

EAST HERTS COUNCIL

CCTV JOINT EXECUTIVE – 10 APRIL 2019

REPORT BY ASSISTANT DIRECTOR – COMMUNITIES AND  
NEIGHBOURHOODS, STEVENAGE BOROUGH COUNCIL

CCTV GOVERNANCE REVIEW

WARD(S) AFFECTED: ALL

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**Purpose/Summary of Report**

- Following the decision of the Joint Executive in January the report summarises the cost benefit analysis undertaken to reassign partner-owned cameras from Hertfordshire CCTV Ltd to the CCTV Partnership.
- The report outlines the financial impacts on both the company and partnership and considers associated legal implications.
- The report recommends that members give further consideration to the growth potential for the CCTV service and associated implications for the partnership and company.

**RECOMMENDATIONS FOR THE CCTV JOINT EXECUTIVE**

**COMMITTEE: That**

|            |  |
|------------|--|
| <b>(A)</b> | <b>The reassignment of partner-owned cameras to the CCTV Partnership, be approved.</b>   |
| <b>(B)</b> | <b>Members request further analysis of pricing structures by camera type and usage of control room capacity to facilitate negotiations on a revised charging model between the partnership and the company</b> |
| <b>(C)</b> | <b>Members request a presentation from the Directors of Hertfordshire CCTV Ltd on a Business Plan for the company moving forwards.</b>   |

## 1.0 Background

1.1 The CCTV Joint Executive commissioned a governance review of the partnership in 2018. The review started with an internal audit undertaken by the Shared Internal Audit Service (SIAS). This led to a number of recommendations to which members will also receive a report at the April meeting. Following the presentation of the SIAS report in October 2018, executive members approved for the next stage of the governance review to consider the cost effectiveness of current charging arrangements, particularly with regards to partner-owned cameras. Linked to this were discussions around the future commercial and growth potentials for CCTV and any associated legal implications for future delivery.

## 2.0 Report

### ***The existing structure and current legal advice***

2.1 The current arrangements for CCTV, followed legal advice in 2014/15 recommending that a company was required to accommodate the growth in commercial clients. It was agreed by the partner councils that existing core cameras would continue to be managed through the partnership, with new contracts and requests for new cameras provided through the company.

2.2 In spite of losing two commercial retail contracts in 2017/18 the company has grown to service 31 contracts with external bodies, many of which are in the public sector, such as Schools and Parish and Town Councils.

2.3 Legal advice has since been sought to ascertain whether a company is still required, given the current profile of clients. The Local Authority (Goods and Services) Act 1970 makes provision for councils to trade with other public bodies, which include Schools (including Academies) and Parish and Town Councils. Councils are also able to provide services for other clients, but these services must not be profit making and can only cover appropriate costs. If trading for profit, the Localism Act 2011 requires this to be done through a company.

2.4 Based on this advice it is legally possible to reassign all camera contracts to the partnership, regardless of who the client is and effectively close the company, however it is the view of the Officer Management Board that in making this decision without due regard to the growth potential of the CCTV market, limits opportunities for future profit from the commercial sector and external clients. It will also limit the amounts that can be charged for existing cameras which would need to be charged based on a “cost recovery” model. This is outlined in the following financial section.

**Financial analysis**

2.5 The CCTV service currently monitors a total of 417 cameras, which includes all partner councils and 31 external clients. Of the total cost incurred by Stevenage Borough Council in providing this service, costs are then allocated to the company on an assumed allocation of monitoring activity and associated overheads of 52%. Staff and maintenance charges are allocated based on assumed time allocations and client contract requirements.

2.6 Based on the original camera share percentage at the time of the inception of the company, the 2019/20 forecasted partnership costs are divided as follows:

| <b>Partnership Costs</b> |     |                 |
|--------------------------|-----|-----------------|
| Stevenage                | 37% | <b>£147,478</b> |
| North Herts              | 28% | <b>£109,419</b> |
| East Herts               | 22% | <b>£85,633</b>  |
| Hertsmere                | 14% | <b>£54,710</b>  |

2.7 In addition to these costs partners are charged through the company for the new cameras they have commissioned since 2015.

