



# Northumberland

## County Council

### **AUDIT COMMITTEE**

29 March 2023

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#### **Statement of Accounts - Group Boundary Review**

Report of: Richard Wearmouth, Portfolio Holder for Corporate Services

Executive Director: Jan Willis, Executive Director of Finance

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#### **1. Purpose of Report**

- 1.1 The purpose of this report is to provide members of the Audit Committee with details of the boundary review which has been undertaken to determine those organisations which should have their financial statements consolidated into the Council's Statement of Accounts for the financial year ended 31 March 2023.
- 1.2 Particular consideration is given to the position of Active Northumberland.

#### **2. Recommendations**

- 2.1 It is recommended that the the Audit Committee:
  - a) Note the contents of the report;
  - b) Note that the financial statements of Advance Northumberland Limited will continue to be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2023;
  - c) Note that Northumberland Enterprise Holdings Limited's financial statements will be consolidated into the Council's Statement of Accounts;
  - d) Note the creation of Energy Central Campus Limited, and that the Council's share is likely to need to be included in the Council's Statement of Accounts once it becomes material, and that the findings of ongoing work in this area will be reported back to Audit Committee in May; and

- e) Agree that Active Northumberland's financial statements **should not** be consolidated into the Council's Statement of Accounts for the financial year ended 31 March 2023.

### **3. Link to the Corporate Plan**

- 3.1 This report is consistent with the priorities in the Corporate Plan 2021-24 "A Council that Works for Everyone".

### **4. Key Issues**

- 4.1 The Council has undertaken an assessment (Boundary Review) in advance of producing its 2022-23 Statement of Accounts to ascertain if there are any relationships which fall under the definition of the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 ("the Code") and should therefore be consolidated into the group position. The outcome of the review is detailed within the report.
- 4.2 Paragraph 9.1.1.7 of the Code sets out a requirement to prepare group accounts where the authority has interests in subsidiaries, associates and/or joint ventures, subject to consideration of materiality.
- 4.3 The Code does not make any specific comments on the consolidation of charitable organisations in local authority financial statements; therefore, local authorities are required to follow the requirements of IFRS 10 and, where material, consolidate any charitable trust where an authority meets the criteria for control.
- 4.4 There has been no material change to the relationships between the Council and the companies considered in the report in 2022-23 and the recommendations in relation to consolidation are the same as in 2021-22, noting that the new jointly-owned Energy Central Campus Limited will need to be assessed for inclusion in the Council's Statement of Accounts once operational.

### **5. Advance Northumberland Group of Companies**

- 5.1 Advance Northumberland Limited is a wholly owned company of the Council. The company was established on 13 November 2018 when all of the assets, liabilities and shares of the now dissolved Arch Group were transferred to it. The Company acts as the holding company for the Advance Northumberland Group and it conducts no business in its own right; its operational subsidiaries are as follows:

- Wholly owned:
  - Advance Northumberland (Commercial) Ltd
  - Advance Northumberland (Housing) Ltd
  - Advance Northumberland (Developments) Ltd
  - Advance Northumberland (Financial) Ltd
- Joint venture:
  - Prudhoe Estates LLP

- 5.2 The Council has a material financial interest and a significant level of control over Advance Northumberland Limited and it is named in the Council's Statement of Accounts as an "entity controlled or significantly influenced by the Council".
- 5.3 Since its inception, the financial statements of Advance Northumberland Limited (which incorporate the financials for the overall group of companies) have been consolidated with the Council's Statement of Accounts and they will continue to be consolidated for the financial year 2022-23.

## **6. Northumberland Enterprise Holdings Limited Group of Companies**

- 6.1 Northumberland Enterprise Holdings Limited (NEHL) was incorporated on 17 September 2020 and is a wholly owned company of the Council. NEHL also owns a subsidiary company, Northumbria Integrated Consultancy Limited, which Cabinet agreed to dissolve on 17 November 2022.
- 6.2 The Council therefore has a significant level of control over NEHL and the company will be named in the Council's Statement of Accounts as an "entity controlled or significantly influenced by the Council", noting however that the interest is not financially material.
- 6.3 NEHL did not actively trade during 2022-23 but a number of operational costs were incurred; as such, its financial statements (which will include its subsidiary once active) will be consolidated within the Council's 2022-23 Statement of Accounts.

