

Report subject	Annual review of housing wholly owned companies
Meeting date	23 June 2021
Status	Public Report
Executive summary	<p>This report provides a review of the following four companies - Seascope Group Limited, Seascope South Limited (SSL), Seascope Homes and Property Limited (SHP) and Bournemouth Building Maintenance Limited (BBML).</p> <p>The report sets out the growth plans for each company, an operational update from the last year and the 2021/22 annual plan for each.</p> <p>The Seascope Group, including its two subsidiaries SSL and SHP, has much scope for growth in activity and sizeable income generation opportunities as a result.</p> <p>SSL has been impacted by the Covid pandemic during the last year, but plans are in place for recruiting additional senior commercial expertise and capacity and to bring this forward as soon as possible in line with the Council's Smarter Structures programme. This additional capacity will develop opportunities, drive marketing and promotion, manage contract growth and drive forward operational efficiencies.</p> <p>Staffing resources are already being scaled-up to ensure the capacity to deliver the ambition for SHP. SHP will increase its property portfolio within management as a result of a scaled-up property acquisition programme by the Council over the next few years and as part of the emerging Council New Build and Acquisition Strategy (CNHAS). SHP will also provide a delivery vehicle for building out the pipeline of Council owned sites for private rent or private sale homes.</p> <p>A review of BBML operations has commenced to look at the current mixed model of employment and delivery across the Property Maintenance teams. The review is ongoing and will be brought to Cabinet for consideration in a separate report.</p> <p>This report recommends that Hixsons Limited is appointed for a further year in order to audit the 2020/21 company accounts.</p>

Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <p>(a) Supports the plans to further grow the two Seascope Group subsidiaries</p> <p>(b) Approves the appointment of Hixsons Limited as the external auditor for BBML, Seascope Group Limited (SGL) and MD Care to audit the 2020/21 company accounts.</p> <p>(c) Approves the appointment of Paul Whittles, Finance Manager, as temporary Director of Finance for Seascope Group Limited.</p>
Reason for recommendations	<p>The Seascope Group subsidiaries – SSL and SHP - provide valuable services and will generate additional income to BCP Council as the sole shareholder to help continue delivering Council services to vulnerable people.</p> <p>It is a requirement of the Shareholders Agreement for both BBML and SGL that authority is sought from the Council as sole shareholder for the appointment the external auditor and for the appointment of Directors.</p>
Portfolio Holder(s):	Councillor Robert Lawton, Portfolio Holder for Homes
Corporate Director	Kate Ryan – Chief Operating Officer
Report Authors	Lorraine Mealings – Director of Housing
Wards	Council-wide
Classification	Decision

Background

1. The Council has a number of wholly owned companies in place within Housing that deliver valuable services and provide benefits to the Council as the sole shareholder. This report provides a review of the following 4 companies - Seascope Group Limited, Seascope South Limited (SSL), Seascope Homes and Property Limited (SHP) and Bournemouth Building Maintenance Limited (BBML).
2. The following sets out the growth plans for each company, an operational update over the last year and the 2021/22 annual plan for each company.

Seascope Group Limited

3. Seascope Group Limited is a 100 per cent owned Council Company, with BCP Council as the sole shareholder. It has two subsidiaries – SSL and SHP.
4. It is a requirement of the Shareholders Agreement between the Council and Seascope Group Limited that the company produces a medium term five-year

strategic plan which was approved by Cabinet in May 2020 – ‘Seascope Group Limited 5 Year Strategic Plan (2020-25)’.

5. The five-year strategic plan is based on a step-change in growth, innovation and ambition, operating across the wider BCP geography, maintaining customer focus, investing in supporting staff and ensuring sizeable income generation to help financially support the delivery of valuable services for BCP Council as the sole shareholder.

