

CABINET

25 AUGUST 2020

MEDWAY COMMERCIAL GROUP - SIX MONTHLY PROGRESS REPORT

Portfolio Holder	Councillor Howard Doe, Deputy Leader and Portfolio Holder for Housing and Community Services and Chairman of Medway Commercial Group Limited
	Councillor Rupert Turpin, Portfolio Holder for Business Management
Report Author:	Perry Holmes, Chief Legal Officer and Corporate Client for Medway Commercial Group

Summary

This report provides:

- A six-monthly progress report on Medway Commercial Group's (MCG) performance for Quarter 4 (2019-2020) to Quarter 1 (2020 -2021).
- The requirement for MCG to align its Accounting Policies and Year End with Medway Council due to the Council requirement to produce Group Accounts from this financial year (2020 -2021).

1. Budget and Policy Framework

- 1.1. Medway Commercial Group (MCG) operates as a Local Authority Trading Company (LATCo) that is owned by Medway Council (Single Shareholder) and was established in 2016.
- 1.2. Cabinet through six monthly progress reporting are responsible for reviewing the trading and financial performance of MCG. The last reporting cycle to Cabinet on MCG was on the 4th February 2020 (Decision Number 31/2020).

2. Background

- 2.1. MCG trading market is principally split into 4 market segments of:
 - CCTV Services through the CCTV Partnership hosted by Medway Council and direct CCTV provision for third parties including an Out of Hours Call Centre Model.
 - Telecare Services
 - School Traded Services covering Energy, Health & Safety, Cleaning & Catering
 - Recruitment Agency for Medway Council

- 2.2. Medway Council is the single shareholder of MCG and MCG operates through two subsidiaries to enable the company to trade with both the Public and Private Sector:
- Medway Public Services Limited (MPS) – To trade with the Public Sector; and
 - Medway Commercial Services Limited (MCS) – To trade with the Private Sector.

3. MCG – 6 Monthly Progress Report

3.1. MCG Governance

- 3.1.1. The Company's Board of Directors comprises one Executive Director (Chief Executive Officer) and four Non-Executive Directors. The Council's Non-Executive Director appointments for this Municipal Year for MCG are Councillor Howard Doe (Chairman & Non-Executive Director) and Rupert Turpin (Non-Executive Director).
- 3.1.2. Board Meetings are held on a 6 weekly cycle to ensure good governance protocols are embedded and opportunities for Business Growth are approved to safeguard commercial risk.
- 3.1.3. The Chief Legal Officer is the appointed Medway Council Corporate Client for MCG and attends Board Meeting with the responsibility to safeguard the single shareholder interests of Medway Council and act as a strategic conduit between Medway Council and MCG on Business Development opportunities between the two parties.
- 3.1.4. MCG Board have appointed a New Chief Executive Officer (CEO), Sean Kearns, with the relevant background and skill sets to drive the commercial performance along with embedding a new organisational structure and culture for MCG. He has a track record of business turnarounds. The new CEO will commence employment at MCG on 1 September 2020.

3.2. MCG Financial Performance

3.2.1. 2018-19 Financial Year

MCG made a loss which has been reported to Companies House in 2018/19 of £1.45 million. In the 6 August 2019 Report to Cabinet (Decision Number 93/2019) it was suggested that subject to audit the loss would be £667,000. In fact, the Auditors for MCG would not agree to a prior year adjustment for losses that related to 2017/18 and so that additional loss was also posted in 2018/19. In addition, a number of material transactions recorded in 2019/20 totalling £351,930 related to 2018/19 and as such, MCG's external auditors stated that these should also be recorded in the 2018/19 accounts.

3.2.2. 2019-20 Financial Year

MCG's Final Accounts subject to Auditing are forecasting a trading loss of £278,285 for Financial Year 2019-20. This loss reflects residual trading decisions and one-off consultancy costs above budget provision for HR & Accountancy, linked to previous senior staff.

3.2.3. 2020-2021 Financial Year (Quarter 1)

MCG Quarter 1 Performance is forecasting a Trading Loss of £107,000 because of unprecedented market conditions (specifically for Education Traded Services) caused by COVID-19. The year-end forecast for 2020-2021 based on trading

analysis for the four business areas is that MCG should return a net profit of circa £71K after payment of the Management Fee to Medway Council.

3.3. MCG 6 Month Trading Performance (January 2020 – June 2020)

3.3.1. Appendix 1 provides a Trading Performance for the four MCG Business Areas of Activity for this reporting cycle to Cabinet.

