



Northumberland

County Council

CABINET :

17TH NOVEMBER 2022

Future of Northumberland Enterprise Holdings Ltd and Northumbria Integrated Consultancy Ltd

Report of: Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth, Portfolio Holder for Corporate Services

1. Purpose of report

The purpose of this report is to:

- A.** recommend a course of action for approval by Cabinet regarding the future status of the Council's wholly-owned company Northumberland Enterprise Holdings Ltd and its subsidiary company Northumbria Integrated Consultancy Ltd, in light of current trading activity or prospects;
- B.** propose the Role Profile for the Northumberland Enterprise Holdings Ltd Controlling Shareholder's Representative ("CSR");
- C.** propose the appointment of the Executive Director of Finance as CSR of Northumberland Enterprise Holdings Ltd to provide alignment and uniformity with the Council's other wholly-owned company, Advance Northumberland Ltd.

There are four Appendices (A to D) with this report.

2. Recommendations

Cabinet is invited to:

- 1.1.** Make Northumberland Enterprise Holdings Ltd dormant (as per Option 3 at para 5.2 below and set out in detail in Appendix A),
- 1.2.** Dissolve Northumbria Integrated Consultancy Ltd (as per Option 5 at para 5.2 below and set out in detail in Appendix A),
- 1.3.** Approve the following changes to the respective Boards to facilitate the administration, namely:
 - 1.3.1.** Remove Rick O'Farrell, Wojciech Ploszaj and Guy Renner-Thompson as Directors of Northumberland Enterprise Holdings Ltd,
 - 1.3.2.** Appoint William Thompson to join Phil Hunter and Councillor Lynne Grimshaw as Director of Northumberland Enterprise Holdings Ltd,



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- 1.3.3.** Remove Kelly Gardner and Rick O'Farrell as Directors of Northumbria Integrated Consultancy Ltd,
- 1.3.4.** Appoint Phil Hunter and William Thompson to join Councillor Lynne Grimshaw as Directors of Northumbria Integrated Consultancy Ltd.
- 1.4.** Agree to the termination by Northumbria Integrated Consultancy Ltd of the Framework Agreement, as novated, dated 20th June 2020 with Rong Qiao,
- 1.5.** Adopt the "Northumberland Enterprise Holdings Ltd CSR Role Profile" as attached as Appendix D,
- 1.6.** Appoint the Executive Director of Finance as the CSR of Northumberland Enterprise Holdings Ltd,
- 1.7.** Authorise the CSR to request the Board of Northumberland Enterprise Holdings Ltd to execute the approved actions.

3. Link to Corporate Plan

This report is relevant to the "How" priority included in the NCC Corporate Plan 2021-2024 to ensure value for money in our services.

4. Background

- 1.1.** On 8th June 2022, Solace in Business, led by Max Caller CBE, delivered its Independent Governance Review report to the County Council ("the Caller Review") in which one of the Recommendations (at para 10.2.6) was to "Establish a rationale for the establishment or continuation of any company established under the provisions of the Localism Act 2011."
- 1.2.** Northumberland Enterprise Holdings Ltd ("HOLDINGS") was incorporated on 17th September 2020 as a wholly-owned company of the Council, following Cabinet approval on 11th February 2020 to bring forward a new group of up to 10 companies to trade.
- 1.3.** HOLDINGS was always intended to be a holding company for operational subsidiaries.
- 1.4.** A Business Case for the establishment of a subsidiary company offering consultancy services was approved by Cabinet on 23rd February 2021. The Business Case indicated a likely available market of c.£55M for operations in international health consultancy work over the next 15 years that the business could target and a likely pipeline of work of c.£10M over the first three years from the Chinese business known as "Rong Qiao".



