

Agenda

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Scrutiny Shareholder Panel

Date: **Monday 6 November 2017**

Time: **6.00 pm**

Place: **Plowman Room - Town Hall**

For any further information please contact:

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Scrutiny Shareholder Panel

Membership

Chair	Councillor James Fry Councillor Nigel Chapman Councillor Andrew Gant Councillor David Henwood Councillor Craig Simmons
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AGENDA

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Background Information
The Scrutiny Committee has asked for this item to be included on the agenda for pre-decision scrutiny.
Why is it on the agenda?
The City Executive Board on 21 November 2017 will be asked to consider the eight recommendations set out in the attached Local Authority Trading Company (LATCO) progress report. This is an opportunity for the Panel to make recommendations to the City Executive Board.
Who has been invited to comment?
<ul style="list-style-type: none">• Tim Sadler, Director for Sustainable City• Nigel Kennedy, Head of Financial Services• Lindsay Cane, Acting Head of Law and Governance• Simon Howick, Service Transformation Manager

DECLARING INTERESTS

General duty

You must declare any disclosable pecuniary interests when the meeting reaches the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you.

What is a disclosable pecuniary interest?

Disclosable pecuniary interests relate to your* employment; sponsorship (ie payment for expenses incurred by you in carrying out your duties as a councillor or towards your election expenses); contracts; land in the Council's area; licenses for land in the Council's area; corporate tenancies; and securities. These declarations must be recorded in each councillor's Register of Interests which is publicly available on the Council's website.

Declaring an interest

Where any matter disclosed in your Register of Interests is being considered at a meeting, you must declare that you have an interest. You should also disclose the nature as well as the existence of the interest.

If you have a disclosable pecuniary interest, after having declared it at the meeting you must not participate in discussion or voting on the item and must withdraw from the meeting whilst the matter is discussed.

Members' Code of Conduct and public perception

Even if you do not have a disclosable pecuniary interest in a matter, the Members' Code of Conduct says that a member "must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself" and that "you must not place yourself in situations where your honesty and integrity may be questioned". What this means is that the matter of interests must be viewed within the context of the Code as a whole and regard should continue to be paid to the perception of the public.

*Disclosable pecuniary interests that must be declared are not only those of the member her or himself but also those member's spouse, civil partner or person they are living with as husband or wife or as if they were civil partners.

To: City Executive Board
Date: 21 November 2017
Report of: Executive Director, Sustainable City
Title of Report: Local Authority Trading Company

Summary and recommendations	
Purpose of report:	To report back on the establishment of the Local Authority Trading Company
Key decision:	Yes
Executive Board Members:	Councillor Ed Turner - Deputy Leader and Board Member for Finance, Asset Management and Public Health Councillor Susan Brown - Board Member for Customer and Corporate Services Councillor John Tanner - Board Member for A Clean and Green Oxford
Corporate Priority:	Efficient & Effective Council
Policy Framework:	Corporate Plan
Recommendation(s): That the City Executive Board resolves to:	
<ol style="list-style-type: none"> 1) Agree the "Transfer Date" of 1 April 2018 – that being the date on which all service delivery currently carried out by the Council's Direct Services will be transferred to the two new LATCo companies; 2) Approve the terms of the updated Memorandum of Understanding (as attached to this report as Appendix 1) which sets out the basis of the "Service" and "Support" contracts between the Council and LATCo companies; and delegate authority to the Interim Chief Executive, in consultation with the Council's s151 and Monitoring Officers and the Leader of the Council to finalise the terms of and to enter into both the Service Contract and the Support Contract on behalf of the Council; 3) Delegate authority to the Interim Chief Executive, in consultation with the Council's s151 and Monitoring Officers, to approve the terms under which the Council will enter into leases and/or licences covering the LATCo companies' occupation of relevant Council premises and use of Council resources; 	

- 4) Agree the transfer to Oxford Direct Services Limited on the Transfer Date of all Direct Services staff engaged in service delivery immediately prior to the Transfer Date on the terms set out in this report;
- 5) Approve the arrangements ensuring that all transferring staff will continue to have access to the Local Government Pension Scheme and delegate authority to the Interim Chief Executive, in consultation with the Council's s151 and Monitoring Officers and the Leader of the Council, on behalf of the Council, to enter into an appropriate tri-partite agreement with the Scheme Administrator and Oxford Direct Services Limited which sets out the basis of contributions into the LGPS;
- 6) Authorise the transfer to Oxford Direct Services Trading Limited of all customer contracts with third parties in existence on the Transfer Date, and authorise the transfer of all supplier contracts to the two LATCo companies (as appropriate) in existence on the Transfer Date;
- 7) Note the provisions of the initial Business Plan for the Companies (the executive summary of which is at appendix 2)
- 8) Note and approve the "client side" arrangements as set out in this report in regard to the Council's management of the Service Contract with Oxford Direct Services Limited.

