

Name of meeting: Corporate Scrutiny Panel

Date: Friday 10th January 2020

Title of report: Approach to Commercialisation

Purpose of report:

To update Corporate Scrutiny Panel on progress made to develop an approach, or core set of principles, to commercialisation and to identify areas for inclusion in a future work programme. To inform Scrutiny Panel of commercial approaches adopted by other local authorities.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not Applicable
Key Decision - Is it in the <u>Council's Forward Plan (key decisions and private reports)?</u>	Key Decision – No Private Report/Private Appendix – No
The Decision - Is it eligible for call in by Scrutiny?	Not Applicable
Date signed off by <u>Strategic Director</u> & name	Rachel Spencer Henshall, Director of Corporate Strategy & Public Health – 17th December 2019
Is it also signed off by the Service Director for Finance IT and Transactional Services?	Eamonn Croston – 17th December 2019
Is it also signed off by the Service Director for Legal Governance and Commissioning Support?	
Cabinet member portfolio	Councillor Graham Turner

Electoral wards affected: Not Applicable

Ward councillors consulted: Not Applicable

Public or private: Public

Has GDPR been considered? This report contains no information that falls within the scope of General data protection Regulations

1. Summary

- 1.1 As part of the Council's transformation agenda there is a drive to adopt a more commercial approach in how we do business. The objective being to strike the right balance between public service ethos, enterprise and innovation in order to achieve better outcomes for residents.

1.2 This report summarises the early work done to develop principles that underpin our commercial approach and to identify a mixed programme of projects for inclusion in a commercialisation Action Plan.

2. Information required to take a decision

Report for information

Key Information

2.1 Whilst there is no consistent definition of commercialisation, it comprises of:

- Taking a more business-like approach to how we use our assets, skills, and infrastructure
- Understanding the true cost of services we provide, the prices we charge, and the income and/or benefits generated
- Activities which involve risk
- The role services play in delivering social, economic and environmental outcomes.
- Subsidised services may be offered because of the social value of outcomes.

2.2 Commercialisation encourages a broad, mixed approach of projects to be adopted rather than being solely focused on income generation or capital gain. It focuses attention on the deployment of resources (finances, assets, people) as well as doing things differently.

2.3 Types of commercial activity can usually be classified within the following headings:

- Charging
- Trading
- Investing
- Efficiency
- Culture (commercial mind-set)
- Structure

2.4 Commercialisation is a cross-cutting theme rather than a discrete strategy in itself. It is represented by a core set of principles (approach) that informs, and should be viewed against, the relevant strategies e.g. Corporate Plan, Asset Investment Strategy, Medium-Term Financial Strategy etc.

2.5 The guiding principles that are emerging from the work being undertaken are shown below. The uniting factor being that they support and align to the Council's values and priorities in continuing to deliver vital services to our communities.

- Support economic growth
- Help fulfil our place shaping role
- Maintain/enhance residents quality of life
- Deliver efficient, high quality services
- Support a stronger, more sustainable and diverse VCS
- Re-invest resources in order to improve public services
- Take a holistic, one Council approach
- Understand risk and be risk aware rather than risk adverse

- 2.6 A Commercial Team has been established which will develop advice, guidance and toolkits to assist services to identify and develop ideas, and provide more sustained support on larger scale projects. As part of this work, the team are currently attending senior leadership teams and running Think Tanks to prompt and capture innovative ideas. Areas being explored are:
- Review what we currently do and how we do it
[Focus might be on marketing, packaging and pricing support to help services develop and deliver their ideas to implementation.]
 - New approaches, new products, new markets
[Analyse the potential to boost commercialism by introducing new business models or undertake projects that will make a transformational change in what we do.]
- 2.7 A Commercial Board has been established to evaluate opportunities relating to commercial growth and new commercial ventures. The Council's Budget includes a £500k revenue reserve and an annual £200k capital baseline allocation to pump prime, or invest, in initiatives that support the commercialisation agenda. One Venue projects aimed at developing the commerciality, culture or vibrancy of Kirklees have been early examples of where this investment funding is being allocated e.g. schemes in Dewsbury and Huddersfield Town Halls linked directly to generating more income.
- 2.8 The wide scope of commercialisation means that the Council already undertakes a range of activities that actively contribute towards this agenda. Examples include: Local Authority Property Fund (up to £10m investment); exploring options relating to housing development models; major investment in regeneration and infrastructure programmes; review of how the Council accesses grant funding; work supporting the VCS Strategy.
- 2.9 The Commercial Team is currently scoping where (new) commercial opportunities exist. A proposed work programme is outlined in 2.10 and 2.11 which aligns to our commercial objectives as detailed below:

i) Understand our costs to price products effectively and competitively, to increase income levels and sustain the delivery of priority Council outcomes

