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| Agenda Item No: | 9   |  |
| Committee:      | Council   |  |
| Date:           | 17 September 2015   |  |
| Report Title:   | Anglia Revenues Partnership (ARP) Trading Company Restructure |  |

## 1 Purpose / Summary

ARP Trading Company Ltd is a private company, limited by shares that was established in 2006 and is currently wholly owned jointly by Breckland and Forest Heath Councils.

Whilst ARP has put efforts into expanding its size from these original two partners to the current seven, ARP Trading Company Ltd has not been as active; however it does have retained profits of £100,000.

ARP Joint Committee now propose to open up shareholdings in ARP Trading Company Ltd to the other five partner authorities, including Fenland District Council.

## 2 Key issues

- ARP Trading Company Ltd allows ARP to use its pooled resources in terms of staffing and expertise to offer these services and related training to other Councils. In doing so, further income can be generated for the partnership.
- Trading in this way allows other authorities to purchase resources at competitive rates, and on mutually acceptable terms.
- Joint committee recommend that all ARP partners approve loans of £10,000 to ARP Trading Company Ltd (funded from 2014-15 savings in the partnership budgets; so there is no additional cost to this Council), to give it sufficient initial working capital, and purchases shares in it (to total 1,750 shares between all partner authorities) to provide sufficient shared capital for immediate bank and audit costs.

## 3 Recommendations

It is recommended by Cabinet that Council approve:

- A loan of £10,000 (funded from 2014-15 savings in the partnership budgets) to ARP Trading Company Ltd as suggested by ARP Joint Committee at its 10 June 2015 meeting.
- Purchase of shares in ARP Trading Company Ltd at the price of £1 per share.
- Agreement of the revised constitution of ARP Trading Company Ltd and shareholder agreement be delegated to the ARP Operational Improvement Board.
- That the Corporate Director (Finance) be nominated to represent the Council's interests at shareholder meetings.

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| <b>Wards Affected</b>         | All   |
| <b>Forward Plan Reference</b> | This report is included in the Forward Plan   |
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| <b>Background Paper(s)</b>    | <a href="#">Minutes of ARP Joint Committee meeting on 10 June 2015</a>  |

## **4 Background**

- 4.1 ARP Trading Limited is a private company, wholly-owned by Breckland and Forest Heath Councils, limited by shares which was established in 2006. It has share capital of £100 with Breckland Council holding 66 shares of £1 each and Forest Heath holding 34 shares of £1 each.
- 4.2 It traded successfully for a number of years. Recently company turnover has reduced as efforts have concentrated on the expansion of the Joint Committee arrangement. The expansion of the Joint Committee has also made it unequitable to utilise the trading company to deploy resources at other sites. Retained profits amount to around £100,000 subject to final audit.
- 4.3 ARP Joint Committee has reviewed the strategic direction of the partnership, recognising the growing partnership and changing environment in which the revenues and benefits service operates. At its meeting of 19th March 2015 the committee agreed that a positive way forward for the partnership would be to use the trading company as the means to trade some of ARP's sellable services where appropriate. This would involve the company (with the approval of the two existing shareholder authorities) distributing its retained profit and extending the shareholding to the other five full partners to allow them to participate in the company.
- 4.4 The company would need to retain sufficient funds to maintain a very basic level of operation and cashflow and remain solvent while business cases are developed and implemented to grow the business. This core level of funding could be achieved through a combination of raising more share capital and borrowing from the shareholders.
- 4.5 Joint Committee determined that £1,750 is sufficient funds for the company to cover audit costs and bank fees whilst no activity is taking place. The company already has share capital of £100 from Breckland and Forest Heath. Therefore it will need to issue 184 shares to Breckland, 216 shares to Forest Heath and the remaining shares were to be divided equally between the other five partner authorities, all at £1 per share. This would give each authority equal company ownership. However, at the Joint Committee meeting on 10 June 2015, East Cambs District Council decided it would not wish to make the investment; therefore the remaining shares would be divided equally between the remaining four partner authorities. The authorities would each need to approve this share purchase to bring the total share capital up to £1,750.
- 4.6 At the Joint Committee meeting on 19th March members expressed the view that, for the company to be effective, it should be set up with sufficient funds so that it does not need to constantly ask Joint Committee (and the authorities) for additional funds to cover the costs of setting up new operations and initiatives. It is therefore proposed that the partners provide additional funds to cover start-up of trading activities. It is envisaged that services initially traded by the company will cover the same type of activities currently delivered through the Joint Committee partnership arrangement including new activities such as enforcement.
- 4.7 The company would not need a great deal of set up capital as it would buy in systems, staff, and management from ARP. This will reduce set up costs for the company and reduce running costs for the partnership, as systems and overheads are spread over a wider base. However the company would need to be able to pay ARP for these services and directly employ or contract its own resources when required. In the absence of a detailed business case at this stage, a £10,000 contribution from each partner (funded from 2014-15 savings in the partnership budgets; so there is no additional cost to this Council) will provide working capital to ensure the company can operate as a going concern.

- 4.8 The company's memorandum and articles of association will need to be amended to recognise the reconstruction, and the shareholders' agreement will also need revision, although there may be an opportunity to adopt the new form of model articles introduced by the Companies Acts if this is more efficient for the legal teams.
- 4.9 The articles of association is a document which, along with the memorandum of association (if used) form the company's constitution, defines the responsibilities of the directors, the kind of business to be undertaken, and the means by which the shareholders exert control over the board of directors. It is proposed that the details contained in these documents are delegated to the ARP Operational Improvement Board for final approval to ensure that each authority is appropriately represented, although the company is ultimately responsible for approving these company documents.
- 4.10 Company business (such as approval of annual accounts, appointment of auditors) often requires approval by its shareholders. It is proposed that each authority nominates an officer who is able to represent the authority's interests at shareholder meetings. This would avoid the need for shareholder decisions having to be referred back to each authority for formal reporting and decision making.

## **5 The way forward for Fenland**

- 5.1 It is therefore proposed that the Council is included in the shareholder agreement of ARP Trading Company Ltd.
- 5.2 It is recommended by Cabinet that Council approve the recommendations as detailed in section 3 of this report.