Appendices

Appendix 1	Service/Support Contract Memorandum of Understanding
Appendix 2	Business Plan Executive Summary
Appendix 3	Risk Register

Introduction

1. In March 2017 the City Executive Board approved in principle the setting up of a Local Authority Trading Company (LATCo) to carry out the performance of those statutory and related services then provided by the Council through its Direct Services operation and also traded externally. Two new companies were formed, Oxford Direct Services Limited ("ODS Ltd") which is intended to hold "Teckal" status, and as such will provide services to and on behalf of the Council) and Oxford Direct Services Trading Limited ("ODS Trading Ltd"), which will trade with third parties.
2. The purpose of the companies is to return value to the Council (as the sole Shareholder) and support excellent public services in Oxford. The companies will do this through delivering efficient, value for money services and generating long term sustainable growth in income through external trading.

3. In July 2017 a further report set out a number of detailed matters leaving a remainder to be completed. These items are now reaching conclusion and the associated recommendations are the subject of this third and concluding report.

Further work following July 2017 CEB recommendations

4. CEB asked for a report back on the following items:

Transfer date

5. There will be a phased implementation of steps over the coming months to ensure that the new companies are fully operational and trading by 1 April 2018 (the "Transfer Date"). This date should ensure that all the critical path items are completed - in particular the income management system (to enable the companies to receive and allocate income) and the payroll system (which needs this additional time to ensure a thorough implementation and testing process).

The Relationship between the Council and the Companies

6. The basis of the relationship is a two-way partnership of collaboration, with the parties committed to working together for the benefit of both. . This means the Council and the companies seeking to maximise the opportunity of delivering in-house work now and in the future, be that with the same skill sets or developing new ones. It also requires both parties to recognise the new commercial realities needed to compete in the external market - with a view to maximising the value returned to the Shareholder.
7. The Council and the Companies have agreed the following strategic principles (included in the Memorandum of Understanding) in delivering the companies' purpose:
 - The focus will be to deliver the MTFP requirement, through reduced costs, rebates, payments and dividend
 - There is an expectation that the current MTFP estimates can be exceeded by use of the company structure and this should be pursued
 - The council through its role as shareholder will hold influence over the core terms and conditions of employment
 - The expectation is that a relatively low level of profit will be retained in the Teckal company to cover risk and fund investment
 - The council is seeking a low level of risk transfer to the Teckal company
 - The trading company will retain profit commensurate with the risk transferred.
 - There will be a lower level of control over the commercial activities of the trading company

Contract between the Council and ODS Limited

8. The "Service Contract" will set out the terms under which ODS Limited, the Teckal Company, will undertake work from the Transfer Date on all relevant Council statutory functions and related work, as currently undertaken by Direct Services. The updated Memorandum of Understanding outlines the arrangements which will

form the Service Contract and this is attached at appendix 1. The Service Contract term is for a period of twenty years and the parties can agree to extend the Expiry Date by a maximum of five years. The Council must be satisfied throughout the contract term that its arrangements with OFS Ltd represent Best Value.

Contract between the new companies and the Council

9. The “Support Contract” will set out the terms under which the Council will from the Transfer Date provide all relevant support services to the two new companies. The updated Memorandum of Understanding outlines the arrangements which will form the Support Contract. The Support Contract term will replicate that of the Service Contract.

Three year review

10. As from the Transfer Date the services delivered under both the Service Contract and the Support Contract will initially be largely as they are now and will be charged on a similar basis. However, the Council and the companies will be committed to take all opportunities achieve efficiencies from the status quo.

11. Over time experience is likely to demonstrate new and better ways of working and the opportunity will be taken to undertake a holistic review of both contracts no later than the third anniversary of the Commencement Date. The review will cover but will not be restricted to:-

- The services required by the council
- The cost of those services charged by the company
- The services required by the company
- The costs of those services
- Review of risk sharing agreement
- Review of dividend distribution

Transfer of staff

12. The transfer of the delivery of all services currently provided by the Council’s Direct Services will necessarily mean that those Direct Services staff engaged in service delivery immediately prior to the Transfer Date will transfer to the LATCo. The transfer will be in accordance with all relevant employment laws, protecting terms and conditions including pensions. This requirement will form part of the Service Contract. The entitlement for staff to receive the Council’s new pay deal will also be a contractual requirement. All transferring staff will become employees of ODS Ltd (the Teckal arm).

13. ODS Ltd will initially ‘sell’ labour across to ODS Trading Ltd (the trading company). This ‘external’ turnover (for the purposes of the “Teckal” calculation under which external income should not exceed 20% of total income received) will be calculated at the Transfer Date to ensure compliance and closely monitored thereafter.

14. The terms of this staffing arrangement between the two LATCo companies will be set out in a commercial agreement between them, signed off by the Company Boards.

