NORTH HERTFORDSHIRE DISTRICT COUNCIL

Overview and Scrutiny Committee
Task and Finish Group Report

COMMERCIALISATION OF COUNCIL SERVICES

August 2015

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Cllr Gerald Morris
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1. BACKGROUND

1.1   This task and finish group sought to examine the feasibility and desirability of commercialising some of the Council's services or undertaking new commercial services. The scope of the review is attached at Annex 1. This included what range of activities was possible, which of these were worthwhile financially and desirable for this Council to pursue.

1.2   The group considered this topic over three evenings on 25 February, 29 May and 6 August 2015; and also visited Colchester Borough Council on 11 June to get another Council's perspective on commercialisation. Its conclusions and recommendations are set out below.

1.3   The Task and Finish Group would like to thank all of those who have taken part. Special thanks go to Eddie Gibson from the East of England Local Government Association (EELGA) and Adrian Pritchard, Chief Executive of Colchester Borough Council.

2. CONCLUSIONS AND RECOMMENDATIONS

2.1   Councils everywhere have been subjected to a financial squeeze which seems likely to continue in the future. The revenue support grant is decreasing, and other forms of funding are uncertain. Councils have therefore had to become more creative in securing new income streams to strengthen their revenue budgets by undertaking a variety of commercial activities.

2.2   Commercial activities in local authorities have a long history, and they have been given a new impetus both by financial necessity and new powers in the Localism Act. The group heard that many councils in the East of England have embarked on a variety of commercial activities such as developing business hubs, providing commercial CCTV services, selling building control services, the provision of environmental services, housing development and much more.

2.3   The range of activities depended upon a variety of factors including a council's size, expertise, risk appetite and the priority it gives to commercial activities. Colchester Borough Council is the most advanced in the East of England, adopting a private sector approach both to its existing services and its new ventures. They have a commercial trading board which advises Cabinet on business ventures; and specialist staff with commercial and project management skills (head hunted from outside the public sector) who keep careful track of projects and proposals to ensure project stay on track and that returns from investment and savings from internal efficiencies are realised.

2.4   NHDC Council understands the importance of developing new income streams to strengthen its revenue position and broadening its commercial activities. It already has income from sales, fees and charges of nearly £8 million and this is expected to rise to £9 million by 2019/20. Not all of this income is from commercial activities; and that which is has to be weighed against the cost of generating it. The Council's main income from these sources in February 2015 was:

• Parking	£2.28 million
• Careline	£1.06 million
• Trade Refuse	£0.94 million
• Recycling sales	£0.54 million
• Building development control	£0.50 million
• Building control	£0.36 million
• Burial grounds	£0.26 million
• Land charges, licensing, pest control	£0.48 million
• Other	Approx £1.50 million

2.5   The Council's range of commercial activities and other forms of income generation activities covers a variety of areas including fees for statutory work; and variations to or exploitation of its traditional activities. The Council's rationale for commercial activities varies too. Some are driven by the need to tackle loss making services like Careline; some, like the proposed crematorium are intended to fulfil a community need resulting from to a lack of cemetery space; others are long standing discretionary services like off street parking.

2.6   The Council has had most commercial success in areas with which it is familiar like waste, parking and leisure: but its progress in developing its commercial activities further is constrained by shortages of resources, lack of expertise in key

areas and by the lack of an overall commercial strategy. If it wishes to move to the next level, the Council needs to put a structure in place to make this happen.

Recommendation 1: The Council should appoint a senior commercial manager to lead and coordinate its commercial activities; and to identify and develop new commercial opportunities.

2.7   There will not be any shortage of commercial ideas. Indeed the Group heard that the main challenge for councils can be to whittle a multitude of ideas down to a smaller number of realistic prospects; and then focussing further on the small number which are potential money earners. To do so successfully means producing a robust business case which is then subjected to proper robust commercial scrutiny.

