



Northumberland County Council

Your ref:
Our ref:
Enquiries to: Karon Hadfield
Email:
Tel direct:
Date: 12 July 2023

Dear Sir or Madam,

Your attendance is requested at a meeting of the **CABINET SHAREHOLDER COMMITTEE** to be held in **COUNCIL CHAMBER - COUNTY HALL** on **THURSDAY, 20 JULY 2023** at **10.30 AM**.

Yours faithfully

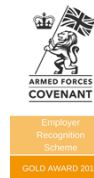
Dr Helen Paterson
Chief Executive

To Cabinet Shareholder Committee members as follows:-

W Ploszaj, G Sanderson and R Wearmouth



Dr Helen Paterson, Chief Executive
County Hall, Morpeth, Northumberland, NE61 2EF
T: 0345 600 6400
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AGENDA

PART I

It is expected that the matters included in this part of the agenda will be dealt with in public.

1. MEMBERSHIP AND TERMS OF REFERENCE

To note the membership and Terms of Reference as follows:

Membership

Such members of the Cabinet, as may be appointed from time to time by the Leader.

Quorum:

Three members, which must include:

- the Leader (or other Cabinet member appointed by the Leader for this purpose);
- Cabinet member with portfolio for finance and resources; and
- Cabinet member(s) with portfolio for most closely associated with the company or companies concerned with the items of business.

Terms of Reference

The Shareholder Cabinet Committee will exercise responsibility for the Cabinet's functions in respect of:

1. The Council's approach to membership of a company or companies, including:
 - a. evaluation of potential new opportunities to deliver social and financial returns on investment through company holdings;
 - b. approval of comprehensive statements (business cases) to establish a new company, company membership or joint venture;
 - c. sale or liquidation of Council interests in companies;
 - d. the adoption of investment or contractual strategies in relation to council held company memberships;
 - e. the provision or requirement of services to or by a company;and
 - f. the governance framework and over-arching approach to company memberships.
2. Decisions concerning the evaluation, monitoring or acting upon:
 - a. the financial and social returns on investment (be that shareholding, loans or direct investment); and
 - b. risks and opportunities arising from any shareholding in a company or companies, including contracts or financial investments in respect of such companies.
3. Decisions concerning the performance of a company in relation to

its Business Plan and, in particular, the company's performance:

- a. in financial matters
- b. against the social goals of the company as set out in the company's Objects, Business Case or Business Plan; and
- c. against the values of the Council.

4. All decisions reserved to the Council for shareholder approval, such as (but not limited to):

- a. Varying Articles of Association
- b. Varying ownership and structure
- c. Variations to shares (number of, rights, etc.)
- d. Entering contracts that:
 - i. have a material effect on Council business (including other companies within the group)
 - ii. are outside of the business plan or do not relate to the

business

- iii. significant in relation to the size of the business, the business plan, etc.
- e. Material legal proceedings outside of ordinary business
- f. Adopting and amending business plans each year and strategic plans (3 years)
- g. Appointment, removal and the remuneration of directors (members of the company board)
- h. Selection of the chair of the board
- i. Appointment of auditors
- j. Issue of dividends

as more particularly set out in a company's Articles of Association or Shareholder Agreement.

5. Other matters as may be referred to the Cabinet Committee for consideration by the CSR, s.151 officer, monitoring officer or chief executive

2. ELECTION OF CHAIR

3. DISCLOSURE OF MEMBERS' INTERESTS

Unless already entered in the Council's Register of Members' interests, members are required where a matter arises at a meeting;

Which directly relates to Disclosable Pecuniary Interest ('DPI') as set out in Appendix B, Table 1 of the Code of Conduct, to disclose the interest, not participate in any discussion or vote and not to remain in room. Where members have a DPI or if the matter concerns an executive function and is being considered by a Cabinet Member with a DPI they must notify the Monitoring Officer and arrange for somebody else to deal with the matter.

Which directly relates to the financial interest or well being of a Other Registrable Interest as set out in Appendix B, Table 2 of the Code of Conduct to disclose the interest and only speak on the matter if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain

the room.

Which directly relates to their financial interest or well-being (and is not DPI) or the financial well being of a relative or close associate, to declare the interest and members may only speak on the matter if members of the public are also allowed to speak. Otherwise, the member must not take part in discussion or vote on the matter and must leave the room.

Which affects the financial well-being of the member, a relative or close associate or a body included under the Other Registrable Interests column in Table 2, to disclose the interest and apply the test set out at paragraph 9 of Appendix B before deciding whether they may remain in the meeting.

Where Members have or a Cabinet Member has an Other Registrable Interest or Non Registrable Interest in a matter being considered in exercise of their executive function, they must notify the Monitoring Officer and arrange for somebody else to deal with it.

NB Any member needing clarification must contact monitoringofficer@northumberland.gov.uk. Members are referred to the Code of Conduct which contains the matters above in full. Please refer to the guidance on disclosures at the rear of this agenda letter.

4. ELECTION OF VICE CHAIR

5. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES (Pages 1 - 36)

Advance Northumberland Business Plan 2023-24

To present to the Committee the Advance Northumberland Ltd draft business plan for 2023-24 (see also confidential appendix at item 11 of this agenda).

6. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES (Pages 37 - 40)

Advance Northumberland Draft Statement of Financial Accounts 2022-23

To report to the Committee the Advance Northumberland Ltd draft statement of group statutory accounts for 2022-23 (see also confidential appendix at item 12 of this agenda).

7. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES (Pages 41 - 46)

Advance Northumberland Review of Corporate and Financial Structure

To update the Committee on the progress of the review of Advance

Northumberland company and financial structure and emerging options (see also confidential appendix at item 13 of this agenda).

8. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES (Pages 47 - 50)

Advance Northumberland Appointment of External Auditor

To inform the Committee of the proposed appointment of Robson Laidler Accountants Ltd as external auditors to Advance Northumberland Ltd and its subsidiaries for a three-year period from 2022-23 to 2024-5 in place of Mazars LLP and to seek authority for the shareholder representative to give reserved matters consent for their appointment on behalf of the Council as shareholder.

9. URGENT BUSINESS (IF ANY)

To consider such other business as, in the opinion of the Chair, should, by reason of special circumstances, be considered as a matter of urgency.

10. EXCLUSION OF PRESS AND PUBLIC

The Committee is invited to consider passing the following resolution:

(a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items on the Agenda as they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act, and

(b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda Item	Paragraph of Part I of Schedule 12A
11-13	3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).
AND	The public interest in maintaining this exemption outweighs the public interest in disclosure because disclosure would adversely affect the Authority's interests.

11. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES (Pages 51 - 68)

Advance Northumberland Business Plan 2023-24

To consider the attached Appendices under Agenda item 5 in Part 1 of this agenda.

- 12. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES** (Pages 69 - 92)
3
Advance Northumberland Draft Statement of Accounts 2022-23

To consider the attached Appendices under Agenda item 6 in Part 1 of this agenda.

- 13. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES** (Pages 93 - 154)
3
Advance Northumberland Review of Corporate and Financial Structure

To consider the attached Appendix under Agenda item 7 in Part 1 of this agenda.

IF YOU HAVE AN INTEREST AT THIS MEETING, PLEASE:

- Declare it and give details of its nature before the matter is discussed or as soon as it becomes apparent to you.
- Complete this sheet and pass it to the Democratic Services Officer.

