



Carmarthenshire County Council

‘Llesiant Delta Wellbeing Ltd Local Authority Trading Company’

Summary Business Case January 2018

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1. Background

Like all other Councils, Carmarthenshire County Council faces considerable financial challenges. As adult social care is often one of the biggest budget spend areas, year on year efficiency savings fall heavily in this area. In response, the Council wished to explore the opportunities offered by new delivery models, with the expressed intention of ensuring quality, cost effectiveness and the ability to respond to current and future demand.

There is recognition that new service models for individuals, communities and partners have the potential to deliver benefits and improve outcomes for citizens, and this need for new service models is magnified by the continual government drive towards increasing take up of direct payments.

2. Drivers for change

The list of drivers below outlines the need for change that the Council is facing in this area of Social Care. The increasing age profile of the population as reflected in local demographics is putting a greater demand for services and care from a sector that is facing year on year savings demands from central and local government. Added to this the Technology Enabled Care (TEC) agenda is gaining prominence.

The principal drivers for change are:

- Demographic growth
- Quality (e.g. Choice/Legislative requirements/partnerships/outcomes)
- Service
- Income (e.g. Savings/Income/Growth)
- Governance and flexibility (e.g. accommodate new services/respond quickly to market changes)
- Acceptability to stakeholders (e.g. service users, carers, staff, partners and Members)
- Ability to transform services
- Technology
- Employment

3. Options Appraisal

An Options Appraisal for Careline was completed with the remit to:

“Explore the opportunities offered by new delivery models, with the expressed intention of ensuring quality, cost effectiveness and the ability to respond to current and future demand”.

The options appraisal compared 4 principal options and then marked them against a set of agreed criteria. These options were:

- **Remain in-house** - Retain current in-house provision
- **Outsource** - Outsource to the independent sector
- **LATC** - Develop a Local Authority Trading Company (LATC)
- **CIC** - Develop a Community Interest Company (CIC)

The summary results of the scoring were:

Max Score	How well does the new model satisfy the following requirements	Remain In-house	Outsource	LATC	CIC
180	Quality	131	73	155	128
120	Cost	72	55	102	56
90	Governance and Flexibility	66	25	69	43
120	Acceptability to Stakeholders	86	30	93	64
60	Ability to Transform Services	39	29	53	41
	Overall Rating	394	212	472	332

The result of the appraisal was that the LATC met more of the criteria than the other models, and the recommendation was that a Full Business Case should be developed to fully explore and evaluate the costs and benefits of establishing an LATC.

4. The new organisation

4.1 Vision for Llesiant Delta Wellbeing Ltd

The vision for the new Llesiant Delta Wellbeing Ltd is to set it up as a commercial enterprise in a Carmarthenshire owned Local Authority Trading Company. This will allow Llesiant Delta Wellbeing Ltd to sell its services to:

- Local Authorities
- Not for profit organisations
- Commercial businesses
- Private individuals

It will be able to make a profit and plough this back as investment in additional services, or pass back to the Council as dividend/contract rebate to be used to support other social care services.

4.2 Brand

Llesiant Delta Wellbeing Ltd will set themselves up as:

Professional experts in technology related care and support, helping people to maintain their independence and quality of life and will deliver

High quality, reliable, multi-lingual response services.

4.3 Benefits

The key benefits for Carmarthenshire in the development of a larger, commercial, Llesiant Delta Wellbeing Ltd operating through a Local Authority Trading Company are that it will offer to the residents of Carmarthenshire greatly enhanced:

- **Service**
With a wider customer base, Llesiant Delta Wellbeing Ltd will be a larger organisation and have more resilience in its teams as a result. It will be able to afford to employ people with wider skills (such as Occupational Therapist's) over longer periods of time, that will be available to Carmarthenshire residents as an enhanced offer
- **Employment**
Developing the business in Carmarthenshire will create a larger workforce, which will have a positive impact for all staff, providing greater opportunities for professional development in a larger organisation. In addition, recruitment and retention should be easier through offering good career opportunities and progression to existing and potential staff
- **Income**
Growing the business will allow for greater efficiencies, for example spreading management overheads across more customers. It will also enable the Council to generate profits which can be reinvested into Llesiant Delta Wellbeing Ltd or passed back to the Council as dividends to be used to support other social care services.

