

Scrutiny & Policy Panel Report



To review the running of Invest East Lindsey Limited, with a particular focus on Kingfisher Caravan Park.

1/ Acknowledgements:

Cllr. Craig Leyland	Leader, East Lindsey District Council
Cllr. Richard Fry	Portfolio Holder for Finance Chairman of the ELDC Shareholder Supervisory Board for Invest East Lindsey
Cllr. Steve Kirk	Portfolio Holder for the Coastal Economy
Robert Barlow	Chief Executive, East Lindsey District Council
Christine Marshall	Deputy Chief Executive (Corporate Development) and Section 151 Officer
Andrew Fisher	Joint Deputy Chief Executive-Programme Delivery Assistant Director General Fund Assets Director of Invest East Lindsey.
Andrew Sweeney	Housing Development Manager, Housing Development Director of Invest East Lindsey
Cllr. Michael Booth	South Holland District Council and a Director of Welland Homes Ltd.
Vikki Cherry	South Holland District Council / Company Secretary for Welland Homes Ltd.
Caroline Hannon	South Holland District Council / Head of Delivery for Welland Homes Ltd
Matthew Waller	Assurance Lincolnshire -Internal Audit Lincolnshire County Council.
Cllr. Colin Davie	Ward Member for Ingoldmells and the location of Kingfisher Caravan Park.

The Scrutiny Panel express thanks to all the above for their contributions and time.

Members of the Scrutiny Panel.

Cllr. R. Jackson, Cllr. J. Makinson-Sanders, Cllr. D. McNally, Cllr. D. Brookes, Cllr. S. Dennis, Cllr. T. Kemp.

Chairman Cllr. D. Simpson expresses thanks to Members for their contributions and time to complete the process.

Cllr. T. Kemp withdrew during the process to prepare for taking up the role of Portfolio Holder for Finance. Cllr. S. Dennis regrettably had to withdraw late on in the process for health reasons. The Panel wish them both well for the future.

The Chairman on behalf of the Panel expresses many thanks to Rebecca James in her role as Scrutiny and Policy Officer for providing administrative support and information.

2/ Methodology:

7 Member Scrutiny Panel with the support of the resident Scrutiny and Policy Officer.

Meetings were recorded with the consent of the participants and those recordings were for the benefit of report construction and not available for any other reason or persons.

Venue East Lindsey District Council, The Hub, Mareham Road, Horncastle. Lincs.

Invited witnesses and Members either attended the venue in person or used Teams.

Meetings were timed to be within a 2-hour period enabling panel discussion and possible 2 invited witnesses per session.

Elected Members, Executive Board Members, ELDC Officers, invited witnesses from other Local Authorities and elsewhere, all were invited to express their views and observations by way of informal chat rather than interviewed from a hymn sheet of set questions. This enabled the panel to elicit more information and pose more questions.

As always, with the benefit of hindsight more questions could have been asked and avenues pursued.

The report is written and presented in really two parts to separate issues and concerns that are particular to one or the other, Kingfisher or Invest East Lindsey.

3/ References and Appendices:

Panel Members sourced evidence not least from within ELDC its Committees, Boards and Partnerships, Invest East Lindsey, Lincolnshire County Council, Companies House, South Holland District Council. Sporadic Shareholder Supervisory Board minutes over the 2020 - 2024 period.

List of other appendices:

Appendix A1 – exempt – confidential section of the report

Appendix B – Scrutiny scoping document

Appendix C – Overview quality check criteria

Appendix D - Report of Internal Audit Lincolnshire County Council, as presented to Audit & Governance on the 27/9/23 Item 10. Author Matt Waller Assurance Lincolnshire.

Appendix E - Financial Statement for year 2nd Dec 2019 to 31st March 2021, Financial Statement for year ending 31st March 2022, and Financial Statement for year ending 31st March 2023

Appendix F – company structure chart as of 31st March 2024.

4/ Introduction Kingfisher Caravan Park.

