



## **SSDC Trading Company: Elleston Services Ltd**

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## **Purpose of the Report**

1. This report sets out the rationale to suspend the Council's wholly owned trading company, Elleston Services Ltd, for up to 12 months' subject to a market review.

## **Forward Plan**

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of May 2021

## **Public Interest**

3. The report seeks to approve the suspension of the Council's Trading company Elleston Services Ltd. It outlines the original business case focus and rationale, why there was a need to set up a Local Authority Trading Company (LATC) and what has changed since its creation to recommend the suspension for up to 12 months.
4. It also explains next steps, including future objectives we seek to achieve, work streams, focus areas and resources required to review a restart of the companies trading operations.

## **Recommendations**

5. That the District Executive recommends that the Chief Executive:
  - a) approves the suspension of the SSDC Trading Company; Elleston Services Ltd
  - b) notes the repayment of the working capital loan from SSDC of £85,000 from the SSDC Trading Company Elleston Services Ltd to South Somerset District Council.
  - c) notes the ring-fencing of these funds in principle for the future relaunch of Elleston Services Ltd subject to Elleston Services Ltd providing a robust



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Business Plan to the Council supporting the need for further investment into the business.

### Background

6. In March 2019 the South Somerset District Council Full Council agreed the creation of the Council's first wholly owned Trading Company (WOC), Elleston Services Ltd.
7. The driver behind the establishment of the Local Authority Trading company (LATC) included the need to address the pace and direction of change. More than ever this Council, as a local authority, needs to provide flexible, service solutions in the most cost effective and appropriate way. It needs to deliver year on year cost efficiencies, in conjunction with increased income, in the light of overall central government funding reductions which are being experienced across the public sector.
8. Creating a separate wholly owned company (WOC) also enables the service or activity to move align financially to the external private commercial markets for the services that they can provide, bid for and be appointed to private commercial contracts in a new, much wider and diverse trading market than only the local government core services sector and its partnerships.
9. Elleston Services Ltd was set up as a trading subsidiary of SSDC Business Solutions Ltd, an SSDC owned Holding Company. Its purpose is to focus on land management and horticulture services. This service is a *'one stop shop'* for all Public Open Spaces (POS) planning, design, maintenance and management services and other service solutions. It has the benefit of securing a significant increase in external funding and annual revenue via the trading company to the Council to ensure that consistent, high quality POS and other services are delivered.
10. To support the creation of the wholly owned Trading Company, South Somerset District Council, Full Council Committee approved a fund of £132,000 needed for the company to cover legal set up costs and early operational running costs. This was treated as a loan to the company to be repaid from future trading activities.

### Emerging changing markets and the impact of the pandemic has affected current operations of Elleston Services Ltd

11. In 2020, shortly after the company was established and about to commence trading, Coronavirus and lockdown restrictions came into force. This had a significant impact on all types of businesses and at a moment when the Council's wholly owned trading company was finally established, government compliant and ready to launch, it was hit hard by the pandemic. Council commercial services were suspended due to imposed national lockdowns and the workforce assigned to lead on company businesses were redeployed to support the community pandemic



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response needs and work streams such as our food distribution centre and delivery services became the priority and rightly so. SSDC is an organisation that is here to serve its communities first and foremost.

12. After 14 months of restrictions and redeployment of our Council workforce, Elleston Board of Directors virtually met to discuss the impact of the pandemic and its next steps. Concerns were raised with regards to the on-going pandemic, when business as usual would return and whether the business plan model and market would or has changed? It was known that during this period some developers had returned to the traditional S106 approach for POS adoption and maintenance; meaning that the market and potential new contracts for larger POS was decreasing in our District for a company like Elleston Services Ltd at this time.

