



Open Report on behalf of Andy Gutherson, Executive Director – Place

Report to:	Highways and Transport Scrutiny Committee
Date:	14 December 2020
Subject:	TransportConnect Ltd - Teckal Company Update

Summary:

This report provides an update on the Council's Teckal Company, TransportConnect Ltd, which was established in 2016 as an intervention into the passenger transport market.

Actions Required:

- 1) To consider the attached report on the Teckal Company.
- 2) To agree any additional comments to be passed to the Executive Member for Highways, Transport and IT.

1. Background

This report provides Lincolnshire County Council, as owner of TransportConnect Limited (TCL), with an annual review of the company and its activities.

- 1.1 The Company was conceived late in 2015 when the County Council faced a market that was rapidly fragmenting. Prices were rising by an average of 26% due to operators dropping out of the market thus reducing competition, particularly in the south of the county. The idea that the Council might need to run its own fleet finally led to a proposal to form a company; this was adopted by the Executive and TCL was established in 2016.
- 1.2 TCL is a Company Limited by Guarantee with the County Council being the sole member. It is a "Teckal" Company, which restricts its ability to trade beyond the County Council, but also means that the Council can award work directly to the company as if it was a department.
- 1.3 The Company's head office and main depot is at Barrowby, near Grantham. Since its formation TCL has moved its other depots from Swineshead, Podge Hole and Bourne to better-located leased sites in Spalding, Boston and Ketton.

- 1.4 TCL commenced operation of several CallConnect local bus services in July 2016 and a number of Special Educational Needs and Disability (SEND) services from September 2016 following lack of interest from the market through formal tender.
- 1.5 Based on the initial contracts awarded at formation, TCL was expected to come into profit in the second full year of operation. However, the Council has needed to place more contracts with the company than originally anticipated, increasing the up-front investment (vehicles, personnel and training) and resulting in changes to the Company's income and expenditure profiles.
- 1.6 As a consequence, the Company made losses in the first two years of operation moving into small annual profits from 2018-19. The revised aim has been to break even overall by the fifth year of trading.
- 1.7 To date, TCL has continued to primarily deliver CallConnect, Social Care and Home to School/SEND contracts using a fleet of smaller sized vehicles. The Company uses a current fleet size of 74 vehicles. 23 of these are Lincolnshire County Council (LCC) CallConnect vehicles and the remainder are owned by the company.
- 1.8 As a Teckal Company, the County Council is entitled to award contracts to TCL without formal procurement processes. The Company currently undertake 24 contracts, including three One School One Provider (OSOP) contracts. 70% of TCL's contracts were put in place when it was established and all were contracts that it had not been possible for the Council to award when tendered. About 25% of its turnover has been won through competitive tender. With few exceptions, the remaining 5% has been through direct award after tendering within the market failed to find a supplier or affordable solution.
- 1.9 The Company undertakes some private work, though this remains within the 20% maximum allowed for a Teckal company. An example of this during the year was a commission to support the 2019 Lincoln Christmas Market Park & Ride facility, with the provision of wheelchair accessible minibuses.
- 1.10 Whilst TCL only represents a small percentage (6.7%) of LCC's total passenger transport spend, undoubtedly it helps the council to benchmark other providers' costs against those of TCL and to determine who has submitted a truly competitive price.

Company Ethos

- 1.11 TCL aims to give people access to their communities, with the health and safety of its employees, customers and the public at large always held paramount. The Company's motto is "Service... Care... Respect".

1.12 Directors are mindful that as a company owned by the County Council, it is important that the way that TCL conducts its business reflects well on both the Company and the Council itself. In order to achieve this, TCL adopts a “can-do” attitude not unlike a small family business and sets a high benchmark in terms of delivering service for LCC, caring for customers (many of whom are vulnerable and/or isolated) as well as looking after its staff.

1.13 TCL currently employs 125 staff. It strives for a workforce able to achieve, excel and perform at the highest level whilst working effectively and it looks to achieve this through a training programme and regular communication.

1.14 Examples of TCL's commitment to staff include:-

- 8% of drivers hold a higher category Public Service Vehicle (PSV) licence;
- all front-line staff are trained in first aid and wheelchair security by accredited providers;
- a formal apprenticeship programme;
- employment of a wide range of staff from different sectors, bringing with them a wealth of transferrable skills.

1.15 The nature of the business means that employees accept some challenging work patterns notwithstanding this, the Company has successfully recruited candidates who share its passion for high customer service and a genuine focus on caring for passengers.

