

LOCAL AUTHORITY TRADING COMPANY OVERALL BUSINESS PLAN

December 2015

MISSION STATEMENT

The Local Authority Trading Company (LATC) Commercial Services Division will:

- Provide a high quality service to all its customers,
- Work with our customers to create services that are needed and fit-for-purpose,
- Develop innovative models that champion quality,
- Inspire staff to do the best work of their lives, and
- Harness community experience and local knowledge to deliver successful well-designed property developments which bring significant community benefit, are right for their place and respond to the needs of the local market.

We believe that by developing the services that we offer we will be able to create services that are more profitable, sustainable, flexible and focused on meeting the needs of local people and businesses in East Cambridgeshire.

We believe that establishing our brand in East Cambridgeshire will enable us to offer our high quality services beyond the boundaries of East Cambridgeshire.

VISION

We believe in improving the quality of life of the taxpayer of East Cambridgeshire and we believe in the Council's objectives that are set out in the Corporate Plan 2015-2019. The LATC will support the Council in achieving these objectives.

VALUES

Strategic Objectives

- To maximise on every commercial opportunity available,
- To trade in a manner that, wherever possible, acts in the best interest of the Council,
- To establish the LATC as a successful local developer with a reputation for delivering high quality, well-designed residential property,
- To optimize the financial return from Council owned land and property,
- To make a positive contribution to the delivery of more housing across the District to meet housing need in all segments of the market,
- To recycle surplus funds generated from these projects to support the corporate objectives of East Cambridgeshire District Council and enhance its reputation and financial viability, and
- To stimulate the growth of Community Land Trusts in East Cambridgeshire and open up a large enough market for the LATC to thrive.

Our services will be:

- Flexible- innovative and tailor made options to meet the needs of the individual customer,
- Local- Wherever possible (and relevant) the LATC will utilise local suppliers, and
- Trusted- reliable services delivered by skilled staff.

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APPENDIX 4: Shareholder Agreement

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1. EXECUTIVE SUMMARY

1.1 Purpose

This Business Plan is designed to provide an overview and detail of the:

- Benefits and advantages of a LATC,
- Governance structure for the LATC
- Financial overview of the LATC's forecast performance,
- Board and management structures, and
- Strengths, Weaknesses, Opportunities and Threats.

The LATC will be a LATC Limited by shares and East Cambridgeshire District Council (ECDC) will be the sole shareholder. Initially the LATC will be established to maximise asset return, increase the delivery of CLT development, deliver Commercial Services and provide consultancy advice to both the public and private sector.

1.2 Drivers for Establishing the LATC

There are two main drivers for establishing a LATC:

- To meet the objectives of the Medium Term Financial Strategy 2015/16-2019/20, and
- To meet the objectives of the Corporate Plan 2015-2019.

1.3 Benefits of the LATC

The LATC is a key part of achieving the aims of both the MTFS and the Corporate Plan. Establishing a LATC will provide the Council with a vehicle to:

- Act as the developer and build out good, high quality homes,
- Accelerate the delivery of Community Land Trusts (CLTs),
- Procure goods and services locally,
- Create a commercial culture,
- Win contracts outside of the District, and
- Generate profits to meet the aims of the Council.

1.4 Income and Expenditure of the LATC

The table below provides an indicative summary of income and expenditure for the first three years of trading.

	Year 1	Year 2	Year 3
Income			
Commercial Services	£430,996	£432,996	£434,996
Property and CLT Development	£647,500	£10,600,000	£11,141,667
Total	£1,078,496	£11,032,996	£11,576,663
Expenditure			
LATC (General)	£131,000	£151,000	£151,000
Commercial Services	£360,807	£362,307	£364,249
Property and CLT Development	£2,827,589	£9,619,543	£9,924,710
Total	£3,319,396	£10,132,850	£10,439,959
(Surplus*)/Loss	£2,240,900	(£900,146)	(£1,136,704)

***Profit will be subject to corporation tax**

2. INTRODUCTION

2.1 Background

On 3 March 2015, Commercial Services Committee approved, in principle, the development of a business case for the establishment of a Local Authority Trading Company (LATC).

