

Appendix 1

Exeter City Council

Commercial Strategy

November 2019

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1. Executive Summary

The impact of budget cuts arising from reductions in central government funding has put increased pressure on revenue budgets and our ability to deliver services. In line with many other local authorities, Exeter City Council must either cut services or seek additional income from alternative sources to balance revenue accounts.

The City Council remains committed to delivering the best quality services to meet residents needs and where possible, their aspirations. Considerable time has been spent ensuring that services are delivered efficiently and effectively to provide best value, cutting services is a last resort.

Exeter City Council is committed to maximising the potential for commercialisation and income generation. Across the organisation there are a wide variety of services which have varying degrees of potential for commercialisation. Some services have already embarked on commercial activity such as Trade Waste, the Corporate Property Team has operated commercially for many years.

This strategy sets out our corporate approach to ensure that commercial operations return a level of income to cover the majority of running costs and to fill surplus capacity, but future commercial operations return a surplus. It also shows how commercial projects will be appropriately researched and planned, affording them the best opportunity to succeed and provide additional financial resources to the City Council.

Some commercial activity will address the recent declaration of a Climate Emergency, as well as focusing on the three strategic programmes that address the current, major challenges facing the city:

- Tackling congestion and accessibility
- Promoting active and healthy lifestyles
- Building great neighbourhoods

The name 'Exeter City Services' will be launched early 2020 to promote the wide range of services residents and businesses can purchase from the City Council. A range of marketing materials will be produced to promote these services, to generate cost recovery.

Key to the success of this strategy will be ensuring that those involved in its implementation have the appropriate skills and resources. To this end, the City Council has already undertaken a training programme for key officers and has set up a Commercial Team, led by an experienced commercial expert. Income achieved from commercial activity will be channelled back into delivering essential services, as this remains our key focus, commercialisation will be a mechanism to provide the best services we can.

2. Definitions and Scope

Commercial activity is defined as the provision of services or the supply of products that generate a surplus from a source that is external to the City Council, after all costs have been accounted for. All costs include:

- All operational costs, fixed and variable
- Any appropriate contributions to overheads
- Opportunity costs
- Investment recovery
- Depreciation and capital costs
- Any other costs expended as a result of undertaking that particular commercial activity

Commercial activity will be a phased approach, with the recovery of full costs to deliver a particular service area a priority in phase 1 and phase 2 to deliver a surplus from commercial activity.

The scope of the City Council's commercial activity will be within the immediate area and will not include the development of student accommodation on land or property owned by the City Council.

3. Strategic context

3.1 National Context

Following on from a period of significant recession, central government commenced a period of austerity in terms of public sector spending.

Local government has suffered a disproportionate level of spending reductions. Research by the Local Government Association demonstrates that core funding for local authorities has reduced by more than 40% over a period of 8 years, with some local authorities facing reductions of more than 50%.

Despite central government assurances, this period of austerity has not concluded and most sources predict that by 2021/22 local government will need to be self-sufficient of regular central government funding (revenue support grant).

Caps have also been imposed meaning that in real terms the income derived from council tax has also reduced. At the same time, resources have shrunk significantly and local authorities' statutory obligations have increased, as have community expectations.

The 'General Power of Competence', introduced through the Localism Act 2011, has however provided a catalyst for councils to become more entrepreneurial and commercial in their activities. This provides a mechanism to develop future sustainable funding, albeit that this may require significant changes to council's approaches, mind-set and staff skills and competences.

3.2 Local Context

The City Council Formula Grant (central government funding) has reduced by some 60% over the past 10 years. In real terms, this represents a reduction of £7.7million, as a result, the City Council have made significant savings over this period, with some services being stopped. If we continue delivering services in the same way as we do today, there will be a significant funding gap over the next five years, with additional services being reduced significantly or stopped.

There continues to be an on-going requirement to 'balance the books' each year, and this means we have to continue to reduce our costs, generate additional income and prioritise spending. We anticipate cost reductions of some £3.7m between 2020/21 and 2023/24, unless we are able to generate additional income from commercial activity. At the same time, we remain ambitious and continue to seek to deliver the needs of the community that we serve.

This commercial strategy has a key role for the City Council in delivering the council's vision, corporate plan and priorities, notwithstanding the ongoing external challenges that we face.

Exeter City Council provides in excess of 100 services to the local residential and business community, as well as visitors to the city. We will expand our commercial activity to ensure, that despite the financial challenges, we will remain able to deliver high quality services and deliver our corporate plan and the recently adopted Exeter Vision to ensure the city continues to grow.

A summary of links to local strategies is shown in Appendix A.

3.3 Legal Context

The legal context is complex both in terms of actual legislation and case law. We will operate within this legal framework, including considerations relating to State Aid Compliance, and the Public Sector Duty within the Equality Act 2010 and the Localism Act.

Legal guidance will be sought on each commercial project to ensure the City Council remains within the law, especially when we enter phase 2 of the Commercial Strategy when we start to make a surplus.