Company Arrangements and Governance

1.16 The Company has a very lean management structure with only 3 senior employees: Managing Director, Commercial Manager and Compliance Risk Coordinator. Given the scale of expansion and the complexities and risks that come with running any transport business, the Directors continue to keep the Company structure under review. The aim is to address the risks and demands of the Company, by TCL engaging well trained staff and using relevant up to date technology.

1.17 Insurance, Legal, HR, Finance and Accounting Services are all bought in by the company. The Company's legal support continues to provide the necessary Company Secretary services. The Company's accounting year has been aligned to LCC's and their Accountants support the production and submission of annual accounts to Companies House. All information is shared with and open to the Council for inspection.

1.18 The Company Board is an appropriate size, providing some resilience and a good spread of skills. Each non-executive board member takes the lead for specific areas. The Board comprises five members drawn from local authority and business backgrounds. Meetings are held monthly and are also attended by the Owner's Representative (LCC's Head of Transport Services) and TCL's Commercial Manager.

1.19 The current Board Members are:-

Nicole Hilton	Assistant Director, Communities and representative of Lincolnshire County Council, appointed in June 2019.
Richard Wills	Former Executive Director at Lincolnshire County Council, appointed in April 2016
David Harrison	Independent non-executive director with experience of running passenger transport services in the UK, appointed March 2017
Howard Gannaway	Independent non-executive director with a breadth of financial and business experience, appointed June 2019
Howard Rowbotham	Executive Director and MD, Transport Connect Ltd

- 1.20 The Articles of the Company enable the Council to exercise sufficient control to manage its risk while allowing the business to operate in an entrepreneurial manner, with an emphasis on agility and flexibility. However, as TCL is owned by the County Council, an important role for the Board is to establish a strategy for the business that is consistent with the Council's aims and objectives.
- 1.21 The formal governance role for LCC continues to be held by the Executive Councillor for Highways, Transport and IT. The Owner's Representative plays an important role too including that of a conduit for communication between the Company and LCC as the Member. Strategic oversight is also supported by the LCC Finance team, Legal services and Assurance Lincolnshire.
- 1.22 Briefings and updates on the activities and any issues in relation to the company are provided by the owner's representative to the Executive Councillor and in periodic updates such as this through the Scrutiny Committee process.
- 1.23 The Company has formal contract management and operator liaison meetings with relevant contract managers in relation to the contracts delivered including the OSOP undertakings.
- 1.24 TCL remains subject to operator compliance checks by the Transport Services Group and its Inspectors. These checks involve audits of office systems, policies and procedures, ongoing DBS checks, vehicle inspections, driver training and both planned and unannounced operational surveys.
- 1.25 The Company has commissioned its own external auditors to review its processes and procedures in relation to compliance of O' Licence regulations and requirements. Logistics UK (formally the Fleet Transport Association) are also undertaking periodic 'dip tests' which involve thorough roadworthiness inspections on six vehicles from within the fleet selected at random.

1.26 In February 2020, a review of TCL was commissioned from an independent consultant (NGPT Ltd). The review identified that :-

- 'TCL is operated in a lean and efficient manner which helps to minimise overheads and deliver contracts for the Council at a low cost.
- Managing a large number of employees with relatively few supervisors and management staff would suggest that TCL cannot realistically be managed any more efficiently than it is at present.
- The role the Company is performing in the delivery of services in areas that are poorly serviced also opens up greater opportunities in future to ensure the company continues to meet the transport needs of local people where the market is unable to'.

1.27 The overall conclusion of the review was that: 'TCL has the potential to be a very useful tool for the County Council to ensure it has control over the delivery of transport services in the County. It would be a step backwards to disband TCL and makes far more sense to build on what it has achieved to date, particularly as authorities are not allowed to set up their own bus company any longer'.

Review of Activity and Change – 2019/20

1.28 In 2019 the Traffic Commissioner, who regulates the passenger transport sector, called the Directors to a Preliminary Hearing due to concerns that the company did not have sufficient cash reserves to meet the stringent requirements of the law. It was demonstrated that this was an issue of where the reserve funding was held rather than the lack of its existence. He also required the company to demonstrate its ongoing commitment to vehicle safety following issues faced by loss of the workshop facility at Barrowby due to an electrical fire. The Committee will recall from the previous Teckal update that building reinstatement took the landlord an inordinate amount of time, considerably longer than anticipated. The Council and the TCL Board are confident that the Company have not only met but exceeded the Traffic Commissioner's requirements.

1.29 Investment in new software has improved reporting systems and preventative maintenance schedules. This has contributed significantly to improving the first-time pass rate on MOT testing.

1.30 Investment in vehicle telematics is enabling better driving performance and safety management, as it monitors elements such as fuel consumption, driving styles, and speed. Installation of CCTV camera technology is also helping the company to robustly defend unfounded accident claims and reduce insurance premiums.