The Local Government Act 2003 restricts local authorities from making a profit from its services, although they are able to offset on costs. The Localism Act 2011 enables local authorities to undertake activities to make a profit but only if delivered within a company.

A LATC is a company established by the local authority in order to offer its services on a commercial basis. Local authorities can establish LATCs through the powers in Section 95 of the Local Government Act 2003, and the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009.

The Council is legally able to establish a wholly owned trading company where the Council retains full control over the direction of the LATC, and manages its risks and receives the benefits in full. The Council will be the sole shareholder.

This Business Plan sets out the plans for and benefits of East Cambridgeshire District Council's (ECDC) establishment of the East Cambridgeshire Trading Company (ECTC).

2.2 Strategic Fit

The Council's Medium Term Financial Strategy (MTFS) 2015/16-2019/20 has an overall objective of achieving self-sufficiency from Revenue Support Grant by 2020.

In July 2015 the Council adopted the Corporate Plan 2015-2019 (Appendix 1). The Corporate Plan contains six key aims and each aim has objectives, priorities and promises.

(1)	Delivering a financially sound and well managed Council	A customer driven efficient Council with a 'can do' attitude and pro-business approach and commercially focused to ensure financial self-sufficiency for the taxpayer
(2)	Genuinely affordable housing	Genuinely affordable housing by local people for local people
(3)	A fantastic place to live	Making East Cambridgeshire an even better place to live
(4)	Improving local transport	Making it easier to get around the District and do business
(5)	Improving infrastructure	Appropriate developments with better infrastructure and improving Planning Service
(6)	New jobs and funding	Driving economic success by creating the infrastructure to attract businesses and create jobs

The LATC is a key part of achieving the aims of both the MTFS and the Corporate Plan. The LATC will provide the Council with the ability to do things it cannot currently do, specifically:

- Act as the developer and build out good, high quality homes,
- Accelerate the delivery of Community Land Trusts (CLTs),
- Procure goods and services locally,
- Create a commercial culture,
- Win contracts outside of the District, and
- Generate profits to meet the aims of the Council.

The LATC will focus on four key areas of work, specifically:-

- Maximising asset return,
- Increasing the delivery of CLTs,

- Delivering the Council's commercial services, and
- Providing consultancy services to both the public and private sector.

Initially the LATC will focus on two key areas; Commercial Services and Property and CLT Development.

2.3 Commercial Services

2.3.1 Markets Service

The in-house Markets Service currently sits in the Tourism & Town Centre Service. The main objectives of the Service are:

- To run a profitable market,
- To provide a focal point for the Community,
- To increase the vibrancy of the City Centre,
- To promote employment,
- To provide a choice for the Community, and
- To be a stepping stone for small businesses.

The table below provides a summary of cost and income over a three year period (2013/4-2015/16) for the Markets Service.

Year	Cost	Income
2013/14	£123,535	£171,952
2014/15	£137,484	£174,088
2015/16	£162,980	£191,196

2.3.2 Sanctuary Grounds Maintenance Contract

The Sanctuary Grounds Maintenance Contract is currently managed and operated by the Open Spaces & Facilities Service within the Council. The main objectives of the Service are:

- Income generation,
- Maintain a quality environment, and
- Enhance the reputation of the Council.

The table below provides a summary of cost and income over a three year period (2013/14-2015/16) for the Sanctuary Grounds Maintenance Contract (includes VAT).

Year	Cost	Income
2013/14	£253,559	£254,020
2014/15	£225,118	£228,373
2015/16	£230,663	£234,256

The full business plan that details the case for the Commercial Services Division of the LATC is provided at Appendix 2.

