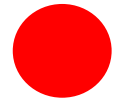


Welcome to:

We will start in a few minutes



Webinar briefing on

Commercialisation and trading in LA's

A bit about me...

... and a bit about logistics



Chat panel

How can we talk?



What are we going to cover?



LA Trading and Commercialisation

Commercialisation :

What does 'commercial' mean for a LA?

What do we need to know?

What do we need to do?

Setting up a trading entity

What do we need to know?

What do we need to do?



Why should we consider
being more commercial
and setting up trading
companies?

What is commercialisation?

- It is not about
 - Privatisation
 - Taking unnecessary or uncalculated risk
 - Pursing lowest cost at the expense of 'service' delivery

- It is:
 - behaving in a commercial manner to improve efficiency and effectiveness
 - thinking like a customer, not a supplier
 - sharing risk and sharing reward
 - Can protect services

What you need to understand

- Why you are doing this?
- Why this way is better?



Understand the world

What are the key drivers
and challenges?

Who are your customers?



Who are your suppliers,
providers and competition?

The environment :
Economy
Technology
Legislation

What are your key
areas of impact and
influence?

Tools and models

There are many tools and models for assessing the commercial environment. Three that remain popular are:

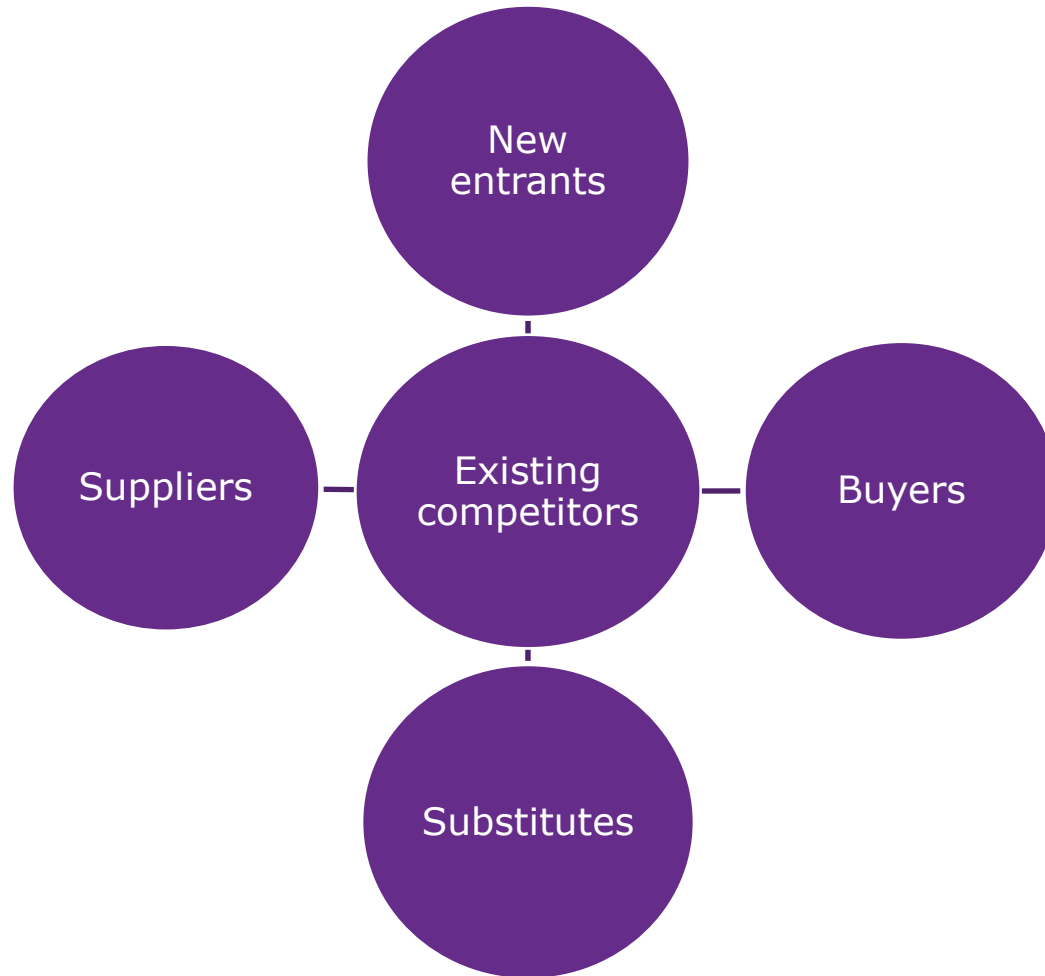
- SWOT
- PESTLE
- Porters five forces

SWOT and PESTLE are well known and well used

	Positive Supporting goals	Negative Harmful to goals
Internal (the org'n)	Strengths	Weaknesses
External (macro env't)	Opportunities	Threats

Politics	What is the political environment like? Impact on current and future tax, trading, innovation, etc..
Economy	Growth, decline, resource costs, financing costs, etc..
Social	Demographics, age distribution, wealth, health, education, etc..
Technology	Changes in relevant technologies (digital, materials, processes, systems), research, etc..
Legal	Legislation and regulation e.g.: procurement, employment, trade agreements, consumers, etc..
Environment	Environmental impacts, natural resources, waste, pollution, bio-diversity, etc..

Porter's five forces



Understands the commercial strength and balance of relationships and competitive 'power' between various stakeholders

Positioning yourself in the market

Consider what brand and what price you are aiming for

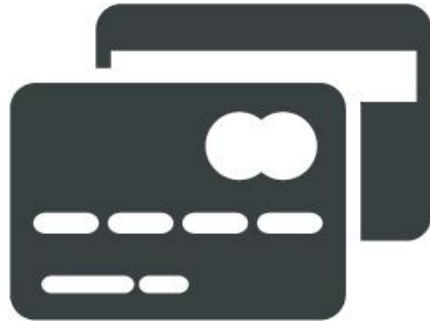
- No frills strategy – low price, low perceived added value and a focus on a price sensitive market segment
- Low price – sets a lower price than competitors whilst seeking to maintain similar value of product or service