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- 1.5.** Northumbria Integrated Consultancy Ltd (“NIC”) was incorporated on 29th March 2021 as a wholly-owned subsidiary of HOLDINGS.
- 1.6.** Following completion of equity funding to the HOLDINGS group by the Council, NIC entered into a suite of commercial contracts on 15th September 2021 for international health consultancy work in relation to a project known internally as “Rong Qiao Stage 3”.
- 1.7.** Unfortunately, the Chinese client had to change its plans before any actual work was undertaken by NIC under the contract and requested the termination of the Rong Qiao Stage 3 contract.
- 1.8.** On 29th March 2022 Cabinet gave Reserved Matters consent for the termination and amendment of those contractual documents that had been entered into by NIC on 15th September 2021 and the contractual suite of termination and amendment documents were executed on 31st March 2022.
- 1.9.** Draft accounts for the year to 31st March 2022 show trading losses of £32k for HOLDINGS and £112k for NIC. If these were able to be set off against future profits of the companies, they would have a value of £8k and £28k respectively.
- 1.10.** To address the Caller Review, a series of Work Packages and Action Plans are underway. Work Package 11, Action Plan 22 expressly deals with the Caller Review Recommendation 10.2.6 to “Establish a rationale for the establishment or continuation of any company under the provisions of the Localism Act 2011”.
- 1.11.** Whilst work on the “rationale” is ongoing, due to the current lack of commercial activity of HOLDINGS and NIC, and the recent voluntary redundancy of the key operational Director of NIC, it is felt it is appropriate that the Council as Shareholder of HOLDINGS consider all reasonable options for the future status of both HOLDINGS and NIC at this point in time, both as part of the Work Package 11 process and as a sensible course of action in itself.
- 1.12.** Having a Controlling Shareholder Representative (“CSR”) common to both HOLDINGS and Advance group of companies with a common Role Profile, will improve governance and oversight arrangements for all Council-owned companies again both as part of the Work Package 11 process and as a sensible course of action in itself.
- 1.13.** The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 confirm that the matters within this report are not functions reserved to Full Council and so it is appropriate and right for Cabinet to determine this matter.



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5. Key Issues

5.1. Before determining whether or not to maintain support for HOLDINGS and / or NIC, the Options below were considered for both companies.

5.2. The Options considered were:

- 1) consideration of other sources of commercial activity / revenue
- 2) selling the shares
- 3) making dormant / mothballing
- 4) transferring the shares to Advance Northumberland Ltd
- 5) dissolution / striking off

5.3. The Options were appraised as set out in the attached Appendix A to consider the anticipated practical and financial implications of the options for each company taking cognisance of the following factors:

- 5.3.1. No current fee-paying client
- 5.3.2. No contractual liabilities (but remain party to Framework Agreement with Chinese client)
- 5.3.3. Part of VAT Group
- 5.3.4. Has Traded
- 5.3.5. Key operational Director has left
- 5.3.6. Limited availability of other operational staff to take company forward
- 5.3.7. Has genuine potential prospect for international consultancy work, but no forward pipeline of opportunities and no visible client realistically capable of concluding a contract within 12 months
- 5.3.8. No longer holds professional indemnity insurance
- 5.3.9. Association with "International" activity previously undertaken by Northumberland County Council.

5.4. The initial outcome of the Options appraisal was for HOLDINGS to be made dormant and for NIC to be dissolved and struck off the register of companies.

5.5. Independent specialist legal and tax advice was taken to highlight the consequences of the intended courses of action for the Council and the companies.

5.6. A copy of the Legal Advice is attached as Appendix B.

5.7. The Legal advice confirmed that there were no liabilities for the Council or the companies on the intended courses of action.