Seascope South Limited - Ambition

6. The five-year Strategic Plan for Seascope South Limited (SSL) involves being a trusted contractor of choice for the wider BCP Disabled Facilities Grant (DFG) programme works across BCP, providing adaptation works for people living independently. This will involve incrementally growing to a turnover of over £900,000 per year within five years.
7. SSL is also committed to grow the provision of construction services to additional private sector customers across BCP. Core services will be consolidated as the DFG works programme is expanded. The service will be streamlined to drive through efficiencies and secure an excellent base on which to further grow. Additional staffing is proposed during 2021/22 involving an additional £100,000 investment. Additional investment in terms of staffing capacity and entrepreneurial expertise is essential to bring an exciting step-change in activity as we move forwards over the next few years. This is needed to develop and deliver a marketing strategy, test the local market, ensure access to the labour force we need and to secure the additional business in what is a competitive market.

Seascope South Limited – 2021/22 Plans

8. The last year of SSL activity has been significantly affected by the Covid pandemic with many of the work programmes having stopped during lockdowns. The DFG programme and many of the construction and refurbishment programmes were closed for a period of time due to our duty of care to both staff and customers. All works have since been carefully opened back up with robust risk assessments and staff trained in safe practices. Productivity when returning to site has been slower than normal due to the need to circulate trades with adequate social distancing.
9. The end of year financial position for SSL was not as positive as expected due to the pandemic, with an end of year outturn for 2020/21 forecast of £7,000 profit before tax compared to a budget of £73,000.
10. Plans have been reviewed for the coming year. The project plan involves the recruitment of additional senior commercial expertise and capacity and to bring this forward as soon as possible within the Council's Smarter Structures staff restructuring programme. This additional capacity will develop opportunities, drive marketing and promotion, manage contract growth and drive forwards operational efficiencies, building on the 'Moving Forwards' efficiency programme which has been in place for nearly 12 months now. The growth plan will also involve scaling up resources within the aligned DFG team to deliver the extended programme.

Seascope Homes and Property Limited - Ambition

11. Seascope Homes and Property Limited (SHP) is committed to growing and providing housing options through a lettings solution for homeless households. It will continue to expand its portfolio of properties for homeless purposes across the wider Bournemouth, Christchurch and Poole area.

12. SHP is also planned to grow its Private Rent Sector (PRS) activity by renting properties out at full market rent levels. Additional investment is needed at key points during the five-year plan to secure further staffing capacity and marketing expertise to help ensure the delivery of a robust upmarket rental offer to this client group.
13. The ambition is for SHP to also directly build homes on Council owned land, primarily homes for private rent and private sale. Council owned sites have already been identified which will deliver more than 1,000 new homes over the next five years and the ambition is that a proportion of the private homes within that programme would be built within the Seascope Group. The financial benefits of this activity cannot yet be quantified but the ambition is for this growth area to significantly contribute to the short, medium and long term financial pressures faced by the shareholder, BCP Council. The resulting PRS homes will be let through SHP.

Seascope Homes and Property Limited – 2021/22 Plans

14. The property acquisitions made by the Council which are subsequently leased to SHP have slowed during the pandemic due to lockdown restrictions. The programme however has since commenced. Further acquisitions are being financially supported by a successful allocation of grant funding from the Ministry of Housing , Communities and Local Government's (MHCLG) Next Steps programme to support move-on for people at risk of rough sleeping who were brought into accommodation during the pandemic. Further MHCLG funding rounds since the initial tranche are currently being actively pursued.
15. Existing properties managed in SHP continue to be well managed and occupied by those finding themselves homeless, with some properties accommodating those who were covid positive and became homeless during the pandemic. The new build private rented sector scheme owned by BCP Council – Treetops –was slightly delayed in its completion and lettings by several months but almost all 46 properties were let by the end of the 2020/21 financial year through SHP.
16. As at the end of 2020/21, SHP managed 61 properties for the Council, from a total of 98 properties purchased by the Council since 2016 as part of the homeless acquisition programme totalling £45 million. The remaining properties are managed by the Council directly on non-secure homeless tenancies. The total additional 98 properties have created 206 lettable homes including self-contained properties, rooms in Houses of Multiple Occupation and family hostel places.
17. SHP continues to deliver good alternative accommodation to households who would otherwise be placed in bed and breakfast accommodation. It continues to deliver the financial savings of an estimated £7 million total to date through the avoidance of Housing Benefit local subsidy payments and secures further savings for the Council in terms of bad debts for rent deposit loans that would ordinarily have been paid to those securing private rented accommodation. In addition, the asset value of properties purchased since the Council's acquisition programme has continued to increase.
18. The end of year financial position for SHP was not as positive as expected due to the pandemic, with an end of year outturn for 2020/21 forecast of £19,000 loss compared to a budgeted loss of £3,000.
19. The growth of SHP is such that staffing resources are already being scaled up to ensure the right capacity. SHP will increase its property portfolio within

