

Building a Successful Local Authority Trading Company



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Building a Better Bournemouth

Building a successful LATC

Objective:

INCOME

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Steps

1. Product
2. Market
3. Charging or trading
4. Tax
5. Type of company
6. Local Authority factors
7. Human factors

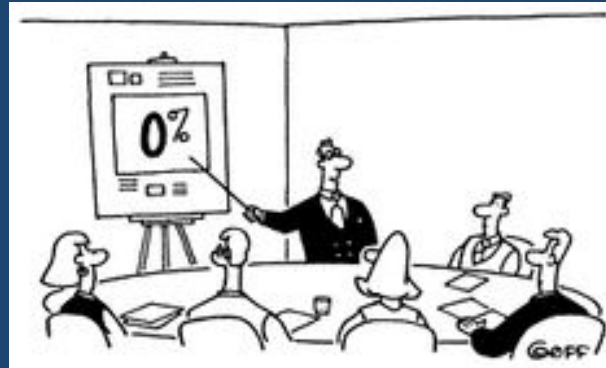
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1. Product



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2. Market



"Our study concludes that this is the percentage of our customers who will buy from us without any effort whatsoever on our part."

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3. Charging or Trading?

- Councils are allowed to charge for services, but..
- Charges can only cover costs, not generate a profit
- Exceptions, LGA 2003, commercial property, finance charges
- Trading used to be very limited by law, but...
- Localism Act 2011 created a “power of general competence”
- Councils now allowed to trade for profit, in any activity, but...
- Must be through a company, and is liable to Corporation Tax

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However..

- There is a grey area between “actual cost” and “total cost”
- Total cost may be close to, or often greater than, market price
- Set-up costs
- Ongoing management costs
- Profit is taxable!
- Governance is lighter
- Simpler model - quicker to market

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4. Tax:

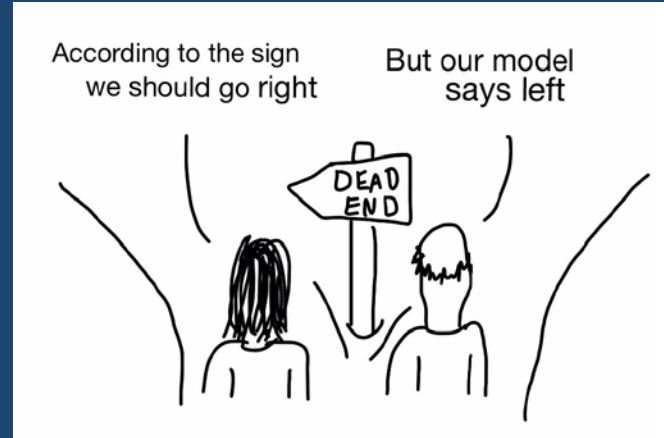
- VAT and partial exemption
- SDLT
- Corporation Tax
- GAAR and LLPs



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5. Type of Company

- Teckal companies
- Mutual Trading status
- LATC “lite”
- LLP & joint ventures
- CICs
- Co-ops and mutual’s

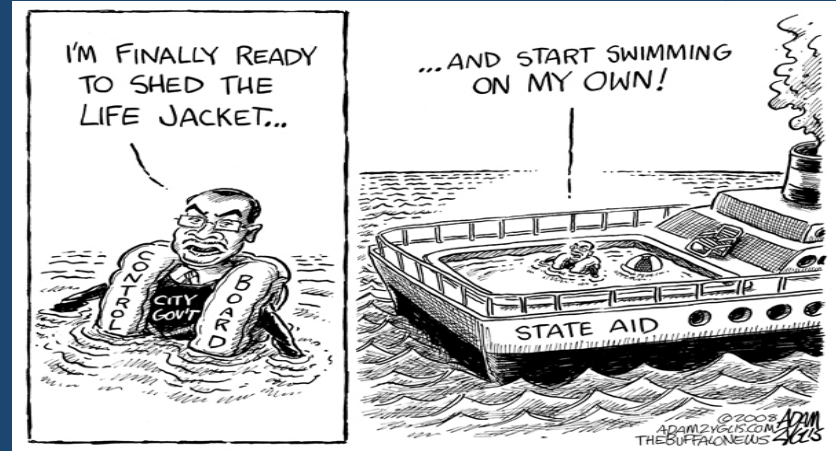


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6. Local Authority Factors: State Aid (or.. how much support should be provided)

