

**Hampshire Fire and Rescue Authority**

**Finance and General Purposes Committee**

**Item 9**

**18 January 2013**

**Establishing a trading company**

**Report by the Chief Officer**

Contact: John Beckerleg 07918 887986

**1 Summary**

- 1.1 This report sets out the business case for Hampshire Fire and Rescue Authority (HFRA) to establish a limited company.
- 1.2 HFRA is facing further grant reductions at least for the next 4 years. Establishing a trading company will allow the Authority to generate profits through fire related contracts, including some in partnership with others, and this will help to offset these funding reductions. There will also be other benefits including potentially improved resilience, the development of staff and the potential to bring new practices into the Service.
- 1.3 The Finance and General Purposes Committee considered and supported a proposal to develop a commercial arm at its meeting on 23 October 2012. Following this, at its meeting on 5 December 2012, the Authority considered the need for the development of a commercial strategy and supported the establishment of a commercial organisation which is needed to pursue such a strategy. It was further agreed that detailed work should be undertaken with a report back to this Committee.
- 1.3 The report sets out options to establish such an organisation and invites the Committee to recommend to the Authority that a limited company be established.

**2 Recommendation**

The Committee is invited to recommend that :

- 2.1 The business case for the establishment of a wholly owned trading company limited by shares is approved;
- 2.2 A limited company is established on the terms set out in the report;
- 2.3 A loan to the company of up to £250,000 over three years to provide cash flow to meet set up and initial trading costs, subject to the repayment terms set out in the report, is agreed; and
- 2.4 Authority is delegated to the Chief Officer, in consultation with the Chairman of the

Authority and the Chairman of Finance and General Purposes Committee, to take all such incidental and consequential steps as are reasonably necessary to implement the above decisions.

### **3 Introduction and background**

- 3.1 HFRA is facing a period of at least a further 4 years when its funding from Government grant will reduce. The Service is seeking opportunities to reduce spending through efficiencies but this will become increasingly difficult without direct reductions to frontline services.. To offset the impact on service provision income generating opportunities could be exploited for the benefit of HFRA and Hampshire taxpayers.
- 3.2 One option is to sell services to other organisations, in either the private or public sector, with a view to either generating surplus income or, at least, contributing to the Service's overheads.
- 3.3 The Finance and General Purposes Committee, on 23 October 2012, considered this topic and agreed that officers should continue to investigate the options available to develop a commercial arm for HFRS and then to report back to the Committee.
- 3.4 On 5 December 2012, the HFRA considered the Committee's recommendations and supported further work being undertaken to develop the proposal with a report back to the Committee and then the Authority in February 2013.

### **4 Legal powers**

- 4.1 There are a number of options available to generate income to HFRA. The options make a distinction between trading (i.e. acting for a commercial purpose to generate a profit) and charging (i.e. to recover the costs of providing a discretionary service). The HFRA is already involved in various areas of charging (e.g. sharing premises). This report deals with options for trading.
- 4.2 The Local Authorities (Goods and Services) Act 1970 gave authorities general powers to enter into agreements with certain designated public bodies. While these provisions enable an authority to generate a profit from that agreement, the range of organisations with whom an authority can contract is limited to prescribed public bodies.
- 4.3 The effect of Section 95 of the Local Government Act 2003 (taken together with an order made by the Secretary of State in 2009<sup>1</sup>) is to enable authorities (including HFRA) to do for a commercial purpose anything which they are empowered to do under their statutory functions i.e. a power to trade in function related activities This is an extension of the position under the 1970 Act, as authorities are no longer restricted to contracting with other public sector bodies i.e. services can be provided to the private sector. However, this wider power to trade can only be exercised through a company, established in accordance with the statutory rules on local authority companies<sup>2</sup>.
- 4.4 The Localism Act 2011 has further extended the scope of the power to trade, to include a wider range of activities that are incidental to the Authority's core statutory functions.