management as a result of a scaled-up property acquisition programme by the Council over the next few years. This extended acquisition programme will be set out in the emerging Council New Build and Acquisition Strategy (CNHAS) to be considered by Cabinet later this year. Properties will be purchased by the Council and leased to SHP for renting on assured shorthold tenancies to those who are homeless and rented out at full market levels to others.

20. The emerging CNHAS will also confirm SHP as one of several delivery vehicles for building out the pipeline of Council owned sites for private market rent or private sale homes. SHP has not built any properties to date. The Council is committed to building at least 1,000 new homes on its own sites over the next five years. These extended activities involve ambitious financial investment by the Council, will help meet the Council's strategic priorities around housing whilst also creating income generation to support budgets.

BBML

21. Cabinet approved the set-up of BBML in March 2014 as a trading company. BBML was created as a response to the need to transfer maintenance staff working on Council housing from an external contractor, involving approximately 80 staff at the time. The company model provided employment at a reasonable cost and with minimal disruption. The company was also established with the aim 'to trade building services commercially in the private sector to meet funding shortfalls for the Council'.
22. BBML is a teckal company, wholly owned by the Council as the sole shareholder and reports directly to Cabinet with a Board of Directors alongside the Seascope Group.
23. BBML employees are mainly operatives working on repairs, maintenance and construction projects whilst others work in back office roles across various teams as well as Parks staff employed through BBML – approximately 200 staff in total.

BBML – future direction

24. A review involving a multi-disciplinary working party was convened during 2020 to undertake due diligence on the operational efficiency of BBML activity in the wider context of BCP Council. The working party included expert input from Housing, Property Maintenance, Finance, Legal Services, Internal Audit, Project Management and HR. It considered the current mixed model of employment and delivery across the Property Maintenance teams to ensure reliable strategic and financial oversight. Consideration was also given to the need for an operating model that will provide an effective and streamlined base position on which to build further improvements, efficiencies, and form part of the Council's wider transformation programme. There are a number of delivery models in place across the Council's Property Maintenance service and in addition to the working party, the 'Moving Forwards' efficiency programme has considered the delivery of the service and will be further assisted by engagement with the Council's Strategic Implementation Partner. Because of the operational complexities of the current delivery, a separate report will be presented to Cabinet so that full consideration can be given to any proposals on the future direction of BBML.

Governance

25. An internal audit was undertaken of the four companies in 2020 and identified a number of governance issues that required improvement. Work has been

undertaken since this time to move the various recommendations forwards including delivering specialist training for Directors, developing strategic plans for each of the companies, ensuring visibility of the companies through reporting to Cabinet/Council and approving the permanent recruitment of a Company secretary resource.

26. Importantly, Directors across all companies have been involved in detailed discussions alongside key officers over the last year to shape the future direction and delivery for the companies.
27. Despite the capacity taken up during 2020/21 with addressing the demands from the pandemic and the pauses in multiple work programmes due to lockdown rules, there has still been progress and momentum to review company plans to help maximise the opportunities that they bring.