- Paying for services
- Borrowing & MRP
- Trademarks and IP

Transfer Pricing
Mutual Trading



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6. Local Authority Factors continued: DOCUMENTS & CONTRACTS

- Articles & Memorandum of Association
- Shareholders' Agreement
- Resource Agreement
- Working Capital Agreement



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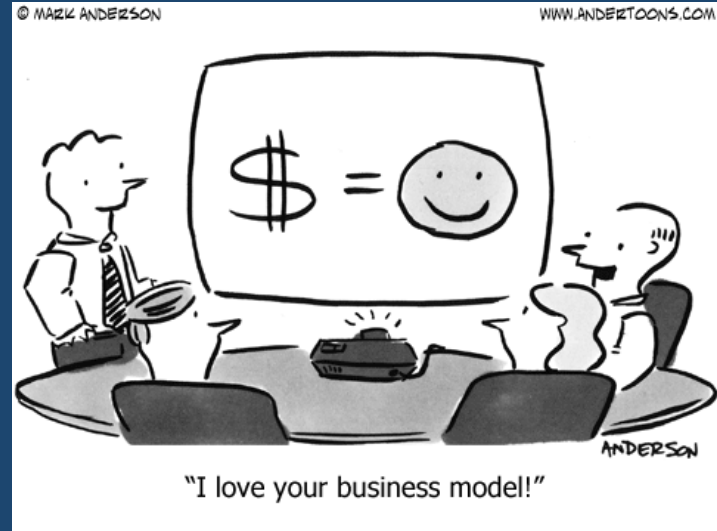
7. Human factors

- Need passionate staff and a champion
- LATC as well as the day job
- Need a project lead (controlled momentum)
- Time.... Allow more than anticipated, work to a deadline
- Knowledge base is useful
- Equal Pay considerations
- Legal team – “who am I acting for?”

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Lessons from the coal face:

- Business plans
- Where the money goes
- Early days – year 1 trading



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Business Plans

- Critical
- Start with a good business model
- Helpful to use a standard format
- The plan will change
- Change is a sign that intelligence is being applied and the plan is adaptable
- No change is a sign something is wrong
- Trading forecasts – be careful with your projections

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Where the money goes

- Central pot vs. income to service teams
- Retention of the benefits = motivation to do the work, but..
- There may be a more worthy cause, or the decision is political.

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Year 1 Trading;

- Control costs aggressively (within tax strategy)
- Act swiftly to rectify skills and knowledge gaps
- Concentrate on marketing & sales strategies & activity
- Financial monitoring - P&L and forecast adjustments
- Business plan as working document
- Provide Director training & support

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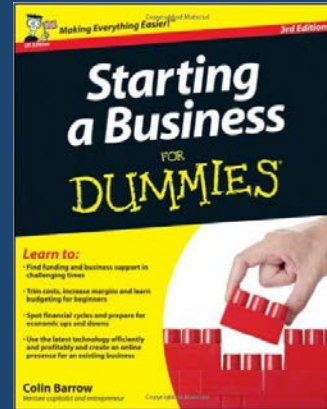
Summary:

- Stick to what you know
- Charge first, company as last resort
- Business case is total benefit rather than direct income, so..
- Think about tax efficiency as well as profit
- Charge for the provision of support services

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Resources

- www.businessmodelgeneration.com
- www.gov.uk
- www.companieshouse.gov.uk
- www.hmrc.gov.uk
- www.apse.gov.uk
- www.ppma.gov.uk



Bournemouth Borough Council (Cabinet)

LLP
Members'
Agreement



Owned jointly
with Morgan
Sindall



Shareholder
Agreement



Owned jointly
with Dorset CC &
Poole BC



Shareholder
Agreement



Wholly
Owned



Wholly
Owned



Shareholder
Agreement



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wholly or partly owned
by Bournemouth
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