4.4 Customers

The focus for Llesiant Delta Wellbeing Ltd will be on the following customer groups:

Public Sector:

- Councils, Universities, Welsh Government, NHS

Not for profit:

- Housing associations, Registered Social Landlords (RSLs)

Private sector:

- Housing developments, Retirement developments, Care homes, Childrens Homes, Secure institutions, LD semi-independent organisations

Individuals:

- Direct purchase by individuals

4.5 Services

The core services that Llesiant Delta Wellbeing Ltd will offer are:

- **Alarm monitoring:**
 - 24 hours a day, 365 days a year
- **Information advice and assistance (IAA):**
 - The front door for Social Care and Health services for the Council 24 hours a day, 365 days a year
 - Integrated with related service eg Social Workers, Occupational Therapist's, Nurses and safeguarding officers
- **Out of hours response:**
 - Operating a call handling system for various organisations out of normal working hours

Offering intelligent routing/action of contacts

- **Equipment and technology:**

Supply and installation of equipment and technology:

- **Consultancy:**
 - Advice on the planning of technology related care and support to organisations

4.6 Unique Selling Points

- Llesiant Delta Wellbeing Ltd's unique selling points will be:
- **Local authority owned and operated:**
 - Public sector brand with associated values such as quality and trust
- **Social Care DNA:**
 - Embedded knowledge, skills and experience in all aspects of social care with access to other Social Care and Health services
- **Welsh-speaking:**
 - The ability to offer Welsh-speaking services, 24 hours a day, 365 days a year

5. What is a Local Authority Trading Company?

A Local Authority Trading Company (LATC) is a limited company 100% owned by a local Authority, hence the name. It is registered with Companies House and must follow all the statutory obligations of a limited company.

A company can be "limited by shares" or can be "limited by guarantee", the Council establishing their company can choose which type of company it should create.

The recommendation is that the LATC is owned by Carmarthenshire County Council and will be "limited by shares". This recommendation has been given because the Council recognises the need for creating a LATC and this ownership is simpler to manage through share ownership.

One of the reasons for this recommendation is the Members' and Officers' view that the long-term future of the LATC will always be as a company owned by the Council.

The company has objectives other than making money. These other objectives are:

- Providing services to the benefit of residents of Carmarthenshire
- Increasing the provision of existing services without necessarily increasing the cost of that provision
- Diversifying its services to meet changing demand from service users

6. Llesiant Delta Wellbeing Ltd LATC characteristics

The proposed new Llesiant Delta Wellbeing Ltd LATC for Carmarthenshire will have the following key characteristics:

6.1 Ability to trade

Llesiant Delta Wellbeing Ltd will be able to trade in the open market and charge for those services that currently, as an in-house provider, it cannot do. This ability will allow Llesiant Delta Wellbeing Ltd to market and sell its services to customers, including Direct Payment holders, and private payers. Llesiant Delta Wellbeing Ltd will also be able to sell services to residents of other Authorities and other public bodies including neighbouring authorities, the NHS and Clinical Commissioning Groups etc. On top of this, Llesiant Delta Wellbeing Ltd will be able to trade with private organisations. In all its activities Llesiant Delta Wellbeing Ltd will also be legally allowed to make a surplus.

6.2 Rebate surpluses and benefits back to the council

As 100% shareholder, the Council has total control over the treatment and destination of all surpluses generated by Llesiant Delta Wellbeing Ltd. This could mean deciding to invest in additional new Llesiant Delta Wellbeing Ltd services, or rebating the surpluses back to the Council for redistribution within Social Care related services.

6.3 A contractual / commercial relationship with the Council for the provision of services

In order to protect the Council's current high-level of quality in service delivery, it will establish and enforce a supply contract with Llesiant Delta Wellbeing Ltd for all the social care and other services that the company will provide. This contract will have quality requirements and Key Performance Indicators (KPIs) that will need to be achieved on a monthly basis. This contract could have financial penalties included to ensure that the Council does receive best value for the services it commissions.