## **7. Active Northumberland**

### **Determination of Control**

- 7.1 The following factors should be considered when determining whether Active Northumberland should be consolidated with the Council's accounts. Active Northumberland is not a wholly owned or partially owned subsidiary of the Council.
- 7.1.1 The purpose and design of the charitable trust:
- a. Active Northumberland is registered at Companies House (08484436) as a Private Limited Company by guarantee without share capital use of 'Limited' exemption.
  - b. Active Northumberland is registered with the Charity Commission (1153198).
  - c. Active Northumberland's Memorandum and Articles of Association were amended on 17 April 2019 to change the membership of the charity to individual members only. There are no Board appointments from Northumberland County Council. The number of Trustees shall not be less than three and, unless otherwise agreed by the Trustees, shall not be

subject to any maximum. There are currently 10 Trustees on the Board (see Appendix A for details).

- d. Consideration needs to be given to the following:
- Whether or not the Council has voting rights on the Board of Trustees; and
  - whether or not the Council is able to exercise the majority of voting power over the Trust.

Between 1 May and 13 July 2022, one Northumberland County Council member was appointed to the Board at Active Northumberland. The individual attended the April Board meeting in an observatory role but did not attend the June meeting of the Board, nor cast any votes in any Board decisions during their time as a Board member. There have been no other representatives from Northumberland County Council on the Board during 2022-23 and it can therefore be concluded that no direct influence has been exerted by the Council.

- e. The Council is not involved with the recruitment of Active Northumberland Board members. The Memorandum and Articles of Association allow the Active Northumberland Board the ability to appoint and remove Board members.
- f. All Active Northumberland Board members are required to adhere to the Code of Conduct and submit declarations of interest. A Trustee must declare the nature and extent of any interest, direct or indirect, which they have in a proposed transaction or arrangement with the Charity which has not previously been declared. A Trustee must absent themselves from any discussions of the Trustees in which it is possible that a conflict will arise between their duty to act solely in the interests of the Charity and any personal interest. The Trustee does not vote on any such matter. This can be evidenced in the Board minutes.

7.1.2 What the relevant activities of the charitable trust are and how decisions about those activities are made:

- a. From 1 April 2018 Active Northumberland was commissioned by Northumberland County Council to provide Leisure Services. Whilst the Council determines what activities it requires Active Northumberland to deliver on its behalf, the Council is not involved operationally with how those services are delivered and this is a matter for the Active Northumberland Board. This can be evidenced in a strictly confidential letter dated 27 February 2018 from the Council's Chief Executive to the Chair of Active Northumberland.

- 7.1.3 IFRS 10 states that an investor (the Council) controls an investee (Active Northumberland) if and only if the investor has all the elements in 7.1.4, 7.1.5 and 7.1.6 below.
- 7.1.4 Whether the rights of the authority give it the ability to direct the relevant activities of the charitable trust. Such rights can be straightforward (e.g. through voting rights) or be complex (e.g. embedded in contractual arrangements). A holder of protective rights cannot have power over an investee and so cannot control the investee.
- a. As described in point 7.1.2 operational decisions are taken by the Active Northumberland Board and not the Council. This can be evidenced in the Active Northumberland Board minutes and via the Partnership Agreement.
  - b. The Partnership Agreement between the Council and Active Northumberland does not contain protective rights.
- 7.1.5 Whether the authority is exposed, or has rights, to variable returns from its involvement with the charitable trust. Such returns must have the potential to vary as a result of Active Northumberland's performance and can be positive, negative, or both:
- a. No positive returns are made from Active Northumberland to the Council. All balances are retained by Active Northumberland, and it is the decision of the Active Northumberland Board how those reserves are used. In the event that the charity dissolves then the Board will decide what it does with the funds.
  - b. The Council has provided significant additional funding to Active Northumberland in recent years to assist in minimising the impact of the Covid-19 pandemic. This could be assessed as a negative return under IFRS 10, although this has been due to exceptional circumstances (force majeure) and managed through a contract variation to the Partnership Agreement.
  - c. A letter of comfort has been provided to Active Northumberland for 2022-23 setting out the Council's intention to provide further support to assist in addressing the ongoing impact of Covid-19 and in recognition of significant inflationary pressures.
- 7.1.6 Whether the authority has the ability to use its power over the charitable trust to affect the amount of the returns to the Council:
- a. No returns are made from Active Northumberland to the Council. The Council sets the scope in terms of the services that it would like Active Northumberland to provide. However, the Council does not exercise control or power over how Active Northumberland delivers these services. The Board of Active Northumberland determines the delivery plan.

