

Appendix A

**Options Appraisal for Northumberland Enterprise Holdings Ltd and Northumbria Integrated Consultancy Ltd**

**1. Options for the future status of Northumberland Enterprise Holdings Ltd**

Factors to Consider:

- No current fee-paying client
- No contractual liabilities
- Part of VAT Group
- Has “Traded” through its subsidiary
- No longer holds professional indemnity insurance
- Current prospects of at least two new companies in the Care and Asphalt / tarmac recycling sectors. Possible Leisure Company and potential to assist address the Climate Emergency.
- Was established with remit for other types of trading activity that have not yet been explored

**1.1. HOLDINGS Option 1. Consideration of other sources of commercial activity / revenue**

**Reasons in Favour**

- a. Northumberland Enterprise Holdings Ltd was established with authority of the Cabinet for up to 10 types of trading activity.
- b. The use of companies, when properly developed, can be very useful to assist the Council to achieve its Corporate Aims and also generate trading revenue.
- c. There are current prospects of new companies in the Care, Asphalt / tarmac recycling and Leisure sectors. There may be commercialisation prospects in the Council’s carbon reduction activities to respond to the Climate Emergency, and several other concepts that have not been explored due to reasons of priority and other matters.
- d. Due to the prioritisation of incorporating NIC, the commercial issues it faced, governance matters and broader factors that required others’ attention to be focussed elsewhere, there has not been the level of attention given to exploring other commercial opportunities that could be considered for commercial gain.



## Northumberland County Council

- e. As the structure, bank account, VAT status has already been established, there is the opportunity for the HOLDINGS Board to develop a strategy and parameters for possible future trading ventures that fit with the Council's priorities, build on its existing strengths and expertise, yet afford revenue generating opportunities.
- f. Cabinet may feel that it wishes to actively prioritise the consideration of potential commercial opportunities at this time.

### **Reasons Against:**

- a. Undertaking further business development work by HOLDINGS without a clear strategy or business plan endorsed by Cabinet would incur costs (albeit chargeable by the Council for Officer time) and whilst there are funds available to HOLDINGS from the initial investment, it would risk wasting money on development of ideas that were not supported by Cabinet.
- b. To maximise the chances of identifying a successful strategy, allowing proper time, attention and commitment to be given to it, the HOLDINGS Option 3 below of winding HOLDINGS down to dormant status with just three Directors would seem a suitable staging point so that this HOLDINGS Option 1 could be returned to once current reviews into the Council (eg Strategic Change), Advance (Strategy Review) and particularly the Work Package 11 in response to the Caller Review are further progressed or complete.
- c. However, at this point in time, it is felt that there are too many other priorities for the Council to justify proceeding with this Option at this time.

### **1.2. HOLDINGS Option 2. Selling the shares**

#### **Reasons in Favour**

This option may seem unlikely, but through NIC the HOLDINGS Group:

- a. has established a presence in the international health consultancy market,
- b. has been and is approached regularly by the Department For International Trade to encourage working with companies seeking advice on setting up health and care provision services abroad,



## Northumberland County Council

- c. has a prospect of a future project in the Middle East that is at a very early stage of scoping / due diligence,
- d. has the prospect of NIC's original client in China re-connecting once it has evaluated its future plans,
- e. remains party to a Framework Agreement dated 19th June 2020 with the Chinese client, (as novated by Northumberland County Council).
- f. In light of this, there exists a remote opportunity for others to take the company forward and so it may have value.
- g. This may be of interest to:
  - a. a commercial player in the international health & care consultancy market,
  - b. one of the subcontractors that NIC or the Council has used in the past,
- h. Work would need to be undertaken to explore if such interest exists, but it could enable at least some, if not all of the sunk costs incurred to date to be recovered, rather than written off – if dissolution was the only other option.

### **Reasons Against**

- a. There is no understanding of any interest beyond the theoretical opportunity.
- b. There would be internal and, possibly, external costs in undertaking such an exercise, without any view on either prospects of success or actual end "value" to an interested party.
- c. Should an interested party be found, there would be material legal and financial transaction costs to conclude a deal.
- d. This may just be conceptually unattractive.
- e. This would mean that, when and if further opportunities arise that need the use of a corporate vehicle to serve the Council's purposes, then all legal establishment work would have to commence from the beginning again which may cause delays affecting the Council's immediate needs.

