

## APPENDIX 1.

### **Transport Connect Limited - the story so far** *Richard Wills, Non-executive Chairman*

#### **Gestation and journey planning**

Our existence was conceived in late 2015. Anita Ruffle, who is responsible for commissioning transport services for Lincolnshire County Council, faced a market that was rapidly becoming broken. In the south of the county, there were fewer transport companies and as a result prices were rising by an average of 26%. Councillors had previously asked the question – *should we get our own school buses?* This thought echoed in conversations, in minds and finally took shape. A proposal to form a company was accepted by the Executive and the gestation period for TransportConnect began.

Verity Druce, in Anita's team, led the project, working with Legal Services Lincolnshire, Property Services and the Finance Group to find a suitable model. Transport Connect Limited was incorporated in April 2016 as a Teckal Company, with Richard Wills as its founding director. This model gives the council flexibility to award work direct to the company, if necessary; but it also restricts the company to no more than 20% of its turnover being traded beyond the county council.

The primary objective of the company was to provide competition in the market for good value specialist transport to schools and a few Call Connect services. There were tremendous challenges from the outset.

Essential Fleet Services was giving up transport contracts it had held with the council. We had to take on the business and staff under TUPE. Howard Rowbotham was appointed as the company's managing director and Jane McNamara as our Office Manager. They had to secure depots; they had to acquire vehicles; and recruit more drivers and personal assistants for some of the children. They also decorated their own office!

Crucially, a transport business needs "O-Licences" from the Traffic Commissioners. Obtaining these was a fraught process. We might have been forgiven had we thought that the Transport Commissioners' office was delaying in the hope that the Bus Service Bill would be enacted. The Act prevents local authorities from forming bus companies to deliver local services. Nevertheless, we received the licences and beat the deadline!

CallConnect Operations began in July 2016 and Special Educational Needs and Disability Transport Services began in September 2016.

The Board appointed an independent non-executive director, David Harrison, who had advised during the gestation period and was experienced in the bus and transport sector. Our journey had commenced.

## Where are we now?

When the company was established, it was expected that it would have a turnover of around £1 million per annum. In fact, pressure from the council to deliver more services has meant the turnover in 2018-19 was £2.8 million. This has been achieved by a mixture of services won in competition and others allocated by the Council to the company because of a lack of competition in the market.

### Our services in March 2019

The Company was operating the following public bus services:

1CC	Grantham - CallConnect
1G	Grantham - CallConnect
1K	Kesteven - CallConnect
4P	Peterborough - CallConnect
4R	Rutland - CallConnect
4S	Stamford - CallConnect
505H	Holbeach CallConnect
505L	Long Sutton CallConnect
5B	Boston CallConnect
5C	Coningsby CallConnect
7B	Boston CallConnect
15B	Bourne CallConnect
16S	Spalding CallConnect
37S	Spalding CallConnect
4	Grantham to Stamford CallConnect

TransportConnect was delivering the following contracts:

Adult Social Care B190 Scott House – 1 Route  
Mainstream Charles Read Academy – 1 Route  
OSOP Respite - Haven Cottage - Sandon  
OSOP Respite – Haven Cottage – Boston John Fielding  
OSOP Respite - Strut House - Sandon  
SEN OSOP Boston John Fielding – 12 Routes  
SEN OSOP Priory School Spalding – 12 Routes  
SEN OSOP Sandon School Grantham – 15 Routes

In March 2019 the company had:

- 71 Drivers
- 42 Personal assistants
- 5 Office-based staff
- 2 Technicians
- 45 owned vehicles
- 21 vehicles operated by the company but owned by councils
- Operating depots at:
  - Barrowby
  - Spalding
  - Boston
  - Ketton, Northamptonshire

The rapid expansion meant it was impossible to make a profit in the first two trading years. In 2016-17 we made a loss of £101,000 on £0.9 million turnover; in 2017-18 we made a loss of £63,000 on a £2.2 million turnover. However, we expect to be able to report a small profit on a turnover of £2.8 million for the financial year just completed.

In April 2019 the Board expanded to provide greater resilience and now consists of:

Richard Wills – founding non-executive director, Chairman (*appointed 2016*)

Howard Rowbotham – Managing Director (*appointed 2016*)

David Harrison – independent non-executive director (*appointed 2016*)

Howard Gannaway – independent non-executive director (*appointed 2019*)

Nicole Hilton – County Council appointed director (*appointed 2019*)

## **Reflecting on the journey**

### **How does the Council know that TransportConnect provides good value for money?**

About 15% of the turnover of the company has been won through competitive tender. The remainder has been either directly awarded (25%) by the commissioner or inherited on the formation of the company (60%). Interestingly, the least profitable contracts have been the SEND contracts awarded directly or inherited, with the price being largely determined by the Council's commissioners.

TransportConnect has only a small fraction of the Council's total transport services, so the council knows what good value for money looks like through its many other contracts.

One of the main reasons for creating the company was to influence the market. The council's commissioner reports that TransportConnect's presence has meant that other bidders have given more keen prices. Even taking into account the losses to date, the Council is getting cheaper contracts than seemed likely from the trends forming in 2016, when the company was formed.

### **Does TransportConnect operate in fair competition?**

Some operators do not like our presence in the market and question the council's approach. Thus, the company and the council comes under close scrutiny from private operators, who fear unfair competition. However, we are testing our prices in straight competition and we are being awarded contracts when the prices from other bidders has been perceived to be too high.

In the long term, competing operators may benefit from the Council's better understanding of the risks involved in running a passenger transport business.

### **How is TransportConnect financed?**

The Council decided to limit its risk and did not use share capital to finance the company. Instead, the Council provided loan facilities to the company at relatively expensive rates. This was to avoid State Aids breaches and, truthfully, a new company would probably have found it difficult to get loans at the lower commercial rates available to established companies.