- Accurately calculate service/product unit costs, including Total Cost Recovery
- Understand our position in the market and the trading position of their competitors
- Develop pricing strategies that strike the right balance between public sector ethos, delivering social value and income generation opportunities
- Have a rationale for when the cost of products/services can and should be subsidised

ii) Exploit our assets and opportunities by disposing of, acquiring new, or develop existing assets to deliver financial returns

- Through effective Treasury Management, use the strength of the Council's balance sheet and our ability to borrow at low interest rates to fund projects that support economic growth (employment, housing, regeneration) and consider options to invest in commercial property for the purpose of generating long-term income streams
- Help to determine a level of risk the Council is comfortable operating within
- Review the revenue generating capacity and potential of our existing asset portfolio
- Undertake a strategic and financial assessment of our commercial estate portfolio
- Understand that the council brand, and its unique position in the market, can be an asset to us commercially in the provision of services – and identify and investigate these opportunities

iii) Enhance the effectiveness and efficiency of income collection

- Lead a comprehensive review of fees and charges across all services
- Lead the annual review of fees and charges, linked to the budget setting timetable
- Investigate and enhance income collection methods, improving cashflow and managing bad debt

iv) Embed the concept of commercialism in all services

- Deliver commercial awareness sessions and specific training across all directorates
- Engage Leadership Teams to identify priority commercial areas for development
- Work with services to review existing operational business models, to maximise productivity and benefits to our customers, and manage our costs better
- Work with services to business plan the potential of new products/services, and make recommendations to the Commercialisation Board for financial support
- Proactively review what other enterprising Councils are adopting as part of their commercialisation strategies
- Support marketing of services with commercial potential

2.10 An initial work programme is proposed below:

High level Action Plan 2019/20 & 2020/2021

	2019/20				2020/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
FEES & CHARGES								
Confirm charging principles on which discretionary fees are set								
Annual review cycle to ensure fees and charges support council objectives								
Establish parameters for the recovery of non-direct costs within pricing policies								
Improve financial management through use of trading accounts								
COMMERCIAL AWARENESS								
Deliver commercial awareness training								
Capture new & innovative commercial ideas								
INVESTMENT								
Financial & strategic assessment of commercial and enterprise centre portfolios								
Treasury Management – review investment opportunities								
Asset Strategy – ensure commercial opportunities are considered								
TARGETED APPROACH – PROJECTS								
Review back office processes to ensure income collection arrangements operate efficiently and minimise risk of bad debt								
Review school traded services to ensure high quality, innovation, best practice, and 'what the customer wants'								
Cyclical review of traded services -								
Evaluate new income generation projects								

2.11 The individual projects that fall within this initial programme are:

Projects - Action Plan

PROJECTS	Jan	Feb	Mar	Apr	May	Jun
S/T Pest Control		→	→			
S/T Food Safety		→	→			
S/T Dewsbury & Huddersfield Town Hall		→	→			
S/T Bereavement Services - memorials		→	→			
M/T Review of fees & charges	→	→	→			

PROJECTS	Jan	Feb	Mar	Apr	May	Jun
M/T Review income collection arrangements					▶	
M/T Cliffe House Masterplan						▶
M/T Museums business plan			▶			
M/T Employee Healthcare commercial potential				▶		
M/T Trade Waste						▶
M/T Kirklees Supply Services			▶			
M/T Advertising on Assets contract						▶
L/T Review Commercial Asset portfolio						▶
L/T Business Solutions						▶
L/T (Re-)investment opportunities to retain / enhance our revenue yield and enhance our asset portfolio						▶

- 2.12 Appendices A and B provide examples of commercial projects/approaches adopted by other local authorities. Initiatives taken forward will always align to our Council values.
- 2.13 Commercialisation needs to be viewed over a wide timeframe as results will not be immediate. The skills and capacity required to deliver work streams, alongside target timelines and the need to monitor/report associated benefits, will need regularly updating.

3. Implications for the Council

Commercialisation supports the delivery of the following Council objectives and priorities:

- **Working with People**
- **Working with Partners**
- **Place Based Working**
- **Improving outcomes for children**
- **Other (eg Legal/Financial or Human Resources)**
Not applicable

4. Consultees and their opinions

The following have been consulted on the approach set out in this report and endorse it as a way forward;

Cllr Graham Turner, Cabinet member with responsibility for Corporate Services
Rachel Spencer Henshall, Director of Corporate Strategy and Public Health

5. Next steps and timelines

Continue to develop our approach to commercialisation and define a mixed programme of work covering the next 2-3 years.