### **1.3. HOLDINGS Option 3. Making Dormant / Mothballing**



# Northumberland

County Council

## Reasons in Favour

- a. HOLDINGS is already set up at Companies House and with HMRC and so if Cabinet does not wish to take HOLDINGS Option 1 and maintain the trading status of HOLDINGS, it would be a reasonable option to consider winding the company down to a dormant status, so that, when the Care and/or asphalt / tarmac recycling opportunity (mentioned above) or business cases for other prospects such as the potential Leisure Services company, or in the Climate Change sector, come forward in the future – subject always to the outcome of Work Package 11 - there would be no need to form a new holding company as all that would be required would be to re-activate the company, with a new subsidiary.
- b. In light of the fact that there is now a VAT registration for the HOLDINGS Group, and it took nine months from September 2021 to June 2022 for that to be granted, the potential administrative and financial costs and timing impacts for applying and obtaining VAT registration for a new company may justify keeping the Company in existence.
- c. The financial losses incurred to date within the HOLDINGS Group may be maintained and recoverable (subject to specialist tax advice) against the future profits of the holding company or another future subsidiary.
- d. The ongoing costs for maintaining HOLDINGS on the register at Companies House would be £13 for the annual Confirmation Statement and nominal fees for filing Dormant Company accounts and Corporation Tax Return with HMRC, estimated at about £500 per annum (a budget cost has been received from our Tax advisors).
- e. HOLDINGS has a bank account that incurs quarterly fees of around £65 as the internet banking system is rather complex. If this option were taken forwards, HOLDINGS could open a simple bank account with another bank, incurring much lower fees, and possibly zero fees for the first year.
- f. A set of accounts and Corporate Tax return to the current financial year end of 31st March 2023 will be needed anyway and so Cabinet may see the merit in taking this holding position for HOLDINGS until then.
- g. 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 Company and having one other Officer Director and a Member Director



## Northumberland County Council

to oversee the administration of the company together, and then having all other Directors resign. 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.

- h. Bearing in mind the potential benefits of using companies for Council purposes, there is the opportunity for the Council – following the completion of Work Package 11 in response to the Caller Review and in particular the adoption of a “Rationale” for establishing or supporting companies - to develop a strategy and parameters for possible future trading ventures that fit with the Council’s priorities, build on its existing strengths and expertise, yet afford revenue generating opportunities.
- i. These potential opportunities, framed within agreed parameters of the “Rationale”, could be reviewed through a new lens once current reviews into the Council (eg Strategic Change modelling), Advance Strategy Review and particularly the Work Package 11 in response to the Caller Review are further progressed or complete, so that the full potential of using trading companies could be exploited.
- j. Despite negative attention (or perception) around council-owned companies it is worth highlighting that the document that Max Caller expressly refers to in the Caller Review (Local Partnerships LLP’s “Local Authority Company Review Guidance”) states that ***“In the right circumstances, using a company structure can facilitate change or outcomes that would be very difficult to deliver in a timely way under the constraints of a council’s constitution, but it needs to be clear why that is.”*** (© Local Partnerships LLP 2021)
- k. At this point in time, there are many moving parts and priorities for the Council, (post Caller, appointment to new, full Executive Team, Strategic Review etc) and so the relatively limited costs of maintaining the HOLDINGS company on a reduced cost basis is a valid option to maintain agility, remembering that if any trading activity is to be undertaken by the Council, then it must be done through a company and so having a ready-made and established company will ensure compliance with s.4 of the Localism Act 2011 and avoid the issues of unlawfulness that were identified in the recent s.114 report.



# Northumberland

County Council

## **Reasons Against**

- a. Cabinet may decide that the other options are preferable.

## **1.4. HOLDINGS Option 4. Transferring the shares to Advance**

### **Reasons in Favour**

- a. This is essentially a sub-option of Options 1 or 3 – continuing to trade or mothballing the company, but taking the opportunity to bring all Council owned company shares under the Advance Northumberland Group for better clarity of operations and governance and avoids duplicating administrative effort and cost.
- b. The cash and costs position might at least remain and so not “lost” to the Council as such. The losses might be set off against Advance’s trading profits and so enable early recovery of the losses.
- c. It should be highlighted that specialist legal and financial advice would be advisable before proceeding with this option.

