



Society of District Council Treasurers

Council Owned Companies: A District Council Perspective

14 July 2022

Chair

Adrian Rowbotham: SDCT Vice President and Sevenoaks DC

Panel

Louise Branford-White: Link Group and formerly Director of Finance at Hambleton District Council

Sandeep Bhakar: Knight Frank

Joanne Pitt: CIPFA Local Government Policy Manager

Society of District Council Treasurers

- ▶ SDCT General Meeting, 16-17 March 2023 at Warwick University
- ▶ SDCT Executive Members required. See for further details:
<https://www.cipfa.org/partners/society-of-district-council-treasurers>

Council Owned Companies: A District Council perspective

Louise Branford-White | Hambleton District Council

Introduction

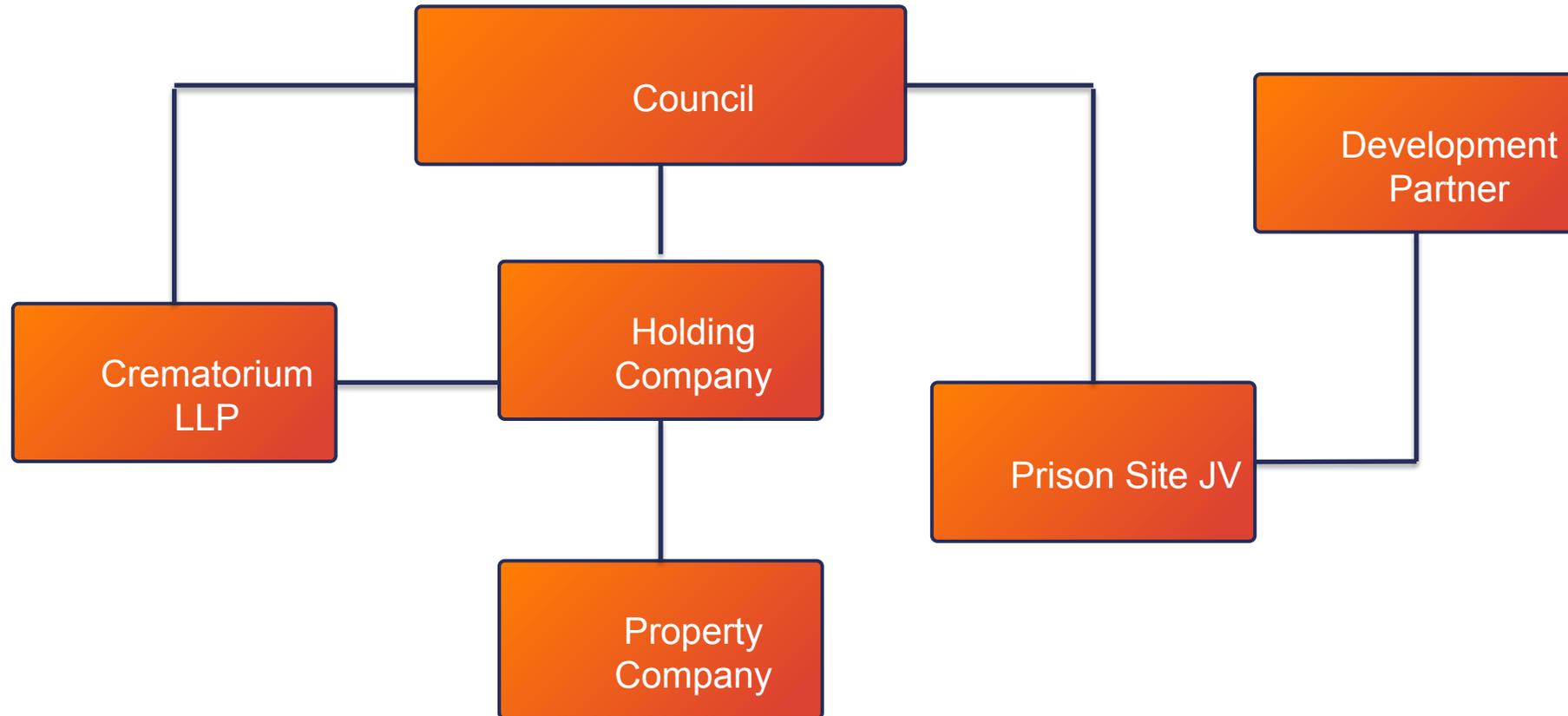
How District Councils' relationships with companies can work

