

Agenda Item 19

Housing Review Board

9 September 2010

JG/MH



Partnering Contractor – Position Update

Exempt Information

Para 3 Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Summary

This report alerts the Board to financial problems facing one of our Partnering contractors that have been reported in the media. Share prices and the value of the business plummeted when Connaught issued a profits warning in July and expressed concerns about some cancelled contracts. It appears that market confidence in the business quickly evaporated as lenders sold shares and creditors sought payment causing a financial crisis for our partner.

Recommendation

To note the report and invite further information if the situation deteriorates.

a) Reasons for Recommendation

To alert the Board to problems one of our key contractors is facing and how we are monitoring the situation.

b) Alternative Options

Not to monitor the situation or follow a closer monitoring regime.

c) Risk Considerations

There is a risk that service deteriorates and worst case the contractor is unable to fulfil its obligations under the contract.

d) Policy and Budgetary Considerations

The report refers to the budgetary problems our contractor is facing that may impact on their ability to provide a service to tenants.

Positive Impact Overall

Providing same service at same cost.

Potential Negative Impact

Affordable Homes.

Inspirational Council.

e) Date for Review of Decision

We are reviewing the situation on a weekly basis until the financial position improves.

1 Position statement – Connaught PLC

- 1.1 For some years we have had a Partnering Agreement with Connaught's for responsive (day to day) maintenance and Change of Tenancy work (voids) for half of the district (west). The value of our contract is circa. £600k p.a. for repairs and £300k p.a. for void works.
- 1.2 The company employ nearly 10,000 people, but started life as a small concrete repair business in Sidmouth in 1982. The company head office is on the Exeter Business Park.
- 1.3 A considerable amount of Connaught's business is Registered Provider maintenance and improvement contracts. They have recently commented publically that they have some concerns about future business with public sector expenditure constraints, and have issued a profits warning.
- 1.4 Over the last few weeks the share price has fallen dramatically (at one point 350p per share to 104p per share and as low as 10p per share). Connaught's shares have lost more than 90 per cent of their value in recent weeks. There have also been some senior management changes, which have caused some speculation in the housing sector and construction markets as to the future/robustness of the business. A new Chairman was appointed to lead the company through the difficult times it was facing.
- 1.5 We have recently undertaken a credit check and assessed their Interim Management Statement and will be monitoring this for the foreseeable future. This did not show any cause for concern when we first undertook the check. I have also discussed the situation with the Head of Finance and reported the situation to the Strategic Management Team.
- 1.6 I had a meeting in late July with their Relationship Manager and received reassurances about the company's ability to maintain (and improve) performance during these difficult times. The company are restructuring their finances and loan portfolio, but recent changes to share prices have reduced the value of the business and suppliers have sought payments and lenders have agreed to postpone some loan repayments.
- 1.7 The implications for us if the company 'fails' is mainly disruption and interruption of services to tenants rather than financial loss. We pay invoices once work has been completed so they do not hold sums of our money.
- 1.8 We organised the maintenance contracts such that we have two contractors working in the district that could in theory cover for each other. Our Risk Assessment envisages that another contractor would cover/take over in a crisis. I am starting to consider how we might deal with the practical and

operational issues of a business failure in case a problem arises that impact on our ability to maintain tenant's homes.

1.9 We have had an initial discussion with Skinners about contingency plans and they are prepared and able to undertake works to Council homes throughout the district if called upon to do so. There would inevitably be disruption to service whilst any arrangement was established, but I am grateful for this positive response.

1.10 We recently received the following statement from Connaught regarding their trading position :

“I am writing to update you on Connaught's current position, specifically regarding the recent press coverage you may have seen following our announcement last week that we were in discussions with our banks.

I am pleased to report that these discussions have been successful and Connaught has agreed terms for the additional short-term lending we require.

We requested this short-term funding as part of a broader discussion that is intended to ensure that Connaught's financial position is robust now and in the future. The short-term funding is to improve trading with our supply chain, which are also under pressure in the current economic climate.

Whilst this is the first step in our ongoing negotiations to secure a stable financial solution for the long-term future of the business, this agreement clearly demonstrates the commitment of our lenders to these negotiations.

You might also have read speculation that Connaught is subject to an investigation by the FSA and I am pleased to provide clarification on this issue. Connaught has not received notification of an investigation by the FSA. We have received two requests for information and as you would expect we are cooperating fully with the FSA.

The new Executive Board has great experience in these situations and is determined to ensure Connaught has the right skills, backing and leadership to develop the business and continue to improve the service we deliver to our customers.

Our priority remains providing our clients with a high quality, value for money service at all times and we would like to reassure you that the current issues have no impact on our ability to continue delivering this service.”

1.10 In August the media were reporting that lenders were preparing to take a share in the company in a debt-for-equity deal where the company's bankers drop its debts for ownership of a share in the business.

1.11 I do not claim to understand the financial market and business issues, but Connaught is a key partner and therefore we will continue to monitor the situation closely and I will report any further developments, if necessary. At the moment I have no evidence to suggest that service delivery has altered from the high standards we expect from our partner.

Legal Implications

The Legal Services Team will advise on any potential contractual issues; procurement options will also have to be assessed depending on Connaught PLC's prospects.

Financial Implications

There are no financial implications at this stage.

Consultation on Reports to the Executive

None.

Background Papers

- Partnering Agreement 2006.
- Connaught PLC website.

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