



Audit and Procurement Committee

29 January 2024

Name of Cabinet Member:

Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:

Director for Streetscene and Regulatory Services and Managing Director for Coventry Municipal Holdings Limited – A Walster

Ward(s) affected:

None

Title:

Coventry Municipal Holdings Limited Audit Committee Report

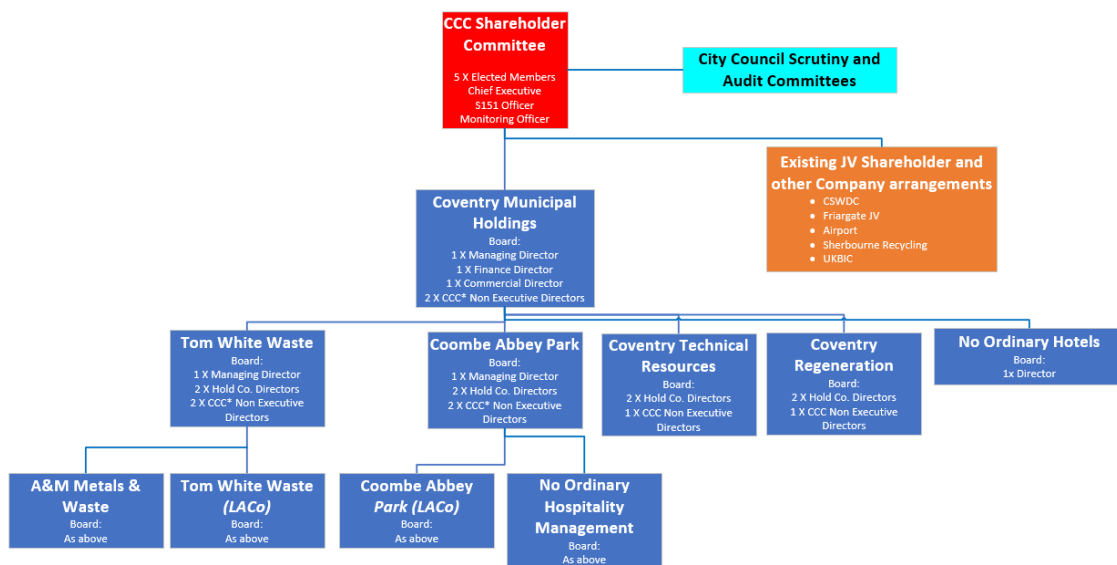
Is this a key decision?

No

Executive Summary:

On the 5th November 2021, Coventry City Council incorporated Coventry Municipal Holdings Limited (CMH) and restructured their wholly owned company investments. The organisational structure in Figure 1 was implemented to strengthen their governance arrangements to ensure companies are managed in a robust and transparent manner.

Figure 1: Structure of the CMH Group of companies



A key legal document called the Group Governance Agreement (GGA) was developed to provide the governance framework for Coventry Municipal Holdings Limited (CMH), the

parent for the Councils wholly owned investments. The GGA stipulates that CMH should produce an Annual Performance Report looking back at the operation of the Group to the year-end and produce a summary to Internal Audit.

This report looks at the year ending 31st March 2022 and 31st March 2023 for the CMH group of companies based on their audited accounts which are available at Companies House. The accounts for the year ending 31st March 2023 for Coombe Abbey Park Group and Coventry Municipal Holdings Group are currently being audited with an extension for filing granted to the 31st March 2024 and as such will not be included in this report. The accounts will be available at Companies House once the audit process has been completed and the numbers are finalised.

Recommendations:

Audit and Procurement Committee is recommended to:

- (1) Consider the financial position as reported in the Annual Accounts for the companies to 31st March 2022 and 31st March 2023.
- (2) To make any recommendations to the Coventry Shareholder Committee arising from this meeting.

List of Appendices included:

The following appendices are attached to the report:

Appendix 1 – CMH Group accounts for the year ending 31st March 2022

Appendix 2 – Coombe Abbey Park Limited Group Accounts for the year ending 31st December 2021

Appendix 3 – Tom White Waste group accounts to the year ending 31st March 2022

Appendix 4 - Coventry Technical Resources Limited accounts to the year ending 31st March 2022

Appendix 5 – Coventry Regeneration accounts for the year ending 31st March 2022

Appendix 6 – No Ordinary Hotels Limited accounts to the year ended 31st March 2022

Appendix 7– Tom White Waste group accounts to the year ending 31st March 2023

Appendix 8 – Coventry Technical Resources Limited accounts to the year ending 31st March 2023

Appendix 9 - Coventry Regeneration accounts for the year ending 31st March 2023

Appendix 10 – No Ordinary Hotels Limited accounts to the year ended 31st March 2023

Background papers:

None

Other useful documents

None

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, however a report on this matter was considered by Coventry Shareholder Committee 26th September 2023 and Scrutiny Co-ordination Committee 25th October 2023

Will this report go to Council?

