

# Full Council

23 February 2020



<b>Report of:</b>	Denise Murray, Chief Finance Officer & S151 Officer
<b>Title:</b>	Long Term Investments / Shareholdings Addendum
<b>Ward:</b>	City Wide
<b>Member Presenting Report:</b>	The Mayor and the Deputy Mayor / Cabinet Member for Finance, Governance and Performance

## Recommendation

In approving the 2021/22 Budget that Members note the context of the report.

## Context

To provide additional information to Members in considering the 2021/22 budget the following narrative has been provided to replace section “Long Term Investments / Shareholdings” and paragraph 6.37 – 6.40 in the main budget report.



## **Long Term Investments / Shareholdings**

6.37. The Council has a range of long-term investments and shareholdings some of which are wholly owned or to which it has a material interest. In relation to the wholly owned companies, these are complex businesses and when entering into any long-term investments such as these it is important to assess the market conditions and to acknowledge that the industries are ever-changing, as such will always be subject to external influences, volatilities and risks. The financial performance of these companies and their assets and liabilities need to be regularly reviewed to ensure that there is not a financial implication for the Council in future years. Bristol Holding group currently includes the following subsidiaries:

- BE 2020 Ltd (formerly Bristol Energy Ltd.)
- Bristol Waste Company Ltd.
- Goram Homes Ltd.
- Bristol Heat Networks Ltd.

6.38. The Council budget reflects the Council's financial commitment associated reserves and establishes the capital and revenue cash limits that we consider sufficient to meet the business needs. The companies will operate within these council funding parameters for 2021/22 and Business plans will be developed within these thresholds and utilisation where appropriate of our companies own reserves and contingencies.

### **Bristol Hold co.**

6.39. The Council holds £0.653 million share capital investment in Bristol Holding (£0.05m of Ordinary shares and £0.603 million of redeemable Preference shares). There are currently no loan agreements between Bristol City Council and Bristol Holding Company. Bristol Holding's operating model enables them to recover costs incurred directly where appropriate or via management recharges to the subsidiary companies in the form of a fee.

6.40. Bristol Holding currently holds £1 Ordinary share capital in Bristol Waste, Goram Homes and Bristol Heat Networks.

### **BE 2020 Ltd**

6.41. The total investment of £36.5 million (ordinary shares £9.178m and preference shares £27.321m) made in BE 2020 is expected to be impaired by 31 March 2020. This investment was funded from earmarked revenue reserve, generated from legacy unused contingencies and in more recent years from a £35 million reassessment of prior years' (1st April 2008 through to 31st March 2016) MRP overprovision. As such the accounting treatment does not require any changes to the Council's core general fund revenue budget.

6.42. As we finalise the transfer and process towards the orderly winding up of the company and any potential company liabilities that could arise to end March 2023 the previous risk reserve of £7.3million earmarked for risk associated to the collateral / guarantees has been translated into an indemnity agreement not to exceed this value and accounted for as a liability on the Council's balance sheet to be utilised and or unwound as the potential liabilities fall away.

## **Bristol Waste (BWC)**

6.43. The Council's 2021/22 budget for its core waste services (Teckal activity) is £39.1 million. The BWC contract with the Council for its core (Teckal) service includes a payment mechanism (paymech) based on a cost plus % approach, calculated annually according to unavoidable cost, market volatilities (e.g. for recyclates) and a mechanism for efficiencies and cost savings to be returned to the Council under the contract. This paymech represents a risk / reward arrangement between the Council and BWC when dealing with in-year contract variations.

6.44. A small reserve is held and movement +/- is applied to this fund during the paymech period to reset. The next formal review and reset of the core base and paymech is planned in mid-2021/22 for commencement in 2022/23.

6.45. The Big Tidy programme will continue for 2021/22. These 'Other Services' are outside the contracted paymech and £0.950 million growth is assumed in the Wastes Service budget for this service.

6.46. The Council has previously approved a £12 million loan facility to BWC for fleet vehicle replacement (Cabinet on 4 December 2018). A further £2.8 million of repayable loan funding has been included in the 2021/22 budget for Phase 2 of the Avonmouth site redevelopment which includes a baling and can sort facility. This would increase the Council's outstanding loan facility to BWC from £9.9 million at 31/3/21 (£12 million less the first 2 years of principal payments totalling £2.1m) to £12.7 million representing c.28% of 2021/22 annual revenue.