Continued access to the Local Government Pension Scheme

15. All transferring staff will continue to have access to the Local Government Pension Scheme under 'Designated Body' status. This means staff will continue to receive all the LGPS benefits and pay the same contributions, as if they had not changed employer.
16. Until such time that there are further discussions with trade unions about closing the scheme to new entrants combined with developing an alternative attractive employment package for them, the LGPS will be offered to new staff. It will remain "open" and "grouped" with the City Council for the purposes of calculating employers contributions and paying past scheme deficits. This means the employer payments into the scheme remain the same (at least until the next triennial valuation) for the Council and ODS Ltd.
17. A tri-partite agreement (Oxford City Council, ODS Ltd and Oxfordshire County Council as the LGPS Administrator) will be entered into which indemnifies ODS Ltd against liability for past deficits meaning that the company will be able to account for its pension liabilities on a defined contribution basis rather than a defined benefit basis which would cause material issues for ODS Ltd's accounts and potentially threaten its viability.
18. Ultimately ODS Ltd's Company Auditor will need to be satisfied with the above arrangements, but external Legal advice and a view from County and its Actuary indicate this will be acceptable to the Auditor. The Head of Finance will seek a view from the Company's Auditor in advance of finalising the position on pensions.
19. The Service Contract will also set out the terms of access to the LGPS in the context of a grouped arrangements for the Council and ODS Ltd to ensure the decisions of one party regarding its membership do not adversely impact the other party.

Leases & Licences

20. Property assets will be retained by the Council and leased to the company at a market rate. The Council will retain responsibility for structural and external repairs and maintenance.
21. For plant and equipment the Council will fund their purchase through loans but the company will be responsible for repair and maintenance. All vehicles will be leased to the companies over their useful life akin to a finance lease with the ownership of the vehicle transferring to the company following the payment of the final lease instalment
22. The Council will enter into leases or licences with ODS for their use of vehicles and plant. Following the previously delegated authority granted at July CEB, the Chief Executive in consultation with the Council's s151 and Monitoring Officers and Leader of the Council will agree these leases and licences with the ODS Directors.

Loan agreement

23. Under the same delegated authority as above the Chief Executive will agree with the LATCo Directors the terms of a loan (on commercial terms) to the Companies to assist with cashflow in year 1. The companies are able to work together and undertake related party transactions for the benefit of the group.

Transfer of Third Party Contracts to ODS Trading Limited

24. On the Transfer Date, the Council will seek to transfer all third party customer contracts to ODS Trading Ltd. In consultation with Legal Services a process is being worked up to seek to minimise the risk of any loss of clients. Predominantly this applies to the commercial waste service but there are other arrangements in place (e.g. building repairs and maintenance) which will require close liaison with Clients.

Retention of In-house Commercial Waste Service

25. Under the provisions of Section 45 of the Environmental Protection Act 1990 all waste collection authorities must provide a commercial waste collection service if so requested by a local resident. While it is envisaged that the majority of Oxford commercial waste customers will be happy to place their business with ODS Trading Ltd, the Council will ensure that a service will be made available to any Oxford resident exercising their statutory right to receive such a collection from the Council. Inevitably the costs of providing such a service will properly reflect the overheads involved, so, given the limited scope of the service, the fees are likely to be significantly higher than the commercial waste service provided by ODS Trading Ltd. Customers outside Oxford or sourced via another commercial operator will fall entirely outside the s45 arrangements.

Shareholder Agreement

26. A Shareholder Agreement has been drafted which sets out the relationship between the Council and the LATCo companies. This includes a list of matters reserved to the Shareholder. The Shareholder's Agreement will be considered at the inaugural ODS Shareholder Group meeting to be convened in December 2017.

The provisions of an initial Business Plan

27. A Business Plan has been drafted for consideration by the Shareholder's Group at the December 2017 meeting. The Executive Summary is included at appendix 2 of this report and this sets out the objective to deliver an additional £500k per annum to the Shareholder by 2021/22 with ambition for a further additional £500k per annum.

Client side arrangements

28. A quarterly Partnership Board will provide a regular formal opportunity for Portfolio Holders, relevant spokespersons from other parties, Client and ODS Leads to review and comment on the services provided.