What went well

What was challenging and how was it Managed

Summary

How District Councils' relationships with companies can work



Prison Site - before



Prison Site - after



Crematorium Site



How District Councils' relationships with companies can work

Reason / Purpose

Costs / Efficiencies

Scrutiny

What went well

Building of finance models

External advice

Communication

Governance arrangements

Monitoring costs

Transparency / Reporting

Understanding regulations

Risk register

What was Challenging and How was this Managed

 Increasing costs of the project

 Appointing the right contractor

 Due diligence

 Meetings and who should attend

 Volume of work

Summary



Purpose /
Structure

Communication

Governance –
due diligence /
monitoring

CIPFA Conference

Comparison of delivery structures in regional development

Introduction



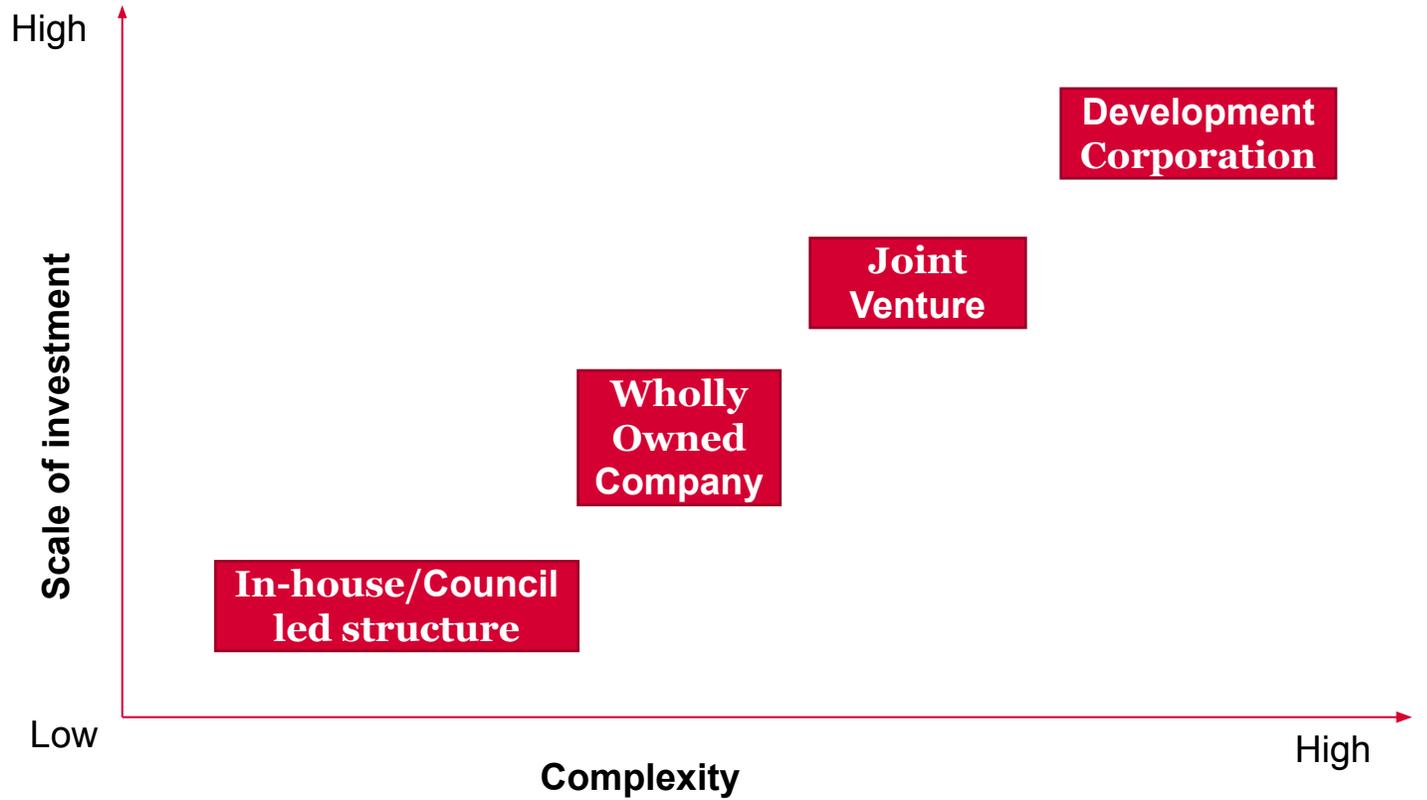
Sandeep is a Partner at Knight Frank's Public Sector Advisory. He is a chartered accountant and financial advisor. His experience covers working with client to establish project protocols (governance, reporting, risk reporting & management), advising on commercial delivery, funding solutions and taxation advice, building financial models, has run the procurement process for partner selection on several large scale residential and commercial developments.

