

Date: Wednesday, 20 May 2015

Time: 12.30 pm

Venue: Shrewsbury/Oswestry Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

Contact: Penny Chamberlain, Principal Committee Officer
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CABINET

TO FOLLOW REPORT (S)

9 ip&e Annual Business Plan and Update Report (Pages 1 - 8)

Lead Member – Mr Mike Owen, Portfolio Holder for Resources, Finance and Support.

Report of the Head of Finance, Governance and Assurance is attached, marked 9.

Contact - James Walton (01743 255001)

11 ip&e Annual Business Plan and Update Report (Pages 9 - 48)

Lead Member – Mr Mike Owen, Portfolio Holder for Resources, Finance and Support.

Exempt Appendix to the report of the Head of Finance, Governance and Assurance (item 9 above) is attached, marked Exempt 11.

Contact - James Walton (01743 255001)

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Committee and Date

20 May 2015
Cabinet

12:30 pm

Item

9

Public

ip&e Ltd ANNUAL BUSINESS PLAN AND UPDATE REPORT

Responsible Officer Clive Wright

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Tel: (01743) 252007

1. Summary

- 1.1. ip&e Ltd is required, under the provisions of the strategic contract with the Council to provide Shropshire Council with an annual business plan that sets out the company's activities for the next financial year and also a three year plan.
- 1.2. ip&e Ltd is required to submit its Annual Business Plan (ABP) to the Council in the preceding October, for consideration. This was duly taken to Cabinet on 15 October 2014. The Council and ip&e Ltd work together to reach an agreed signed Business Plan by the end of the following January, which enables the Business Plan to be approved by Cabinet in February as part of the Council's Business Plan and Financial Strategy (BP&FS). As reported to Council in February, the Council and ip&e Ltd were in the process of transferring a range of services, as set out in the October Cabinet Report, and it was agreed to delay the production on the ABP until this process was closer to reaching completion.
- 1.3. This report and accompanying business plan sets out the company's vision, mission and principal business activities for the three year period from April 2015 to March 2018.
- 1.4. This report also updates Cabinet on a number of changes that are proposed to be made to previously advised processes.

2. Recommendations

It is recommended that

- A. Cabinet approve the attached draft ip&e Ltd Annual Business Plan and incorporate the implications of this into the Council's next refresh of its Business Plan and Financial Strategy.
- B. Cabinet notes and approves the further updates as set out in Section 6 of this report.

3. Risk Assessment and Opportunities Appraisal

- 3.1. Human Rights: No adverse impact is expected from the agreement of the business plan, proposed changes to process or how the company operates.
- 3.2. Financial: Reduced levels of funding for commissioned Council work mean that the company must seek alternative external sources of income, within permitted Teckal guidelines, to ensure that the company remains profitable and a going concern. Moving forward, the profitability of ip&e Ltd will become a greater risk factor for the Council as funding to the public sector continues to reduce. There is a risk that the profit levels identified within the ABP will not be achieved and to mitigate this, the Council's BP&FS does not currently assume any profit from ip&e Ltd within its current Medium Term Financial Plan (MTFP). There is an opportunity for the Council to derive public profit from ip&e Ltd to support and develop Council services in the future.
- 3.3. Equalities: No one with characteristics defined and protected under the Equality Act shall be adversely affected by the company's business activities.
- 3.4. Community: One of the key aims of ip&e Ltd is to build community and social capital by operating responsibly, inclusively and in partnership with people that share the company's values.
- 3.5. Environment: No adverse impact on the environment is expected.
- 3.6. Consultation: There are no consultation requirements specified in the strategic contract. However, performance and financial reviews will be undertaken as set out in clause 7 of the strategic contract and specific consultation undertaken as part of any service transfer between the Council and ip&e Ltd or other bodies.

4. Financial Implications

- 4.1. The Council has not included any ip&e Ltd profit assumptions in its MTFP (2014/15 to 2016/17) which was approved by Council in February 2015.
- 4.2. The commissioning budget for two businesses currently operating within ip&e Ltd, and those services proposed for transfer as set out in the attached ABP, include variations in contract payment from Shropshire Council over the company's business plan period. These reductions have been incorporated into the Council's MTFP and future financial forecasts contained in the ip&e's ABP to ensure that the Council's Financial Strategy is, as a minimum, not adversely impacted in the medium term by the transfer of services.

