

The Highland Council
Planning, Development and Infrastructure Committee
17 February 2016

Agenda Item	7
Report No	PDI 05/16

Highland Opportunity Limited

Joint Report by Director of Development and Infrastructure and the HOL Company Secretary

Summary

On 4 November 2015 Committee considered the Financial Statements of Highland Opportunity Ltd (HOL) for the year 2014/15. The report also reported annual performance and included reference to the shareholder review of HOL requested by the HOL board. This paper updates Committee on the outcome of the shareholder review and early progress on implementation of the review outcomes.

Committee is invited to consider the report and:

- note the outcome and recommendation of the HOL board regarding the voluntary winding up of HOL;
- agree the recommendation that the Business Gateway, Opportunity Loan Fund and Princes Trust services be transferred to the Highland Council for future management and delivery; and
- agree to receive further updates on progress during 2016.

1. Introduction

1.1 Highland Opportunity Ltd. (HOL) is the Council's wholly owned Enterprise Trust. The company was incorporated in 1986 as a company limited by guarantee with the mission to help businesses in the Highlands to start up and grow, and to create or sustain employment. HOL's main activities include the delivery of the Business Gateway Service (Highland and Moray) for the Highland Council, the Enterprise Loan Fund, Prince's Trust Enterprise Project, European Enterprise Network and the management of its property portfolio. HOL employs 30 ftes across the range of functions. At 31 March 2015 the HOL Group net asset value amounted to £2.90m. In financial year 2014/15 the group had a turnover of £1.66m and made an operating loss of £0.296m

1.2 During 2014/15 directors and staff of HOL have worked hard towards a profitable and sustainable business model for the organisation. In this regard the Council's Finance Service has contributed significantly.

1.3 Despite the efforts of directors and staff the financial position at the end of 2014/15 had been disappointing. The deficit has mainly been the result of:

- pension adjustments (- £148k) allocated to profit and loss account and out with the control of the HOL;
- LEADER 2007/13 Programme losses (- £60k); and
- losses generated as a result of the sale of property (- £64k).

- 1.4 Given the above, and the financial constraints on the Council, a meeting of the HOL board on 28 August 2015 agreed that a shareholder review of HOL should be undertaken by Highland Council, and on 2 October 2015 the scope of that review was agreed by the board. The agreed scope is attached at **appendix 1** for information.
- 1.5 In line with the agreed scope an internal cross service review group was established to consider the options that were within scope. The HOL board received interim updates as progress was made and the final report and recommendations were considered by the Board on 15 December 2015 and 14 January 2016. On 14 January 2016 the Board reluctantly agreed that in light of the financial constraints on Highland Council, and the drive for efficiency, HOL be wound up voluntarily and that reduced activity be transferred to and delivered by Highland Council.
- 1.6 The Board also agree that going forward the Highland Council should deliver:
- Business Gateway Services (Highland and Moray);
 - The Opportunity Loan Fund (alongside the Scottish Local Authority Business Loan Fund); and
 - The Princes Trust Services.

Other activities (e.g. European Enterprise Network, property services and procurement advice) should be ceased or transferred to partner organisations.

- 1.7 The HOL Chief Executive and Business Manager will assist the winding up of the Company.

2 Early progress and transition programme

2.1 Staff consultations

Initial consultation with HOL staff members took place on 9 – 15 February 2016. These consultations offered an opportunity to discuss the implications of the Board decision of 14 January 2016, transfer arrangements and TUPE. Highland Council Human Resources are supporting the consultation and TUPE processes.

Discussions have also taken place with partner organisations to explore the transfer of staff and activities that will not come to the Council.

At the time of writing all staff will be impacted by the Board decision of 14th January. The activities that will transfer to the Highland Council mean that the majority of staff are expected to transfer with related activities. Staff consultation will determine exactly how many staff will/will not transfer to the Highland Council but at the time of writing it is anticipated that around 4 – 6 staff will be made redundant from HOL. These staff members will join the Highland Council redeployment register.

2.2 Communications

The Chairman of HOL has already issued a statement to staff informing them of the Board's decision (**appendix 2**).

A press notice to coincide with the issue of Committee papers has been issued (**appendix 3**), and a communications strategy is being developed to allow the communication of information and change to HOL partners and clients in a timely manner.