No

Report title: Coventry Municipal Holdings Limited Audit Committee Report

1. Context (or background)

- 1.1. Council resolved in September 2021 to create a holding company structure to manage their wholly owned Council investments. Coventry Municipal Holdings Limited was incorporated on the 5th November 2021 along with the restructure of the wholly owned subsidiaries from the Council to move under CMH (see **Error! Reference source not found.** in Executive Summary).
- 1.2. The CMH group includes the following companies:
 - 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)
- 1.3. The vision for Coventry Municipal Holdings (CMH) for 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 reorganisation of the Council's external companies through CMH provides strong strategic leadership which, in turn will:
 - deliver sustainable growth across existing commercial investments
 - identify and execute opportunity for investment in new initiatives and opportunities; and
 - seek to increase the financial return to the shareholder, Coventry City Council, to help offset other frontline service budget pressures
- 1.5. CMH and the trading subsidiaries signed a Deed of Adherence which confirmed their agreement to meet the requirements under the Group Governance Agreement (GGA). This legal document is the framework that each entity complies with in relation to

company governance with information on the make-up and role of the Board of Directors, Shareholder Committee and the delegations for decisions at the various levels in the structure. In addition to this, the GGA also covers the reporting requirements and information for Business Planning and budgets and the Annual Performance Report. Appended to the GGA are the following policies:

- Delegations Policy
- Conflicts Policy
- New Subsidiary Policy
- Council Contracting Policy
- Procurement Policy
- HR Risk Policy

- 1.6. Each of the entities produce their own accounts and then a consolidated set of accounts is created at the CMH group level. A high level review of the accounts for each entity is included below with a consolidated report at CMH.
- 1.7. There were 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 operating costs, higher material disposal costs, together with the correction historic accounting practices. These factors have affected the financial performance as reported.

2. Options considered and recommended proposal

- 2.1. **Adherence to the Group Governance Agreement** – Each of the trading entities has adhered to the requirements under the GGA. Decisions which have required escalation to CMH Board or Shareholder Committee have been taken to the respective Boards for approval. Each of the entities have complied with the Council Contracting Policy and Procurement Policy.

- 2.2. **Coventry Municipal Holdings Limited accounts to the year ending 31st March 2022** – the company accounts reflect the consolidated position from the time the company was incorporated 26th October 2021 to 31st March 2022 (Appendix 1). The key elements of the accounts are summarised below:

- A consolidated turnover of £12.7m due to the shorter accounting period and a reported loss before income tax of £0.6m mainly due to the loss for TWW (see section 2.4)
- CMH received a one off working capital grant from the Council to manage cash flow and the operation of the business. This is reflected on the balance under the equity section as capital contribution reserve
- The accounts have been consolidated based on the merger accounting basis which reflects the movements with entities under common control without inflating the balance sheet. Any movement in the investment value paid for the shares and the net asset value for each entity will be 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 as required, in the reserve. This accounting treatment has been adopted as it meets the

requirements for mergers as a result of a business combination. The value of the investment in the company shares is only realised at the point we dispose of them.

- On incorporation CMH acquired shares in the subsidiaries at value of £20.199m, which was equal to the long term investment value on the Council's balance sheet at the time. This will be compared to the net asset value at the point of acquisition with any difference recorded and held in the merger accounting reserve. A movement of £11.5m is reflected on the balance sheet largely due to the impact of Covid-19 on the trading performance for the CAPL and the loss reported in TWW due to the depreciation written off in year.
- Overall the accounts show a total assets position of £45.6m equity and liabilities companies.

