

Paper to Support Resolution on access to shareholder reserves

March 2016

Purpose of this paper

- To seek shareholder support to accessing shareholder reserves of £100k in 2016/17 and £100k in 2017/18 in order to create a £250k start-up fund.

This paper should be read in conjunction with the proposal for creation of the [start-up fund](#).

The Board of Directors seeks shareholder approval to access £100k of shareholder reserve in 2016/17 and 2017/18.

Context

Over the last 9 years BICS has built up a reserve of **£1,240,714** (as at 31st March 2015). As a limited liability, not for profit social enterprise and membership organisation this was built up during start up years to cover the risk of wind up, bankruptcy or non-delivery of any contracts. The reserve was also built up to enable investment in developing services and benefiting the wider health community. The reserve is described as shareholder funds and, as such, Directors cannot authorise the distribution of these funds without the agreement of 75% of shareholders present at a General Meeting.

The Board has sought the assurance of the Executive Directors that this level of access of funds is affordable and sustainable. This has been assured and if any shareholder wishes to see the detailed papers they can request this from the Non-Executive Directors. The information contained within these papers is commercially sensitive and therefore shareholders will be invited to view the papers at the BICS offices.

Financial Health for the next 4 years

BICS financial statements are on the basis that the business is an organisation of *going concern*, therefore, it is expected to operate indefinitely and not go out of business or liquidate its assets in the foreseeable future. There are always risks in managing our business and our strategy has been to build the reserves over the first 4 years of trading and then to hold this position. In 2015/16 our approach has been to grow the surplus in order to create more flexibility for this start up fund. We anticipate ending this year with a £100k post tax operating surplus, which would bring the reserve to **£1,340,714**.

Over the last 9 years the turnover of the business has increased from £1.2m in 2009/10 to £28m in 2014/15, this will increase to £50m in 2015/16.

The gross margin before tax in the last few years has been reducing from 18% in 2014 to 8% 2015, with a surplus before tax of less than 0.5% in 2014/15. However, 2015/16 gross margin is likely to increase again due to funds gained from non-local commissioners (national and others).

As the organisation has grown so has its liabilities, for example, annual staff wages between 2009 and 2015 have grown 700%. Overhead costs of rent, utilities and other costs have not grown by the same rate and represent a 200% increase between 2009 and 2015.

The number of contracts held has increased from 1 in 2008 to over 13 in 2015, with a lowest value of £56k and the highest in excess of £40m. The financial risk of holding these contracts has therefore radically changed, with the potential current cost of non-delivery of a contract with a local commissioner £0.5m for 2015/16. This risk is mitigated by a risk sharing agreement with other partners via a contractual joint venture.

Financial Risks in 2016 – 2018

The financial risks that the company is exposed to are set out in 3 categories, although some of these risks are inter-related.

- Risk of wind down due bankruptcy, fraud, or catastrophic event
- Risk of failure to deliver on key contracts
- Risk of losing existing contracts leading to higher costs, then leading to failure to deliver on key contracts and wind up being necessary

Following detailed risk analysis of each of these areas these risks are mitigated in a range of different ways and still some residual risk remains therefore the Board of Directors are proposing a modest access to shareholder reserves rather than the full amount, with the remaining amount being found through in year operating surplus and savings plans.

Conclusions and Recommendations

It is recommended that we spread the risk of accessing shareholder reserves over 2 years, so that we can mitigate the risk of losing key contracts in the following way.

Year	Access to shareholder reserves to a maximum of	Utilisation of In year operating surplus up to a maximum of	Additional In year Operating surplus target to top up reserves	Balancing Shareholder Reserves
2016/17	£100k	£150k	£50k	£1.24m
2017/18	£100k	£150k	£50k	£1.29m

Shareholders are requested to agree to accessing shareholder reserves up to the value of £100k per year for 2 years from April 2016. This decision can be reviewed at any point by any shareholder.