

# 21. Council Controlled Organisations

## Introduction

This piece of the LTCCP jigsaw relates to the information about council controlled organisations (CCO) that must be included in the LTCCP. This requirement supports the second of the cardinal virtues – integrated decision-making.

## Why is information on CCOs so important?

CCOs have a role to play in promoting community wellbeing, either directly or indirectly. The performance of CCOs can have a significant impact on their local authority 'parent' (e.g. revenue from investment in CCOs can be significant for the local authority). Inclusion of the information listed below allows residents and ratepayers to assess whether the CCO is making the contribution it is has indicated it would be making and assess what impact this may have on wellbeing.

## How does information on CCOs relate to the legislation?

A CCO is an organisation (whether trading or not) where one or more local authorities:

- own or control, directly or indirectly, more than 50 percent of the voting rights, or
- have the right to appoint 50 percent or more of the governors.

The definition of CCO therefore captures not only trading enterprises but non-trading enterprises (such as various trusts). Certain organisations are expressly exempt from the definition of a CCO, and local authorities can use section 7 to exempt small non-trading organisations from being a CCO.

The following must be disclosed for each CCO:

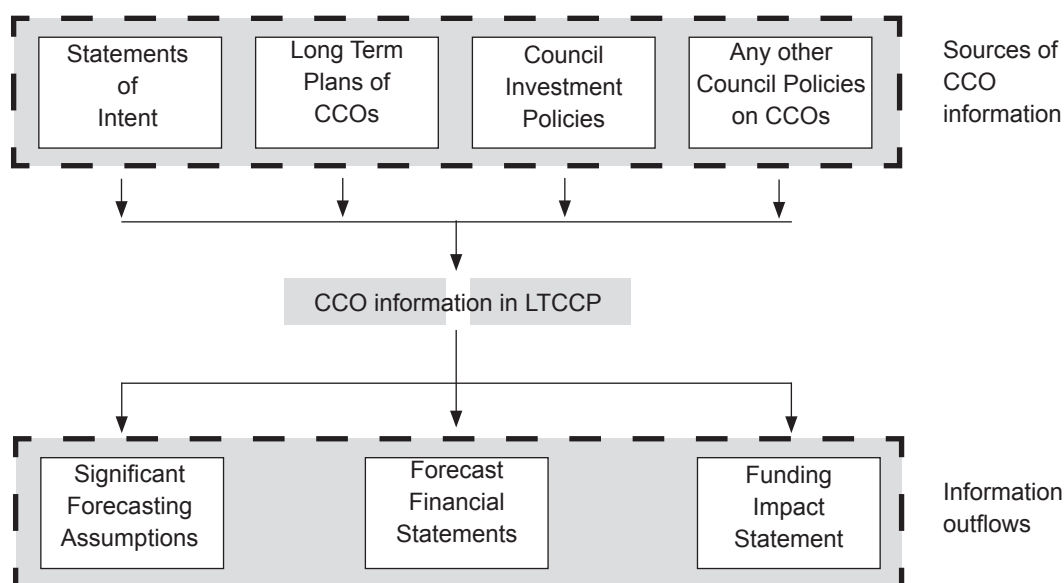
- the name of the CCO and its subsidiaries
- any significant policies and objectives the local authority has with respect to ownership and control of the CCO
- the nature and scope of the activities to be provided by the CCO, and
- the key performance targets and other measures by which the performance of the CCO can be assessed.

Local authorities are empowered to include forecast financial statements for any CCO for any years covered by the LTCCP. This was not widely used in the 2006 LTCCPs. However all financial statements must be prepared in accordance with generally accepted accounting practice. Where local authorities have CCOs, IFRS 42 allows local authorities to choose whether to report prospective financial statements on a subset of the overall group, but if reported on a council only basis, then to disclose reasons for not reporting the full group.

In practical terms this means that local authorities are required to disclose the above details for all organisations that meet the definition contained in section 6 of the LGA, regardless of size and scale, unless the local authority uses either of the processes set out in section 7 to exempt them. There is no other 'size and scale' test.

## What information sources exist on CCOs?

The primary information source is the CCOs statement of intent (which all CCOs are required to prepare under section 64 of the Act). The yearly and half yearly reports on performance may also provide some information. The chart below shows the relationship between the various sources of information on CCOs and the information in the LTCCP.



## Who should be involved in preparing information on CCOs?

The people responsible for managing your local authority's day to day relationship with each CCO should have the responsibility for preparing the information. It may be that a significant part of the information may be prepared by the CCO itself, in which case the task of preparing information may be more of a matter of compiling.