Kingfisher Caravan Park at Ingoldmells has been in the ownership and control of East Lindsey District Council since 1974. It may well be, that it was acquired under the Local Government Act 1972 which reduced the number of councils in England and Wales from 1,245 to 457, and the creation of East Lindsey District Council on the 1 April 1974. Assets of abolished Urban and Rural District Councils in the new District area became the property of East Lindsey. Ingoldmells was part of Spilsby Rural District Council area.

The site is 45 acres with consent for 726 pitches with a reception office, laundry, a washing machine, gas store and a play area. It is open annually from the 1st of March to the 2nd Sunday in November.

The site does not pretend to be other than cheap and cheerful, and it fulfilled a customer demand for somewhere to be located whilst spending time and money offsite enjoying the locality and attractions. ELDC have the freehold of the site and hold all the site licences and retain a lot of responsibilities.

ELDC are the ratepayers, and the rateable value is £88,400 with the 2024/25 rates payable £48,266.40.

ELDC repair and maintain all the infrastructure, are responsible for all health and safety obligations, public liability insurances, legionella control and other public health obligations.

ELDC are solely responsible for setting the pitch fees, collecting pitch fees, collecting all other licence fees. All pitch fee income and licence income go directly to East Lindsey.

ELDC are responsible for licence agreements and their content, conditions and terms of the park for licences and their granting. They are also responsible for making any changes to the content, conditions, and terms.

ELDC are solely responsible for granting consent for Invest East Lindsey to use parts of the site for its activities namely selling caravans, caravan peripherals, operating their hire fleet in connection with selling holidays. No sale or transaction relating to caravans new or used can be completed without consent for a pitch licence from ELDC. The same applies if a caravan is a bring-on from elsewhere.

Invest East Lindsey are the sole selling agent for new and second-hand sales, sole agent for handling private sales within the site, facilitating bring-ons, new or used from elsewhere.

ELDC employ all staff in connection with the site directly. The staff are then seconded to Invest East Lindsey, for which Invest East Lindsey are then charged.

ELDC are not responsible for any maintenance or upkeep of privately owned caravans.

As of the June 12th, 2024, the pitch fees per caravan are:

Standard pitch £2905.12 +20% Vat total fee £3486.20.

Super pitch £3197.37 +20% Vat total fee £3836.84.

Taking average of £3000 per pitch the yield for 726 pitches £2,176,000 or £2,613,600 Vat incl.

Current occupancy on the site is around 426 pitches £1,278,000 or £1,533,600 Vat incl.

Current shortfall (additional revenue opportunity) in pitch revenue around: £1,275.824 or £1,530,988 Vat incl.

Taking average of £3000 per pitch, 16 pitches are needed to cover business rates of £48,266.40.

Trading history.

From 1974 East Lindsey entered into agreements with private sector companies to deliver day to day management of the site by way of a licence agreement and which also permitted the licence holder to deal in caravans and peripherals and other compatible income generation. In addition to the cost of the licence ELDC also had a profit share in any, and all caravan deals and services. ELDC kept all the pitch fees and any licence fees generated by the site. The licence holder was reliant on covering costs by sales. This arrangement provided ELDC with a very healthy income after costs of around £2 million/year in some years running up to 2017, at which point Coastfields of Ingoldmells still had the running of a 7-year contract.

Up until 2009 there was an age limit of 15 years. For some reason this was removed, and attempts were made in 2017 to reintroduce age limits in a revamped pitch licence and to address the issue of private owners for years being allowed to buy other caravans on the site and then renting them out. In effect other businesses were trading within the park. Stiff opposition caused ELDC to back off.

A consequence of no age limit is that over time, and despite for the most part conscientious upkeep of units by owners, the general ambience of the site is not in keeping with the competition offer or encouraging to new customer expectations and their placing of new units. By default, this also reduced the ELDC opportunity for a cut.

Further attempts were made under the current Leader after he took office. As far as can be deduced, in 2017 Coastfields wanted this revisiting to enable sales opportunities. Again, after stiff opposition ELDC backed off with their proposals in July 2017. They were also presented with an e-petition to Full Council 11th October 2017 by the recently formed Kingfisher Owner's Group. At a meeting of the Executive Board of 25th September 2019 it was decided to press ahead with proposals to revamp pitch licences, terms and also address private trading on the site.