Sandeep is contributor to the trade press, including a recent report published by London First that comments on the appropriateness of various forms of development partnerships.

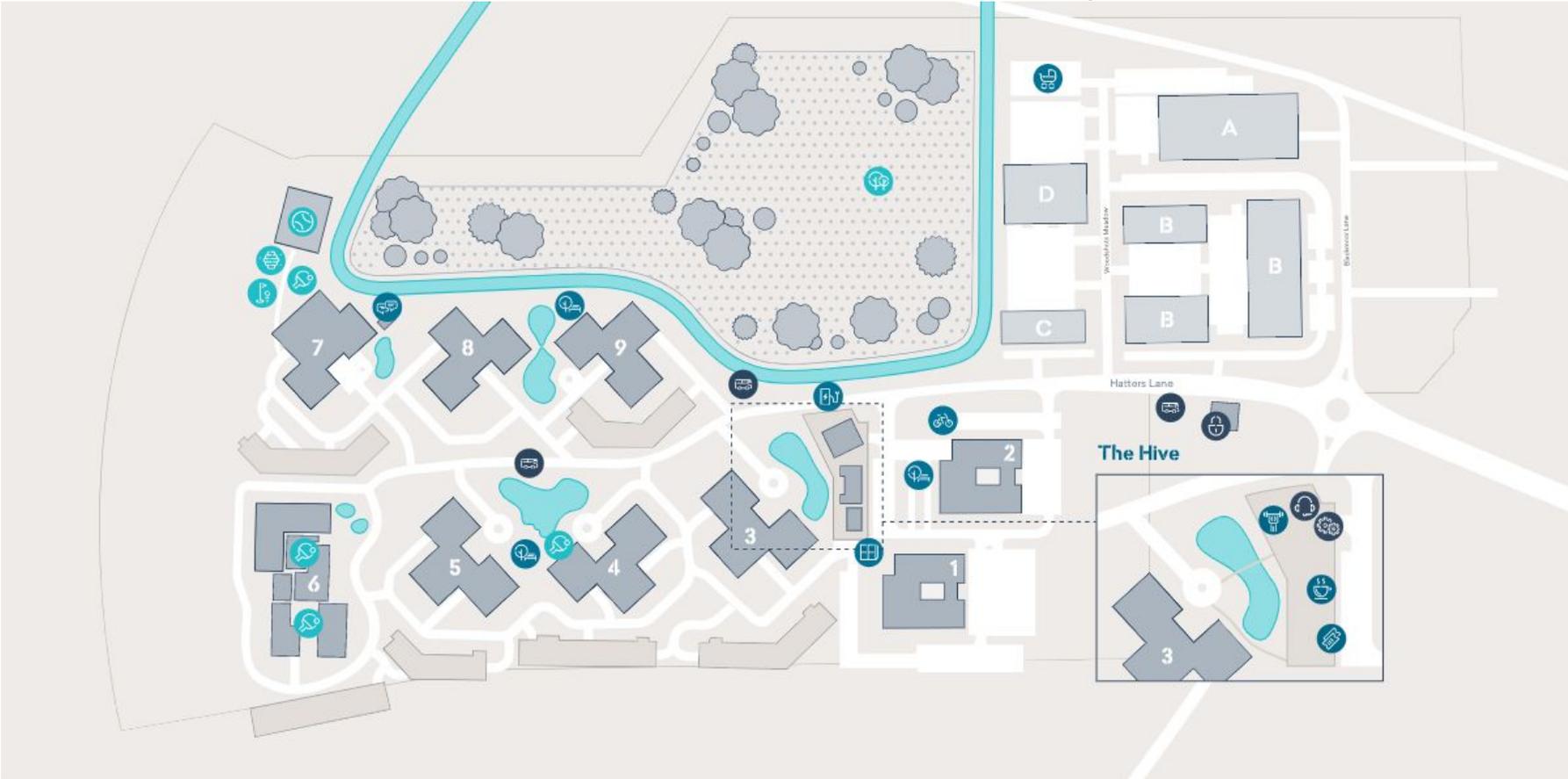
Delivery Structures

Delivery Structures:

- In-House
- Wholly Owned Company (WOC)
- Joint Venture (JV)
- Development Corporation (Dev Corp)



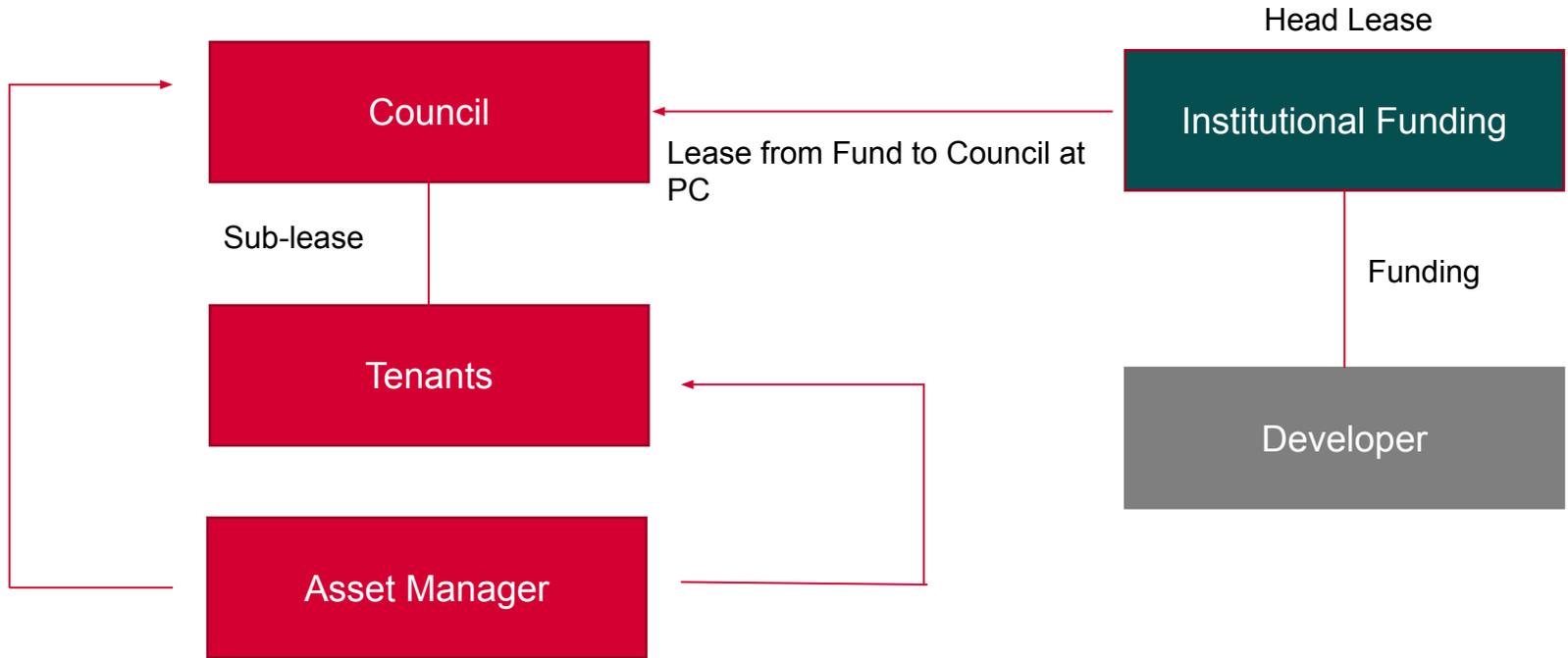
Lease Finance – Watford BC, Croxley Park



Key features

- Set in green parkland of 75 acres, Croxley Park is primarily a business community for over 2,400 employees.
- As well as providing a wide offering of office space, Croxley Park hosts a number of amenities which can be used by its occupiers, primarily located within the 10,000 sq. ft Hive building, which holds a gym, café and events space.