2.3. **Coombe Abbey Park Limited Group Accounts to the year ending 31st December 2021** – the accounts for the company ran from January to December 2021, but the accounts currently being audited reflect the change in year end to the 31st March 2023 to align with the wider group. The accounts covering the 15month period to the 31st March 2023 are not available at this time. CAPL has been granted an extension of time for filing for these accounts based on accounting treatment and the impact of a new financial system. The accounts for the company that are available at Companies House to 31st December 2021 (See Appendix 2) are summarised below:

- There was limited trading during the first 6 months of 2021 due to the impact of Covid-19 closures and restrictions placed on the hospitality sector, with the hotel being fully operational from July 2021. This has led to a turnover of £6.77m (up from £3.4m in 2020) and a reported loss before tax of £0.47m compared to £2.4m 2020
- The business has been affected by Brexit and the challenges this has bought in relation to supply chain and the new Immigration Policies for Sponsor, minimum wage increases have all affected staffing and costs.
- The company has fixed assets of £8.9m and the liabilities include the commercial loan of £8.1m in place with the Council which was partly refinanced in year. The balance sheet includes £0.07m which was a preference dividend from previous years which continues to sit as a liability on the accounts.
- The company balance sheet shows a reduction in the net assets to £1.8m due to the reported loss in year. This net assets position is made up of £3.3m in share capital and a negative profit and loss reserve balance of £1.5m based on the loss achieved in the current and previous year. For the company to be in a position to declare a dividend the balance on the profit and loss reserve would need to be positive.
- During 2021 the hotel employed 192 people at a cost of £3.25m (including on costs)
- The company ended the year with £0.3m cash on the balance sheet.
- The accounts do not reflect the impact of the contracts secured from January 2022 onwards for St Mary's Guildhall, the food and beverage concessions in War Memorial Park, the contracts with Stoneleigh Abbey or IXL which will all feature in the accounts to the year end of 31st March 2022.

2.4. Tom White Waste Accounts (TWW) to the year end 31st March 2022 – the accounts for the company reported (see Appendix 3):

- Turnover of £17.2m (30% increase from the previous year), although gross profit (revenue less the cost of sales) decreased by 4.6% to £3.97m in the year compared to £4.16m the year before
- The reported loss before taxation was £3.44m mainly due to the impact of depreciation in year of £2.24m, which is included in the accounts under administrative expenses. This was due to the company reassessing their accounting policy for the management of fixed assets and changing the useful economic life of the assets to reflect a true position. Leading to a larger proportion of depreciation being written off in the year.
- The company has a strong balance sheet with fixed assets at £12.1m and net assets of £3.34m
- Liabilities include a bank loan which is the mortgage on the site of £3.2m and £3.06m under finance leases mainly for the vehicles and equipment on site
- The accounts reflect the £0.5m dividends declared in the previous year to the Shareholder and a cash balance at the bank of £0.47m
- Overall the company employed 147 people during 2021/22 at a cost of £4.36m (salary and on costs)

2.5. Coventry Technical Resources Limited Accounts to the year ending 31st March 2022 – the accounts for the company (Appendix 5) show:

- a turnover of £0.4m which is the recovery of the costs incurred plus a small margin to provide resource solutions to the Coventry City Council under a series of contracts. The company employed an average of 5 people in the year
- The company generated a small profit of £0.006m in year
- The company does not have any fixed assets and the balance sheet has net assets of £2.78m mainly due to the cash balance of £2.7m which reflects the proceeds from the sale of shares in Arena Coventry Limited which is due to paid to the Council

2.6. Tom White Waste Accounts (TWW) to the year end 31st March 2023 – the latest audited accounts for the Tom White Group are available on Companies House (Appendix 7) and summarised below:

- Revenues increased by 25% from £17.2m to £21.6m in 2023 with a 52% increase in gross profit from £3.97m to £6.03m during the year.
- The consolidated position at year end was a loss of £0.3m for the year ending 31st March 23 compared to a loss in the year before of £3.3m.
- The balance sheet remains in a strong position with total assets of £18.9m an increase of £2m from the previous year.
- The accounts make reference to the commercial loan that was approved by Coventry City Council in October 2022 for financing the new material recycling

facility. The Board of Directors for Tom White's took a commercial decision to no longer proceed with this project and as such will not be drawing down any further funds in 2022/23.

2.7. Coventry Technical Resources Limited Accounts to the year ending 31st March 2023 – the accounts for the company (Appendix 8) show:

- A turnover of £0.38m which is the recovery of the costs incurred plus a small margin to provide resource solutions to the Coventry City Council under a series of contracts. The company employed an average of 5 people in the year
- The company generated a small profit of £0.007m in year
- The company does not have any fixed assets and the balance sheet has net assets of £2.77m mainly due to the cash balance of £2.7m which reflects the proceeds from the sale of shares in Arena Coventry Limited which is due to paid to the Council

2.8. As well as the companies discussed above the group also includes Coventry Regeneration which has a small profit before tax of £0.001m and No Ordinary Hotels Limited which is effectively dormant.