6.4 Use of the Council's current corporate services

This includes services such as ICT, HR and Financial Transactions processing. Llesiant Delta Wellbeing Ltd will need to maintain the support services that it currently enjoys, to ensure that services are provided as they are now. There will need to be a service contract between the Council and Llesiant Delta Wellbeing Ltd, where Llesiant Delta Wellbeing Ltd agrees and defines the range of services and service levels that the Council's corporate services should deliver. Just as in the service contract described above, this contract should allow Llesiant Delta Wellbeing Ltd to receive good value for money and high quality services.

7. Property and Finance

7.1 Property

Llesiant Delta Wellbeing Ltd will continue to utilise the office accommodation currently utilised, with the future arrangements being formalised by Property Services. There should not be any additional costs incurred in this arrangement.

7.2 Finances

The Council will be transferring all operating budgets that relate to the Llesiant Delta Wellbeing Ltd operation. This will include both income and expenditure.

As with all expanding businesses, there can be a period when the investment in new functions and resources does not immediately deliver financial benefit or increased turnover.

7.2.1 Financial benefits

The summary table below shows that Llesiant Delta Wellbeing Ltd could generate new additional turnover and surpluses over the first five years.

Llesiant Delta Wellbeing Ltd					
Five Year Profit and Loss Account with additional income					
Llesiant Delta Wellbeing Ltd	Year 1	Year 2	Year 3	Year 4	Year 5
Income	£	£	£	£	£
Existing Income	1,669,678	1,669,678	1,669,678	1,669,678	1,669,678
Total Additional Income	359,308	836,373	1,319,218	1,494,545	1,639,629
Total Income	2,028,986	2,506,051	2,988,896	3,164,223	3,309,307
Total Expenditure	2,090,505	2,455,773	2,803,679	2,882,788	2,939,964
Interest on Loan	(13,500)	(10,500)	(7,500)	(4,500)	(1,500)
Profit/(Loss in year)	(75,019)	39,778	177,717	276,935	367,844

The above surpluses could be used to develop new services or could be allocated back to the Council to be used to support other social care services.

The company will be supported by a commercial loan from the Council. This loan has been included in the financial forecast at £250k and will be provided by the Council over five years at a commercial interest rate. The loan is designed to fund all implementation costs and short term cash flow requirements in the first year.

Llesiant Delta Wellbeing Ltd does not provide any regulated social care services, so it follows the standard VAT regime. This means that the company can claim all its VAT input and will charge output VAT on all its invoices to customers. There is no financial implication or cost as a result of the transfer from the Council.

8. How will Llesiant Delta Wellbeing Ltd operate internally?

8.1 Llesiant Delta Wellbeing Ltd internal governance

It is recommended that the Company will be managed internally by one Board:

- The Company Board:
 - The formal, statutory, Company Board, legally responsible for the day to day management of the Company

The governance mechanisms that are recommended for the Council to adopt in managing Llesiant Delta Wellbeing Ltd through the DWGG can be found in a later section.

8.2 The Company Board

This Board is designed to manage and control the operational and financial performance of the company. The size of the organisation in the early years (49.06) staff, does not warrant a fully formed company board and so Llesiant Delta Wellbeing Ltd would be managed by the following positions:

- **Independent Chair** – Appointed by the Council
- **Non Exec Directors** x 2 – externally recruited selected with appropriate backgrounds to provide a creative contribution to the Board by providing independent oversight and constructive challenge to the Executive Directors

The current staffing complement will TUPE transfer on their existing terms and conditions in accordance with the TUPE regulations.

Operational matters will be dealt with by the MD and HR resource will be provided by the Council's corporate services, as they are now.

The Company Board would meet officially once every month and would deal with all aspects of the management of the company.

