

**Meeting:** Overview and Scrutiny Committee

**Date:** 2 December 2013

**Title:** Trading Opportunities

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**Service:** Finance and Commercial Services

**Directorate:** Chief Executive's

**Wards affected:** All

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## **1. Purpose of Report**

1.1 The purpose of this report is to provide Members of the Committee with further detail about the Trading Opportunities Project within Theme B of the 2013/14 Change Efficiency and Improvement (CEI) programme.

1.2 At the meeting of Overview and Scrutiny on 4 November 2013 members asked that the report cover the following matters:-

- Why have the saving targets not been met?
- How is the trading company currently working?
- Who is involved?
- What are the future plans for the company?

## **2. Recommendations**

2.1 Overview and Scrutiny Committee is recommended to consider the contents of this Report.

## **3. Details**

### **Trading Opportunities Project – Performance to Date**

3.1 The Change, Efficiency and Improvement (CEI) project for Trading Opportunities is a cross cutting target that aims to generate savings through further exploration of trading opportunities across the Council in terms of sales, this will include both the North Tyneside Trading Company and new service trading opportunities.

3.2 The project has currently achieved £0.105m of the £0.250m target which was set for the 2013/14 financial year and work is ongoing to secure a further £0.050m. The project is rated as a 'red' risk as £0.095m of the target is still at risk. The shortfall can be covered by other efficiencies including vacancy savings for 2013/14. The 2014/15 budget has been amended to £0.100m based on experience this year.

3.3 The £0.105m income achieved as noted above is made up as follows:

**Contribution from activity above budget**

Activity above budget	Income (£'m)
Kier	0.020
LIFT	0.020
Darlington Schools	0.020
Shared Audit	0.010
<b>Sub Total</b>	<b>0.070</b>

**Contribution from staff secondments to work areas**

Staff secondments to work areas	Income (£'m)
Adult Social Care	0.020
EDRMS Project	0.015
<b>Sub Total</b>	<b>0.035</b>

**Total income £0.105m**

3.4 Further details of the activities that comprise this £0.105m income achieved so far are detailed below:

**(i) Kier income of £0.020m**

This is additional income of £0.020m that has been received by the council as part of the management fee from Kier which is above the amount included in the 2013/14 budget. The management fee received by the Council is a percentage of total turnover. Kier's total trading activity across its workstream areas this year means its actual turnover will be marginally above that originally forecast and hence this additional management fee has been generated.

**(ii) LIFT income of £0.020m**

This is additional income generated through the Council's LIFT PFI projects. This additional income relates to a payment due from LIFTCo for their share of external finishing works to the lane and footpaths outside Whitley Bay Customer First Centre.

**(iii) Darlington Schools income of £0.020m**

North Tyneside Council receive income of £0.020m per annum through their role to co-ordinate and lead monitoring arrangements for the PFI contract relating to the Education Village Academy Trust on behalf of Darlington Borough Council. The Council carry out day to day contract administration relating to the project and visit the sites to ensure that works are carried out to the required standards.

**(iv) Shared Audit income of £0.010m**

This income of £0.010m is generated through additional support provided to Northumberland County Council in relation to an audit of ICT.

**(v) Adult Social Care income of £0.020m**

£0.020m of income is generated through a secondment from the Commercial Services Team to deliver the project management of the IT improvement projects. These include Contract / Quality monitoring to facilitate adult social care to record and manage the contracts, mobile working and a network connection in order to facilitate the health and social care integration agenda.

**(vi) Electronic Document Records Management System (EDRMS) income of £0.015m**

Income of £0.015m is being realised through a secondment of a proportion of Commercial Services staff time to Balfour Beatty Workplace to assist with the delivery of the EDRMS project.

3.5 Opportunities continue to be reviewed in order to secure the remaining savings. It is anticipated the £0.050m should be achieved through gain-share and performance management of the business and technical packages.

3.6 It is unlikely that the remaining £0.095m of anticipated income can be achieved from the project this financial year. However, as stated in 3.2 above the shortfall can be covered by other efficiencies including vacancy savings for 2013/14.

**4. Why have the savings targets not been met?**

4.1 At the time the £0.250m target was set, it was envisaged that this crosscutting saving would be generated through further exploration of trading opportunities across the Council in terms of new or increased sales from trading activities.

