

**By:** Kevin Harlock, Director of Commercial Services  
**To:** Trading Panel Sub Group – 1 December 2009  
**Subject:** Retrospective Business Case for creation of Kent Top Travel  
**Classification:** Unrestricted

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**Summary:** This report contains a retrospective Business case for the creation of a separate Trading Division, Kent Top Travel, within Kent Top Temps Ltd. It is a response to the Audit Commission's recommendation in their report 'Review of Commercial Operations' dated August 2009. Although retrospective it has been written in the present tense.

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## **Background**

1. (1) Passenger Services has been operating as a division of Commercial Services for a number of years. This operation has two key objectives:

- a) Provide the County Council with the resilience of having its own "in house" bus and coach operation. This allows the authority to have a degree of security in always being able to ensure an element of transport provision can be delivered in cases of emergency or default.
- b) Provide a "Market Moderation" role in areas where there are generally only one or two tenders received, or where prices appear to be abnormally high compared to industry standards.

(2) Passenger Services directly employs staff, under the Kent Scheme of Terms and Conditions with some locally negotiated amendments. Passenger Services also utilises temporary agency staff to meet peak demands.

(3) The main work source for Passenger Services is from tendered contracts for both Home to School and Local Bus Services and this also includes specialist SEN Home to School contracts. This predominance of work related to the start and end of the school day means the assets are not utilised to their full potential.

(4) As Passenger Services is part of a public body it can only undertake work for the public sector, enabled by the Local Authorities (Goods and Services) Act 1970.

(5) In order to increase utilisation of its assets, Passenger Services has pursued marketing its services at the Kent schools market. This has been successful in increasing the revenue turnover of the business unit. In the financial year 2004/5, Passenger services achieved an additional income of £20,000 from non-contracted (Private Hire) work. In 2005/6 this increased to £100,000. This level of income is likely to increase to £150,000 + in the year 2006/7.

(6) However, the schools market, realistically, is very limited as it only exists Mon to Fri for 38 weeks of the year, which equates to only just over 50% of the days in a year.

(7) Whilst Kent County Council and other Public bodies have some demand during non-school time, this does not yield enough infill work to best utilise the assets effectively.

## Option

2. (1) There is an opportunity to create a Trading division, Kent Top Travel, comprising a bus and coach operation within the existing Kent Top Temps Ltd company owned by KCC that would be beneficial to KCC in both providing the core values of Passenger Services as well as providing access to new markets and a greater freedom to trade within the private sector, under the Freedom to Trade power within the Local Government Act 2003.

(2) The benefits to KCC of this are:

- Greater utilisation of assets
- Reduced operating costs as staff could be employed on industry standard terms and conditions.
- More competitive in the tender market
- Wider marketability
- Retained resilience as still ultimately owned by KCC
- Retained Market moderator

(3) The creation of 'Kent Top Travel' and the phased reduction in activity of Passenger Services could result in a significant saving on staff costs. This reduction in man hour costs would also allow headline hourly rates which are competitive in the recruitment sector against the larger bus and coach operators.

## Example

£ per hour	KCC Total Cost	KTT Total Cost	Saving
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£7.39	£9.75	£8.2768	15% per hour
KTT Increase rate to £8/hr		£8.96	8% per hour

(4) KTT would be eligible to benefit from all existing subsidies such as Bus Service Operators Grant (BSOG) and would be able to undertake all of the types of work that Passenger Services is committed to with the exception of Section 19 (Not for Profit) work. In addition, whilst Passenger Services would be able to reduce its authorised number of vehicles on its operators license, the County Council retains the resilience of still having its own "O" License in reserve whilst the major trading / operating risks are carried by the KTT "O" license.

## Proposal

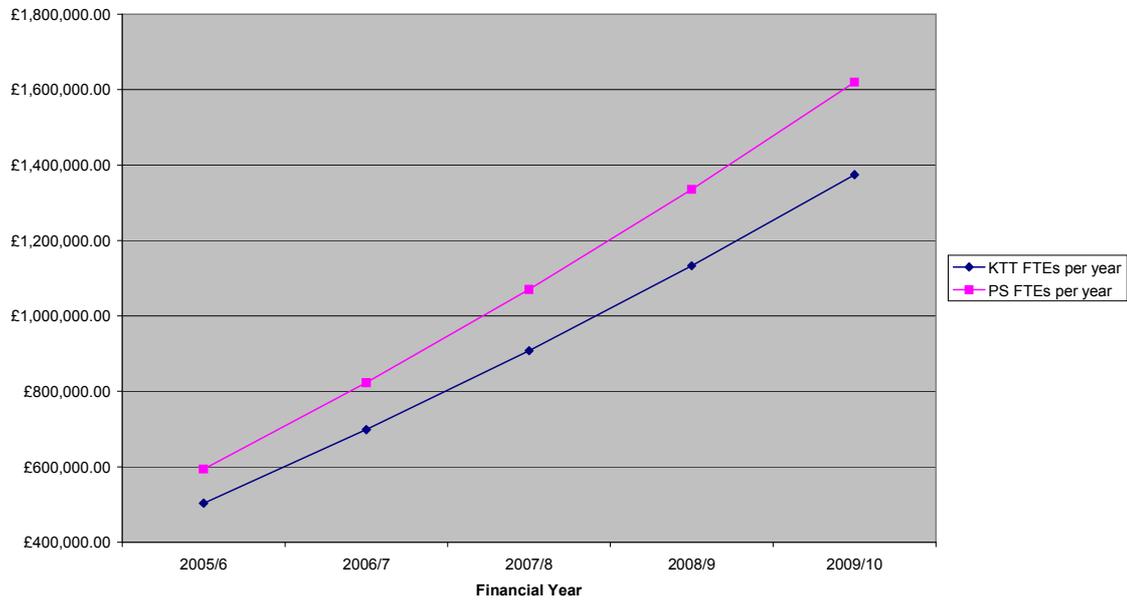
### 3.