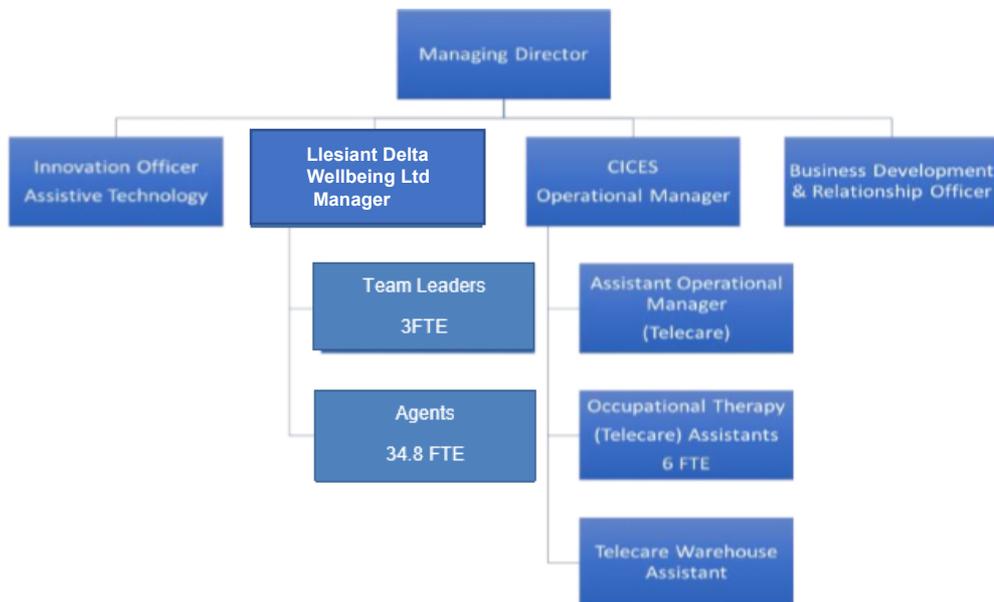
The Management team would be expected to meet on a very regular basis, as one of the significant advantages for this type of organisation is its small size relative to the Council. This enables the Managers to be based in the same building and so working together formally and informally on a daily basis. The key areas of responsibility for each Management post includes the following:

- **Managing Director** – operational efficiency, business strategy and planning; culture change, including transformation; interface and reporting with management board and with Llesiant Delta Wellbeing Ltd Governance Group
- **Finance Manager** – (bought in from the Council) Financial reporting, cashflow management; I.T.; Property; Procurement; commercial contracts

- **Business Development Manager** – overall responsibility for the delivery of new business and customers in line with the strategic goals of the shareholder

The proposed Company Management Team structure and reporting lines on transfer are set out in the diagram below:

Staff structure



9. Governance

Effective governance is an essential component in creating Llesiant Delta Wellbeing Ltd in order to ensure that the requirements of the Teckal Exemption are satisfied. For example, the need for the Council to exert control and influence over the company.

It is anticipated that the company will have a structure and relationship to the Council as set out in the following sections:

9.1 Teckal Compliance

This exemption enables the Council to award a contract to provide services directly to another legal entity without any need for a formal procurement process - provided the new body is “Teckal compliant”. To be Teckal compliant, that other legal entity must be subject to a level of control by the Council (similar to the control the Council holds over its own departments) and the entity must also derive at least 80% of its work streams from the Council.

If Llesiant Delta Wellbeing Ltd is transformed into a single Company, therefore, the Council will be able to award contracts directly to that body without any formal procurement process - provided it is formed to be, and remains, Teckal compliant. Put simply, this means the body will be subject to significant degree of control by the Council, but will be a separate legal entity. Importantly, the Company will be free to trade externally - securing up to 20% of its income from external sources.