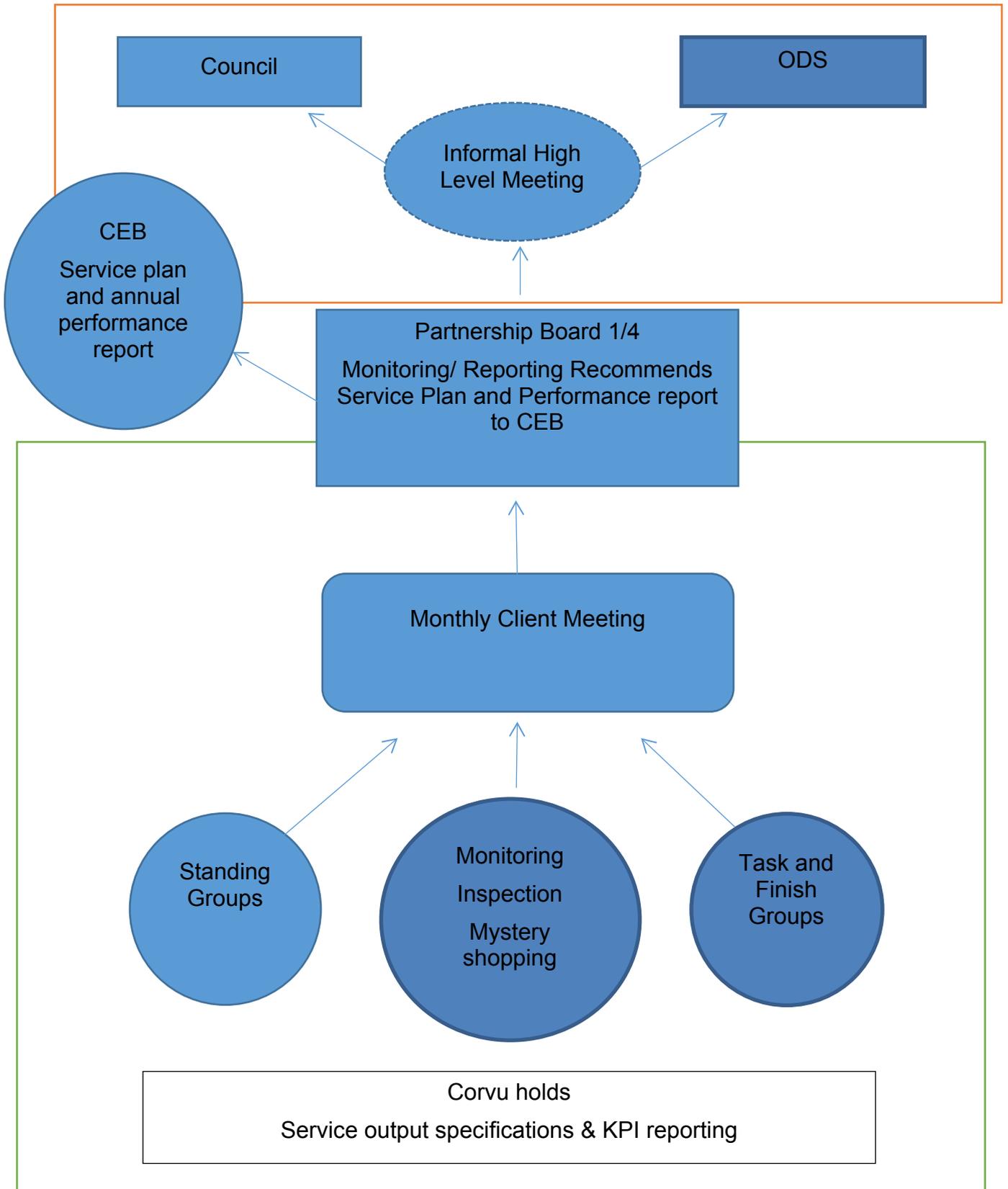
29. The Annual General Meeting will be open to all Members and the Scrutiny Committee can formally engage with the Shareholder Group in the same way as the Housing Company.
30. The operational arrangements for the client management function will be built around the existing, sound client management for housing and property.
31. The Head of Housing & Property will undertake the role of Principle Contract Manager (PCM) and will be the single point of co-ordination of all client service functions. The PCM will be supported by nominated officers (see table 1 below) for each discipline and their roles will vary from a strategy/policy lead to a fully functioning client/commissioner holding a budget.

Table 1

Functional Area	Lead Officer	Roles
Building/Property	Martin Shaw – Property Services Manager	Strategy, policy, budget
Engineering	Shaun Hatton – Chief Operations Manager	Client on behalf of County Council
Waste, recycling	Jo Colwell – Environmental Sustainability Manager	Strategy and policy
Streetscene, parks, cemeteries	Ian Brooke – Head of Community Services	Strategy and policy
Car parks	Jane Winfield – Regeneration & Major Projects Manager	Strategy, policy, budget
Caretaking	Bill Graves – Landlord Services Manager	Strategy and policy
Capital schemes	Capital Project Management	Outcomes, delivery, budget

32. Where payment for services is annually by 1/12ths, the budget will be held by the PCM alongside the existing block payment budgets such as reactive maintenance. Rebates or additional costs will be managed in year through the regular monthly meetings in discussion with the Council and ODS.
33. Performance monitoring will be based on the quality management procedures of ODS, reported into Corvu, open to both client and contractor.
34. When required there will be standing and task and finish groups of client and contractor representatives around the core monthly meeting. See table 2 below.