At that same meeting, the Executive Board approved the setting up of a Local Authority Trading Company an Economic Development Company limited by shares later to be called "Invest East Lindsey" and a means of managing Kingfisher Caravan Park "in house." Coastfields

were not being re-engaged. December 2019 Kingfisher Caravan Park became part of Invest East Lindsey.

The implementation of a revamped licence and terms saw within weeks the vacating of the site and upwards of 350 pitches out of 726 vacant by mid-2021. In March 2020 further setbacks as Covid restrictions came into play.

Since 2020 steps have been taken to address the emptying of the park and move Kingfisher forward, only to be hamstrung with post Covid issues of stock availability and delivery time frames.

1/ Taking out loans from ELDC to finance the introduction of a new hire fleet to enable holiday sales.

2/ Take on more bring-ons, largely due to increased pitch fees elsewhere. This generates lower profit margins for Invest East Lindsey but increases pitch fee revenue to ELDC.

3/ Big push on caravan sales and marketing.

5/ Conclusions:

Forecasting of sales and performance since 2018/19 and to date, with reference to Invest East Lindsey Shareholder Supervisory Board minutes, have been very optimistic. Great expectations that rested on the brief staycation market over Covid just did not happen.

The trading scene changed as the national economy changed. Income levels dropped post Covid coupled with rising costs so there was an influx of bring-ons due to people not able to pay high pitch fees elsewhere. The flip to that was some caravan owners already on site could no longer afford to stay and left. All this was compounded further with the disastrous September 2022 budget which saw the rocketing rise of interest rates. The cost of living crisis that followed has impacted on cash for leisure.

Throughout all of this and seeking to address age limits etc and seeking to introduce high end priced units etc, it is admitted there was a failure to understand just who the existing customers really are and those you are looking to attract in a changing marketplace.

Members of the scrutiny panel were left in no doubt by the Portfolio Holder for Finance, and the Portfolio Holder for Coastal Economy they were not in favour of Kingfisher Caravan Park being part of the Invest East Lindsey business portfolio. These two Members of the Executive Board were the most relevant Members to be mindful of when making any decision concerning Kingfisher Caravan Park. Scrutiny Members were surprised that the Executive Board did not heed their views or concerns. No reasons given as to why their positions carried little weight other than the outcome was deemed a case of a democratic vote. A point to consider is that Invest East Lindsey was set up in part to enable "in house" management of Kingfisher.

Scrutiny are quite clear that it is unsatisfactory for Kingfisher to be in the control of Invest East Lindsey on the basis that it, lacks the resources of a full time, leisure industry focused management, commercial decisions cannot be made quick enough mainly due to slow

decision making in the public sector, conflict of interests and of time between running a commercial operation and working in the public sector, conflict of accounting and reporting procedures between public sector and a commercial operation, no clarity of the true financial position and obligations when taking into account who pays for what out of ELDC, Kingfisher Caravan Park, Invest East Lindsey resources.

The site has had total lack of investment in the infrastructure. The big issue being that the electricity supply to pitches is not fit for purpose across the site.

Newer caravans with greater amperage demand must be strategically placed around the site in order to avoid fuse blow-outs and no electricity for anybody. This limits the number of units that can be introduced to the site, be they units supplied by Invest East Lindsey or newer bring-ons. Full capacity of 726 cannot be achieved. As of 12th June 2024, there are around 300+ vacant pitches.

Scrutiny took the view that Kingfisher Caravan Park was a good example of East Lindsey District Councils capacity of running an asset into the ground.

6/ Finances:

It should be understood little or no financial information can be disclosed or referred to in detail as Invest East Lindsey and its operations are a private company with the principle and only shareholder being East Lindsey District Council. Some information is available to the public via Companies House and East Lindsey District Council accounts (**see Appendix E**).