2.4 Property and CLT Development

The LATC will harness community experience and local knowledge to deliver successful well-designed property developments which bring significant community benefit, are right for their place and respond to the needs of the local market.

In doing so, in the first 5 years it will:

- Help to deliver a financially sound Council and enhance its reputation by maximising return from Council property assets and generating profits,

- Act as an exemplar, demonstrating the benefits of a commercial culture,
- Deliver genuinely affordable housing by accelerating the delivery of Community Land Trusts,
- Make East Cambridgeshire an even better place to live by building at least 200 high quality homes across all sectors of the housing market,
- Improve local infrastructure by delivering appropriate, well-designed property developments, and
- Create new jobs and funding by procuring, wherever possible, goods and services locally.

The LATC will engage directly in commercial markets to deliver Development Consultancy Services, undertake property development and accelerate Community Land Trust (CLT) development across East Cambridgeshire, and potentially beyond.

The full business plan detailing the case for the Property and CLT Development Division of the LATC is provided at Appendix 3.

2.5 Other Opportunities

The LATC will continually look for new opportunities to enter new markets or expand on existing markets. Proposals to move into new markets will require a business case to be developed and agreed.

3. PROCESS

ECDC will continue to provide support services to the LATC through Service Level Agreements (SLAs).

The LATC will negotiate individual SLAs with each ECDC support service to reflect the needs of the LATC as a whole and each Division of the LATC. Each SLA will include measurable performance indicators, break clauses and remedies for non-performance.

There will be an annual review process whereby SLAs are refined to more accurately reflect the support required by the LATC.

Support Services include:

- HR Support, including recruitment and training,
- Payroll
- Finance- transactional finance functions and financial controller activities,
- IT- provision of IT equipment and services- including helpdesk support,
- Customer Services- Phone answering service and taking telephone payments,
- Insurance provision (buildings, vehicles, employers and public liability),
- Legal Support- as and when required.

3.1 Property and Assets

The Head Office of the LATC will be The Grange, Nutholt Lane, Ely, Cambridgeshire, CB7 4EE.

3.1.1 Commercial Services Division

The Markets Service currently occupy The Grange, Ely and will continue to do so. A reasonable annual rent will be charged to the LATC.

Sanctuary Ground Maintenance staff currently occupy The Grange, Ely, the depot at Barton Road, Ely and the depot at Portley Hill, Littleport and will continue to do so. A reasonable annual rent will be charged to the LATC.

3.1.2 Property and CLT Development Division

The Property and CLT Development Division will occupy The Grange, Ely. A reasonable annual rent will be charged to the LATC.

We will review the use of office and depot accommodation on an ongoing basis to ensure the premises are fit for purpose and cost effective.

Priorities for review

- Office accommodation requirements- more mobile working, utilising capacity in operational buildings
- Where there is existing capacity in operational buildings, rent or hire space to partner organisations

~~Property and~~ IT assets will be leased from ECDC as part of the SLA when it starts trading.

Small assets such as vehicles and equipment will be purchased/leased from ECDC as part of the SLA when it starts trading.

3.2 Intellectual Property

Intellectual property, such as the Market Traders Register, will be purchased from ECDC at a nominal value when the LATC starts trading.

3.3 Policies and Procedures

The LATC will continue to use all relevant ECDC policies and procedures in the first instance, but will review and refine these over time to ensure they are fit for purpose.

3.4 Information Sharing

An information sharing protocol will be developed during implementation.

3.5 Data Protection

The LATC will comply with the relevant legislation and guidance concerning Data Protection, including adopting suitable policies and procedures to ensure data is adequately safeguarded.

3.6 Freedom of Information

The LATC will be subject to requests for the disclosure of information under the Freedom of Information Act 2000 in its own right. As such, the LATC will maintain a record management system that complies with the relevant guidance concerning the maintenance and management of records.

The LATC will liaise with ECDC as appropriate to ensure consistency in answering FOI requests and provide such information to ECDC as it may require to answer request it has received.