4.2 This income was anticipated to come from 3 sources:-

- a) Increasing sales (over and above budgeted income) from existing Council traded services;
- b) New trading activity going through the newly formed North Tyneside Trading Company and its subsidiary; and
- c) New trading opportunities developed in Service Areas and directly delivered by the Council.

4.3 In reality, any increased income from service areas is helping towards existing service targets and pressures.

4.4 The Trading Company has pursued a number of potential opportunities (see section 5 below) but none of these have yet been successful.

## **5. How is the trading company currently working?**

5.1 Cabinet approved the establishment of a Trading Company at its meeting on 12 October 2012. Cabinet agreed the structure and governance for the trading company, and defined the process for appraising trading opportunities.

5.2 The Trading Company is a limited company incorporated by shares and was registered at Companies House in December 2012. The Council is the sole shareholder. The Trading Company is called North Tyneside Trading Company Limited. It has established one 100% owned subsidiary company called North Tyneside Trading Company (consulting) Limited.

5.3 The Trading Company has 4 Directors and a Company Secretary. 2 of the Directors are Cabinet Members and 2 of the Directors are senior officers of the Council who serve on the Senior Leadership Team. Cabinet decides who will be the Directors. Directors can be changed at any time if Cabinet so decide. The Directors and Company Secretary are not employed by the Trading Company and receive no remuneration for carrying out these roles.

5.4 The Trading Company has an Annual Business Plan and a Strategic Business Plan. These are attached to this report as appendices. At this stage the company holds no assets and does not employ any staff.

5.5 The Trading Company has investigated the following opportunities since its inception:-

### **(i) Northumberland Leisure**

Northumberland County Council managed 10 main leisure centres and a variety of smaller facilities. These services were delivered through four leisure operators and an 'in house team'. The Council were looking to simplify the management arrangements, improve operational efficiency and ensure a consistent service quality across the county. It proposed to place all of its facilities into a 'super contract' on a phased basis which coincided with the termination of contracts already in place with the external providers of their leisure services.

Representatives from North Tyneside's Sport and Leisure Service attended 2 soft market testing events. Feedback from Northumberland County Council was positive; however they took the decision to work in partnership with two of their existing operators. As a result North Country Leisure joined forces with Blyth Valley Arts and Leisure to become Active Northumberland and they will provide leisure services across the whole of Northumberland.

### **(ii) Newcastle Leisure**

Newcastle City Council went out to the market for consultation regarding their leisure facilities. An expression of interest was submitted. However Newcastle did not proceed with a tender exercise.

### **(iii) Dome**

One of the proposals for the Dome put to the Council by Robertson was for the Council to operate a Gym facility in part of site. If this had been progressed one option was for the Trading Company to deliver the Gym facility and to hold a head lease over an area of the property which it would then sub lease out to a variety of smaller sub tenants.

### **(iv) DFDS Seaways Ferry Bookings**

DFDS Seaways approached the Tourist Information Centre (TIC) at Royal Quays, North Shields, to act as agents to book mini breaks on a commission basis. Initially, the business case for the Trading Company acting as agents was based on advice that the Council was unable to enter into a credit agreement. Council officers would provide services to the trading company to enable it to deliver the contract.

Further advice has been received on whether the Council could enter into the agreement with DFDS Seaways. The decisive factor depends on the underlying driver behind the proposals. If rendering a commercial profit is the only or prime reason then such activities should be provided through the trading company. However, if profit is just incidental to the desire to provide complimentary services for the benefit of the communities (along with other council services already provided through Tourist Information Centres operated by the Council), there is no legal impediment restricting the Council as a local authority in undertaking such activities.

Legal Services have requested additional information/clarification from DFDS Seaways with regard to the Terms and Conditions for booking agents. DFDS have recently reviewed this document and the updated document has been forwarded to Legal Services.

The business case is being updated with any new information and submitted for consideration as to whether this is a service the Council wishes to deliver or if it should be offered to the Trading Company.

### **(v) Durham Sport & Leisure**

Durham County Council was keen to explore and engage with the market place to consider an approach which met the needs of the Council, its residents and which was deliverable for its sport and cultural facilities.

North Tyneside completed a soft market test questionnaire and were invited to attend a consultation event. Feedback was positive, However Durham decided to progress with a charitable trust option (similar to the Community Based Trust model that was explored for North Tyneside Councils culture and leisure services during 2011/12).