### **Reasons Against**

- a. Cabinet may identify a strategic benefit / flexibility in keeping the remit of Advance Northumberland separate from other trading activities, and may distract Advance from its own focus.



**Northumberland**  
County Council

**1.5. HOLDINGS Option 5. Dissolving the Company – Striking off the Register at Companies House**

**Reasons in Favour**

- a. This is the ultimate option for Cabinet for dealing with HOLDINGS if it sees no prospect of identifying a positive rationale for having wholly-owned companies – other than Advance.
- b. Cabinet may wish to draw a complete line under this matter, close down all contractual relationships, incur the costs of closing down but ensuring no further costs remain and providing certainty to all concerned.
- c. Subject to confirmation by tax specialists, HOLDINGS would have to submit a set of up to date accounts, with supporting Corporation Tax return to Companies House and HMRC showing no outstanding liabilities to HMRC and confirming it had no outstanding debts.
- d. The cash in the bank will be more than adequate to pay all known debts and future liabilities and leave a balance to be returned to the Council as shareholder on a distribution of the assets.
- e. It would enact this through voluntary winding up which would require a special resolution of HOLDINGS to be passed by the Council as shareholder.
- f. Specialist advice would be needed but the estimated fees level would be around £20,000. The VAT thereon may not be recoverable.
- g. Upon final payment of advisors' bills, any surplus cash left in the HOLDINGS bank account would be returned to the Council as shareholder.

**Reasons Against**

- a. The reasons against dissolving HOLDINGS would be the same points as the reasons in favour of making HOLDINGS dormant.
- b. All incurred losses would be unrecoverable.
- c. There is a risk of negative external attention and comment.
- d. This would mean that, when and if further opportunities arise that need the use of a corporate vehicle to serve the Council's purposes, then all legal establishment work would have to commence from the beginning



## Northumberland County Council

again which may cause delays affecting the Council's immediate needs.

- e. It may be worth maintaining the existence of HOLDINGS, albeit reduced to a board of three Directors until the end of the financial year, when such accounts and tax returns would be required anyway and the advice around tax treatment may be received as part of a wider piece of work.
- f. It leaves open at no material extra cost the prospect of identifying alternative commercial opportunities for the shell company vehicle to be used as the vehicle to deliver other commercial opportunities.

## **2. Options for the future status of Northumbria Integrated Consultancy Ltd**

Factors to Consider:

- No current fee-paying client
- No contractual liabilities (but remain party to Framework Agreement with Chinese client)
- Part of VAT Group
- Has Traded
- Key operational Director has left
- Limited availability of other operational staff to take company forward
- 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
- No longer holds professional indemnity insurance
- Association with "International" activity previously undertaken by Northumberland County Council.

### **2.1. NIC Option 1. Consideration of other sources of commercial activity / revenue**

#### **Reasons in Favour**

- a. NIC has established a presence in the international health consultancy market, has been and is approached regularly by the Department For International Trade to encourage working with companies seeking advice on setting up health and care provision services abroad.
- b. There is the prospect of a future project in the Middle East that is at a very early stage of scoping / due diligence.





## Northumberland County Council

- c. There also remains the prospect of NIC's original client in China re-connecting once it has evaluated its future plans.
- d. NIC could offer other consultancy work and / or could in effect be used as a trading vehicle for any external activity that the Council identified as a potential revenue generating opportunity.
- e. Tender sites have been monitored over the last few months (eg. on Proactis / NEPO) to identify the types of project that are regularly tendered by external bodies, that could realistically be undertaken by the Council, through NIC, where it has expertise.