6. Officer recommendations and reasons

Corporate Scrutiny Panel is asked to:

- i) Consider and note the information set out in this report
- ii) Provide feedback on any specific areas to consider for inclusion within an approach to commercialisation and future work programme

7. Cabinet Portfolio Holder's recommendations

Not applicable

8. Contact officer

Phil Deighton, Head of Commercial Services
Phil.deighton@kirklees.gov.uk

9. Background Papers and History of Decisions

Appendix A – Local Authorities: Examples of Commercialisation

Appendix B – Case Studies: MJ Awards – Best Commercial Council

10. Service Director responsible

Eamonn Croston, Service Director Finance

LOCAL AUTHORITIES - EXAMPLES OF COMMERCIALISATION**Investment in Asset Portfolios**

Research in 2017 found: [Source: Local Government Chronicle]

- A third of 265 responding Councils (94) had invested in property since 2010
- 50% of the above Councils were District Councils from SE England.
- 10 Councils accounted for 60% of expenditure reported
- 35 of the 94 Councils made out of area commercial property investments

English Council's acquisition of land and building reached £4bn in 2017-18 (£2.8bn in 16-17 and circa £1bn in previous 3yrs). Around 80% of the activity has come from 20% of LAs [Source: NAO]

£4.1bn spent by authorities on property 2014-18. 33% within 5 LAs. £1.8bn in 2017 and 2018, compared to £93m in 2014 [Source: Property Week – Walker Morris]

Eastleigh Borough Council adopted commercial approach to property investment since 2008. Asset value increased from £55m to £188m; net surplus is £2.5m. Assets contribute to regeneration, economic and employment objectives. [Source: LGA Best Practice Map]

Portsmouth City Council acquired £110m of commercial properties across the UK: including a DHL distribution centre near Birmingham, a Waitrose store in Somerset and a Matalan warehouse in Swindon. Generates £4.9m annual surplus. [Source: CJC – Impact of Commercialisation in Local Government]

Sevenoaks District Council bought a high street property for £4.1m, a petrol station and convenience store for £2.45m, Suffolk House £4m, and Swanley Working Men's Club £1.25m. These are both financial investments and regeneration projects in the areas concerned. [Source: CJC – Impact of Commercialisation in Local Government]

Burnley Borough Council used £1.7m grant from the LEP to part fund 25,000 sq. ft. of managed workspace incubator plus 12,000 sq. ft. grow on units at Vision Park in Burnley. [Source: LGA Best Practice Map]

Housing Development

Inside Housing issued a FOI request in Feb '18 – of the 200 responses 49 LAs had set-up a combined total of 58 housing companies, subsidiaries and JVs since April 2012. These companies had delivered 528 homes through development or purchase. A total of 35% were affordable products i.e. below market rent or shared ownership. [Source: Inside Housing]

An APSE briefing from November 2017 reported that of 70 LAs responding to their survey, 44% had a Local Authority Housing Company. Of this total, 64% were a wholly owned council company established to build new homes for rent or sale, 10% had a company that commissioned the build and appointed a landlord/estate agent to manage the properties, 8% had a joint housing and regeneration company, 3% had a JV with a developer, the remainder had models ranging from subsidiaries of an ALMO to a district housing trust to a JV with a registered provider/HA.

The primary purposes of the housing companies were to deliver new homes for sale (affordable housing) 32%, homes for mixed development (social, market for sale and rent) 32%, homes for market rent 16%, homes for sale (market rate) 14%, homes for social rent 4%, use of council land assets for commercial return 2%. [Source: APSE]

Product and Service delivery examples

[Source: CJC – Impact of Commercialisation in Local Government]

