

Southend-on-Sea Borough Council

Corporate Director of Director of Support Services
to
Pre-Cabinet Scrutiny

on
8th October 2013

Report prepared by: Ron Woodley
Councillor Thorpe Ward

Agenda
Item No.

The Establishment of Local Authority Trading Company in relation to the Future Care of the Elderly at Priory House and the possibility of continuing the Economic Model for Delaware House.

A Part 1 Public Agenda Item

1. Purpose of Report

Following the recommendations of a working party to close Priory House, this report offers an alternative approach to safe guard the current residents, safeguarding approximately 40 FTE jobs and recommends a way forward. This is to establish a new Local Authority Trading Company initially for Priory House and then to investigate the possibility to include Delaware House into the company. The following report sets out the case for the creation of another trading company for trading Professional Care Services for the Elderly.

2. Recommendations

2.1 To note the business plan in the establishment of a Local Authority Trading Company for Professional Care Services for the Elderly. (Southend-on-Sea Trading Corporation – STC).

2.2 To note the business plan and make recommendations to the Cabinet in the establishment of a Local Authority Trading Company for Professional Care for the Elderly in a home deemed a centre of excellence, Southend-on-Sea Professional Elderly Care Services. (SPECS)

2.4 To approve the business plan and establishment of Local Authority Trading Company for professional care services, In respect of Priory House, subject to financial examination of the council 151 officer.

3. Background

- 3.1 10th January 2012 Cabinet, based on a report on the establishment of Local Authority Trading Companies, approved the creation of two trading companies**
- **Telephony Services – STC Southend Trading Corporation**
 - **Community Equipment Services – Southend Equipment Supplies**

3.2 These two companies have been created in accordance with the Local Authority Good and Services Act 1970 – establishment of a Local Authority Trading Company (LATC).

3.3 Further research to be undertaken into the viability of a third trading company for the selling of Professional Services.

4.0 Professional Services

The proposed LATC provides a vehicle by which professional services currently operated by the Council could trade with non-public bodies should the opportunity arise. These services include (but are not limited to) the following:

- Financial Services
- Accountancy
- Payroll
- Exchequer services
- Internal audit
- Human Resources & Training
- Recruitment
- HR advisory
- Training
- Property Services
- Design
- Project management
- Client side management
- Legal services
- ICT support
- Procurement
- Health & Safety

For illustrative purposes based on income forecasts it is anticipated the Company would have the following expenditure and turnover:

Please refer to appendix 1 and 2

5. Benefits of LATCs

The establishment of the LATC will provide the following benefits:

- ✓ Ability to trade on the Council's professional care services for the elderly.
- ✓ A Company would be able to use the reputation and brand of Southend-on-Sea Council;
- ✓ Provides the ability to trade whilst remaining owned by the Council;
- ✓ Allows the Company to develop its social care skills;
- ✓ Provides the ability to trade whilst remaining owned by the Council;
- ✓ Allows the Company to develop its commercial skills;

- ✓ The Council would continue to have an influence on the use of surpluses and future strategic direction of the Company in the short to medium term;
- ✓ The Company could be used as a vehicle for the externalisation of other Local Authority services in the future within Adult Social Care;
- ✓ The Company would only require reasonable start-up capital (i.e. working capital) which could be provided by the Council on a commercial basis.
- ✓ Once established to move all adult care within the council control under the trading company umbrella.

6. Other Options

In order to trade with non-public sector bodies a company needs to be formed. A workshop was held to ascertain those services that would be able to generate additional income these two services were considered the most viable. It is proposed to bring forward other trading opportunities in the future.

7. Reasons for Recommendations

The Local Government Act 2003 requires approval by Cabinet of the Business Plan of any proposed Local Authority Trading Company.

8. Corporate Implications

8.1 Contribution to Council's Vision & Corporate Priorities

These proposals will contribute positively to the following Council priorities 2011-12:

- Maintain improved outcomes for vulnerable adults and older people
- Encourage the prosperity of Southend-on-Sea and its residents
- Deliver strong, relevant and targeted services that meet the needs of our community;
- Positive public relation to residents;

8.2 Financial Implications (refer to appendix 3)

The LATC will require working capital to finance initial capital expenditure and cash flow prior to receipt of customer income. We have estimated this requirement to be a facility of £275,000. Compared with the cost associated with the councils preferred option of closure in redundancy costs (**refer to appendix 3**) of £533,000 and the loss of 45 FTE jobs actual 58 plus corporate job losses which cannot be recovered then this option will repay the initial finance.

The income flow and therefore financial benefit to the Authority is not just the profit after tax but also those charges and contributions the Company is making which is income that would not otherwise be generated and offsets existing revenue expenditure. The financial benefit to the Authority is summarised in **appendix 1 under total support charges**.

There will be a capital expenditure requirement and is referred to in appendix 4.

8.3 Legal Implications

The Local Authority Trading Companies are formed under the powers provided by the Local Government Act 2003. The companies once established will operate under the Companies Act 2006.

8.4 People Implications

The saving of 58 jobs (43 FTE) would be seen as a positive contribution by the council to the economic viability of the town in these most testing financial times. All employees will remain on their existing terms and conditions.

There are no specific human resource implications for the establishment of the Southend-on-Sea Professional Elderly Care Services SPECS; LATC at this time.

8.5 Property Implications

None as the retention of Priory House as a care home whilst still remaining as a capital property asset for the council.

8.6 Consultation

To date no consultation has been undertaken with regard to these proposals as they do not represent a change in service to users or the transfer or change in the terms and conditions of staff.

The proposal to establish the Southend-on-Sea Professional Elderly Care Services SPECS; has been discussed with officers for their opinion and advice with no discerning comments and there have been no objections raised

8.7 Equalities and Diversity Implications

None

8.8 Risk Assessment

The key delivery risks and their likely impact are summarised below along with mitigating actions. A robust risk management plan will be developed.

SPECS				
Ref	Risk	Likelihood	Impact	Mitigating Actions / Factors
1	Increased market competition from private sector	H	L	▪ Secure barriers to entry through market share
2	Failure to secure forecasted private clients	M	H	▪ Growth assumptions very prudent.
3	Insufficient on-going working	M	L	▪ Forecast of cash flow requirements

SPECS				
Ref	Risk	Likelihood	Impact	Mitigating Actions / Factors
	capital and cash-flow difficulties			are of medium value.
				▪
4	Insufficient management capacity	L	L	▪ Mitigated by being part of a specialist area of experience and being part of a larger Local Authority Group
5	Failure to exploit potential opportunities	M	H	▪ Relevant services to be given income generation targets & to be closely monitored.

8.9 Value for Money

The proposals provide the opportunity to generate additional income that otherwise would not be available to the Authority.

9. Background Papers

Cabinet Paper 10th January 2012

10. Appendices

10.1 Appendix 1

Financial Analysis

10.2 Appendix 2

Revenue and redundancy Cost business Plan

10.3 Appendix 3

Breakdown of Redundancy Costs.

10.4 Appendix 4

Capital Programme

10.5 Appendix 5

Report on Condition Survey and Site Visit

10.6 Appendix 6

Business Plan Briefing Paper

10.7 Appendix 7

10.8 **Appendix 8**

Briefing Paper