Your partners in property



Key considerations

- Council transaction to support economic development
- Negotiate Top-Up fund to share investment value created.
- Council can achieve a profit rent.
- Council can obtain asset at the end of the lease term for a small nominal sum.
- Due diligence on tenants

Summary of Delivery Structures

Factor	In-House	WOC	JV	Development Corporation
Structure	n/a.	Typically a company limited by shares (CLS)c.	CLS or limited liability partnership (LLP).	Statutory Vehicle.
Funding	Typically, Council on-lends PWLB. Options for 3rd party funding.	Typically, Council on-lends PWLB and provides equity as share capital. Options for 3rd party funding.	Typically the Council invests its equity through land contributions. Private sector partner provides cash equity. Once suitable equity contributions are invested, the JV raises senior debt against the capital and reserves held by the JV.	Central government grant and loans. Options for 3rd party funding. Council borrowing.
Control	High.	High given the Council owns all of the share capital.	Medium assuming a 50:50 agreement is in place where neither partner has the ability enforce its own preferred decisions.	High level of control as locally-led. Enhanced CPO powers
Risk	High given the Council cannot offset risk.	High given the Council owns all of the share capital and act as a developer.	Medium – shared with partner.	Medium risk as a statutory vehicle governed by the UK government.
Return	Takes 100% of returns generated.	Takes 100% of profits generated.	Typically shares profit 50:50 with partner.	Local authority generates long-term return through investment into a region.
Resourcing	Reliant on Council resourcing and experience.	Reliant on Council resourcing and experience or will need to buy in services.	Leverages development experience of partner.	Expert resource required e.g. Oversight Board to govern the vehicle.

Local Authority Owned Companies – A good practice guide

SDCT Presentation PF Live
July 2022

Joanne Pitt Local Government Policy Manager

Drivers for guidance

- Recognition of the increasing risks to local authorities and sector
- Complimentary to CIPFA's Codes and Guidance
 - **Financial Management Code**
 - **CIPFA / SOLACE Framework**
- Builds on the lessons learnt
 - Stakeholder conversations
 - CIPFA's consultant experiences
 - Written research



Starting point

- Many local authority trading companies are successful:
 - Contributing to the local authority
 - Creating opportunities for local employment.
 - Creating and delivering real social value.
 - Aligned to local authority corporate objectives.
- But, the sector has seen failures
- Guidance and lessons learnt brought together in one place

Common causes of failure

- No common understanding of what “**being commercial**” means.
- Weak options appraisal - rationale for creation is poor – **optimism bias**.
- Lack of alignment with local authority’s objectives – **divergent thinking**.
- Not identifying / clarifying what the **desired outcomes** are.
- Lack of formal or **inconsistent set-up** procedures– can lead to poor decisions re structural model chosen.
- **Weak scrutiny and challenge** - ineffective company boards.
- **Unclear legal control framework** – shareholder/service agreements.
- **Poor market knowledge** – buyer behaviour/ competitors not understood.
- **Business plans** - not up-to-date or simply don’t exist, costs of delivery not transparent.