Public sector finance accounting and reporting is at odds with that of the private sector. In setting up Invest East Lindsey it was decided to use Sage system of accounting. The ELDC company PSPS Ltd it was discovered afterwards did not have anyone familiar with Sage. This was rectified, however not for long. The Directors of Invest East Lindsey decided to appoint Duncan & Topliss as their auditors. There have been some issues around how financial statements have been prepared for submission to the auditors.

To date Invest East Lindsey has borrowed around £6 million from ELDC and has outstanding debt of £4 million. It has the advantage of the Bank of East Lindsey District Council in that it can reschedule loan repayments and agreements.

Cash flow and servicing debt is critical. The Management are focussed on moving from chasing cash flow to getting more business.

In early 2024 Management reviewed marketing and the customer segment price wise. No good trying to sell £35k -£60k units and it is well evidenced that the upper market segment is struggling locally. The market at Kingfisher is £25k-£30k. Part of the new hire fleet are being sold to address cash flow.

Management has now separated Kingfisher and IEL accounting streams for some reporting.

7/ Recommendations relating directly to Kingfisher Caravan Park.

Step 1 is contained within the exempt **Appendix A1**

Step 2 Sets out 4 Options for appraisal and 1 Exit plan options for appraisal.

Step 3 Scrutiny Panel recommendation on Option Appraisal . With a note below as to why.

Step 2 Option Appraisals Some of which could proceed as Step 1 is being addressed.

The confidential Saville Report to Executive Board in March 2018 apparently set out costed options and Scrutiny is aware that some work has been done by officers.

RECOMMENDATION – ELDC should carry out well evidenced option appraisals to include known consequences and unintended consequences on Options 1 to 4 and 5 Exit Plan Options.

Option 1 Appraisal:

Valuation of the Kingfisher Park for sale on the open market: -

To include valuations reflecting the positions of:

- 1/ "Present site condition with all on site legal issues" with no further spend on site.
- 2/ "Present site condition all legal issues addressed" with no further spend on the site.
- 3/ "Present site condition all legal issues addressed and having put in absolute minimal investment to infrastructure to comply with current legislation and to enable the capacity to introduce modern specification units to be introduced across all of the site". basic turn the key and go condition. All costs in connection with and incurred for any upgrading covered by any sale.
- 4/ "Present site condition reflecting the above options but with reduced site footprint to enable a cost-effective income generating expansion of the adjacent current car parking offer. This income coming directly to Council." A business case as to how much of the site footprint would be required to make it a cost-effective income stream would inform this option.

Valuation on ELDC Asset register Valuation Valuation Date Residual Valuation Residual Life

Kingfisher Caravan Park	£9,864,000	31/3/2013	£6,905,000	48yrs
Adjacent Kingfisher Car Park	£ 198,000	1/4/2009	£ 198,000	50yrs
Kingfisher Camp Shop	£ 45,000	25/2/2009	£ 45,000	50yrs

ELDC are the ratepayers for Kingfisher Caravan Park and the rateable value is £88,400 with the 2024/25 rates payable £48,266.40

Option 2 Appraisal:

Long term lease to a third party. This is the current preferred preference of the scrutiny panel. (i.e. not IEL or ELDC or any company in the control/ownership of either body).

Taking into consideration and at a revenue that reflect the positions of:

- 1/ "Present site condition all on site legal issues" with no further spend on site.
- 2/ "Present site condition all legal issues addressed" with no further spend on the site.
- 3/ "Present site condition all legal issues addressed with minimal investment to infrastructure to comply with legislation enabling full capacity for modern units on site". Basic turn the key and go condition. All costs in connection with and incurred covered by the lease period revenue.
- 4/ "Present site condition reflecting the above options with a reduced site footprint to enable income generating expansion of the adjacent car parking. This income coming directly to Council and possibly for the short period ring fenced to help cover costs associated with Kingfisher upgrades and car park development." A business case as to how much of the site footprint that would be required to make it a cost-effective income stream would inform this option.

In a long-term leasing option, current pitch fees would not by default continue to go to the Council unless by way of negotiation e.g. agreed % ratio in relation to an agreed lease price??

Option 3 Appraisal:

Third Party management agreement with an Industry recognised leisure trade company.