---

<sup>1</sup> SI 2009 No. 2393 The Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009

<sup>2</sup> Part V Local Government and Housing Act 1989

- 4.5 Assuming the company is wholly owned by the HFRA, any net profits generated can be returned to the Authority, and may be applied in any area of the Authority's activities e.g. to protect expenditure on front line services.
- 4.6 Taking a more commercial approach is not without precedent. For example:
- Devon and Somerset FRS has agreed a partnership with a private company and a established limited company (Red One Ltd) providing training;
  - Cleveland FRS has developed a mutual organisation to provide a fire and rescue service and to sell services;
  - Essex FRS has a long established trading company to exploit specialist skills and trading / disposal of fire appliances; and
  - Lancashire and West Midlands FRSs have set up commercial arms with activities including training, fire safety risk assessment, fire engineered solutions, fire equipment maintenance.
- 4.7 One option available to HFRA is to establish a mutual company. There has been an increasing Government promotion of mutual organisation recently and examples include that from Cleveland FRS above.
- 4.8 The four common characteristics of a mutual organisation are:
- It is established for a shared purpose
  - It is 'owned' by its members. This ownership is vested in the membership community but is held in common – no individual is entitled to a share of the underlying assets. Each generation of members is a custodian of the organisation for the next.
  - It normally operates democratic voting systems, on the basis of 'one member: one vote', so there are no interest groups or 'majority shareholders' who can automatically outvote the others.
  - It has a governance structure which ensures that different stakeholders can play an appropriate role in running the organisation; this could include staff, service users and external participants.
- 4.9 The term 'public service mutual' is used by the cabinet office to describe an organisation that has separated from the public sector, continues to deliver public services and involves a high degree of employee control.
- 4.10 The company proposed in this paper is not a mutual, since the objective is to generate profits for reinvestment in HFRA's services, in which case the Authority would require control of the company rather than sharing this with the company's employees. Further, it is not proposed that the company would employ any staff (see para 12.4).

## **5 Business case for forming a company**

5.1 Under the 2003 Act the Authority is required to prepare and approve a business case for forming a company<sup>3</sup>. The business case should cover:

- a) the objectives of the business

---

<sup>3</sup> SI 2009 No. 2393 The Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 and Section 5B(2) Fire and Rescue Services Act 2004 inserted by Section.9 Localism Act 2011)

- b) the investment and other resources required to achieve those objectives
- c) any risks the business might face and how significant those risks are, and
- d) the expected financial results of the business together with any other relevant outcomes that the business is expected to achieve.

These are set out in the following paragraphs and the attached appendices.

## **6 Form of the Company**

- 6.1 The precise form of the company, including its articles of association, would be developed by the end of March 2013 but the broad principles proposed would be as follows.
- 6.2 The primary objective of the company would be ‘to provide services to other bodies on commercial terms to generate income for reinvestment in the core services of HFRA’. However it is proposed that there should be flexibility to enable the company to develop as potential opportunities are identified and the company would not be limited to the fire sector. So, for example, health and safety training could be provided to public and private organisations generally. It would be set up to benefit the HFRA core services and therefore the area and residents of Hampshire.
- 6.3 The proposed scope of the company’s activities is outlined below. However the company’s structure and governance will permit other activities or services to be incorporated in the future if they are considered as suitable and following the production and consideration of a robust business case.
- 6.4 In order to ensure that the HFRA retains control of the company it is proposed that the company will be 100% owned by HFRA.
- 6.5 There are various forms of company including: limited by shares, limited by guarantee and partnerships. The most advantageous option would be a company limited by shares since this provides the best options for distribution of profits via dividends and for raising risk capital in the future.
- 6.6 The name of the company will be determined by the Chief Officer in consultation with the Chairman of the Authority.
- 6.7 The company will need to prepare a good business case for its trading activities, based on sound commercial analysis as well as careful tax and financial planning. This is likely to involve independent specialists.
- 6.8 It is proposed that there should be a small Board of Directors with the directors being either members or officers of HFRA<sup>4</sup>. A suggested membership will be tabled at the meeting. It is expected that the Board will wish to consider appointing further, non-executive Directors to benefit the company including providing experience and independent challenge.
- 6.9 Members and / or employees appointed as directors will participate directly in the activities of the company, are answerable to the company and have the powers and duties of company directors whilst they do so.

---

<sup>4</sup> This clarifies that it will not be an arms length company under the Local Government and Housing Act 1989

## **7 Services to be sold**

- 7.1 The Fire and Rescue Services Act 2004 specifies areas of activity that must be provided by fire authorities. This identifies those services which can and cannot be charged for. HFRS would continue to provide its existing services to the public as prescribed within the Act. It would not be seeking to introduce charges to the public for services which are currently free.
- 7.2 The main statutory functions for which the HFRA could not trade are set out in Appendix A.
- 7.3 We would, however, explore the opportunity to sell our expertise or capacity in non statutory areas. These are set out in more detail in Appendix B but in summary could include:
- selling surplus capacity (e.g. fleet maintenance);
  - training;
  - specialist services (e.g. specific advice);
  - general advice around risk analysis and management
  - fire engineering expertise to other public/commercial organisations; and
  - tendering for fire sector related contracts possibly for work with other Fire and Rescue Services and / or the private sector.