2.8   Colchester BC recognised that its staff did not necessarily have all of the business skills required to take this process from beginning to end. They remedied this by setting up a specialist project management office and by employing a senior commercial manager. Colchester also decided to use the commercial experience of its own members to help. It established a cross party Trading Board of members with commercial skills and experience to assess the viability of commercial proposals and advise Cabinet accordingly. They also invited outsiders to take part when it was helpful to do so. Officers discuss business cases in advance with the portfolio holder before they are sent to the Trading Board to evaluate their profitability, risks and suitability for the Council's portfolio.

Recommendation 2: The Council should appoint a high level commercial board comprised of councillors, officers and others with commercial experience. The board can advise the Cabinet about the feasibility of commercial opportunities and review the performance of existing ones.

2.9   In the beginning, the Council should concentrate on activities which play to its strengths and those of its strategic partners; provide a level of risk which the Council is comfortable with; and is consistent with - or at least not contrary to - the Council's strategic objectives. Property, both residential and commercial, may be a good place to start. It is a relatively safe investment which yields predictable returns and should appreciate in the long term.

Recommendation 3: The Council should pursue income generation opportunities where it has the skills, experience and resources to do so. These should be compatible with the Council's strategic objectives, and at a level of risk which would not threaten the Council's core services in the event of an enterprise's failure.

Recommendation 4: The Council should explore the possibilities of property investment as a means of generating revenue.

2.10   If the Council does decide to invest in property, there will be short term set up costs and ongoing running costs, along with the staff resources required to administer this. It would probably be uneconomic for the Council to try to manage these properties itself. The Council has good relationships with a number of strategic partners who have large property portfolios and who have systems and contracts in place to let and maintain property. The Council should take advantage of this expertise to help manage any property portfolio.

Recommendation 5: The Council should use the expertise of its strategic partners to help manage its property portfolio.

2.11   The Council has considerable assets and it would be worthwhile to review its asset register to understand whether any of them could be used for property development or other commercial purposes.

Recommendation 6: The Council should review its assets register to understand whether any of them could be used for property development or other commercial purposes.

2.12   The Council's experience of trying to reduce Careline's costs in order to produce a surplus has been a difficult one, particularly over the issue of recharges. If commercial activities are to generate a surplus, it is important that the costs of commercial activities, particularly recharges, are accurately applied. The Overview and Scrutiny Committee has indicated that it wishes to consider the issue of recharges as a task and finish group in the future.

Recommendation 7: Commercial activities should bear the true cost - but no more than that – of any support they receive from the Council.

2.13   If the Council wishes to be more entrepreneurial, it will need to change its existing culture of cautious administration by developing the commercial skills of its staff. There are a number of programmes where staff can be trained and mentored in business practices; and a number of networking and other events where key staff can be exposed to business ideas and practices. These should not simply be training courses, but regular ongoing events and workshops where attendees from all sectors can learn from each other, be exposed to new ideas and think in a more commercial way.

Recommendation 8: The Council should review its training programmes for senior and other key staff to include more commercial training, networking and mentoring activities.

2.14   The changes in the Council's culture which will be required to make commercialisation a success will not be achieved simply by training programmes for a small number of senior officers. Officers at all levels need to be engaged with the process and enthused about the possibilities and challenges of commercialisation. One way to achieve this might be for the Council to launch a scheme that recognises (through a non-financial reward) officers who make useful commercialisation proposals or make significant contributions to their success.

Recommendation 9: **The Council should have a scheme that recognises officers who make useful commercialisation proposals or make significant contributions to their success.**

3. SUMMARY OF EVIDENCE

3.1   Commercialsation of Council Services in England

3.1.1   Eddie Gibson, senior manager at the East of England Local Government Association (EELGA), explained that EELGA was a sister organisation to the Local Government Association (the LGA). It received it's funding through subscriptions and from enterprises which it ran as businesses.

3.1.2   Eddie said local authorities had different views about the merits of commercialisation of council services. Some believed that councils should not be involved in raising revenue through commercial activities. Others welcomed the opportunity for their council to earn money from commercial sources, and that the Localism Act had removed the shackles from councils which needed new sources of income.