### **Reasons Against:**

- a. One of the most significant costs to NIC in the year 2021-2022 has been the Professional Indemnity Insurance ("PI"). It cost c.£70,000 for £10M cover. It would be a pre-requisite to have PI in order to tender for any consultancy contract where advice or advisory reports are the contract output.
- b. Without a clear understanding of the actual type of consultancy to be offered and firm revenue projections, the experience of securing PI for NIC in the year 2021 to 2022 showed that it would be extremely difficult, possibly unobtainable, certainly expensive – and would have to be committed to before any contract revenue was received.
- c. This is perhaps the key financial and operational factor in deciding whether to continue with NIC remaining active in the immediate future – whether seeking to build on its existing international advisory services or considering other UK consultancy work, (as was envisaged in the original business case).
- d. It is highly unlikely that the Middle East prospect could pass through adequate due diligence, project scoping, pricing and resourcing within 12 months. All of which time would require internal resource and costs to be expended.
- e. There has been no indication, so far as the writer is aware, from the Chinese client since April of any change to its project funding position that caused it to seek to terminate the initial contract.
- f. A key factor has to be the availability of competent personnel to develop and deliver any potential project. The principal operational Director of NIC who was essential to the relationship with the Chinese client and the development of the international consultancy business requested voluntary redundancy, resigned as a Director of NIC, and



## Northumberland County Council

has now left the employment of the Council.

- g.** There are other senior officers at the Council who have the capability and experience to carry out the work and manage the type of projects that were envisaged by the Chinese client, and the type that has been mooted by the company in the Middle East, but their current commitments preclude them from developing this opportunity.
- h.** The current budget allocation would be insufficient for this level of business development.
- i.** There is no clear area of Council work where our expertise would match the types of external tenders that are regularly brought to the market, and so seeking to enter new external consultancy markets at this point in time will generate costs without any clear view on the type of activities that the Council may wish to undertake, and without any foresight on its prospects for success.

### **2.2. NIC Option 2. Selling the shares**

#### **Reasons in Favour**

This option may seem unlikely, but NIC:

- a.** has established a presence in the international health consultancy market,
- b.** has been and is approached regularly by the Department For International Trade to encourage working with companies seeking advice on setting up health and care provision services abroad,
- c.** has a prospect of a future project in the Middle East that is at a very early stage of scoping / due diligence,
- d.** has the prospect of NIC's original client in China re-connecting once it has evaluated its future plans,
- e.** remains party to a Framework Agreement dated 19th June 2020 with the Chinese client, (as novated by Northumberland County Council).
- f.** In light of this, there exists a remote opportunity for others to take NIC forward and so it may have value.
- g.** This may be of interest to:



## Northumberland County Council

- i. a commercial player in the international health & care consultancy market,
  - ii. one of the subcontractors that NIC or the Council has used in the past.
- h. Work would need to be undertaken to explore if such interest exists, but it could enable at least some, if not all, of the sunk costs incurred to date to be recovered, rather than written off – if dissolution was the only other option.

### **Reasons Against**

- a. There is no understanding of any interest beyond the theoretical opportunity.
- b. There would be internal and, possibly, external costs in undertaking such an exercise, without any view on either prospects of success or actual end “value” to an interested party.
- c. Should an interested party be found, there would be material legal and financial transaction costs to conclude a deal.
- d. This may just be conceptually unattractive.

### **2.3. NIC Option 3. Making Dormant / Mothballing**

#### **Reasons in Favour**

- a. NIC is already set up at Companies House and with HMRC and so if Cabinet does not wish to take option 1 and maintain the trading status of NIC, it would be a reasonable option to consider winding the company down to a dormant status, so that, should a commercial prospect appear in the future, there would already be a corporate vehicle ready to be re-activated.
- b. Cabinet will be aware that, subject to the outcome of the post-Caller Work Package 11, there is work ongoing for the consideration of a “Care” company, and potential commercialisation of the asphalt / tarmac recycling process for road construction that the Council already undertakes for itself. There is a possibility of needing to set up a Leisure company and the Climate Change Team are also tasked with identifying commercialisation prospects in its carbon reduction activities.



## Northumberland County Council

- c. If NIC were to be mothballed, and if a suitable commercialisation opportunity were approved by Cabinet to be taken forward, then there would be no need to form a new company as all that would be required would be to re-activate the company, whether or not with a new name.
- d. In light of the fact that there is now a VAT registration for the HOLDINGS & NIC Group, and it took nine months from September 2021 to June 2022 for that to be granted, the potential administrative and financial costs and timing impacts for applying and obtaining VAT registration for a new company may justify keeping the Company in existence, at least until the financial year end in March 2023.