Table 2



Financial implications

35. The delivery of services to the Council by the LATCo through the Service Contract and the Trading Company provide for the achievement of efficiencies and additional income to the Council that will ensure:

- delivery of the Councils current medium term financial plan and the additional income streams currently attributed to Direct Services
- the covering of increased costs arising from the operation of the company in terms of auditors fees, corporation tax and tax advice and
- an additional £500k per annum by 2020/21

36. This income will be delivered back to the Council in accordance with the LATCO Business Plan in the form of dividends from the surpluses generated as indicated in the table below:

Profit				
	£000s	£000s	£000s	£000s
	2018-19	2019-20	2020-21	2021-22
Turnover	<u>54,641</u>	<u>55,142</u>	<u>55,440</u>	<u>55,590</u>
Profit before tax	1,378	1,547	1,671	1,851
Corporation Tax	(262)	(263)	(284)	(315)
Profit after tax	1,116	1,284	1,387	1,536

Percentage return				
Profit before tax %	2.52%	2.81%	3.01%	3.33%
Profit after tax %	<u>2.04%</u>	<u>2.33%</u>	<u>2.50%</u>	<u>2.76%</u>

37. In addition to the sums above, the company will pay the Council for support services, vehicle leasing charges and rent for the occupation of depots owned by the Council as well as managing income streams of behalf of the Council for car parking and garden waste.

Legal issues

38. The legal issues arising from this matter are set out in the report.

Level of risk

39. An updated Risk Register is attached at Appendix 3.

Equalities impact

40. An Equalities Impact Assessment was appended to the March 2017 report and is available as a background paper.

Report author	Simon Howick
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Background Papers:
1 Local Authority Trading Company Report 09/03/2017
2 Local Authority Trading Company Report 18/07/2017
3 Equalities Impact Assessment

Appendix 1 - Memorandum of Understanding between Oxford City Council and the Oxford Direct Services group of companies

Background

Oxford City Council has set up the group of companies collectively trading under the name of Oxford Direct Services. The companies are Local Authority Trading Companies. They are Limited by Shares all owned by the Council. That means that they are wholly owned by the Council and their primary reason for existence is to serve the requirements of the Council.

Whilst this document has no legal status - that is set out in the Memoranda and Articles of the Companies, the Shareholder Agreement and the contracts between the Council and the companies, it does set out in plain language the intention behind those documents with the aim to ensure that all engaged in the relations between the parties are clear.

The company structure is in two parts.

A "Teckal" exempt arm that will trade primarily with the Council, without the need for public procurement, to carry out statutory functions such as domestic waste collections and services that support the functions of the Council for example repairs and maintenance of the council's housing stock. This arm may carry out external trading relating to those services up to the limits prescribed in the Public Contracts Regulations 2015. This company will employ all the staff and will through a services contract provide labour to the trading arm.

An arm that trades exclusively with third parties which is not bound by Public Law requirements.

At inception over 80% of the turnover of the group of companies will be with the Council.

Purpose of setting up ODS

The Council has been using surplus capacity, generated through efficiencies, in its direct services to earn external income to contribute to overheads for some time. It has been found that the Council services are valued and competitive in the market place. In light of this the Council is seeking to exploit this opportunity to reduce its costs and raise income.

Therefore the purpose of the ODS group of companies is to reduce expenditure by the Council and will:

- Sustain and grow an income stream back to the Council
- Drive further efficiencies
- Reduce costs through spreading overheads

- Meet the requirements of the Local Government Act 2003 in relation to trading.
- Establish a platform for growth with the same opportunities as other commercial companies
- Maintain and grow good local employment opportunities

The distribution of profit between the company and the Council is set out in the shareholder agreement and reflects the level of risk that the Council wants to transfer to the companies. Risk transfer to the Teckal arm will be relatively small reflecting the close links with the Council whereas the Trading arm will carry more of its own risk.

These various elements have been modelled and the optimum balance to deliver the outcomes set out above is summarised as:

- the focus will be to deliver the MTFP requirement, through reduced costs, rebates, payments and dividend
- There is an expectation that the current MTFP estimates can be exceeded by the company structure and this should be pursued
- The council through its role as shareholder will want influence over the core terms and conditions of employment
- The expectation is that a relatively low level of profit will be retained in the Teckal company to cover risk and fund investment
- The council is seeking a low level of risk transfer to the Teckal company
- The trading company will retain profit commensurate with the risk transferred.
- There will be a low level of control over the commercial activities of the trading company

Returning Value to the Council

ODS prides itself on delivering high quality and market equivalent productivity which together with an employment ethos of fair pay including paying the Oxford Living Wage, good pensions and benefits add up to a powerful combination of being good for our Shareholder, good for our customers, good for our workforce and good for Oxford – with money being retained within the local economy and Shareholder profits reinvested in the city.

ODS will continue to deliver value to the Council by:

- provision of high quality, cost effective services and in doing so supporting the vision of ‘building a world class city for everyone’
- sustaining and growing local employment opportunities
- provision of a large labour force able to respond quickly to emergencies
- supporting the local economy through the multiplier effect of turnover
- contributing to environmental improvements through operational practices
- offering training and apprenticeship opportunities

- ensuring provision of progressive employment policies and practices, good terms and conditions of employment for circa 700 people all receiving at least the Oxford Living Wage
- Continuing adoption and promotion of the vision, values and behaviours imparted from our Shareholder

Length of Relationship

There is a balance to be struck between the commercial interests of the company and those of the Council to ensure that there is a truly symbiotic positive enduring relationship between the parties. Some local authorities have set up LATCs with the aim of “weaning” their direct service arm off being reliant on the council’s services and exposing those services to competition. This is not the intention in this case. The intention is to continue to build on that upward spiral of good, value for money services, being competitive, earning income and supporting the activities of the council.