Name:		Date of meeting:	
Meeting:			
Item to which your interest relates:			
Nature of Interest i.e. either disclosable pecuniary interest (as defined by Table 1 of Appendix B to the Code of Conduct, Other Registerable Interest or Non-Registerable Interest (as defined by Appendix B to Code of Conduct) (please give details):			
Are you intending to withdraw from the meeting?		Yes - <input type="checkbox"/>	No - <input type="checkbox"/>

Registering Interests

Within 28 days of becoming a member or your re-election or re-appointment to office you must register with the Monitoring Officer the interests which fall within the categories set out in **Table 1 (Disclosable Pecuniary Interests)** which are as described in "The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012". You should also register details of your other personal interests which fall within the categories set out in **Table 2 (Other Registerable Interests)**.

"Disclosable Pecuniary Interest" means an interest of yourself, or of your partner if you are aware of your partner's interest, within the descriptions set out in Table 1 below.

"Partner" means a spouse or civil partner, or a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners.

1. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest, or of any change to a registered interest, notify the Monitoring Officer.
2. A 'sensitive interest' is as an interest which, if disclosed, could lead to the councillor, or a person connected with the councillor, being subject to violence or intimidation.
3. Where you have a 'sensitive interest' you must notify the Monitoring Officer with the reasons why you believe it is a sensitive interest. If the Monitoring Officer agrees they will withhold the interest from the public register.

Non participation in case of disclosable pecuniary interest

4. Where a matter arises at a meeting which directly relates to one of your Disclosable Pecuniary Interests as set out in **Table 1**, you must disclose the interest, not participate in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest, just that you have an interest.

Dispensation may be granted in limited circumstances, to enable you to participate and vote on a matter in which you have a disclosable pecuniary interest.

5. Where you have a disclosable pecuniary interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

Disclosure of Other Registerable Interests

6. Where a matter arises at a meeting which **directly relates** to the financial interest or wellbeing of one of your Other Registerable Interests (as set out in **Table 2**), you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Disclosure of Non-Registerable Interests

7. Where a matter arises at a meeting which **directly relates** to your financial interest or well-being (and is not a Disclosable Pecuniary Interest set out in **Table 1**) or a financial interest or well-being of a relative or close associate, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.
8. Where a matter arises at a meeting which **affects** –
- a. your own financial interest or well-being;
 - b. a financial interest or well-being of a relative or close associate; or
 - c. a financial interest or wellbeing of a body included under Other Registrable Interests as set out in **Table 2** you must disclose the interest. In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied
9. Where a matter (referred to in paragraph 8 above) **affects** the financial interest or well- being:
- a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;
 - b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest

You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise, you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Where you have an Other Registerable Interest or Non-Registerable Interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

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Northumberland County Council

SHAREHOLDER CABINET COMMITTEE

20 July 2023

Advance Northumberland Business Plan 2023-24

Report of Jan Willis, Executive Director of Transformation and Resources and S151 Officer

1. Purpose of the Report

- 1.1. To present to the Committee the Advance Northumberland Ltd draft business plan for 2023-24.

2. Recommendations

- 2.1. To review and comment on the draft business plan for 2023-24 and, subject to no significant amendments, to authorise the shareholder representative to give formal approval for the plan following adoption by the Advance Northumberland Board.

3. Link to the Corporate Plan

- 3.1. This report is consistent with the priorities in the Corporate Plan 2023-26 “Achieving Value for Money”.

4. Background

- 4.1. Under the operating agreement with the Council Advance Northumberland is required to submit an annual business plan for shareholder approval.
- 4.2. For the 2023/24 year, it had been the intention for a longer-term business plan to be produced as part of the external review of the company’s financial model and structure. This would have enabled recommendations from that review to be incorporated in the plan. Unfortunately, the review has taken longer than anticipated to be concluded, and therefore at the request of the Council’s shareholder representative, an annual business plan for 2023-24 has been prepared for the Committee’s approval. It should be noted that at this stage, the business plan is draft and has not been approved by the Advance Board. It is due to be considered by the Board at their meeting on 14th July 2023.
- 4.3. The Plan does not contain any new proposals or changes in direction for the Company; it effectively codifies in a single document the discussions and decisions made by the Advance Northumberland Board and NCC over recent months, including the implications for Advance Northumberland arising from the Council’s review of the Advance Northumberland business strategy during 2022.

4.4. Where commercially sensitive data is required to ensure the plan is comprehensive (e.g. detailed financial data) this has been included the confidential appendix to this report.

4.5. Key points to note from the draft plan are as follows:

- Headcount is expected to increase from 154 to 212. This includes a reduction in the economic growth and investments team and significant increases in headcount in Ascent Homes reflecting significantly increased activity and the Homes team due to insourcing of maintenance activities. A small increase in corporate headcount is also proposed.
- The company continues to be impacted by significant inflation in relation to contract costs and construction materials. This has impacted on some town centre regeneration and strategic employment schemes and house building.
- The full impact of rising mortgage rates has not yet been felt on house sales; however, this is being kept under review and if necessary, new homes will be offered for rent, either through Advance Northumberland Homes or social housing providers in the county.
- The company will be working with the Council and North of Tyne Combined Authority to seek replacement funding streams (including includes UK Shared Prosperity Fund) for business support and economic development programmes as legacy EU funding comes to an end. However, the quantum of funding available is likely to be smaller.
- The impact of the new North East Combined Mayoral Authority on company operations is as yet uncertain. The company will continue to keep this under review as further details of the new devolution arrangements emerge.
- Implementation of any new proposals arising from the ongoing review of company structure and financial model (which are the subject of a separate report on the Committee's agenda) will be a key area of focus during the second half of the year.
- In parallel with this review, Advance will start to explore other sources of investment funding (such as 'green' funds that can offer cheap finance for decarbonisation projects) and possible further joint ventures (where risk, finance and reward are shared), building on the successful joint venture approach with Northumberland Estates to regenerate a site in Prudhoe.
- Following the reconstitution of the Advance Board in recent months, the Company will review and update its Articles of Association, Schedule of Delegations, and Operating Agreement. Any changes will be subject to shareholder approval.
- Key strategic projects during the forthcoming year include completion of dock works and the procurement of a dock operator for NEP1, development of

further opportunities on NEP2 to support the offshore wind sector for interconnectors and convertor stations and exploration of options for the redevelopment of the Manor Walks shopping centre and Westmoreland retail park in Cramlington. The programme of refurbishment and letting of empty properties on the Hirst estate in Ashington will also continue.

4.6 Priorities for the company over the coming year are set out under 3 key themes:

Strengthen foundations

- Continue to strengthen relationships with NCC at all operational and strategic levels
- Complete the process of updating governance arrangements
- Along with NCC, reform the corporate structure and financial model of the Company
- Continue systems improvements to promote future efficiency and effectiveness of operations

Continue to deliver

- Continue to deliver all current business lines
- Continue to deliver all projects in progress

Plan for the future

- Work with NCC to define future priorities for the Company
- Work with NCC to increase Northumberland's strategic employment land supply and as appropriate, tactical acquisition of strategic assets within Northumberland
- Explore growth options around housebuilding and project management
- Put in place a clear plan for assets in the Commercial and Homes portfolios
- Work with NCC to create/support plans for strategically important assets
- Explore options for capital finance and/or joint ventures
- Monitor and plan for changes to public funding regimes and the North East institutional geography changes
- Develop new programmes for business support across the county

4.7 Further detail for each of the main business lines is provided in the business plan and the medium-term financial plan and strategic risk register are included as confidential appendices.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy	None.
Finance and value for money	
Legal	
Procurement	None.
Human Resources	None.
Property	None.
Equalities	None.
Risk Assessment	
Crime & Disorder	None.
Customer Considerations	None.
Carbon Reduction	None.
Health & Wellbeing	
Wards	All.

