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Professional Services - Local  
Authority Trading Company

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Outline Business Plan

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October 2013

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## Executive Summary

This document sets out the LATC Business Plan in respect of professional care services provided by the Council. It is proposed to transfer existing services into the LATC in relation to providing services to residents and will be directed via the Company and the Council will recharge in respect of any costs incurred. This LATC provides a vehicle whereby opportunities for income generation can be pursued as they arise.

The services to be provided by this LATC 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 in respect to the provision of care for the elderly;

This LATC will purely provide a vehicle through which Council services are able to trade. It would not have or require permanent management or overheads.

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

	<u>Year 14/15</u>	<u>Year 15/16</u>	<u>Year 16/17</u>
<b>Income</b>	£ 1,016,777	£ 1,193,962	£ 1,340,490

Based on the above it is anticipated the following additional income can be generated for the Council.

	<u>Year 14/15</u>	<u>Year 15/16</u>	<u>Year 16/17</u>
<b>Income Flow to Local Authority / reserves for capital investment</b>	£ (77,593)	£ 90,500	£ 225,760

We believe the establishment of a LATC for Professional Care Services provides the following benefits:

- ✓ Ability to exploit commercial opportunities and generate additional income for the Authority;
- ✓ A Company would be able to use the reputation and brand of Southend Council;
- ✓ Provides the ability to trade whilst remaining owned by the Council;
- ✓ Allows the Company to develop its social care skills;
- ✓ The Company would only require reasonable start-up funds capital (i.e. working capital)

## Introduction / Background

The Council is seeking to generate additional income by trading its services as a care provider to individuals. Whilst the Goods and Services Act 1970 provides the Authority with the ability to trade with other public bodies in order to trade with private organisations and individuals the Authority would need to establish a Local Authority Trading Company (LATC).

An LATC has the following features:

- Power to trade provided by Local Government Act 2003;
- Guidance – ODPM July 2004;
- Amendments to Paragraphs 1-30 – DCLG April 2007;
- Power withdrawn if fall below this rating;
- Only trade in ‘functional related’ activities;
- Able to use ‘well being’ powers – whereas activity or service likely to promote or improve economic, social or environmental well being of its area;
- The power cannot be used to authorise trading in anything which an authority is statutorily obliged to do in relation to a person;
- Charging is only limited to recovery of cost of providing services whereas trading can be at a profit;
- Trading only exercisable through a company.

Production and acceptance of a Business Plan is a requirement of the Guidance developed by central Government for the establishment of such companies by Local Authorities<sup>1</sup>. This document sets out the LATC Business Plan in respect of professional and ‘back office’ services provided by the Council. It is not proposed to transfer existing services into the LATC rather activity in relation to trading with third parties will be directed via the Company and the Council will recharge in respect of any costs incurred. This LATC provides a vehicle whereby opportunities for income generation can be pursued as they arise.

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<sup>1</sup> Office of the Deputy Prime Minister (2004): *General Power for Local Authorities to Trade in Function Related Activities Through a Company – guidance on the Power in the Local Government Act, 2003*. Plus the later guidance related to changes in the Corporate Performance Assessment Framework Communities and Local Government (2007) *Amendments to Paragraphs 1-30*. The Government has recently proposed extending the power to all relevant local authorities following an impact assessment and the demise of the CPA Framework in March 2009. See CLG *Local Authorities’ power to trade following the end of categorisation under CPA*, October 2009

## Service Offering

The proposed LATC provides a vehicle by which professional care services currently operated by the Council could trade with individuals 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

This LATC will purely provide a vehicle through which Council services are able to trade. It would not have or require permanent management or overheads.

## ***SWOT Analysis***

The strengths, weaknesses, opportunities and threats of the business are summarised in the table below:

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Council reputation &amp; reliability</li> <li>• Services already established</li> <li>• Economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>• Uncertainty of potential opportunities and market</li> <li>• Lack of marketing expertise</li> <li>• Managerial capacity</li> <li>• Medium start up costs</li> </ul>
<b>Threats</b>	<b>Opportunities</b>
<ul style="list-style-type: none"> <li>• Other organisations offering similar services</li> <li>• Reputation risk</li> <li>• Need to ensure full cost recovery</li> </ul>	<ul style="list-style-type: none"> <li>• Provides vehicle to exploit income generation opportunities that otherwise would be unavailable</li> </ul>

## Financial Projections

### *Introduction*

Financial forecasts have been prepared for the first 3 years of operation. These figures are purely illustrative – as it is difficult to accurately forecast the income levels as it will tend to be opportunistic – and demonstrate how costs will be charged and recovered. These forecasts and the assumptions underlying them are set out below.

### *Revenue & Expenditure*

The illustrative revenue and expenditure is set below.

#### Revenue & Expenditure Account

	<u>Year 14/15</u>	<u>Year 15/16</u>	<u>Year 16/17</u>
<b>Income</b>	£ 1,016,777	£ 1,193,962	£ 1,340,490
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<b>Direct Costs:</b>			
Cost of services	£ 1,094,370	£ 1,103,462	£ 1,114,730
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**Overheads**

Contribution to Departmental and Corporate Overheads

£ 68,750	£ 68,938	£ 69,127
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**Earnings Before Interest, Taxation, Depreciation & Amortisation (EBITDA)**

£ (77,593)	£ 90,500	£ 225,760
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**Contribution to reserves**

£ 14,743	£ 90,500	£ 225,760
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**Income**

The income figures provided are purely illustrative and are based on a 100% mark up of the direct cost of services.

**Direct Costs**

The direct cost of services is based on full cost recovery of time and materials of services provided, as per appendix 1.