- Robin Hood Energy – Nottingham City Council's not for profit energy trading company (tackling fuel poverty). Licenced supplier to White Rose Energy (Leeds CC), Great North Energy (Doncaster and Barnsley Councils)
- Solar farm – Scottow Enterprise Park @ former RAF Coltishall. Norfolk County Council own land and will secure rental income over 25yrs from Scottow Moor Solar Ltd who installed 50MW solar farm on site.
- Redwood Bank Ltd - Warrington Borough Council invested £30m (33% shareholding) with aim of supporting local SMEs.
- YOO Recruit – limited company established 2014 by Wolverhampton City Council to address high spend on agency staff (mark-ups, variable quality candidates). Initially Catering, Cleaning & Casuals, 61k hrs in 2014 increased to 194k hrs 2017. Saves Council temp to permanent fees and generates a trading profit.
- Funeral Services – **East Ayrshire** developed a Respectful Funeral package so bereaved families had access to a funeral at an affordable cost. SLA put in place with FDs with Council specifying the service available and ensuring costs/standards met but not entering into a direct agreement with the supplier. Partnership with 3 companies. Target to achieve 25% savings on average cost of FD fees. [Source: COSLA Excellence Awards]
Cardiff City Council (similar at **Wigan**) offer a fixed cost funeral service (contract with an individual supplier) at a lower cost to many private FDs [Source: Council's Bereavement Services website]
- Care Company – Bolton Care & Support Ltd – not-for-profit company undertakes all adult services undertaken by Council.
- Debt Collection and Recovery- Hammersmith and Fulham LBC stopped using bailiffs 1st April 2018 (new ethical debt coll'n launched) and now carry out income and expenditure assessments to ensure people don't pay more than they can afford. Joint venture with 1st Credit – initially former tenant arrears and HB overpayments, working with families who are struggling before amass big debts.
- Legal Services - Alternative Business Structures (ABS). LGSS Law, social enterprise law firm wholly owned by Northamptonshire/Cambridgeshire/Central Bedfordshire). Buckinghamshire Law Plus (plc btwn CC and Fire Authority) - legal support/advice to LAs, all parts of public, voluntary and charitable sectors (dispute resolution, employment, schools, property & infrastructure. Shared Service - HB Public Law (Harrow/Barnet London Borough Councils).
- Facilities Management - Norse Commercial, property consultancy NPS, wholly owned by Norfolk County Council. 24 joint ventures with LAs. Cleaning/caretaking – Barnsley.
- Community Lottery (50+ LAs) –Free for groups to register and set up their own lottery page. 60% of the proceeds go to charity and community groups, 20% is put towards the prize fund, with the remainder accounted for by administration costs and VAT.

Other Examples

- Grounds Maintenance – win commercial contracts
- Regulatory Services – sell advice and guidance to businesses to support them through regulation
- Planning – pre application advice
- Building control – marketing and updated working practices to increase/retain market share
- Parks – licencing for fitness, leasing for events, use of filming
- Advertising/Sponsorship –increase yield
- House clearance – demand for service not just bulky items
- Trade waste – increase market share
- Existing Council property assets – review most effective use of assets
- Car Parking
- Venues – maximise utilisation of existing venues

APPENDIX B

CASE STUDIES – MJ AWARDS – BEST COMMERCIAL COUNCIL

	Winner	Approach	Detail
2019	Cheltenham BC	Treasury management	Investment in pooled property funds; bond & equity markets. Property Options appraisal (min 5% yield) - £54m spend on 5 projects since 2015 (offices, supermarket, town centre properties). Generated +£0.5m.
		Commissioned Services	Co-founded Ubico Ltd (a local authority company) with Cotswold DC and now 3 additional LAs joined partnership. Deals with waste, recycling, street cleaning, GM, winter mtnce). [£1.3m savings since 11/12]
			4 councils created Publica (jointly owned company). It directly delivers services but CBC only has back-office support (Finance, HR, IT). [£0.4m savings since 12/13]
			Cheltenham Trust (company limited by guarantee) runs Art Gallery & Museum, Tourist Info, recreational facilities, TH, entertainment venue - for a mgmt fee from CBC. [£0.8m savings since 13/14]
		Shared Service	SWAP - internal audit (SW England). One Legal - 3 partner LAs [Savings of £70k and £113k respectively]
		Investment Commercial Strategy	High Street - £1m investment project Use assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. Outcomes - deliver £0.7m new revenue income; reduce back-office costs by 5%; reduce building costs by 5%, deliver £2m capital receipts; develop people (commercial mind-set);
		What Next?	Build 3 industrial units - projected 6% yield Community lottery - launch 2019 Creation of UK's first cyber park Optimise social value from procurement spend New crematorium - 'invest to save' Training, mentoring to foster new commercial initiatives 'bottom up solutions' approach. Vacant municipal space - available for business lets Working with ALMO implement £100m housing investment plan, creating affordable homes and support regen.
2018	Rushcliffe BC	Investment	Bridgford Hall , a municipal building only partly occupied received HLF funding to renovate registry office (venue of choice) and transform rest of hall into an aparthotel. [Generates £120k p.a.] Office space, The Point , purchased for £1.9m (valued at £2.5m) with occupancy from 50% to 85%. [Generates £300k p.a.]

	£2.8m investment in shopping and business centre to regenerate Cotgrave Town Centre . [Generates £200k p.a.]
	£0.9m Council investment plus £1.8m LEP funding to create 15 industrial units. [Generates £50k p.a.]
Trading Company	Streetwise Environmental Ltd (private company limited by guarantee) incorporated in 2014. Includes street cleaning, GM, landscaping. Additional £1m from external customers. Commercial growth enabled £50k added value to be donated to community projects [saving £250k over 3yrs]
Co-location	New leisure centre and office complex built on site of previous sports centre. Sale of old civic centre and second obsolete leisure centre generated £7m capital receipt [Saving £450k p.a.]

[Source: The MJ Awards winners Archive]