- 4.3. One of the key aims of ip&e Ltd is to create public profit to be reinvested in Shropshire. The company's ABP contains financial forecasts for the current financial year 2015/16, and the following two years beyond this. The company is forecast to generate sales of approximately £12.5m per annum and net trading profits across the three financial years. The ABP sets out the gross and net profit forecasts for the next three years. These have not at this stage been incorporated into the Council's Business Plan and Financial Strategy, and projected net profits as follows:

2015/16	£90,000
2016/17	£39,000
2017/18	£108,000

- 4.4. In addition the contracts for the Communications and Business Design Teams were reduced as a result of transfer to ip&e Ltd. The Communications Team contract reduction was front loaded and the Design Team back loaded to deliver an annual reduction by 2016/17 of £344,654.
- 4.5. The business plan is not available for public inspection on the basis of the commercially sensitive information contained within it.
- 4.6. The directors and board members of ip&e Ltd are currently reviewing and agreeing company infrastructure costs that reflect the need to manage and deliver a larger volume of services and contracts including those with external customers in the period 2015/16 to 2017/18. Some of these require further review, specification and agreement as the company increases its turnover and size of workforce. Overhead costs for individual business units are incorporated into the profit forecasts identified in the company's business plan.
- 4.7. The Council has a loan facility of £500,000 available, of which £92,473 (including accrued interest) was drawn down by ip&e Ltd as at 31 March 2015. The current terms of the loan are that the principal and accrued interest are due to be repaid by 31.03.16 and monthly repayments throughout 2015/16 are currently being actioned.
- 4.8. The 2014/15 financial accounts for ip&e Ltd have yet to be completed and incorporated within the Council's Group Accounts. The company's accounts will be audited and approved by the Board of Directors by 31 May 2015.
- 4.9. At the present time there has been no impact on the Council's financial position, other than that already identified above, from the operation of ip&e Ltd since inception, although it is anticipated that ip&e Ltd will generate a small profit and the Council has benefited from the recharge of various support services and the secondment of staff to ip&e Ltd over the last year of operation.

- 4.10. Reduced levels of funding for commissioned Council work mean that the company must seek alternative external sources of income, within permitted Teckal guidelines, to ensure that the company remains profitable and a going concern. Moving forward, the profitability of ip&e Ltd will be crucial for the Council as funding to the public sector continues to reduce. To mitigate any risk that the profit levels identified within the ABP will not be achieved the Council's BP&FS does not currently assume any profit from ip&e Ltd within its current MTFP. However, to safeguard services in the future, profit must be generated by ip&e Ltd through trading external to the Council.

5. ip&e Ltd Annual Business Plan

- 5.1. ip&e Ltd is a private company, limited by shares, the sole shareholder of which is Shropshire Council. The Cabinet acts as the shareholder on behalf of the Council. The company's registered office is at the Shirehall, Abbey Foregate, Shrewsbury, SY2 6ND.
- 5.2. The company has four Directors (in accordance with the quorum required in the Articles of Association) being:
- A Councillor Director – appointed by the Council (currently Steve Charmley - the Cabinet member for business growth and prosperity and ip&e Ltd) who is answerable to the residents of Shropshire.
 - An Officer Director – officer of the Council – currently Tim Smith, also Company Secretary.
 - Other Directors – Councillor Keith Barrow, currently Chair of ip&e Ltd, Mike Owen and Chief Operating Officer Nicki Beardmore.
- 5.3. The Council commissions ip&e Ltd to deliver certain services to the Council as instructed and agreed under the terms of the strategic contract. The services provided include making, developing and promoting proposals to the Council in relation to:
- delivering better outcomes for the Council and the people of Shropshire;
 - re designing and transferring new services into ip&e Ltd that will operate in a more efficient way;
 - investment in the delivery of supplies, services or other resources required by ip&e Ltd;
 - creating jobs, wealth and profit that will benefit Shropshire tax payers.
- 5.4. Either the Council may propose to ip&e Ltd and/or ip&e Ltd shall be entitled to put forward to the Council any proposals for such services at any time by way of an Enabling Services contract as set out in the Strategic Contract. These may include new and innovative service provision models, new or

alternative service delivery methods and ideas for future partnering and local community engagement. Any Council services that are agreed for transfer to ip&e Ltd are the subject of a separate services contract detailing the services to be provided to the Council.