#### **(vi) Grow Your Own Plots**

Newcastle City Council and North Tyneside Council were approached to establish if they were interested in managing a “Grow your Own” site operated by the Garden Centre group adjacent to their Garden centre at Gosforth Park.

Following discussions with Parks and Allotments Team an expression of interest to manage the site was submitted. A business case was developed, with the recommendation to pursue this opportunity.

The Board of Directors of Garden Centre Group subsequently decided to continue to manage the plots in-house.

#### **(vii) Faith Organisations**

A business case was developed to offer professional services (Legal) to faith organisations and approved by the Council and the Board of Directors in March 2013. To date, services have not yet been delivered to any faith organisation although advanced discussions have taken place with the Anglican Diocese of Hexham which may lead to work being commissioned in the future.

#### **(viii) Durham Adult Community Learning**

An opportunity was identified through the North East Purchasing Organisation (NEPO) portal to deliver community learning opportunities for adults aged over 19 living in County Durham.

The bid documents were obtained and considered by North Tyneside’s Adult Learning Alliance. On this occasion it was decided not to pursue the opportunity and no bid was submitted.

#### **(ix) Gateshead Burial and Cremation Services**

This contract opportunity was for the provision of a Burial and Cremation Service to allow the Gateshead Council to meet its statutory duties. The contract was for 24 months commencing 1st November 2013 (with the option to extend for a further two x 12 month periods).

The contract information was forwarded to the appropriate officers for consideration/action. Because North Tyneside Council has recently awarded a new contract for burial services and is in the early stages of an upgrade programme for its main crematorium; it was decided to not tender for this work.

## **(x) E-Bay Surplus Asset Disposals**

It has been mooted that the Council may obtain better value from the disposal of small value surplus miscellaneous items by selling them on e-bay. A working group is exploring this idea, in conjunction with Internal Audit, with regard to the disposal of a surplus boat at the Rising Sun Country Park. The working group will consider whether or not there would be a role for the trading company if using e-bay is adopted as a method of disposal.

## **6. Who is involved?**

6.1 The 4 original directors of the company appointed on 18 January 2013 were

<b>NAME</b>	<b>POSITION IN NORTH TYNESIDE</b>
Councillor George Westwater	Cabinet Member for: Community and Regulatory Services,
Councillor David Lilly	Cabinet Member for: Children, Young People and Learning,
Paul Hanson	Strategic Director, Community Services,
Graham Haywood	Interim Chief Executive

6.2 Andrew Gate, Senior Manager: Commercial Partnerships was appointed Company Secretary on 18 January 2013.

6.3 Following the election, Councillors Westwater and Lilly resigned from the Board. Replacement Cabinet Member Directors were appointed on 16 July 2013.

<b>NAME</b>	<b>POSITION IN NORTH TYNESIDE</b>
Councillor Eddie Darke	Cabinet Member for Leisure, Culture and Tourism,
Councillor Ian Grayson	Cabinet Member for Children, Young People and Learning,

## **7. What are the future plans for the company?**

7.1 In relation to the delivery of the Affordable Homes Strategy Cabinet agreed, at its meeting on 14 October 2013, to grant delegated authority to the Strategic Director of Community Services, Head of Law and Governance, Strategic Director of Finance and Resources in consultation with the Cabinet Member for Finance and Resources to take any necessary steps to allow the North Tyneside Trading Company to support the delivery of affordable homes in addition to other suitable projects including:

- (i) the creation of appropriate structures and subsidiaries as required;
- (ii) altering the Director Structure to reflect the changed responsibilities and the need for separation of powers;
- (iii) transferring working capital into the company as required as described in paragraphs 1.5.26 to 1.5.28 of that report;
- (iv) All steps referred to above shall be undertaken in accordance with all necessary legal requirements and in compliance with the Authority's Financial Regulations, Officer Delegation Scheme and Contract Standing Orders;

## **8. Appendices**

- 1.Trading Company Annual Business Plan 2013/14
- 2.Trading Company Strategic Business Plan 2013 to 2015

## **9. Background Information**

The following documents have been used in the compilation of this report and may be inspected at the offices of the author.

