
REPORT FOR: CABINET

Date of Meeting:	23 May 2017
Subject:	Trading Companies Year 2 Business Plans and a Commercialisation Update
Key Decision:	Yes
Responsible Officer:	Tom Whiting, Corporate Director of Resources and Commercial
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation Councillor Glen Hearnden, Portfolio Holder for Housing and Employment
Exempt:	No, except for Appendices 1, 2, 3 and 4, which are exempt on the grounds that they contain “exempt information” under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information).
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	Appendix 1: Concilium Group Year 2 Business Plan - Exempt Appendix 2: Concilium Business Services Year 2 Business Plan – Exempt

Section 1 – Summary and Recommendations

This report gives an update on the Council's commercialisation activity and sets out the latest position of the Council's trading companies, Concilium Group and Concilium Business Services.

Recommendations:

Cabinet is requested to:

1. Note the progress on Council commercialisation activity to date since the agreement of a Commercialisation Strategy in 2015.
2. Approve the year 2 business plan for Concilium Group.
3. Approve the year 2 business plan for Concilium Business Services.
4. Approve the appointment of the Corporate Director of Resources and Commercial as the shareholder representative for Concilium Group and for Concilium Business Services, and delegate authority to him, following consultation with the Portfolio Holder for Finance and Commercialisation, to consider and agree matters reserved to the Council as shareholder under the companies' governing documents.
5. Delegate authority to the Divisional Director of Housing, following consultation with the Portfolio Holder for Housing & Employment, to agree terms and award contracts for the management of properties acquired under the Council's Property Purchase Initiative to Concilium Business Services and delegate authority to the Corporate Director of Community, following consultation with the Portfolio Holder for Business, Planning and Regeneration, to agree terms and award contracts to Concilium Business Services relating to the management of other residential properties owned on the Council's General Fund.

Reason: (For recommendations)

To continue supporting the Council's Commercialisation Strategy and to achieve a positive financial contribution to the MTFS.

Section 2 – Report

1. Introduction

- 1.1. This report gives an update on the Council's major commercialisation projects and sets out the second year business plans for the Council's trading companies, Concilium Group and Concilium Business Services, which were both incorporated in November 2015, following approval by Cabinet in July 2015.

2. Options considered

- 2.1. Do nothing: The Council has a responsibility as sole shareholder to this group of companies, to monitor and evaluate the operational and trading performance of both entities. As well as this, both companies are required to present and request approval from Cabinet to their annual business plans.
- 2.2. Winding up Concilium Group: As a group company, Concilium Group does not directly carry out any trading activity but rather acts as a consolidation vehicle for operational and financial matters from its subsidiaries. Currently there is one subsidiary however as described in the recent Cabinet report on Sancroft Hall (April 2017), there will be further subsidiaries to further support the Council's Commercialisation Strategy. The Concilium Group is also a minority partner in Concilium Assets LLP. Winding up Concilium Group is not recommended as the holding company structure is still required.
- 2.3. Winding up Concilium Business Services (CBS): The company's latest business plan shows there is value to be achieved by the Council if it continues to trade. This value is derived from operating as a private lettings agent, managing the Council's acquired homes and managing the Council's private rented sector housing stock when it is built. The revised business plan explains scenarios in which closure of the company would be considered, if assumptions on which its business plan is built were not to materialise as planned.
- 2.4. Manage the 150 homes from the Council's Property Purchase Initiative internally: It was never intended for the management of these homes to be done internally by the Council, as highlighted in the report to Cabinet June 2015. The relevant department does not have sufficient capacity to sustainably manage these properties in the medium-long term, especially as a number of them are located outside London. Smart Lettings has been specifically set up to provide this service and will be able to appoint staff on more commercial terms and conditions than if the Council was managing these properties. Smart Lettings will bring a private sector approach to the management of these properties within an ethical business framework that can give the Council a

degree of assurance on tenancy and licence management and how it is applied to occupants without compromising their rights and while protecting the Council's effective property management duties. There is an unquantified financial benefit in Smart Lettings managing the properties compared to the Council in reinforcing the message that there is limited social housing available and that living in the private rented sector is a suitable housing option. The tenants become more familiar with the private rented sector, and are more ready then to move on to other true Private Rented Sector properties, so as to enable the Council to discharge its homelessness duty.