- 5.5. Officers of the Council and members of ip&e Ltd have agreed a transitioning process (called our Commissioning Approach) that will scrutinise each proposal for services to be transferred from Shropshire Council to ip&e Ltd. Outline business cases which set out the reasons and rationale for service transfer are initially considered by the ip&e Ltd company board and the Council's Cabinet. Detailed business plans for each proposal, if approved, are then subject to greater scrutiny and due diligence ensuring that the outcomes for Shropshire Council and the aims and objectives of the company are aligned and achieved.
- 5.6. Each year, as defined in the Strategic Contract approved by Cabinet on 26 June 2013, ip&e Ltd are required to produce an Annual Business Plan as set out in Schedule 2 of the Strategic Contract.
- 5.7. As reported to Council in its Business Plan and Financial Strategy on 26 February 2015, ip&e Ltd's ABP was due to be provided to Cabinet in April 2015, but due to the cancellation of this meeting will now be reported to Cabinet on 20 May 2015.
- 5.8. The draft ABP has been received by the Council and sent directly to Cabinet as an exempt attachment. Council Officers will review the draft and work with ip&e to produce a final draft for consideration by Cabinet on 10 June 2015, before the next ABP 2016/17 to 2018/19 is due with council Officers on 1 October (as set out in the Strategic Contract).

6. Further Updates

- 6.1. As part of on-going discussions between the Council and ip&e Ltd, and as reported to Cabinet on 11 February 2015, an agreement was reached for ip&e Ltd to buy back support services from the Council for any service transferring to ip&e Ltd. For example, HR Advice, Financial Advice, IT Services etc., which were previously provided to support pre-transfer would continue to deliver similar services post transfer, initially for 12 months with the option to review alternative arrangements thereafter.
- 6.2. Furthermore, the Strategic Contract places a requirement on ip&e Ltd to give a minimum of three months' notice should a decision be taken within ip&e Ltd for services not be bought back for 12 months from the following April. This is predicated on the Council and ip&e Ltd reviewing the type, volume and value of support services required by the company in the following financial year.

- 6.3. Following discussions with ip&e Ltd concerning the transfer of Fulcrum during 2015/16, ip&e Ltd provided a business case to the Council to support a decision to deliver its own in-house finance system and function post transfer. This arrangement would include Fulcrum, Help2Change and potentially further services due for transfer as set out in the ip&e Ltd ABP. As this is a change to the report Cabinet approved in February, it has been necessary to report the reasons for this change to Cabinet to consider.
- 6.4. It should be noted that in the first year due to the secondment of staff and the treatment of a significant part of the income received for services transferring, the Council's financial system will continue to record transactions for employee costs and certain income categories.
- 6.5. It is proposed that the specific approach identified above is an exception to the existing support service arrangements which will continue to form the basis of service transfers in the future. This general arrangement will provide stability to the Council, ip&e Ltd and the service transferring and will be subject to significant review during the guaranteed first 12 month period. This will involve the review of the SLA agreement and the Council's proposed charges for support services no later than 30 November 2015 before any decision to extend or terminate the buy-back arrangement is taken.
- 6.6. Council received a report on 14 May 2015 providing an update to the Council's budget as approved on 26 February 2015 as a result of transfers of services to ip&e Ltd proposed for 2015/16. The attached ip&e Ltd ABP reflects the financial parameters as set out in the 14 May Council report. It is anticipated in future that the existing procedure as set out in the Strategic Contract, i.e. that the Council's BP&FS reported to Council in each February and to Cabinet earlier in the month, will reflect ip&e's ABP at that time, which will be reported to the same Cabinet in February.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Business Plan and Financial Strategy 2015/16 to 2016/17 – Council 26 February 2015

Proposal to Transfer Development Management, Public Protection and Environment Services and the Regulatory Function of Private Sector Housing into ip&e Ltd – Cabinet 11 February 2015

ip&e Ltd Business Plan – Cabinet 15 October 2014

Strategic Contract between Shropshire Council and ip&e Ltd – Cabinet 26 June 2013

Cabinet Member (Portfolio Holder)

Councillor Steve Charmley – Cabinet Member for business growth, ip&e and commissioning (north)

Local Member

All

Appendices

Appendix 1 – ip&e Limited Annual Business Plan 2015-2018 (Exempt Item 11 on the Agenda - Appendix – not for publication.)

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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