Background Papers:

Report sign off:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder(s)	Wojciech Ploszaj

Report Author:

Jan Willis, Executive Director of Transformation and Resources

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Advance Northumberland Business Plan

1 April 2023 – 31 March 2024

Draft 1.3
7 July 2023

Advance Northumberland Business Plan

1 April 2023 – 31 March 2024

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1 Executive Summary

Introduction

- 1.1 Advance Northumberland Limited (“the Company”) is a properly incorporated company limited by shares and is wholly owned by, and trading in support of, Northumberland County Council (“the Council” or “NCC”).
- 1.2 The Company successfully delivers a unique combination of activities which contribute to the place shaping, regeneration, economic growth, and housing aspirations of the Council.
- 1.3 The Company operates on a commercial basis but is always cognisant of its public ownership and its mission to improve prosperity, quality of life and increase business activity throughout Northumberland.
- 1.4 This Business Plan sets out how the Company will focus its activities in 2023/24 and its approach to business into the medium term.

Overview for 2023/24

- 1.5 The Company is well placed to grow its activities and increase the pace of delivery within Northumberland.
- 1.6 However, to maximise its potential, needs to ensure that its structure, financing, and systems are fit for purpose in today’s post-Covid environment, and are flexible and scalable to optimise future delivery opportunities.
- 1.7 Therefore, the priorities for 2023/24 can be characterised (at a high level) as:

Strengthen foundations

Reviewing our governance, funding structures, and internal systems to ensure we have a strong platform for effective and efficient delivery now, and into the future.

Continue to deliver

Making sure our existing activities are continued strongly and efficiently.

Plan for the future

Working with key regional stakeholders (especially NCC) to identify clear plans to increase delivery in the County, and to explore possible new business models to support that growth potential.

2 Current Business and Structure

Business activities

2.1 The principal business lines of Advance Northumberland are as follows:

Business	Description
Commercial Estate ("Commercial")	Owns, manages, and lets business premises. This includes workspace property, industrial units, and retail (including Manor Walks and Westmorland Retail Park in Cramlington).
Residential Estate ("Homes")	Owns, manages, and lets homes. These are private rental properties (although a small number are let on terms mirroring social lettings).
Ascent Homes	A housebuilding company, principally building for private sale.
Economic Growth & Investments	Delivers economic growth and business support programmes, town centre regeneration, inward investment services, promoting strategic employment land, including key Northumberland Enterprise Zones, and undertaking engagement with strategic and SME businesses
Developments and Project Management ("Developments")	Delivers strategic regeneration projects and provides project management services to Northumberland County Council.

2.2 These business lines are supported by a central Corporate function that provides Corporate Leadership, Finance, IT, HR, and Health and Safety support.

Corporate Structure

2.3 The activities of Advance Northumberland are contained with a 'group' of limited companies:

Company	Description
Advance Northumberland Limited	Wholly owned by Northumberland County Council, this Company acts as the group holding company and provides the corporate level leadership and services. It produces consolidated accounts and manages its subsidiaries.
Advance Northumberland (Commercial) Limited	Holds the Commercial Estate. Also hosts Economic Growth and Investments business. Wholly owned by Advance Northumberland Limited.
Advance Northumberland (Housing) Limited	Holds the Residential Estate. Wholly owned by Advance Northumberland Limited.

Advance Northumberland (Developments) Limited	Contains Ascent Homes, Developments and Project Management businesses. Wholly owned by Advance Northumberland Limited.
Advance Northumberland (Financial) Limited	Used to undertake work for Northumberland County Council to ensure compliant procurement. Wholly owned by Advance Northumberland Limited.

- 2.4 Advance Northumberland also holds, via Advance Northumberland (Commercial) Limited, a 50% stake in Prudhoe Estates LLP, a joint venture with Northumberland Estates to regenerate a site in Prudhoe.

Governance and Leadership

- 2.5 Advance Northumberland is run by a Board of Directors who are appointed by Northumberland County Council.
- 2.6 The Board comprises four non-executive independent directors (who are individuals with significant relevant business experience), two senior employees of Northumberland County Council, two Executive Directors of Advance Northumberland, and a non-executive Chair (an elected member of Northumberland County Council). The Board has established an Audit Committee and a Remuneration Committee to undertake detailed scrutiny of key aspects of the Company's operations.
- 2.7 The Company's powers are established by Articles of Association, which govern how the Company is operated and which also require shareholder (i.e., Northumberland County Council) consent for some matters.
- 2.8 The interface with Northumberland County Council occurs operationally at many levels, however from a formal governance perspective, immediate contact is with Northumberland County Council's appointed Shareholder Representative who acts as the liaison point for the Council's Shareholder Group.
- 2.9 The Board of Directors, with shareholder approval, has delegated some operational decision making to the Company's staff; details are clearly set out in an approved 'schedule of delegations' which limits this delegation by staff seniority and business line.
- 2.10 Operationally, the Company's day-to-day affairs are under the leadership of an Executive Team comprising the Group Executive Director, Executive Director of Governance and Sustainability, and the directors of Ascent Homes, Economic Growth & Investments, and Developments.

2.11 The Company, in accordance with the requirements of Company Law, is subject to an annual external independent audit. The Company also utilises Internal Audit Services to give assurance to the Audit Committee and the Board that the Company is managing its activities soundly.

Staff Summary

2.12 Although the Company operates a broad range of activities at scale (relative to its operational geography), it maintains tight control over staffing levels.

2.13 As at 31 March 2023, the headcount across the Company’s operations is summarised below along with an estimate for the likely position at 31 March 2024.

Operational Division	31 March 2023 Actual Headcount	31 March 2024 Estimated Headcount
Corporate	19	22
Economic Growth and Investments	25	21
Ascent Homes	64	110
Commercial	17	18
Homes	21	33
Developments	8	8
TOTAL	154	212

2.14 These estimated figures reflect the changes likely to occur across operations as discussed in this Business Plan. The principal factors are:

- Closure of EU funded economic growth programmes (reduction in Economic Growth and Investments staff)
- Significantly increased planned activity within Ascent Homes (figures include site staff as well as office-based staff)
- ‘In-sourcing’ of some maintenance activities with the Homes team to improve quality and efficiency, and to reduce overall costs.

2.15 The Company’s values of ‘Dedication’, ‘Honesty’, and ‘Collaboration’ will continue to be embedded within our full employee journey and underpin our approach to business and decision making.

