidelines.

Some of the key priorities for 2021-2022 were highlighted to the Committee, including the completion of the first phase of Colchester Northern Gateway South infrastructure such as The Walk and the Western Access Road, and the achievement of outline planning approval for all uses including residential, commercial, and healthcare.

Work was to continue with Colchester Amphora Trading leading development of S.106 funded community buildings at Stanway and North Colchester, as well as the development of the new St Mark's Community Centre and the scheme at the Queen Street Bus Depot together with public spaces in the town centre such as St Nicholas Square and Balkerne Gate. The deployment of the 'metronet' was being project managed by the companies, and this aimed to provide super-fast broadband and support the continued development and improvement of the closed circuit television (CCTV) network in the town.

Through the forthcoming year, the management of the Council's estate and assets would continue, with the aim of limiting the loss of rental income and securing the

letting of office space at Rowan House which was currently undergoing improvement works.

It was intended that there would be a recovery of the events programme in line with Government guidelines, and it was noted that the demand for weddings had been high following the easing of restrictions. Development of relationships with external public bodies would continue, together with the development of the hospitality offering at the Town Hall.

With regard to the CCTV and Helpline services, the Town Centre CCTV system would be upgraded to a fully digital system with increased coverage and capability, and there would be a digital upgrade of the Helpline operating system to facilitate the expansion of digital services to customers.

Turning to Colchester Amphora Energy, the Committee were advised that in the preceding year the feasibility of the Northern Gateway's Micro Grid which would provide sustainable green energy to the Sports Park and the Northern Gateway. A tender for the installation of the Northern Gateway's Heat Network had also been issued. In the forthcoming year, it was intended to commence construction of the Energy Centre, and to carry out stage 2 of the feasibility report into the Micro Grid which formed part of the ongoing work to support the sustainability aims of the Council.

The Committee heard that Colchester Amphora Homes had made a number of key achievements during 2020-2021 which included the redevelopment of the Creffield Road site into six apartments (two with affordable rent) and two, three bedroom, houses to be completed by July 2021. Construction was proceeding on three garage sites at Buffett Way, Scarfe Way and Hardings Close, with completion due by August 2021 and January 2022 and a review of Phase 2 development sites had been carried out. Looking ahead to 2021-2022, it was hoped that Creffield Road Sales would be complete by August 2021 and progress would be made on the Military Road and Northern Gateway South sites.

With regard to the financial position of CCHL, it was anticipated that profit for redistribution in the forthcoming year would be relatively modest due to the impact of the pandemic, but that this would significantly increase in the years 2022-2023 and 2023-2024, as housing stock became available for sale.

The activities and achievements that had been highlighted to the Committee were described as an illustration of the diversity of what the companies had achieved, together with an indication of future activities. The business plan of CCHL was to expand in a controlled manner to ensure that the company could continue to meet the demands of the Council.

Councillor Willetts offered his congratulations on the achievements of CCHL, and noted that CCHL was a national leader in the way it conducted its business, with the dividend realised contributing to the Council's provision of essential services. The Committee were reminded that the Governance and Audit Committee was interested

in the activities of the companies, but also in their financial operation as the Shareholder Committee for CCHL Councillor Willetts noted that CCHL charged the Council a management fee to carry out many of its activities, while at the same time paying the Council for rent and other services, and he wondered what difference the adjustment of any of these fees would make to the dividend available at the end of the financial year. He sought assurance that the dividend of £226,000 that had been paid was the best that could have been achieved under the circumstances.

Paul Smith responded by confirming that the Shareholder Committee could consider what it wished to achieve from the companies, and whether a low or high dividend was sought. He explained by way of example that the Amphora companies did receive a management fee from the Council to cover the internal services provided back to the Council, and in return made use of a number of council services, such as human resources, office space, IT, Fleet, etc which were governed by a number of Service Level Agreements (SLAs). The Companies therefore bare its own operating costs which were no longer accounted for in the Council's budget, as well as hiring services from the Council in addition to delivering a dividend back to the Council. The Committee heard that it was possible to carry out a segmented analysis to explain clearly the management of the different SLAs in effect and their impact on the dividend, but that any information provided in this regard would be subject to commerciality and would have to be presented to the Committee once the public had been excluded.

Councillor Willetts expressed his opinion that the companies were run as very high quality organisations in terms of their management and the services offered, and he wondered whether the level of quality negatively impacted on the dividend available, and whether more profit could be obtained by providing the same services at a medium level of quality.

Paul Smith explained that the companies were heavily governed by the Council by virtue of the Governance and Management Agreements which were in place, and under these agreements, the manner in which the companies were able to procure and operate was tightly controlled. Additionally, of huge importance was the fact that the housing company had been set up to always deliver 30% affordable housing which will impact on the returns that the housing company will be able to make in the future. It was pleasing to note that the companies were doing everything possible to return the highest dividend while at the same time supporting the processes of the Council, local planning policy and Strategic Priorities

Councillor Willetts enquired whether it would be beneficial for the companies to be able to procure goods and services on the open market, and whether this would allow for increased dividends to be paid. It was confirmed that the companies could expand the business with external customers, and it was for the shareholder to consider the future of the company's expansion. To realise the maximum benefit of the companies, they would need to evolve a medium and long term business plan for the CCHL Group to be financially stable in their own right, and not dependent on funding from the Council.