The council and company will therefore enter into long term contracts for services on the same term length for

- The provision of services to the Council
- The purchase by the company of support services from the Council
- Leases for depots and plant
- Loans from the Council to the Company to support the development of the Company.

All of these arrangements will reflect the best interests of the shareholder, the Council and be compliant with “State Aid” requirements but will also ensure that the company is viable and an attractive proposition for third parties to do business with.

The contract length will be for 20 years with the potential for a 5 year extension.

Initial Basis of charges

At the point of inception charges for services to the Council will essentially be based on the budgeted costs subject to any previous agreements as to efficiency programmes currently in place. For example in building maintenance.

Subject to the detailed agreements on risk sharing those costs will be subject to

- Pay inflation
- Inflation in services and charges from the Council to the Contractor to support the provision of services
- Inflation in respect of materials
- Changes in policy imposed by the council
- Changes in service levels required by either party
- Efficiencies achieved in the provision of services by either party

These charges and costs may be varied as part of the overall package to ensure that the company set up is profitable, the arrangements are tax efficient and there is sufficient retained profit to cover risks transferred to the company and demonstrate a viable company to both potential customers and suppliers alike.

Mechanisms to incentivise cost reduction by both the company in providing services to the Council and vice versa will be reflected in the documentation between the Council and the company.

Risk sharing

There will be a risk sharing agreement as part of the contractual arrangements between the Council and the Contractor. The risk sharing agreement will be based on the identification of key risks to cost and an apportionment ownership of that risk to the party best able to manage that risk. Risks retained by the Company will be reflected in the profits retained by the company and the view taken by its Directors on the declaration of dividend.

The key risks identified are:-

- Fuel costs
- Pension costs
- Policy requirements imposed on the company by the Council through its shareholder representatives
- Pay costs
- Utilities
- Repairs and Maintenance

Some of these risks are associated only with the Teckal company and the services contract with the council.

Assets

Property assets will be retained by the council and the company will be charged market rate for leases, for plant and equipment the Council will fund their purchase through loans but the company will be responsible for repair and maintenance and will take ownership.

Customer book and goodwill

As the financial interests of the company and council are so close the company will not be charged for the notional value of the business transferred. Instead the council will achieve value through rebates, cost reductions and dividend.

Review

Whilst the Council has been trading for some time the new arrangements will provide new ways of accounting and managing cost.

It inception services both direct and support will be largely as there are now and charged on a similar basis.

The Council and the company will be committed to take all opportunities achieve efficiencies from the status quo.

Over time experience is likely to demonstrate new and better ways of working and to ensure that a holistic review is taken of the opportunities a substantial review will be undertaken no later than year three which will renew a resetting of the base. The review will cover but will not be restricted to:-

- The services required by the council
- The cost of those services charged by the company
- The services required by the company
- The costs of those services
- Review of risk sharing agreement
- Review of dividend distribution

Headline draft risk sharing agreement

Item	Risk / reward dimensions
Fuel	Teckal company manages in year risk up to 5%, up and downward movement in price. Council thereafter. Trading company covers entire risk
Utilities	Lies with Council – on the basis the Council manages the contracts & large procurement benefit in place. Contract will require co-operation to achieve 3% per annum reduction in utility costs. Both operations.
Materials	As set out in MTFP, Risk sits with Client. Teckal only. Trading company manages it own risks
Salaries	Reflecting the adoption of the council's pay scheme this remains a council risk but is re-charged to the trading company
Pay mechanism for default	The focus will be on service improvement and innovation with dispute resolution mechanisms, As such there will be no default procedures
Aged debt associated with trading activity.	Existing debt at date of transfer stays with council. Newer debt – 50/50 split (at the point of being uncollectable) i.e. main responsibility lies with the Council on the assumption there is an agreed

	process and that is adhered to by both sides. If the company overrides that process the associated debt transfers to the company. Trading company only.
Block payments (e.g. responsive repairs)	+/- 5% of average spend over proceeding 3 years sits with company. Teckal only.
Delivering MTFP (over / under)	MTFP as agreed with the company is guaranteed. Surplus distribution in line with dividend policy. Both
Pensions	Deficit at transfer remains with Council. On going payments with companies. Both
Recycling credits (and other statutory related incomes)	Stays with Council. Teckal only
New Council policies	Costed and additional charges made by the company. Both
Repairs and Maintenance to leased property	With Council as it manages all such functions. Total costs reflected in the lease charges. Trading company to cover that part that relates to trading activity.
Income Risk	
Those sitting with council	Remain with the council.
Those sitting with company	Remain with the company
Car park income	The parties will agree a base income target for the year. An incentive agreement will be entered into. Any income over the base will be shared with the company as per the incentive scheme.
Redundancy	
The council and the companies in agreeing the MTFP, the Business Plans and workforce plans will work to smooth out workforce requirements so that there are no unexpected drops in demand that cannot be managed out.	
Client Change	Client covers – applies to Council to company and vice versa
Lost commercial business	Trading company –company to hold contingency to cover this.

