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To: Governance & Audit Committee, Trading Activities Sub-Group –1st
March 2013

Subject: Progress report on the transformation programme to re-align
Commercial Services following external review of its activities

Classification: Unrestricted

Summary: Following the last report to this Sub-Group on 28 September 2012, significant progress has been made towards implementing the transformation programme in Commercial Services. An internal audit review of this progress has also been undertaken.

Recommendations:

i) The Governance & Audit Trading Activities Sub-Group is asked to note the progress in implementing the transformation programme in Commercial Services and the contents of the Internal Audit report dated 21st January 2013.

1. Introduction

1.1 Commercial Services (CS) is a non-budget funded division of the County Council, which funds itself from the income generated by its own activities. It is largely, and increasingly, focused on trading outside Kent, and made a net return to KCC central funds of £7m in May 2012.

1.2 The County Council's policy document Bold Steps for Kent set out the need for new approaches to meet the financial challenges facing local government. In this context the Cabinet Member for Environment, Highways and Waste and Corporate Director for Enterprise & Environment last year commissioned an external appraisal of the management, operations, governance and future business potential of Commercial Services.

1.3 This independent review recognised the value that Commercial Services added to the County Council and made a number of recommendations concerning changes and improvements to governance arrangements and clarification of the legal and governance relationship between KCC and Commercial Services. It also provided advice on areas of current and future business with the greatest potential profitability and sustainability, in order to underpin and strengthen future income returns to KCC.

1.4 The transformation programme has two main aims: Firstly to make Commercial Services a leaner, more efficient business, better equipped to

compete in challenging conditions. Secondly, to ensure that it operates clearly at “arms length” from KCC with an appropriate company structure.

1.5 Since the last presentation to the committee there has been significant progress which can be summarised as:

- Reorganisation and rationalisation into 5 customer focused Divisions offering:
 - Direct Services: including Landscapes, FM, Design and Print and Transport related services;
 - Care;
 - Recruitment;
 - Energy; and:
 - Education Supplies
- A determination to exit non profitable and viable business areas as exemplified by announcement of exit from the bus and coach business later this year;
- The reduction from five Limited Companies to two;
- The establishment of a properly balanced Executive to drive the business forward;
- The establishment of a shareholder board to inform the delegated Cabinet Member;
- The alignment of finances with the business divisions;
- The successful implementation of plans to move to independent premises over the next year;
- The imminent transfer of all staff to the new Limited Companies;
- The implementation of a detailed business planning process;
- The impending employment of Non-Executive Directors.

The programme has been subject to Audit and a summary of the results of the Audit is appended.

2. Proposals

2.1 Facilitated by the 03 October 2012 Cabinet Members decision 12/01946, the transformation programme is well underway and has reconfigured the current 26 disparate business units into five client-facing divisions. These new business divisions will act under the auspices of the two new legal entities, rather than under the current five limited company structure.

2.2 The new business divisions cover the areas of Education, Energy, Care, Employment and Direct Services with the sole purpose of returning an income dividend to the Council at no cost.

2.3 The CS Internal Audit report dated 21 January 2013 provides a status update against the recommendations of the transformation programme.

3. Financial Implications

3.1 There are no financial implications.

4. Staffing Implications

4.1 There are no new staffing implications. A full staff consultation has been undertaken on the TUPE transfer of all existing 509 KCC staff, and the 302 KTT staff, to one of the two limited companies. TUPE regulations ensure that the existing employment terms, and pension provision, of staff transferring to a new provider are protected and there will therefore be no adverse impact on transferees. CSK Ltd has successfully secured admitted body status to the Local Government Pension Scheme in order to provide for the transferred-in pensions. Other non LGPS staff will be auto-enrolled into a stakeholder pension scheme which has been agreed with the Trades Unions. All new staff will be employed on the new T's and C's of one of the two Limited Companies which will include auto-enrollment in accordance with Government policies.

5. Equalities Impact Assessment

5.1 There is no impact and screening reveals no further action is required.

6. Legal Implications

6.1 The new companies are being formed with appropriate articles of association and align with the protocol relating to Companies in which the Council has an interest. Furthermore a protocol is being developed with the Head of Internal Audit of KCC and Internal Audit of Commercial Services and will be applied to the new Company with effect from 1st April 2013.

7. Conclusion

7.1 The transformation programme is well underway and on target. The remaining actions will be completed on time and are proceeding to schedule. Once complete they will enable Commercial Services in future to operate more effectively, efficiently and transparently creating a more viable and sustainable business platform.

Background Documents

Appendix 1: Summary of Commercial Services Internal Audit Report on the Transformation Programme

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