Financial Summary

2.16 Some key figures extracted from the Company's annual published consolidated accounts (audited) are reproduced below:

Statement of Comprehensive Income (Group) for the year ended 31 March 2022

	Total 2022 £
Revenue	42,238,173
Cost of Sales	<u>(21,300,817)</u>
Gross Profit	20,937,355
Administrative expenses	(7,952,356)
Other Operating Income	<u>1,226,658</u>
Operating Profit	14,211,657
Interest receivable	294
Interest payable	(13,280,548)
Gain/(Loss) on revaluation of investment properties	20,531,923
Impairment of work in progress	(1,420,872)
Impairment of fixed assets	<u>(111,502)</u>
Profit before taxation	19,930,952
Taxation on profit	(113,442)
Profit for the financial year	<u>19,817,510</u>

Balance Sheet (Group)
as at 31 March 2022

		2022
		£
Tangible Fixed Assets		
Tangible fixed assets	<u>284,137,074</u>	284,137,074
Investment in Joint Venture	<u>6,880,638</u>	6,880,638
Current assets		
Debtors	7,819,059	
Work in Progress	41,582,649	
Cash at bank and in hand	12,811,421	
		62,213,129
Creditors: amounts falling due within one year	(16,286,280)	
		<u>(16,286,280)</u>
Net current assets		45,926,849
Total assets less current liabilities		336,944,561
Creditors: amounts falling due after one year		
Long Term Borrowing	(273,916,231)	
Deferred Income	(29,449,346)	
		(303,365,577)
Provision for liabilities and charges		
Deferred taxation	(10,974,537)	
		(10,974,537)
Net assets		<u><u>22,604,447</u></u>
Capital and reserves		
Called-up share capital		2
Merger Reserve		4,337,839
Capital Contribution		6,266,568
Minority Interest		-
Profit and loss account		12,000,038
Shareholders' funds		<u><u>22,604,447</u></u>

- 2.17 The Company's draft accounts for the year ended 31 March 2023 are included as Commercially Sensitive Appendix A – these are draft figures subject to audit and detailed tax calculations and are Commercially Sensitive.
- 2.18 The Company's medium term financial plan (inc. 2023/24 budget) has been approved by the Board and the Shareholder. This is included as Commercially Sensitive Appendix B.

3 Business Context

Overview

- 3.1 A number of key factors influence the Company's operational environment for 2023/24. These, and their possible impact, are discussed below.

Northumberland County Council

- 3.2 Northumberland County Council ("NCC") owns 100% of Advance Northumberland and is its principal funder. Ultimately the Company trades to the benefit of NCC – whether it is delivery of desired socio-economic outputs or generation of income (which can be remitted to NCC via dividends and/or interest on loans). Accordingly, NCC is single most important stakeholder for Advance Northumberland and the relationship with the Council impacts on the Company at all levels.
- 3.3 The 2022/23 year saw significant change at NCC in the light of findings in the Independent Corporate Governance Review and the subsequent actions taken by NCC to address the findings of this report. This has included changes to the way the Council operates in its role the shareholder of Advance Northumberland and its role in governance of the Company.
- 3.4 There have also been associated changes in senior personnel at NCC. Relationships between the Company and certain former senior staff at NCC had previously been challenging at times. However, following the changes in 2022/23, significant effort has been made by the Company's Executive Team and the new senior team at NCC to rebuild relationships. This has been successful and there is now a positive, constructive, and trusting relationship between the parties. This is a critical step, the importance of which cannot be overstated.

Economic factors

- 3.5 In 2021 and 2022, the Company was impacted by very high cost-price inflation for construction related materials. These industry specific pressures have eased somewhat, however generalised inflation remains high.
- 3.6 Build cost inflation has had a significant effect on a number of planned town centre and strategic employment regeneration projects. However, we have been fortunate in attracting North of Tyne Combined Authority and central Government funding, including the Getting Building Fund, Future High Street Fund and The Levelling up Fund to progress these major projects.

- 3.7 Also, progressive increases in base rates have fed through to the mortgage market, so have the potential to impact on the business of Ascent Homes. To date, however, the Company's sales have held up well. Much of the Ascent Homes core product carry a relatively low sales price - offering excellent value for money to purchasers; we believe this market segment has been more resilient to rising mortgage rates.
- 3.8 However, we are not complacent and continue to monitor the position closely. As mitigation of the risk, Ascent Homes' products could be redirected as private rental homes (managed by Advance Northumberland Homes) or used as social housing (leveraging our excellent relationship with social housing providers in the County). The Company believes that demand for quality housing remains high, but in an economic downturn the market may shift to some degree from sales to rental.

Public funding regimes

- 3.9 The 2023/24 year will see the end of the legacy EU funded business support and economic growth programmes which are delivered by Advance Northumberland. These programmes, including Business Northumberland, the Rural Business Growth Service, and the Rural Design Centre Innovation Challenge, have been extremely successful.
- 3.10 The replacement funding streams, including the new UK Shared Prosperity Fund, are likely to be smaller in quantum. Advance Northumberland is working closely with NCC and the North of Tyne Combined Authority to bid for alternative funds to enable replacement programmes.

Governance

- 3.11 Following the NCC Independent Corporate Governance Review, Advance Northumberland commenced a process to improve its own governance and strategic leadership.
- 3.12 The Company's Board has been restructured, bringing two Company Executives onto the Board along with four independent non-executive directors; the number of elected Council members on the Board has been reduced to one (the Chair).

- 3.13 The new Directors' induction process has commenced and will include further training and familiarisation sessions during 2023/24. In common with all senior staff at Advance Northumberland, detailed Health and Safety training will be mandatory.
- 3.14 During 2023/24, the Company will review its Articles of Association, Schedule of Delegations, and Operating Agreement (a document that sets out how the Company and the Council will work together on a day-to-day basis). These three documents form the constitutional backbone of the Company and need to be brought up to date to reflect the changes in NCC and the Company over the last 12 months.

Regional Institutional Geography

- 3.15 North East of England local councils (including Northumberland) have agreed in principle to a devolution deal which the Government has confirmed it is 'minded to' approve.
- 3.16 This will unlock significant additional investment resources and will result in the creation of a new North East Mayoral Combined Authority (NEMCA). The work of some existing regional bodies (North of Tyne Combines authority and the LEP) will be subsumed into the new NEMCA.
- 3.17 The NEMCA will have a key role in housing, regeneration, and economic development – all sectors in which Advance Northumberland currently works.
- 3.18 Therefore, until details of the new NEMCA emerge, there will be some degree of uncertainty about if and how Advance Northumberland may be impacted. On the face of it, there are both opportunities and threats to the Company.
- 3.19 The Company will monitor the situation carefully, and ensure dialogue is maintained with key individuals in NCC and the wider North East institutions.

Review of Business Strategy

- 3.20 In autumn 2022, NCC concluded a Review of Business Strategy for Advance Northumberland.
- 3.21 This review, which was endorsed by the NCC Cabinet in November 2022, found that that Advance Northumberland Limited continues to provide significant benefits to the County as an effective mechanism to deliver the economic growth and jobs, regeneration, and place shaping priorities of the Council, contributing to economic growth, tackling inequalities and value for money.

3.22 Some specific recommendations in the review included:

- Continuing to own and manage a portfolio of commercial property, and developing a clear asset management plan
- Continuing to own and manage a portfolio of residential property, and developing a clear asset management plan
- Exploring how the Company's housebuilding expertise can be further harnessed (in a compliant manner) to support the Council's social housing ambitions.
- NCC to work with the Company to look at specific strategically important assets in Cramlington town centre and at Hirst, Ashington.
- Exploring how the Company's project management expertise can be further harnessed (in a compliant manner) to support the Council's capital and regeneration programmes.
- Undertake a review of the Company's financial model and corporate structure to ensure it best serves the Company and NCC.