Change in law etc.	Teckal covered by Council, trading arm by itself
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Outline of proposed Dividend Policy –

- 1) Deliver the MTFP expectation
- 2) spending on enhancements of assets to reduce cost to council and build future business set out in the business plan or agreed with the Council
- 3) Cover unbudgeted costs/risks in the group
- 4) Dividend –in favour of council on the assumption 1,2 & 3 are covered first

Inter company transactions – the companies being related in the same group and it being reflected in their articles can agree to do anything lawful that is in the interests of their shareholders.

Where staff tupe to

We are setting up the Teckal co in effect to be the Hold co and employ the staff. Staff then charged out to the Trading arm. 2 issues

- The cost of the staff charged or at least the profit needs to be counted in the 20% turnover of the teckal. This is okay for MTFP but breaks down if expand further. Longer term fix is to get HMRC approval to have a grouped payroll. We are advised that this is possible and not unusual. The problem with doing this now is that getting payroll up and running is the critical path. This would delay further. .
- We need to register the Teckal as an employment agency and deal with the minimal bureaucracy around that.

We are settled on this as day one approach. We will develop the dual payroll and move over commercial activity to the trading arm as and when appropriate and desirable

Choice and flexibility in terms and conditions for new employees hired to the company after transfer:

The existing standard terms and conditions, including pension arrangements will continue, including for new starters. The company will work with the trade unions to explore choice and flexibility in terms and conditions for new employees. Discussions would need to ensure that a two-tier workforce is avoided in that a different package is valued by its recipients as broadly equivalent to the standard package. This may include offering a choice to new hires. Trade union endorsement to any changes will be sought. As a reserved matter any proposals need to be agreed by the Shareholder

What is “in” the trading company?

The only thing that will be in the trading arm at inception is the commercial waste service. As the business grows this will need to be reviewed to maintain the Teckal status.

Provision of support services

Support services will continue to be provided by the council. This arrangement will be reflected in the services contract. However, these services will need to adapt to the new commercial realities facing the companies. The MD in consultation with the board if required will procure such commercial advice that is not available from the Council or its contractors e.g. tax advisors.

Whether income goes to co. or council

We have taken the view that we are transferring the services to build the business rather than simply outsourcing in that case grounds maintenance.

In some cases, income is going straight to Council i.e. car parks, charges for statutory services and income e.g. recycling credits. The income risk for these sits with the client.

Remaining income will flow to the company who is running the service and taking the income risks.

Pension

The company will be granted designated body status so that it can continue to provide LGPS. The company will account for the pension on a defined contribution basis. This means that the contract will set out the cash limits of the expectations of the company and that all deficits past, future and on close of the contract will sit with the council. A tri-partite contract between the council the company and the Pension Authority will be entered into reflecting this.

Pay mechanism in particular default

The contracts will focus on arrangements to rectify errors and omissions in service deliver developing the partnership contract approach. Therefore there will be no default, penalty mechanism at this stage. If considered necessary and appropriate it will be added at the contract review stage.

Appendix 2 - Executive Summary

This document sets out the ODS Business Plan for the next four years. ODS has been established to return value to our Shareholder in two ways:

- through delivering efficient, value for money public services;
- Generate long term sustainable growth in income through external trading.

ODS is comprised of two wholly owned Local Authority Trading Companies delivering commercial services for the Council and externally such as building services, highways & engineering, commercial waste, Large Goods Vehicle and MOT testing, vehicle repairs, landscaping, grounds maintenance and pest control.

This document sets out the plans for the two companies forming ODS. These are intrinsically linked as it is only through the provision of efficient value for money services that ODS is an established brand and successfully trading, building on its previous incarnation of service delivery from within the umbrella of the Council.

External growth is a key theme and we have identified four areas which show the most potential from our current core business. An analysis of the Oxfordshire market, our position in it, our services and our past performance in these service lines give confidence in the potential for further success - building on our strategy of organic growth and leveraging existing relationships - but also through developing new business.

Success will be measured across a balanced scorecard of financial performance & business growth, operational performance and culture.

