

Executive

18 March 2019

Key Lines of Enquiry (KLOE) Greensand Holdings

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Greensands Holdings Ltd Evidence from Council minutes	Task Group Initial Findings
Initiation	Strategic objectives (why bother?)	Were these set out fully and properly from the outset (before committing costs)?	In December 2014 the Executive agreed an approach to property investment. The objective was stated as increasing the value and income derived from Council property and assets to ensure financial sustainability and to overcome the challenges facing local government without substantial cuts to services. The Executive report of 15 Sept 2016 which authorised a wholly owned LATC referenced this approach and repeated the objectives.	The strategic objectives for setting up the Company were fully set out from the outset.
	Are clear strategic objectives driving the project?	Did/Does the project fit with the Council's vision?	The 5 Year plan 2015-20 describes the strategic objective of being financially self sufficient and how property investment is intended to help meet that	The Company was a vehicle to deliver on the Council's corporate objective of being financially self sufficient. This meant there was a

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			objective.	clear strategic objective driving the Company set up.
		Was/Is there sufficient member buy-in?	<p>Key decisions made by the Executive. Pre decision making scrutiny of the proposal to set up the Company (8 Sept 2016 O&S).</p> <p>One property company progress report to Executive 9 Nov 2017.</p> <p>No Property Sub Committee meetings held in 2016/17 municipal year (O&S 8 Sept 2016 noted that Property Sub Committee would at least initially meet as and when required).. No post set up Overview & Scrutiny meetings.</p>	Pre decision scrutiny of the decision to set up the Company led to wide member buy-in at the outset. But the lack of subsequent meetings of the Property Sub and O&S and only one progress report to the Executive meant that member engagement was limited after the initial set up.
		<p>Was/Is it worth investing time and resources?</p> <p>What were/are the costs/benefits?</p> <p>Can losses be absorbed?</p>	<p>The report authorising the company set up includes a section on risk.</p> <p>‘Each acquisition will be considered in light of investment and development appraisals, the overriding economic conditions prevailing, occupational and investment demand as well as the associated due diligence. These appraisals will be provided to</p>	

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			<p>members of the property Sub Committee.</p> <p>‘There will be ongoing liaison (as exists as present) between officers and councillors to ensure there are clear channels of communication and that councillors remain comfortable at all times with proposed deals’.</p> <p>Executive 15 September 2016 report states that the initial draw down facility will be upto £8m initially and that loan to value debt will not exceed a 70/30 ratio to loan debt. The initial funding and loan agreement excludes funding for Cromwell Road (approved budget £5.61m)</p>	
		Was/Is the Council's role in commercial decision making clear?	<p>The 15 Sept 2016 report setting up the company noted that it was imperative to set up an appropriate governance structure. It delegated the shareholder function to Property Sub Committee and required that it ‘set out the performance levels required for the company and the tolerances (eg financial and decision making) within which the company may operate’.</p>	

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		How were / are the objectives agreed and formally signed off - if so by who?	Executive 15 September 2016 authorised the set up of the Company.	
Planning	Thorough planning & due diligence			
	Have all options been considered?	Have alternative delivery vehicles been assessed to establish most appropriate vehicle for project?	Executive 15 September 2016 ' It is important that the company has enough flexibility to buy considered opportunities and work on a commercial basis. This may include joint ventures, special purpose vehicles, and possibly development management agreements'.	
		Did/Does the assessment cover relevant criteria including costs, cash flow, complexity, risks (including reputational risks), return on investment, dividends/profit distribution?	The draft business plan (Property Sub 14 November 2016) records initial funds (ex VAT) of £8m by way of loans as documented in the loan agreement with interest charged at market rate (est 6% compounded annually) or rate required to meet state aid provisions. Further funding may be provided by the Council at rates not exceeding a loan to value rate of 70/30 at interest rate of est 6% or secured from commercial markets . Transfer of Council property assets through an additional loan (sites listed in	

			<p>the plan).</p> <p>The draft stakeholder agreement (Property Sub 14 November 2016) provides that the company shall circulate a revised version of the business plan to shareholders by end Novembers each year for comment and consent.</p>	
	Was/Is there a robust business case?	Did/Does the business case adequately cover	<p>The pre scrutiny report prior to the executive report of 15 Sept 2016 requested that consideration be given to the appointment of NEDs at an appropriate time.</p>	