Cabinet Report 12 October 2012  
Cabinet Report 14 October 2013  
Articles of Association of the Trading Company  
Shareholder Agreement for the Trading Company  
Minutes of the Board Meetings of the Trading Company



Appendix 1

# **ANNUAL BUSINESS PLAN**

## **2013 -14**

### **NORTH TYNESIDE TRADING COMPANY LIMITED**

**QUADRANT  
COBALT BUSINESS PARK  
THE SILVERLINK NORTH  
NORTH TYNESIDE  
TYNE & WEAR  
NE27 0BY**

**DATE OF INCORPORATION: 11 DECEMBER 2012**

**COMPANY NUMBER: 08326780**

**JANUARY 2013**

## TABLE OF CONTENTS

	Page
<b>Executive Summary</b>	2
<b>Introduction</b>	3
<b>What we offer</b>	
Products and Services	4
Customer Base	4
<b>Our Aims for 2013-14</b>	
Aims	5
Risks	5

## EXECUTIVE SUMMARY

North Tyneside Trading Company Limited was established as a Private Company, Limited by Shares in December 2012.

The Company is wholly owned by North Tyneside Council being the sole shareholder of the Company.

The Company has been created by the Council to generate an income from the delivery of traded services to the public and private sector.

Whilst our primary function is to deliver an income to the Council, it is fundamental that we operate our business with the highest levels of integrity, accountability and transparency.

The Company will deliver services itself and through subsidiaries (e.g. North Tyneside Trading Company (Consulting)). Any trading the Company undertakes must be approved by the Council.

This Annual Business Plan outlines the aims of the company for 2013-14, how these will be achieved and the measures of success.

## INTRODUCTION

This is the first Annual Business Plan for North Tyneside Trading Company Limited. It sets out our aims for 2013-14 and how these can be achieved. These have been informed by the strategic ambitions contained within the Strategic Business Plan 2013 – 15.

The Strategic Business Plan and this Annual Business Plan together will provide a sense of direction for the Company and will guide our business development. They will introduce the Company to potential business partners, clients and stakeholders who wish to do business with us.

As a wholly owned company we are accountable to North Tyneside Council as the sole Shareholder. Our mission is to maximise opportunities to expand Council services and expertise into the public and private sector to generate profit for a public purpose. The object of the company (as defined in the Articles of Association) is to provide services to public bodies and other customers as appropriate.

Through us the Council aims to:

- Create an innovative and dynamic organisation responsive to customer needs and the market;
- Generate income through the delivery of high quality services; and
- Improve and enhance the skills of its workforce through delivering opportunities for staff to work across all sectors and in new markets.

When trading opportunities are identified a business case will be developed outlining the potential benefits, risks and resources involved in pursuing that opportunity. Each business case must be approved by both the Council (By Cabinet or under delegated powers) and by the Company Board of Directors.

The Company was established with no assets or staff. The Council will initially provide the resources required to pursue agreed business opportunities under the European Union De Minimis "State Aid" Regulations. The Council is permitted to provide aid of up to €200,000 (circa £160k) over a rolling three-year period.

## **WHAT WE OFFER**

### **Products and Services**

Many of the services provided by North Tyneside Council are recognised as being of a high quality and delivered by a highly skilled workforce. Products and services delivered by the Company will largely mirror those which are delivered by the Council.

The initial scope of services will be developed primarily around professional and consultancy services, sport and leisure services, environmental services, services to schools and conferencing and catering facilities. This may however be expanded as and when new business opportunities are identified.

It is important that we understand profitability and the resource impacts of each business opportunity to enable us to make sound development decisions.

### **Customer Base**

It is anticipated that our clients will primarily be public and private sector organisations, though there is the potential to include individual customers.

We acknowledge the need to develop and bring together our portfolio of services in a way which makes it easy to understand access and explore.

## OUR AIMS FOR 2013 -14

### Aims

The Strategic Business Plan 2013 – 15 sets out the strategic ambitions for the Company.

<b>Strategic Ambition</b>	<b>Actions for 2013 – 14</b>	<b>Measure of Success</b>
Create a corporate identity.	Develop branding and design proposals including logo, marketing materials and correspondence templates.	Branding and design proposals accepted by the Board. Logo, materials and templates in use.
Develop and bring together our portfolio of services.	Define the scope of services to be offered to the market place through the Company.	Scope agreed by the Board of Directors and the Council's Senior Management Team.
Understand and test our potential to compete and deliver services.	Approach the market to supply a range of traded services.	Detailed feedback received from unsuccessful bids and from contracts awarded.
Maintain a unified, viable business through growth.	Explore all potential opportunities in the market place and develop an awareness of the Company.	Income for the Council generated.
Deliver high quality services to fulfill our contracts.	Identify, utilise and develop the skills experience and capacity of available resources.	Satisfied customers, contracts extended or renewed, repeat business generated.