3.23 This formal confirmation by NCC that it wishes to retain, and indeed extend its working with, Advance Northumberland is a critical element underpinning this business plan.

3.24 Over the coming year, the Company will work closely with NCC to develop these principles into a clearer set of deliverable priorities (alongside the processes and reporting required) which will inform the 2024/25 business planning cycle.

Financial and Corporate Structure

3.25 As was noted in the Review of Business Strategy and has been understood by the Company's Executive Team for some time, the current structure of the Company and its financial model (both of which are a legacy of the Arch era) are not fit for purpose and unsustainable into the long term.

3.26 The Company's current corporate structure is as a result of the evolution of the activities of Arch and does not aid meaningful analysis and reporting because differing business types are combined into companies. For instance, Ascent Homes and the Project Management function are both within Advance Northumberland (Developments) Limited despite being radically different businesses.

3.27 The Company's financial model is one of minimal equity with 100% loan financing (from NCC), with those loans being 'interest only' (i.e., the capital sums are not repaid over time). This model has a number of major disadvantages including:

- A very high proportion of income is paid out in interest resulting in minimal resources to invest in assets and projects
- Possible risk of a 'negative equity' situation in the event of reduced asset valuations
- NCC need to charge MRP on loans to the Company (reducing the available revenue income to NCC from interest received)
- Transfer pricing rules mean that some interest expense is disallowed in the Company's tax calculations

3.28 To address these issues, NCC together with the Company, has appointed an external expert advisor to review the structure and financial model and come up with options for improvements. This commissioned work also includes preparation of a long term excel model so that the impact of any proposals can be properly understood (from both a Company and NCC perspective).

3.29 This work is well underway and should be completed in summer 2023. Further detailed work will then be required to implement any agreed proposals.

Availability of Capital

3.30 The Company's operations in real estate and development are capital intensive.

3.31 It is recognised that the Company needs to be more creative about sourcing capital, rather than simply relying on further NCC investment (which has been the model in the past).

3.32 Any alternative arrangements will, of course, need to be worked up in close discussion with NCC (and ultimately require NCC sign off as a 'reserved matter').

3.33 But the Company will start to explore other finance sources (such a 'green' funds that can offer cheap finance for decarbonisation projects) and possible further joint ventures (where risk, finance and reward are shared). The Company has already successfully used the joint venture approach with Northumberland Estates to regenerate a site in Prudhoe.

Significant Projects and Assets

3.34 The previous points discussed in this section relate to general matters, however due to their strategic value, cost or scale, a number of specific individual assets and projects will have a significant bearing on the operations of the Company during 2023.

- 3.35 Firstly, the delivery of the Northumberland Energy Park - Phase 1 (“NEP1”) project continues. Although the majority of the reclaimed power station site has been handed over to JDR Cables, construction of the dock and procurement of a dock operator will continue. These are critical elements to deliver a fully operational dock, which will be an important driver for the local economy for decades to come.
- 3.36 Building on the success of the North Sea Link Interconnector on Northumberland Energy Park - Phase 2 (“NEP2”), further opportunities on NEP2 to support the offshore wind sector for interconnectors and convertor stations will also continue to support the National Grid network and provide high levels of power, essential in attracting large scale inward investment into Northumberland.
- 3.37 Advance Northumberland (Commercial) owns the retail core of Cramlington (the Manor Walks shopping centre and Westmorland retail park) and development sites in close proximity. Like all retail property, values have been adversely impacted by the trend towards on-line shopping and by Covid-19. Although the centre still performs very well compared to its peers, it requires some investment to bring its offer up to date and maintain its appearance and value. We will continue to work with NCC about options and plans to deliver this.
- 3.38 At Hirst in Ashington, Advance Northumberland (Homes) owns a significant number of residential properties (but by no means the majority of the area). In 2022, the Company commenced refurbishing and letting a number of properties that were previously held as void. This work has been successful; financially beneficial for the Company, providing good value accommodation (with a reputable landlord), and removing empty homes that can blight a street and lead to anti-social behaviour. This programme will continue in 2023/24. However, we will also continue to work closely with NCC and remain ready to play a key part in any wider area improvement plans that may emerge.

Systems and processes

- 3.39 2022/23 saw the Company make major improvements to its data systems with the goals of improving data reliability and integrity, improving reporting and analysis, increasing automation and digitisation, and driving efficiency.
- 3.40 Great strides have been made, particularly in the core finance system (based on ‘QL’) and in the digitisation of forms and processes.
- 3.41 There will be a continued focus on this aspect of the Company in 2023/24 to ensure we have efficient operations and accurate, timely data to inform

decision making.

- 3.42 Specific areas identified for improvement include even more use of PowerBI to further enhance reporting, moving to a new HR system, and investigating software to support the whole 'product lifecycle' in Ascent Homes (from land acquisition through procurement, build and sale).

4 Overarching approach for 2023/24

4.1 Based on the business context factors (discussed in the previous section), the priorities for 2023/24 could be summarised (broadly) as:

Strengthen foundations

- Continue to strengthen relationships with NCC at all operational and strategic levels
- Complete the process of updating governance arrangements
- Along with NCC, reform the corporate structure and financial model of the Company
- Continue systems improvements to promote future efficiency and effectiveness of operations

Continue to deliver

- Continue will all current business lines
- Continue to deliver all projects in progress

Plan for the future

- Work with NCC to define future priorities for the Company
- Work with NCC to increase Northumberland's strategic employment land supply and as appropriate, tactical acquisition of strategic assets within Northumberland
- Explore growth options around housebuilding and project management
- Put in place a clear plan for assets in the Commercial and Homes portfolios
- Work with NCC to create/support plans for strategically important assets
- Explore options for capital finance and/or joint ventures
- Monitor and plan for changes to public funding regimes and the North East institutional geography changes
- Develop new programmes for business support across the county

4.2 In section 6 onwards of this business plan, the overarching plan is broken down into the individual business lines.

5 Risks

- 5.1 The Company has a mature risk management process.
- 5.2 Operational risks are identified, recorded, assessed, and monitored at project and team level, with major items escalated to a corporate level Strategic Risk Register.
- 5.3 The Strategic Risk Register was completely redrafted in 2022 following a detailed risk workshop with the Board of Directors. This risk register is maintained by the Executive Team and regularly reviewed by the Audit Committee and Board Directors.
- 5.4 It is planned to run an updated risk workshop later in 2023/24 once the new Board has become more familiar with the Company and its operational environment.
- 5.5 A copy of the current Strategic Risk Register, which includes commercially sensitive information, is included as Commercially Sensitive Appendix C.

6 Corporate (including Governance)

Key priorities for 2023/24

Governance

- 6.1 Continue to implement agreed changes to the Advance Northumberland Board of Directors and ensure that new Directors receive appropriate induction and training.
- 6.2 Review the Company's key constitutional documents (including Articles of Association, Operating Agreement, and Schedule of Delegations).

Finance

- 6.3 Continue to provide a high-quality support service to the operational teams and the corporate leadership.
- 6.4 Continue to drive improvements in core systems, especially around reporting.
- 6.5 Work with external advisers and NCC to review the corporate structure and financial model to ensure that the Company is set up to be efficient and financially sustainable into the long term.
- 6.6 Work with operational teams to consider alternative sources of capital for projects.