2.8 The table below outlines the full costs to all partners for CCTV provision for 2019/20. It assumes a dividend is returned to each partner, based on a forecasted profit share of £11,202 from the company. The decision of dividend payments sits

with the Shareholders via the Shareholder representatives.

|                            |  |   |                                   |
|----------------------------|--|---|-----------------------------------|
| CCTV control room costs    | £714,100   |   |                                   |
| Less charge to company     | -£316,860  | some of these charges are <i>met with income from the partners councils</i> for managing non-core cameras |                                   |
| Residual costs to partners | <u>£397,240</u>  |   |                                   |
|                            | <b>Charges to partners for management of core cameras by the partnership and non-core cameras by the company</b> | <b>Company profit after tax available for distribution to partners</b>                                    | <b>TOTAL NET COST TO PARTNERS</b> |
| <b>Stevenage</b>           | £198,908   | -£4,159   | <b>£194,749</b>                   |
| <b>North Herts</b>         | £128,379   | -£3,086   | <b>£125,294</b>                   |
| <b>East Herts</b>          | £100,043   | -£2,415   | <b>£97,628</b>                    |
| <b>Hertsmere</b>           | £57,710  | -£1,543   | <b>£56,167</b>                    |
| <b>TOTAL</b>               | <b>£485,040</b>  | <b>-£11,202</b>   | <b>£473,838</b>                   |

Note: some figures rounded

2.9 In total, the partners are charged £87,800 by the company for monitoring non-core cameras. This £87,800 income to the company contributes to the overall profit of the company. In theory, any surplus the company makes from managing the partners' cameras could simply be returned to the partners as a dividend from the company's profits. The company's profits, however, are subject to corporation tax, therefore, the profits arising from income from the partners is not returned to the partners on a pound-for-pound basis as a proportion is lost to corporation tax. This does not therefore provide the best value for money for the partner councils and questions may be raised as to whether the current arrangements contravene state aid rules.

2.10 The alternative proposed is that the partners' cameras currently managed by the company should be managed by the partnership. As councils are not liable to corporation tax, there will be no tax leakage and so the monies required from each partner council to manage the core and non-core cameras will be less. This is shown in the financial analysis below; the efficiency would be approximately £2,000. Costs charged to the company would reduce to £237,040 as a consequence of managing fewer cameras and thus the company's turnover will

reduce but based on its third party contracts alone it remains profitable and can still distribute dividends (or reinvest the profits should the shareholders prefer).

|                            |  |  |                                   |
|----------------------------|--|--|-----------------------------------|
| CCTV control room costs    | £714,100   |  |                                   |
| Less charge to company     | -£237,040  | all these charges are met with income from third parties alone         |                                   |
| Residual costs to partners | <u>£477,060</u>  |  |                                   |
|                            | <b>Charges to partners for management of core cameras by the partnership and non-core cameras by the company</b> | <b>Company profit after tax available for distribution to partners</b> | <b>TOTAL NET COST TO PARTNERS</b> |
| <b>Stevenage</b>           | £195,946   | -£1,759  | <b>£194,186</b>                   |
| <b>North Herts</b>         | £126,181   | -£1,305  | <b>£124,876</b>                   |
| <b>East Herts</b>          | £98,322  | -£1,021  | <b>£97,301</b>                    |
| <b>Hertsmere</b>           | £56,611  | -£653  | <b>£55,958</b>                    |
| <b>TOTAL</b>               | <b>£477,060</b>  | <b>-£4,739</b>   | <b>£472,322</b>                   |

Note: some figures rounded

2.11 Transferring external monitoring contracts into the partnership remains a further option, but this will threaten the viability of the company and the potential for future profit making activities.

### ***Further considerations and future opportunities***

2.12 The company currently oversees a number of different types of contract. These range from monitoring only and Schools ADPRO network to full service contracts. The pricing structure for these arrangements varies as does the actual cost of providing these services. Moving forward the basis of recharge will need to be revisited, with a more realistic recharge based on usage of monitoring capacity.

2.13 In conjunction with this the company should try to better ascertain the external market growth potential against the capacity and capability of the CCTV Control Room.

2.14 The longer-term potential of the company will need to be revisited by the Board of Directors, with a clear focus on the external CCTV market. This will need to be reflected in the

company business plan, which partner councils via their shareholder representatives will have the ultimate power to approve or reject.

### 3.0 Implications/Consultations

- 3.1 The report outlines both legal and financial implications relating to the future arrangements for managing cameras operated by the CCTV control room.
- 3.2 The recommendations of the Officer Board are based on the advice received and reflect the need to provide best value, whilst not limiting the growth potential of the CCTV Service and the viability of the CCTV company.
- 3.3 The Chair of the Board of Directors of the company has been made aware of these considerations and the recommendation of the Officer Board.
- 3.4 Further financial analysis associated with this report can be found within Essential Reference Paper B.
- 3.5 Information on any corporate issues and consultation associated with this report can be found within Essential Reference Paper A.

### Background Papers

None

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