- Differentiation – seeks to provide unique services from competitors (in dimensions widely valued by buyers)
- Hybrid – seeks to simultaneously achieve differentiation and a price lower than that of competitors
- Focused differentiation – seeks to provide high perceived value justifying a substantial price premium

Creating a new commercial entity



LA trading companies - Key questions

- Are you delivering a service back to the Council?
- Are you selling services to other councils?
- Are you trading externally and aiming to make a profit?



Poll Question

- How many of you are already doing or considering option 3
 - i.e. trading externally – outside of your normal boundaries and aiming to make a profit?

Providing services back to the council

If you are concerned with **solely delivering a service back to the council** – does not trade externally – may qualify for Teckal exemption i.e. council can pass work to the company without having to put it out to competitive tender

Also likely to be exempt from Corporation tax.

If your LATCo wants to trade externally

- Trading companies represent a half-way house between keeping services in-house or outsourcing them to the independent sector, as they are wholly owned by councils (shareholders) but operate as commercial enterprises.
- Advantages - surpluses from the business are returned to the council and an emphasis on "quality outcomes".

Power to Trade

- Power to establish a LATC derives from the LG (Best Value Authorities) power to trade order 2009 – which was made under LG Act 2003 (s95 & 96)
- In England and Wales, councils have powers under the 2003 Local Government Act (s95) to set up companies to trade with a view to making profit in areas relating to any of their existing functions
- Localism Act 2011-Authority is authorised to do for a commercial purpose anything which it is authorised to do for the purpose of carrying on any of its ordinary functions
- Power exercisable through a Part V company

Requirements under Power to trade Order

Must

1. Prepare a business case in support of the exercise of charging and trading power; and approve that business case. Includes a comprehensive statement as to—
 - the objectives of the business,
 - the investment and other resources required to achieve those objectives,
 - any risks the business might face and how significant these risks are, and
 - the expected financial results of the business, together with any other relevant outcomes that the business is expected to achieve.
2. Services from LA must be charged at full cost (to satisfy state aid / transfer pricing)