There are a number of delivery models available to the City Council when commercial activity delivers a surplus. These include:

- Direct delivery through existing services. This is the existing model of delivery for Commercial Waste and Corporate Property.
- The setting up of a commercial company (Local Authority Trading Company - LATCO). This would involve it becoming a separate legal entity with a board of directors and appropriate structure. This type of company would be liable for corporation tax.
- The setting up of a Teckal company, where this company is a joint venture with other public bodies, however its trading is limited to the partners involved.

As the City Council develops and expands its commercial activity, we will determine the best delivery model for each activity through the development of a business case for each commercial activity.

3.4 Income Generation and Cost Recovery

The City Council already has a comprehensive programme of fees and charges that recovers costs to deliver a range of services, from charges for events and admission fees to application fees and charges for services such as pest control, waste and car parking.

Income generation and cost recovery is defined as achieving income that either partially or fully recovers the costs of providing for a service but does not generate a surplus. Income generation and cost recovery will be a key part of the council's aim to be financially sustainable alongside this strategy and will be the focus of phase 1 activity.

4. Vision

The Vision of the Exeter City Council's Commercial Strategy is that:

Over the next five years we will develop sufficient commercial activity to generate a surplus that makes a significant positive contribution to the financial stability of the City Council

This vision, that service managers will be required to sign up to, will help the City Council deliver high quality services that meet residents and business needs, and where possible their aspirations.

In order to achieve commercial activity we will need to re-invest some of the surplus from commercial activities for items such as the promotion of commercial services (Exeter City Services), the purchase of any new plant and equipment or other resources as identified in business cases and plans to win new contracts.

For commercial activity and each business case, we aim to:

- Research and develop a business case for each new commercial activity
- Minimise the risk through a phased approach
- Continue to provide quality employment and pay the Living Wage
- Recover full costs to enable services to continue
- Increase commercial skills and engender an entrepreneurial approach across the City Council

5. Measuring and monitoring success

Essential to the continued success of commercial activities, will be the effective monitoring and review of each commercial activity. Activity will be reported to and monitored by the Senior Management Board on a 6 monthly basis to ensure the success of the City Council's commercial activity.

The following mechanisms will be put in place for each new commercial activity to monitor progress and to ensure success:

- Trading accounts for each commercial activity established that clearly show all costs associated with the delivery of the service or product - all operating costs, contribution to overheads, opportunity costs, gross and net surplus/loss and margins, all income, loan provision, depreciation and capital costs.
- Income and expenditure profiles for a minimum 3 year period that show projected surplus/loss and margins.
- As a minimum, all trading accounts will be updated and monitored on a monthly basis.
- Financial and operational performance will be monitored within the service and independently in accordance with Exeter City Council policies.
- Effective performance monitoring through the City Council's employee Growth & Development Reviews and day to day mechanisms to ensure optimum operational efficiency.
- To determine viability, a business case will be developed for each new commercial activity. As part of this process, there will be an internal audit process to decide whether or not to continue with a particular commercial activity. The following evaluation criteria has been developed:

Evaluation Criteria		
Number	Area of Activity	Score
1	Meets ECC Corporate Plan	Y / N
2	Meets Exeter Vision	Y / N
3	Meets our residents needs	Y / N
4	Meets our business needs	Y / N
5	Project meets carbon neutral targets	Y / N
6	Borrowing costs are covered each month	Y / N
7	Provides a surplus each month	Y / N
8	Overall Risk	H / M / L
9	Resources available (spare capacity)	H / M / L
10	Demand established	H / M / L

- Business cases will be reviewed as a minimum every year and earlier if the following circumstances occur:
 - There is a significant drop in income and/or the level of surplus
 - There is a significant (negative) change to the customer base
 - There is a significant change to the operational efficiency

- Through each business case, we will measure the success or otherwise of our commercial activity through the setting of specific targets in relation to:
 - The generation of income to recover costs
 - The generation of a surplus
 - % of local market growth
 - Reputation and customer satisfaction
 - Management of risk
 - Development of our staff in commercial activity
 - The value and number of new contracts won

- Any significant variances in performance to that projected will be referred to the Commercial Board who were appropriate may conclude any commercial activity.

6. A Phased Approach

The change required by a service driven organisation when entering the commercial field is significant and will be challenging. Whilst there are clearly some examples of successful commercial activity within the City Council, to undertake more extensive commercialisation successfully, will require a step change and a change in mind-set for some areas.

The building blocks for successful commercialisation are listed in Appendix C which need to be embedded into the City Council to ensure success. A phased approach will be undertaken.

The following stages summarise our approach to commercial activity:



7. Planning

To prepare ourselves for commercialisation the City Council have already:

- Recruited a Commercial Manager who will be responsible for the development of commercial activity and implementation of this strategy and in monitoring and managing commercial activity across the City Council. They will have a key role in developing the Commercialisation Working Group.
- We have prioritised commercialisation in our corporate plan and have created a corporate lead at Director and Manager Level.
- Appointed a consultant to assist in the development of this strategy and some initial audits, business cases and plans.
- Delivered commercial training to our Senior Management Team and a wide range of managers across the authority.
- Set up an arm's length company to deliver residential and commercial developments under the name, Exeter City Living. The company is 100% City Council owned with shareholder dividends returned to help balance council budgets and support front line service delivery.