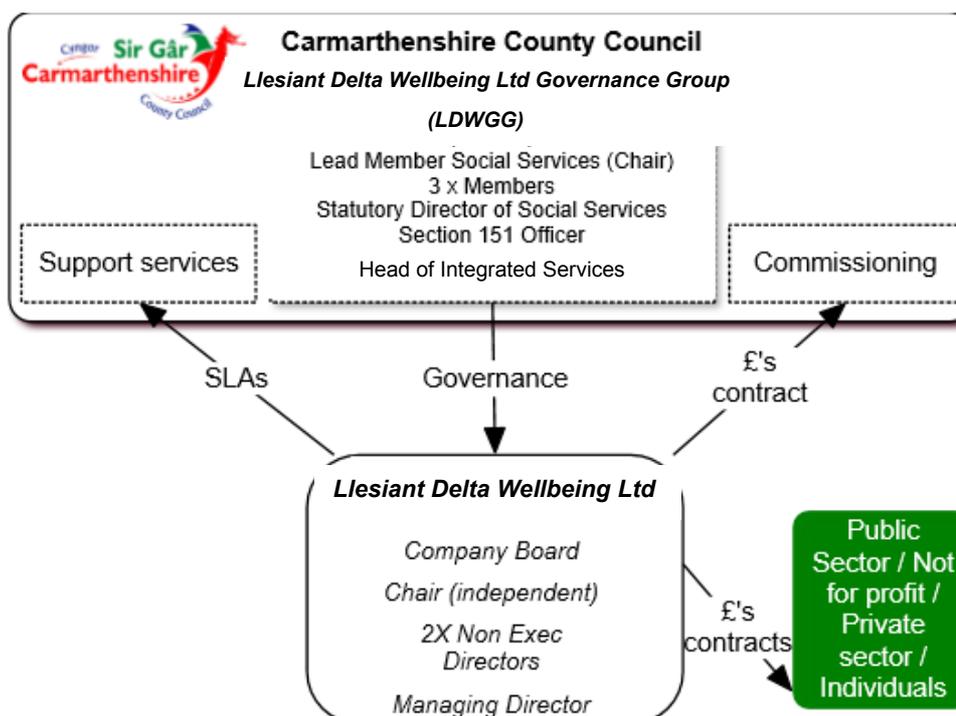
9.2 The Llesiant Delta Wellbeing Ltd Group Governance structure

The structure of Llesiant Delta Wellbeing Ltd will reflect a number of key relationships, governance and contractual arrangements for the Council and the new company.

There are four main relationships that the Council will have with the Company:

- As the 100% owner with monitoring arrangements via the Llesiant Delta Wellbeing Ltd Governance Group (LDWGG)
- As the commissioner with a contract for service delivery by Llesiant Delta Wellbeing Ltd
- As an operational partner with Llesiant Delta Wellbeing Ltd in the delivery of strategically important services that form part of the Council's access pathway
- As a contract holder for delivering business support services to the Company

It is recommended that the Company has a structure and relationship to the Council as set out in the diagram below:



Some of the key responsibilities of the boards are:

- **Llesiant Delta Wellbeing Ltd Governance Group**
The Board has the responsibility for setting out the expectations and ambitions of the Council as owners of Llesiant Delta Wellbeing Ltd at a strategic level and ensuring that the provisions of the Shareholder's Agreement are observed by Llesiant Delta Wellbeing Ltd
- **Llesiant Delta Wellbeing Ltd, Company Board**
This Board is the executive board of the company and responsible for:
 - Day to day management of the business
 - Making strategic and operational decisions
 - Ensuring that the company meets its statutory obligations

9.3 Council relationship with Llesiant Delta Wellbeing Ltd

This business case recommends the Council exert control and influence through the Llesiant Delta Wellbeing Ltd Governance Group (LDWGG). In the diagram above it can be seen that the DWGG sits in the middle of the Carmarthenshire County Council area representing its central role in the Council – Llesiant Delta Wellbeing Ltd relationship.

The purpose of the DWGG is to act on behalf of the Council (shareholder) to scrutinise Llesiant Delta Wellbeing Ltd performance against its service contract and Business Plan, and to review investment plans and risks.

The Llesiant Delta Wellbeing Ltd Governance Group will typically have the following membership:

- Lead Member for Social Services (Chair)
- Three other Members (politically balanced)
- Statutory Director of Social Services
- Section 151 Officer
- Head of Integrated Services

Selecting Members with business experience and commercial acumen on the DWGG will help to provide scrutiny and constructive challenge to the Company Board. It is suggested that the DWGG meets every quarter with the Llesiant Delta Wellbeing Ltd Company Board reporting on the following:

- Financial performance – matched against the latest Business Plan
- Service and Quality performance – matched against contractually agreed service levels, using Key Performance Indicators (KPIs) as a summary guide
- New and additional income returns and plans
- Annual presentation in November/December of the next year's Business Plan and strategic direction of Llesiant Delta Wellbeing Ltd

One of these quarterly meetings will act as the Annual General Meeting (AGM).

