

Scrutiny Committee Reports (2) for City Executive Board - Tuesday 18 July 2017

A Scrutiny report is included for the following item:

7a) Local Authority Trading Company – Progress report

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To: City Executive Board
Date: 18 June 2017
Report of: Scrutiny Shareholder Panel (Panel of the Scrutiny Committee)
Title of Report: Local Authority Trading Company

Summary and recommendations	
Purpose of report:	To present Scrutiny Committee recommendations on the local authority trading company decision.
Key decision:	Yes
Executive Board Member:	Councillor Ed Turner, Finance, Asset Management & Public Health Councillor Susan Brown, Customer & Corporate Services Councillor John Tanner, A Clean & Green Oxford
Corporate Priority:	Efficient & Effective Council
Policy Framework:	Corporate Plan
Recommendation(s): That the City Executive Board states whether it agrees or disagrees with the recommendation in the body of this report	

Introduction and background

1. The Scrutiny Shareholder Panel considered the local authority trading company progress report at a meeting on 17 June 2017. The Committee would like to thank Tim Sadler, Executive Director of Sustainable City, Nigel Kennedy, Head of Financial Services, Lindsay Cane, Interim Head of Law and Governance and Simon Howick, Service Transformation Manager, for attending the meeting to advise the Panel.
2. The Panel considered the progress report in public session before going into private session to consider the Grant Thornton report (which is mentioned in paragraph 48 of the progress report). The minutes of the private discussion will be circulated to members of the City Executive Board separately.

Summary of discussion

3. The Executive Director of Sustainable City introduced the report. He said that the companies exist and the aim is to start trading on 1 November 2017. Officers are

convinced that establishing the companies is firmly in the Council's interests and are committed to getting the detail right. Progress has been slowed slightly by the need to consider various options and trade-offs in arriving at the optimum arrangements, and by the need to get systems in place to support their implementation. It is expected that officers would come back to members in October with a proposed shareholders agreement and an initial business plan.

4. In the public session the Panel noted the following points in response to their questions, which have been grouped under the headings employment, finance and structure and governance:

Employment:

- a) Trade unions have been involved from the outset and discussions with them are progressing well. Officers are determined to get this right as the business relies entirely on its staff.
- b) Trade unions are concerned that TUPE doesn't give the assurances they want over terms and conditions of employment and in particular pension rights in future. These protections will be written into the contract between the Council and the companies and access to the local government pension scheme will continue unchanged for existing staff.
- c) Subject to its agreement, the recently negotiated new pay deal will also be passported across to the companies.
- d) In future there may be significant advantages in offering a different employment package to new starters and it is thought that there will be an appetite for this among younger workers entering the market. Further discussions will continue with trade unions to discuss the possibilities around this at an appropriate time in the future.
- e) There are concerns about creating a two tier workforce but a fundamental principle will be that any different package (for new starters) will be broadly equivalent to existing arrangements.
- f) There are advantages to creating entrepreneurial companies that combine a public service ethos with commercial practice.

Finance:

- g) Property assets and vehicles owned by the Council will be transferred to the company via a leasing arrangement.
- h) Future known changes in Corporation Tax have been modelled, but other possible increases e.g. changes to National Insurance rates could have a major impact on the Direct Services pay bill (approx. £25m).
- i) The additional costs (Corporation Tax, audit, non-executive director) need to be met through the Business Plan in order for the Council to continue to build on its strategy of operating commercially to mitigate funding cuts.
- j) Additional income of £2m is already built into the Council's Medium Term Financial Plan (MTFP) but, with investment, it is a reasonable aspiration for the companies to significantly exceed this.
- k) The companies will return value to the Council in a number of ways (leases, loan interest, support services etc.), not just through a dividend.

Structure and governance:

- l) Commercial waste is a wholly traded service that will sit in the non-Teckal company. Other services that predominantly exist to serve the Council will

- initially sit in the Teckal company for simplicity but can be transferred to the non-Teckal company in future if it would be advantageous to do so.
- m) The number one customer of the companies is the Council and the intention is to continue providing high quality services to it. The Business Plan will set out a balanced scorecard including timeliness and quality of work to ensure value is delivered back to the Council in its widest sense. Client side arrangements will also be enhanced.
 - n) Financial penalties for poor performance will be built into the Council's contract with the companies in the way they are for the leisure contract.
 - o) Shareholder decisions and paperwork will be open to Scrutiny in the normal way but documents that are internal to the companies will not be.

Conclusions and recommendation

5. The Panel commented that they expected to see far more context and detailed evidence in the progress report, in particular about where the additional revenue is expected to come from but also about precedents from elsewhere and constraints and limitations on the Council and the companies.

The Panel also said that the messaging around the benefits of establishing the companies was too dry and pitched inconsistently in the progress report and the Draft Memorandum of Understanding (Appendix 1). The Panel note that the Council has a positive story to tell around trading successfully and growing external reviews and there is a lot to be gained through the companies. However, it is very important to get on the front foot and have a good communications plan in place to sell the benefits of the companies to the right audiences at the right moments.

Recommendation – That the Council ensures that the very positive potential benefits the trading companies can generate for the Council and the wider community are communicated effectively to the public, elected members and other Council employees, as well as to Direct Services staff, through a robust communications plan.

6. The Panel agreed to meet in the autumn to scrutinise a future decision report including a proposed Shareholders' Agreement and initial Business Plan(s) for the companies.

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