In order to maximise the ability to recover costs and eventually a surplus, and to minimise risk, it will be essential to firstly test the business case for any commercial activity and secondly, to write a comprehensive business case and plan.

The purpose of these business cases will be to:

- Establish the viability, risks, management thereof and likelihood of success of generating a surplus
- Set out a clear implementation plan with SMART actions, monitoring and measurement mechanisms
- To enable the Senior Management Board to make informed decisions on proposed commercial activity and any financial commitment needed

Appendix D shows what each business case and plan will need to include.

7.1 Learning from others

There are a significant number of local authorities that have developed commercialisation to different degrees. We will seek to learn from others as we develop our own commercial activity.

Appendix E shows a list and a summary of some of these authorities.

8. Implementation

A Commercial Team has been set up to lead the commercialisation process on a day to day basis, they are seen as dedicated capacity within the City Council to research, develop and implement commercial business cases.

A small commercial working group of officers will be established to gather ideas from staff of all levels. This will be an open invitation to attend and held twice a year, the purpose is to discuss ideas and to bring these to reality.

In order to ensure that commercial decisions are made transparently, effectively and in a timely manner, business cases and plan will be reviewed and authorised by the Senior Management Board.

Once operating costs have been attributed, new income generated through commercial activity will be shared equally by both the service area and centrally, to incentivise officers and managers to be involved with developing ideas and bringing them to reality.

8.1 Managing Barriers and Risk

Commercial activity has inherent risks and we understand that not all commercial ventures will succeed. We will further develop a culture whereby risk is understood, taken where appropriate, monitored and managed effectively. We will encourage a learning culture where the lessons from any unsuccessful venture are transparent and empower development and future success.

A list of barriers and risks shall be maintained at service level and developed as part of the business case. This list will be reviewed regularly and appropriate action taken to mitigate risk factors and overcome barriers taken. Barriers and risks will be assessed both at the business case and planning stage and through annual reviews or more regularly where this is required.

Terms of Reference of what commercial activity is for the City Council sits alongside this strategy, to ensure consistency in decision making and what should be pursued.

To assist and speed up the delivery of commercial activity, the Commercial Team will project manage new ideas. This provides extra capacity to support service areas and bring ideas to reality. Service leads will be engaged throughout the whole process and once completed, projects will be handed back to service areas to continue to deliver the service, additional income or efficiency savings.

Risks and barriers will inevitably be specific to each activity; however general risks and barriers are identified in Appendix G.

8.2 Entering the commercial market

There are a number of ways in which the City Council can enter into the commercial market. As part of phase 1, business activity will be cost recovery rather than truly generating surplus. With the exception of Exeter City Living, we do not intend to set up a separate trading company to deliver commercial activity in Phase 1.

As commercial activity expands we will regularly review the delivery mechanism of each venture in line with financial predictions, to ensure we stay legally compliant. An options appraisal will be completed with advice from legal and finance to determine the correct delivery mechanism for commercial activity, if income provides a surplus (phase 2).

Individual business cases and plans could identify that the purchase of an existing business may be the best way to enter a specific or new market. The Commercial Team will ensure that the purchase of an existing business does not conflict with the City Council's vision, three strategic programmes and our climate emergency declaration.

Like all commercial activity, a business case will be developed when there is a proposal in buying an existing business. The business case will determine the benefit to the City Council, service delivery and future efficiencies in the decision making process.

8.3 Marketing

The City Council are developing our corporate Marketing Strategy, and commercial marketing will be a key priority of this. As we embark on commercial activity we will need to determine:

- Branding - commercial activity will be called 'Exeter City Services', promoting the wide range of City Council services that charge an income.
- Who are target customers are and how best to communicate with them.
- What our unique selling points and market advantages are and how best to market them in winning new contracts.

9. Commercial Property Assets

The City Council have a varied portfolio of property assets within the boundary of the city; we have different aims and objectives in relation to each of these assets that can be broadly categorised as:

Commercial	
Industrial	Income generation, capital growth, economic stimulus
Retail	Income generation, capital growth, economic stimulus
Leisure	Income generation, capital growth, supporting healthy lifestyles
Other commercial	Income generation, capital growth, economic stimulus
Other Property	
Operational property, including car parks	Supporting the provision of services, where appropriate capital growth
Community Assets	Supporting community activities
Surplus property	Awaiting disposal at the most economically advantageous point
Housing	Provision of social housing, income generation
Land	Income generation, capital growth, economic stimulus

The overall vision of the Commercial Property service is:

To maintain a portfolio of assets that enables the Council to perform excellently in the delivery of services and corporate plan objectives.

Property assets owned by the City Council are managed directly by the City Council.

A SWOT analysis is currently being developed as a part of completing an Asset Challenge on each property and a Strategy to develop a way forward. The development and implementation of the City Council's Asset Strategy will make a significant contribution to this commercialisation strategy, in cost recovery.

The City Council has committed to not building purpose built student accommodation on land we own, or to convert property we own. This type of development may be commercially viable, but we have committed to focus on residential accommodation and commercial build.

Key risks within this area are the potential decrease in asset value and revenue if there are economic shocks within Exeter, together with a current backlog of maintenance and in particular with operational assets to deliver services.

