

**A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.**

Coventry Shareholder Committee

**24<sup>th</sup> March 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 – Andrew Walster

**Ward(s) affected:**

All

**Title:**

Business planning cycle for 2023-24 for the Coventry Municipal Holdings Group

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**Is this a key decision?**

Yes - the proposals involve financial implications in excess of £1m per annum and are likely to have a significant impact on residents or businesses two or more electoral wards in the City.

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**Executive summary:**

Coventry Municipal Holdings Limited (CMH) was incorporated in November 2021. As required by the Group Governance Agreement, CMH along with its subsidiaries, present their Business Plans for the year ahead ending 31st March 2024. This report has been prepared to present the key points with the detailed plans appended to the Private report.

Each of the companies is focused on strengthening in their underlying business and building on the existing foundations they have in place, growing their customer base, maintaining the quality of service delivery while managing the increasing cost pressures they are each facing. They each continue to place energy into their strategic development plans, which target increasing the level of financial return that can be provided back to the Shareholder, year on year.

Furthermore, and specifically to 2023/24;

- Tom White (TW) will be focused on the delivery of the Material Recycling Facility (MRF) development approved for development within the 2022/23 business plan, while maintaining their revenue position during the construction phase by using 3rd party recycling processors;

- TW will mobilise their haulage services, intended initially to service the operations of Sherbourne Recycling Ltd, the Councils (and others) municipal material recycling company;
- Coombe Abbey Park Limited (CAPL) will face a challenging year ahead with continued pressure on the hospitality sector and customers with pressure on their disposable incomes and will continue to make prudent management decisions to maintain financial performance;
- CAPL (and its subsidiary No Ordinary Hospitality) will continue to seek further management contracts to diversify its core business and provide market resilience;
- CAPL will also conclude the long term site development plan for the hotel during 2023/24 that will address maintenance issues and offer a significantly expanded customer offer;
- Coventry Technical Resources continues to focus on providing resourcing solutions for the Council.

The business plans set out some of the successes and challenges experienced by the companies this year and present the budget for next year which, in accordance with the Group Governance Agreement, requires Coventry Shareholder Committee approval to proceed.

**Recommendations:**

Coventry Shareholder Committee is asked to:

- (1) Approve the business plans for Coventry Municipal Holdings Limited
- (2) Approve the business plan for Coombe Abbey Park Limited group
- (3) Approve the business plan for Tom White Waste group
- (4) Approve the business plan for Coventry Technical Resources Limited.
- (5) Approve the Group budget as set out in the Private report for Coventry Municipal Holdings Limited and its subsidiaries
- (6) Approve the updated timetable at table 4 under Clause 2.12 below for the approval of the Business Plans and update the Group Governance Agreement to reflect the new timelines

**List of Appendices included:**

None - individual entity business plans are appended to the Private Report

**Background papers:**

None

**Other useful documents**

Public Council Reports – Restructuring Coventry City Council Subsidiaries – 7<sup>th</sup> September 2021

<https://edemocracy.coventry.gov.uk/ieListDocuments.aspx?CIId=130&MIId=12520&Ver=4>

