
Coventry Shareholder Committee

28th September 2022

Name of Cabinet Member:

Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:

Managing Director for Coventry Municipal Holdings Limited – A Walster

Ward(s) affected:

None

Title:

Annual Performance Report year ended 31st March 2022

Is this a key decision?

No – an update on the position for the last 12 months

Executive summary:

The Annual Performance Report is focused on a backward look over the 12 months of operation April 2021 to March 2022 for Coventry Municipal Holdings and its subsidiaries.

Coventry Municipal Holdings was officially incorporated on 5th November 2021 when it acquired the shares from the Council in the following companies, although the Council remains as the ultimate shareholder for the Group.

- Tom White Waste Limited (Tom White, TW)
- Coombe Abbey Park Limited (CAPL)
- No Ordinary Hotels Limited
- Coventry Technical Resources Limited (CTR)
- Coventry Regeneration Limited

There have been a number of challenges with regards to the financial position for the subsidiaries in the group with the leisure sector recovering from the impact of Covid-19 and Tom White experiencing additional costs mainly due to the reliability of plant, machinery and vehicles as well as additional costs of third party waste disposal.

The Group Governance Agreement requires CMH to produce an Annual Performance Report looking back the operation of the group to the year-end 31st March 2022. The Public Annual Performance Report is appended to this paper.

Recommendations:

Shareholder Committee to:

- (1) Accept the Annual Performance Report for the CMH Group for the year ended 31st March 2022

List of Appendices included:

The following appendices are attached to this report:

- Coventry Municipal Holdings Limited - Annual Performance Report for 2022 (Public)

Background papers:

None

Other useful documents

None

Has it or will it be considered by scrutiny?

Yes – Scrutiny Coordination Committee – 19 October, 2022

Has it or will it be considered by any other council committee, advisory panel or other body?

No – However, a separate report will be submitted to the Audit and Procurement Committee

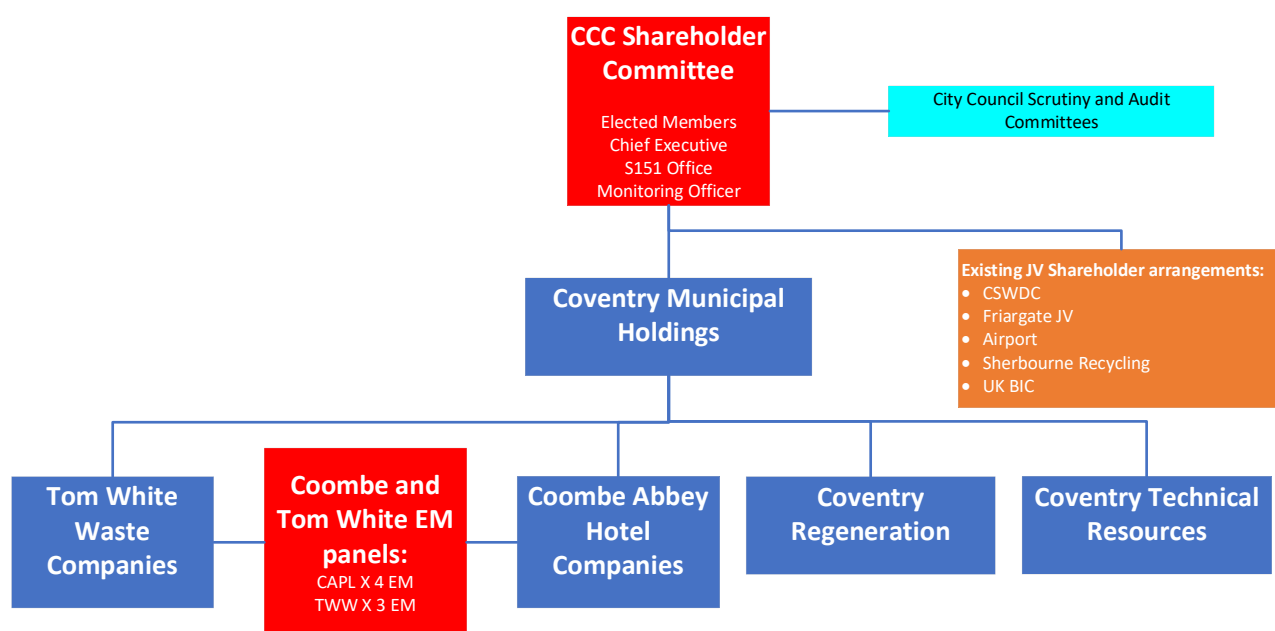
Will this report go to Council?