		<p>Optimal governance arrangement including:</p> <p>Role of Board chair</p> <p>Composition of Board NEDS?</p> <p>Stakeholder committee</p> <p>Role of Council in commercial activity</p> <p>Procurement and fraud controls</p> <p>Effectiveness of Board evaluation</p> <p>Reporting to Council – content and mechanism</p> <p>Employee/Directors – managing conflict of interest</p> <p>Availability and distribution of information</p>	<p>Property Sub Committee appointed Joint Managing Directors and Finance Director at meeting on 14 November 2016.</p> <p>No reference in reports to the role of the Board chair.</p> <p>Draft business plan identifies immediate goals and objectives - no financial targets, no reporting mechanism or timetable.</p> <p>The set up Exec report identified the potential for conflicts of interest but stated that 'at present it is not envisaged that conflicts will emerge but this will be kept under review and arrangement modified to accommodate any change in circumstances'.</p> <p>The only progress report (Exec 9 November 2017) refers to ' a resourcing agreement is being finalised' -there is no evidence that the draft loan agreement was signed. It refers to the purchase of one asset (in the period to 30 Sept 2017) at a cost of "£2.1m with expected income of £175000 (above the 6% RoI)".</p>	
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		Financial plans and controls including authorisation of expenditure	Draft shareholder agreement requires Company to maintain effective and appropriate control systems and provides for shareholders to be given information to enable it to monitor investment.	
		People management/leadership and commercial skillsets	<p>Property Sub Committee appointed joint MDs and Head of finance – 14 November 2016. (NB appointed to post names not individual names). No reference to skills.</p> <p>Executive 15 Sept 2016 ‘consideration has been given to ensuring that key expertise (such as financial and legal advice) are available to advise both the Council as shareholder and the Company. From time to time it may be necessary to buy in specialist corporate, property, marketing, legal and financial advice on a normal commercial basis to supplement the experience on the Board’.</p>	<p>There was no audit of skills/track record against required skills – appointments were made to posts not individuals. Although it was recognised that skills may need to be bought in there was a lack of clarity about how decisions would be made ie no skills audit or analysis.</p> <p>It was noted that roles were allocated to posts not individuals (unlike Pathways for Care).</p>
		Transfer of assets and support costs	Executive 15 September 2016 identified list of properties/projects to be transferred to the Company. Reports identifies that many of	

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			the support services required by the company to be contracted out to the Council. Head of Property Services charged to the Company with an additional payment to be authorised by the Chief Exec.	
		Business activity and operational plans based on market research	No reference to market research – ‘the Council has already established a strong record in property acquisition and development ‘ (Exec 15 Sept 2016)	
		Success/outcome measures	No financial targets in draft business plan.	The business plans lacks quantifiable targets. It sets out aims that are broad with no agreed success measures.
		Reporting mechanisms	No reporting mechanisms set out in business plan. O&S 8 Sept 2016 noted that Property Sub Committee would at least initially meet as and when required.	There was an absence of agreed reporting mechanisms. O&S 8 Sept 2016 noted that Property Sub Committee would at least initially meet as and when required which was vague. In reality the Property Sub Committee met infrequently which means that progress was not being formally well tracked.

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				The absence of a formal timetable for reporting resulted in lack of an official and regular reporting mechanism to the Council as stakeholder.
		Risk management and mitigation	<p>All reports include a narrative section on risk. No risk register. Appraisals for each acquisition to be reviewed by Property Sub Committee.</p> <p>Progress report (Exec 9 Nov 2017) states 'to minimise any investment risk the asset will be managed in accordance with the Council's approved Asset Management Strategy'</p>	
		Liabilities and taxation	The Exec report 15 Sept 2016 includes a section on tax stating that the company will be liable to corporation tax and will need to charge VAT and that every property opportunity would be looked at on its own merits including taxation and legal implications.	
		Business, tax, legal and finance sign off before final decision	<p>Executive authorised set up.</p> <p>Property sub Committee role as</p>	

			shareholder Committee	
		Exit strategy	No reference to an exit strategy.	
Execution	Implementation			
	Was/Is the delivery of the project being tracked and monitored and early action being taken to address risks?		One progress report to Executive (9 Nov 2017)	The business plan lacks delivery financial targets and delivery milestones. The only progress report to the Executive lacks detail on how the Company has performed against the business plan – eg it gives no information on the annex of council properties set out in the business plan and reports on one acquisition.
		Was/Is performance, resource and financial information being adequately tracked?		
		What business management reporting processes were /are in place & were they carried out appropriately		
		What processes were / are in place to manage income (sales) & to confirm compliance with the agreed business case?		

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		How were /are financial forecasting reviewed and managed to ensure adequate funding & cashflow was available to confirm compliance with the business case?		
		What financial controls were/ are in place to ensure expenditure complied with the agreed business case ?		
		What were / are the processes for agreeing changes to the business case (services delivered / sold / finances & resources required) ?		
		Was / Is risk being actively monitored and how was this achieved?		
		Was/Is there assurance that no project creep occurring? What change control processes were / are in place?		
Closure	Project closure			
		Was/Is the exit strategy being followed?		
		Was/Is there a review of project?	Member Task Group	

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		Were/Are lessons learnt being captured and implemented?	Terms of Reference of Member Task Group includes identifying lessons learnt.	
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