Current priorities managed by the Corporate Property team include:

- The regeneration of the Bus & Coach Station Site - CityPoint (underway)
- The release of city centre surface car parking sites for redevelopment
- The on-going Asset Challenge programme across the portfolio (underway, to be completed by autumn 2019 with actions to be picked up on thereafter)

- The revision of our Asset Management Strategy and implementation of emerging action plans (underway)

10. Action Plan

Exeter City Council Commercial Strategy

First Year Implementation Plan

The Short, Medium and Long term aims are set out in the table below.

Short Term Goals	Medium Term Goals	Long Term Goals
Organisational		
Draft Strategy to be adopted by Exeter City Council	Continue to look for income generating opportunities	Make a significant contribution to becoming become financially self sufficient
Develop an annual action plan that sets out specific targets for commercialisation	Continue to incrementally improve profits and increase commercial activity through implementation of annual business development plans	Continue to incrementally improve profits and increase commercial activity through implementation of annual business development plans
Review procurement rules and financial regulations to ensure that they are fit for purpose to enable lean and nimble decision making in the business ventures.	Draft a set of support contracts/frameworks which enable quick use of specialist contractors to help with commercial operations when required	Continue to fully comply with procurement regulations
Review procurement to identify potential commercial opportunities	Consider the provision of procurement support for external organisations and develop a USP of reducing external spend for clients	Reduce the amount of City Council budget spent externally
Set up Commercial Working Group to develop ideas	Research ideas put forward by officers and if viable, develop business case and business plan	Review Commercial Working Group
Develop the Commercial Manger role	Implement the role of the Commercial Manager as shown in the Commercial Strategy Commercial Manager to manage customers, increase sales and develop new business opportunities in line with the approved annual business plan	Review the role of the Commercial Manager 6 months prior funding coming to an end
Review the allocation of overheads to commercial activities	Reduce/stretch corporate support costs	Consider the provision of corporate support services on a commercial basis to other organisations
Review HR policies with consideration to further enable commercial activity	Update as appropriate job descriptions and person	Ensure HR policies and practices fully support commercialisation

	specifications to reflect commercial requirements	
Develop plans to gain quality and environmental standards where required	Gain ISO 9000/14000 or appropriate standards	Maintain quality and environmental standards
Further develop general commercial skills, initially prioritising the Commercial Board and Team	Further develop general commercial skills across the organisation	Embed commercial skills throughout the organisation
Commercial finance skills are developed and trading accounts set up	Business cases and plans contain appropriate detail and trading accounts are managed to facilitate profit	Commercial finance skills are embedded and support further commercial growth
Produce a plan to develop a commercially focussed workplace culture which recognises innovation and commercial achievement.	Implement the plan and align the required resources to enable successful delivery.	Embed a commercial culture across the organisation
Allocate funding and resources to empower commercialisation	Continue to make available funding for commercial opportunities where business cases are made	Continue to make available funding for commercial opportunities where business cases are made
Develop a mechanism in which commercial business cases and plan have been authorised	Review if the Senior Management Board is the most appropriate method	Review and adjust as required
Fully integrate IT systems to enable commercialisation	Develop further IT capacity to improve commercial success	Ensure IT systems enable on-going commercial success
Focussed Commercial Activity		
Complete the programme of service audits/reviews of those areas considered as the first tranche of commercial services. Use the review to identify strengths and weaknesses when measured against what we know about our competition and identify areas for commercial focus.	Review alternative services and develop a business case and business plan if commercially viable	Continue with service reviews and audits as required
Develop Business cases and plans for areas where the audits have identified sufficient potential for generating a surplus through commercialisation	Reinvest income to grow services and increase financial returns as business grows. Expand range of commercial services offered.	Continue with sustainable growth in line with business plans
Implement the business plan for commercial and trade waste	Develop commercial and trade waste subject to the operational and financial tipping points	Continue to develop commercial and trade waste as appropriate
Undertake efficiency reviews to ensure services are	Continue to monitor and manage efficiency to retain a competitive edge	Continue to monitor and manage efficiency to retain a competitive edge

sufficiently competitive for commercialisation to succeed		
Implement other business plans where a business case has been made (first tranche)	Expand business cases and plans and where appropriate implement them	Expand business cases and plans and where appropriate implement them
Risk		
Develop risk registers and management systems to understand and manage commercial risks	Continue to effectively manage risks and learn from results	Embed a culture of appropriately managed risk to maximise commercial opportunities
Commercial Board to monitor and review commercial activity	Annual review of KPI's	Annual review of KPI's
Commercial property		
Develop the commercial asset challenge programme	Implement the asset challenge programme	Achieve optimum returns from all of our assets
Develop City Council Asset Strategy	Implement the Asset Strategy	Achieve optimum returns from all of our assets
Increase income from our property portfolio	Continue to increase income from our property portfolio	Achieve optimum returns from all of our assets
Implement an effective disposal programme	Re-invest capital from disposal programme to achieve optimum returns	Continue to diversify our assets and achieve optimum returns
Marketing and customer care		
Develop branding and Corporate Identity with the Services and Communications and Marketing Team	Enhance and develop the brand to encompass new commercial opportunities	Continued brand development
Communications and Marketing to develop and agree a commercial marketing strategy with the Commercial Team and associated services	Implement the commercial marketing strategy. Targeted marketing campaigns as and when required	Commercialisation is embedded within marketing
Market research capacity and skills are developed	Market research supports the development of business cases	On-going market research supports commercialisation
Develop systems to record, monitor , manage and utilise customer satisfaction	Continue to monitor and manage customer satisfaction and develop customer relations	Utilise customer relations to expand commercialisation

These high level actions will be delivered through a comprehensive annual implementation plan.

