

Report of:		Subject:	
Alex Morris, HTS Finance Director and Company Secretary		Establishing HTS P&E Services Limited, a Non-Teckal Trading Company within the HTS Group	
Name of Meeting:	Date of Meeting:	Agenda item:	Status:
HTS (P&E) Ltd Board Meeting	23 January 2023	13 – Any other Business	Information

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To: HARLOW COUNCIL SHAREHOLDER SUBCOMMITTEE
Date: 5TH JANUARY 2023

SUMMARY

Report Purpose: To seek a formal approval for the establishment of HTS P&E Services Limited, a Non-Teckal trading company within the HTS Group structure
Decision Level: Strategic

RECOMMENDATIONS

The recommendations are that the Shareholder Subcommittee:

1. Formally authorises the setting up of HTS P&E Services, as a new non-Teckal trading company, as per approved HTS Group Business Plan 2022-2027, for the pursuit of commercial opportunities.
2. Delegates to HTS Group Managing Director the authority to commence trading operations upon completion and approval of the following:
 - 2.1. Selection of the company trading name
 - 2.2. The Articles of Association of the company
 - 2.3. The composition of the Executive and Non-Executive Board
 - 2.4. Shareholder's Agreement and Scheme of Delegation
 - 2.5. Insurance, governance, and framework arrangements
 - 2.6. Business Plan 2023-2026
 - 2.7. Project Implementation Plan
3. Agrees with fundamentals of the HTS P&E Business Case Summary, being part of this report, to support the establishment of the trading company and form the basis for the Business Plan production.

HTS P&E SERVICES LIMITED

BUSINESS CASE SUMMARY

Background Information

Since its establishment in 2017 HTS Group have been successfully delivering environmental and housing maintenance services directly to the Shareholder, Harlow Council, via a Local Authority Trading Company (LATC), HTS (Property & Environment) Limited. Building on the group's existing success and performance, to facilitate further growth, HTS Business Plan 2022-2027 included the setup of a new trading company that would allow the capitalisation of third-party work and wider market opportunities. As a non-teckal company, the business would operate under more commercial arrangements, ensuring HTS's competitiveness in the marketplace and therefore greater profitability.

The new company would provide high quality services at competitive price, feeding on the current delivery success and economy of scale. Services would include the range of environmental, compliance, repairs, maintenance, improvements, and facilities management to third party customers, to include public and commercial sector, in Harlow and other parts of East of England. It would also aim to introduce retrofit services, providing both economic and social benefits to all stakeholders involved.

Besides the administrative registration of HTS P&E Services Limited with The Companies House, no further actions have been taken and the entity remains dormant, awaiting the shareholder's formal approval of the set up and commencement of trading.

Business Case Summary using "5 Case Model"

The Business Case Summary uses the government recommended "5 Case Model" to present a rationale and reasons behind the HTS' ambition to mobilise the new trading company.

The framework covers strategic, economic, commercial, financial and management perspective.

1. Strategic Case

In the light of the major reductions in government funding, macroeconomic changes and increased service demands, there is a significant need to generate additional income streams to ensure financial stability of the group and its parent. The new non-teckal company's proposal is in line with the vision and the current strategic objectives of both, the council and the group, and will contribute towards:

- Financial sustainability
- Economic growth
- Social values for local communities
- Innovation

2. Economic Case

We engaged with legal, financial and taxation experts to consider various options that would facilitate the delivery of commercial trading ambition for the shareholder and the group. A non-teckal limited trading company model was the recommended option and the best way forward. Subject to external advice the consideration should be given to tax efficient mutual arms-length trading arrangements for the group.

The proposed group structure is future proof and provides a platform for expansion and economic growth. It meets legal requirements of LGA 2003 in relation to trading and it enables focus of individual entities on their core objectives, mitigating the risk of conflicts between the council focus and commercial clients.