- In the first instance, it is recommended that Kent Top Travel be set up with an International Operator License for Passenger Carrying Vehicles with an authorisation of 5 vehicles. In addition, 2 coaches should be dedicated to Private Hire work and liveried as Kent Top Travel. This gives us the ability to test the market and gauge potential success within the market sector.
- All recruitment as KCC Passenger Services ceases with immediate effect and all future staff are recruited in via Kent Top Temps Ltd on separate Terms and Conditions specifically excluding LGPS and contractual sick pay. It is recommended that KTT drivers be made eligible for joining the Top Temps Ltd Stakeholder Pension Scheme.
- Both Passenger Services and Kent Top Travel submit for future tenders over the next 12 months. This allows us to gauge the success of creating the private operation vs. the status quo. Should it be proven to be more competitive as KTT than PS, it is recommended that PS then cease to tender for work other than Section 19 or work that is directly awarded to PS from KCC to negate the tender process.
- Kent Top Travel is formed as a Trading Division within Kent Top Temps Ltd following advice from external auditors regarding the tax position of KCC's wholly-owned companies.

## Projections

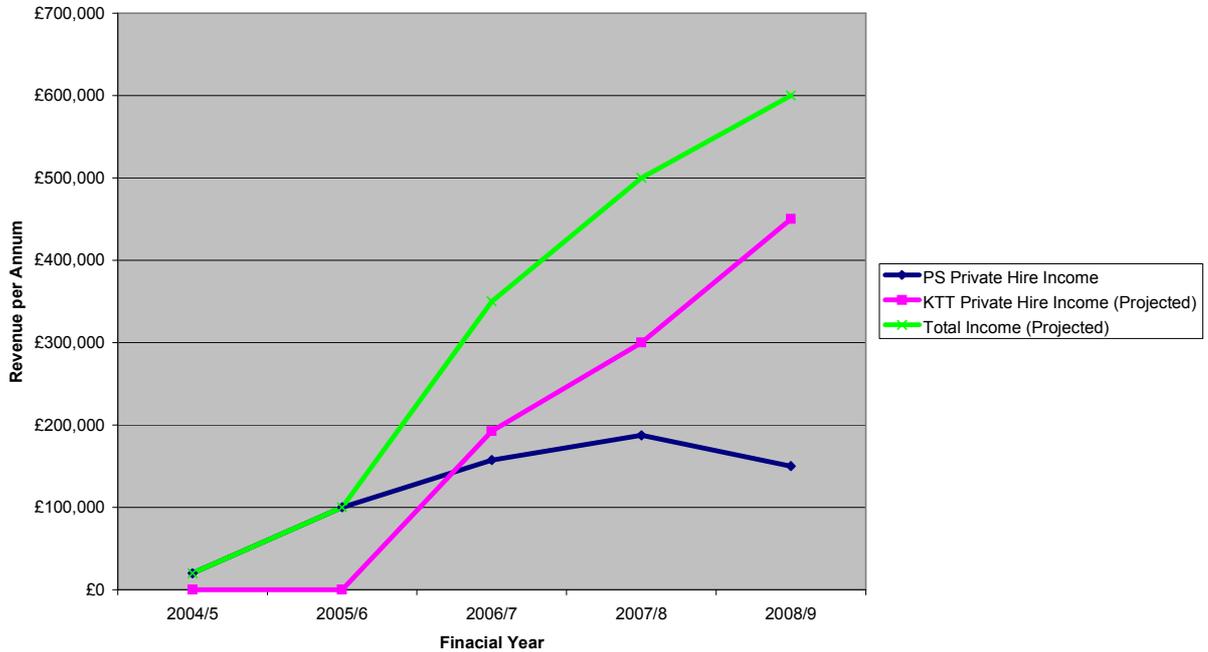
4. (1) The graph below is a projection of FTE costs for Passenger Services vs. Kent Top Travel. The graph allows for an increase in wages of 4% YoY and an increase due to growth of 10 FTE per year in both cases. It is clear to see how the use of KTT T & C's restrains the overall cost of employment.

Total Wage Cost - PS vs KTT



(2) This further graph illustrates projected income via private hire work for the coming years. It is important to remember, the projected rate of growth is only achievable if it is possible to open up new routes to market. If the decision is taken to only trade as KCC Passenger Services, then private hire income is likely to level out at around £175 – 200k per annum.

Projection of Income Growth



(3) Full working capital, cash flow, growth and net profit projections have been undertaken which for the purposes of this report are commercially sensitive.

## Recommendations

5. Members are asked to approve the retrospective business case in respect of Kent Top Travel.

<b>Background Documents:</b>	None
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