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To: Governance and Audit Committee Trading Activities Sub Group

Subject: Dissolution of Kent Cultural Trading and Kent on Canvas

Date: 1 March 2013

Classified: Unrestricted

Summary

This paper sets out the background to Kent On Canvas and Kent Cultural Trading Ltd and the steps taken to re-align the business following recent developments, including the rationale for the proposed dissolution of both companies.

Background and context

1. In late 2006, work was commissioned by the then Chief Executive to look at KCC's historical and cultural assets, including the potential development of short and long term income generation opportunities. As part of this work, 'Kent on Canvas' was launched in 2008 as an 'art on demand' service and the project initially met with high levels of demand.
2. Following a series of Freedom of Information requests, the service offer was restricted to KCC employees only, as 'Kent on Canvas' was deemed by Legal Services not to be trading in accordance with the provisions of the Local Government Act 2003.
3. In order to regularise the situation, a Cabinet Member decision¹ was taken to establish 'Kent on Canvas' as a limited company. Over the following years, it developed various promising opportunities around merchandising, digitising, archiving and various partnership prospects. It was then felt that these opportunities could best benefit from being under an umbrella company and a business case was presented to the G&A Trading Activities Sub Group² following which Kent Cultural Trading Ltd (KCT) was established³ as a wholly-owned subsidiary of KCC.
4. In 2012, Internal Audit examined KCT's activities and subsequently a decision was taken to temporarily cease trading and suspend a member of staff. Following the findings of the investigation, advice was sought from Legal Services to determine what course of action the council needed to consider.

¹ 09/01404

² 17th May 2010

³ 20th July 2010

5. Having agreed to proceed with this course of action and given the loss of staff and the temporary freeze in trading, which had impacted on the company's ability to trade effectively, a full assessment of KCT's trading activities was undertaken in order to consider what viable business opportunities remained given the ever more uncertain economic climate. If dissolution was to be the preferred option, it was essential that KCT assets and outstanding opportunities should be looked into to ensure that all possible value was extracted from the company.
6. In order to assist with the options analysis, Commercial Services were brought in to advise and consider solutions.
7. The business opportunities under review included:
 - Kent Library Shop (online shop owned and operated by KCT)
 - Kent on Canvas (online shop owned and operated by KCT)
 - Digital Capture and Data Management Systems
 - Kent Galleria
 - Cleansing product
 - Patient Essentials

Business options analysis

8. The following paragraphs set out the key trading activities and opportunities that were being pursued by KCT, along with the reasons why the activity was eventually discontinued.
9. **Kent Library Shop** – Online merchandising operation

Discontinued due to:

 - Loss of marketing ability significantly reduced trading volumes
 - Loss of staff capacity to deliver the service
 - Ongoing economic downturn made recovery prospects weak
 - Commercial Services advised situation now made viability poor even if transferred to them
 - Potential for new start up capital to be required
 - Temporary freeze in trading contributed to loss of confidence
 - Library review suggested discontinuing given difficulties
10. **Kent on Canvas** – An online print on demand service to print Kent images including photographs and art works onto canvas.

Discontinued due to:

 - Lost trading volumes and trust after it was required to close following requirements to change legal setup
 - Re-branding required due to loss of trust
 - Potential for new start up capital to be required

11. **Digital Capture and Data Management Systems** –The digitisation of art work, archive material and registration records, producing high quality images and prints and the creation of an indexed database of births, deaths and marriage records linked to a simple retrieval system.

Discontinued due to:

- Significant capital investment required and business case only just being prepared
- Delays by the MD followed by the subsequent investigation, coupled with several new entrants to the market, now made this opportunity less financially viable

12. **Kent Galleria** – development of a service offering low-cost website facilities, online payment system, order fulfilment and distribution to Kent SMEs. The Galleria would highlight similar products and services and provide an Amazon-type shopping experience for the customer. The Library Shop and other public sector services would also have been promoted. KCT would have taken a percentage of each transaction made through the portal.

Discontinued due to:

- Business case was being prepared and would have required a significant capital investment

13. **Cleansing product** – Spray or liquid able to cleanse hospital facilities far more effectively than current market leaders.

Discontinued due to:

- Research in tandem with Commercial Services proved that the information provided by the MD in regard to the opportunity had been overstated and Commercial Services advised that the benefits were unlikely to deliver a financial gain.

14. **Patient Essentials** – Service to deliver packs of essential products to patients in hospital during their stay. The e-commerce solution including logistics was to be provided by KCT Ltd for a commission.

Discontinued due to:

- Discovery of conflicts of interest with a proposed partner company during the course of the investigation

15. Based on the above, and with ongoing financial pressures to consider, along with little appetite for further investment, the directors with input from all key stakeholders have recommended the dissolution of Kent Cultural Trading Ltd and its subsidiaries.

Next steps

16. A decision will now be taken in order to voluntarily dissolve both companies. Legal Services can then follow the requisite action to have the companies dissolved, following which they will be removed from the Companies House

register. Operations are currently being wound down prior to the companies recommended dissolution. As part of this work, any remaining assets will be transferred to KCC for the sum of £1 in order to compensate KCC for any losses.

Finance

17. The accounts are presented as a separate item on the Agenda. They show that KCT for the year ended 31st January 2012 made a loss of £153,958 and KoC for the year ended 31st August 2012 made a loss of £4,632.
18. There are no outstanding creditors other than KCC.

Recommendations

19. Members are recommended to note contents of this report for assurance, and to endorse the actions taken, including the:
 - approach to minimising reputational loss to the authority;
 - actions taken to reduce the financial impact of losses to local companies and the authority and;
 - final steps being taken to dissolve the companies.

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