Balance

Freedom to deliver vs
sufficient oversight

Relationships

Channels of
communication and
conversation

Right delivery model

Look at everything
else first before you
decide

Consultation

Bring people with you
- get them involved

Expertise and advice

You can't know
everything - you will
need support

Roles and

responsibilities

Be clear on your
legal obligations

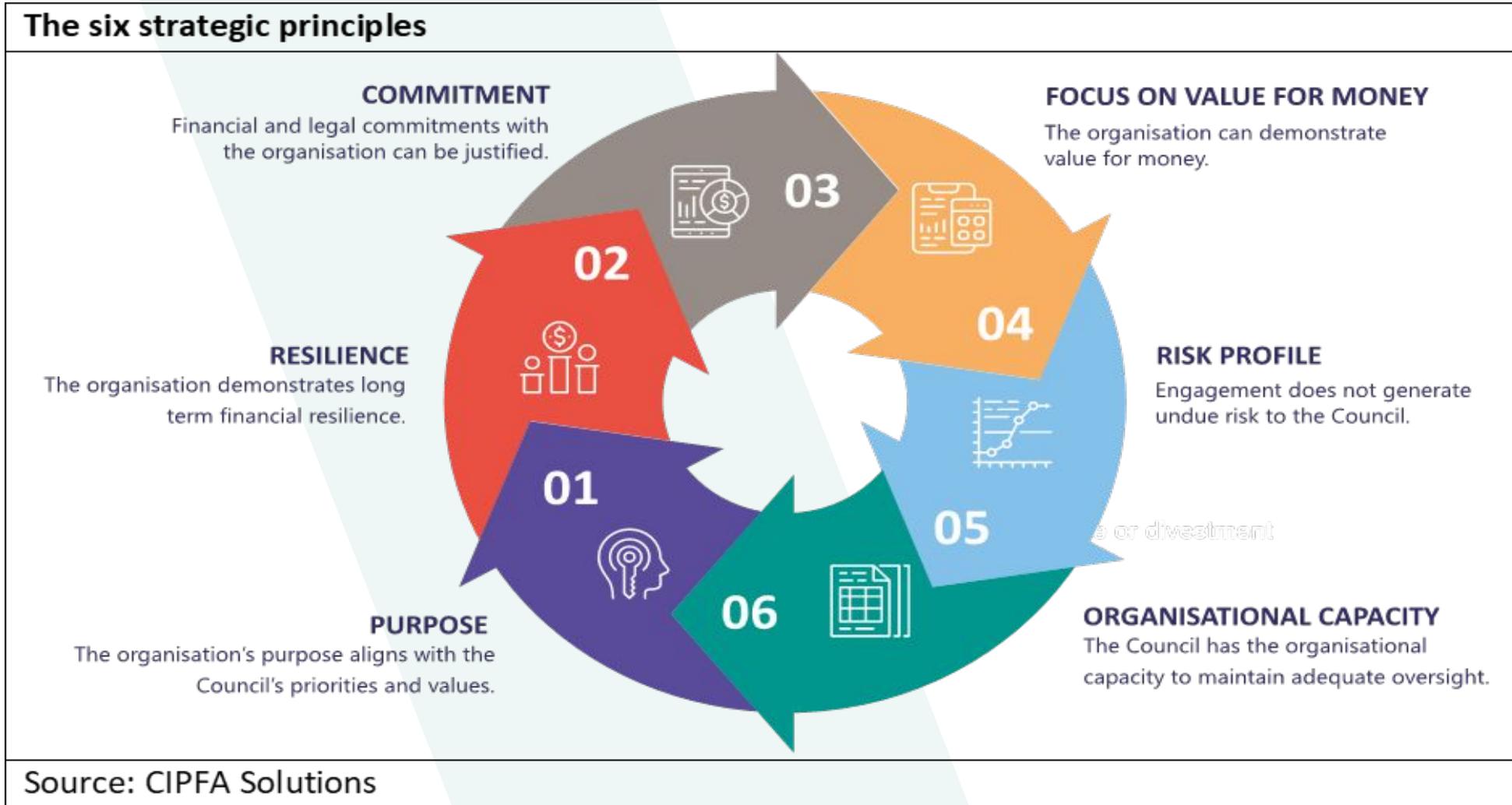
Key messages from our interviews

Example from Nottingham City Council - the challenge

- A high profile corporate failure revealed shortfalls against “What good looks like”.
- Companies had accumulated over time, rationale ranged from supplier of last resort to pursuit of innovation/ strategic outcomes.
- Some established with clear rationale and business cases, others in need of confirmation - purpose and value still relevant?
- Absence of a consistent approach
- Embedding good governance