### Next Steps

13. The Elleston Services Ltd Board of Directors recommended a suspension of the company's operations and trade in order to provide time for the country and its businesses to recover fully from the pandemic. Suspension would enable the Board to understand the government reviews into the legislation that could affect the land management market and to review and update the company business plan and financial forecast post pandemic, in light of the changing market circumstances and to research the sectors within it, where the demand has shifted or changed completely.

14. We believe that our council staff have proven through the pandemic to be creative, resourceful and resilient and this action to suspend the trading company is a sensible commercial decision and a 'pause' for resetting and refocusing rather than a close, but over the next 12 months we will take this time to:

- Review and understand the emerging markets post pandemic
- Re-investigate our costs of services and complete a review of fees, charges and margins
- Review SSDC staffing, work stream processing and delivery models to support the primary business within the company
- Review our marketing and communications plans
- Re-visit, review and amend the company business plan identifying viable business modelling, market penetration of local commercial markets and reviewing financial modelling including cash flow forecast over the next 5 years.

15. The road to recovery for South Somerset will not be quick and with so much uncertainty, this action is a positive one to protect the current position of the wholly owned company and its assets, restrict and safeguard future financial losses if not trading and to provide time to review the market demand and potentially redesign the business plans to meet further emerging markets post pandemic. At present it is too early to do this.

### Financial Implications



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16. The recommended suspension of the trading company does not result in additional financial implications to the Council because there is an assumption that Elleston Services Ltd will be in the position of paying the interest charges owed to the Council on the loan in the future. It is anticipated that the unspent funds of £85,000 from the £132,000 loan from the Council to Elleston Services Limited will be sufficient to cover costs associated with the future relaunch.
17. As noted in the recommendation in this report, the Elleston Service board of directors repaid £85,000 of the loan to the Council. The Council's S151 Officer agreed to this request and the Council received the funds in March 2021. As part of this, an agreement in principle was made, that the Council would set aside the amount and it would remain available to Elleston Services Limited to drawdown, when required as part of the relaunch. This would be subject to the company providing a robust Business Plan to the Council supporting the case for further investment into the business.
18. Expenditure to date of £47,000 has been incurred on the legal fees associated with the company set up, website creation and maintenance, financial system software, costing of services, materials and market research. The expenditure is still relevant to the company and it will reduce the cost associated with the company relaunch.

### Legal implications (if any) and details of Statutory Powers

19. Section 95 of the Local Government Act 2003 allows the Council to undertake commercial activities in relation to any ordinary function that the Council is not under a statutory duty to provide. Section 4 of the Localism Act 2011 extends the existing commercial purposes scheme under section 95 so that if the general power of competence permits the Council to carry out a particular activity, then the Council can do it for a commercial purpose. The Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 requires the Council to approve a business case to support the use of the section 95 power and then recover the costs of supplying any accommodation, goods, services, staff or other things to a trading company to avoid state aid restrictions and prevent any on-going subsidy.
20. A trading company created for commercial purposes is seeking to make a profit. Any financial assistance provided by a local authority to a company it establishes should be for a limited period with an expectation of returns at a later date. As a subsidiary is a controlled company within the meaning of the Local Government and Housing Act 1989, any financial support will have to be included in any assessment of the Council's finances under the prudential framework for capital investment by local government.
21. Elleston Services Ltd was set up in accordance with these requirements but was unable to start trading due to circumstances beyond its control (the pandemic). The directors have determined that Elleston Services Ltd should suspend trading for the time being and in those circumstances it is proper for them to reduce the amount borrowed from the Council by repaying it early in accordance with the terms of the arm's length loan as suggested in the report rather than retaining the monies within the company. That part of the loan already spent will be repaid in due course and



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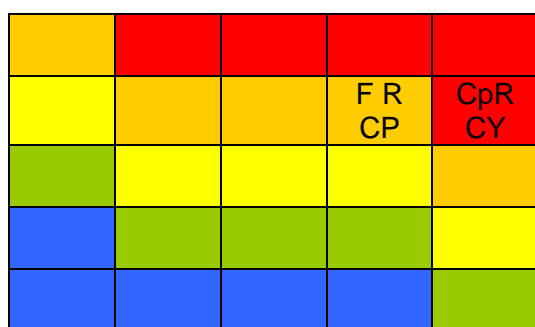
in accordance with the provisions of the loan once Elleston Services Ltd starts trading, which will require the loan agreement to be amended to reflect the repayment and reschedule payments in respect of the outstanding balance of the loan.