From a financial perspective under existing arrangements ODS expects to return profit before tax in the order of £1 million per annum, giving a return on spend of approximately 2% or £1.7 million to £1.5 million before tax as indicated below, in addition to numerous other benefits outlined in this Plan:

Profit				
	£000s	£000s	£000s	£000s
	2018-19	2019-20	2020-21	2021-22
Turnover	54,641	55,142	55,440	55,590
Teckal Company	425	543	628	768
Trading	953	1,004	1,043	1,083
Profit before tax	1,378	1,547	1,671	1,851
Corporation Tax	(262)	(263)	(284)	(315)
Profit after tax	1,116	1,284	1,387	1,536

Percentage return				
Profit before tax %	2.52%	2.81%	3.01%	3.33%
Profit after tax %	2.04%	2.33%	2.50%	2.76%

Within the above figures there are:

- Previous assumptions around income growth generating an extra ongoing £235k per annum in accordance with Councils Medium Term Financial Plan
- additional costs for Non Exec Directors, Tax advice, charges for interest on loans and audit fees and corporation tax of around £285k per annum. If the Council is to be no worse off then these costs will need to be offset by increased income or reduced cost which will be reflected in the business plan.
- additional benefit which the Company have committed to deliver to the Council in increased revenue or reduced cost commencing in 2019-20

This table is for illustration only and will be subject to the tax planning and dividend decisions by the Board of the companies

The overall changes for the LATCO are shown as follows:

Additional income/ economies generated by LATCO				
	£000s	£000s	£000s	£000s
	2018-19	2019-20	2020-21	2021-22
Previous assumptions around income growth in MTFP	160	210	235	235
Additional income/economies to cover additional costs	285	279	279	274
Additional benefit (income/economies)	0	200	350	500
Total	445	689	864	1,009

2018/19 will be a transition year, moving the Council's Direct Services Department into Oxford Direct Services – the company. Given the need to establish the operations in that context, the growth aim will be only that which is already committed to in the Council Medium Term Financial Plan together with the additional income and efficiencies to cover the increased ongoing costs of running a company.

From 2019 onwards, increased returns will be achieved by a combination of delivering services more efficiently and winning new business. ODS has long-term aspirations for growth and to develop income streams by taking its offering further into the market, and wider geographic area. Fundamental to this is the need to continue to work closely with Oxford City Council to maximize the opportunities for ODS to undertake relevant works, ensuring excellent programming and driving efficiency in the delivery of Council work to

free capacity with which to trade.

In addition to the return following more cost effective services and increased income the Company will:

- pay the Council for support services plus a premium to assist it in driving its business
- reimburse the Council for the costs of purchasing vehicles, based on an annual leasing charge
- pay commercial rent for the occupation of the depots at Horspath Road and Cowley Marsh
- Manage car parking and domestic waste operations (garden waste & recycling credits) on behalf of the Council which deliver approximately £8.5 million income per annum
- Pay the Council a commercial rate of interest for loans

Taken together the total return to the shareholder through these arrangements are in the order of £5 million plus per annum, in addition to the income from car parking and domestic waste

From an operational and cultural perspective ODS aims to deliver value through provision of high quality services to Oxford City Council and be acknowledged as a great place to work for our employees. The Delivery Strategy included in this document sets out the strategic activities which underpin our approach to business.

ODS is unique in our region. Wholly owned by Oxford City Council, profits are directed to the benefit of a much wider community rather than private shareholders. This reinvestment helps deliver excellent public services funded by commercial enterprise which (given our reputation) are regarded as high quality and value for money. ODS - public service ethos, commercially driven.

Ultimately ODS differentiates from others as a progressive people business, with a well-trained, motivated and committed workforce delivering quality services combined with market levels of productivity. We depend on our people to deliver great services and it is their passion that sets us apart.

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Appendix 3 : Risk Register

Title	Risk description	Opp/ threat	Cause	Consequence	Date Raised	Owner	Gross		Current		Residual		Comments	Controls				
							I	P	I	P	I	P		Control description	Due date	Status	Progress %	Action Owner
LATC	Adverse financial position	Threat	Financial benefits not delivered	Adverse impact on MTFP & potentially services	01/06/2017	Simon Howick	4	3	2	2	2	2		Expert internal and external scrutiny of financial data analysis and sensitivity testing. Business Plan sets out measured ambition for growth and steps to deliver it. Realistic expectations for delivery of value from ODS back to the Council	31/12/2017	Open	100%	Nigel Kennedy / Simon Howick
LATC	Organisation culture suffers	Threat	Erosion of 'Team Oxford' ethos	Council & company less able to work together to achieve shared goals	01/06/17	Simon Howick	3	3	2	2	1	1		MoU drafted & agreed All parties flexible in their position Learn from others Continue working closely with TU's	31/03/18	Open	80%	Simon Howick
LATC	Service delivery suffers	Threat	Company focuses too much on external business	Service quality / delivery suffers	01/06/17	Simon Howick	3	3	2	2	2	2		Business plan and Service Plan in place for Teckal & trading Client function agreed and in process of being established Contract between Council & Company effective	31/03/18	Open	70%	Simon Howick
LATC	Depot	Threat	Depot not able to support the additional turnover	Unable to grow the business	17/01/17	Simon Howick	3	3	3	3	3	3		Expansion proposals agreed Re consider One Depot viability	On-going	Open	50%	Simon Howick

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