Consistency of approach



Embedding good governance

- Doing the boring stuff, and doing it well!
- Not valued until it goes wrong
- Addressing the PIR & non statutory review learn lessons
- CIPFA guidance also LLG and LP
 - Initial decision making and business case
 - Formal roles and responsibilities
 - Monthly financial and performance monitoring
 - Directors and board effectiveness
- Use of reviews

Wiltshire County Council example - Internal Review

- Methodology

- The Director of Legal & Governance, conducted an initial review using :
 - the information provided to the Cabinet about the performance of the Stone Circle companies
 - the information available in the Stone Circle SharePoint site
- Consulted with the Leader and Deputy Leader, the Chief Executive, Director for Housing & Commercial, colleagues from Legal Services who provide the company secretary role and legal advice to the companies.
- Considered some academic literature and other best practice information
- The Corporate Director of Resources and Deputy Chief Executive and the Director of Legal & Governance then collaborated in the completion of the review to provide observations and recommendations to Cabinet

What good looks like



CLEAR STRATEGY

Commercial design principles
Commercial Strategy
Alignment to Corporate Strategy/Council Plan

GOVERNANCE

Appointing the right people to boards
Shareholder Reps
Non-Executive Directors
Role of MO and Scrutiny



QUALIFICATION

Open and transparent, Project Brief, Business Case
Passes the “challenge” test: internal/external
Solid, referencable market research
Based on sound financial modelling

REALISM

Creating companies is not a quick fix
for solving other problems in a council
Setting realistic outcomes



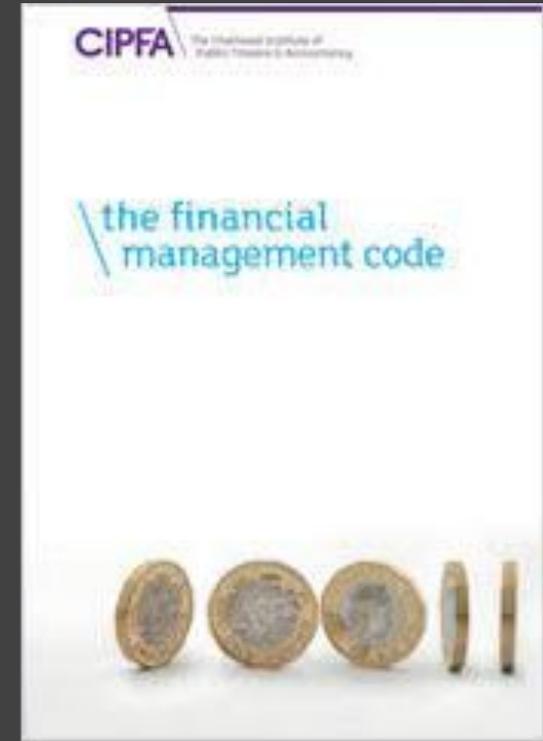
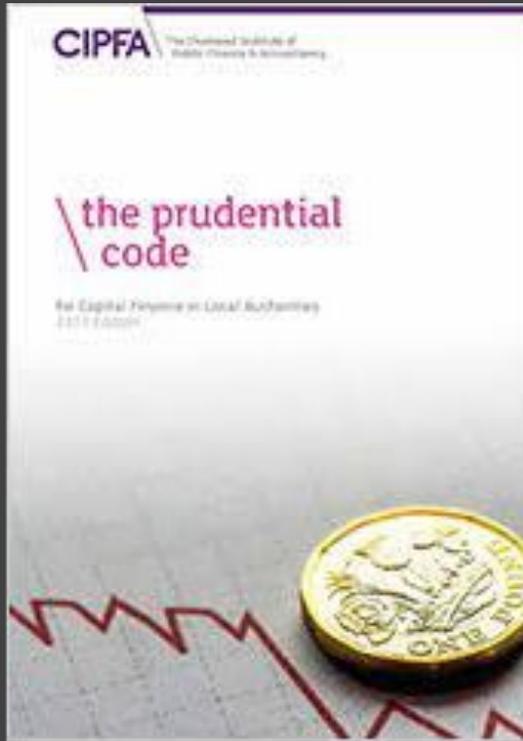
CULTURE