Appendix A: Links to local strategies:

Our corporate plan focuses on five strategic priorities that address current major challenges facing the city:

- Tackling congestion and accessibility
 - o We will work with our partners to make Exeter a city where active travel is promoted and where transport is not a barrier to accessing education, jobs, services or social activities and where sustainable means of travel are safer, cheaper, quicker and more convenient than private car ownership
- Promoting active and healthy lifestyles
 - o We will strive to make Exeter the most active city in England with a high-quality and accessible built environment and green spaces that encourage active and healthy lifestyles in communities that support wellbeing and reduce social isolation
- Building great neighbourhoods
 - o We will strive to ensure that every resident has a home that is secure, affordable and healthy in a neighbourhood where local services support wellbeing and promote community cohesion
- Provide value-for-money services
 - o We will continue to improve the way we deliver services to meet residents' day-to-day needs recognising that financial constraints are placing a premium on efficient and customer-focused services.
- Leading a well-run council
 - o To run the council well and deliver our strategy we will ensure effective governance, accountable decision making and good management of our business, assets and people. We will continue to seek opportunities to add value by working in partnership with others

The 2040 Vision for Exeter states:

“By the time they are an adult, a child born in Exeter today will live in a city that is inclusive, healthy and sustainable – a city where the opportunities and benefits of prosperity are shared and all citizens are able to participate fully in the city’s economic, social, cultural and civic life.”

The vision has a number of themes of work, with priorities for each yet to be determined:

- o Innovative and analytical city
- o Healthy & inclusive
- o The most active city in the UK
- o Accessible world class education
- o Liveable and connected
- o A leading sustainable city

To deliver the vision and the Corporate Plan 2018 – 21 we will require sustainable financial resources. As we expand commercial activity, we will deliver appropriate programmes that will achieve an income to fund priorities and actions from the two documents above. Successful commercial activity may enable us to match fund external funding bids and increase the level of funding available to deliver the priorities of our community strategy.

To enable Exeter to meet its housing needs, “**Liveable Exeter - a transformational housing delivery programme**” was launched Spring 2019. This delivery programme has gained interest from central government, with support and guidance provided.

This programme highlights 8 transformational projects will be delivered across the city:

	Homes	Shops / Leisure / Sport (sqm)	Workspace (sqm)	Other / Educational (sqm)
Red Cow Village	664	1,638	3,966	-
Water Lane	1,567	4,115	6,397	-
Marsh Barton	5,544	-	-	-
East Gate	962	2,875	18,557	-
West Gate	617	2,341	33,110	-
South Gate	300	565	3,310	-
North Gate	308	11,993	-	-
Sandy Gate	1,050	17,000	59,000	54,000

This delivery plan is about ensuring that, as Exeter grows, its success is sustained. It highlights how a transformational housing delivery programme can be the means to bring major investment into the city and renew its infrastructure for the 21st century with the aim of improving people’s lives and wellbeing. It demonstrates the capacity for urban renewal and densification to also relieve pressures on the infrastructure and communities of the surrounding more rural districts and protect the setting of Exeter.

This context is important in that commercial opportunities to service new businesses and provide services to new residents will arise.

This commercial strategy will be delivered within the context of an exciting and ambitious **Greater Exeter Industrial Strategy – the engine for regional growth**. This strategy has been adopted by Exeter City Council, East Devon District Council, Mid Devon District Council and Teignbridge District Council.

Appendix B: A summary of service commercial audits

In order to set out the council's strategic approach for the next five years, it is important to understand where we currently are in relation to commercial activity.

Independent audits have been completed for the following areas:

- Trade Waste and recycling (including green waste)
- The MRF facility (Recycling facility)
- Cemeteries
- In sourcing potential for housing repairs and maintenance and the assisted gardens scheme
- Maintenance of hard surfaces (car parks etc.)
- Grounds maintenance and integrated estate management
- Pest control

These high level audits looked at:

- Whether current operations generate a true surplus
- Customer needs and the stability of the customer base
- Customer satisfaction, market advantages and the council's Unique selling points (USP)
- Efficiency of the operation and potential capacity
- The potential to extend commercial activity

The following audits are in progress:

- Electronic advertising
- Memorialisation
- Energy

General observations from all audits

- With most operations it was not possible to determine the surplus as trading accounts were not set up. In one case however (Commercial Waste, the trading account demonstrated that the operation generated a surplus).
- Comprehensive allocation of costs was not available in all service areas audited.
- Some areas of operation could not compete on price with the private sector and there was no evidence that there were sufficient market advantages and/or USP's that would make it likely potential customers would pay higher charges.