**Has it or will it be considered by scrutiny?**

No

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

No

**Will this report go to Council?**

No

## 1. Context (or background)

- 1.1. Coventry Municipal Holdings Limited (CMH) was incorporated on the 5<sup>th</sup> November 2021 along with the restructure of the wholly owned subsidiaries
  - Tom White Waste Limited (TWW) and subsidiaries: A&M Metals, TW(LACo) (the Teckal company)
  - Coombe Abbey Park Limited (CAPL) and subsidiaries: No Ordinary Hospitality Management (NOHM), Coombe Abbey Park (LACo) (the Teckal company)
  - Coventry Technical Resources Limited (CTR)
  - Coventry Regeneration Limited (CR)
  - No Ordinary Hotels Limited (effectively a dormant company)
- 1.2. The subsidiaries and CMH group present their forecasts for the year ending 31<sup>st</sup> March 2023 and the budgets for the new financial year ending 31<sup>st</sup> March 2024.
- 1.3. The vision for Coventry Municipal Holdings (CMH) is;
  - To provide excellent governance across its own activities and those of its subsidiaries in accordance with the Group Governance Agreement
  - To derive value from commercial activity in line with the strategic corporate objectives that may be used to off-set budget pressures and enhance services delivered by Coventry City Council
  - To have a positive social and environmental impact through its undertakings and activities
  - To grow 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
  - To provide a vehicle for investment
- 1.4. The mechanisms for the delivery of these strategic objectives are included in the Business Plans and summarised in this report.

## 2. Options considered and recommended proposal

- 2.1. **Option 1: Do not approve the Business Plans** – without approval of the business plans the entities will be working outside of the requirements of the Group Governance Agreement and therefore within the existing budgets and may not be able to move forward with plans they have for 2023/24 or contractual agreements they wish to enter into.
- 2.2. The Business Plans are prepared to support each company to grow organically with some investment where required to support the success of the business. Without approval of these plans the companies will not be in a position to meet the strategic objectives they have each set out or to continue to meet the needs of the underlying business.
- 2.3. This is not the recommended option
- 2.4. **Option 2: Approve the Business Plans for CMH Ltd and each subsidiary entity** - each entity has set out their vision and strategic objectives for 2023/24 and beyond in their individual company business plans. For CMH the strategic objectives remain as:

- **Deliver positive social impacts** for the residents of Coventry in the context of both CMH's direct activities, and by delivering 'profit for purpose', off-setting budget pressures with income and dividends derived from CMH and its subsidiaries' activities.
  - **Drive commercial growth through all subsidiaries** and through CMH led initiatives, exploring opportunities for business acquisition, development of new businesses and investment in business process, resource and infrastructure.
  - **Support the delivery of the business plans** of the subsidiaries with resource capability and capacity and investment as appropriate.
  - **Focus the activity of CMH** within the environment and leisure sectors
    - **Environment** sector, with the intention of supporting the Council's climate change strategy with commercial activity that contributes to mitigating climate change, expanding on the activity of Tom White.
    - **Leisure** sector, that supports growth of business in the leisure sector to increase resilience of the existing investment in the sector at Coombe Abbey, and benefit from the growth in the UK leisure sector.
  - **Explore the ability to set up an investment fund** that is capable of supporting investment in the existing subsidiaries and further initiatives that will deliver this business plan.
- 2.5. A summary of the budget for 2023/24 is included in the Private Report. More detailed information for each entity is included in the business plans.
- 2.6. The main areas of focus for each company are summarised below. Further details are available in the entity business plan.
- 2.7. Coventry Municipal Holdings**
- To explore the creation of an investment fund for use across the group, considering the range of financial instruments available and what may be suitable based on the aspirations of the group
  - Standardise the employee benefits offer across the group and where possible enhance the offer to all contracted employees, ideally in a cost neutral way.
  - The senior management team are seeking to appoint a Managing Director across the group within CMH. The timing of this appointment is currently uncertain and as such has not been included in the budget for 2023/24.
  - Explore the back office services provided across the group and see if there is any merit in consolidating these or changing the manner in which they are delivered.
  - There is some further work to do on the group audit and non-audit services contract we have in place based on conversations with the Council's auditors. CMH will lead on these on behalf of the group alongside the Council to ensure the arrangements in place meet the needs of the group and the Council.
- 2.8. Tom White**
- The main capital investment in the year relates the redevelopment of the material recycling facility (MRF) for TWW. This was approved as part of the business plans last year and funding was secured from the Council in October 2022. The investment is focused on enhancing the environmental performance of the Company and for businesses in Coventry, as more material will be recovered for beneficial use rather than disposal and should deliver

zero material being sent to landfill. The business case will be updated ahead of entering into the contract to ensure the project is still within the funding envelope and will deliver the expected financial and non-financial benefits.