3.1.3   Eddie said the Act had given councils the general power of competence which opened the door to new kinds of activities. The General Power of Competence gave local authorities power to do anything they see fit, so long as they do not breach any laws or be contrary to existing legislation that has primacy, essentially giving them the legal capacity of an individual. The Act decentralised power from central government and delegated powers to local government and communities, without taking any duties away from local authorities.
It worked towards four key objectives:
  * Giving new freedoms and flexibilities to Local Government;
  * Developing new rights and powers for local communities and individuals;
  * Reforms to make the planning system more democratic and more effective;
  * Reforms to ensure decisions about housing are taken locally.

3.1.4   The LGA's future funding outlook for local authorities was challenging, with the direction of travel expected to continue whatever the outcome of the 2015 General Election. Some of the key trends were:
  * A national £6.3 billion short-fall in the cost of local services by 2020 assuming current models remain in place;
  * without ring-fenced funding, this shortfall would rise to £10.6 billion.
  * Grant funding will be only 37% of local authority income by 2020 (compared to 57% in 2011-12)
  * Excluding social care and waste, income available for all other services falls by 43% under the current model.

3.1.5   Challenging financial circumstances meant that local authorities were looking to commercialisation as a means of raising more income. The key models were:
  * Service expansion – sell more of the same;
  * Service extension – enhanced or value added offers;
  * New ventures – not part of the current service.

3.1.6   Core considerations for councils considering this route were:
  * Opportunities – is someone willing to pay for the service?
  * Differentiation – what is the service's unique selling point (USP)?
  * Risk appetite – there was no reward without risk, and a council needed to be clear about how much risk it was comfortable with;
  * Capability - does the council have the skills, knowledge, practicality and business sense to run a commercial operation successfully?

- Effectiveness and efficiency – does the market want it, can the Council delivery it profitably?

3.1.7   Common challenges which councils experienced were:
- Undeveloped commercial skills and/or officer capacity;
- Difficulties in securing broad political support;
- The need to engineer a cultural shift from running a bureaucracy to thinking and acting like a business;
- Local factors e.g. availability of assets / resources, entrepreneurial approach, level of competition;
- Lack of market knowledge: customers, competitors, pricing, profit and marketing ("the size of the prize");
- Poor quality or poorly used data;
- Unqualified or untested assumptions; and
- Over-ambition / lack of focus.

3.1.8   Locally, EELGA has worked with a number of district councils on this agenda including Colchester, Huntingdonshire, South Norfolk, South Cambs, Broadland, North Norfolk, Braintree & more. There councils use a range of models which are suited to their particular approach.

3.1.9   Colchester's commercial arm was the most developed:
- A Commercial "Arm" established;
- Governance structure through a Commercial Board;
- Used a full business case approval model for any commercial propositions before implementation (e.g. Community Alarms, Trade Waste).

3.1.10   Other commercial models of service delivery included:
- Business Hubs (South Cambs, Broadland)
- Asset "sweating" (Broadland, North Norfolk)
- CCTV (Huntingdonshire)
- Building Control (South Norfolk, Herts, Essex)
- Environmental Services (West Suffolk)
- Housing Development (South Cambs, Thurrock)

3.1.11   A large scale national example is the Social Bank of Warrington which was an example of commercialisation with a social purpose, namely to solve their affordable housing crisis. Warrington started with two £10 million loans from the Public Works Loan Board (PWLB). Warrington's capital programme had grown from £175 million to £1.3 billion, the majority of which is intended to fund loans to social landlords, with £840 million still available for investment. To date £240 million had been loaned. The initiative had generated lots of publicity and was seen as very innovative but Warrington disagreed as councils used to do this in the 1970s.

3.1.12   Eddie said that EELGA provided a service which could assist councils in developing commercial projects. To help councils get started, EELGA could carry out a commercialisation audit which had been developed based on real work with other Councils using a tried and tested model. The EELGA Audit Pack contains:
- An ideas template & examples;
- A commercial principles document;
- Initial ideas are self-generated;
- Desktop assessment by EELGA;
- Uses intelligence from similar projects elsewhere;

- Can form basis of follow-on workshop if required (or simply used to establish priority service targets).

