Body:	**Council**
Date:	**20th November 2013**
Subject:	**Potential Investment in Local Company**
Report Of:	**Chief Finance Officer**
Ward(s)	All
Purpose	To outline the proposal to invest in a local business and the reasons for doing so.
Recommendation(s):	That Council support the planned development proposal for the business as set out in the confidential part of the agenda.
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1.0 Introduction

1.1 As reported to Cabinet on 23rd October 2013, an opportunity has arisen to invest in a joint venture linked to a management buy-out of Wealden and Eastbourne Lifeline (WEL). The matter was also considered at a special meeting of Scrutiny Committee on 6th November 2013 and the minutes of that meeting are included elsewhere on this agenda. Due to the commercially sensitive nature of the information, the details of the investment are required to be considered under confidential cover.

1.2 This report seeks to update members on the progress of discussions that have shaped the terms of the investment opportunity that has now arisen. It also sets out the options available to Council and seeks a decision on whether to invest in the proposed New Company taking into account the balance of risk involved in the investment.

2.0 Analysis

2.1 Wealden and Eastbourne Lifeline ("WEL") was established in 2005, following extensive consultation with stakeholders and a rigorous Best Value review process. The Best Value Review identified that Wealden Lifeline (as it then was) would require increased investment and income to remain viable, competitive and to be able to take advantage of future opportunities for growth and diversification. A joint venture was identified as a possible way forward and in July 2004 a joint working party between the Council and Wealden District Council ("WDC") recommended the merger of a combined service through the creation of a not for profit company limited by guarantee. Accordingly, WEL was formed in October 2005 with the Council and WDC each having 24% of the voting rights. The remaining voting rights are held by independent directors.

2.2 Although WEL has grown significantly over that period, the Board consider that the current structure and funding arrangements need to change. This is consistent with the original 2005 decision which envisaged that the company would operate for an initial period of five years. During that time the nature of public sector commissioning and the market in which WEL operates have changed significantly. Consequently the Board undertook an options appraisal in 2010. Taking into account all of the options it decided to support a management buy-out backed by further investment.

2.3 Following the options appraisal, the Board and Councils assessed the nature and scale of investment required. As a result of this work it is proposed that the Council become the major investor in a new company which will develop and expand WEL in the future. This is due to a number of factors including:

- Supporting the future growth of the business in a competitive market
- Retaining a significant local employer in Eastbourne
- The ability to play a role in the future of a company providing high quality services to the public sector
- Resolving a long standing pensions liability currently held by the Council
- Taking into account the risks, an opportunity to make a financial return for the Council.

2.4 There are also risks associated with any decision. Should the Council not proceed with the investment then the transaction will not proceed, the pensions liability will not be resolved and the company may find it difficult to raise finance for future investment. The two principal risks of proceeding with the investment are the ability to grow in line with the company's strategy and the retention of existing contracts.

3 Investment Summary

3.1 The proposed structure is that a new company, limited by shares, ("Newco") will be the subject to the investment. The Council would initially subscribe for 70.9% of the share capital and may agree to make further investments to enable the company to grow. The remaining shares will be taken by the MBO Team at completion, with the potential in due course for a further issue of up to 5% of the issued share capital to be issued to other shareholders if agreed by the parties in the future.

3.2 The Council's interests will be secured by retaining two representatives on the Board of the company. These representatives will be mandated by the Council to make decisions regarding the company. The Council's shareholding will entitle it to 49.9% of the voting rights with its interests protected by additional reserved matters relating to significant decisions. Through this combination of representation and reserved matters it is considered that the Councils interests will be secured.

3.3 It is proposed that the Council's initial nomination to the Board at the point of initial investment is the Chief Executive. It is also recommended that an additional representative is sought at the earliest opportunity which should be subject to cross party support.

3.0 Consultation

3.1 Consultation requirements have been considered under the Council's potential statutory obligations relating to Best Value, the Public Sector Equality Duty and Landlord and Tenant. With respect to Best Value a consultation notice was placed on the websites of both Eastbourne Borough Council and Wealden District Council. No significant feedback was received relating to this decision.

4.0 Resource Implications

4.1 Financial and staffing – as set out in the confidential section of the agenda

5 Legal Implications

5.1 Legal advice has been obtained and the Council has the ability to proceed with the proposal.

5.0 Conclusion

5.1 WEL has traded successfully since 2005 however the company's strategy means that a change in governance is now required to enable the organisation to thrive in the future. Working with the MBO team will assist by protecting jobs in the local area and supporting a high quality service. Significantly the Council will also expect a return on investment.

5.2 The above must be balanced against the risks of investing, principally the ability for the business to grow and retaining existing contracts.

Alan Osborne
Chief Finance Officer

Background Papers:

None