In recent times, the Service has received a number of enquiries to supply its specialist services to other markets.

- 7.4 Any areas of business being considered by the company will be the subject of a rigorous business case before being agreed.
- 7.5 The European Union rules<sup>5</sup> require a procurement process to be followed when public service contracts are awarded (subject to certain exceptions). So, if the company wishes to provide goods / services to other public bodies it would normally be required to secure this through a tender process.

## **8 Supporting our corporate aims and objectives**

- 8.1 Within our five priorities we have identified that we are likely to create capacity and generate more revenue by working with other organisations. If successful, a commercial strategy would provide a source of income for HFRS and therefore reduce the impact of future budget reductions that may affect the service.
- 8.2 This proposal would also offer non-financial benefits including:
- staff development;
  - exchange of expertise with other partners; and
  - economies of scale.

## **9 Risk analysis**

---

<sup>5</sup> Public Contract Regulations 2006

- 9.1 Appendix D sets out an analysis of the risks arising from this proposal together with the mitigating actions to manage the risks.
- 9.2 Setting up a company will involve limited risks until it begins trading. The company will be expected to develop a business plan for its proposed activities and each potential trading opportunity will involve the preparation of a full business case. Both of these documents will include an analysis of risk.
- 9.3 The report proposes a financial investment to support the start up of the company. This would be on the basis of a repayable, interest bearing loan to be repaid from the company's expected profit. There is a risk that the trading activities of the company are never sufficient to repay this loan.

## **10 People Impact Assessment (PIA)**

- 10.1 The proposals in this report are considered compatible with the provisions of the equality and human rights legislation.
- 10.3 No PIA has been completed as there is no identifiable impact on any person/s at this time. However this position will be kept under review as business opportunities are identified.

## **11 Environmental and Sustainability impact assessment**

- 11.1 No environmental and Sustainability impact assessment has been carried out at this stage.

## **12 Resource implications**

### Legal

- 12.1 The company will need to comply with the regulatory requirements of the Companies Act 2006 and the regulatory regime under the Local Government and Housing Act 1989. This is likely to require ongoing legal advice and support to ensure compliance with statutory provision.
- 12.2 The proposed company will be a 'controlled' company<sup>6</sup> since it will effectively be a subsidiary of the HFRA and the HFRA will be able to control the meetings of the company and / or the Board of Directors. Being a 'controlled' company involves certain governance and accountability requirements including the provision of information to the HFRA, appointment of auditor and Directors' remuneration.
- 12.3 Establishing a commercial organisation will require a commitment from the Service in terms of people and expertise.

### Human Resources

- 12.4 The work involved in establishing a commercial organisation will be met from within existing HFRS capacity.

---

<sup>6</sup> Part V, Local Government and Housing Act 1989 and the Local Authority (Companies) Order 1995

- 12.5 The company will not be employing staff directly initially. TUPE will therefore not apply. This position will need to be kept under review particularly if the scale of the business increases and the company was planning to employ staff or transfer them from HFRS.
- 12.6 Employees from the HFRS will be seconded in to the trading company as and when required to carry out individual projects. A charging policy, including a transparent and auditable pricing structure, will be developed which will be used to determine charge out rates for resources attributed to delivering the company's business.
- 12.7 In future if some staff may be directly employed by the Company, possibly as the result of staff transferring from HFRS, this would require the company to establish its own terms and conditions including pension arrangements, and to undertake appropriate consultation. In some cases, local authority companies have applied to become part of the local government pension scheme as an admitted body but this has not yet been considered.
- 12.8 It is not currently envisaged that Directors would receive remuneration for their work with the company. However that position will be kept under review, particularly if non-executive directors are appointed.