3.7 Business Development

In line with our Vision and Values the LATC approach to business development will be:

- Focus on retaining our existing customer base whilst driving up quality and bringing down costs,
- Expand our customer base and income streams,
- Develop new and innovative services, and
- Build key customer relationships from a network of potential clients that will include local land and property owners, Local Authorities, Parish Councils and existing/emerging CLTs.

3.8 Marketing Strategy

In line with our Vision and Values the LATC will develop its marketing strategy and an identifiable brand by presenting a unique selling point (USP) to potential customers.

4. GOVERNANCE AND MANAGEMENT

This Business Plan will be delivered in full compliance with the governance requirements set out by ECDC. The LATC will seek to maintain and enhance ECDC's reputation and brand for high standards.

The LATC will establish and maintain an effective service and financial performance management reporting system which will include effective reports to the LATC Board and the ECDC Shareholder Committee.

The LATC will be subject to any audit and inspection requirements of the Council.

This Business Plan provides for sufficient support and leadership from Non-Executive Directors, a Managing Director and an Independent Chairman. Additional Support will be provided by Finance, HR, Legal and ICT.

4.1 Structure

On 22 October 2015 the LATC Establishment Committee resolved to recommend to Council the establishment of a LATC Limited by shares with a Teckal exemption. This option was recommended given that the objective of the LATC is to generate a commercial return and when appropriate, produce dividend returns to the Council to meet its MTFS.

4.1.1 LATC Board of Directors

The LATC Board of Directors shall comprise:

- The Independent Chairman;
- 2 ECDC Elected Members; the Leader of Council and the Deputy Leader of Council; and
- 2 ECDC Senior Officers; the Chief Executive and the Director (Commercial & Corporate Services).

The quorum for board meetings shall be three.

At board meetings each director shall have one vote.

Board meetings shall be held at least quarterly on such dates as they may agree (failure to reach an agreement a decision will be made by the Chairman).

An agenda for the meeting will be prepared and distributed not less than 5 business days prior to the meeting.

Except where the information is commercially sensitive, minutes of Board meetings will be provided to the Shareholder Committee for noting.

4.1.2 LATC Managing Director and Company Secretary

The Managing Director of the LATC shall be the Chief Executive of ECDC. The Managing Director will act as the key conduit between the LATC and the Council and shall have overall responsibility for ensuring compliance with the Shareholder Agreement.

The Company Secretary of the LATC shall be the Chief Financial Officer of East Cambridgeshire District Council.

Full details of the Board of Directors and the Managing Director are provided in the Shareholder Agreement at Appendix 4.

4.1.3 Management of the Commercial Services Division

The Commercial Services Division of the LATC will be managed by ECDC's Director (Commercial & Corporate Services) as set out in the Commercial Services Business Plan.

4.1.4 Management of the Property and CLT Development Division

The Property and CLT Development Division will be managed by the Head of Property and CLT Development (to be appointed by the Board) as set out in the Property and CLT Development Division Business Plan.

4.1.5 Shareholder Committee

The Shareholder Committee will be the Council's Asset Development Committee. These scrutiny arrangements will be reviewed as follows:

- After six months of the LATC being formally established; and
- Annually (by Annual Council) thereafter.

Elected Members who are appointed as LATC board directors cannot be full members or substitutes of the Shareholder Committee.

The role of the Shareholder Committee will be not operational. The Shareholder Committee shall not have powers to make decisions on behalf of the Council or the LATC. It shall:

- Recommend, where relevant, the appointment of the Chairman of the Board and approve best practice policies in relation to such an appointment,
- Recommend, where relevant, the constitution of the Board of Directors,
- Receive, review and recommend the business plans and each annual business plan,
- Review the financial performance of the LATC, and
- Make recommendations to Full Council on how it should exercise the functions flowing from its ownership of shares.