Auditors

28. Hixsons Limited was appointed to audit the 2019/20 accounts for the BCP Council owned companies Bournemouth Building and Maintenance Limited (BBML), Seascope Group Limited (SGL) and MD Care and this report recommends that Hixsons Limited is appointed for a further year in order to audit the 2020/21 company accounts. It is a requirement of the Shareholders Agreement for both BBML and SGL that authority is sought from the Council as sole shareholder for the appointment of the external auditor. It should be noted that as MD Care is no longer trading, only an accountant's certificate is required and not a full audit.
29. A procurement exercise based on price and quality was conducted in April 2020 to appoint an external auditor for the Council owned companies for the 2019/20 financial year. This was necessary due to the resignation of the previous auditor, Grant Thornton UK LLP, who are also the external auditors for BCP Council. As this was the first time that the Council owned companies would have a different external auditor to the Council it was decided that in order to test the market the appointment would be for one year with a further tender exercise being conducted for a longer term solution. This arrangement was approved at the July 2020 Cabinet meeting and Hixsons Limited were appointed.
30. Due to the impact of the pandemic in delaying the completion of the audit to March 2021, and the resources that the finance team has diverted to ensure the financial stability of the Council and its wholly owned companies, the tender exercise has not been possible. This report recommends that Hixsons Limited is appointed for a further year in order to audit the 2020/21 company accounts.
31. Hixsons represented the best value for money in the previous procurement exercise and have conducted an efficient audit of the 2019/20 accounts. The fees proposed by Hixsons Limited for 2020/21 are shown in the table below.

Company	Proposed Audit Fee £		Increase £
	2019/20	2020/21	
MD Care	1,000	600	(400)
BBML	4,000	4,600	600
Seascope Homes & Property	3,000	3,600	600
Seascope South	3,000	3,600	600
Seascope Group	1,500	2,100	600
Total	12,500	14,500	2,000

32. The proposed increases are not inflationary but reflect a maximum potential increase relating to the use of the auditor's software to produce the accounts from the company's financial information, which will lead to efficiencies within the finance team in producing and amending the accounts.
33. The actual audit fees for 2019/20 will be £10,000 higher in total than the proposed fees in the table above due to the additional time taken to complete the audits due to the covid pandemic. These are one off costs and do not affect the proposed 2020/21 fees. The proposed fee for 2020/21 represents good value for money as it remains lower than the other quotes received when the procurement exercise was carried out in April 2020.
34. A procurement exercise will be carried out to appoint an external auditor for a three-year period from 2021/22.

Appointment of Director of Finance to Seascope Group

35. The current Director of Finance for Seascope Group Ltd, Dan Povey (Assistant Chief Financial Officer) will resign as Director of Finance on 30 June 2021 as he is leaving the employment of the council.
36. As a reserved matter in the Shareholder Agreements it is a requirement to gain Cabinet approval for the appointment of Directors to council owned companies. It is recommended that Paul Whittles (Finance Manager) is appointed to the post of Director of Finance, Seascope Group Ltd, on a temporary basis pending the recruitment of a replacement Assistant Chief Financial Officer for the council.

Options Appraisal

37. One option would be to maintain the current level of resources within SSL and SHP, but this would not deliver the growth and ambition set out in the five-year strategic plan. It would not build on the opportunities that these companies present

in terms of delivering valuable services for residents, as well as enabling valuable income generation back to the Council as the sole shareholder to support budgets.

Summary of financial implications

- 38. The growth of the Seascope Group companies will provide much needed income generation back to the Council as sole shareholder.
- 39. The approach to extend the Auditors contract for one further year has been agreed with the Council's strategic procurement team. If extended the audit fees will potentially rise to £14,500 for 2020/21, an increase of £2,000 in total across all five Council owned companies. This represents good value for money as it remains lower than the other quotes received when the procurement exercise was carried out in April 2020.

Summary of legal implications

- 40. The governance audit is being actioned with many concerns now having been resolved to ensure the most effective operation of the wholly owned companies.
- 41. As the appointment of auditors and Directors are reserved matters in the Shareholder Agreements, the appointments must be approved by Cabinet (on behalf of the Council as shareholder).

Summary of human resources implications

- 42. None identified

Summary of sustainability impact

- 43. None identified

Summary of public health implications

- 44. None identified.

Summary of equality implications

- 45. None identified.

Summary of risk assessment

- 46. Failure to increase the level of resources within SSL and SHP would not deliver the growth and ambition set out in the five-year strategic plan or build on the opportunities for delivering services to residents and income generation for the Council.

Background papers

- 47. None.

Appendices

None