#### Financial Implications

- 12.9 Under current arrangements HFRS can sell spare capacity and generate an income from this but only to the extent of recovering its costs. For HFRA to generate a profit for re-investment requires HFRA to establish a company.
- 12.10 There will be officer time, including legal services, to create the company. Initial set up costs, including company formation and legal fees, will be met from existing resources and recovered against expected company profits.
- 12.11 There are 'State Aid' rules which are designed to avoid a public body subsidising a company it has established and thereby distorting competition with the private sector. In effect the HFRA must treat the company as any other third party contractor. One consequence of this is that the HFRA must recover the full costs of any accommodation, goods, services, employees or anything else it supplies to the company to facilitate it trading.
- 12.12 Although it is difficult to quantify the financial benefits of establishing a company there is considered to be a significant potential market for services available. The intention would be that the Service would benefit from the success of this work and income returned to HFRA. This would partially offset the reductions in Government funding over the next 4 years.
- 12.13 The company would be expected to win a major element of its business by tendering for particular contracts. This will inevitably involve costs in preparing bids for work which will need to be funded initially but with a view to these costs being offset against profits on contracts which have been successfully secured.
- 12.14 The legal powers to establish a limited company do not give any additional powers to borrow money.

- 12.15 Appendix C gives an outline of the projected financial position. It is based on a number of assumptions which are shown and which will be refined as more detailed work is undertaken. Two scenarios are shown: a 'pessimistic' development of the company with a gradual development of the business, and a more 'optimistic' development assuming a more rapid growth based on providing a significant level of work. The projections show that there is an upfront cost to form a company and costs to operate it; these are relatively small. There is also a need to establish a capacity to bid for contracts; these costs are more significant and are not repaid until contracts are secured and even then the income will be spread over the life of the contract. For this reason there is likely to be an initial deficit in running the company but if the company trades successfully then it will move into profit. The bidding team costs can be managed to reflect the opportunities that arise.
- 12.16 Initially the company will not have resources of its own to finance its spending and is unlikely to be able to borrow money without an established trading history. In agreeing to establish the company the HFRA will need to agree to provide a loan to cover the initial trading period including set up costs. The loan will not need to be provided in full at the outset. As Appendix C illustrates the loan would be drawn down over 3 years and the Authority, through its control of the Company, would be able to review the business prospects of the company periodically before agreeing additional loan instalments.
- 12.17 There would need to be a written loan agreement and provision for interest to be paid. The HFRA would take a fixed and floating charge over the company's assets, so that it has first claim over any other creditors in the event of insolvency. A loan of £250,000 in agreed instalments, repayable with interest at a commercial rate agreed with the Treasurer, is proposed.
- 12.18 There will be VAT implications arising from setting up the company. The company will need to register for VAT if its taxable supplies exceed the VAT registration threshold. Also, the charges that will be made by HFRA for use of premises, services and resources etc will be liable to VAT.

### **13 Consultation**

- 13.1 Discussions have so far taken place within Directors, the senior management team and Corporate Management Team. In addition an outline proposal has been considered by both the Finance and General Purposes Committee and the Authority.
- 13.2 The intention would be to engage wider staff groups and representative bodies in due course to seek their support and ideas for the work which might be undertaken by the commercial organisation.
- 13.3 Further consultations will take place with the HFRA's external auditors.
- 13.4 If the Authority agrees to proceed with establishing a limited company, a communications strategy will be developed. This will provide information to the public to explain that it will not affect the services that they receive and where they are currently free this will continue. It would also seek to explain why the Authority is pursuing this course of action.

## **14 Conclusion**

- 14.1 There would be merit in establishing a commercial organisation for HFRA which would allow it to exploit other areas of work in the fire sector and beyond, and secure long term benefits. The benefits would be primarily financial but, in addition, would provide scope to develop staff and to bring in different expertise and experience to core services.
- 14.2 A company could provide a financial return to partially offset future grant reductions and also develop the capacity and capability of the Service for the future. It is recommended that a company is established to provide the foundation for future business opportunities.

## **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.

## **16 Appendices**

**Appendix A - Statutory provisions for a Fire and Rescue Service**

**Appendix B - Ordinary functions of a Fire Authority which could be traded**

**Appendix C - Financial projections for company**

**Appendix D - Initial risk assessment**

## **Statutory provisions for a Fire and Rescue Service**

An Authority is not permitted to perform any of its core fire and rescue related functions (summarised below) on a trading basis, but has the freedom to trade in other areas of its activity.

### **Fire safety**

A fire authority must make provision for the purpose of promoting fire safety in its area including the provision of information, publicity and encouragement in respect of the steps to be taken to prevent fires and death or injury by fire;

The giving of advice, on request, about how to prevent fires and restrict their spread in buildings and other property and the means of escape from buildings and other property in case of fire.