HR

- 6.7 Continue to provide HR admin support across the business covering all aspects of the employment 'journey' and provide HR advisory support to managers as needed.
- 6.8 Continue to embed our new corporate values within all elements of the employee journey (including recruitment and staff performance reviews) and to use this to help to shape the 'corporate culture' at Advance Northumberland
- 6.9 Continue to drive forward quality in the workforce; pass the Investors in People review (and hopefully improve the outcome).
- 6.10 Review options for a new HR system that is fit for purpose to support the business and enable efficient operation. Procure and implement.

Operations

- 6.11 Continue to coordinate Health and Safety support and reporting across the business.
- 6.12 Continue to provide first class, efficient support across key compliance areas (including GDPR and FoI).
- 6.13 Continue with the programme of digitisation and automation of Company processes to aid efficiency, building on the excellent progress made in 2022/23.
- 6.14 Continue to support the IT and telecoms infrastructure required by the business.

Marketing and PR

- 6.15 Continue to provide a highly efficient and effective marketing, communications, and PR support service for all aspects of the business.
- 6.16 Develop and implement a plan to adopt a co-ordinated and robust approach to the Company's PR at a corporate (as well as project) level.
- 6.17 Continue to provide expert advice to the Executive Team and Board about handling press enquiries and social media posts about the Company.
- 6.18 Working with the Commercial team, develop and implement a plan to rejuvenate the appearance of the corporate HQ to include enhancements to corporate branding visibility.

7 Commercial Estate

Key priorities for 2023/24

7.1 Continue to own, manage, and let the Company's Commercial portfolio, valued at c.£149m generating rental income of c. £13.5m pa. An overview of the make up of the portfolio follows:

Property classification	Number of units	Floor space (sq. m)
General commercial/industrial portfolio	383	103,305
Workspace property	169	6,298
Cramlington retail (Manor Walks & Westmorland)	193	57,516
TOTAL	745	167,119

7.2 Continue to provide a "fit for purpose property portfolio" in terms of providing good quality, statutory compliant space for businesses to operate in Northumberland.

7.3 Ensure maximised profit through high occupancy and maximised rental income to provide both increased revenue and capital value returns.

7.4 Identify alternative income streams (not traditional rental models) to maximise further income potential to the business in terms of utilising our assets both Property and land (this may, for instance, include advertising signage, or solar panels).

7.5 As part of preparing an asset management strategy, commission a Condition Surveys across the Commercial Portfolio to establish condition of properties and produce 25-year capital improvement programme . Costs to be incorporated into 2024/25 and future budgets.

7.6 Develop an Asset Management Strategy to ensure continued fit for purpose portfolio in terms of use, demand, type, location, as well as identifying areas of opportunity to ensure maximise financial returns through future investment.

- 7.7 Develop a strategic asset strategy for Cramlington Town Centre assets to ensure long term financial returns and sustainability of the asset - including utilisation of the Southern Development Site. Work with NCC to agree a delivery and financing plan.
- 7.8 Develop a strategy to reduce energy consumption across landlord's operational Assets to ensure reduction of Carbon emissions in line with NCC's reduction strategy and targets.
- 7.9 Continued Customer improvement – Measure customer satisfaction via a series of tenant engagement events and surveys to gauge performance as part of continued customer service improvement.

8 Residential Estate

Key priorities for 2023/24

- 8.1 Continue to own, manage, and let the Company's residential portfolio. The portfolio consists of 1,167 homes, valued in total at c. £110m, and generating rental income of c. £6.2m pa.
- 8.2 Continue to provide good value homes to rent for the residents of Northumberland.
- 8.3 Continue to comply with all statutory letting requirements.
- 8.4 Hirst Reintroduction Strategy – Continue to deliver the strategy to refurbish and reoccupy long term voids within the Hirst area. Generating income, improving the area, and providing homes for those in need.
- 8.5 Hirst Regeneration - In partnership with NCC and Bernicia, review possible options for wider improvements to the Hirst area with a view to not only improve the quality of the homes and options for housing, but also the broader environment and its accessibility too.
- 8.6 Maximised Occupancy - In addition to the Hirst reintroduction, our void property and letting strategy has been amended to improve efficiency, minimising vacant periods, and increasing income generation. Improvements have also been made to customer service strategies, with the aim of increasing tenant retention. Targets are in place, and we are aiming for our highest ever sustained occupancy level.
- 8.7 Stock Condition / Capital Programme - We will undergo a full stock condition survey so a capital programme detailed and costed capital programme can be developed for short, medium, and long-term property improvements. Particular focus will be on identifying, and planning decarbonisation works, to ensure our portfolio remains sustainable from an environmental, financial, and physical standpoint.
- 8.8 Departmental Restructure - Unification of Maintenance, Grounds and Facilities Teams in addition to bolstering resources and trade skills within the organisation. This will allow us to have greater control over delivery, increasing cost effectiveness, efficiency, and most importantly, the service our tenants receive.

- 8.9 Asset Management Strategy: Stock Investment, Diversification and Rationalisation - We will undertake a detailed performance analysis of all stock, alongside in-depth market reviews. This will inform a costed strategy, allowing us to dispose of, and acquire stock as appropriate to deliver against the organisation's objectives.

9 Ascent Homes

Key priorities for 2023/24

- 9.1 Continue deliver good quality, well designed homes for sale. It is forecast that Ascent will sell 116 homes (2022/23: 97 homes) across five sites (2022/23: four sites) and generate revenue of c. £32,.5m (2022/23: £21.2m).
- 9.2 Continue invest in delivery quality and site health and safety.
- 9.3 Continue to prioritise use of local supply chain and sub-contractors (whilst ensuring procurement processes continue to be compliant with relevant regulations).
- 9.4 Prepare for delivery in 2024/25 on an identified pipeline of eight 'for sale' sites, three sites for affordable homes.
- 9.5 Bid to be the construction partner for a local Registered Provider of Housing to deliver a major affordable housing project as a contractor
- 9.6 Work with NCC to plan how to leverage Ascent Homes housebuilding expertise to contribute towards delivery of the Council's affordable housing aspirations.
- 9.7 Explore the possibility of establishing a formal joint venture with a local Registered Provider of Social Housing to combine complementary skills and resources to accelerate housing delivery in Northumberland.
- 9.8 Monitor developments with the new NEMCA to determine if there will be opportunities for Ascent to be a delivery partner across the wider North East of England.
- 9.9 Explore options for procuring a new software package to help control, monitor and report on all stages of the product lifecycle. This will improve control, improve staff efficiency, and ensure that the Company can operate in a scalable manner.

10 Economic Growth & Investments

Key priorities for 2023/24

- 10.1 Supporting the Ashington Regeneration Programme including the progression of Portland Park, the new Ashington College Campus, and Wansbeck Square.
- 10.2 Move toward completion of key town and edge of centre projects at Bedlington, Amble and Prudhoe.
- 10.3 Continue to secure Inward Investment projects linked to Northumberland's key growth sectors, attracting high quality global businesses through a dedicated professional team and a well-defined strategic employment land supply. Through active stakeholder and shareholder engagement at local, regional, and national level, we promote Northumberland to attract and transact with new inward investment projects, delivering increased levels of capital investment and job creation for the County.
- 10.4 Working with NCC, progress the development of the Northumberland Energy Park (NEP) sites and supplier park infrastructure to attract further inward investment into the County. Seek to secure further converter station investment onto NEP2 to support the development of an automotive battery manufacturing gigafactory on NEP3.
- 10.5 Continue to promote and market strategic employment sites to attract investment and provide where appropriate secure high levels of net capital sales receipts for the business .
- 10.6 Continue to provide high levels of specialist investment and development advice to NCC on projects.
- 10.7 Continue to work with existing large companies and growing strategic businesses across Northumberland through the Strategic Account Management programme in order to maintain and attract new investment and job creation opportunities whilst ensuring safeguarding of employment within the County.
- 10.8 Achieve or exceed the required outputs from the legacy European Regional Development Fund projects, including Business Northumberland, The North of Tyne Rural Business Growth Service, and the Rural Design Centre Innovation Project.