## When should information on CCOs be prepared?

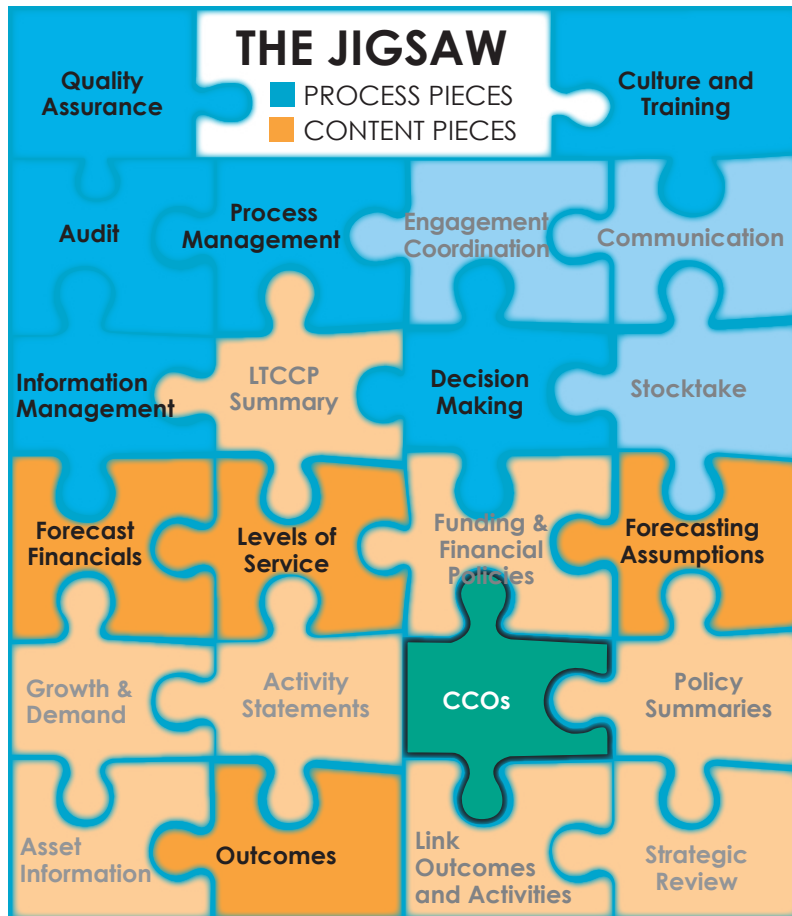
CCO information should be compiled as soon as draft statements of intent are available – which cannot be any later than 1 March. This information may not be available for some CCOs in the process of establishment.

Ideally, CCOs whose operation has significant financial implications for your local authority should be feeding forecast results through well before 1 March, as these could have implications for the forecast financials. However many smaller CCOs may not necessarily have the resources to do this, in which case the working drafts of the LTCCP may need to make some 'best guess' assumptions as to the likely results. This will warrant treatment as a significant forecasting assumption. It may also be an area where your local authority needs to give clearer guidance to its nominees on the governing body of the CCO.

## Where should information on CCOs appear in the LTCCP?

The most logical place for this information is immediately after the group of activity/activity statements.

## What other processes are linked with the CCO information?



## What were the weaknesses apparent with information on CCOs in 2006?

Not listing all subsidiaries of the CCOs.

Key performance targets tended to be exclusively financial. The non-financial objectives described in section 59 of the Act tend to be overlooked.

Key performance measures were short term rather than for the full 10 year programme.

The reasons for not reporting of prospective financial information for the group could have been better developed in some LTCCPs – many gave generic 'cost benefit' reasons without expanding on why eg the CCO is a non-trading organisation with minimal activity etc.

Although not a weakness of the LTCCP as such, examination of some LTCCPs suggests some local authorities may wish to make more use of section 7 powers to exempt local authorities than is done currently.

## Good practice tips/what good practice information is available?

### ***Ways to present information***

Some good ways to present information include:

- showing relationships between your local authority, the CCOs and their subsidiaries in a structure diagram, and
- information on policies, objectives, nature and scope of activities together with performance information could be shown in tabular form.

### ***Things to think about when disclosing information***

- Have the schedule 10, clause 4 requirements been satisfied?
- Is CCO performance information shown for 10 years and does it include relevant 10 year non-financial information?
- If the CCO is delivering services that might otherwise be delivered by the core council, have the disclosure requirements of schedule 10(2) been thought about?
- Is the CCO information consistent with the source data?
- Is the CCO information consistent with the outflow data (especially the significant forecasting assumptions)?
- Is the CCO information in a format consistent with your disclosure of levels of service in your performance information?
- Have we given thought as to how best to present information?
- Is information commercially sensitive and does this outweigh the obligation to disclose?
- Who else 'owns' the CCO?