

**CLEVELAND FIRE BRIGADE RISK MANAGEMENT
SERVICES CIC – FINANCIAL UPDATE**

**REPORT OF THE CHIEF FIRE OFFICER, TREASURER
AND LEGAL ADVISER & MONITORING OFFICER**



For Approval

1. PURPOSE OF REPORT

- 1.1 To provide an update on the current financial position and related issues relating to Cleveland Fire Brigade Risk Management Services CIC (Community Interest Company).

2. RECOMMENDATIONS

- 2.1 It is recommended Members:
- i) Note the report.
 - ii) Approve the recommendation of the CIC Board to put the company into liquidation.
 - iii) Authorise the Chair of the Authority to sign such documentation to facilitate the actions under sub clause ii) above.
 - iv) Approve the write off of £71,000 owed to the Authority and to fund this amount from investment income, which exceeds the budget forecast for the current year.

3. BACKGROUND

- 3.1 The CIC was established in 2011, and the first full year of trading was 2012/13. The company is 100% owned by Cleveland Fire Authority as a CIC so that it can reinvest its profits into community projects that enhance safety. This means the company operates for the benefit of the community rather than the Company shareholder in accordance with The Community Interest Company Regulations 2005.
- 3.2 As indicated, as the initial subscribers to the Memorandum of Association, the Cleveland Fire Authority is the sole member of the CIC. Further, the liability of a member is limited to the nominal value as set out in the Articles of Association. In the case of the CIC this is prescribed as being limited to £1. This is the amount that the Authority undertakes 'to contribute to the assets of the Company in the event of its being wound up...' Clearly, this is a financial limitation, and other considerations apply to possible reputational issues of a member in the event of a winding up.

- 3.3 It is well established that a Company is a legal entity and has a separate existence from its membership. Accordingly, under its Articles of Association (Model Articles were adopted at the time of the CIC's incorporation) the Company 'may do all such lawful things as may further the Company's objects and, in particular, but without limitation, may borrow or raise and secure the payment of money for any purpose including for the purpose of investment or of raising funds.'
- 3.4 The Articles prescribe that a 'members meeting' may be called at their request through the Directors' of the Company. There is also a 'reserve power' whereby through a special resolution, members can 'direct the Directors to take, or refrain from taking specific action'. However, nothing will invalidate 'anything which the Directors have done before the passing of the resolution.' The Companies Act 2006 (Sections 171 – 177 refer) also places general duties on Directors, including to act within powers and to exercise reasonable care, skill and diligence.
- 3.5 The previous Chief Fire Officer and Assistant Chief Fire Officer - Strategic Planning & Resources were Directors of the CIC prior to their retirement and have continued in these roles to provide continuity in terms of governance of the CIC and operational experience. These individuals have never received any remuneration from either the Authority or the CIC for undertaking these roles and this remains the case. Currently, no officer from the Authority holds a position of Director or Company Secretary (a private limited company strictly does not require to have a secretary) on the CIC. Additionally, other external CIC Board Directors are also unpaid reflecting the ethos of the CIC.
- 3.6 The objective of establishing the CIC was to secure external contracts and generate profits for investment in local good causes. As a CIC 65% of net profits must be distributed to good causes, with the remaining 35% either reinvested in the business, or held as working capital.

4. WINDING UP RESOLUTION

- 4.1 In response to continuing significant financial challenges the CIC appointed external advisors (FRP Advisory Trading Limited) to determine if the CIC could either be sold, or individual contracts sold to third parties. This work has now been concluded, and no viable options have been identified. Therefore, the Board of Directors have resolved that the company can no longer continue to trade, with effect from 31 July 2025.
- 4.2 The liquidation of the CIC puts approximately 38 employees at risk, with 8 potentially being able to rely on a TUPE transfer. In relation to the 38 employees at risk the likelihood is they will face redundancy and the process being adopted to liquidate the CIC is designed to ensure they can submit claims to the Redundancy Payment Services for redundancy, payment in lieu of notice and unpaid holidays as soon as possible. The process adopted also ensured employees were paid for June and July 2025.

- 4.3 As part of the process to place the company into liquidation the Authority needs to approve the winding up resolution. Dealing with this issue expeditiously will enable CIC employees to submit redundancy claims to the Government.
- 4.4 As the sole Member of the CIC the recommendation to this report seeks the Authority's approval to liquidate the CIC and for the Chair to be authorised to sign all relevant documentation in this regard .

