

Service
Quality

Service Quality

Research Summary

Local Authorities' Involvement in Companies: Findings of Research

Coopers & Lybrand

Key Findings

- Two out of five authorities which responded have an interest in at least one company. Larger authorities tended to make greater use of companies;
- Local authorities are using companies for a variety of purposes. The main reasons are to increase economic activity and to obtain private sector involvement and funding;
- Partners include a range of public, private and voluntary sector organisations. Nearly two thirds of partners were other local authorities and public sector bodies;
- Key determinants of success include senior political and management leadership to secure support for the partnership, and the desire and commitment of individuals to sustain the partnership;
- Effective governance and appropriate reporting arrangements are important given the high standards demanded to satisfy public accountability.

Introduction

Encouraging closer collaboration and joint working between local government and the private sector has been a consistent theme of government policy; the objective is to improve the quality and cost-effectiveness of public services. The aim is to provide greater incentives for local authorities to involve the private sector and others, while at the same time securing best value for any public monies invested and achieving an appropriate balance between risk and reward.

As a consequence of government policy, but increasingly as a result of deliberate choices made by local authorities, the involvement of the private sector in delivering services has increased over recent years. The nature of the relationships between local authorities and the private sector cover a variety of arrangements.

These arrangements include the formation of a company, limited by shares or guarantee, in which the local authority and the private sector partner have an interest.

The Department of the Environment, Transport and the Regions commissioned Coopers & Lybrand to investigate the nature and extent of local authorities' involvement in companies and to establish principles of good practice as regards that involvement.

The study

The study comprised three main stages. Stage One involved a postal survey of all local authorities in England undertaken in early 1996. This collected detailed information about

Participation

Finance

Management

Structure

individual local authority companies plus summary details of each local authority's overall involvement. 251 councils completed the questionnaire representing a response rate of 62%. However, the response to the survey amongst London boroughs and metropolitan districts was relatively low compared to shire districts and counties.

The second stage involved ten case studies used to illustrate different approaches to developing companies. The case studies allowed Coopers & Lybrand the opportunity to develop the principles of good practice.

The final stage consisted of a series of workshops and validation panels. The case study authorities participated in workshop sessions to help develop the good practice principles and identify ways of encouraging partnerships. On the basis of the case studies and workshops, Coopers & Lybrand prepared an initial summary of principles of good practice. These principles were tested by three validation panels consisting of senior representatives of local government, the private sector and other interested bodies.

Research findings

A total of 99 councils (39.4%) said that they have an involvement in companies. Most councils which use companies have between one and five companies.

90% of district councils, over 80% of county councils and all London boroughs with companies report having between one and five companies. In contrast, nearly 50% of metropolitan councils have more than five companies (Table 1).

Together, promotion and commercial ventures account for nearly two thirds of all companies. Examples include development associations and tourism bureaux; and sports stadia, airports and transport companies.

Slightly over half of the companies (148) are non-regulated companies, whilst the remainder are regulated (as defined by Part V of the Local Government and Housing Act 1989).

Overall, 52% of companies are limited by guarantee and of these, half are promotion companies. 44% of companies are limited by share, with nearly two thirds of these being commercial ventures. The company limited by guarantee is preferred by councils when they are seeking to achieve non-regulated status. Two thirds of non-regulated companies are limited by guarantee.

The majority of companies are relatively small enterprises, with 62% of companies having a turnover of £1m or less per annum (Table 3). A reason for this may be related to the type of venture in which the company is involved. Typically, promotion and social ventures, which account for nearly three-fifths of the total number of companies, have relatively small turnover.

Table 1: Number of companies by type of local authority

Number of companies	Metropolitan Districts	London Boroughs	County Councils	District Councils	Total
Between 1 and 5	8 (53.4%)	9 (100%)	18 (81.9%)	48 (90.6%)	83 (83.8%)
6 to 10	5 (33.3%)	0 (0%)	3 (13.6%)	4 (7.5%)	12 (12.1%)
Over 10	2 (13.3%)	0 (0%)	1 (4.5%)	1 (1.9%)	4 (4.1%)
Total	15 (100%)	9 (100%)	22 (100%)	53 (100%)	99 (100%)

"Nil" companies

2

0

2

148

152

Base: 99 Local Authorities which reported an involvement in companies

Table 2: Type of venture by type of local authority

Type of venture	Metropolitan Districts	London Boroughs	County Councils	District Councils	Total
Promotion	20 (23.0%)	7 (33.3%)	24 (31.2%)	49 (40.2%)	100 (32.6%)
Social	10 (11.5%)	7 (33.3%)	18 (23.4%)	40 (32.8%)	75 (24.4%)
Commercial	39 (44.8%)	6 (28.6%)	32 (41.6%)	22 (18.0%)	99 (32.2%)
Property	18 (20.7%)	1 (4.8%)	3 (3.8%)	11 (9.0%)	33 (10.8%)
Total	87 (100%)	21 (100%)	77 (100%)	122 (100%)	307 (100%)

Base: 307 Companies identified in postal survey

Table 3: Turnover of companies

	Turnover							Total
	≤ £1m	> £1m ≤ £20m	>£20m ≤ £40m	>£40m ≤ £60m	>£60m ≤ £80m	>£80m ≤ £100m	>£100m	
Number of Companies	114 (61.6%)	62 (33.5%)	4 (2.2%)	1 (0.5%)	0 (0.0%)	0 (0.0%)	4 (2.2%)	185 (100%)

Base: 185 Companies for which authorities supplied financial information

Approximately two thirds of partners are other local authorities and other public sector organisations. The latter group consists mainly of TECs and institutions of higher and further education.