The Shareholder Committee shall meet at least quarterly to consider and review the matters identified above and where necessary call extraordinary meetings to accommodate the business identified above.

The Board will send a report at least twice a year to each member of the Shareholder Committee. The directors shall provide all information reasonably required by the Shareholder Committee to conduct an effective review.

Full details of the role of the Shareholder Committee are provided in the Shareholder Agreement provided at Appendix 4.

5. FINANCIAL

5.1 Methodology

The projected income and expenditure set out below is a consolidation of the financial information provided in the Commercial Services Business Plan (Appendix 2), the Property and CLT Development Business Plan (Appendix 3) and the costs associated with operating the LATC as set out in 5.1.2 below.

There is potential for additional income and expenditure through both the Commercial Services Division and the Property and CLT Development Division. Realisation of such activities will be identified once the LATC is operational and will be subject to a Business Plan to be approved by Council at the appropriate time.

5.2 Financial Assumptions

The table below provides an indicative summary of income and expenditure for the first three years of trading.

	Year 1	Year 2	Year 3
Income			
Commercial Services	£430,996	£432,996	£434,996
Property and CLT Development	£647,500	£10,600,000	£11,141,667
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(Surplus)/Loss	£2,240,900	(£900,146)	(£1,136,704)

Details of the projected income and expenditure of the Commercial Services Division are set out in the Commercial Services Division Business Plan (Appendix 2).

Details of the projected income and expenditure of the Property and CLT Development Division are set out in the Property and CLT Development Division Business Plan (Appendix 3).

The table below details the operating costs of the LATC.

	Year 1	Year 2	Year 3
Chairman	£12,000	£12,000	£12,000
Managing Director*	£20,000	£20,000	£20,000
Director*	£12,000	£12,000	£12,000
Company Secretary	£12,000	£12,000	£12,000
Support (Admin, Finance, Legal & HR)	£40,000	£40,000	£40,000
Insurance	£10,000	£30,000	£30,000
Expenses	£10,000	£10,000	£10,000
Office Rent	£5,000	£5,000	£5,000
Audit Fees	£10,000	£10,000	£10,000
Total	£131,000	£151,000	£151,000

*Please note that the role of Managing Director and Director shall be held by the Chief Executive and Director (Commercial and Corporate Services) of ECDC respectively. There is no remuneration proposed to the Chief Executive or the Director (Commercial and Corporate Services) directly, the Council will charge the LATC for the Chief Executive and Director (Commercial and Corporate Services) time spent in operating their functions in the LATC.

5.3 How Will the LATC Be Funded?

ECDC will provide the LATC with a loan of **up to** £5,000,000. The Loan Agreement is provided at Appendix 5.

The Loan Agreement makes provision for the following:

- The LATC shall only utilise the loan in accordance with this Business Plan,
- The LATC will draw down the loan as cash flow requires,
- Loan repayment terms and conditions, and
- Loan interest.

6. SWOT AND RISK MANAGEMENT PLAN

6.1 SWOT Analysis

Strengths <ul style="list-style-type: none">- The LATC will be able to utilise the ECDC reputation and brand to prosper in the open market- The LATC will be able to assist ECDC in its corporate objective on delivering services in a commercial manner	Weaknesses <ul style="list-style-type: none">- The LATC will be a new company, wholly owned by the Council, that has limited experience in working in a competitive environment- In a competitive environment there is a need for decision to be taken quickly, however, due to the governance arrangements that are in place this presents a possible disadvantage for the company
Opportunities <ul style="list-style-type: none">- The LATC will be able to act as the developer of land- The LATC will be able to accelerate the delivery of CLT development- The LATC will be able to deliver Commercial Services in a competitive market	Threats <ul style="list-style-type: none">- The property market is subject to volatility in cost and sales- Other companies (and some local authorities) in (or moving in to) the market

6.2 RISK MANAGEMENT PLAN

This plan is provided as Appendix 6 of the report to Council (7 January 2016).