- 10.9 Manage an effective close down of successfully delivered European Regional Development Funded (ERDF) projects (including Business Northumberland, The North of Tyne Rural Business Growth Service, and the Rural Design Centre Innovation Project) at the planned end of the funding programme. Ensuring that HR implications are handled properly and sensitively, and PR risks mitigated.
- 10.10 Manage the delivery of the new Northumberland Small Business Service programme on behalf of Northumberland County Council. This programme runs from 2023-2026 and is funded through UK Shared Prosperity Funded, the Rural England Prosperity Fund and North of Tyne Combined Authority Investment Fund.
- 10.11 Manage the delivery of the Accelerate Ashington Business support programme on behalf of Northumberland County Council. This programme runs from 2022-2024 and is funded through UK Shared Prosperity Funded and North of Tyne Combined Authority Investment Fund.
- 10.12 Manage the delivery of the new Digital Wallsend programme on behalf of North Tyneside Council. This programme runs from 2022-2025 and is funded through UK Shared Prosperity Funded and North of Tyne Combined Authority Investment Fund.
- 10.13 Explore other possible funding options to deliver further business support or economic growth activity within Northumberland.

11 Developments

Key priorities for 2023/24

- 11.1 Continue to deliver a first class project management service to support Advance Northumberland projects and, where instructed, Northumberland County Council projects.
- 11.2 Work with NCC to explore how the Company's project management expertise can be further harnessed (in a compliant manner) to support the Council's capital and regeneration programmes. Develop a project pipeline and resourcing plan as required, expanding the team if necessary.
- 11.3 Support the Net zero carbon ambitions of Northumberland County Council and Advance Northumberland by embedding sustainability and decarbonisation features into all Capital projects and identifying new projects to help deliver these goals.
- 11.4 Further integrate Viewpoint and Fieldview common data environment cloud-based project and quality management systems into standard project management processes.

Completed Projects:

- 11.5 Morpeth Leisure Centre – conclude the defect rectification period and agree final account, conduct post occupancy reviews.

Delivery Stage Projects:

- 11.6 Northumberland Energy Park – Phase 1 (“NEP 1”). Continue to progress the development at NEP1. Specific elements will include agreeing the final account with the principal contractor, and ensuring works are designed and procured to deliver a fully operational dock to the standard required by potential operators and end users.
- 11.7 Berwick Leisure Centre – complete the car park and public realm works. (August 2023) Continue to deal with administrator and claim against performance bond following insolvency of Tolent Construction.
- 11.8 Energy Central Learning Hub, Blyth –complete the enabling works package, finalise the building contract with main contractor and manage the

construction of the new building.

11.9 Bedlington Town Centre – Market Place– Complete the construction of retail unit 4 for Greggs. Procure a new main contractor for phase 2 of the works (following Tolent Construction insolvency)

11.10 Berwick Barracks – Mob Store Cinema – finalise the building contract with main contractor and manage the conversion of the building (Jan 2024)

11.11 Culture Hub – Blyth Conclude the second stage of the procurement of a main contractor. Develop an enabling works package including service diversion works (July 2023) finalise the building contract with main contractor and manage the construction of the new building.

11.12 Social Housing Decarbonisation Fund – Coordinate the completion of Energy Retrofit improvements to Social Housing (Solar panels and insulation upgrades) (July 2023)

Design Stage Projects:

11.13 Maltings Theatre, Berwick, continue the design process leading to the submission of a planning application in late 2023 followed by main contractor procurement.

11.14 Wansbeck Square - Ashington Station Gateway. Procure design team and commence design through to submission of planning application later in financial year followed by demolition of Wansbeck square.

11.15 Energy Central Institute, Blyth Procure design team and commence design process.

11.16 Portland Park Cinema, Ashington - Blyth Procure design team and commence design process.

11.17 Residential Conversion of an underused office building in Blyth. Develop business case and progress design to planning in early 2024.

11.18 District Heat Network -Blyth and Cramlington. Conclude the feasibility design study into the use of waste mine water heat for district heating.

Appendices:

All of these Appendices contain **COMMERCIALLY SENSITIVE** information, the public release of which could adversely impact the Company's trading position, operations, and ability to operate effectively and could expose the Company to commercial litigation risks. This material must not be disclosed outside of Advance Northumberland or Northumberland County Council.

Appendix A – Unaudited draft accounts for the year to 31 March 2023

Appendix B – Medium Term Financial Plan

Appendix C – Strategic Risk Register



SHAREHOLDER CABINET COMMITTEE

20 July 2023

Advance Northumberland Ltd Draft Statement of Accounts 2022-23

Report of Jan Willis, Executive Director of Transformation and Resources and S151 Officer

1. Purpose of the Report

- 1.1. To report to the Committee the Advance Northumberland Ltd draft statement of group statutory accounts for 2022-23.

2. Recommendations

- 2.1. To note the draft statement of group statutory accounts for 2022-23.

3. Link to the Corporate Plan

- 3.1. This report is consistent with the priorities in the Corporate Plan 2023-26 “Achieving Value for Money”.

4. Background

- 4.1. Advance Northumberland Ltd is a wholly owned Council company. As such, the company accounts are consolidated in the Council’s group accounts.
- 4.2. The Advance Northumberland group of companies comprises the parent company, Advance Northumberland Ltd, and four subsidiary companies:
 - Advance Northumberland (Commercial) Ltd
 - Advance Northumberland (Developments) Ltd
 - Advance Northumberland (Financial) Ltd
 - Advance Northumberland (Housing) Ltd
- 4.3. The Group Statutory Accounts must be audited, approved and submitted to both Companies House and HMRC by the 31st of December 2023.
- 4.4. The draft accounts are still subject to taxation and audit and as such the values will change.

5. Key Issues

- 5.1. The table below shows a summary of the key Profit & Loss and Balance Sheet position for the group of companies. A more detailed breakdown by company and

extracts of the accounts for each of the companies are included in the confidential appendix to this report.

	2022-23	2021-22	Change
Revenue	£45.9m	£42.2m	£3.7m
Operating Profit/(Loss)	£11.2m	£14.2m	(£3.0m)
Tangible Fixed Assets	£301.5m	£284.1m	£17.4m
Long Term Creditors	£312.9m	£304.4m	£8.5m
Shareholder Funds	£29.9m	£22.6m	£7.3m

- 5.2. The retained profit of £7.3m is driven by a £9.0m gain on revaluation of investment properties. This positive revaluation is also reflected in the increase in tangible fixed assets.
- 5.3. The increase in Long-Term Creditors of £8.5m reflects additional deferred grants drawn down for regeneration projects in Developments.
- 5.4. The Directors' Report, the Strategic Report and the Statement of Directors' Responsibilities is currently being finalised and will then be submitted for audit.
- 5.5. Once the external audit work is complete, finalised Statutory Accounts will be presented to the Advance Northumberland Audit Committee and Board for approval and signature ahead of submission to Companies House and HMRC and will be reported to the Shareholder Committee at that point.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy	None.
Finance and value for money	
Legal	
Procurement	None.
Human Resources	None.
Property	None.
Equalities	None.
Risk Assessment	
Crime & Disorder	None.
Customer Considerations	None.
Carbon Reduction	None.
Health & Wellbeing	
Wards	All.