(i.e. not IEL or ELDC or any company in the control/ownership of either body).

Taking into consideration and at a revenue yield that reflect the positions of:

- 1/ "Present site condition all on site legal issues" with no further spend on site.
- 2/ "Present site condition all legal issues addressed" with no further spend on the site.
- 3/ "Present site condition all legal issues addressed with minimal investment for infrastructure to comply with legislation enabling full capacity for modern units on site". Basic turn the key and go condition. All costs in connection with and incurred for any upgrading to be covered by a % of the pitch fees released to Council during the management period?
- 4/ "Present site condition reflecting the above options but with reduced site footprint to enable a cost-effective income generating expansion of the adjacent current car parking offer. This income coming directly to Council and possibly for the short period ring fenced to help cover costs associated with Kingfisher upgrades and car park development." A business case as to how much of the site footprint would be required to generate a cost-effective income stream would inform this option.

Option 4 Appraisal:

Maintain the current position with the following caveats (Assuming Invest East Lindsey is not mothballed).

- 1/ Invest East Lindsey to establish Kingfisher as a separate commercial entity within its portfolio of activities.

2/ IEL to evidence and maintain accounting procedures that clearly separate Kingfisher activities from other commercial activities in their portfolio of activities.

3/ A reduced Kingfisher site footprint to enable a cost-effective income generating expansion of the adjacent current car parking offer. This income coming directly to Council and possibly for the short period ring fenced to help cover costs associated with Kingfisher and car park development. A business case as to how much of the site footprint would be required to generate a cost-effective income stream would inform this option.

4/ Take steps to move to a position where Invest East Lindsey staff are employed directly by IEL, and recharges are non-existent or at best minimal.

5/ A % of the pitch fees and any income returned to ELDC are ring fenced to re-invest in Kingfisher asset.

Appraisal of Exit Plan Options:

Creation of exit plan options and the trigger points to implement them.

1/ EXIT PLAN A - Clear procedure including the decision making process for removing Kingfisher Caravan Park and associated activities from the portfolio of Invest East Lindsey. This plan should set out what triggers the Exit Plan, how outstanding borrowings are to be dealt with, what are the liabilities and how are they to be dealt with etc.

2/ EXIT PLAN B- As above but from the point of view that Invest East Lindsey ceases to operate.

Step 3 Scrutiny Panel Observations relating to the Option Appraisals:

1/ Option 2 Appraisal

2/ Exit Plan Options

Reasoning for scrutiny panel preference for Option 2

On balance the Scrutiny Panel would like to see Kingfisher Caravan Park retained but are mindful of recognising commercial reality. They recognise that significant investment is needed to address the run down infrastructure.

There is a reluctance to sell the “family silver.”

A good example of this was political pressure to sell the Old Market Hall Louth in 2004/5 for £600k and with 7 years left to run on the lease. Members stood firm and the Council still have the asset and have collected 20 years significant rent way beyond the intended sale price. Not even seen a lick of paint???

Part 2 of the report to cover Invest East Lindsey: 8/ onwards.

Date	Event
Mar 2018	Management Team meeting “ Investment thoughts and ideas ” on a trading company and future of Kingfisher
Nov 2018	Executive Board Briefing (confidential) Savills Report on Kingfisher options
Nov 2018	Executive Board report on financial sustainability referencing a Company “ Strategy for Enhancing our Financial Sustainability ”
Jan 2019	Management Team meeting - of a Local Authority Trading Company
July 2019	Trowers & Hamlins – governance report - on potential governance arrangements for a commercial development company
Sept 2019	Management Team Final version of paper from Jan 2019 on formation of a local authority trading company
25.09.19	Executive Board – <ul style="list-style-type: none"> • open report on setting up a development company, approved (subject to business plan approval) • exempt report on Kingfisher
02.12.19	Invest East Lindsey incorporated, with ELDC as 100% shareholder and a single director, appointed the same day.
04.12.19	Council – decision on setting up a development company first business plan for company agreed
01.01.20	Kingfisher started trading under Invest EL, with Neil Cucksey as sole Director
10.01.20	Articles of Association adopted
22.01.20	First meeting of Shareholder Supervisory Board
04.05.20	2 additional Directors appointed
29.06.20	First Board of Directors meeting
24.08.20	Director and Shareholder training
15.09.20	Business plan to SSB on hire fleet
28.10.20	Loan request for hire fleet to Council – approved second / updated business plan agreed
09.11.20	Business plan to SSB on eco lodges and CSL housing
09.12.20	Loan request for eco lodges and housing to Council - approved

