

MUNICIPAL YEAR 2019/2020 REPORT NO. 172

MEETING TITLE AND DATE:

**Cabinet – 29 January
2020**

REPORT OF:

Director of Law and
Governance

Agenda – Part: 1

Item: 9

Subject: Wholly owned trading companies –
annual accounts

Wards: All

KD No: 5013

Cabinet Member consulted: Cllr Mary
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1. EXECUTIVE SUMMARY

- 1.1 This report summarises the content of the filed annual accounts for the Council's wholly-owned trading companies:
 - Housing Gateway Ltd (HGL);
 - Enfield Innovations Ltd (IVE);
 - Independence & Wellbeing Ltd (IWE); and
 - Energetik
- 1.2 This report is supported by a Part 2 report addressing parts of the Companies' accounts not in the public domain.
- 1.3 The Council as shareholder does not approve the final accounts, in accordance with general practice in the private sector, however for effective governance and oversight it is important that Cabinet as shareholder be able to assess whether companies have performed effectively, including their financial performance.
- 1.4 The financial statements are in line with expectations given the variant company business models and points in the company life. Risks arising from the models adopted to deliver the Council's priorities are managed in collaboration with company officers on an ongoing basis.

2. RECOMMENDATIONS

Recommended that:

- 2.1 Cabinet notes the contents of the published audited accounts for the Council's four wholly owned trading companies.
- 2.2 Cabinet approves under shareholder reserve powers the recommendation of the EIL Board to appoint Geo, Little, Sebire and co. as the company's auditor for the accounting period ending 31st March 2020.
- 2.3 Cabinet delegates authority to the Portfolio Holder for Finance & Procurement to appoint under shareholder reserve powers the auditors for Housing Gateway and Energetik following a procurement process to be conducted by each company.

3. BACKGROUND

- 3.1 The Council has established four wholly owned trading companies which deliver services to Enfield residents. As private limited companies, these organisations are required under the Companies Act 2006 to file annual audited accounts.
- 3.2 Each company's accounts are audited by external auditors, approved by the Board, and filed with Companies House. All companies operate with an accounting period from 1st April – 31st March annually and are therefore all required to file their audited accounts by 31st December each year. All companies have achieved this deadline comfortably.
- 3.3 As small enterprises in law, HGL, EIL and Energetik are required only to file abbreviated accounts publicly. The companies have chosen to do so. IWE, as a larger company, files fuller accounts. Therefore, some aspects of the accounts for HGL, EIL and Energetik are considered under Part 2 classification. All publicly available information is considered within this part 1 report.

Housing Gateway

- 3.4 Housing Gateway's balance sheet shows an overall increase in net assets and equity against the previous year of £1,936,080. It should be noted that the positive asset position is due to fixed and tangible assets; the net current assets position is negative in the amount of (£9,455,097). This however still represents an

improvement of approximately £570,000 against the previous year-end position.

- 3.5 This also reflects the business model of HGL; as it provides housing to the community at an affordable cost fixed to Local Housing Allowance rate, the company expects to maintain high fixed assets through the property portfolio but has low cash income due to the affordable rent offered.
- 3.6 The long-term cash flow risks of the company model have been addressed with the company through a restructuring of the Council's loans to the company to provide a more sustainable repayment schedule for the company. This is considered a low risk strategy for the Council given the company's portfolio can reasonably be expected to grow in value over the long-term and therefore provide effective collateral to offset any repayment risks. The financial stabilisation and reduced cash flow risk will allow the company to recommence expanding its portfolio on a large scale.

Enfield Innovations

- 3.7 EIL's balance sheet indicates that the company has positive net assets of £494,684. This is a decrease of almost £200,000, resulting from a substantial decrease in debts owed to the company.
- 3.8 The company has a significant negative liquidity position, showing net current assets of (£12,128,994). The company has a similar business model to HGL, wherein a substantial amount of its funding is invested in fixed assets, being the SHS1 properties remaining under construction at the time of the accounting year end. The sale of these properties will provide the funds to address liabilities, and sales progress has been reported monthly to the Shareholder Board (and latterly Cabinet, following the dissolution of the Shareholder Board).

Energetik

- 3.9 The balance sheet of Energetik shows net liabilities of (£1,694,103), driven largely by long-term creditors of (£8,767,538), the vast majority of which is on-loans from LBE. This is not considered to represent a risk, as the funds lent to date have been utilised to design the main heat network assets of the company; once the value of the assets are realised through construction the company will be expected to show positive net assets. The construction is expected to commence within the current financial year, pending the resolution of funding applications currently lodged with the Heat Network Investment Project.