- Significant sums of money are being spent externally by the council, subject to efficiencies there is potential to retain this expenditure within the council, as such Procurement may play a key role.
- There is limited current capacity in most cases for commercial activity and as such business cases will need to identify the cost of additional resources.
- The council needs to concentrate on areas that are likely to generate the best level of surplus. In general terms blue collar services generate a lower surplus and often have higher risks associated with them.
- Some areas in order to commercialise need significant capital investment.
- Often customer satisfaction data was unavailable and there is no one point of call for commercial customers.
- The council has a number of market advantages/USP's in some areas.
- There is an absence of pricing strategies and marketing.

Trade Waste		
Potential areas for commercial activity	SWOT analysis summary	Business case development recommendation
Commercial waste and recycling collections	Existing service with good levels of satisfaction Costs are understood and identified within the service Current surplus/margin that is sustainable Capacity to expand exists in the service Market is expanding and current market share is relatively low No current marketing strategy Very limited capacity to market service and gain new customers Income target achievable if marketing is resourced	Yes
The MRF facility		

Potential areas for commercial activity	SWOT analysis summary	Business case development recommendation
Recycling services to other local authorities and commercial customers	<p>Aging plant and equipment</p> <p>Increased levels of contamination</p> <p>Fluctuating recyclate market (generally reducing values)</p> <p>Significant cost of fire protection measures required</p> <p>Excellent reputation</p> <p>Capacity exists to increase recycling activity</p> <p>Market exists for expansion</p>	<p>Not at this stage</p> <p>Potential after refurbishment of the plant is completed</p>
Cemeteries		
Potential areas for commercial activity	SWOT analysis summary	Business case development recommendation
<p>Memorialisation</p> <p>Woodland scattering of ashes</p> <p>Provision of associated services, i.e. Funeral Director, Florist, Stone Mason, Wake facilities</p>	<p>Buildings in very poor condition</p> <p>Space is limited</p> <p>Recent memorialisation activity has increased income</p> <p>Unable to establish profit element</p> <p>Limited staff capacity exists</p> <p>Innovative memorialisation options in the industry exist, some requiring little space</p> <p>Significant USP with location</p> <p>Reputation is solid within the sector</p> <p>Burials market is likely to contract</p> <p>Opportunities may exist to purchase a Funeral Director</p>	<p>Yes - however only for Memorialisation and potential purchase of an associated business</p>
In sourcing potential for housing repairs and maintenance and the assisted gardens scheme		
Potential areas for commercial activity	SWOT analysis summary	Business case development recommendation

<p>Housing repairs and maintenance including voids Delivery of an assisted gardens scheme Maintenance of housing estates</p>	<p>Service currently provided externally, contract due to conclude Unable to identify all unit costs Significant spend in excess of £15m over a 5 year period TUPE would apply to any in sourcing Potential to compile an in house bid when the contract terminates, or to have a soft market test to identify the level of efficiencies the council would require in order to compete The council current costs would not be competitive and as such efficiencies would need to be found Satisfaction and performance of the current contractor is variable</p>	<p>Yes however after a service review to identify efficiencies and a soft market test when the current contract concludes</p> <p>Need to consider contract management costs</p>
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Maintenance of hard surfaces (car parks etc.)

Potential areas for commercial activity	SWOT analysis summary	Business case development recommendation
<p>Cleaning and weed control of car parks and commercial premises</p>	<p>Significant and expanding market Current very low market share Competitive market- relatively low wages in the sector Council costs are not currently competitive enough to compete within this market No customer satisfaction data was available No current capacity exists- new resources would be required</p>	<p>No</p>

Grounds maintenance and integrated estate management		
Potential areas for commercial activity	SWOT analysis summary	Business case development recommendation
<p>Assisted gardens Grounds maintenance Landscaping hard and soft Arboriculture Noxious and other weed control Development of site maintenance specifications and management plans</p>	<p>Competitive market Low rates of pay in the sector-relatively low value work, except landscaping and arboriculture and noxious weed control Anticipated capacity unavailable Potential to up-sell and expand the service in particular to commercial sites Initial projections demonstrate that efficiencies would be required for this proposal to be competitive and return a surplus</p>	<p>Yes - however a holistic approach would be required in terms of attracting the higher profit margin elements of the service to generate a profit and efficiencies would be required</p>
Pest Control		
Potential areas for commercial activity	SWOT analysis summary	Business case development recommendation
<p>Expansion of the service to Housing Expansion of commercial offering, offices, shops, food establishments etc. Provision of commercially priced services to private individuals</p>	<p>Strong reputation Staff ability and commitment Stable customer base Affordable, reliable Ecological practices Concessions affect margins Marketing capacity Staff vacancies, No customer feedback No single point of call Increasing commercial activity Implementation of new IT Expanding Housing Services Fluctuating income Changes to legislation</p>	<p>That a business case is developed and further market research undertaken</p>

Appendix C: The building blocks for successful commercialisation

- **Effectiveness and efficiency**

The first building block of successful commercialisation is ensuring that we operate effectively and efficiently. Without this in place we will be unable to compete within commercial markets. As such where required we will review services prior to embarking on commercial activity.