2.9. The recommended option is to consider the accounts to the year ending 31st March 2022, 31st March 2023 (where available) and where required, provide any recommendations to Shareholder Committee that can be considered as part of the .

3. Results of consultation undertaken

3.1. No consultation undertaken

4. Timetable for implementing this decision

4.1. These accounts are already available on Companies House. The audit is underway for the accounts to the year ended 31st March 2023 for Coombe Abbey Park Limited and its subsidiaries and Coventry Municipal Holdings Limited whose accounts cannot be prepared until all the subsidiary accounts are ready as they are consolidated into group accounts for CMH. These accounts have been granted an extension for filing until the 31st March 2023 and which will be shared when available.

5. Comments from Chief Operating Officer (Section 151 Officer) and Chief Legal Officer

5.1. Financial Implications

The accounts have been consolidated based on the merger accounting basis which reflects the movements with entities under common control without inflating the balance sheet. Any movement in the investment value paid for the shares and the net asset value for each entity will be 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 as required, in the reserve. This accounting treatment has been adopted as it meets the requirements for mergers as a result of a

business combination. The value of the investment in the company shares is only realised at the point we dispose of them.

On incorporation CMH acquired shares in the subsidiaries at the value that was equal to the long-term investment value on the Council's balance sheet at the time. This will be compared to the net asset value at the point of acquisition with any difference recorded and held in the merger accounting reserve. This would normally be considered as goodwill under the assets of the balance sheet.

The consolidated accounts for CMH are based on International Financial Reporting Standards whereas the entity accounts for TW and CAPL will be based on UK Generally Accepted Accounting Practice (UKGAAP) where there are some differences in the accounting standards being applied, a relevant example of this is IFRS16 accounting for leases standard. Under IFRS 16 there are now a number of leases appearing on the Statement of Financial Position (balance sheet) as part of the non-current (fixed) assets which would not have been treated as such under UK GAAP.

No further dividends were declared in years reported. Although dividends of £0.5m for Tom White Waste and £0.07m for Coombe Abbey Park Limited are due to the Council from previous years. This is in addition to the £1.2m received annually from CMH companies in rent, and financing costs.

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 decisions being made are in compliance with the Terms of Reference of Shareholder Committee and align with the Group Governance Agreement and the Delegations Policy. The group have submitted their confirmation statements and requirements to Companies House on the submission requirement dates. The audited accounts for the year ending 31st March 2023 will be submitted to Companies House as soon as they are finalised.

6. Other implications

6.1. How will this contribute to the One Coventry Plan?

<https://www.coventry.gov.uk/onecoventryplan>

Any income or dividend revenue declared by the entities in the group of companies will support the Council to deliver its core aims. TWW continue to pursue projects which will deliver environmental benefits through greater recycling and extraction of recyclable materials rather than a focus on waste disposal. Coombe Abbey Park continues to support making Coventry an attractive and enjoyable place to be through the leisure offer they provide.

6.2. How is risk being managed?

The risks and mitigations for the entities are detailed in each entity business plan which is presented and approved by Shareholder Committee in March each year.

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 will monitor these matters and impacts to performance of CMH, mitigate where ever possible, and report the same to the Coventry Shareholder Committee from time to time as appropriate.

6.3. What is the impact on the organisation?

The companies should deliver dividend income along with the existing income streams of rent and financing costs in future years 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?

The group is taking steps to reduce energy consumption, waste and increase recycling. The core values for Tom White Waste Limited support this with Project Our Planet being at the heart of how the business operates. Tom white has recycled more than 103,000 tonnes of material in 2022 in the UK.

The entity with the largest energy consumption within the group is Tom White Waste Limited. The company has generated 4,115 tonnes of carbon dioxide from the combustion of fuel equivalent to c30kg of carbon dioxide per tonne of waste during 2021/22. Through the activities of the business the company has consumed c639,000 KWh of electricity equivalent to 161,728kg of carbon dioxide.

Steps have been taken to increase energy efficiency with 80% of the fleet vehicles utilising white diesel now Euro 6 compliant. The company car fleet has been converted from internal combustion engine to hybrid to fully electric.

6.6. Implications for partner organisations?

Any impact on partner organisations is covered in each respective company Business Plans which is being prepared for the forthcoming financial year.

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