### Risks

These ambitions are set against a backdrop of tough financial times. The most significant risks which could prevent us from achieving our strategic ambitions include:

- There may be insufficient opportunities in the marketplace;
- The Company may fail to be competitive and to secure contracts; and
- The Council may not retain the skills, experience and capacity needed to support the Company.

Monitoring and mitigation of these risks by the Directors of the Company and by the Council as shareholder will help to enable the company to fulfill its strategic ambitions and to achieve its mission.

Appendix 2

**STRATEGIC BUSINESS PLAN**  
**2013-15**

**NORTH TYNESIDE TRADING COMPANY LIMITED**

**QUADRANT**  
**COBALT BUSINESS PARK**  
**THE SILVERLINK NORTH**  
**NORTH TYNESIDE**  
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## TABLE OF CONTENTS

	Page
<b>Executive Summary</b>	2
<b>Introduction</b>	2
<b>Who we are and how we work</b>	
History	3
Governance	4
Appraising business opportunities	5
Assets	5
<b>What we offer</b>	
Products and Services	6
Customer Base	6
<b>What we want to achieve</b>	
Mission	7
Strategic Ambitions	7
Risks	7



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Whilst our primary function is to deliver an income to the Council, it is fundamental that we operate our business with the highest levels of integrity, accountability and transparency.

The Company will deliver services itself and through subsidiaries (e.g. North Tyneside Trading Company (Consulting)). Any trading the Company undertakes must be approved by the Council.

## **INTRODUCTION**

This is the first Strategic Business Plan for North Tyneside Trading Company Limited. It sets out the mission and strategic ambitions of the Company for the next two years and how these can be delivered. Details regarding the Company's history and governance are included.

This strategic plan will provide a sense of direction for the Company and will guide our business development. It will introduce the Company to potential business partners, clients and stakeholders who wish to do business with us.

## WHO WE ARE AND HOW WE WORK

### History

At its meeting on 16 April 2012, North Tyneside Council's Cabinet asked officers to develop options for alternative business structures to generate income for the Council. Cabinet received a further report on 11 June 2012 seeking approval to agree the next steps in developing the Council's trading opportunities. A further report was presented on 12 October 2012 to gain Cabinet's approval for appropriate purpose, structure and governance for the trading company, as well as the process for appraising trading opportunities.

North Tyneside Trading Company Limited and its subsidiary North Tyneside Trading Company (Consulting) were incorporated with Companies House on 11 December 2012.

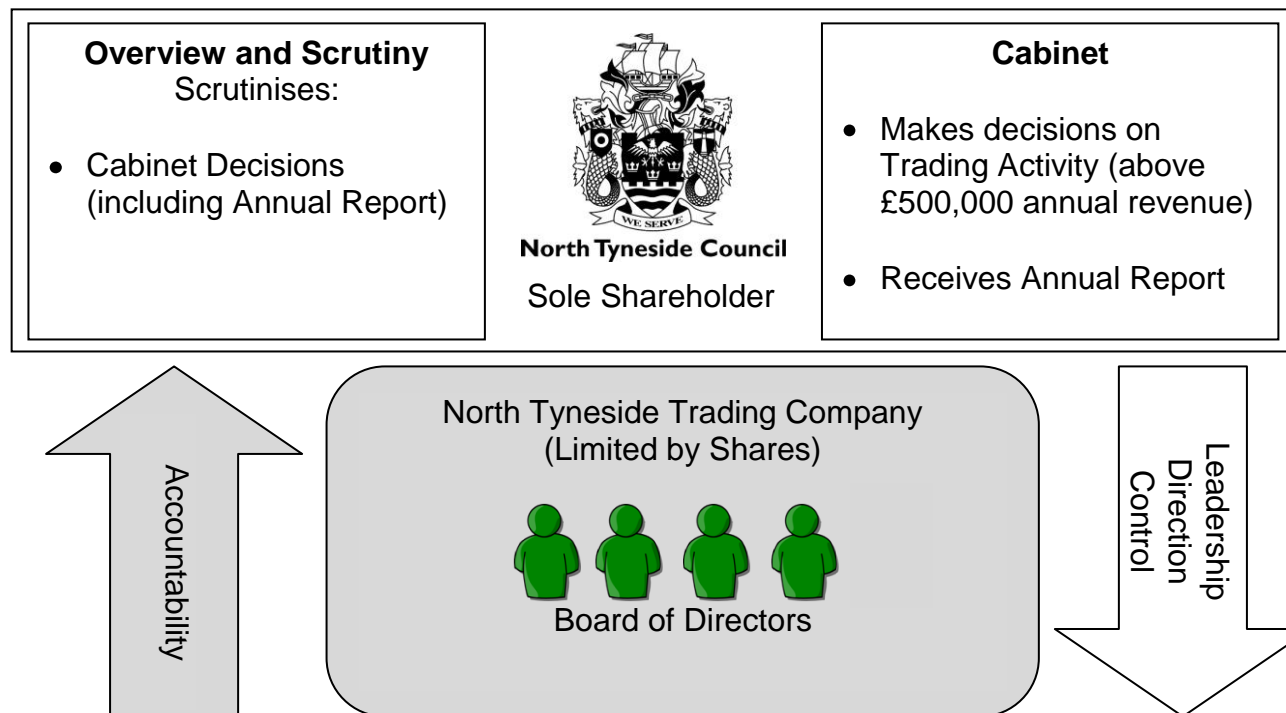
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- Create an innovative and dynamic organisation responsive to customer needs and the market;
- Generate income through the delivery of high quality services; and
- Improve and enhance the skills of its workforce through delivering opportunities for staff to work across all sectors and in new markets.

