



Northumberland

County Council

CABINET

23 OCTOBER 2018

Advance Northumberland - Transition from Arch

Report of Barry Scarr, Executive Director of Finance and Deputy Chief Executive

Cabinet Member: Nicholas Oliver, Portfolio Holder for Corporate Services and
Cabinet Secretary

1. Purpose of report

- 1.1. This report sets out the steps required to transfer the business activities of Arch (Corporate Holdings) Ltd to a new entity, Advance Northumberland Ltd. The financial transactions required, and the impact on the Council as the ultimate parent are analysed within the report.

2. Recommendations

Members are requested to:

- 1. Note the steps required to transfer the assets, liabilities and trading operations of Arch (Corporate Holdings) Ltd to Advance Northumberland Ltd.**
- 2. Approve the purchase by the Council of additional share capital in Advance Northumberland Ltd. totalling £3.3 million.**
- 3. Note the proposed purchase of the subsidiaries of Arch (Corporate Holdings) Ltd. by Advance Northumberland Ltd. for £3.3m**
- 4. Approve the purchase by the Council of additional share capital in Advance Northumberland Ltd. totalling £0.9 million representing the nominal value of trade and assets.**

5. **Note the proposed purchase of Arch (Corporate Holdings) Ltd. trade and assets at a nominal value of £0.9 million by Advance Northumberland Ltd.**
6. **Note that an amount equivalent to the share, trade and asset purchase (£4.2 million) will be returned to Northumberland County Council via a dividend payment upon the dissolution of Arch (Corporate Holdings) Ltd.**
7. **Delegate the agreement of any variation in the share purchase value and purchase of trade and assets to the Chief Executive and Executive Director of Finance in consultation with the Portfolio Holder for Corporate Services.**

3. Link to Corporate Plan

- 3.1. The Council's budget and Medium Term Financial Plan are aligned to the priorities outlined in the Corporate Plan 2018-21 - "We want to be efficient, open and work for everyone"; specifically, "we want to get the most out of our arms length organisations. We will fundamentally review how Arch, Active Northumberland and Northumberland Tourism work so that they are delivering the right activities and offering value for money, whilst recognising that they can access funding that is closed to councils."

4. Key issues

- 4.1. This report sets out the current structure of Arch, and the steps required to transfer the assets, liabilities and trading operations to Advance Northumberland on 13 November 2018.
- 4.2. The steps required are complex in order to comply with current tax legislation, and involve the transfer of significant sums of money that will be reimbursed by a final dividend payment. The amounts involved:

- Transfer of subsidiaries - £3.3 million
- Transfer of trade and assets - £0.9 million

are the best estimates based on the current trading position. For this reason, approval is being sought for any variation in the numbers to be agreed by the Chief Executive and the Executive Director of Finance in consultation with the Portfolio holder for Corporate Services.

5. Background

Existing Corporate Structure

- 5.1. On 17 June 2018, Cabinet approved:
 - The closure of Arch Corporate Holdings Ltd; and,

- The establishment of a replacement holding company to be known as Advance Northumberland Ltd, and associated subsidiaries, which focuses on the priorities set by the Council in the Corporate Plan.
- 5.2. Arch (Corporate Holdings) Ltd is 100% owned by Northumberland County Council. The company is the parent entity for the following subsidiaries:
- Arch (Financial Services) Ltd
 - Arch (Housing) Ltd
 - Arch (Commercial Enterprise) Ltd
 - Arch (Development Projects) Ltd
- 5.3. Arch (Corporate Holdings) Ltd also owns three dormant subsidiary companies:
- Arch (DigEco) Ltd
 - Wansbeck Life Ltd
 - Northern Coalfields Property Company Ltd

New structure

- 5.4. The new structure is based on Advance Northumberland Ltd, wholly owned by Northumberland County Council, becoming the parent company for the existing subsidiaries of Arch (Corporate Holdings) Ltd.