## Risk Matrix

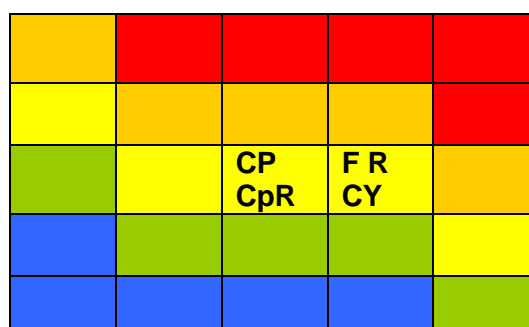
22. The risk matrix shows risk relating to the Council Plan headings.

**Risk Profile before officer recommendations**

**Risk Profile after officer recommendations**



Likelihood  
→



Likelihood  
→

### Key

Categories	Colours (for further detail please refer to Risk management strategy)
R - Reputation	High impact and high probability
CpP - Corporate Plan Priorities	Major impact and major probability
CP - Community Priorities	Moderate impact and moderate probability
CY - Capacity	Minor impact and minor probability
F - Financial	Insignificant impact and insignificant probability

23. The reputational risk should be seen as a positive, as the Council and Company Directors will be demonstrating its desire to respond effectively to the COVID-19 pandemic, responding now to minimise the impact financially to the Council and sensibly review the emerging markets before recommencing trading.

24. As the recovery road map improves and brings our council services back to Business as Usual, a reviewed and updated business plan will need to be developed and presented to both the company Board of Directors and the District Council executive committee for approval before any relaunch of the company. This will help identify any risks and what mitigation action has been, or will be taken to minimise and address such impacts, on both the company and the council.

25. Overall it is considered that the risk associated with implementing the recommendation within this report is moderate. The initial temporary suspension of the SSDC trading company due to the impact of Covid is small, when in comparison many fledgling businesses have simply not survived through the pandemic. The impact on the Council and the company itself will be beneficial as financial costs to



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date are minimised to mostly company set up and preparation for launch. Additionally, suspending trading will halt further unnecessary operational company expenditure for the future, until it is able to recommence trading and cash flow commences.

### Council Plan Implications

#### 26. Outcomes linked to SSDC Commercial Strategy and Corporate Priorities:

- **Priority project 1:** Lead the recovery and revitalisation of our economy and communities to be stronger, more resilient and more vibrant than before Covid-19
- **Protecting core service Community of Practise:** Establish a commercial culture and approach to become self-sufficient financially

### Carbon Emissions and Climate Change Implications

27. At this time there are no material implications on carbon emissions and climate change.

### Equality and Diversity Implications

28. An Equality Impact Relevance Check Form has been completed in respect of the suspension of the SSDC trading company, and in discussion with the Equalities lead officer it has been agreed that in respect of this report and action a full Equality Impact Assessment is not required. However, Equality Impact Assessments will be required for the specific actions/projects falling out of any future refreshed business plans and relaunch executive report which will be the responsibility of the relevant service manager to complete. A copy of the Equality Impact Relevance Check Form is attached as Appendix 2 to this report.

### Privacy Impact Assessment

29. At this time there are no material implications on personal privacy

### Background Papers

- SSDC Council Plan 2020 – 2024
- SSDC District Executive Report: March 2019: SSDC Local Authority Trading Company
- Commercial Services and Income Generation Strategy 2017-2021

### Appendices

Appendix 1: Equalities impact relevance check form