- Focus on mobilising the haulage operation to service the Sherbourne Recycling Limited (SRL) contract needs, which commences with the placing of an order for 10 HGVs, the expenditure of which has been previously approved within the 2022/23 business plan.
- Robust cost control across the business, seeking to maximise efficiency where ever possible now that the operational and financial foundations are well established – seeking the marginal gains

## 2.9. No Ordinary Hospitality and Coombe Abbey Park Limited

- Actively market NOHM and the management offer to set the company up as a leisure business across multiple sites and offers focusing on the following market segments; Local Authorities, Historic Trusts and Owner/Operator.
- Invest in the production of a detailed development plan for the hotel, together with detailed business case, for Board consideration for implementation in 2023/24 – looking at site redevelopment at Coombe to increase bedroom numbers and additional guest amenities
- Greater focus on operational costs as these continue to increase, looking for new ways of operating to protect margins over the coming year and beyond
- Delivery of the Paid Play Facility within Coombe Park and the associated catering outlet

## 2.10. Coventry Technical Resources

- CTR will continue to respond to the needs of the City Council during 2023/24, and is anticipating a number of further posts to be established and services offered back to the Council accordingly.

2.11. **Update to Group Governance Agreement** - The Business Plans are key documents for the companies to move forward to achieve the projections and objectives set out above.

2.12. There has been a delay in the creation of the Business Plans for each trading entity and then subsequently a delay in the group Business Plans each year. The Group governance agreement sets out the current timelines for approval but it is difficult to adhere to these based on other commitments in the trading entities. To resolve this going forward, it is proposed that the timescales are revised to make them more realistic and achievable for the trading entities, CMH and Shareholder Committee. The table below sets out the current dates in line with the GGA and the new proposed dates. The Group governance agreement would be updated to reflect the new timescales if this is approved.

**Table 1: Proposed dates for the approval of the Business Plans**

	<b>Current</b>	<b>Proposed</b>
Entity plans to CMH Board	31st Oct	7th Jan
CMH to provide feedback on entity Business Plans	30th Nov	28th Jan
CMH Board approve entity Business Plans	30th Nov	4th Feb
CMH Group Business Plan to Shareholder Committee	31st Dec	16th Mar
Final CMH Group Business Plan with any feedback from Shareholder Committee submitted for review	31st Jan	16th Mar
Shareholder Committee approve CMH Group Business Plans	28th Feb	25th Mar
Each Business plan formally adopted	1st Mar	31st Mar

2.13. Approval of the Business Plans is the recommended option along with the proposed changes to the Group Governance Agreement timeline for seeking approval.

### **3. Results of consultation undertaken**

3.1. No consultation undertaken

### **4. Timetable for implementing this decision**

4.1. Upon approval the Business Plan will be used to set the Budget for 2023/24 for each entity.

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

#### **5.1. Financial Implications**

##### **Expected financial position**

The budgets as set out in Private Report indicate that the group may be able to declare dividend in 2023/24 which will be revenue income for the Council. Each entity would declare a dividend that would go to CMH to then be passed onto the Council. The dividend will be paid subject to available cash in the business.

##### **Strategic financial overview**

The financial position falls short of the expected returns on the acquisition of the two larger subsidiaries. Since the acquisition of CAPL in December 2017 the turnover of the hotel operation alone has increased by 11% (forecast to 31st March 2023) as well as the addition of a further 10 business units across 4 sites. The business was affected by Covid 19 due to lockdown and the impact this has had on the hospitality sector. The company has sought to secure revenue through events, weddings, food and beverage outlets and diversifying their business portfolio through the provision of management contracts. This has supported revenue growth in the business, but the company has experienced higher than expected costs, affected by Covid 19, Brexit and the rising cost of inflation which has seen increases in the cost base from staffing to food and beverage and beyond, which cannot be fully recovered through increased prices and as such reduces the margins achieved by the business. NOHM is actively pursuing other management contracts and opportunities to grow the business utilising the skills and experience of the management team and wider workforce to generate revenue to ultimately make returns to the shareholder in the future .