In response to an enquiry from Councillor Tate, Andrew Tyrrell confirmed that the broadband network was being rolled out to cover the whole of Colchester, with the Council owning the metronet that was being installed to receive the broadband signal which it would then distribute around Colchester town. The proposed scheme would not cover rural areas due to the cost of the cabling and infrastructure required, however, the Committee were informed that the Council had used its social housing estate in the urban area to link to parts of Colchester that would otherwise not have been serviced by the open market, and as a result of this Greenstead had received broadband access which it might otherwise not have received for ten years. Councillor Willetts noted the inherent difficulty in balancing the need to deliver a profit by providing as many people with access to broadband as possible, with the needs of providing the rural areas with this support.

Councillor Fox enquired about the long term future of Colchester Amphora Homes and future sites that may have been identified for development. He noted that Cabinet had agreed to consult on two different sites, which were the Vineyard Gate and Britannia Road car park which it was hoped would be able to deliver approximately 190 homes, and he enquired what activity would take place in the forthcoming year to deliver these homes.

Andrew Tyrrell confirmed that both sites were still under consideration, together with development in the town centre which had the potential capacity to provide a link between the developments. In terms of the future pipeline of development opportunities, the development at Northern Gateway South represented three to four years of work which would provide 350 homes, and additional sites had been identified in the Local Plan. It was acknowledged that no matter how much land was owned, it would eventually run out, and work is continuous to identify suitable sites for future development.

Councillor Lissimore, Portfolio Holder for Resources, confirmed to the Committee that the Council wished to take as holistic approach as was possible in approaching this issue by liaising closely with as many other local authorities and land owners as possible with the view to obtaining the greatest benefit possible for the people of Colchester. Councillor Fox was pleased to hear this but wondered whether or not bringing additional land into play would create a delay in delivering the homes already identified. Councillor Willetts pointed out that the purpose of the current report before the Committee was to review the year past, but it was Councillor Fox's opinion that the future success of the companies, which the Committee had been asked to consider, was dependent on a constant pipeline of work which would enable the retention of key staff and the continued growth which had been identified as a commercial target. Councillor Lissimore gave an assurance to the Committee that every site that had been identified was to be examined in detail to provide the best return in terms of both profit and social benefit to the people of Colchester.

Councillor Oxford sought clarification on the number of dwellings that were to be built in the Northern Gateway South development. He expressed his pleasure that the Old Library was now being used as a venue, however, he questioned the appropriateness of the picture of a bride and groom being outside the Mayors

Parlour. He asked whether it was intended to provide ultra-fast broadband to Highwoods and Mile End.

It was confirmed that the Council would not be able to provide a fibre broadband network to Highwoods as this area had been contracted to British Telecom, who would be providing the service there. The Panel heard that Colchester Amphora Housing would be providing three hundred and fifty homes at the Northern Gateway South Development, however, the total number of dwellings that would be provided would be seven hundred and twenty five.

In response to a question from Councillor Burrows, Paul Smith confirmed that the events business had been cash driven, particularly with regard to the purchase of food and refreshments at events, and that during the pandemic a review of the logistical difficulties had been considered. A recommendation had been made via an internal audit, and the period of lockdown had been used to transform the way in which payments were taken by the events company, which had necessitated installing a new till system.

Councillor Willetts reminded the Committee that it was being asked to both review the performance of CCHL, and to consider making recommendations to Cabinet in respect of the performance management arrangements of the company for the future that would help to ensure continued growth and the provision of a dividend to the Council.

Paul Smith suggested that if the Committee, acting as Shareholder Committee, wished to consider the future strategy of CCHL, then it may be appropriate to commission a detailed piece of work looking into how CCHL could seek to move away from reliance in being underwritten and funded by the Council. Without consideration being given to this strategy, it was suggested that the companies' potential for expansion and growth would very limited. The Committee were invited to suggest that due consideration be given to the provision of a report by CCHL highlighting the technicalities and legislation governing the companies, and in the light of this to identify the best method of moving forward to build balance sheet strength in the CCHL Group for long term growth and stronger performance.

Given the schedule of forthcoming meetings, it was proposed that a draft minute be prepared for approval of the Chairman and Group Spokespersons to allow the resolution to be considered by Cabinet at its next meeting on 1 September 2021, which occurred prior to the next meeting of the Governance and Audit Committee on 7 September 2021.

**RESOLVED** that:

- The Committee noted that it had reviewed the performance of CCHL (and its subsidiaries) during 2020/21, having regard to the performance information for the year.
- Cabinet be requested to commission CCHL to provide a detailed report examining the best method to develop Balance Sheet strength so CCHL can

be more financially independent, while operating under the Governance and Management Agreement framework which governs the operation of the companies.