2.3 Property

Recent reports on property (condition and options appraisal) will inform the disposal or transfer of HOL's property portfolio.

2.4 Transitions programme

The winding up of HOL and the transfer of activities will take place during 2016/17 with the broad focus being:

- transfer of Business Gateway, the Opportunity Loan Fund and The Prince's Trust for delivery by Highland Council by 1 April 2016;
- winding up or transfer of activities not transferring to Highland Council by 31 December 2016 (para 1.5); and
- disposal of properties and where appropriate transfer of related activity by 31 December 2016.

Winding up, striking off and transfer of remaining assets to Highland Council by 31 December 2016.

3. Implications

3.1 Resources

As HOL staff will transfer with activities and budgets there are no significant resource implications anticipated as a result of the HOL Board's decision of 14th January. HOL activities will sit within existing Development and Infrastructure teams and will be managed within existing structures. Support services (Finance) will be provided in house at no additional cost.

The Board's decision to voluntarily wind up Highland Opportunity Ltd is expected to realise a budget savings of £100k. The saving appears within the Planning, Development and Infrastructure service savings (D&I/8) which will form part of the Council's proposed budget, to be discussed at Full Council on 25 February.

3.2 Legal, Risk, Gaelic, Climate Change/Carbon Clever and equality

There are no legal, risk, Gaelic climate change/Carbon Clever or equality implications arising from this report.

3.3 Rural

Throughout the review process directors of HOL have been keen to ensure that the impacts on rural service delivery are kept to an absolute minimum. It is proposed that those in rural areas receiving the support of Business Gateway, the Opportunity Loans Funds and the Prince's Trust continue to do so at a similar level.

RECOMMENDATION

Committee is invited to:

- note the outcome and recommendation of the HOL board regarding the voluntary winding up of HOL;
- agree the recommendation that the transfer the Business Gateway, Opportunity Loan Fund and Princes Trust services be transferred to the Highland Council for future management and delivery; and
- agree to receive further updates on progress during 2016.

Designation: Director of Development and Infrastructure

Date: 2 February 2016

Author: George Hamilton, Head of Environment & Economic Development
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Background papers:

- (a) Shareholder review. Scope agreed by Highland Opportunity Board 2 October 2015.
- (b) Statement from the Chair of Highland Opportunity Ltd – 18 January 2016.

Highland Opportunity Ltd **Shareholder Review**

1.0 Background

Following some unexpected financial statements in the annual accounts, the board of Highland Opportunity Ltd has concerns and wishes to test the reliability of the organisations financial recovery plans and has therefore agreed (28th August 2015) to review the organisation and its financial position. The board also felt the company shareholder (HC) might use the opportunity to review whether HOL was the most effective way to deliver current services for HC. The board therefore requested that the Highland Council:

- Consider HOL as the vehicle for efficient delivery of current services.
- Review HOL's financial recovery plan and its realistic contribution towards future financial sustainability.

2.0 Scope

- All financial aspects, activities, assets and structure of the HOL organisation are within scope.
- Consultation should take place with appropriate HOL staff, customers, partners and board members.

3.0 Review process

The review will be conducted by an internal HC team comprising representatives from:

- Development and Infrastructure (Business Gateway and Property)
- Finance
- Corporate Development (Legal advice and Human Resources)

4.0 Options in scope

The following options are identified as the most appropriate:

- Consider any appropriate additional activities HOL could deliver for HC
- Retain current organisation, structure, assets and activities
- Retain HOL but with reduced activity
- Bring activity in house, retaining current activity
- Bring in house with reduced activity

5.0 Governance

- Scope agreed with HOL board (Chair and Vice Chair) – Sept 2015
- Interim progress briefings to HOL board members – Oct/November/Dec 2015
- Draft final report and recommendations to HOL board – December 2015
- Final report and recommendations to PDI Committee for approval – February 2016

5.0 Timescales

- Approved report and recommendations implemented from 1st April 2016.

Statement from the Chair of Highland Opportunities Ltd

Colleagues

The HOL Board met on 14th January to consider the review of HOL which has been undertaken by the Highland Council. I am writing to confirm that the Board has agreed, with considerable regret, to commence the wind up of HOL and its subsidiaries and the transfer of some services to the Highland Council, and also to explain to you why we have had to make this difficult decision.