- 2.5. Engage an alternative third party to manage the 150 homes: The Council has specified the management service it requires which includes arrears management and proactively managing tenancy conditions. Comparable rates for this type of service have been investigated and the arrangement with Smart Lettings is considered to be good value for money for the enhanced service the Council requires. Furthermore, the private rented sector has a mixed track record in managing properties. At the lower cost end of the market there are concerns about quality particularly from the perspective of occupants. At the higher cost end of the market there are concerns about value for money.
- 2.6. There are a small number of residential properties owned on the Council's General Fund such as caretakers' houses. The Council's Corporate Estates team is not currently set up to manage domestic tenancies and so this business will be more effectively managed by Smart Lettings, who will also have the appropriate repairs arrangements in place to manage them. The management contracts to be granted to Concilium Business Services in relation to both the general fund residential properties and the properties acquired under the Property Purchase Initiative will be for up to an initial five year term with industry standard provisions for termination in the event of poor performance. The contract prices will be benchmarked to ensure value for money.
- 2.7. The council's Commercialisation Strategy was approved in June 2015 as a contribution to meeting the council's financial targets in the years ahead. This enables the council to protect highly valued local services through bringing in additional income and contribution to overheads that would not be possible without a more commercial approach.
- 2.8. The recommendations also include appointing the Corporate Director of Resources & Commercial, in consultation with the Portfolio Holder for Finance and Commercialisation to be able to act as a shareholder representative. This is for the purposes of enabling decisions on matters that are reserved to the shareholder to be made in a timely manner and as appropriate.

3. Background

- 3.1. The council's Commercialisation Strategy was approved by Cabinet in June 2015. Its key objectives were and continue to be to:
- Deliver a financial return and contribution in order to invest in services we have to run where we cannot recover adequate or any income, or to invest in new projects;
 - Help enable non-statutory services to at least cover all their costs including overheads (and potential opportunity cost) in order to reduce risk of closure and be profit generating where possible;
 - Actively engage in market development and market shaping where no such market currently exists and using insight to manage specification and demand;
 - Attract alternative investment models to support service delivery e.g. through social investment;
 - Invest and use our financial strengths to deliver a financial return;
 - Ensure that outcomes in the local community are delivered on a sustainable basis;
 - Strengthen our reputation with residents, local businesses, the local government sector, staff, other customers, partners, and stakeholders in general;
 - Become a services provider to new and existing customers both from within the local authority environment and beyond, particularly where we are uniquely placed to do so; and
 - Use the commercial knowledge acquired through this programme to gain a competitive advantage.
- 3.2. Based on the Council's current pipeline of opportunities, it is expected that the Commercialisation Strategy will deliver £15m of benefit. This is already captured in the MTFs, as commercialisation initiatives are helping directorates deliver their income/savings targets and this was laid out in detail in the Medium Term Financial Strategy in February 2017.
- 3.3. Following the adoption of the Commercialisation Strategy, Cabinet was presented with and approved the setup of a corporate structure in July 2015. This was done after taking appropriate legal and financial advice. The trading companies were set up as follows:

Concilium Group

- 3.4. The purpose of Concilium Group is to allow for the financial grouping of the different companies. It is not intended for this group company to have any operational role to play in the near future.

