

Hampshire Fire and Rescue Authority

Standards and Governance Committee

Item: 9

11 December 2013

Governance arrangements for 3SFire Ltd

Report by the Chief Officer

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1 Summary

- 1.1 At its meeting on 23 September 2013, the Committee asked for a report on the Hampshire Fire and Rescue Authority's (HFRA) governance arrangements with the company it has established, 3SFire Ltd.
- 1.2 This report builds on the report to the Committee on 5 July 2013, which set out the relationship between the Authority and the company.
- 1.3 The internal governance of the company is the responsibility of the company's board of directors and so is not covered in this report.
- 1.4 There will be an opportunity to discuss how the company is governed at the company's annual shareholder meetings, the first of which is due in mid-June 2014.

2 Recommendation

- 2.1 The Committee is invited to note and comment on the governance arrangements described.

3 Introduction and background

- 3.1 The HFRA agreed to establish a trading company, known as 3SFire Limited at its meeting on 14 February 2013. The company was formed on 20 February 2013 including registration at Companies House.

4 Formal position

- 4.1 3SFire Limited is a wholly owned HFRA company.
- 4.2 There are currently four HFRA Directors, three Members and one HFRS Director, who need to work in the best interests of the company. Directors are appointed / re-appointed annually at the HFRS annual meeting. Various reports have been made to the HFRA and this committee, including one on this agenda, about the position of directors of the company to address the potential conflicts of interest.
- 4.3 The board is currently advised by two officers of the HFRA: the Head of Finance and the Director of Corporate Services (as company secretary).
- 4.4 The HFRA is the sole funder of the company until it starts to make a profit. HFRA has agreed a loan of up to £250,000 to the company at a commercial rate.

4.5 The Articles of Association for 3SFire Ltd set some constraints over the company's work. Certain powers are reserved to HFRA. Examples include:

- if the company wants to enter into contracts worth over £1m then the support of the HFRA will be needed;
- capital spending, when HFRA agreement is required;
- procurement, which needs to follow HFRA procedures; and
- changes in banking and borrowings, which need HFRA agreement.

5 Reporting arrangements

5.1 There are reporting requirements from the company to the HFRA as shareholder, via an annual shareholder meeting. At its meeting on 14 June 2013 the HFRA appointed Cllr Keith Chapman as the shareholder representative.

5.2 It is expected that the annual shareholder meeting will be held immediately before the annual HFRA meeting (in June next year). This will provide all Members the opportunity to consider the company's annual report and future business plan. Members will also be able to ask the directors questions.

5.3 The company will provide updates to the Authority via the Finance and General Purposes Committee every 6 months. The updates will not give confidential details of contracts, profits and potential opportunities but will indicate broad activities and information about the company's development. It will take the form of a report submitted by the company to the HFRA, with a covering report prepared by HFRA officers commenting on the report and any other related company matters from an HFRA perspective.

6 Risk register

6.1 When the company was proposed a risk register was created for the Authority's risks. In addition a risk is being drafted which will be added to the corporate risk register and reviewed by the senior management team and this committee.

7 Legal agreements

7.1 There are various legal agreements between the company and the Authority including:

- Provision of services;
- Loan agreement and security;
- Staff secondment agreement; and
- Strategic partnership agreement.

These have been drafted with appropriate legal advice from the HFRA legal advisors

7.2 There is a need to avoid possible legal conflicts if the company does something that relates to the legal duties / powers of the HFRA. For example if the company undertakes work using seconded staff that is subsequently inspected by the HFRA (possibly with the same staff). Legal advice will be sought should such conflicts arise and the issue is monitored using the risk register.

8 Audit oversight

8.1 The HFRA internal auditors are undertaking a review of the governance arrangements which have been put in place. The outcome of this audit is expected to be reported to next meeting of this committee.

8.2 The HFRA's external auditor has been fully briefed on the establishment of the company and its initial activities.

9 Financial arrangements

9.1 There is a need to be able to demonstrate separation between the HFRA and 3SFire Limited since the Authority cannot subsidise the company. Otherwise this would conflict with various state aid rules and leave the company exposed to challenge by private sector competitors. There is an agreement in place to ensure that costs incurred by the Authority are fully recharged.

9.2 If the company's turnover increases to a material level, it will need to be consolidated into the HFRA accounts. This will involve the HFRA auditor reviewing the accounts.

9.3 Company banking arrangements have been arranged by the Treasurer to simplify the relationship with the HFRA banking arrangements.

10 Supporting our corporate aims and objectives

10.1 One of the HFRA's priorities set out in the HFRA plan 2013-2018 is 'Working with Partners'. This includes taking commercial opportunities including the trading company.

11 Risk analysis

11.1 Both HFRA and 3SFire limited maintain and monitor risk registers summarising the risks that exist in the operation of a trading company. Maintaining an effective, financially sound and legal relationship will make a significant contribution to mitigating the potential risks.

12 People impact assessment

12.1 The proposals in this report are considered compatible with the provisions of the equality and human rights legislation.

13 Environmental and sustainability impact assessment

13.1 None

14 Resource implications

14.1 No additional resource implications arise from this report.

15 Background papers

15.1 The following documents disclose the facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of the report: None

Note: The list excludes: (1) published works; and (2) documents that disclose exempt or confidential information defined in the Act.