
TITLE: ANGLIA REVENUES PARTNERSHIP (ARP) TRADING COMPANY

Committee: Regulatory & Support Services Committee

Date: 12th October 2015

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[Q88]

1.0 ISSUE

1.1 To agree proposals for the Council to become shareholders of the ARP Trading company.

2.0 RECOMMENDATION

2.1 It is recommended that the Committee approve:

- (i) 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.
- (ii) Purchase of shares in ARP Trading Company Ltd at the price of £1 per share.
- (iii) Agreement of the revised constitution of ARP Trading Company Ltd and shareholder agreement be delegated to the ARP Operational Improvement Board.
- (iv) That the Director (Support Services) be nominated to represent the Council's interests at shareholder meetings.

3.0 BACKGROUND

3.1 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.

3.2 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.

3.3 Over the next few years, with the introduction of the Welfare Reform, funding coming into councils will start reducing as work is moved over to the DWP. Councils will retain aspects of the work, but a reduced budget is expected to lead to a funding gap. As other councils look for more efficient ways of delivering services, it provides the Council an opportunity to sell the ARP services.

3.4 The ARP delivers a high performing service to sell to other councils. During 2014/15 ARP collected 98.4% of the council tax due in year and 98.3% of business

rates. On average it takes 7.1 days to process new claims and changes for council tax and 6.3 days to process new claims and changes for housing benefits. Although these are no longer national indicators, the benefit performance would be upper quartile performance based upon previous benchmarking. Further performance information on the ARP can be found in Appendix 1.

- 3.5 In July the ARP set up a new enforcement agency which, by the middle of September has already collected £130k. The projection is that the service will generate a surplus in excess of £150k next year, which can be shared amongst the ARP partners.
- 3.6 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.
- 3.7 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.
- 3.8 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.
- 3.9 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.
- 3.10 The company will 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 (the company does not currently employ any staff). 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.

- 3.11 As commercial opportunities are identified a business case will be developed. The business case will need to be agreed by the Joint Committee before the company takes on the work. The business case will not only set out the case for carrying out the work but also how it will be delivered without negatively affecting ARP performance. It is not in the interests of any of the partner councils to allow trading to impact upon the ARP's performance however, if in the unlikely event that the performance of the ARP is negatively affected, the ARP constitution allows any of the partner councils to request a review is carried out.
- 3.12 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.
- 3.13 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.
- 3.14 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.

4.0 FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

- 4.1 A loan of £10,000 (funded from 2014-15 savings in the partnership budgets) to ARP Trading Company Ltd
- 4.2 Financial implications will be identified as plans and business cases for each project are developed.
- 4.3 Equality Impact Assessments will be considered for individual projects.

5.0 APPENDICES

Appendix 1 – ARP Joint Committee Agenda 17th September. Due to its size Appendix 1 has been circulated separately to Members of the Committee. A copy is available on the Council's website or from Democratic Services.

<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
None	Room 105, The Grange, Ely	Richard Quayle Director (Support Services) (01353) 616218 E-mail: Richard.quayle@eastcambs.gov.uk