Concilium Business Services (CBS) – trading as Smart Lettings

- 3.5. CBS delivers the Lettings Agency project that was set out in the Council's Commercialisation Strategy and, pending Cabinet approval of this report, will shortly expand in scope to include sales of properties.
- 3.6. This structure has been adopted and evaluated on the basis of its capacity to support the Council's future ambitions as well as current opportunities. For example, Sancroft Hall – approved at Cabinet in April 2017 - is one such opportunity that will require a further subsidiary to Concilium Group to be created.
- 3.7. The Lettings Agency project reported to Cabinet in June 2015. Its purpose was to operate as an ethical Lettings Agency in the market and to provide a vehicle for the delivery of management services for the Council's own acquired stock. In addition its purpose included managing private rented units that it was envisaged would be owned by the Council through the Regeneration programme. As well as continuing to operate in the private lettings market this report also now puts in place an arrangement for the Lettings Agency, Smart Lettings, to manage the Council's acquired homes as anticipated when the company was set up. It also remains the intention as laid out in 2015 that the Lettings Agency will manage the private rented stock that the Council builds.
- 3.8. The first year's business plans for both companies were approved under delegated authority from Cabinet.
- 3.9. In December 2016, the company's quarter 2 report was presented to Cabinet as part of the 2016/17 Revenue and Capital Monitoring for quarter 2. A deed of variation to the CBS shareholder agreement was also approved reducing the operational and management oversight of Concilium Group over its subsidiary CBS, with these responsibilities being passed through to Cabinet.

4. Performance to date

- 4.1. Both the Concilium Group and CBS business plans for their first year of trading were approved under delegated authority from Cabinet.
- 4.2. The performance for quarter 2 and quarter 3 of the trading companies are included in this report and quarter 4 will be reported as part of the Council's financial outturn report.

- 4.3. The original business case suggested a faster take-up of new properties under management than CBS has experienced to date. This led to a revised set of forecasts being presented in the first year's business plan, which showed a positive return was still achievable. This new business plan is based on a first full year of trading.
- 4.4. The Directors have also taken a number of actions within CBS including some personnel changes to improve performance. This has already had a positive effect.
- 4.5. The Council has launched a number of commercialisation projects since the agreement of a Commercialisation Strategy in June 2015.
 - 4.5.1. A number of shared service projects have been delivered to generate a financial return. The Council has expanded its legal service HB Public Law to also serve Buckinghamshire County Council. The procurement service is now shared with Brent Council and the Brent Housing Partnership.
 - 4.5.2. Project Phoenix has led a very significant commercialisation programme of a range of environment based services. This includes trade waste, pest control, grounds maintenance, gardening, catering, MOTs, special needs transport, training academy and events. Acquiring the operation at Sancroft Hall as outlined at Cabinet in April 2017 is also being led by Project Phoenix.
 - 4.5.3. Project Infinity has developed a partnership with IBM to generate revenue from the council's MyCommunity ePurse platform.
 - 4.5.4. The Careline Service is expanding its operation to bring in greater revenues.
 - 4.5.5. Advertising on the Council's website has been expanded.
 - 4.5.6. The Council has been undertaking a programme to acquire homes as a means to mitigating homelessness pressures.
 - 4.5.7. The Council has invested in commercial property, as previously presented to Cabinet.

5. Resources

- 5.1. There are no direct resource implications from this report for the council as the delivery of the business plans are to be resourced by the companies themselves.

6. Consultations

- 6.1. Internal discussions have taken place between senior officers on the performance of the companies thus far, and their viability going into the next 1-5 years. The business plans presented have been developed following discussions with Council officers and Cabinet members.
- 6.2. The initial business case for a Lettings Agency was developed in consultation with landlords.

7. Risk Management Implications

- 7.1. The Council is facing significant funding gaps over the coming years. Adopting the Commercialisation Strategy and creating the trading company structures were therefore necessary first steps to making positive contributions to the MTF. There continues to be a greater risk of the Council not pursuing this approach.
- 7.2. There is an overarching risk on the corporate risk register about commercialisation not delivering its expected benefits.
- 7.3. Financial risks are noted in the Financial Implications section of this report.
- 7.4. Legal risks are noted in the Legal Implications section of this report.
- 7.5. The Private Rented Sector stock will deliver a number of units which are included in the projected forecasts in the CBS business plan.
- 7.6. In the context of this report, there is a risk that the trading companies do not meet the targets in their business plans. The business plan for CBS addresses how this risk will be mitigated, and also explains the scenarios in which shutting down the operation would be considered.