4. Group Accounts

4.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Accounting Code of Practice (the Code) sets out a requirement to prepare Group Accounts where the authority has interests in subsidiaries, associates and/or joint ventures, subject to consideration of materiality and level of control. A subsidiary is defined as an entity where the authority is exposed to (or has rights to) variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. As MCG is a LATCo that is owned by Medway Council (Single Shareholder) it falls into this category.

4.2. Up to the current financial year, the Council has not had to prepare Group Accounts on the basis of materiality, but there are likely to be large assets held within the balance sheet of Medway Development Company in 2020 - 2021, this means that Group Accounts will be required that will relate to all subsidiaries. In order to prepare for this, the Council is required to review, whether or not consolidation is required on an annual basis. In order for consolidation to be possible, the entities to be consolidated are required to have the following in place:

- Ensure their accounting policies are aligned with those of the Council
- Have the same financial year end date as the Council (or a maximum of 3 months difference if not).
- Be able to produce and publish draft and audited financial information in timescales that enable the Council to produce consolidated accounts within the timeframes required under the Accounts and Audit Regulations 2015, the dates being 31 May and 31 July following the year and date respectively.
- Ideally the entities accounts should be prepared under International Financial Reporting Standards (IFRS) rather than UK GAAP as this will again align with those the Council reports under and mean less work when converting the entities accounts into a format that can be consolidated into those of the Council.

4.3. MCG Board will be advised of the requirements for it to align its Accounting Policies and Year End with Medway Council at its September Board Meeting.

5. Business Strategy

5.1. In Quarter 1 of this Financial Year MCG Board commissioned a Business Strategy for MCG that is scheduled for Board Approval at its September Meeting for presentation and approval to Cabinet at its October Meeting. The Business Strategy sets out a Road Map for Business Areas of Activity for MCG including adopting a new organisational structure from financial year 2021-2022 and brand identify to support improved commercial performance.

5.2. The Board has been augmented by the appointment of two Non-executive Directors from industry, one Steven Hughes has a significant background in telecoms, with

expertise in business strategy. He has led the work on drafting the Business Strategy. The second, Ashley West has a substantial career history in the private sector, including business turnaround work, with a specialism in financial management. He also has recent non-executive experience in the health sector.

6. Risk Management

- 6.1. MCG Board review Strategic & Operational Risks on a 6 Monthly cycle to ensure appropriate levels of Governance Controls around Risk.
- 6.2. The key risks to be reported to Cabinet are shown in the table below:

Risk	Description	Action to avoid or mitigate risk	Risk rating
Shareholder control	Lack of appropriate governance levels present shareholder risk on subsidiary company performance	6 Monthly performance update provided to Cabinet. Corporate Client (Chief Legal Officer) attends the board meetings of MCG, as an observer, to represent shareholder interests.	B2
Business Strategy	Inadequate business planning will impact on commercial performance and subsequent return on investment to the Council	MCG Board have commissioned an evidence-based business strategy to set out a clear strategic direction for MCG to maximise commercial growth. This strategy will be presented to Cabinet for approval in October 2020	C2

7. Finance and Legal Implications

- 7.1. Local Authorities have powers to establish Local Authority Trading Companies under the Local Government Act (2003) and Localism Act (2011). The Local Government Act 2003 – Section 15 (1) enable Local Authorities to put in place Commercial Loans to wholly owned Trading Subsidiary Companies.
- 7.2. Cabinet act as the Single Shareholder on behalf of Medway Council for MCG and are responsible for reviewing trading and financial performance on a 6 monthly

cycle and Business Areas of Activity. The finance implications are set out within the body of the report.

8. Recommendations

- 8.1. The Cabinet is asked to note the six-monthly performance report for MCG for the period Quarter 4 (2019-20) to Quarter 1 (2020-2021).
- 8.2. The Cabinet is asked to agree to delegate authority to the Chief Legal Officer as Corporate Client for MCG to ensure that MCG Accounts are produced for consolidation in the Councils Accounts from this financial year (2020 – 2021).
- 8.3. The Cabinet is asked to note that a further report will be presented to its October meeting cycle on adoption of MCG's Business Strategy.

9. Suggested Reasons for Decisions

- 9.1. When Cabinet agreed to establish MCG it was also agreed that regular monitoring reports would be provided to Cabinet.

Lead Officer Contact

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Appendices

Appendix 1 – MCG 6 Monthly Performance Report

Background Papers

None