8/ Introduction Invest East Lindsey:

The Executive Board on 25th September 2019 approved the setting up Invest East Lindsey and it started to trade on 1st January 2020.

(The report deals with Kingfisher Caravan Park specifically in the first part of the report as above.)

The purpose and remit of the company was to operate as an Economic Development Company exempt from public sector procurement rules and to deliver namely:

- Operate Kingfisher Caravan Park alongside holiday and caravan sales. Revenue of pitch fees to ELDC.
- Develop and operate an Eco-Lodge business “Dunescape” a plus £3.755 million project.
- Deliver a mixed portfolio of development to address unmet housing need in the District Area using Council owned land or the acquisition of stalled private sector sites.

It needs to be clearly understood that any housing development being affordable open market and for sale at a profit as approved by Full Council. At a profit not breaking even! Not for rent! Not social housing for rent! Any changes to that directive would need to be approved by Full Council.

Company Structure (also **see Appendix F**):

6-member board of 4 ELDC officers (executive directors), 1 PSPS officer and 1 local businessman who is also an Executive Board Councillor (both non-executive directors), plus an ELDC officer as company secretary.

Executive Officer Team of Invest East Lindsey: Managing Director of Invest East Lindsey, Director of Housing and Development, Director of Leisure and Operations (non-board member) and Company Secretary. All officers of ELDC.

Shareholder Supervisory Board: ELDC Chief Executive, Section 151 Officer, Deputy Chief Executive Programme Delivery, 2 Executive Councillors, Chair of Overview, plus the Invest East Lindsey Company Secretary provides administrative assistance.

The role of the Shareholder Supervisory Board is not that of a shadow board. The role is the link between East Lindsey District Council and the private economic development company of Invest East Lindsey of which East Lindsey is the principle and only shareholder. The role is to be quite clear as to what the company is to achieve for Council and look after the Council’s interests in achieving those goals. The District Council is the provider of some resources including manpower and finance. Invest East Lindsey and Council develop business plans to justify those resources and objectives to be achieved, occasionally referring to Full Council when required to do so.

A point of concern to Scrutiny was the churn of members of these Boards.

In December 2020 Full Council approved loan requests for a housing scheme and eco-lodge project. The housing scheme was at Draycott Way Chapel St Leonards for 28 dwellings of two bed, 3 bed and bungalow units and for the scheme to be completed and all sold by September 2022. The development was built out and finished at the end of May 2024. The event of Covid, post Covid spiralling costs and the disastrous budget of September 2022 resulting in interest rates soaring beyond 7% all conspired to waylay the project. By September 2023 15 units had been sold and from then onwards it was a struggle to even move a quality two bed well fitted out unit for sub £150k.

Late 2023 ELDC received government grant funding with the caveat of match funding by ELDC to deliver 9 homes for Afghan refugees and this was approved by Full Council. 7 units at Draycott Way were purchased by ELDC. Those sales were completed by March 2024. As of June 12th, 2024, there are 5 units left.

ELDC have and continue to evaluate potential sites and the business cases, which are subject to scrutiny by the Section 151 Officer.

A potential future project is ELDC owned land at Tetney which has an outline planning application submitted

An Eco-Lodge business “Dunescape” a plus £3.755 million project was worked up. Council advanced a loan of £1.3 million for infrastructure but it hit the buffers due to increased costs, timeframes and constraints of the location both in terms of planning and the Environment Agency. Scrutiny expressed concern at the delay stopping further progress when the constraints were not likely to be overcome.