Overall, nearly three out of five companies (167) have boards of less than ten directors. The smallest board identified by the survey was three.

Good practice

Drawing on the research, together with wider experience of public/private partnerships, Coopers & Lybrand have developed a number of principles of good practice around a framework of four key issues: Strategy, Management, Governance and People. The principles of good practice are developed in detail in the Good Practice Guide, which is being published by the Department in November 1997.

STRATEGY

Vision: The use of companies by local government usually represents a major change of approach to a particular issue. Good practice in change management shows that people and organisations react best if a sufficiently compelling vision is developed. The vision should include a clear statement as to why change is required and what results can be expected from the change.

Leadership: Political and management leaders should act as "change sponsors" to authorise and carry through the development of partnership working. In this respect, visible political leadership is especially important where companies have not been used before or where the scale of council involvement is significant. Such leadership must be seen to clearly articulate the benefits of partnership working to the council.

MANAGEMENT

Professional advisors: There is a need for local authorities to obtain specialist advice on the financial and taxation implications of companies. Each authority will need to make a decision as to whether this advice should be commissioned from external advisors.

Legal: The simple question of whether a local authority has power to enter into a company arrangement has become extremely technical. Express powers conferred on the authority need to be closely examined and interpreted. The existence of implied and incidental powers must be considered and their scope estimated. Legal advice should be taken which combines advice on local authority powers with technical advice on company law, corporate structures, taxation and the like. Where the company is intended to carry out functions on behalf of the authority, particular care will be needed. For major projects, advice from counsel may be desirable.

Finance: It is essential that a joint venture has a sensible funding structure. For major projects an appropriate debt equity mix will need to be evaluated. Funding proposals from prospective partners need to be reviewed to assess their feasibility.

Taxation: Another area in which authorities may need external advice relates to taxation. It is important that local authorities examine tax planning opportunities in relation to their involvement in joint ventures. Local authority companies are subject to corporation tax on their profits.

GOVERNANCE

Public accountability: Effective governance is important to all sizes of company. It is of particular importance to local authority partnerships given the high standards demanded to satisfy public accountability.

The Cadbury Code of Best Practice: The Cadbury Code of Best Practice was published in December 1992. However, there is general concern that the Code was developed with the largest companies in mind and that it could be difficult to apply in smaller companies and many local authority partnerships.

Directors' role and support: If the local authority appointed members as directors of a company there was general acceptance amongst case study authorities of the need to support them in this role. One authority has an identified lead officer for each joint venture who is responsible for briefing members on

the Board. This is an approach that is widely adopted. In addition, it is important that all local authority directors, especially members, are aware of their separate and distinct responsibilities under company law. Members may experience difficulty in recognising the different role they are performing as a company director, and how to deal with conflict situations and questions of declaration of interest.

Stakeholder reporting: Appropriate reporting arrangements need to be put in place to ensure that the authority is kept informed about the company's activities and progress. It is essential that where the authority is a customer of a local authority company separate reporting arrangements are put in place to reflect the different roles of customer and shareholder.

Other codes of reporting practice: In accordance with maintaining high standards in public accountability, local authorities should incorporate best practice in corporate governance. The conclusions and recommendations of the Nolan committee and the Greenbury report should be considered by local authorities and where relevant, the suggested practice adopted.

PEOPLE

Change management: Introducing successful partnership working will require change from both within the partnership and the local authority as a key partner. Managing change has become one of the most important management skills in the 1990's. The keys to success in change management are:

- understanding and managing people's response to change;
- recognising and managing change as a project;
- deploying appropriate tools and techniques to facilitate the effective implementation of change.

Training: One of the tools used in successful change management is training. A clear need for training exists in relation to the role of appointed directors to the Boards of companies.

Communication: Another lesson learnt from successful change management programmes is the value of constant and consistent dialogue to reinforce the message of change

Encouraging partnerships

Actions for local authorities: Where a local authority believes it appropriate to become involved in companies, the action identified for authorities

from the research is to develop support for partnership working amongst elected members by:

- encouraging elected members to regularly meet major private sector organisations;
- promulgating best partnership practice through the application of the principles of good practice outlined in the complementary Good Practice Guide;
- establishing staff secondments between the local authority and private sector organisations;
- providing training programmes for local authority officers and elected members.

Actions for the private sector: The actions identified for the private sector are to:

- develop a better understanding of local authorities;
- assign good people to build relationships with local authorities;
- empower managers to create partnerships.

Further information

"Local Authorities' Involvement in Companies: Findings of Research" by Coopers & Lybrand, (ISBN 1 85112 056 4) priced at £19.00, is available from the DETR Publications Sales Centre at the address below. The Good Practice Guide, which complements this report, is due to be published in late November 1997.

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