With regard to statutory fire safety regulation, there is a risk of conflicts of interest arising where an authority is considering trading in an area where it also exercises regulatory or enforcement functions. This would probably rule out trading in this function in Hampshire but the company could give consultancy advice to a business in another geographic area i.e. where HFRA does not have a statutory enforcement role.

### **Firefighting**

A fire authority must make provision for the purpose of extinguishing fires in its area, and protecting life and property in the event of fires in its area.

### **Road traffic accidents**

A fire authority must make provision for the purpose of rescuing people in the event of road traffic accidents in its area.

### **Emergencies**

This duty requires fire authorities, where provision of resources has been made by central government, to respond to incidents, both within and outside the fire authority area, involving Chemical, Biological, Radiological and Nuclear hazards (CBRN) and Urban Search and Rescue (USAR).

Ordinary functions of a Fire Authority which could be traded

<b>Logistics and Maintenance</b>	<b>Training</b>
<p>Courier services</p> <p>Distribution support – use of Service premises</p> <p>Fleet</p> <p style="padding-left: 20px;">Maintenance testing signage specialist fittings vehicle sales</p> <p>Equipment</p> <p style="padding-left: 20px;">Maintenance Testing Cylinder charging</p>	<p>Regulatory fire safety</p> <p>Firefighting</p> <p>Fire extinguishers</p> <p>Leadership and general management</p> <p>Crisis management / critical decision making</p> <p>Seminar/training facilities</p> <p>Health and safety management</p> <p>Driver training</p> <p>Working at height</p> <p>First aid at work</p> <p>Team building</p>
<b>Specialist services</b>	<b>Goods and services</b>
<p>Regulatory fire safety services outside of Hampshire</p> <p>Performance management services</p> <p>Fire Investigation</p> <p>Specialist rescue, recovery and retrieval services</p> <p>Computer aided design</p> <p>Media, design and publications services</p> <p>Policy development/management</p> <p>Risk management</p> <p>Health and Safety</p> <p>General consultancy in relation to fire and rescue activity</p>	<p>Clothing / workwear</p> <p>Equipment</p> <p>Call centre/messaging services</p> <p>Use of Fire Service premises</p> <p>Sales/disposal</p> <p>Experience events, i.e. driving</p> <p>Fixture and removal using fire service vehicles/equipment/resources, i.e. banners, etc.</p> <p>Recovery services, i.e. recovering objects that are in inaccessible locations</p> <p>Private salvage/restoration services, i.e. post flooding/fire services</p> <p>Volume pumping</p> <p>High access provision</p> <p>Standby safety services</p>

Notes:

1. Support services have been excluded since they are planned to be covered generally by the 'Joint Working in Hampshire' project
2. In some activities Other arrangements exist for sharing services / trading services and these may provide a better option such as the Networked Fire Control System Partnership

## Financial projections for company

	Pessimistic development				Optimistic development			
	Formation costs £'000	Year 1 £'001	Year 2 £'002	Year 3 £'003	Formation costs £'000	Year 1 £'001	Year 2 £'002	Year 3 £'003
<b>Formation costs</b>								
Legal costs	5				5			
Financial advice	5				5			
Other costs	5				5			
Insurance costs		5	5	5		5	10	10
<b>Company running costs</b>								
Company secretariat		2	2	2		2	2	2
Company accounting		1	2	3		2	6	8
External audit		3	4	4		4	6	6
Legal support		5	3	3		5	7	8
Insurance		2	3	4		3	5	8
Marketing		2	3	3		3	4	10
Interest		7	10	15		12	13	12
<b>Bidding team</b>								
Staffing recharged		50	50	50		100	100	100
Other costs recharged		15	15	15		30	30	30
<b>Contracts won</b>								
Cost of contracts		8	64	144		20	620	1020
<b>Income</b>		-10	-80	-180		-25	-775	-1275
<b>TOTAL PROFIT (-) / LOSS (+)</b>	<b>15</b>	<b>90</b>	<b>81</b>	<b>68</b>	<b>15</b>	<b>161</b>	<b>28</b>	<b>-61</b>
<b>LOAN FROM HFRA</b>	<b>15</b>	<b>105</b>	<b>186</b>	<b>254</b>	<b>15</b>	<b>176</b>	<b>204</b>	<b>143</b>

Assumptions:

