

REPORT FOR: **Council**

Date of Meeting:	13 November 2014
Subject:	Loan to HB Public Law Limited
Responsible Officer:	Simon George, Director of Finance and Assurance
Exempt:	No
Wards affected:	None
Enclosures:	None

Section 1 – Summary and Recommendations

The Council has been requested for a loan of £100,000 from the HB Public Law (HBPL) Ltd. The HBPL Ltd. is not an approved counter party within the Council's Treasury Management Strategy.

Recommendations:

Council is asked to approve the following:-

1. Add HBPL Ltd. to the counter party list;
2. Increase the limit of over 24 months investment from £10m to £10.5m;
and
3. Approve the Loan of £100,000 to the HB Public Law Ltd.

Section 2 – Report

1. The Council has been requested to loan £100,000 to HBPL Ltd to finance the start up cost of the new company. The HBPL Ltd. does not fall within the credit criteria of the Treasury Management Strategy (TMS) and the investments over 24 months limit agreed by the TMS has been exhausted.

Background

2. HB Public Law ('HBPL') is an in-house legal team which since 1 September 2012 has been providing legal services to both Harrow and Barnet Councils. The strategy for HBPL is therefore to seek to grow the shared Legal Practice by working with more councils and by providing legal services to other organisations.
3. The Localism Act 2011 brought in a general power of competence which allows a local authority to undertake for a commercial purpose any activity for which it has a general power.
4. While this gave freedom to some areas of a local authority to trade, in practice HBPL could not do so because of the rules of the Solicitors Regulatory Authority prohibit in house lawyers working for anyone other than their employer.
5. Since the introduction of the Legal Services Act 2007 it is possible for law firms to be owned by non lawyers and businesses which are not law firms. These are known as Alternative Business Structures (ABS).
6. The combination of the Localism Act and the Legal Services Act means that Harrow Council can set up a wholly owned company offering legal services for a commercial purpose. This allows it to offer legal services to other parts of the public sector and to commercial companies who are carrying out local authority functions as part of an outsourcing arrangement.

Current situation

7. In 2013 HBPL Ltd was formed under the Companies Act 2006. The Council is the 100% shareholder. The aim was for HBPL Ltd to apply to the Solicitors Regulatory Authority to obtain an ABS license.
8. HBPL Ltd has bank accounts, but no cash balances. A business start up loan of £100,000 is required for company's cash flow.

Options considered

9. Two main options have been considered as detailed below:-

- i. Bank overdraft facilities – This facility is not appropriate for the start up cost and therefore it would not be cost effective for HBPL Ltd to use the overdraft.
- ii. Loan from the Council – Harrow Council to lend £100,000 for 3 years with initial drawdown of £40,000 followed by further two drawdown of £30,000 each. The full loan should be taken within one year from 1 December 2014. Annual Interest rate of 7% is payable on the loan outstanding and the loan is repayable every quarter from year two.

Financial Implications

- 10. If the principal along with interest is repaid as per paragraph 9(ii) above, then the Council will benefit from the higher interest earned from lending the monies.
- 11. There is a possibility that the Council could not recover the loan and interest accrued, if the Company is unsuccessful.

Risk Management Implications

- 12. HBPL Ltd is a new venture for Harrow, with no guarantee of success. If it fails, Harrow may be unable to recover the loan and interest from the Company.

Equalities implications

- 13. None

Council Priorities

- 14. The Council wants to be a modern, efficient Council, able to meet the challenges ahead. It aims to protect frontline services by delivering support functions in the most cost effective way, including collaborating with other boroughs on shared services and procurement opportunities. This initiative supports these aims as it puts the legal service in a much stronger position to develop services for other organisations and widening its client base, thereby providing a resilient legal service so that the Council can focus resources into front line services.

Section 3 - Statutory Officer Clearance

Name: ...Simon George..... Chief Financial Officer

Date: 03rd November 2014

Name: Hugh Peart Monitoring Officer

Date: 03rd November 2014

Ward Councillors notified:

NO

** Delete as appropriate.*

Section 4 - Contact Details and Background Papers

Contact: Hasina Shah, Head of Technical Finance and Accountancy 0208 424 1573

Background Papers:

1. Report to 20th November Cabinet HB Public Law Limited; and
2. Cabinet report on Treasury Management Strategy.

If appropriate, does the report include the following considerations?

1.	Consultation	NO
2.	Priorities	YES