- **Flexibility**

Successful commercial organisations demonstrate a high level of flexibility in the way they operate and in particular their ability to maximise opportunities and minimise risk by expanding and contracting as the market dictates. Flexibility in terms of how they manage and what they expect from their staff is also key to success. We will review our HR policies and procedures and look at how we may be able to expand and contract whilst at the same time providing quality employment and stability to our workforce.

- **Skills**

Successful commercial organisations range from those that specialise in specific areas to those that provide a wide range of supplies and services. The skill levels required are diverse; however the following skills are particularly important to enable success in the commercial environment:

- Financial skills and in particular in relation to understanding fully costs, forecasting, tipping points and the management of trading accounts, an understanding of fixed and variable costs, marginal costs and cash flow. These skills are in some cases different than those required currently by the council and as such we will develop a further programme of developing commercially focussed financial skills.
- Marketing skills and in particular those required to undertake commercial research and fully understand how the market within which the council intends to operate works, how best to enter that market and what would differentiate them from other competitors within the market. Also key will be to fully understand how potential customers behave and make their purchasing decisions and how best to communicate with them. We will implement a further programme of developing commercially focussed marketing skills.

- **Capacity**

We will assess the capacity that we have to develop comprehensive business cases and plans and then to implement them effectively.

Support services will need to be able to provide bespoke support, from the setting up and managing of trading accounts to the provision of legal and HR support, the capacity to enable expansion where there is a business case to do so will need to be in place. Stretching our current resources will be key to ensuring that commercial ventures are not held back by support costs.

Operationally we will need to also stretch our capacity and understand our tipping points whereby we will need to engage further resources.

- **Entrepreneurial culture**

We will embed a culture that encourages an entrepreneurial approach.

- **Risk management**

Commercial activity is by its nature intermittently risky, the appetite and mechanisms to manage risk within a commercial environment will be reviewed. Comprehensive business cases and plans will be key to identifying and managing risk.

- **Decision making, focus and control**

Successful commercial organisations are able to make decisions quickly in order to respond to market conditions. We will consider how we can make decisions that remain effective but that are timely enough to maximise opportunities, respond to our customers and manage operations and risks. In order for commercialisation to succeed we will need to have staff that are able to focus on this with the appropriate level of capacity and skills. Whilst as a public body transparency will remain a key objective, commercial sensitivity and where appropriate confidentiality will be required. The establishment of a Commercial Board will be key to our success.

- **Funding/Resources**

We will need to ensure that commercialisation is appropriately funded and resourced. This will require staff with the appropriate expertise and capacity and/or the use of external advice and consultancy.

An investment fund to enable commercialisation will also be established so that we are able to take commercial opportunities (subject to a convincing business case).

- **Financial processes and overheads**

We will set up trading accounts to separate commercial activity so that a surplus and/or losses may be clearly apparent and forecasts are specific to trading activities.

We will also consider carefully how we allocate and account for our overheads

- **Departments/Multi tasking**

A characteristic of a successful commercial organisation is that their staff are empowered to work across a number of disciplines. Commercial managers are generally more self sufficient in areas such as Human Resources and Finance. Appropriate levels of training and policies that define when support is required will be developed in order that decisions are timelier and overheads are reduced

- **Service driven/surplus driven culture**

The balance between delivering community services that will remain our primary focus and the delivery of commercial activity will need to be achieved.

Transparency through trading accounts and where appropriate the separation of commercial and service operations will be considered.

We will set up a process to consider and resolve any potential conflicts of interest from commercial activity.

Appendix D: What business cases and plans will need to include:

All business cases shall include:

- Evidence that the proposed activity is legal in terms of the restraints of local authority activities
- Evidence that the proposal fits in with the strategic aims and objectives and appropriate restraints of the council. Any potential conflicts with these aims and objectives will be identified and the case made for how conflicts will be mitigated and on balance the proposed activity should proceed
- Evidence that there is a commercial case for the proposed activity and in particular the following:
 - A) What the product and/or service is that you intend to sell
 - B) That there is a market for the services and/or product
 - C) That the potential customers are likely to be willing to pay the charges required to generate a surplus
 - D) The financial tipping points are identified and it is realistic that a surplus will be generated
 - E) A general understanding of the competition and the market is shown and this will not prevent a surplus from being generated
 - F) Market advantages and/or USP's are identified or other rationale provided as to why customers may chose the council to trade with
- There is a proven financial argument that demonstrates
 - A) All costs are accounted for
 - a. All operational costs, fixed and variable
 - b. Any appropriate contributions to overheads
 - c. Opportunity costs
 - d. Investment recovery
 - e. Depreciation and capital costs
 - f. Any other costs expended as a result of undertaking that particular commercial activity
 - B) Income projections are robust, realistic and based upon appropriate research
 - C) Cash flow projections demonstrate the feasibility of the proposal without significant call upon reserves
 - D) The financial tipping points are identified
 - E) A surplus is likely to be generated when all costs have been considered
- The operational requirements are identified in full and accounted for in the financial argument (case)