5.8. A copy of the Tax advice is attached as Appendix C.



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- 5.9.** The advice is that current carried trade losses are likely to be irrecoverable and the VAT registration for both HOLDINGS and NIC could only be realistically kept live if actual trading activity was undertaken within the next few months.
- 5.10.** The Tax advice indicated that there would be certain actions that must be attended to before NIC was dissolved and that the dissolution would have a consequence for the VAT registration of HOLDINGS. Further costs of c. £5.5k would be required to protect the tax position of HOLDINGS.
- 5.11.** Although trading companies in the care, recycling and leisure sectors have been mooted as possible trading activities for consideration in the Options Appraisal, there are no reasonable prospects of establishing a new company with a fully detailed and approved Business Case in the next few months.
- 5.12.** In light of the above, the relatively low level of professional fees involved, the desire to bring clarity and leave just one dormant company in place to cover the prospect of companies being required by the Council in the future, the recommendation is that:
- 5.12.1. HOLDINGS is made dormant
 - 5.12.2. NIC is dissolved and struck off the company register
 - 5.12.3. the specialist tax preparation work recommended by the Tax Advisors is undertaken prior to NIC being dissolved.
- 5.13.** At a practical level, it would be sensible to reduce the administration costs, the time and exposure of other Council Member and Officer Directors by appointing the Company Secretary as a Director of the companies and having one other Officer Director and a Member Director to oversee the administration of the companies together, and then having all other Directors resign.
- 5.14.** This will ensure the Quorum of three Directors, (one of whom must be a Member Director and two of whom must be Officer Directors) as required by the Articles of Association, is achievable. The most suitable Officer Director already in the HOLDINGS Group would be Phil Hunter as he is registered as an Administrator on the Bank account. The most suitable current Member Director would be Lynne Grimshaw as her not being in the Cabinet reduces the risk of potential councillor conflicts of interests, a matter referred to in the Caller Review and to be addressed within Work Package 11.
- 5.15.** NIC remains party to a Framework Agreement dated 19th June 2020 with the Chinese client, as novated by Northumberland County Council. Following the Variation to that Framework Agreement on 31st March 2022, and as specifically confirmed by the Legal Advice in Appendix B, there remains no ongoing liability. Prior to dissolving the company, it is recommended that the Framework be terminated upon notice by NIC. This would require Shareholder approval as a Reserved Matter and so Cabinet is asked to specifically approve the termination.



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6. Role Profile for the Northumberland Enterprise Holdings Ltd Controlling Shareholder Representative (“CSR”)

6.1. Cabinet is invited to approve the Role Profile for the Northumberland Enterprise Holdings Ltd CSR as attached as Appendix D. This is in the same form as the Role Profile for the CSR of Advance Northumberland Ltd as approved by Cabinet in July 2022.

7. Appointment of Executive Director of Finance as Northumberland Enterprise Holdings Ltd CSR

7.1. To provide alignment and uniformity with the Council’s other wholly-owned company, Advance Northumberland Ltd, it is proposed that the Executive Director of Finance and s.151 Officer be appointed as CSR of Northumberland Enterprise Holdings Ltd as it is felt that having a CSR common to both Northumberland Enterprise Holdings Ltd and Advance group of companies with common Role Profiles will improve governance and oversight arrangements for all Council-owned companies.

Implications

Policy	The proposed options support the Corporate Plan.
Finance and value for money	The proposed options seek to balance future potential need and use of existing financial resources. Specialist external legal and tax advice has been sought and will be followed before executing the proposed options to ensure lawful compliance, best practice and minimising costs or loss of tax deductions in the future.
Legal	External legal advice has been taken on the proposed options. This is a matter for determination by Cabinet as The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 confirm that the matters within this report are not functions reserved to Full Council.
Procurement	No implications.
Human Resources	Not applicable
Property	Not applicable



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Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	Not applicable
Risk Assessment	The risks associated with the proposed options are regarded as acceptable. The obtaining of external specialist tax and legal advice on the proposed options will minimise financial risks.
Crime & Disorder	There are no Crime & Disorder implications
Customer Consideration	There are no Customer Consideration implications
Carbon reduction	There are no Carbon Impact implications
Health and Wellbeing	There are no Health & Wellbeing implications
Wards	All wards

Background papers:

- Appendix A – Options Appraisal
- Appendix B – Legal Advice from Ward Hadaway
- Appendix C – Tax advice from Haines Watts
- Appendix D – Role Profile for NEHL Controlling Shareholder Representative

Report sign off.

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

	Full Name of Officer
Monitoring Officer/Legal	Suki Binjal
Executive Director of Finance & S151 Officer	Jan Willis
Relevant Executive Director	Maureen Taylor
Interim Chief Executive	Rick O'Farrell



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