

From: Bryan Sweetland, Cabinet Member for Commercial and Traded services
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To: Policy and Resources Cabinet Committee, 22nd April 2015

Subject: Commercial Services update

Classification: Unrestricted

Summary: This report details progress since the previous report. A number of changes have been made to the Governance, management, company structure and performance of Commercial Services.

Recommendation(s): The Policy and Resources Cabinet Committee is asked to note the progress made following the recent changes and subsequent improvements.

1. Introduction

1.1 This report highlights implemented changes and the businesses' progress, since the previous report.

1.2 Commercial Services has simplified its operating model, from managing 5 limited companies to two specific company structures. One of these is a 'Teckal' compliant company, essentially a company that is owned, controlled and employed by the County Council, which trades exclusively with the County Council, and the other a "Section 95" company, a company trading under the powers in Section 95 of the Local Government Act 2003, under which Commercial Services trades with the wider public and private sectors. This allows for greater financial clarity and transparency of Commercial Services activities, pre-emptively addressing potential future changes to public sector trading regulations, and places Commercial Services on a more appropriate platform for future business growth and income.

All affected staff transferred under TUPE regulations and retained all accrued employment rights and existing terms and conditions including any membership of the Local Government Pension Scheme".

1.3 The transformation programme reconfigured the 26 disparate business units into 4 client-facing divisions (Education Supplies, Energy, Recruitment and Direct Services) within 2 companies – Commercial Services Kent Ltd (the Teckal Company) and Commercial Services Trading Ltd (the Section 95 Company)

1.4 The Lumina and Connect 2 Staff brands were created to exploit the expertise and credibility of the LASER and Connect 2 Kent businesses, in the private sector.

2. Financial Implications

2.1 Commercial Services has returned over £60m in profits/dividends to KCC in the last 15 years. Year on year growth of dividend to KCC is forecast, ie. £6.7m in 2015/16 and £8.7m in 2016/17

3. Bold Steps for Kent and Policy Framework

3.1 Commercial Services has bold steps for Kent at its very heart.

- To help the Kent economy grow. The business employs circa 600 Kent residents. Plus numerous more in its local supply chain. Each year it returns significant dividends to KCC, which help towards delivery of other key KCC services. This is from a platform of a demonstrable level playing field with the private sector.
- To put the citizen in control. The service is shaped by what its customers need/want now and are likely to need/want in the future. The strategic direction is set by the KCC shareholder board, who puts the Citizen at the heart of its objectives.
- To tackle disadvantage. The service is an equal opportunities employer and provides many services aimed at the disadvantaged. The service also supports local charities and donates several thousand pounds each year collected from fund raising activities.

4. Progress

4.1 Energy – The Lumina brand provides an energy comparison and switching service for SME businesses, predominately in Kent. It has a current customer base of 2,892 meters and is making a positive contribution to dividend.

4.2 Recruitment – The Connect 2 Staff brand provides temporary and permanent staff to the private and public sectors, mainly in Kent and the South East. The business will turnover c £5m in 2014/15 and makes a positive contribution to dividend.

4.3 Education Supplies – The business moved to a purpose built warehouse in New Hythe in December 2013. The consumables business has outperformed its private sector competitors during the last 12 months, in what has become a highly competitive and increasingly price sensitive market.

4.4 Direct Services – The division has undergone a major transformation during the last 18 months. Passenger Services/Kent Top Travel and County Print and Design were closed Q3/Q4 2013/14. Three waste sites were passed to the private sector in Q2 2014/15 and two new sites moved to CS management. The Facilities Management contract was transferred to the private sector during Q2/Q3 2014/15. The CCES business moved to a new warehouse in Aylesford. The CTS business successfully extended the contract with KFRS. Landscape Services started re-tendering after a two year pause and successfully won the Tonbridge and Malling Borough Council contract.

4.5 The two companies employ 631 staff, 309 of whom are on KCC terms and conditions.

5. Governance and Control

5.1 Two Commercial Services Boards have been created, one for each company – with the following statutory directors:

Executive Chairman	Guy Parsons
Independent NED	Richard Martin
Independent NED	Craig McCoy
(KCC Appointed) NED	Neeta Major
(KCC Appointed) NED	John Burr
Chief Financial Officer	Rob Pimenta
Director (MD Recruitment)	Simon Heywood
Company Secretary	Karen Short

The Boards meet 11 times per year.

5.2 An Audit Committee and Remuneration have been created with members/attendees as follows:

	Audit Committee	Remco
Chair:	Richard Martin	Craig McCoy
Members:	Neeta Major	Neeta Major
	John Burr	John Burr
	Craig McCoy	Richard Martin
Attendees:	Executive Chairman	Executive Chairman
	Chief Financial Officer	Human Resources Director
	Company Secretary	
	KCC Internal Audit	

The ToR for each committee is reviewed annually and approved by the KCC legal department. Each committee meets 4 times per year.

5.3 The council, as 100% shareholder, continues to exercise its shareholder authority through the Shareholder Board.

5.4 Until the beginning of 2015, the role of internal audit was undertaken by an in-house team, with oversight provided by the KCC Head of Internal Audit. Going forward internal audit will be undertaken by the KCC I.A. team under an SLA. Internal Audit undertook 11 substantive pieces of work during 2014/15 and nine follow ups. 36% of these have a “limited” assurance rating and are being worked on as a matter of urgency by the Commercial Services Executive Team.

5.5 A Commercial Services Executive Committee meets on a monthly basis to ensure the delivery of the strategic plan and annual business plan/budget. There are two sub-committees: An Investment Board responsible for the approval (within delegated limits) of capex/manex; A Change Bond responsible for management of approved projects.

5.6 A Health and Safety Manager with significant private sector experience was recruited during 2014. A company wide Health and Safety Steering Group Meets on a monthly basis and a report is discussed by Executive Committee as a standing agenda item.

6. Future Plus

6.1 There are a number of governance and commercial contracts that need to be finalised over the next 12 months, to regularise the commercial arrangements between KCC and Commercial Services and the governance/oversight that the council has over the businesses.

6.2 The Commercial Services Executive Team is tasked with growing the business and to maximise the benefit to KCC (and therefore its customers). The objective is to exploit the current infrastructure and expertise and is not reliant on M+A activity. Key strategies in the plan include:

- Education Supplies e Commercialisation of the business to exploit opportunities on a UK-wide basis, in the private and public sector.
- Recruitment Further growth of the Connect 2 Staff brand (into London and Ashford) and winning of new public sector contracts, to complement Connect 2 Kent Business.
- Energy Grow Lumina’s SME market share on a national basis and enter the I+C market. Expand the LASER business into new geographical and market segments.
- Direct Services Grow the Landscapes, CTS, CCES, Waste and Inspection Services businesses by actively tendering for business.

6.3 Commercial Services will be forecast to generate dividend payments of £6.7m in 2015/16 and £8.7m in 2016/17.

7. Conclusion

7.1 The establishment of the two new limited companies has met the aims of “Bold Steps for Kent” and protected KCC from the impact of anticipated legislation. A new governance framework is in place enabling Commercial Services to operate more effectively, efficiently and transparently. The Commercial Services brands

are growing and the business will continue to make a positive contribution to KCC's annual budget and Medium Term Financial Plan.

8. Recommendation(s)

Recommendation(s):

The Policy and Resource Cabinet Committee is asked to note the progress made in the management, governance and performance of Commercial Services

9. Contact details

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