5. FINANCIAL IMPACT ON AUTHORITY

- 5.1 The Authority has previously approved three forms of financial support to the CIC as detailed in the following paragraphs.

5.2 Working Capital Loan – operational vehicle

- 5.3 This loan was provided for a vehicle required for a specific contract won by the CIC. The CIC fully repaid this loan plus interest, total £423,621. The final instalment was received in June 2024.

5.4 Working Capital Loan – Command Solutions

- 5.5 This facility was approved by the full Authority on 31st March 2017 and provided a loan of £150,000 to the CIC to enable them to invest in share capital in "Command Solutions Limited" and acquire 50% of the share capital. The other 50% was provided by IAMTech.
- 5.6 The investment in Command Solutions Limited was used to meet the development costs of producing a command support system which could then be sold to provide a future profit stream for the CIC. In turn this would then be available to support good causes.
- 5.7 Progress in developing and then selling a command support system was much slower than initially anticipated.
- 5.8 As a result repayment of this loan has been slower than forecast and £48,000, plus accrued interest was outstanding at 31 March 2024. A further £18,000 was then scheduled for payment in 2025/26.
- 5.9 Service Level Agreement - deferred payment plan**
- 5.10 The Authority provides a range of services / facilities to the CIC and charges for these issues. This provides an income for the Authority which effectively supports the Medium Term Financial strategy.
- 5.11 Agreement was reached during 2024/25 to defer payment of these charges to support the CIC manage the cashflow impact arising from the financial challenges outlined earlier in the report. The value of these charges outstanding for 2024/25 is £34,558.

- 5.12 Following initial discussions regarding the potential renewal of the Service Level Agreement the CIC served notice 2 May 2025 that they wished to terminate the agreement. In accordance with the existing agreement, services provided were scheduled to terminate between 4th June and 4th August 2025. However, in response to the ongoing financial challenges facing the CIC, officers of this Authority terminated the remaining elements in the week commencing 16th June 2025.
- 5.13 **Summary of amount outstanding at 31.03.25**
- 5.14 The CIC have made payments in relation to the issues detailed in the previous paragraphs. However, £66,019.93 will be irrecoverable and will need to be written off. To avoid this amount impacting on services it is recommended this write off is funded from investment income earned in the current year, which is exceeding the budget forecast. The position is summarised below:

	Gross amount due to Authority £	Payments received from CIC £	Net Amount Outstanding £
Operation Vehicle loan	423,621.00	(423,621.00)	0
Command Solution loan	150,000.00	(83,939.79)	66,060.21
Service Level Agreement **	54,349.80	(14,390.08)	39,959.72
Payment received in previous years	0	(40,000.00)	(40,000)
Net Amount outstanding	627,970.08	(561,950.87)	(66,019.93)

** Relates to 2024/25 and part year 2025/26. All amounts payable prior to 2023/24 were paid in full.

6. **OTHER ISSUES**

- 6.1 On 14 February 2025 the CIC incorporated a private limited company known as "CFB Risk Management Group Limited", which has 1 share, which is owned by the CIC. The new company has two Directors, namely the Chair of the CIC and the Managing Director of the CIC.
- 6.2 This development was designed to secure additional contracts, which awarding companies may not award to a CIC. This potentially provides the opportunity for the "Group" to earn profits which can be paid to the CIC and then distributed by the CIC.
- 6.3 As a result of the liquidation of the CIC the new company will be struck off the Companies House register by the appointed liquidator.

7. CONCLUSION AND SUMMARY OF AMOUNT OUSTANDING

- 7.1 The CIC had previously traded successfully and generated profits which were distributed to local good causes. However, 2024/25 was a challenging financial year and this trend has continued into 2025/26.
- 7.2 The decision to support the CIC by deferring payments reflected the Authority's previous support for the CIC. It also reflected the support of HMRC which also deferred payment of income tax, national insurance and VAT payments. As Members will appreciate HMRC has priority over all other creditors, which effectively limits any formal recovery action the Authority could take.
- 7.3 The CIC Board has made the decision that the company is not longer financially viable and will be liquidated. From the Authority's perspective this decision results in a direct financial loss as detailed in the report. However, as the CIC is a separate legal entity the Authority is not liable for liabilities to other creditors, including HMRC.

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