9.4 Contractual relationships between the Council and Llesiant Delta Wellbeing Ltd

In the structure diagram, there are two other boxes on the Carmarthenshire County Council side that represent contractual relationships with the Company:

1. The Commissioner

This is where Council commissioners of adult services monitor on a monthly basis contractual performance of the Company. This allows continual scrutiny of service delivery levels and gives commissioners significant ability to fully understand their commissioned services and the factors that affect performance

2. The Council Support Services

This is where the Council is the provider of business support services to the Company, including:

- a. HR providing transactional processing, payroll and advice
- b. Business Administration Support
- c. ICT providing all hardware, networks and software on an on-going basis including daily support
- d. Financial transaction processing providing systems and processing for purchase orders, purchase invoices, payments, sales invoicing and receipts

The contractual relationship between the Council and Llesiant Delta Wellbeing Ltd will also be supported by the following legal documents;

9.5 Articles of association

Both a **Memorandum of Association** and **Articles of Association** are required for a company formed in the UK under the Companies Act 2006 and previous Companies Acts. The **Memorandum of Association** is the document that sets up the company and the **Articles of Association** set out how the company is run, governed and owned.

The **Articles of Association** is a document that defines and records clearly the purpose of the company as well as the duties and responsibilities of its members. It is an important document which needs to be filed with the Registrar of Companies.

9.6 Shareholder Agreement

The Shareholder/Membership Agreement is a legal document allowing the shareholder/owner, in this instance the Council, to restrict what shareholders/owners and Directors can do on behalf of Llesiant Delta Wellbeing Ltd. As there is only one shareholder/owner, the aims of this agreement are to restrict the abilities and authorities of the Company Directors, so that the Council and Members are satisfied that the assets and employees of the Company are adequately protected.

10. Risks

A number of potential medium level risks have been identified as part of the Business Case. These could occur if the Company goes live. Should approval to progress the LATC be given, mitigating actions will be developed to manage and reduce the risks.

Potential risks identified are as follows;

- Delayed income generation due to service disruption
- Not achieving targeted savings and benefits
- Llesiant Delta Wellbeing Ltd is uncompetitive due to the cost of its workforce
- New entrants move into market more quickly than Llesiant Delta Wellbeing Ltd anticipated and offer competitive rates
- Llesiant Delta Wellbeing Ltd will not have the staff or resources to develop and sell new services

10.1 Failure of Llesiant Delta Wellbeing Ltd to deliver the proposed business plan

In the event of business failure or poor performance, the Council would need to consider alternative arrangements. This would only be considered after the company had been given the necessary time that any new venture needs to find its feet. There are three solutions:

- Replace the senior management team. This would typically involve replacing the directors after consistent underperformance and after the failure of their response initiatives to the initial poor service or financial performance
- *Bringing the services back into the Council.* This would be a relatively quick and inexpensive solution. Whilst it would be a retrograde step it may provide confidence to customers, staff and unions and help to manage risk
- *Move services to the independent sector.* Alternatively, the Council could look to the market to take on these services although this would take some time to achieve and incur significant procurement costs. The reasons for the potential failure of the Company as a business may also have an impact on the interest and response of the market and push up the costs. Therefore, an analysis of the costs of either bolstering the services or the Board versus making them attractive to independent providers would need to be undertaken.

The level of scrutiny of the performance of a Council owned independent organisation is much greater than that of any other independent provider and as partner the Council would have plenty of warning if the Company is not achieving its planned performance or is likely to become unviable. There will therefore be an opportunity to implement an improvement plan to bring the performance back in to line or if it is felt that this is unlikely, to look at the other alternatives discussed above

10.2 Breaching the conditions of the Teckal Exemption

Should Llesiant Delta Wellbeing Ltd begin to generate significant income from private sector customers, it may be necessary to review the business model, to mitigate the risk of breaking the Teckal exemption.

It is unlikely that the Council would breach the other main condition of the Teckal exemption, i.e. it is unable to demonstrate that it has effective control of the organisation.

11. Conclusion

There is a net financial and service benefit to the Council establishing and running Llesiant Delta Wellbeing Ltd as a wholly owned Company limited by shares over a five-year period.