Shareholder Review

The Shareholder Review was requested by the Board last autumn with the objectives of:-

- Considering whether HOL was an efficient way to continue to run services, and
- Whether HOL's Financial Recovery Plan was realistic and would contribute towards the company becoming sustainable in the future.

The Review considered four options:-

- A - The current HOL organisation, structure, assets and activities should be retained
- B - HOL should be retained but with reduced activity
- C - The activity should be brought in-house, retaining all current services
- D - The activity should be brought in-house, retaining only reduced activities

The recommendation of the Review was for Option D. This means that HOL is wound up and most of its activity transferred to Highland Council – namely Business Gateway, the business loan fund and the Prince's Trust Enterprise Programme.

The Board considered all the options carefully and raised a number of issues with officers about the figures and assumptions under-pinning the recommendation. Board Members all voiced their support for the organisation and the valuable work it has done and continues to do across the Highlands. The decision we have taken in no way reflects on the services delivered by HOL and in fact the Board is very much committed to ensuring front-line services continue.

However the Board, with regret, did go on to make the decision to agree Option D and to bring some activity in-house and to wind up the company.

Undoubtedly the key issue which influenced this decision is the recognition that the current financial reductions facing the Scottish public sector is having a significant and detrimental impact on the Highland Council which is now having to make some extremely difficult choices about where it can reduce budgets and where it needs to continue to deliver services.

The Board has had to prioritise front-line services and accept that the cost of management and administrative overheads need to be radically reduced. This mirrors the decisions that Highland Council will have to make over the next few weeks as it seeks to balance its own budget.

I appreciate this decision will cause considerable uncertainty and concern for you and your families and the Board is very mindful that it needs to support you, the best it can, through this difficult period.

The Board has now asked officers from the Council to work with the CEX and Company Secretary of HOL to put in place a plan for the transition of services to the Council and for the transfer and/or winding up of the other services. This will include support for staff and a commitment to keep you informed of the decisions we are making which will have an impact on your future. The intention is to conclude this work over the next 6 months.

NEWS RELEASE

EMBARGOED: Wednesday 10 February 2016

Highland Opportunity Ltd to wind up.

Joint news release Highland Opportunity Ltd (HOL) / The Highland Council

The Board of Highland Opportunity Ltd (HOL) has agreed to commence the wind up of HOL and its subsidiaries and to transfer some of its services to The Highland Council.

Chair of Highland Opportunity Ltd. Dave Fallows said: "Following consideration of a review of HOL undertaken by Highland Council at our Board meeting on 14 January it is with considerable regret that we had to take this difficult decision to wind up HOL."

He added: "Highland Council expects to maintain the front line services of Business Gateway, Loan Fund and Prince's Trust and there will be no reduction in these services including in rural areas."

A recent shareholder review considered whether, in the current climate of financial constraint on the public sector HOL was the most efficient way to deliver services.

The review considered a number of options and the Board considered each carefully and agreed that HOL should be wound up and some activities transferred to The Highland Council.

Chair Cllr David Fallows said: "Board Members all voiced their support for the organisation and the valuable work it has done and continues to do across the Highlands. The decision we have taken in no way reflects on the services delivered by HOL and in fact the Board is very much committed to ensuring front-line services continue. However the Board, with regret, did go on to make the decision to bring some activity in-house to Highland Council and to wind up the company.

He added: "Undoubtedly the key issue which influenced this decision is the recognition that the current financial reductions facing the Scottish public sector is having a significant and detrimental impact on The Highland Council which now has to make some extremely difficult choices about where it can reduce budgets and where it needs to continue to deliver services.

"The Board has had to prioritise front-line services and accept that the cost of management and administrative overheads need to be radically reduced. This mirrors the decisions that Highland Council will have to make over the next few weeks as it seeks to balance its own budget."

The Highland Council is working with HOL to put in place a plan for the transition of services to the Council and for the transfer and/or winding up of the other services. This will include support for staff and a commitment to keep them informed of decisions and processes, some of which are intended to conclude within the next 6 months.

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