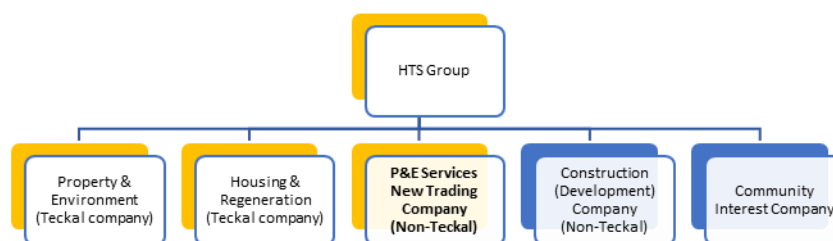


Figure 1: Proposed HTS Group structure, HTS Business Plan 2022-2027

The new structure will allow HTS to take advantage of synergies within the Group and really accelerate economic growth and development.

3. Commercial Case

There are 35,676 households in Harlow, with 32% representing social housing and 64% private rental (2021 ONS data source). The town is vastly expanding, and The Garden Town proposal will enable additional 23,000 homes in the strategic sites of the town and surrounding areas. This will increase the population from 87,000 to 130,000 by 2040.

The projected market growth is an excellent opportunity for P&E Services to establish itself as a leading provider within Environmental and Repairs, Maintenance, and Improvements sector. Scaling up the group operations from the current level of 9,600 household and commercial dwellings is both, feasible and with low risk. We will also bid for local authority and other public and private sector work across the region and explore direct awards from local authorities who wish to work with us as a LATCo. This acceleration of operations will need to be planned and prioritised into short, medium, and long-term objectives.

The mobilisation of the new company does not require major investments apart from the starting working capital, which could be arranged via an intercompany loan, from the group and / or the shareholder, subject to the agreement. The business development as well as other overhead functions would be provided by the group and apportioned to the new trading company.

The staff would be employed on non-teckal, commercial terms, with incentivised conditions to drive productivity, efficiencies and ensure top quality of service. Training and development opportunities, to include retrofit, would be an additional aspect driving financial and social benefits.

4. Financial Case

The trading operations would be recorded and accounted for via the new non-teckal trading company, with profits generated for the shareholder and reinvestment purposes. As a start-up, the business would be generating limited returns in the short-term, increasing over the medium and long term, with an ambition to reach £20m income and £0.8m net pre-tax profit in Y5.

The projected financial results for P&E Services, as per HTS Business Plan 2022-2027 are presented below.

HTS NEW TRADING CO (Non Teckal Co)*							
Revenue	7.5%	-	-	2,000	12,000	16,000	20,000
Direct Costs		-	-	1,850	11,100	14,800	18,500
Gross Profit / (Loss)		-	-	150	900	1,200	1,500
% Gross Profit Margin		-	#DIV/0!	7.5%	7.5%	7.5%	7.5%
Direct Overhead Costs		-	300	308	315	323	331
Central Overhead Costs		-	-	56	239	286	338
Pre-tax Profit / (Loss)		-	(300)	(213)	346	591	831
% Profit Margin		-	0.0%	-10.7%	2.9%	3.7%	4.2%

5. Management Case

Upon the approval of the business case, the P&E Services Project Team will be put in place, to include council officers as required. The P&E Service Project will be managed using the council's agreed project management framework. A Project Initiation Document and A Project Implementation Plan will be drafted and approved.

The Implementation Plan will set out the key work streams and include the following:

- Legal, contractual and governance arrangements
- Risk management framework
- Financial controls and procedures
- Licencing and insurance
- Health & Safety
- Employment aspects and employee group relationships
- Procurement
- Support services provision
- Communications
- Project implementation evaluation methods
- Post implementation performance evaluation methods

Conclusion

Considering the strategic fit, marketplace opportunities and economic benefit of the new non-teckal trading company, HTS Group is committed to implement and mobilise the new entity with trading commencing in the first quarter of 2023/2024, subject to the shareholder approval and the successful completion of the project implementation.