CAPL has continued to meet the contractual payments due the Council in relation to rent, revenue and profit share on some of the catering outlets and repayment of the commercial loan arrangements in place, providing a return to the shareholder in a more tax efficient manner.

When TWW was acquired in March 2020, since the acquisition there have been unexpected costs associated with the operation of the fleet, lower availability of equipment, increased expenditure of repairs and maintenance and the impact of Covid19 and Brexit, which have affected the level of dividends that the underlying business can declare. The investment in the new MRF will help to increase the financial performance of the business and as a result will lead to an improved return to the shareholder from financial year 2024/25 onwards. A dividend was declared by TWW following acquisition of £0.5m, this is due to be paid to CCC in 2023/24. Although Tom White Waste has been supporting the Council during the industrial

action, there is ongoing work to do to consider how the two commercial waste operations can work more efficiently together.

### **Utilisation of Cash**

CTR holds legacy cash that will remain in CTR until such time they are required by the Council or if approval is granted to utilise these within the group as part of the investment fund. This would require approval through the usual channels.

### **Audit arrangements**

For the year accounts to be produced for 22/23, the companies will all fall under the same external auditor, LDP Luckman's. The cost for Audit Services and Corporation Tax advice has been built into the budgets and will be incurred by each respective entity. There has been discussion with Grant Thornton in relation whether the audit and non-audit services should continue to be delivered by the same company. These conversations are ongoing and the ideal arrangement for the Council and the group will be implemented going forward.

## **5.2. Legal Implications**

The decisions which are being made are in compliance with the Terms of Reference of Shareholder Committee and align with the Group Governance Agreement and the Delegations Policy.

### **Other implications**

## **5.3. How will this contribute to the achievement of the council's key objectives / corporate priorities (corporate plan / scorecard) / organisational blueprint / LAA (or Coventry SCS)?**

The future dividend revenue declared by the entities in the group of companies will support the Council to deliver its core aims. The investment being pursued by TWW for the developed on a new material recycling facility will deliver environmental benefits through greater recycling and extraction of recyclable materials rather than a focus on waste disposal. A number of the contracts in place with Coombe Abbey Park (LACo) support making Coventry an attractive and enjoyable place to be through the leisure offer they provide.

## **5.4. How is risk being managed?**

The risks and mitigations for the entities are detailed in each entity business plan. There is a risk in relation to the Council's commercial investments and the role that CMH plays in mitigating this risk on the Council's Corporate risk register. This risk is being presented to Audit Committee on the 20<sup>th</sup> March for addition to the Corporate Risk Register.

It is noted that the subsidiary companies are in waste & environment (construction) 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 of CMH. The Board shall monitor these matters and impacts to performance of CMH, mitigate where ever possible, and report the same to the Shareholder Committee from time to time as appropriate.

## **5.5. What is the impact on the organisation?**

CCC should receive dividend income which will go towards delivery of the Council's priorities. CMH is forecasting to deliver a dividend based on the financial performance expected during 2023/24. Dividends will be declared if and when the businesses are in a position to make this payment and the respective officers will be informed within the Council.



**5.6. Equalities / EIA?**

No Equalities impact assessment has been undertaken.

**5.7. Implications for (or impact on) the environment?**

The investment in the new material recycling facility should send zero waste to landfill, use less diesel fuel and is exploring the installation of solar PVs on the building. All of these initiatives will have a positive impact on the environment through carbon reduction and a greater focus on waste recovery which can then be sold on the commodity market or used as a fuel source.

**5.8. Implications for partner organisations?**

The Business Plans for each entity have been prepared by the respective organisation with support from CMH Board. Any impact on partner organisations has been covered in the Business Plans.

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