8. Legal Implications

- 8.1. Public procurement rules apply to the award of services contracts by the Council to any of its trading companies. If any of these trading companies can justify reliance on the Teckal exemption (essentially that the company is controlled by the Council and carries out at least 80% of its activities for the council), then the Council can award the contracts directly to CBS without a competitive procurement exercise.
- 8.2. Regulations 12 (8) and (9) of The Public Contracts Regulations 2015 (PCR 2015) state that the determination of the percentage of activities, is based on the average total turnover of, or an appropriate alternative activity-based measure such as costs incurred by, CBS or the Council with respect to services, supplies and works for the three years preceding the contract award.

- 8.3. Where the turnover or alternative activity-based measure are not available for the preceding three years it is sufficient to show that the measurement of activity is credible, particularly by means of business projections. The CBS business plan shows five year revenue projections that satisfy the 'Function' test of relying on the Teckal exemption, i.e. that 80% of its activities will be for the Council.

9. Financial Implications

- 9.1. There is a cost to the Council in pursuing any of the options noted in this report. However the costs vary considerably depending on the option chosen.
- 9.2. Options to wind up the companies would provide the Council with no recourse in recouping investments made to date.
- 9.3. The recommended option, however, shows a positive financial return for the Council. The confidential enclosures to this report, the company business plans, lay out the financial forecasts in further detail and expected timing and amount of the net surplus position.
- 9.4. In the business plan CBS delivers an in year profit for the first time in 2019/20. On a cumulative basis, a profit is first delivered in 2020/21. The consolidation of this and payment of a dividend back to the Council will depend on the performance of any other trading operations that sit under the Concilium Group.
- 9.5. The highest cumulative net loss position that the council could be exposed to from the CBS Business Plan is £331,000 by the end of 2018/19 and the Council will be monitoring the trading position on a quarterly basis.
- 9.6. In the business plan for Concilium Group, an in year profit is first delivered in 2019/20 and on a cumulative basis a profit is first delivered in 2020/21. The highest cumulative loss position that the council could be exposed to from the Concilium Group is £357k in 2018/19. Until Concilium Group delivers a cumulative profit, the losses will be held against the Council's Commercialisation Reserve.
- 9.7. The business plan for Concilium Group shows the consolidation of the Smart Lettings financial position alongside overheads.

10. Equalities implications / Public Sector Equality Duty

- 10.1. An Equality Impact Assessment was carried out for the Trading Company Structures report approved by Cabinet in July 2015 and this continues to be relevant to this update on these trading entities.

11. Council Priorities

11.1. The Council's vision is **Working Together to Make a Difference for Harrow**.

11.2. This report supports the council's vision and the strategic theme of

- Being More Business-like and Business Friendly

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Director of Finance
Date: 10/05/2017		
Name: Matthew Adams	<input checked="" type="checkbox"/>	On behalf of the Monitoring Officer
Date: 11/05/2017		

Ward Councillors notified:	NO, as it impacts on all Wards
EqIA carried out:	NO
EqIA cleared by:	This report acts as an update only

Section 4 - Contact Details and Background Papers

Contact: Anand Pajpani, Commercial Business Partner,
anand.pajpani @ harrow.gov.uk, 020 8424 1039

Background Papers: None. [Appendices 1, 2, 3 and 4 are Part 2 (Exempt) confidential papers and noted as enclosures to this report.]

**Call-In Waived by the
Chair of Overview and
Scrutiny Committee**

*(for completion by Democratic
Services staff only)*

YES/ NO / NOT APPLICABLE*

** Delete as appropriate
If No, set out why the decision is
urgent with reference to 4b - Rule
47 of the Constitution.*