Set Up's and Operations

- Governance
- Business Transfers
- Financial management
- Corporation Tax



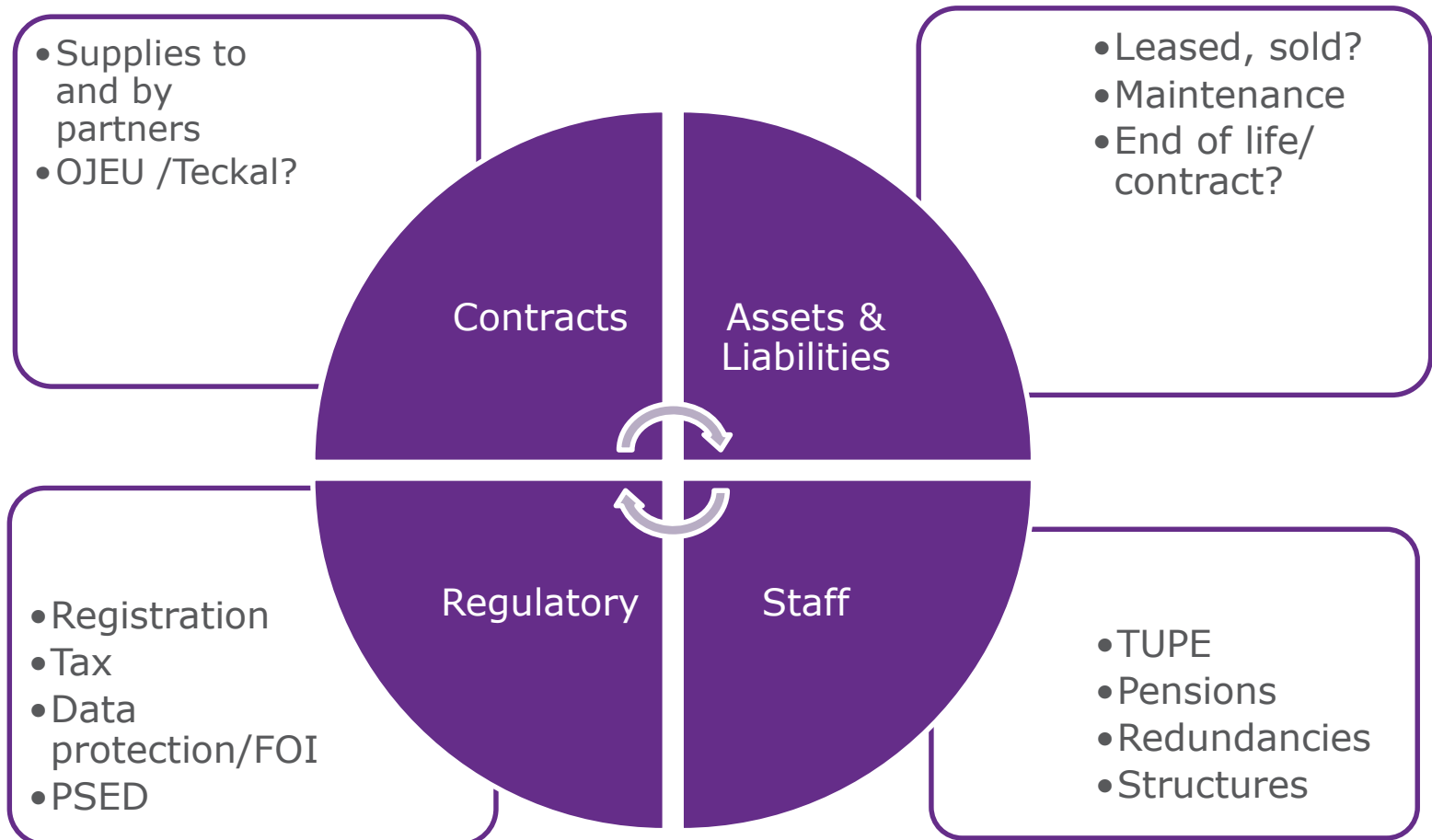
Governance considerations

- Cabinet, remains responsible for the oversight of any council functions which are discharged through a trading company
- Contractual relationship between the LA and the company- best practice may be that the Directors of the trading company or any of its subsidiaries should not be members of the cabinet.
- Conflicts of interest
- Accountability clear?
- Payment to board members?

