

Request for additional S80 Funding

1 Executive Summary

S80 Partnership Ltd. and its subsidiary trading units have struggled to make a significant contribution to the Council Plan since its incorporation in 2017. A number of reasons have been identified which has hampered this growth, some of which are beyond the Council's control such as the impact of Covid. However, some factors that can be addressed include:

- Providing a dedicated resource to provide advice and guidance to the Board of Directors
- Ensuring the necessary skills required to successfully run a commercial entity are available
- Developing a commercially-minded approach to recognising and seizing opportunities
- Providing the support necessary to ensure the company can grow.

Whilst employing a small team to fill these gaps will not necessarily guarantee success, without these resources it is hard to see that the company will evolve at all. It is for this reason that S80 is asking Bassetlaw District Council to consider providing a £200,000 loan to S80 Partnership Ltd. to be repaid within 5 years. This will enable the recruitment of the employees necessary to help develop a successful commercial company.

2 Background

S80 Partnership Ltd was registered with Companies House in October 2017 with the following strategic objectives:

- To maximise commercial opportunities available to the Council,
- To trade in a manner that acts in the best interest of the Council,
- To establish S80 Partnership as a successful company with a reputation for delivering high quality goods and services,
- To optimize the financial return from trading activities,
- To recycle surplus funds generated from trading activities to support the corporate ambitions of Bassetlaw District Council particularly to drive efficiency and resilience, and
- To enhance the Council's reputation and financial viability.

The company was established to oversee the trading activities of various trading units. Currently there are two such trading units – S80 View and S80 Land Management. Overall strategic direction is the responsibility of the S80 Partnership Board of Directors, whilst any staff employed manage the day-to-day operation of each trading unit. In practice, S80 staff are employees of the Council who provide some of their time to S80 and are recharged on that basis.

In 2019, 10 officers attended a Business Accelerator programme and, over a number of weeks, attendees were trained on how to identify business opportunities, evaluate the ideas and develop a robust and comprehensive business case. This was run by Essex

County Council who have several well established operational trading companies. As part of the training course a number of business cases were drafted, although these have not been presented to the S80 Board and consequently no business plans developed.

Before the S80 Board of Directors approve the creation of the any subsidiary trading units they are required to consider the business case and, where approved the subsequent business plan.

3 Current situation

S80 does not employ any staff directly and consequently does not have its own payroll system. The Company Secretary is an employee of Bassetlaw District Council who deals with S80 matters on a part-time basis. Support for the company is provided through a Service Level Agreement with the Council which, in particular, covers the accountancy and invoicing support. The company is separately registered for VAT, and has its own bank account and a separate ledger on the Council's financial system.

The recent failure of some high profile local authority trading companies has resulted in comprehensive guidance on how a trading company should operate. Using this guidance, a full governance review of S80 has been carried out and this has identified some weaknesses which have been reported to the Audit and Risk Committee. Officers are working through an action plan to fill the gaps both in the Council's and S80's system of governance, particularly around processes and documents. To ensure S80 is run with the necessary level of governance an ongoing resource will be required not only to keep governance arrangements up to date and effective but also to address any new issues as the company expands.

One of the findings from the Max Caller report into the failings at Nottingham City Council was that there was a lack of the necessary skills to successfully run a commercial entity. This is likely to be a factor in why the growth of S80 as a company has been restricted. In addition to the skills shortage, S80 has not developed significantly over the last 5 years for a number of reasons, including a lack of officer time available to explore and develop new ideas for trading opportunities.

The development and expansion of the company has been limited by not having a dedicated resource to service the S80 Board. During the governance review, it was clear that there is a need to have someone in a full time post that could drive the company forward by developing the existing trading units, identify new trading opportunities, developing new business cases and business plans and providing strategic direction.

4. Proposal

The CIPFA good practice guide for Local Authority owned companies and the Local Partnerships Local Authority Review Guidance have been used to identify governance gaps in the S80 structure and consequently to identify the duties, roles and responsibilities that are required to help fill these gaps. Along with aspirations to develop the company to take advantage of future trading opportunities, a job advert has been drafted outlining the purpose of the job and some of the key responsibilities shown at Appendix A. Some operational and administrative support would be needed, and an advert for the Operational Support Officer (Appendix B) shows duties and responsibilities of this post..

To develop the company to its full potential will take some time and it is unlikely that enough income will be generated for the first 2 years to cover the salaries of these posts. To allow time for the development and expansion of the company, there will be some pump priming funding necessary. This will allow time to generate the income necessary to cover revenue costs and finance future developments. It is proposed that the additional funding is in the form of a loan to S80 repayable within 5 years.

4 Financial Implications

Based on the job requirements it is likely that both posts will be full-time although there may be an opportunity for phasing in as the workload increase in the first year. As S80 is currently, a relatively small company with no full-time employees and relatively small financial responsibility the salary has been set at around £55,000 for the managing director and £23,000 - £27,000 for the Operational Support Officer post. These are not tied to, but loosely based on, the Council's salary scales, and may have to be increased should it not be possible to recruit. These include National Insurance at 13.8% and pension costs at an assumed rate of 7%, which is slightly higher than the statutory minimum of 5%. The table below shows the cash flow forecast over the next 5 years. The income to repay the loan has been set as a target income to cover the costs of the salary and repayment of the loan to the Council. Should the posts be hard to fill and salaries increased the target income can be adjusted to cover the extra cost.

S80 has only two relatively small trading units generating a limited amount of income. However, it is expected that some ancillary costs (mileage, training, etc.) associated with these posts can be covered from existing resources.

The trading income target of £653,900 over the 5 year period will ensure that all costs are covered and the loan and interest fully repaid to the Council. There is a risk that the trading income target is not achieved either, because of external factors such as national economic conditions, or that the opportunities are not available to generate the income. To mitigate these risks careful monitoring of the progress will be needed and the S80 Risk Register reported routinely to the Board of Directors. It may be possible to vary the period of loan repayment if necessary but any variation is a reserved matter that will have to be approved by the Council.

S80 Cash Flow forecast						
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Salary - MD	66,440	66,440	66,440	66,440	66,440	332,200
Salary - Support officer	32,620	32,620	32,620	32,620	32,620	163,100
Transport costs	9,500	5,500	5,500	9,500	5,500	35,500
Premises costs	2,700	3,600	3,600	3,600	3,600	17,100
IT equipment	3,000	1,500	1,500	1,500	1,500	9,000
Other Overheads	11,600	11,600	11,600	11,600	11,600	58,000
Loan Interest	10,000	10,000	9,500	7,000	2,500	39,000
Loan Repayment			20,000	80,000	100,000	200,000
Council Loan	(200,000)					(200,000)
Target Income from trading		(67,120)	(150,760)	(212,260)	(223,760)	(653,900)
Cash (inflow)/Outflow	(64,140)	64,140	0	0	0	0
Cumulative	(64,140)	0	0	0	0	0

5. Conclusion

As with many other Councils, developing alternative income streams has become essential to provide funding and to contribute towards achieving its aims and objectives. Bassetlaw is in a unique position with a multi-billion-pound nuclear facility being developed in the district over the next 2 decades. To take full advantage of the opportunities that arise it is important to have a fully-functioning responsive commercial trading company. This can't be achieved without the up-front investment to provide resources to enable S80 to grow. A relatively modest loan to be repaid within a fixed 5-year period should enable this to happen and with it the potential to provide the Council a significant income stream in future years.