Communicating key messages
Measuring behavioral change
Checking on who has had the “conversion” experience

EXIT PLAN

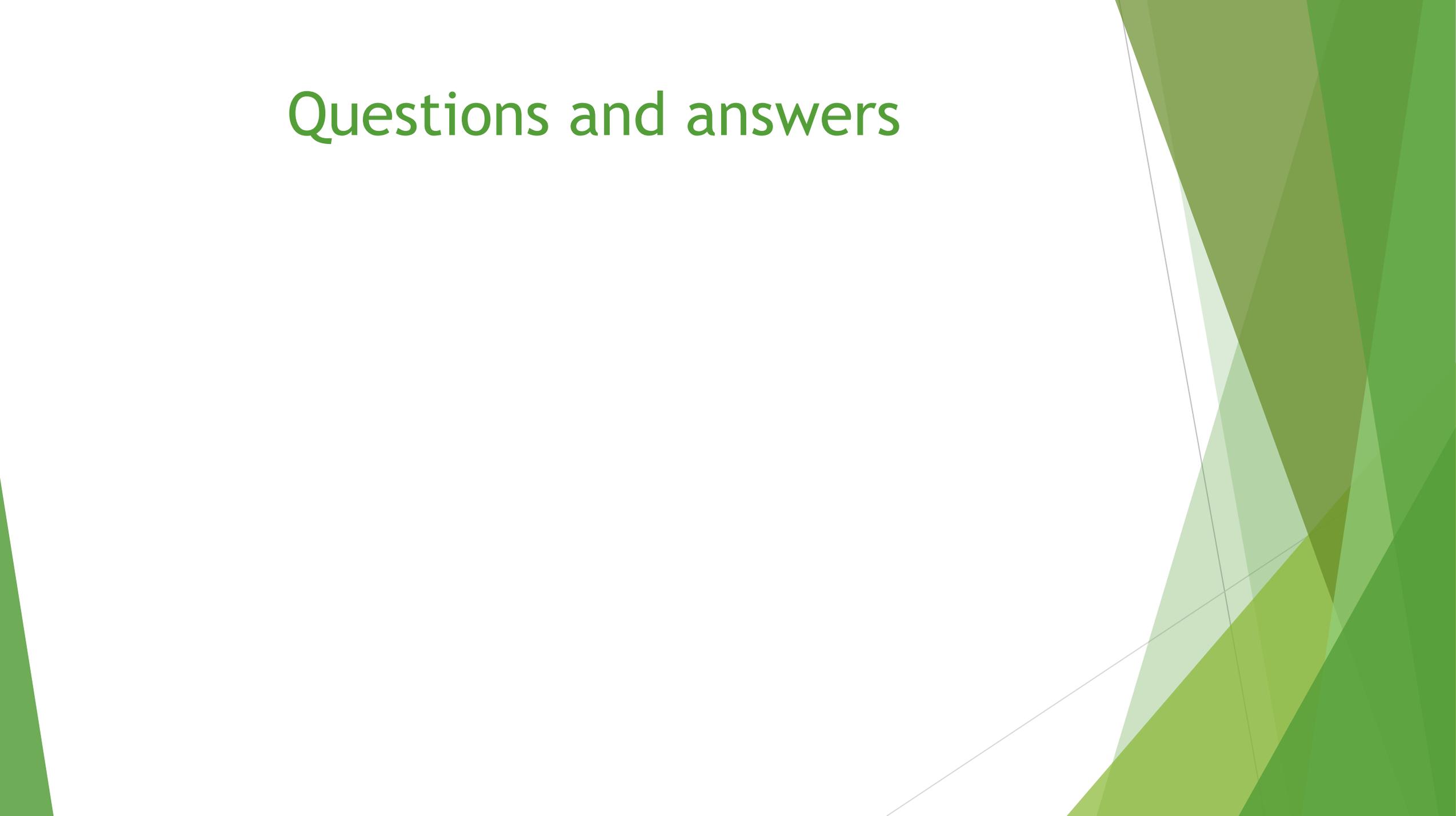
Understanding what the end point looks like
What will it cost?
Can we terminate early?





Further help/Questions

Questions and answers

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Thank you for attending

reminder:

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