Incorporation

- 5.5. Advance Northumberland has been incorporated and ownership registered with Ward Hadaway Company Secretarial Services Ltd. Northumberland County Council will subscribe to £1 share capital in Advance Northumberland, with an additional subscription of £3.3 million. Transfer to the Council, and subscription for additional share capital is scheduled to take place on 13 November 2018.
- 5.6. Advance Northumberland Ltd is UK incorporated and is a UK tax resident. It will submit corporation tax returns on an annual basis. Advance Northumberland Ltd will register for VAT, and form a new VAT group on completion. There are no stamp duty implications in relation to the proposed transfer.

Transfer of subsidiaries

- 5.7. On 13 November 2018, Arch (Corporate Holdings) Ltd will sell its shares in its subsidiaries to Advance Northumberland Ltd under a Sale and Purchase Agreement (SPA) for book value. Arch (Corporate Holdings) Ltd will at that point receive the equivalent of the book value (£3.3 million) as consideration for the transfer of the shares.

- 5.8. Arch (Corporate Holdings) Ltd and Advance Northumberland Ltd will fall within the same capital gains group.
- 5.9. The transfer of group shareholdings that are at least 75% intra-group share transfer are exempt from stamp duty under current legislation.

Transfer of trade and assets

- 5.10. Northumberland County Council will subscribe to additional share capital of £0.9 million in Advance Northumberland. Transfer to the Council, and subscription for additional share capital is scheduled to take place on 13 November 2018.
- 5.11. On 13 November 2018, Arch (Corporate Holdings) Ltd will sell its trade and assets to Advance Northumberland Ltd under a Sale and Purchase Agreement (SPA). It is not envisaged that Arch (Corporate Holdings) Ltd will have a deficit on distributable reserves, and this will be verified on transfer.
- 5.12. Arch (Corporate Holdings) Ltd will receive a nominal value of £0.9 million as consideration in relation to the transfer of trade and assets. This is the equivalent to the net book value held in Arch (Corporate Holdings) Ltd.
- 5.13. All employment contracts with Arch (Corporate Holdings) Ltd will be transferred to Advance Northumberland Ltd under TUPE regulations.

Arch Corporate Holdings Ltd dissolution

- 5.14. After transfer of the subsidiaries, trade and assets, Arch (Corporate Holdings) Ltd will undertake a capital reduction; transferring all of its share capital to retained earnings other than £100 of share capital. Arch (Corporate Holdings) Ltd is a private limited company, and capital reduction will be performed either through a Directors Solvency Statement or Court Approval.
- 5.15. Arch (Corporate Holdings) Ltd will then pay a £4.2 million dividend to Northumberland County Council. This dividend will be non-deductible for Arch (Corporate Holdings) Ltd, and non taxable as the company is 100% owned and controlled by the Council.
- 5.16. Arch (Corporate Holdings) Ltd will at this point be made commercially and legally dormant.

Implications

Policy	This is the second year of this Administration's Medium Term Financial Plan; and, it fully supports the priorities outlined in the Corporate Plan 2018-21 - A Council that Works for Everyone.
Finance and value for money	The report is financial in nature and implications are contained within the body of the report.
Legal	All implications for the Council from a legal perspective have been considered and are reflected within the report
Procurement	There are no specific Procurement implications within this report.
Human Resources	The size of the financial challenge will have an impact on staffing levels across the Council. The Council will continue to try and mitigate this impact by the management of vacancies and voluntary redundancy wherever possible.
Property	The individual proposals will carefully consider the impact with regard to property requirements.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	There are no specific equalities implications within this report.
Risk Assessment	The risks associated with the proposals are monitored as part of the transition project.
Crime & Disorder	There are no specific Crime & Disorder implications within this report.
Customer Consideration	There are no specific customer implications within this report.
Carbon reduction	There are no specific carbon reduction implications within this report.
Wards	All wards.

Background papers:

Cabinet report: 17 June 2018 Arch Transition and Establishment of a new company

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

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