

CABINET

2 FEBRUARY 2021

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 2 (2020-21) to Quarter 3 (2020-21).

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 20 October 2020 with the presentation of a Business Strategy (Decision Number 130/2020 refers).

2. Background

- 2.1. MCG trading market is principally now split into 3 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
 - Recruitment Agency for Medway Council
 - The fourth, School Traded Services covering Energy, Health & Safety, Cleaning & Catering will transfer back to Medway Council on 1 February 2021 (Decision Number 131/2020 refers).

2.2. Medway Council is the single shareholder of MCG and MCG operates now through one subsidiary to enable the company to trade with both the Public and Private Sector:

- Medway Commercial Services Limited (MCS) – to trade with the Private Sector
- Medway Public Services Limited (MPS) – is in the process of being wound up (Cabinet decision number 134/2020 refers)

3. MCG – 6 Monthly Progress Report

3.1. MCG Governance

3.1.1. The Company's Board of Directors comprises one ex-officio 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). The Board appointed two independent non-executive directors in early 2020, Steven Hughes, telecoms and commercial experience, and Ashley West, financial and business turnaround experience.

3.1.2. Board Meetings are held on an 8 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 Meetings 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 appointed a new Chief Executive Officer (CEO), Sean Kearns, in September 2020 and a new Head of Finance, Support & Governance, Ben Murphy, in October 2020, who both have the relevant background and skill sets to drive the commercial performance along with embedding a new organisational structure and culture for MCG.

3.2. MCG Financial Performance

3.2.1. 2019-20 Financial Year

MCG's Draft Consolidated Accounts subject to completion of audit are forecasting a Loss Before Tax of (£315,897) for Financial Year 2019-20. The loss is after management fees applied of £571,000 and implies a trading profit of £255,000 in the year. The audit is due to complete by 31 March 2021.

3.2.2. 2020-2021 Financial Year (Quarter 3)

At end of Q3 FY21, MCG posted year-to-date Operating Profit of £342,794. The Loss Before tax inclusive of Medway Council Management Fee is (£94,761). The year-end forecast for 2020-2021 based on trading analysis for

the three areas should return an Operating profit of £629,864. Profit Before Tax including management fees to Medway Council is forecast as breakeven.

3.3. MCG 9 Month Trading Performance (April 2020 – December 2020)

3.3.1. Appendix 1 to the report provides a Performance monitoring report for the MCG service areas for this reporting cycle to Cabinet.

3.4. Year end accounts

3.4.1 The 2020/21 company accounts will be audited in compliance with the Council Group Accounting requirements that enable the Council to produce consolidated accounts within the timeframes required under the Accounts and Audit Regulations 2015.

4. Business Strategy – Progress Report

4.1. Cabinet approved the new Business Strategy for Medway Commercial Group which informs the revised core business priorities.

4.2. The Covid-19 lock-down restrictions have limited the expansion of telecare services beyond existing customer base in order to safeguard elderly and frail clients. However, trials of additional telecare technology have been initiated with adult social care to assess the viability of new products to improve service reach to public and private clients and to inform cost efficiencies for long-term care support packages. The full results of the system trials will be available in the next six month performance report.

4.3. The Education support team transferred to Medway Council Education services on 1 February 2021.

4.4. The recruitment service has supported the Council in recruiting interim and temporary staff throughout the financial year in support of the council services. We have supported the Council in reducing the overall number of interim staff with conversion of roles from temporary to permanent, or termination of temporary contracts. At the start of quarter 2 we supplied 169 individuals to the Council across all departments, by the end of quarter 3 this had reduced to 151 individuals.

4.5. In December the recruitment service provided an additional 232 temporary staff to the Council and public health in support of the Covid-19 rapid testing centres.

5. Risk Management

5.1. MCG Board review Strategic & Operational Risks on a 6 Monthly cycle to ensure appropriate levels of Governance Controls around Risk.

5.2. The key risks to be reported to Cabinet are shown in the table overleaf:

Risk	Description	Action to avoid or mitigate risk	Risk rating
Poor 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.	C2
Limited Business Growth	Business growth opportunity is limited or restricted by continued Covid-19 social distancing rules and guidelines.	MCG Board adopt a business rebrand to position services to support new business that embraces services being delivered remotely in support of social distanced guidelines.	C2

6. Finance and Legal Implications

- 6.1. 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 (l) enable Local Authorities to put in place Commercial Loans to wholly owned Trading Subsidiary Companies.
- 6.2. 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.

7. Recommendation

- 7.1. The Cabinet is asked to note the six-monthly performance report for MCG for the period Quarter 2 and Quarter 3 (2020-2021).

8. Suggested Reasons for Decision

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

Lead officer contact

Perry Holmes, Chief Legal Officer, Medway Council T:
01634 332133 E: perry.holmes@medway.gov.uk

Lead MCG contact

Sean Kearns, Chief Executive Officer, Medway Commercial Group
T: 01634 957778 E: sean.kearns@mcgsolutions.co.uk

Appendices

Appendix 1 – MCG 6 Monthly Performance Report

Background Papers

None.