- 1 The company will be set up by March 2013
- 2 Other costs' including branding, company registration, policy development, website, documentation
- 3 The costs shown are the best available estimates but further work is needed to clarify costs once a company business plan is produced
- 4 The 'pessimistic' development assumes:
  - Year 1 - Minimal business - 1 person bidding team; 2 small contracts for specialist services at £20k pa won after 9 months
  - Year 2 - Extension of business - 1 person bidding team; two further contracts at £40k pa won mid year
  - Year 3 - Further business - 1 person bidding team; 3 further contracts at £40k pa won mid year.
- 5 The 'optimistic' development assumes:
  - Year 1 - Active business - 2 person bidding team; 2 small contracts for specialist services at £50k pa won after 9 months and 1 major contract £0.5m at year end
  - Year 2 - Extension of business - 2 person bidding team; two further contracts at £50k pa won mid year and 1 major contract £0.5m at the end of 9 months
  - Year 3 - Further business - 2 person bidding team; 3 further contracts at £50k pa won mid year.

Assume 20% return on contracts before bidding costs and company operating
- 6 costs
- 7 Interest on the loan would be at a commercial rate

**Initial risk assessment**

A comprehensive analysis of the risks (Legal, financial, contractual and operational) involved in setting up a company has been undertaken. The key risks and the mitigating actions are:

No	Risk	Likelihood	Impact	Total	Mitigation
.	Failure to set up company in strict compliance with legislation	L	M		Appropriate legal advice will be sought in creating the company. Consultation will be undertaken with affected groups.
	Failure to follow the statutory guidance on trading companies	L	M		Appropriate legal and governance arrangements will be built into the new company, based on legal advice.
	Lack of commercial expertise and experience	M	M		Accessing advice and guidance both from within and outside the service and Authority. Appointment of an appropriately qualified non executive director
	Use of the company to provide services which have to be provided by HFRS	L	L		Each trading proposal considered by the company will include a business case which identifies the statutory obligations
	Possibility of trading with out the necessary legal powers (ultra vires)	L	L		Each trading proposal considered by the company will include a business case which identifies the statutory powers. The Fire Services Act 2004 provides wide ranging powers.
	Possibility of conflict of interest for Members/ employees acting as Board members or staff of the company	M	M		Codes of Conduct will be established. Potential conflicts will be considered on appointment and regularly after that.
	Weaknesses in documentation of company contracts (e.g. break clauses, payment terms, liabilities for non-performance)	L	M		Robust contracting and governance arrangements to be established by the company. Contracts to be checked with legal advisers before signing.
	Failure to manage the reputational impact of the company on HFRA	L	L		A full communications plan will be developed to ensure that the image of the company is aligned and supports the HFRA
	Failure to arrange adequate insurance cover for the company's liabilities and assets.	L	H		The HFRA insurance advisers will be asked to advise on the various appropriate insurance policies that are required. Insurance arrangements will be kept under review (including potential areas of business)
	Failure to comply with statutory	L	M		Appropriate expert advice will be sought.

requirements for limited companies including taxation (such as VAT and corporation tax)				Advice will be taken on taxation issues
Failure to comply with statutory requirements relating to staff transfer (Transfer of undertaking – protection of employment – (TUPE))	L	L		Initially no functions / staff will transfer but this risk will need to be reviewed regularly
Failure of the company affects the reputation and public perception of HFRA / HFRS.	L	M		This risk will be kept under regular review alongside the communication plan (see above)
Failure of the company to be competitive	M	L		Bids will be assessed to take account of the full costs of contracts. Market intelligence will be developed
Adverse financial impact on the HFRA reserves (and hence the taxpayer) if the company makes losses or has insufficient cash flow to begin trading	L	L		Robust costing, finance, contract and governance arrangements to be put in place.
Absence of company credit rating	L	L		Consideration will be given to HFRA providing a guarantee or seeking appropriate insurance if available. Working in partnership with other more established organisations may help with reduce this risk.
Challenge from the HFRA auditors (particularly external auditors)	L	L		HFRA will continue to discuss the establishment of a company with its external auditor. The internal audit plan will examine the relationship between HFRA and the company. All financial transactions will be separately identifiable.. The accounts closedown process will include an assessment of the relationship between the HFRA and the company following the Code of Practice on Local Authority accounting.
Lack of capacity to manage the additional work of the company	M	L		The company's business plans will be carefully scrutinised to ensure that there is careful planning of staff resources and additional demands met without affecting core services.
Contractual disputes	L	M		All contracts will be checked with the legal team before signing. Staff will be trained in contract preparation and operation.