6.47. The final (Teckal Only) COVID-19 costs will be met from within the Council's 2020/21 un-ring-fenced COVID grant. The total value of the Council's COVID response funding from government for 2021/22 is expected to be a fraction of that received for 2020/21 and as such the full projected impact should be outlined in 2021/22 business plans and the actual COVID impact across the Council and its subsidiaries will be closely monitored throughout the year.

## **Goram Homes**

6.48. The Council approved the establishment of Goram Homes in 2018, with an initial pipeline 1 development, namely: Romney House and Baltic Wharf, land transfer (with a deferred receipt) and up to £10 million (earmarked reserve) potential loan facility for working capital and development investment (terms to be agreed). Pipeline 1 schemes are expected to deliver 432 units of housing, 173: 40% of which will be 'affordable' housing

6.49. To date a loan facility of £3.3million for working capital has been established, against the approved £10million, reserve drawdowns to date are being repaid and scheduled to be fully repaid (principal plus interest) by March 2024 and currently payback of the deferred capital receipt (valued at £13m) is estimated to be complete by March 2023.

6.50. The Council budget is proposing that the Capital Investment reserve will be increased in 2021/22 by £6million to add to the £4million from the existing pipeline no longer required and create a new up to £10million loan facility to enable Goram Homes to work with private / public sector partners in the optimum manner to build a 2nd pipeline of sustainable, affordable homes that create communities, respect the environment and contribute to the

local economy.

6.51. The terms for pipeline 2 will not be known until sites are identified and draft proposals developed, however it is anticipated to reflect those outlined for pipeline 1, flexible loan facility with terms to be agreed.

6.52. The net position above will result in £3.3million loan and £13 million deferred capital receipt (in the process of being repaid to the Council) delivering as agreed to date 267 homes of which 107 affordable); and up to a further £12.7million earmarked reserve (from Pipeline 1 & 2), to enable future housing developments.

### **Bristol Heat Network (BHN)**

6.53. The Bristol Heat Networks (BHN), was established in 2020/21 to manage the extension of the Old Market and Redcliffe heat networks as well as assume responsibility and management of all assets in BHN. It is currently undergoing set-up due diligence. following Cabinet approvals on 3 March 2020 and 1 September 2020 and so no business plan is presented for this company at this stage.

6.54. Any funding in addition to what was approved by Cabinet will be subject to further business plan approval.

6.55. Annual business plans are being refreshed / developed for submission to Cabinet for consideration. As outlined in the earlier paragraph the financial commitment above provides the shareholder investment context. The plans will need to be agile and refreshed to reflect the changing market conditions and operating models required for sustainability. The business and commercial strategy needs to ensure that wider market condition had been assessed and business opportunities are explored in a timely manner in order to secure and generate additional income.

### **Other Investments**

6.56. The Councils other investment activities are outlined in the table below.

Investment	Type	Total Investment Agreed	Current Investments
		£m	£m
Port Company	Initial Retained Capital	2.500	2.500
City Funds	Loan Capital	5.000	1.039
Bristol Credit Union	Loan Capital	0.500	0.500
Homelessness Property Fund	Loan & Share Capital	10.000	10.000
Avon Mutual Community Bank	Share Capital	0.300	0.100
Bristol & Bath Regional Capital	Loan Capital	0.250	0.250
Bristol Old Vic	Loan Capital	0.948	0.423
<b>Total</b>		<b>19.498</b>	<b>14.812</b>

6.57. It is anticipated that from this investment the Council will benefit socially, economically, environmentally and financially. Following the pay-back period, any surplus can be used as appropriate to support the Council's revenue budget position or deliver key priorities.

6.58. The Council continue to assess the effectiveness of the Governance, monitoring and quality performance parameters and regularly reported to the Shareholder Group and members for informed decision making. It has been recommended that companies risk assessment and reporting process needs to align with the Council' own process, where risk and issues are periodically reported, mitigations identified, financial risks qualified, and risk provision set aside accordingly. To ensure the Council's investment is protected, commercial information that could impact on an individual company value will be managed sensitively, considering the sensitivity of the information being requested at the time of the request whether due to the nature, any harm that would be caused prior to disclosure. However, as a public authority the Council should remain open and transparent as far as possible.