- b. The Active Northumberland Board will formally request financial assistance for 2022-23 when the final amount is known.
- c. Active Northumberland serves only a single customer, the Council, which implies it is highly dependent upon the Council's actions, funding and wider support.
- d. Analysis suggests that Active Northumberland would struggle to leverage alternative funding arrangements, such as bank loans, as they have limited long-term assets. This increases the dependence upon the Council.

#### 7.1.7 Other factors:

- a. The budget for Active Northumberland is funded predominantly by service income, as well as a management fee from the Council. The proportion of budgeted income which was service income in 2022-23 was 81%, the management fee was 12% with the remaining 7% being other financial support provided by the Council. In previous years Advance Northumberland provided a charitable donation of up to £1 million to Active Northumberland however this arrangement has now ended. Due to the cessation of the arrangement, it was agreed at the meeting of the County Council on 19 February 2020 that the Council would increase the management fee in 2019-20 and then in the subsequent two years by up to £1 million. It was subsequently agreed at the meeting of the County Council on 24 February 2021 that the Council continue this arrangement in 2021-22 and in the subsequent two years.
- b. The Council's 2022-23 Rate Relief Policy was approved at the meeting of the County Council on 23 February 2022. The policy grants 20% discretionary relief top up for business rates to leisure centres operated by Charitable Trusts. For Active Northumberland this amounts to £0.265 million in 2022-23.
- c. There is a Leisure Partnership Agreement for 2022-23 which formally documents the commissioner/provider contractual relationship between the Council and Active Northumberland for the provision of Leisure Services.
- d. There are quarterly review meetings between Active Northumberland and Northumberland County Council. The meetings are attended by the Council's client officer, Contracts Officer and representatives from Active Northumberland. Prior to each quarterly review meeting Active Northumberland is required to provide quarterly key performance indicators (KPIs) and a written report on progress and achievements against the Annual Plan. Quarterly KPI results are shared with the Council's Performance Team via the Corporate Performance system and reported to the Executive Team and Cabinet accordingly.
- e. A number of Service Level Agreements (SLAs) between Active Northumberland and the Council were agreed and effective from 1 April

2018. Active Northumberland purchases some of its support services from the Council. The SLAs were updated and continued throughout 2022-23.

- f. The Active Northumberland Board has a Finance and Audit Committee which meets bi-monthly. The purpose of the Committee is to assist the Board in its responsibilities by reviewing:
- financial planning and information;
  - strategic financial plans, the annual operating and capital budgets and quarterly forecasts;
  - performance against plans and their key targets;
  - appropriateness of accounting and financial policies;
  - appropriateness and method of disclosure of information relating to Active Northumberland;
  - investment appraisal and post investment performance;
  - funding requirements and terms, including monitoring bank covenants;
  - financial liabilities;
  - monitor, review and report to the Board on the effectiveness of Active Northumberland's risk management processes and financial and other internal control systems;
  - overseeing Active Northumberland's relationship with its external auditors; and
  - Health and safety.
- g. Performance information is provided to the Active Northumberland Finance and Audit Committee and Board on a regular basis through the Finance Report.
- h. Active Northumberland has established and implemented its own business plan and strategy.
- i. The Board agreed to introduce its own internal audit provision. The contract was awarded in March 2020 to TIAA. A representative from TIAA attends Active Northumberland's Finance and Audit Committee.
- j. The 2022-23 budget was agreed by the Board at its meeting on 6 April 2022. A monthly report is produced to ensure that the Executive Team, Finance and Audit Committee and Board are informed of the financial position against the budget for 2022-23.
- k. The Council is in discussion with Active Northumberland regarding the level of assistance required to balance the budget for 2022-23. The provisional figure required as at December 2022 is £1.851 million, which has been reported in both parties' monthly financial reports.

## **8. Energy Central Campus Limited**

8.1 This company is a transformational, business-led skills, education and innovation project supporting growth in the low carbon energy sector in Blyth and the wider North East. It was incorporated on 2 November 2021. It is a company limited by guarantee and has three joint owners:

- Port of Blyth;
- Northumberland County Council; and
- ORE Catapult.

