

Cabinet

7th January 2014

Name of Cabinet Member:

Cabinet Member (Public Services) – Councillor Lancaster

Director Approving Submission of the report:

Executive Director, Place

Ward(s) affected:

City-wide

Title:

Coventry and Solihull Waste Disposal Company (CSWDC) Preference Shares Redemption

Is this a key decision?

Yes

The financial implications of this decision are in excess of £0.5m.

Executive Summary:

The Council owns 66 of the 99 ordinary shares in the Coventry and Solihull Waste Disposal Company (CSWDC). The remaining 33 ordinary shares are held by Solihull Council. Coventry and Solihull Councils also hold preference shares in CSWDC, in the same proportions as the ordinary shareholding. Coventry Council holds £7.55m of preference shares. These preference shares were used historically to provide initial financing into CSWDC by the Council. They are shown as a liability in the CSWDC balance sheet and as an investment in the Council accounts. This means they can be paid back in full or in part to the Councils at any time, subject to agreement by both Council shareholders and CSWDC.

CSWDC has paid dividends on the ordinary shares as the profitability and cash position of the Company have allowed. The Council's Medium Term Financial Strategy (MTFS) currently assumes a £1.3m ordinary dividend in 2013/14 and ongoing. No dividends are paid in relation to the preference shares.

Over recent months, the Council, along with Solihull Council, have engaged with CSWDC to see what additional returns the Company might be able to provide to the shareholders given the significant financial challenges that both Councils face. CSWDC have sufficient distributable reserves and cash to enable up to £3.6m (of which £2.4m (2/3) would relate to Coventry City Council), rather than the estimated £1.33m to be released to the Council in 2013/14. The proposal is that this cash will be released as a redemption of a proportion of the preference shares held in the Company by each of the Councils rather than a dividend. The proposal has benefits for the Council as it enables a significant increase in the amount of cash that can be released in 2013/14. It also benefits the Company in that it strengthens their balance sheet by

reducing their liabilities. The redemption of the preference shares by the Council means that the total value of the preference shares Coventry holds in the Company reduces from £7.55m as at 31st March 2013 to £5.15m, releasing the value during 2013/14 in cash.

Officers in Resources Directorate are currently working up proposals on the Budget report which will come to Cabinet in February 2014. This work will take account of both the benefit described in this report and the longer term financial returns from CSWDC in seeking to balance the medium term financial position of the Council in the current challenging context.

Recommendations:

Cabinet is recommended to:

1. Make a recommendation to Council through the Budget Report in February 2014 on the proposals for allocation of the additional £1.06m arising from this decision.
2. Approve the switching of the capital receipt to revenue to support the medium term financial strategy.

List of Appendices included:

None

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No.

Report title:

Coventry and Solihull Waste Disposal Company (CSWDC) Preference Shares Redemption

1. Context (or background)

- 1.1 CSWDC operates the Energy from Waste plant. It is a joint venture between Coventry and Solihull Councils. Coventry Council owns 66 of the 99 ordinary shares at £1 each. The remaining 33 ordinary shares are held by Solihull Council.
- 1.2 Coventry and Solihull Councils also hold a total of £11.325m preference shares in CSWDC. Coventry City Council holds £7.55m (two thirds) of preference shares. These preference shares were issued by CSWDC at the point at which it was established as a way for the Council to provide initial financing into CSWDC. They are shown as a liability in the CSWDC balance sheet and as an investment in the Council accounts. This means they can be paid back in full or in part to the Councils at any time, subject to agreement by both Council shareholders and CSWDC, which would include an assessment of the ability of CSWDC to afford the repayment. They are a different type of share to the ordinary shares, for example no dividends are paid on the preference shares, however they would be repaid first before ordinary shares in the event of the Company liquidating its assets and only carry voting rights in certain circumstances.
- 1.3 CSWDC has paid dividends on the ordinary shares in recent years as the profits from the Company have allowed. A dividend is declared by the CSWDC Board subject to the performance of the business, the level of distributable reserves and the amount of cash held. A total dividend of £2.4m was received by the Council in 2012/13, through preference share redemption. The Council's Medium Term Financial Strategy currently assumes a £1.33m ordinary dividend in 2013/14 and ongoing, as an estimate of the future likely dividend stream.
- 1.4 Over recent months, the Council, along with Solihull Council, have engaged with CSWDC to see what additional returns the Company might be able to provide to the shareholders given the financial challenges that both Councils face. CSWDC have sufficient distributable reserves and cash to enable up to £3.6m to be released to Coventry and Solihull Council as shareholders in 2013/14. This equates to £2.4m to for Coventry, based on the redemption of preference shares worth £3.6m. As a minimum this secures the achievement of the current £1.33m return included in the MTFs, and will replace the expected ordinary dividends for 2013/14. It is expected that the redemption of preference shares will also generate an additional £1.06m for the Council in 2013/14.