No

1. Context (or background)

- 1.1. Coventry Municipal Holdings Limited (CMH) group was created on the 5th November; when the company acquired shares in the subsidiaries from the Council and the Council acquired shares in CMH for an equal amount. The diagram below demonstrates the company and governance structure we have in place within the CMH group.

Figure 1: CMH group structure chart



- 1.2. The company has been working with the subsidiaries to embed the policies that make up the Group Governance Agreement. 2021/22 has been focused on strengthening the information that is provided to the Board of Directors and working closely with the Management Teams and Directors to achieve the aspirations of their original Business Plans.
- 1.3. **The companies are yet to receive their final audited accounts, so all figures may be subject to change depending on the audit adjustments that maybe required.** The draft consolidated position for the group is detailed in the Private report. When the audited accounts are available, an updated report will be published to reflect the final performance position.

2. Options considered and recommended proposal

- 2.1. **Option 1 – Do nothing** – the Group Governance Agreement (GGA) is a legally binding document that was entered into by the entities within the CMH group. It sets out the governance and reporting requirements for the group which includes presenting a report on the Annual Performance Report for the Group to the Shareholder Committee each year. This report has been drafted to meet this requirement.
- 2.2. This is not the recommended option.
- 2.3. **Option 2 – to accept the Annual Performance Report** which has been drafted in line with the GGA, to meet the reporting requirements to the Shareholder Committee and ensure transparency and consistency in relation to information on the wholly owned Council investment.

2.4. The Annual Performance Report includes details on:-

- the progress of each Group Member as against the Business Plans and financial projections therein;
- an overview of the Group's financial position;
- a summary of key activities undertaken by each of the Trading Companies and any of their subsidiary undertakings over the preceding Accounting Period;
- a summary of future business developments and opportunities for each Group Member;
- a summary of key risks for the Group and how the HoldCo Board of Directors are seeking to mitigate those risks; and
- any further information that the HoldCo Board of Directors deems to be appropriate for inclusion with the Annual Performance Report.

2.5. The report confirms compliance to the Procurement Policy which is part of the GGA to ensure value for money with procurement activity.

2.6. In July 2022, the Council's Audit Committee received the auditors Annual Report on Company Governance by Grant Thornton. The report made comment on the structure prior to the creation of the CMH group and the adoption of the GGA. The response to the points raised and actions has been included within the Annual Performance report. This detail is available in the appended report.

2.7. Accepting the Annual Performance Report is the recommended option

3. Results of consultation undertaken

3.1. No consultation has been undertaken

4. Timetable for implementing this decision

4.1. Upon approval of this report CMH will notify the subsidiaries that the Shareholder has accepted the performance position for the year ending 31st March 2022.

4.2. The final accounts for each subsidiary will be circulated to the Members of Coventry Shareholder Committee when they are finalised and published on Companies House.

5. Comments from Chief Operating Officer (Section 151 Officer) and Director of Law and Governance

5.1. Financial Implications

The Public Annual Performance Report as appended to this document, includes draft financial information based on the latest unaudited accounts for each entity and as such the figures are likely to change.