9/ Finances:

Financial Statement for year 2nd Dec 2019 to 31st March 2021, year ending 31st March 2022, and year ending 31st March 2023 are enclosed at Appendix E.

When all the houses at Draycott Way Chapel St Leonards have been sold then Invest East Lindsey will be entirely reliant on Kingfisher for trading and to service all debt. It should be realised that the overall profit envisaged at the outset of the project has diminished. This is due to very slow sales over a longer time frame than first planned and the knock-on effect of increased costs in servicing the debt. When all of the housing is sold the company would be in a relatively stable situation for the immediate future more with a good 2024 season for Kingfisher.

To date Invest East Lindsey has borrowed around £6 million from ELDC and has outstanding debt of £4 million. It has the advantage of the Bank of East Lindsey District Council in that it can reschedule loan repayments and agreements.

Cash flow and servicing debt is critical. The Management are focussed on moving from chasing cash flow to getting more business. Work is being done to reduce overheads with changes at Kingfisher.

The Shareholder, the Council needs to enable the Company to pursue different types of business opportunities. If the Council is not minded to do this after business case presentations and no viable building schemes come forward, then the Council has the option of putting Invest East Lindsey into dormancy. All of the set up costs have been covered and it is simply a case of parking it until market conditions change to the advantage.

10/ Issues that were picked up and discussed:

Matt Waller from Assurance Lincolnshire gave a briefing on the Internal Audit Report submitted to Audit & Governance.

“Lessons learnt concerning the creation of and early operation of Invest East Lindsey - September 2023.”

As the title suggests it set out to highlight the issues and concerns around the initial setting up and governance of the company from start up to present day. It is a detailed report found at **Appendix D** and is essential reading. Recommendations were made and some of these have largely been acted upon. Audit & Governance will continue to monitor the implementation of agreed recommendations.

It was noted that at outset, even before a company was registered or started trading, an independent outside audit should have been carried out, well evidenced and still available, all bases covered, on the fit for purpose of a proposed company, its operating model, reporting to shareholder procedures, accounting and banking procedures, capacity to deal with administrative matters in a timely matter, whether PSPS had the capacity to deal with the issues that public sector/private sector finances and reporting throw up e.g. accounting packages and reporting systems, and trading exit plans with trigger points etc, etc. Risks and potential unintended consequences identified.

Legal advice might well deal with the niceties that need to be complied with for setting up a company however that does not necessarily translate into a fit for purpose company, operational and business wise. It was not the turn the key and go operation that you would have expected for a multi-million-pound operation. Time and therefore a cost is generated in addressing issues that should have been identified at the outset.

With reference to a company model Invest East Lindsey operates inclusive of Kingfisher and housing...two arm operation with a single bank account and with shared accounts recording and reporting. This clouded the clarity of the true trading position of either arm, their liabilities, the allocation of borrowings and debt. It was noted that Invest East Lindsey had addressed the issue in 2024 by separating Kingfisher and housing accounting streams for reporting.

A suggested company model discussed, was for Invest East Lindsey to be an umbrella parent company within which sat any number of stand-alone operations each with their own accounts and trading records, inventory of assets, borrowings/debt, exit plans with trigger points. This would lead to clarity of finances and trading positions of each and any operation across the parent company portfolio. In the case of housing development for example, this could be each individual building site operation. There are a number of advantages, the flexibility to respond to market conditions quickly on a site by site basis, mothball sites, restart sites, offload sites and a reduction in the risk of any one operation jeopardising the entire parent company.

It is to be noted that Senior officers and the company Director do recognise this as the preferred option.

At Breckland Council their development company Breckland Bridge, in addition to being an umbrella company as above is a joint venture with Land Group and is responsible for the strategic management and development of the non-operational assets of Breckland District Council delivering commercial and residential schemes across the district. This has removed the onerous and conflicting interests plus the vagaries of operating a private sector operation by a public sector body.

11/ Other options to address housing demand:

South Holland District Council and Welland Homes.