Background Papers:

Report sign off:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder(s)	Wojciech Ploszaj

Report Author:

Jan Willis, Executive Director of Transformation and Resources

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Northumberland County Council

SHAREHOLDER CABINET COMMITTEE

20 July 2023

Advance Northumberland Review of Company and Financial Structure

Report of Jan Willis, Executive Director of Transformation and Resources and S151 Officer

1. Purpose of the Report

- 1.1. To update the Committee on the progress of the review of Advance Northumberland company and financial structure and emerging options.

2. Recommendations

- 2.1. To consider the draft options appraisal attached as a confidential appendix to this report and authorise the Executive Director of Transformation and Resources to progress the detailed work outlined at 4.7 with a view to bringing a further report to the Committee in due course.

3. Link to the Corporate Plan

- 3.1. This report is consistent with the priorities in the Corporate Plan 2023-26 “Achieving Value for Money”.

4. Key Issues

- 4.1. As was noted in the strategic review of Advance Northumberland undertaken in 2022, the current company structure and financial model, both of which are a legacy of the Arch era, are not fit for purpose or sustainable for the long term.
- 4.2. The corporate structure groups together disparate activities (for example house building and project management) and does not lend itself to clarity about the operational performance of different parts of the business.
- 4.3. The funding structure, which is based on notional equity and 100% interest only loan funding from the Council, means that a very high proportion of operating income is paid out in interest, leaving little headroom for the investment necessary to sustain and grow the profitability of the group. Under transfer pricing rules introduced by HMRC in recent years some of these interest payments can no longer be offset against corporation tax liabilities. The highly leveraged financial model leaves the company vulnerable to the risk of negative equity because of reduced asset valuations and principal on loans can only be repaid from asset sales which restricts options for alternative funding vehicles such as joint ventures.

- 4.4. In January 2023 Grant Thornton were commissioned to undertake a strategic review of the corporate and financial structure of Advance Northumberland and its subsidiaries. Grant Thornton's overall conclusion is that without change to the current arrangements it will be difficult for the group to grow, given the lack of surplus to invest or service further investment.
- 4.5. In addition to a new corporate structure (detailed in the attached draft options appraisal report) which is better aligned to the activities undertaken by Advance Northumberland, Grant Thornton have recommended that the Council consider a debt for equity swap to free up cash for investment in the residential and commercial portfolios to increase the overall profitability of the group and allow Advance Northumberland to repay the remaining debt over a period of time on an annuity basis.
- 4.6. They have further proposed that the remaining debt is redistributed across the group in such a way as to ensure more consistent and sustainable loan to value ratios and reflect the different risk profile of different parts of the business and that a revolving loan facility is put in place to enable Advance Northumberland to draw down funding for land purchase costs as and when required.
- 4.7. The proposals put forward by Grant Thornton would have significant accounting and financial implications for the Council. Any reduction in the amount of company debt would impact on the Council's revenue budget due to lower interest receipts, although potentially, this could be offset by lower Minimum Revenue Provision. Existing loan agreements would need to be updated and loan terms and interest rates reassessed to reflect the new commercial terms and ensure they were subsidy compliant. Tax implications would need to be considered and the Council would have to assess any provision required for impairment of assets. Finally, there would likely be significant transaction costs which would have to be funded.
- 4.8. Further detailed exploration of all these issues informed by expert independent advice from the Council's treasury management and tax advisers and discussion with the external auditor on accounting treatment would be required before any definitive proposals could be put before the Committee for approval.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy	None.
Finance and value for money	Ensuring that the corporate and financial structure of wholly owned Council companies is both fit for purpose and sustainable is integral to the Council's best value duty. As detailed in the report, any proposal to restructure the current debt arrangements would have significant financial and accounting implications which would need to be explored in detail before any recommendation could be put to the Committee.
Legal	
Procurement	None.
Human Resources	None.
Property	None.
Equalities	None.
Risk Assessment	None.
Crime & Disorder	None.
Customer Considerations	None.
Carbon Reduction	None.
Health & Wellbeing	
Wards	All.

Background Papers:

Report sign off:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder(s)	Wojciech Ploszaj

Report Author:

Jan Willis, Executive Director of Transformation and Resources

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Northumberland County Council

SHAREHOLDER CABINET COMMITTEE

20 July 2023

Advance Northumberland Appointment of External Auditors

Report of Jan Willis, Executive Director of Transformation and Resources and S151 Officer

1. Purpose of the Report

- 1.1. To inform the Committee of the proposed appointment of Robson Laidler Accountants Ltd as external auditors to Advance Northumberland Ltd and its subsidiaries for a three-year period from 2022-23 to 2024-5 in place of Mazars LLP and to seek authority for the shareholder representative to give reserved matters consent for their appointment on behalf of the Council as shareholder.

2. Recommendations

- 2.1. To authorise the shareholder representative to give reserved matters consent on behalf of the Council for the appointment of Robson Laidler as external auditors to Advance Northumberland.

3. Link to the Corporate Plan

- 3.1. This report is consistent with the priorities in the Corporate Plan 2023-26 “Achieving Value for Money”.

4. Key Issues

- 4.1. Following an open procurement exercise, Robson Laidler have been selected to provide external audit services to Advance Northumberland Ltd and its subsidiaries under a three-year contract covering the financial years 2022-23 to 2024-25.
- 4.2. The appointment of external auditors is reserved matter under schedule 1 para 3c of the company’s articles of association. Accordingly, shareholder consent is required before Robson Laidler can be formally appointed.
- 4.3. Furthermore, under company law the removal of an auditor requires an Ordinary Resolution passed at a General Meeting of the company for which special notice has been given and which must take place in person. A written resolution is not permitted. This offers the opportunity for the auditor to raise any concerns with shareholders.

- 4.4. The current external auditors, Mazars LLP did not submit a bid for the new contract and have indicated that they will resign upon confirmation of the appointment of the new auditors.
- 4.5. The Advance Board have approved the appointment of Robson Laidler and on 27th June 2023 a general meeting of the company was called on special notice for Wednesday 26th July 2023 for the purpose of approving the following resolution: That with immediate effect Mazars LLP be replaced as auditors of the Company and all its subsidiaries by Robson Laidler Accountants Ltd.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy	None.
Finance and value for money	Effective oversight of Council owned companies is required to ensure compliance with the Council's best value duty. This includes ensuring appropriate arrangements are in place for the external audit of company accounts.
Legal	
Procurement	None.
Human Resources	None.
Property	None.
Equalities	None.
Risk Assessment	None.
Crime & Disorder	None.
Customer Considerations	None.
Carbon Reduction	None.
Health & Wellbeing	
Wards	All.

Background Papers:

Report sign off:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder(s)	Wojciech Ploszaj

Report Author:

Jan Willis, Executive Director of Transformation and Resources

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