

Building a successful LATC & Commercial Council



Hugh Lambourne
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Building a Better Bournemouth

Bournemouth Borough Council (Cabinet)



Companies either wholly or partly owned by Bournemouth Borough Council

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Why create a LATC?

- 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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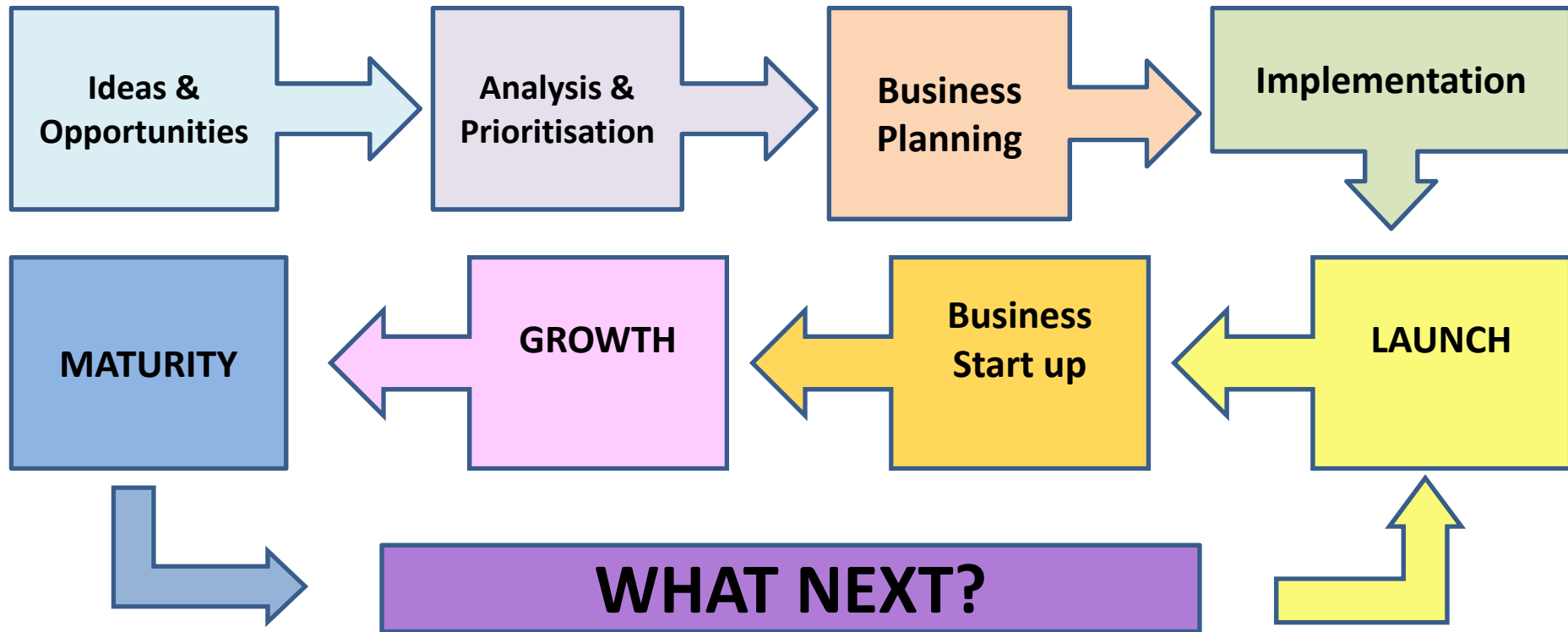
Why NOT trade through a LATC?

- 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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Elements of a Local Authority Commercial Framework



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Key Lessons:

- Charge first, company as last resort
- Stick to what you know
- 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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More Lessons:

- Business plans
- Where the money goes
- Early days – year 1 trading
- Human factors
- Technical factors
- Operating models



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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 strategy & sales activity
- Financial monitoring - P&L and forecast adjustments
- Business plan as working document
- Provide Director training & support

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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?”

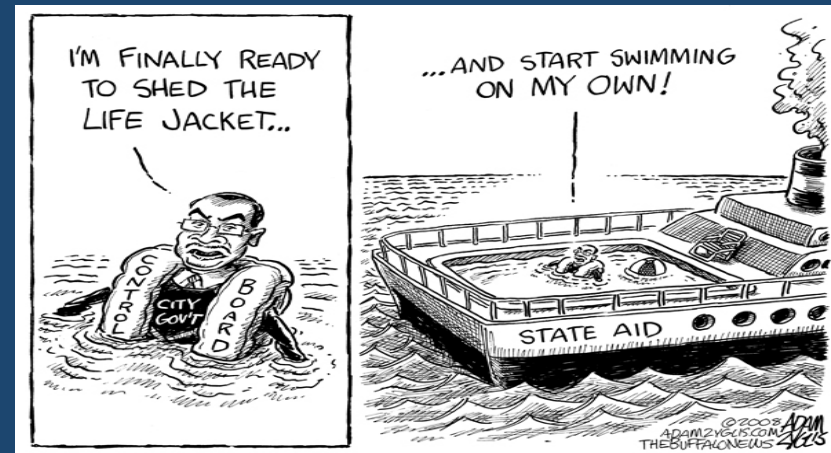
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Technical Issues:

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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Technical Issues Cont'd:

TAX

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



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Technical Issues Cont'd: DOCUMENTS & CONTRACTS

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



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Operating Models

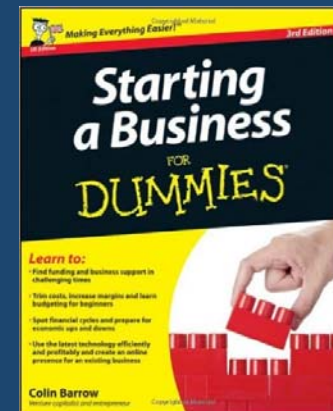
- Teckal companies
- Trading internally
- LATC “lite”
- Joint ventures - LLP
- Joint ventures – multiple authorities
- CICs
- Co-ops and mutual’s



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Resources

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



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