

MUNICIPAL YEAR 2018/2019 REPORT NO. 140**MEETING TITLE AND DATE:**

Shareholder Board
29th January 2019

Agenda – Part:1	Item: 3
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<p>Subject: Companies Audited Accounts Wards: All</p>

REPORT OF:

Commercial Director

Cabinet Members consulted:

Cllrs Daniel Anderson & Ahmet Oykenner

Contact officer and telephone number:

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1. EXECUTIVE SUMMARY

- 1.1 At the meeting of 3 October 2018, the companies were not in a position to submit their Audited Accounts for 2017/2018. The Companies are now asked to submit their audit accounts.
- 1.2 Attached as Appendix 1 are the Audited Accounts for the Companies that are able to submit these as Part 1 items. Some of the companies will have to submit their items as part 2 items due to the commercial sensitivity of the information.

2. RECOMMENDATIONS

- 2.1 To note the Audited Accounts of: Housing Gateway Ltd (HGL), Enfield Innovations Ltd (EIL), and Independence and Wellbeing Enfield (IWE).
- 2.2 To set a regular annual schedule for Shareholder Board review of accounts. It is recommended that the Board schedule this for the October meeting, annually.
- 2.3 To request reports on any future plans to expand the services provided by IWE.

3. BACKGROUND

- 3.1 At the meeting of 3 October 2018, the companies were asked to provide a company update, it was assumed that this would include the Audited financial information however a number of the companies were not in a position to submit their Audited Accounts for 2017-2018. This was because the Auditors were

seeking further clarifications or that the Companies Board hadn't met to approve the account for release to the Shareholder.

- 3.2 The Companies are now asked to submit their audit accounts. Some of the companies will have to submit their items as part 2 items to protect the commercial sensitivity of information not currently in the public domain. There is a Part 2 section to this report.
- 3.3 HGL's public accounts show that the company maintains a positive balance sheet, and thus retains assets greater in value than its liabilities. However, the majority of the company's positive equity is held as fixed assets, and the company has significant sums of credit falling due within one year. This indicates a potential long-term liquidity risk for the company; particularly as some elements of fixed assets may depreciate over time, and the general market value of property (comprising the large part of HGL's fixed assets) is currently stagnant or decreasing. Therefore, it is important for the company's future success that it maintains a sound current liquidity position.
- 3.4 EIL's public accounts show also a positive balance sheet. The key risk for the company is indicated within the one-year creditors figure of £13,495,564; the majority of this figure is loan repayments to the shareholder, the successful payment for which will require capital from off-plan sale of properties. The company is currently in the process of marketing and agreeing sale of 40 properties and will report back to the Shareholder Board on this process in due course. Cash in hand has also substantially increased and therefore the company does have some buffer against short-term liabilities.
- 3.5 IWE accounts identify that the company has made an operating loss of £503,715; this has been compounded by the defined benefit pension liabilities relating to the TUPE of Council officers for additional services taken on by the company to give a final loss of £3.7m. The accounts identify that this was also the case for 2016-17; a small operating loss was compounded by TUPE liabilities into a significant loss. The balance sheet has also reduced year-on-year by £1.4m, although it is still positive at £412,410.
- 3.6 This suggests that expansion of IWE is, at present, harming its profitability. The feeling of the Council is that the company would be better served via a period of consolidation, to enact its strategies and achieve profitability for its current service mix, before expanding any further. Greater expansion and absorption of further liabilities through employment legislation could further damage company profits and reduce the balance sheet further

or risk a negative balance sheet (wherein the company would have liabilities greater than its assets). This would be a significant risk to the long-term future of the company. Expansions of the service are, under the company Articles of Association, a matter reserved to the shareholder.