**Overheads & Support services**

The contribution to departmental and corporate overheads is based on the service charge from financial services and rent.

## Working Capital

The LATC will require minimal working capital to finance administrative costs. We have estimated this requirement to be a facility of £ 275,000. This facility would need to be provided by the Council on a commercial basis.

## Taxation- to be advised

### Income Flow to Authority

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 below. Although after 5 years it is expected that the gross profit would be in the region of £225,000 per year in addition to the income flow to the local authority.

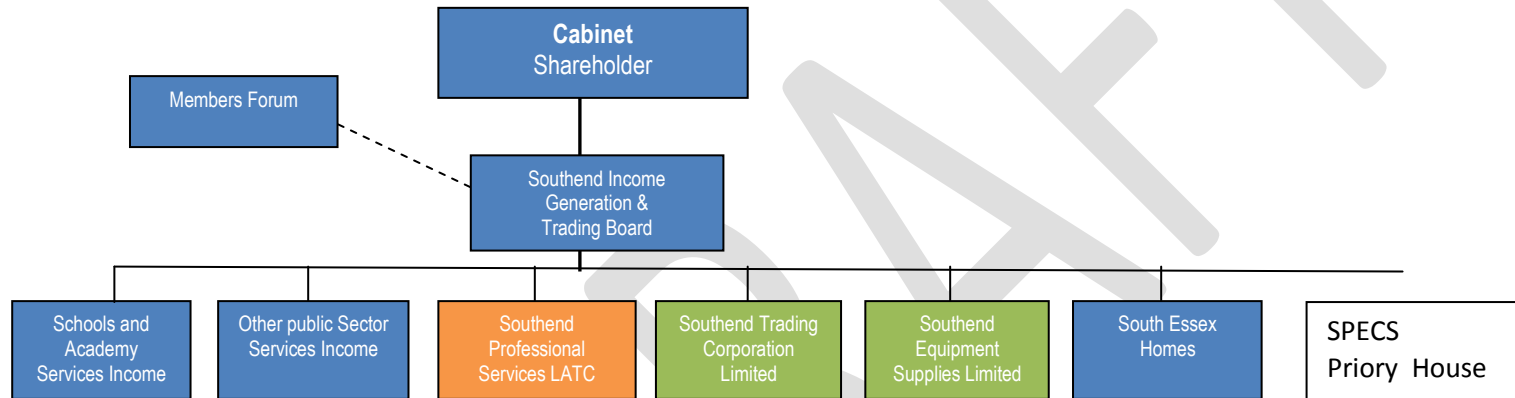
	<u>Year 14/15</u>	<u>Year 15/16</u>	<u>Year 16/17</u>
<b>Income Flow to Local Authority</b>	£ 68,750	£ 68,938	£ 69,127

Following Years as guidance will be year 4 = £69,818 year 5 £70,516 year 6 = £295,516 onwards, this assumes full pay back of start up capital and full payment of capital investment.

## Structure & Governance

The LATC will be a registered company under the Companies Act 2006. As such we require a Board of Directors. The 100% shareholding would be held by the Cabinet on behalf of Southend on Sea Borough Council.

It is important that the arrangements for this LATC are compatible with the overall arrangements for managing Southend’s wider income generation activity. It is summarised in the diagram below.



## Governance Arrangements

The key functions, responsibilities and membership are shown in the table below.

Function	Roles & Responsibilities
Council shareholder	<ul style="list-style-type: none"> <li>Exercised by Cabinet</li> <li>Confirmation of key appointments</li> </ul>

	<ul style="list-style-type: none"> <li>• Dividend distribution</li> <li>• Capital investment decisions</li> <li>• Performance scrutiny</li> </ul>
Southend Income Generation and Trading Board	<ul style="list-style-type: none"> <li>• Key Strategic Council Directors</li> <li>• Strategy Approval</li> <li>• Budget &amp; forecast approval</li> <li>• Performance Review</li> </ul>
Board of Directors	<ul style="list-style-type: none"> <li>• Director of Corporate Services</li> <li>• Strategy formulation</li> <li>• Budget setting</li> <li>• Service operations</li> <li>• Business development</li> </ul>

There are a number of miscellaneous governance and legal issues that should be noted:

- The LATC will be subject to the corporate Value Added Tax and Corporation Tax regimes; not the local authority regimes. Therefore, it will be necessary for the company to make its own arrangements to manage its taxation.
- The company will be subject to the Data Protection Act 1998 and will be require separate registration with the Office of the Information Commissioner under the Act.

- The provision of 'State Aid' by the Council to the LATC is limited and therefore finance extended to the company must generally be at market rates and the Council must not subsidise the company.

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## Risks

The key risks along with potential mitigation are set out below.

Ref	Risk	Likelihood	Impact	Mitigating Actions / Factors
1	Failure to secure forecasted private new clients	M	L	<ul style="list-style-type: none"> <li>Growth assumptions very prudent</li> </ul>
2	Failure to exploit potential opportunities	M	H	<ul style="list-style-type: none"> <li>Relevant services to be given income generation targets &amp; to be closely monitored</li> </ul>
3	Increased market competition from private sector	H	L	<ul style="list-style-type: none"> <li>Secure barriers to entry through market share</li> </ul>
4	Insufficient ongoing working capital and cash-flow difficulties	M	L	<ul style="list-style-type: none"> <li>Medium working capital requirements</li> </ul>
				<ul style="list-style-type: none"> <li></li> </ul>
5	Insufficient management capacity	L	L	<ul style="list-style-type: none"> <li>Mitigated by being part of larger Local Authority group</li> </ul>