1.31 The results of Customer Satisfaction Surveys regularly reveal scores of 100% for overall satisfaction of the service provided by TCL and qualitative results further support this.

- 1.32 TCL has been required to continue operating throughout the Covid-19 pandemic, providing essential transport services for key workers, communities and scholars. The virus has impacted on some staff availability and this has meant that maintaining essential services has been challenging at times.
- 1.33 The company is acutely aware of the risks associated with the virus and utilises all of the appropriate safety and social distancing measures at its disposal. The Barrowby depot was recently subject to a random Covid-19 spot check by the Health and Safety Executive. The outcome of this was positive with appropriate protocols and measures to protect staff found to be in place.
- 1.34 The Committee will be aware, from other reports received, that the transport market remains vulnerable and potentially even more so due to the impact of Covid-19, plus the need for operators to ensure compliance with the latest elements of the Public Service Vehicles Accessibility Regulations and aspects of the Bus Services Act as applicable. Teckal Company status does not exempt TCL from any of these regulatory requirements.
- 1.35 Importantly, the Teckal Company continues to provide LCC with contingency, offering a valuable safety net for the County should there be further contraction of supply within the market. LCC are in an enviable position in this respect as the Bus Services Act 2017 removed the opportunity for local authorities to establish a transport company in the future.
- 1.36 Representatives of the Board will be present at the meeting and will provide the Committee with a short presentation on the Teckal Company, providing useful insight from the Board's perspective.

Financial Standing

- 1.37 TCL's commissions have continued to be for plugging the gaps in CallConnect, Social Care, and Home to School transport (primarily for SEND pupils) networks where, in the main, tendering processes have failed to find a supplier or affordable solution. It should be recognised that this has required the Company to expand at a pace and in a direction that it may not have taken were it acting purely in a commercial capacity.
- 1.38 Given the drivers for establishing the company were to address failings in the market and to bolster the available resource on which the Council could call to meet transport demands, the financing of the contracts performed by TCL to date have not been based on maximising profit for the company but instead maximising the cost avoidance for the council. The value of how much the Council has not had to incur ie the cost avoided as a result of its teckal intervention is monitored on an ongoing basis.

- 1.39 Senior management at TCL reviews cash flow constantly and has access to real-time income and expenditure using cloud-based accounts and banking systems. The Board examine monthly reports of profit & loss, cash flow and the balance sheet, and scrutinise operational accounts. Directors also set strategic financial policy in order to be assured of the viability of TCL's future business model.
- 1.40 In last year's Annual Report, the Directors reported concerns that the directly awarded SEND contracts were loss-making because the service payments were undervalued. Following a detailed analysis of the payment mechanism in partnership with the Commercial Team and other service areas within LCC, this matter has now been addressed.
- 1.41 2020 has clearly been a turbulent year due to the Covid-19 crisis however the majority of contracts performed by TCL were those considered essential to support key workers and/or vulnerable children. This has allowed the Company to sustain much of its income stream during the pandemic.
- 1.42 A financial synopsis in relation to TCL is provided at Appendix B.

Conclusion

- 1.43 TCL continues to achieve the primary objectives set at the time of its inception in that:-
- the market is delivering cheaper transport contracts than would have been the case without the Teckal intervention
 - it supports the Council to meet its statutory obligations in respect of passenger transport services when the market cannot.
- 1.44 Unless there have been exceptional circumstances, we have continued to give the market the opportunity to bid first for all work and only then made direct awards to TCL in cases where award of contract was not achieved through the competition route. It is recognised that it is not essential for the Council to do this.
- 1.45 TCL continue to be tested through straight competition with other operators and this helps to validate that the company's pricing is competitive and value for money.
- 1.46 The company continues to operate successfully in terms of the quality and range of services receiving some excellent customer feedback.
- 1.47 Through strict financial management the company have continued to move towards profitability whilst servicing all loans and operating in line with Teckal Company requirements.
- 1.48 Investment in staff training and technology over the past year has seen a demonstrable improvement in service delivery and company process.

1.49 The continued existence of TCL gives the Council increased opportunity for the future and contingency in the event of market contraction as a result of Covid-19 and/or any other forces negatively affecting transport supply within the County.

2. Consultation

a) Risks and Impact Analysis

Copy of the risk register is contained in Appendix A

3. Appendices

These are listed below and attached at the back of the report	
Appendix A	Risk Register Extract
Appendix B	EXEMPT INFORMATION – NOT FOR PUBLICATION - Appendix B contains exempt information as defined by Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

4. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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