Welland Homes set up in 2015 initially as an investment and development company. KMPG did the original business plan and model, and that document is still the benchmark. Plan was to build or buy dwellings to rent at market price. At present there are 57 dwellings approved. After Covid and a review it was decided to be a market rent landlord and buy ready built houses that have been thoroughly vetted by officers and have all the warranties in place. The company does not employ any staff but pays the Council for its time and core costs plus 4 board meetings a year plus 2 ad hoc. The service level agreement with South Holland also provides for additional services such as project management. Ark Property Centre collect the rents. The 57 unit stock is 2 and 3 bed which was funded by loan and equity from the shareholder South Holland at 65% shareholder loan repay plus interest and a 35% equity in the units. To date the assets have appreciated by £2million. In the first 4 years just paying interest on loans and maintaining stock. Been in profit since and do not pay dividends to the Council instead pay charitable donations to local projects that would have normally relied on grant funding from SHDC. The company has not had to pay corporation tax.

With regard to tax efficiency the operation is always checked for state aid compliance. The property rents are between £750pcm to £1150pcm. The objectives to be achieved were set out by South Holland. Currently interest rates are an issue which has caused remodelling of schemes. Once a scheme is entered the interest rates are fixed for 30years however up until signing they are modelled at a market rate. No specific ceiling on price paid. Larger properties do not tend to stack up as well for rental. Demand is very good, and the target is to let or re-let in 30 days. Rents are in line with the market. 100% success rate in terms of rent collection. Ark Properties and other agents give a steer on demand. Churn averages around 3 years. Some have been 6 months and others on board since 2015. The company keeps reserve but not profits.

12/ Recommendations:

- 1) ELDC, through the A&G committee, must ensure that any and all recommendations contained within Assurance Lincolnshire Report *“Lessons learnt concerning the creation of and early operation of Invest East Lindsey - September 2023”* continue to be adhered to.
- 2) ELDC to work with the Invest East Lindsey Board of Directors to develop exit plan options for Invest East Lindsey operations and the trigger points to implement them, including trigger points to put Invest East Lindsey into dormancy until better trading conditions and opportunities prevail.
- 3) Shareholder Supervisory Board meetings to be scheduled on Council meetings programme and stop being ad hoc.
- 4) Steps to be taken to keep all Councillors better informed of the activities of Invest East Lindsey and aware of who sits on the associated Boards.
- 5) ELDC to carry out a review of the company model and move to Invest East Lindsey being an umbrella parent company in which can sit any number of stand-alone operations each with their own accounts and trading records, inventory of assets, borrowings/debt, exit plans with trigger points.
- 6) ELDC to carry out an appraisal of the Breckland Bridge model of delivery for housing and commercial opportunities with a view to it being a way forward for Invest East Lindsey.
- 7) ELDC to carry out an appraisal of the South Holland District Council Welland Homes business model as business option to pursue and widen the Invest East Lindsey portfolio to deliver housing.
- 8) Improve the outcome with consultants with sharper more refined and clear briefings as to the objectives and outcomes that need to be achieved from their engagement.
- 9) Investigate tax efficient use of company dividends to support local projects.
- 10) Future ELDC business cases should have extra pre-decision scrutiny in addition to Overview Committee, to enable a fully informed decision to be made by Full Council
- 11) To involve relevant professionals such as auditors/consultants at an earlier stage of the process for large scale ELDC projects.
- 12) Adequate resourcing to ensure staff are not taking on too many projects – either should they be taking this on OR do they need to stop doing it if no capacity.
- 13) Look at possibility of IEL keeping pitch fees (different model of fees/payment between ELDC and IEL).
- 14) Presentation to Council about Invest East Lindsey with a business case to justify its future.

The recommendations pertaining to Kingfisher Caravan Park are set out in Part 1 of the report.

April 1st, 1974, East Lindsey District Council created by the Local Government Act 1972.

Kingfisher Caravan Park should be celebrating 50 years/half a century as a reliable asset that has earned the ratepayers and the community a great deal of money and provided leisure for pleasure for countless visitors to East Lindsey. Most residents and ratepayers have no idea they own it and that it has been working away quietly for them, offsetting their council tax in the early days, and balancing the books.

Report author: Chairman Cllr. Daniel Simpson