4. ALTERNATIVE OPTIONS CONSIDERED

None. The Shareholder Board has requested the Audited Accounts

5. REASONS FOR RECOMMENDATIONS

- 5.1 The Shareholder Board are asked to note the Audited Accounts. All companies must show their accounts to their Shareholders.
- 5.2 The Shareholder Board are asked to determine a regular annual schedule for review of the accounts on the forward work plan. This will help to ensure prompt production of the accounts and enable the Shareholder Board to monitor and enact any decisions arising from the accounts in a timely fashion, to ensure that company operation is as efficient as possible and any risks addressed effectively.
- 5.3 The Shareholder Board are asked to request reports on any future plans to expand IWE services. This is to ensure that adequate shareholder oversight is provided on decisions which may affect the profitability of the company, and that no decisions which are reserved to the shareholder receive inadequate consideration from the shareholder before approval.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

There are no financial implications arising from this report.

6.2 Legal Implications

Under the Companies Act 2006 (CA 2006), all limited and unlimited **companies**, whether or not they are trading, must keep adequate **accounting** records and file the company's accounts with Companies House within certain time periods. Adequate accounting records are records that are sufficient to: show and explain the company's transactions, disclose with reasonable accuracy, at any time, the company's financial position at that time and to enable the directors to ensure that any accounts required to be prepared comply with [CA 2006](#) Failure to keep adequate accounting records is a criminal

offence for every company officer in default. Where a company fails to deliver its accounts and reports to the Registrar of Companies within the required time, it is liable to an automatic civil penalty. The time period for filing the company's accounts is 9 months from the Accounting Reference Date.

6.3 Property Implications

None

7. KEY RISKS

7.1 As private companies, the Council trading companies have a statutory duty to file audited accounts with Companies House within nine months of the financial year end. For the Council companies, this gives an annual deadline of 31st December for filing accounts. Failure of the companies to meet this deadline incurs financial penalties and reduces the effectiveness of the Shareholder Board as the Board will be considering financial information 10 months after the year to which it relates. Some companies have filed accounts late in previous years. The Board can assist in mitigating this risk by determining a clear future schedule for reporting of final accounts.

7.2 IWE accounts identify potential long-term risks regarding the company strategy as detailed above. This will be explored with the company management during business plan discussions, and oversight from the Shareholder Board will help to mitigate the risk through ensuring the shareholder is fully informed on all decisions, including reserve matters.

8. IMPACT ON COUNCIL PRIORITIES – CREATING A LIFETIME OF OPPORTUNITIES IN ENFIELD

8.1 Good homes in well-connected neighbourhoods

A number of the companies were developed to help alleviate housing pressures by reducing the pressure on the temporary accommodation budget as well as increasing the availability of good quality social housing and low-cost energy. Companies that operate in profit with good financial systems will help secure good homes in well connected neighbourhoods.

8.2 Sustain strong and healthy communities

The companies help improve health by providing good quality housing for residents. One of the companies aims to provide low cost sustainable energy in terms of heating and hot water reducing greenhouse gasses and improving the environment and therefore the health prospects of residents. IWE provides social care services to enable residents with care needs to

remain healthy and continue to be enabled and independent members of their communities.

8.3 Build our local economy to create a thriving place

The companies aim to provide clean sustainable fairly priced energy and good quality homes that have a fair rent. IWE provides support for some of the most vulnerable people in Enfield. The companies help build strong and sustainable communities ensuring access to good quality services. Companies with strong accounting system can benefit the local economy through local supply chains and employing local people.

9. EQUALITIES IMPACT IMPLICATIONS

There has been no equality Impact assessment completed.

10. PERFORMANCE AND DATA IMPLICATIONS

The Shareholder Board will put in place a formal and robust reporting process between the companies and the Council to ensure they are supporting the Council's aims and objectives.

11. PUBLIC HEALTH IMPLICATIONS

There are no public health implications associated with this report

Background Papers – None

APPENDICES

Appendix 1

EIL Audited Accounts

Appendix 2

HG Audited Accounts

Appendix 3

IWE Revised Accounts

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