### **Reasons Against**

- a. Cabinet may decide that the other options are preferable.
- b. In the event that Cabinet wish to maintain Northumberland Enterprise Holdings Ltd (discussed above), it may feel that whatever new trading company opportunities come forward over the next year or other review period, that each new company should be formed in its own right and with its own identity from the outset, and that maintaining two dormant companies is not good value.
- c. If NIC is mothballed, minor costs will still be incurred and so Cabinet may wish to draw a complete line under this matter, close down all contractual relationships, incur the costs of closing down but ensuring no further costs remain and providing certainty to all concerned.
- d. The financial losses incurred to date might be able to be maintained and be recoverable (subject to specialist tax advice) against the future profits of the company or another group company – if new trading activity were taken on by the company.
- e. The ongoing costs for maintaining NIC on the register at Companies House would be £13 per annum for the annual Confirmation Statement and nominal fees for filing Dormant Company accounts and Corporation Tax Return with HMRC, estimated at about £500 per annum (a budget cost has been received from our Tax advisors).
- f. A set of accounts and Corporate Tax return to the current financial year end of 31st March 2023 will be needed anyway and so Cabinet may see the merit in taking this holding position for NIC until then.
- g. 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 Company and having one other Officer Director and a Member Director



## Northumberland County Council

to oversee the administration of the company together, and then having all other Directors resign. 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.

- h.** 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, there remains no ongoing liability unless a new contract is agreed. If mothballed, this Framework Agreement would remain live, unless either party decided to terminate the Agreement. That would have to be done if NIC is dissolved / struck off, but the choice would remain open to Cabinet / NIC to do that anyway, if NIC was mothballed.

### **2.4. NIC Option 4. Transferring the shares to Advance**

#### **Reasons in Favour**

- a.** This is essentially a sub-option of Options 1 or 3 – continuing to trade or mothballing NIC, but taking the opportunity to bring it under the Advance Northumberland Group for better clarity of operations and governance and avoids duplicating administrative effort and cost.
- b.** The cash and costs position might at least remain and so not “lost” to the Council as such. The losses might be able to be set off against Advance’s trading profits and so enable early recovery of the losses.
- c.** It should be highlighted again that specialist legal and financial advice would be advisable before proceeding with this option.

#### **Reasons Against**

- a.** Cabinet may identify a strategic benefit in keeping the remit of Advance Northumberland separate from other trading activities, and may distract Advance from its own focus.

## **2.5. NIC Option 5. Dissolving the Company – Striking off the Register at Companies House**

### **Reasons in Favour**

- a.** This is the ultimate option for Cabinet for dealing with NIC if they have no further appetite to support it, sell it or do not wish to maintain its existence as a dormant entity, incurring relatively nominal costs.
- b.** Cabinet may wish to draw a complete line under this matter, close down all contractual relationships, incur the costs of closing down but ensuring no further costs remain and providing certainty to all concerned.
- c.** Subject to confirmation by tax specialists, NIC would have to submit a set of up to date accounts, with supporting Corporation Tax return to Companies House and HMRC showing no outstanding liabilities to HMRC and confirming the inter-company debt from NIC to HOLDINGS has been waived.
- d.** If there were any debt or liability remaining, then the Company would have to be dealt with through the process of insolvent liquidation which would be much more costly and complex, and more likely to attract negative attention externally.
- e.** It would therefore be best dealt with through voluntary winding up which would require a Special Resolution of its shareholder – HOLDINGS – and Cabinet consent as the shareholder of HOLDINGS, as a Reserved Matter.
- f.** 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, there remains no ongoing liability unless a new contract is agreed and so there should be no financial impact to the company or Council if this were to be terminated now. Such termination of the Framework Agreement would be a Reserved Matter and so Reserved Matter consent would be needed if this Option were approved.
- g.** 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 Company and having one other Officer Director and a Member Director to oversee the administration of the company together, and then having all other Directors resign. 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.

### **Reasons Against**

- a.** The reasons against dissolving NIC would be the same points as the reasons in favour of making NIC dormant.
- b.** There is a risk of incurred losses being unrecoverable.
- c.** There is a risk of negative external attention and comment.
- d.** It may be worth maintaining the existence of NIC, albeit reduced to a board of three Directors until the end of the financial year, when such accounts and tax returns would be required anyway and the advice around tax treatment may be received as part of a wider piece of work.
- e.** It leaves open at no material extra cost the prospect of identifying alternative commercial opportunities for the shell company vehicle to be used as the vehicle to deliver other commercial opportunities.