8.2 Given the nature of the equal three-way ownership, the Council does not have overall control over the company but has joint control with the other parties. As such, it is possible that the company will need to be incorporated into the Council's Statement of Accounts as either a joint arrangement or a joint venture; it should be noted that work is still ongoing to assess the necessary accounting approach.

8.3 It should also be noted that the value of the company is likely to be minimal as at 31 March 2023 so inclusion within the Council's 2022-23 Statement of Accounts is unlikely to be required.

## **9. Conclusions**

8.4 The financial statements of the following entities should be consolidated into Council's Statement of Accounts for the financial year ended 31 March 2023:

- Advance Northumberland Limited
- Northumberland Enterprise Holdings Limited

8.5 It is anticipated that Energy Central Campus Limited will be included in the Council's Statement of Accounts at the point where its value becomes material, subject to ongoing discussions.

8.6 The Council does not legally own Active Northumberland, nor does it have direct control via members on the Active Northumberland Board. It is a third-party legal entity with a contractor relationship with the Council. Although Active Northumberland is highly dependent upon the Council and has received significant financial support to mitigate the impact of Covid-19 and exceptional inflationary pressures, the Council is not contractually exposed to variable results from its involvement with Active Northumberland, nor does it have the ability affect the level of returns. Any support outside of the Partnership Agreement must be separately approved and agreed by both parties. It is concluded that Active Northumberland does not fall within the scope of group accounts as per the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 and IFRS 10 and should therefore continue to be out of scope of Northumberland County Council's consolidated Statement of Accounts for the financial year ended 31 March 2023.



## Implications

<b>Policy</b>	The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
<b>Finance and value for money</b>	This report has no financial implications for the Council.
<b>Legal</b>	There are no specific legal implications within this report.
<b>Procurement</b>	There are no specific procurement implications within this report.
<b>Human Resources</b>	There are no specific human resources implications within this report.
<b>Property</b>	There are no specific property implications within this report.
<b>Equalities</b> (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	There are no specific equalities implications within this report.
<b>Risk Assessment</b>	The risks associated with the budget were considered in February 2022 and were considered to be acceptable.
<b>Crime &amp; Disorder</b>	There are no specific crime and disorder implications within this report.
<b>Customer Consideration</b>	There are no specific customer consideration implications within this report.
<b>Carbon reduction</b>	There are no specific carbon reduction implications within this report.
<b>Health &amp; Wellbeing</b>	There are no specific health & wellbeing implications within this report.
<b>Wards</b>	All wards.

## Background papers

CIPFA's *Code of Practice on Local Authority Accounting in the United Kingdom 2022/22*

CIPFA's *Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 guidance notes for practitioners*

CIPFA's *Accounting for Collaboration in Local Government*

## Report sign-off

	<b>Name</b>
Monitoring Officer	Suki Binjal
Executive Director of Finance & Section S151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder	Richard Wearmouth

## Authors and Contact Details

Kris Harvey  
Finance Manager  
Telephone: (01670) 624783  
[kris.harvey@northumberland.gov.uk](mailto:kris.harvey@northumberland.gov.uk)

Matthew Calvert  
Finance Manager  
Telephone: 07427 698422  
[matthew.calvert@northumberland.gov.uk](mailto:matthew.calvert@northumberland.gov.uk)

**Current Board Membership of Active Northumberland (March 2023)**

<b>Trustee</b>	<b>Role</b>	<b>Appointment Date</b>
David Hall	Chair	19 October 2015
Jane Riley	Vice Chair	21 September 2018
Karla Sweeney	Secretary	1 April 2021
Malcolm Copland	Director	21 September 2018
Stephen Crosland	Director	21 September 2018
David Carss	Director	15 October 2021
Jamie Chapman	Director	15 October 2021
Brian Welsh	Director	15 October 2021
Helen Wilcox	Director	15 October 2021
Emma Williams	Director	19 October 2021

**In year changes April 2022 to March 2023**

<b>Trustee</b>	<b>Role</b>	<b>Appointment Date</b>	<b>Resignation Date</b>
Claire Riley	Director	12 February 2020	4 April 2022
Modaser Choudhary	Director	12 February 2020	10 February 2023
Jeff Watson	Director	1 May 2022	13 July 2022