Poll Question

- How many of you pay elected members to sit on boards?
- How many of you pay officers for work within LA companies (in addition to their role in the council)?

Business Transfer Issues



Financial Management

- New bank account
 - Bank will carry out checks
 - Overdraft facility and cost

- Pricing and Billing
 - Work out your costs and calculate your breakeven figure
 - Cost-plus pricing –adding mark-up to breakeven figure
 - Value-based pricing –value-based prices need to be structured e.g. charge customers more for early hours/weekend/holiday time call out than call outs during normal hours

- Cash flow management
 - Reconciliations
 - Liquidity
 - Forecasts



10 business commandments

1. Have a valid business strategy
2. Proper business controls
3. Active board
4. Cannot be one person rule in the company
5. Management in depth
6. Speedily recognise and react to change
7. Client is king
8. Grasp and appreciate ICT changes and opportunities
9. Cannot manipulate its accounts
10. Must meet employees needs

Scope of Corporation Tax

Local Authority

- Wholly exempt from corporation tax
- Wholly exempt from income tax and capital gains

Charitable status

- Exempt from CT on taxable profits from primary purpose income
- Profits arising on non-primary purpose income and gains subject to CT

Non-charitable status

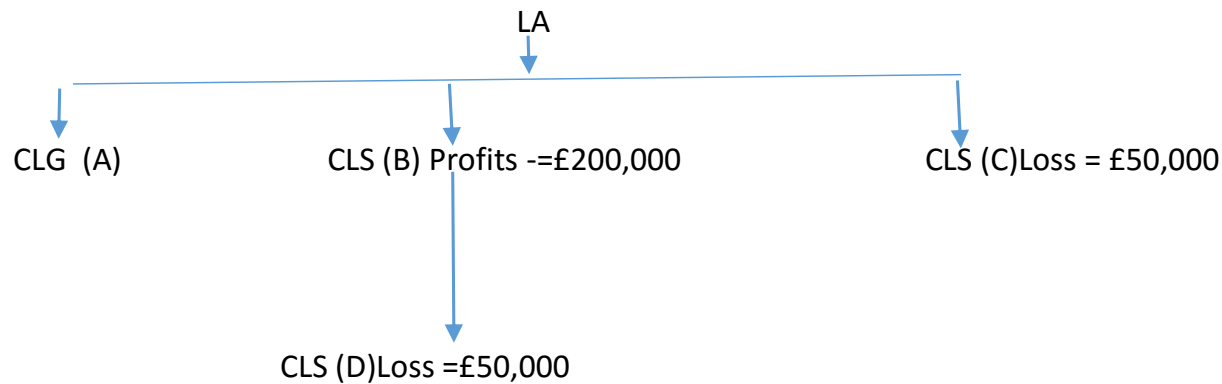
- Within the scope of CT on trading profits
- Profits arising on sale of investments subject to CT (taxed as a chargeable gain)

Any profits made from external trading by any of the LA Co's will be chargeable to corporation tax, unless it is from charitable activities.

Corporation Tax on LATCo's

- Because of the close relationship between the Co and the LA (they are “linked enterprises”), HMRC will want to check that any financial transactions between the parties are made on an arms-length basis. i.e. supplies made from the LA to the Co & vice versa are at market rates. This is known as **transfer pricing**.
- CT would be chargeable before any dividends are distributed back to the local authority
- ‘Mutual trading exception’- where the Co is making supplies back to the LA
- Gift aid possibilities
- Recharges from LA to minimise CT liability

Group CT loss relief



- C and D are making losses, therefore no CT to pay. Each can surrender the losses to B
- B can claim loss relief from C and D, therefore B's taxable profit = $200 - 50 - 50 = 100$

Summary

- Know your service
- Know your market
- Challenge why the new way is the better way
- Ensure robust processes and protocols around finance and governance

- Good luck

