



**Open Report on behalf of Andy Gutherson, Executive Director - Place**

Report to:	<b>Highways and Transport Scrutiny Committee</b>
Date:	<b>24 October 2022</b>
Subject:	<b>Transport Connect Limited (TCL) - Teckal Company Update Report</b>

**Summary:**

This report provides an update on the activities and performance of the Council's "Teckal" Company Limited (TCL), since the previous report considered in December 2021. As a Teckal Company Limited the County Council is the owner of the company.

The purpose of the report is to provide a summary of the strategic direction of the company; an update on how TCL provides a further option to the County Council to deliver its obligations for educational travel and public transport; and finally, to give assurance that the company complies with the requirements of a private limited company.

**Actions Required:**

Members of the Highways and Transport Scrutiny Committee are invited:

- (1) to consider and comment on the attached report on TCL; and,
- (2) to agree any additional comments to be passed on to the Executive Councillor for Highways, Transport and IT for his consideration.

## **1. Background**

### **1.1 Purpose of TCL and future objectives**

As the Committee will be aware from information provided in previous updates on TCL, it was formally established in 2016. It is a "Teckal" Company Limited by Guarantee with the County Council being the sole member. A Teckal company restricts its ability to trade beyond the County Council (limit of 20% of turnover from other work), but also means that the Council can award work directly to the company as if it was a department. The County Council was fortunate in its timing

of establishing TCL. The Bus Services Act 2017 has prevented any Local Transport Authority from setting up a bus company which would include a Teckal.

- 1.2 The primary purpose was to provide an intervention into an increasingly vulnerable transport market in the south of Lincolnshire. At the time, prices were rising by an average of 26%; and for a number of contracts, especially in Special Education Needs and Disability (SEND), one or no competitive bids were being submitted. If any were then the prices were higher than expected. Since its inception, TCL has undertaken CallConnect, Educational Travel (with a focus on SEND) and Social Care transport using a fleet of 8–16-seater vehicles. TCL originally started with 12 CallConnect Contracts (now 15 CallConnect contracts) and three other routes comprising 54 staff (now 136 staff), 41 vehicles (now 82 vehicles) and 4 depots (now 6 depots). One of the three other routes was a One School, One Provider (OSOP) contract for Priory School in Spalding. TCL now deliver 3 OSOP schools, the existing Priory School now called the Tulip Academy, as well as Boston Endeavour Academy and Sandon School at Grantham. As the pupil numbers at Boston Endeavour Academy has increased, TCL has increased the number of routes delivered to the school by an additional four routes, resulting in four new vehicles with accompanying crews.
- 1.2 TCL may carry out up to 20% trading with other public and private sector parties. TCL has in previous years provided Accessible Transport at Lincoln Christmas Market and has tendered to extend this contract for a further 3 years; Casterton College Educational Travel transport (the current contract has been extended for another two years); and the company also undertakes four adult social care midday runs.
- 1.3 TCL continues to play a vital role in the transport market. The County Council considers carefully whether a direct award or a tender exercise is most appropriate. However, TCL is flexible, provides value for money and can mobilise quickly. Recently, for example, TCL was able to mobilise and quickly provide the County Council with a Spalding IntoTown fixed bus services on Saturdays between January and September 2022. The County Council had to subsidise a Saturday service when the previous operator withdrew from the Saturday market. This allowed the County Council to review the service and provide a Monday to Saturday subsidised Spalding town service. TCL has also continued to specialise in the SEND market.
- 1.4 TCL is now in its seventh year. The initial objective of the company was to expand to meet the additional County Council requirements especially the additional two OSOP contracts. Whilst developing the business plan, TCL identified four different options:
  - Remain stable
  - Further expansion
  - Reduce
  - Diversify

1.5 Diversification was deliberated at length by the Board, and it was agreed that increased maintenance provision should be added to the portfolio of the Teckal. The County Council, as owner, considered this option and supported this approach. Previously, TCL now provide a maintenance package for all the gritters used by the County Council.

1.6 TCL's key objectives for 2022/23 will be to:

- Maintain the same level of service for transport operations;
- Be seen as an exemplar of good practice in the provision of SEND transport;
- Continue to maintain a surplus;
- Diversify where there are opportunities whilst recognising increased operational costs; and,
- Continue to look for new opportunities.

As with all operators in transport, there have been recent increases in staff pay and fuel which has increased operational costs. There are industry wide driver shortages and difficulties obtaining new and used vehicles, but TCL have managed to mitigate the impact of driver shortages on their ability to deliver services with pro-active recruitment drives and maintaining the reputation with the driving community as a good employer. TCL has managed to recruit 8 drivers and/or Passenger Assistants (PAs) between April and August 2022. This meant that for the new academic year in September 2022, all the intended routes were delivered. The purchasing of 8-seater accessible vehicles has been a test but by maintaining strong relationships with suppliers around the country, TCL has managed to source four new accessible vehicles.