- The operational case will include
 - A) The manner in which you will enter the market
 - B) Both resources and skills are clearly identified together with the mechanisms for ensuring they are in place
 - C) The operational tipping point where additional resources will be required is clearly identified
- Risks will be identified and assessed and appropriate action to mitigate risk will minimise it

Business plans shall include:

- An options appraisal that determines the delivery mode and how the market will be entered
- What resources you already have, what you need and what are the gaps.
- How the resource requirements will be obtained
- The approach to marketing
- How the activity will be managed
- Any gaps in information and how these gaps will be filled
- Targets and projections
- A SMART action plan that includes all of the above and any other pertinent details

Appendix E: Learning from others

Other local authority examples of commercialisation

Sevenoaks Council- highly developed commercialisation in particular in relation to property assets and energy. The council states it is now self sufficient from core government funding with commercial activity playing a major role in this achievement.

Basingstoke Council – Have a commercial property portfolio which delivers an income. A proportion of its portfolio is on long leases. They are not expanding the portfolio and have owned it for many years. Identifying commercial partners to re-develop a major business park and leisure park. Have earmarked further money to invest and looking for competitive return. Early look at PRS but must be balanced with affordable housing.

Oxford City Council – Employ a large manual workforce and are actively in the markets of transport, grounds maintenance, construction and highways providing services to other local organisations, institutions and residents. Achieving an income stream that makes a significant contribution to overheads.

Cherwell Council – Set up a confederated model across 3 councils to separate who delivers what and to identify what to put under separate vehicles, following a series of service reviews. Have created an I-Lab incubation unit to identify what new services they could sell and to help them prepare business plans and launch.

Luton Borough Council – Single trading company selling a range of Council services including safeguarding training, road planning etc. Directors comprised of Council officers. Trading Building Technical Services as a trading account within Council. Luton Trading Services also operates as a trading account and provides debt collection to other LAs.

Aylesbury Vale – Have developed new business models for how their services will be delivered using a ‘business canvas’ planning tool. Aim is for services to come as close as possible to cost neutral by focusing on both cost (service design) and income.

Runnymede – A loan from the Public Works Loan Board secured for the regeneration of Addlestone Town Centre (previously been debt-free). The scheme includes a multi storey car park, hotel, cinema complex, 24 hour gym, small supermarket and numerous food and beverage outlets. The development also provides homes, some of which will be rented at affordable rents or shared ownership (part rent, part buy). Contributes to the regeneration of the town centre and also a significant source of income for the Council.

LB Camden – Let a contract with a number of other Councils for the letting of a Wireless Concession Contract. Users get 30 mins free access every day for each device the use. Helps provide businesses with free access and also encourages visitor numbers and local trade. Approach has been replicated in Harrow.

Peterborough City Council – Have launched a series of energy schemes to generate renewable energy and reduce energy consumption. Energy performance contract set up with Honeywell Solutions delivering guaranteed energy efficiency for non domestic properties. A separate partnership with British Gas will also invest in reducing energy consumption across many homes.

Eastleigh Borough Council – They have actively been pursuing the acquisition of a range of property assets which generate a high investment yield. By 2015, expenditure will have increased and includes a range of assets. Council owned assets have risen considerably.

Cheshire East – Has established a set of companies to trade with the local Council and to identify potential new clients. A charitable trust has been set up to deliver leisure services and 900 staff has been transferred including staff in a range of back office / support functions. Also examining a range of energy projects in partnership with registered housing providers.

Wychavon - Also investing recently in commercial property. Recent investment in development of a new supermarket which delivers a competitive rate of return. Investment can only be in the District.

Portsmouth – Launched a new Income Generation work stream to develop ideas from across the council. Most lucrative opportunities have been from advertising and sponsorship.

Braintree – Three work streams to improve commercialisation: ‘Better at Business’, ‘Investment Strategy’, and ‘Economic Development’. Investment in commercial property, in equity and property funds, housing and solar schemes. Commercial premises reserve. Winning back market share in e.g. trade waste.

Nottingham city Council-have a well developed commercial portfolio within parks that includes operational activity and the construction of a garden centre

A number of other authorities have developed commercialisation strategies or are in the process of doing so, these include

Copeland Council

West Lindsey Council

Harrow Council

The Association of Public Service Excellence has a national commercialisation network that hold networking events and seminars

Appendix G: Commercialisation Risk Register

Risk/Barrier	Impact	Likelihood	Mitigation measures
Staff resistance	High	Low	Engagement and communication Union consultation
Lack of Skills and capacity	High	Medium	Training and development Commercialisation Team Engagement of external support where appropriate Learning from other authorities
Lack of resource requirements	High	Medium	Capital and revenue funding allocation Resource allocation via Commercial Board Business cases and plans
Competition	High	High	Market research and marketing Business cases and plans
Operational failure/Financial loss	High	Medium	Business plans Monitoring and management mechanisms Staff development
Conflicts of interest	Medium	Low	Strategic approach Business cases
Reputation	High	Medium	Communication Business plans Monitoring and management mechanisms Staff development
Inability to change culture	High	Medium	Strategic approach Communication Staff and Member development
Speed and effectiveness of decision making	High	Medium	Commercial team and Board