The operational performance and financial outturn for the year has been considered for each entity and a consolidated position for the group. The consolidated accounts have been

compiled using merger accounting where any movement in the investment value paid for the shares and the net asset value is held in a merger reserve rather than under the fixed assets category of the balance sheet as goodwill. As the value of the net assets change year on year, this value would be adjusted for in the reserve. This accounting treatment has been adopted on advice of the CMH auditors as it meets the requirements for mergers as a result of a business combination. The value of the shares is only realised at the point we dispose of them. Further details of the impact of the account treatment is available in the Private Report.

No dividends have been declared for the year. Final decisions on whether to offer a dividend to the Shareholder will be made by the Group board of directors when the final audited accounts are received for the Group.

5.2. Legal Implications

CMH has acted in accordance with the Group Governance Agreement which sets out the policies and obligations on the Group. The Group have submitted their confirmation statements and requirements to Companies House on the submission requirement dates. The audited accounts will be submitted to Companies House as soon as they are finalised.

6. Other implications

6.1. How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

The dividend revenue declared by the entities in the group of companies will support the Council to deliver its core aims. We are hopeful that the CMH will be in a position to deliver dividends in 2022-23.

6.2. How is risk being managed?

The risks and mitigating actions that the Group is exposed to are listed below along with the approach to mitigate these risks.

- Political global environment – Subsidiary companies are in waste/ environmental and in leisure, both of which are sensitive to the geo political global environment and may be impacted by matters outside the control of the operating companies or CMH. The Board shall monitor these matters and impacts to performance, mitigate where ever possible, and report the same to the Shareholder Committee from time to time as appropriate.
- Capital risks – the vision and objectives for CMH includes growth of the portfolio of activity of CMH and its subsidiaries in a risk balanced manner through organic growth, further acquisition and investment in business process and infrastructure. There is a risk that there is insufficient capital to take these opportunities forward. One objective for CMH is to explore the possibility of setting up an investment fund to support the group to provide resource to meet the growth aspirations along side the subsidiaries seeking to secure capital through their own financial channels.
- Operational risks - given the growth strategy, there is a risk that the operational team will not have sufficient capacity to move all projects froward. The Group currently has a number of concurrent projects which are utilising the management team for the CMH along with the management teams in the respective subsidiaries. The Board of Directors will monitor the use of resources and redirect or seek to get in additional support as required so not to lose focus on the delivery of the underlying business alongside growth aspirations.

- Liquidity risk – the impact of Covid and current inflationary pressures will have an impact on the leisure market and environmental sectors as well for customers. Where possible the additional costs will be recovered through revenues. All subsidiaries monitor their cashflow on a regular basis to ensure they have sufficient resources to meet the operational requirements. This information is shared with the respective Board of Directors for each company on a regular basis.

6.3. What is the impact on the organisation?

The Group Governance Agreement has been embedded within CMH and the wider group. This will strengthen the governance arrangements and reporting requirements to the respective Board of Directors, Shareholder Committee and Shareholder. The GGA includes details on when and what should be reported as a minimum to the Shareholder Committee to provide transparency on the operations of the arm's length wholly owned commercial companies within the CMH group. In future years CCC should receive dividend income which will go towards delivery of the Council's priorities.

6.4. Equalities / EIA?

No equalities impact assessment has been undertaken.

6.5. Implications for (or impact on) climate change and the environment?

Tom White is a company that operates within the environmental sector. One of the performance drivers for TW has been availability of the plant and equipment to process waste, which has led to a lower recovery of recyclable material and more waste being sent to landfill. The Business Plan that was presented to the Coventry Shareholder Committee in March 2022, included the redevelopment of the material recycling facility which will increase waste recovery from 7% to 70%, reducing waste to landfill and contributing towards a positive impact on the environment.

6.6. Implications for partner organisations?

The report focuses a number of commercial companies, which have a relationship with the Council. Any impact on the Council or these companies as a result of the report is covered in the appended document.

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Finance: Paul Jennings	Finance Manager	Finance	18/09/22	20/09/22
Legal: Julie Newman	City Solicitor and Monitoring Officer	Law and Governance	20/09/22	20/09/22
Director: Andrew Walster	Director	CMH	14/9/22	20/09/22
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