

Annex 5

Establishment of the City of York Trading Company (CYT Limited) - Initial business case

1. Cabinet have approved the setting-up of a generic trading company through which the Council will be able to provide services and carry out works for profit on behalf of other public bodies and private organisations. Any income generated will be considered for re-investment to support other council initiatives or for the trading company development.
2. The setting up of a company will allow the council to trade services with a view to income generation, to develop customer focussed services that offer value for money.
3. The proposals for the establishment of the company as a legal entity and the governance and management structures that will be set in place to run the company are presented in the Establishment and Governance paper to which this document forms an Annex.

Proposed Governance

4. As part of the previous decisions made, it has already been agreed that the Council will appoint directors to the board of the company lead by the Director of Customer & Business Support Services. Additionally, the Executive Member for Resources will be invited to sit on the board as a non-executive director and Chair of the board, to represent the shareholders interests and ensure that any conflicts of interest that the directors may experience are suitably managed.
5. Further Directors, including independent directors who are neither members nor officers, may be appointed in future if it is believed they may benefit the business of the company.

Proposed Establishment and Potential Structures

6. It is proposed that in its early stages of operation, employees from the Council's services will be seconded in to the trading company as and when required to carry out individual projects or tasks. A Charging Policy will be developed which will be used to determine the charge out rates for resources attributed to delivering the company business. All charges incurred by the company will be accounted for in their totality, thus a transparent and auditable pricing structure will be maintained.

7. The initial financial arrangements of the company will be managed through existing resources. Costs incurred may include items such as insurance, professional indemnity, taxation advice, auditor fees, finance fees, legal fees etc., but these can be minimised by taking an "off the shelf" company as a basis and then renaming it to reflect the nature of the business. Any costs will be accounted for initially as a cost to the Council but will ultimately be recharged to the company. The financial structures to support this will ensure that all company accounts are separately identifiable and reportable. These arrangements are in line with how other authorities have addressed these issues.

8. Ongoing costs associated with business development and running costs of the company will be provided through the surplus generated from trading activities.

Initial Financial Projections

2011/12		2012/13 £'000	2013/14 £'000	2014/15 £'000
Although the work to establish the company is taking place in 2011/12 the opportunity to create any significant income will be limited until the company exists and trading is developed	Income	300	1,000	2500
	Expenditure, including direct overheads	250	800	2000
	Company costs (see below – Table 2)	10	22	22
	Gross Profit	40	178	478

-Table 1-

Assumptions

9. Year 1- minimal business, likely to include aspects of the recruitment pool and possibly some opportunities in learning and development, work done in CANS (e.g. fleet) transfer across of some existing trading activity.
10. Year 2 – further expansion of pool, some work for schools, opportunities for business support, fleet, and other council activity expanded
11. Year 3 – potential full placement of some areas, e.g. recruitment pool, major contracts for external partners, schools, other organisations, potential consideration of staff transfers into company.

Estimate of on-going company costs per annum

12. The company will have a number of costs that will be incurred due to its nature of being a company. The table below gives indicative estimates of these costs taking into account the experience of setting up Veritau and using information from other councils.

	Indicative Value	
	Year 1 £	Ongoing £
Company Secretariat	2,000	2,000
Company Accounting	500	2,000
External Audit	4,000	4,000
Legal Support – Contracts	500	3,000
Insurance	2,000	6,000
Marketing etc	1,000	5,000
	10,000	22,000

-Table 2-

13. The costs above show that in year 1, with only small level of trading the company costs should be in the region of £10k. However as further services are included it is anticipated these will rise to approximately £22k but this will be dependant on the size, scale and nature of the services traded.