- 3.10 The company also shows negative current assets; the company's loan facility with the Council is on a draw down basis, and portions of loan are drawn down as and when they are required. Therefore, the net current liabilities are a result of the timing of the end of the accounting period and are not considered a risk as sufficient loan portions remain to be drawn down and meet liabilities.

Independence and Wellbeing Enfield

- 3.11 IWE's balance sheet identifies net assets of £404,950, an improvement of circa £40,000 on the previous accounting year. This is reflective of IWE's model as a transaction-based business with low value physical assets.
- 3.12 The company's net current assets have increased by around £80,000 to £208,275. This identifies that the company is liquid, though its income is exceeding costs by a relatively small amount. This is supported by the in-year profit figure of £38,428, which is based on tax rebate, the operating profit having been £0.

Appointment of external auditors

- 3.13 Each company has an appointed external auditor to report on accounts as per legislative requirements.
- 3.14 While there is no statutory requirement regarding how frequently the company providing audit services must be changed, three companies have opted to review audit arrangements following the completion of the 2018-19 accounts. These are Energetik, EIL and HGL. Appointment of company auditors is a matter reserved to shareholder
- 3.15 The EIL Board have determined that, given the satisfactory quality of audit and the low cost due to the low transaction volume of EIL, there is little value to be achieved in re-procuring, and therefore recommend the re-appointment of the current auditors, Geo, Sebire, Little and co.
- 3.16 Energetik and HGL are at points preceding expansion of the company, and both Boards therefore feel the current time represents a good opportunity to test market prices and ensure that auditor appointments. Both companies will conduct a procurement process, following which a recommendation will be put to the shareholder by each company for appointment.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There is no alternative in respect of the annual accounts. The accounts are a competency of the Board of each company and are not required to be approved by shareholders. The accounts are reported such that Cabinet, as shareholder representative, can exercise effective oversight of company performance, and provide challenge where considered appropriate.
- 4.2 The alternative to appointing Geo, Little, Sebire and co would be to conduct a procurement process to appoint a new auditor. The company is satisfied that the service is acceptable quality, and the Board view is that the expenditure level does not warrant a procurement process.
- 4.3 In the case of HGL and Energetik auditor appointments, the alternative would be to re-appoint the current auditor. As the transaction volumes and size of both companies' operations are likely to grow substantially over the next few years, the Boards of both companies feel this to be an effective moment to re-procure audit services and achieve the best value possible.

5. REASONS FOR RECOMMENDATIONS

To ensure effective oversight and challenge where appropriate for Council-owned companies and ensure they continue to contribute to the achievement of the Council's strategic objectives.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

There are no financial implications to this report.

6.2 Legal Implications

6.2.1 Under section 386 of the Companies Act 2006 (duty to keep accounting records), all limited and unlimited companies, whether or not they are trading, must keep adequate accounting records and file accounts with Companies House within certain time periods. Adequate accounting records are records that are sufficient to (i) show and explain the company's transaction, (ii) disclose with reasonable accuracy, at any time, the company's financial position and (iii) enable the directors to ensure that any accounts required to be prepared comply with the requirements of the 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.

6.2.2 The companies must comply with their procurement policies when selecting an auditor. The Council is subject to fiduciary duties to act prudently with public money entrusted to it, and a general duty to secure Best Value under the Local Government Act 1999. Its trading companies should therefore follow the Council's own procurement rules as far as possible when awarding contracts in order to demonstrate best value.

6.2.3 Under section 485(4) of the Companies Act 2006, the shareholders of a private company can appoint an auditor by passing an ordinary resolution (which can be in writing).

6.3 Property Implications

There are no property implications to this report.

7. KEY RISKS

7.1 HGL's accounts suggest a cash flow risk, due to the company's low rental values. The Council has arranged a restructuring of its loans package with the company. This will reduce the cash flow impact of repayments and stabilise the cash flow position.

7.2 Energetik also shows cash flow pressures. This is not considered to be a high short-term risk as the company has sufficient loan facilities available from LBE to draw down and meet its needs in the current financial year. Additionally, the Council has approved the second phase of investment in the company, and this will be implemented pending the outcome of funding applications currently awaiting decision with 3rd parties.

7.3 The long-term risks for Energetik in terms of cash flow and liquidity will be mitigated as assets are constructed and the customer base grows over a number of years. The 40-year business plan projections in this respect were updated for the phase 2 funding decision and approved by Cabinet as part of that decision. The performance against the business plan will be monitored through the life of the company.

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. 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.

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. One of the companies also 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 are no implications to this report.

10. PERFORMANCE AND DATA IMPLICATIONS

There are no implications to this report.

11. PUBLIC HEALTH IMPLICATIONS

There are no implications to this report.

Background Papers

Published accounts for:

Appendix 1 – HGL

Appendix 2 – EIL

Appendix 3 – Energetik

Appendix 4 – IWE