#### Financial Oversight

1.7 TCL received a loan from the County Council at its inception to facilitate the acquisition of vehicles. This loan to the company was fully repaid by October 2021. TCL continues to have access to a revolving credit agreement from the County council which acts as an overdraft facility and is used to help with cash flow pinch points during the year.

1.8 The Managing Director presents monthly accounts to the Board. They are considered in detail. As previously reported, TCL has a lean management structure and buys in accountancy and financial management support from Wright Vigar. The draft accounts for financial year 2021/22 show a reasonable surplus of £134,412 which is 3.6% of Turnover. It needs to be remembered that the Teckal is in place to offer cost-effective solutions for the County Council and therefore, the business is run leanly with close attention paid to monitoring costs and expenditure. The accounts show that the Balance Sheet continues to strengthen with net assets on 31 March 2022 of £598,129.

1.9 TCL have provided satisfactory responses to any queries on the Accounts either through the Board Meeting or via the Owner Representative. This feedback has

resulted in splitting the main account from the gritter maintenance contract from September 2022 to enable proper oversight by the Board and Owner. The Profit and Loss account for the current financial year has followed a similar profile to all previous years and although currently showing a year-to-date deficit, it is expected that this will even out over the second half to record a modest surplus by year end, whilst managing the increased operational costs.

1.10 Risks

The Board regularly review TCL’s risk register which includes both strategic and operational risks to the company. Risks are regularly discussed at Board meetings and through the day to day running of the company. The risk register is live and is updated as and when new risks are identified. The key risks have been referenced throughout this report. They remain fluctuations in fuel prices, driver shortage-recruitment, failure to maintain Operators’ Licence financial standing levels and energy-utility costs.

1.11 As owner of TCL, LCC has identified risks and opportunities of having a Teckal company. The opportunities relate to the ability of market intervention by utilising TCL where it is deemed appropriate. TCL has expanded its ability to provide fixed route bus services in recent years in addition to SEND and CallConnect. The key risk to the County Council relates to ensuring that TCL comply with the transport regulatory framework, the requirements from Companies House as a private limited company and ensuring that TCL remains financially viable and aligns with the Council’s objectives.

1.12 Board Membership and Internal Audit

The TCL Board has seen some recent changes. Richard Wills, a former County Council Director, has recently resigned from the Board, having chaired it since its inception. He resigned in August 2022 and Nicole Hilton, Assistant Director (Communities) has now been appointed as Chairperson. The current Board Members are:

Nicole Hilton (Chairperson)	Assistant Director (Communities), County Council representative since 2019.
Howard Gannaway	Independent Non-Executive Director with a breadth of financial and business experience, appointed in June 2019.
Bob Pinkett	Independent Non-Executive Director with a breadth of transport operational experience both in the private sector and local authority, appointed in 2022.
Howard Rowbotham	Executive Director and Managing Director, TCL since 2016?
Jane McNamara	Executive Director and Commercial Director, TCL. Jane was appointed to the Board in 2022.

- 1.13 The formal governance role for LCC continues to be held by the Executive Councillor for Highways, Transport and IT. Helen Reek, from the Transport Services Group was appointed as the Owner Representative. This role is a conduit for communication between TCL and the County Council. It involves engaging with the County Council's Finance team, Legal services, Assurance Lincolnshire plus other service areas such as highways to ensure that any risks to the County Council are effectively managed. Briefings and updates on the activities and any issues in relation to TCL are provided by the owner's representative to the Executive Councillor and through periodic updates to this Committee.
- 1.14 Furthermore, the County Council has formal contract management and operator liaison meetings with TCL managers and supervisors on:
- OSOP contracts
  - CallConnect contracts
  - Gritter maintenance
- 1.15 The County Council conducted an internal audit in 2021 reviewing TCL's governance arrangements. The final report was published in November and identified 3 high risk recommendations which related to the minutes and how actions are recorded and the layout of the risk management policy. There were 7 medium risk recommendations all of which have been addressed and the review of current policies and procedures are in progress and makes up a forward Programme of Work for the Board which allows continuous improvement.

## **2. Conclusion**

- 2.1 TCL continues to provide transport support in the south of Lincolnshire and the intervention of this course of action has helped to moderate the prices and provide some competition in the market. It supports the Council to meet its statutory obligations in relation to Education Travel. TCL has diversified into a maintenance market, an area of which it has many years of experience and expertise of providing services for its own vehicles. It does, however, have a lean management structure which will be considered by the Board.
- 2.2 TCL continues to provide the County Council with a valuable safety net and the opportunity to provide registered local bus services where a quick response is needed. This issue is more acute as there continues to be a risk of other operators withdrawing from the market.

## **3. Consultation**

### **a) Risks and Impact Analysis**

TCL has a strategic and operational risk register that is monitored regularly by the TCL

Board. LCC as the owner of the company also assesses risks to LCC on a regular basis.

#### **4. Background Papers**

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

This report was written by Helen Reek, Senior Projects Officer- Transport, who can be contacted on 01522 554545 or [Helen.Reek@lincolnshire.gov.uk](mailto:Helen.Reek@lincolnshire.gov.uk).