We have two facilities. Loan capital, which enabled us to buy vehicles and provide meet other set-up costs. We also have a a rolling credit (overdraft) facility to assist with the company's cash flow.

All bus companies have to demonstrate to the Traffic Commissioners that they have access to cash in the event of service failure. At present their assessment of this figure is about £200,000, which the company covers by its access to loan facilities.

### **How does TransportConnect monitor and manage its costs?**

We have no pure administrative staff, so the systems have to work with people's primary job functions. We use an independent firm of accountants, Wright Vigar, who have helped us through advice based on their experience of working with other businesses. Managers review cash flow constantly and have access to virtually real-time income and expenditure using a cloud-based accounts system. The Board sees monthly reports of profit & loss, cash flow and the balance sheet. The non-executive directors ask penetrating questions and have directed strategic financial policy.

Over the last 12 months we have used the experience of the previous two years to examine our cost base. We are now more productive – staff overtime has reduced. We are more fuel efficient because of monitoring; and we have also shopped around for fuel suppliers. Insurance costs are relatively high and we are examining improved ways of managing the risks that lead to claims. Premises costs are rising but there is limited scope for reducing these at present.

### **What is the ethos of the company?**

We are very mindful that we are owned by the County Council. As such we have to ensure that the way we work will reflect on the Council itself. Our reputational risk is very much tied-in with the Council's. From the outset we were determined to be the best in class in terms of our client, the customers who travel with us and as an employer.

Service, care and respect are key values. Although owned by the Council, the business is able to operate in an entrepreneurial manner, with an emphasis on agility and flexibility.

## What do our passengers say?

### Annual Customer Satisfaction Survey

#### Overview

TransportConnect Ltd currently provide home to school transport for 220 Special Educational Needs children across three Schools. Below is a small selection of the comments and feedback from the parents/carers using TransportConnect Ltd, One School One Transport Provider (OSOP). The comments have been transcribed directly from the feedback forms.

#### Aims of the Survey:

- 🌀 to address issues quickly and efficiently as they happen.
- 🌀 to enjoy the positive feedback and to carry those strategies forward for future successful delivery of contracts.
- 🌀 to act to ensure that any issues are positively addressed
- 🌀 to track and monitor those individuals with concerns and seek to rectify any issues
- 🌀 to use the negative feedback to positively influence future delivery of all Home to School Transport

#### Conclusion:

TCL and the three OSOP school enjoy a positive, friendly working relationship. The issues that crop up are addressed fairly and efficiently and all efforts are made to reasonably accommodate the families we serve.

#### Boston John Fielding

"Our son is happy with our current crew and they go out of their way to ensure the passengers are safe and happy on their journey to and from school. When there are any concerns the crew contact me. This is something that makes me feel very confident and my child is on good safe hands. Thank you".

#### Sandon

"Very reliable service. The crew are always happy, always caring and the highlight of our day in this house, is when the bus is arriving, and both children and even the dog know the bus is coming down the road and get quite excited. The bus crew always join in and make the children feel good. They get involved with dress up days, children's birthdays and other festive activities".

#### Priory

"Since TransportConnect Ltd took over it has been brilliant. The crew have listened and sorted out any issues my son has. They really have taken my sons needs into account and if they are running late, they know it worries my son. They are brilliant. It is well run. Thank you".

### **What are relations like between the Company and the County Council?**

Overall the relationships with the council are very good. Anita Ruffle, as the Owner's Representative, attends every board meeting. This ensures that the Company is acting in accordance with the Articles of Association and the Member's Agreement, which is essential in a controlled Teckal. She is also able to facilitate communications between the company and the council.

We have day-to-day contact with the Passenger Transport Unit which, as the commissioner of services, is tough on getting value for money for the Council. However, staff there recognise that some children's needs change and then we negotiate how the contracts may alter to accommodate different travel patterns or vehicle requirements.

We have a good relationship with the finance team and there is weekly communication regarding the movement of cash in the overdraft facility and the payment of invoices.

In June 2017, there was a serious fire at the Barrowby Depot, which is owned by the Council. The rebuilding has been a fraught and lengthy process. At the time of writing the building has been substantially complete but not yet handed over to us. We feel there has been a lack of empathy with the commercial realities on a trading company.

### **Could TransportConnect deliver more services?**

We have been very cautious about trading beyond the county council because we have already had to expand more rapidly than originally envisaged. The Board set a target of stabilising the company financially.

We do some business to business trading, which is profitable.

We believe that there are opportunities to undertake some direct customer trading.

It is likely that at some point the Council will expect us to provide more non-SEND home to school transport. This would mean the acquisition of much larger vehicles, so is by no means a simple business decision.

### **Are there any lessons for further commercialisation by the County Council?**

The key to any successful company is operating at a profit and managing cash flow. Many companies that could be profitable fail because they run out of cash to operate. That has been at the forefront of our minds from the outset. Cash flow for the company would have been easier had we had share capital, rather than loan capital.

Repayments and the cost of credit impact on cash flow. In the first two years interest charges amounted to around £44,000.

At least £900,000 of share capital would have been required to establish the company. The council would have missed out on the interest payments (at and

internal rate is advantageous to the council), but accumulated losses would have been reduced.

In future companies the Council would need to consider whether there would be benefits overall if share capital rather than loan capital was used.

## **Conclusions**

**Transport Connect has achieved the primary objective at the time of its inception – the market is delivering cheaper transport contracts than would have been the case.**

**The company is operating successfully in terms of the quality and range of services.**

**The company is moving towards profitability, which is a significant achievement given the rate of expansion, which was faster than originally intended.**

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