2. Options considered and recommended proposal

- 2.1 The Councils have worked with CSWDC to establish both the level of cash return and the mechanism for its release. The options for release of the returns to shareholders in 2013/14 are through a dividend payment or through a redemption of preference shares.
- 2.2 The option of redeeming preference shares enables CSWDC to approve an increase in the amount of cash they can release from the business in 2013/14, compared to the amount the Council have estimated and budgeted for. This can be used to support the Council's spending plans. This option also has significant benefits for the Company as it strengthens their balance sheet by reducing their liabilities. This in turn strengthens the value of CSWDC to its shareholders.

- 2.3 The recommended option is for a CSWDC to redeem preference shares, up to a maximum of £3.6m, of which £2.4m relates to Coventry City Council. This will reduce the total value of the preference shares Coventry holds in the Company from £7.55m as at 31st March 2013 to £5.15m, releasing the value during 2013/14 in cash.
- 2.4 The redemption of preference shares has no implications for the Council's voting rights or level of control in relation to CSWDC which will remain the same. The preference shares can be redeemed in this way at any time at the option of CSWDC and the shareholders at their face value.
- 2.5 The other option available would be not to redeem the preference shares. However, this is not recommended because the opportunity for additional income through maximisation of its assets during a critical financial period is highly desirable.

3. Results of consultation undertaken

- 3.1 N/A

4. Timetable for implementing this decision

- 4.1 The redemption of preference shares will take place following CSWDC Board approval in December and Shareholder Panel approval, with an anticipated payment date during January 2014.

5. Comments from Executive Director, Resources

5.1 Financial implications

- 5.1.1 The redemption of preference shares provides a significant receipt at a time when capital and revenue resources are constrained.
- 5.1.2 The redemption of up to £3.6m of preference shares will enable the Council to receive an additional £1.06m in 2013/14 than budgeted for in the Medium Term Financial Strategy and ensures as a minimum the £1.33m already budgeted for can be delivered.
- 5.1.3 The repayment of preference shares is a capital receipt. The first £1.33m will be utilised to directly finance the existing capital programme in order to release an equivalent amount of revenue resources currently financing the capital programme. These revenue resources will be used to meet the existing MTFs income target. Any amount above this (£1.06m) will be considered as part of the Budget Setting process and will probably be used to meet the existing procurement savings target in relation to waste, meet the current commercialisation savings target or finance existing capital spend in order to reduce overall borrowing and debt repayment costs.

5.2 Legal implications

- 5.2.1 CSWDC was established in 1992 because waste disposal authorities such as Coventry and Solihull were obliged to arrange for the discharge of their waste disposal functions through a contractor or a LAWDC. The Secretary of State had power, under section 32 of the Environmental Protection Act 1990, to give directions to waste disposal authorities which had not transferred undertakings to waste disposal companies, requiring them to do so. Section 32 of the Environmental Protection Act 1990 was repealed by section 47 of the Clean Neighbourhoods and Environment Act 2005 but Coventry and Solihull have continued to dispose of waste through CSWDC. The shareholder's agreement as amended

does permit the Company to act in the interests of the Company and its shareholders in matters of share transactions.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

This proposal provides additional resources to support the Council in achieving its key objectives.

6.2 How is risk being managed?

The Council through the Shareholder Panel manage risks associated with the shareholding in CSWDC. The CSWDC Board will consider the implications of this transaction as part of its approval.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

There are no direct equalities impacts of this decision.

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

The redemption of preference shares be actioned by CSWDC and will also involve redemption of shares by Solihull Council as the other joint venture partner.

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