## WHO WE ARE AND HOW WE WORK

### Governance

We are governed by a Board of Directors and guided by Articles of Association which regulate the affairs of the Company. The composition of the Board of Directors for the Company is four Directors, two members from the Council's Senior Leadership Team and two Cabinet Members. Elected Members on the Board have a role at the heart of the Company, and will be representing the residents of North Tyneside. This will be integral to the development of both companies and will demonstrate the link between local democracy and public sector outcomes. It is therefore fundamental that we operate with the highest levels of integrity, accountability and transparency. The Board of Directors is directly accountable to the Shareholder (the Council). The Council's Overview and Scrutiny have an integral role in examining any Shareholder decisions.



## WHO WE ARE AND HOW WE WORK

## **Appraising business opportunities**

As defined in the Articles of Association, the object of the company is to:

‘Provide services to public bodies and other customers as appropriate’.

When trading opportunities are identified a business case will be developed outlining the potential benefits, risks and resources involved in pursuing that opportunity. Each business case must be approved by both the Council (by Cabinet or under delegated powers) and by the Company Board of Directors.

## **Assets**

The Company was established with no assets or staff. The Council will initially provide the resources required to pursue agreed business opportunities under the European Union De Minimis "State Aid" Regulations. The Council is permitted to provide aid of up to €200,000 (circa £160k) over a rolling three-year period.

## WHAT WE OFFER

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It is important that we understand profitability and the resource impacts of each business opportunity to enable us to make sound development decisions.

### **Customer Base**

It is anticipated that our clients will primarily be public and private sector organisations, though there is the potential to include individual customers.

We acknowledge the need to develop and bring together our portfolio of services in a way which makes it easy to understand access and explore.

## WHAT WE WANT TO ACHIEVE

### **Our Mission**

To maximise opportunities to expand Council services and expertise into the public and private sector to generate profit for a public purpose

### **Strategic Ambitions**

We must develop a strong foundation for our business to enable it to grow and succeed in the future. In response to our challenges we will therefore:

- Create a corporate identity;
- Develop and bring together our portfolio of services;
- Maintain a unified, viable business through growth;
- Understand and test our potential to compete and deliver services; and
- Deliver high quality services to fulfil our contracts.

### **Risks**

These ambitions are set against a backdrop of tough financial times. The most significant risks which could prevent us from achieving our strategic ambitions include:

- There may be insufficient opportunities in the marketplace;
- The Company may fail to be competitive and to secure contracts;
- The Council may not retain the skills, experience and capacity needed to support the Company; and
- The Company may fail to generate sufficient levels of profit.

Monitoring and mitigation of these risks by the Directors of the Company and by the Council as shareholder will help to enable the company to fulfill its strategic ambitions and to achieve its mission.