3.1.13 Cllr Rice said the Council needed additional income streams rather than relying solely on cost saving. Cllr Leal Bennett said that if the Council pursued commercial opportunities it could end up working against the private sector. If it chose to do so, it would need to understand its cost base properly, and may need appropriate cost-cutting accounting structures in order to do so. It might be better for the Council to sell some of its existing services, for example, provide IT services to East Herts District Council, saving money for NHDC.

3.1.14 Eddie said there would need to be a cultural shift. The private sector might be annoyed that the Council was competing in their areas, but that was part of the underlying legislation. Building control services for example were opened up to provide competition in 1995; and there had also been developments in the health and voluntary sectors.

3.1.15 Members warned that the Council should not underestimate the cost of entry into an existing market, or the ability of existing providers to retaliate. The business environment was quite tough having survived a severe recession, and many of the businesses which remained were lean, competitive and focused on keeping their costs low.

3.1.16 Other adjustments such as a certain degree of commercial confidentiality, would be necessary if councils were going to compete in the private sector. For example one local authority had put the price of its service on its website not realising that putting pricing information on their website would allow competitors to undercut them. This also raised a possible conflict with councils' duty of openness.

3.1.17 Eddie said there would be no shortage of finding commercial ideas within the Council. The EELGA had worked with one local authority which generated 150 different commercial ideas. After EELGA had sifted them, there were 14 ideas worth looking at in more detail but in the end only three of these were realistic runners. It is important that the Council focused on where the payback was.

3.1.18 Eddie said Colchester Borough Council has set up a successful commercial arm to take forward commercial ideas. Proposals for commercial development had to have a business case scrutinised by a Commercial Board consisting mostly of members with commercial expertise. There were tensions with the rest of the Council, but Colchester had a mechanism for getting good ideas approved; and a very good track record of successful and efficient services.

3.1.19 Eddie said that commercialisation of council services was not new and had been going on for years. One of the most successful examples was Norfolk Property Services which sold its services to mainly public sector clients and had won the contract to supply services to Waveney DC in an open tender. Mid Suffolk had a fleet services arm which provided much of the public transport for Suffolk CC.

3.2 Commercial Activities in NHDC and Other Councils

3.2.1 Andrew Cavanagh, Head of Finance, Performance and Asset Management in NHDC, explained that the Council faced a strong challenge in the future. Bridging the funding gap by efficiency savings alone will not be sufficient to address the budget

deficit. The total gap for NHDC is estimated as up to £2m between now (February 2015) and 2019/20, although this may increase as funding reductions continue. (The Council's Medium Term Financial Strategy (MTFS) has been updated subsequently. As at September 2015, the gap to 20/21 is estimated at £2.6m, and the Spending Review announcements at the end of 2015 may well widen this gap further.)

3.2.2   Since 2010, Government funding to NHDC has fallen by 46% (from £8.07m in 2010/11 to £4.36m for the coming year), and over £6m of cuts have already been made. Staffing budgets have fallen from £14.18m in 2009/10 to £12.0m in 2013/14. This represented a reduction of 66 FTE (from 382 to 316).

3.2.3   In common with all other Local Authorities, it is therefore prudent to explore commercial opportunities and further income generation activities from current or new services, as part of a wider business transformation process. Adopting new ways of working is essential to ensure the Council continues to deliver quality services whilst meeting the budgetary challenges.

3.2.4   In so doing, the Council can seek to:
- Maintain service levels and standards and/or focus on what is of most interest to the council taxpayer
- Increase financial resilience
- Change the culture and appetite towards new ways of working to provide an effective 21st century organisation
- behave in a more business-like way.

3.2.5   These were the challenges and recent government legislation has helped to clarify the scope of the opportunities to address them, as contained in the Localism Act and the General Power of Competence. Also, schemes that can assist in growing our local business rates base are beneficial as, following localisation, we can benefit from retaining 50% of growth above RPI.

3.2.6   Based on current projections contained within the budget report, income from sales, fees and charges is already estimated to be almost £8m in 2015/16 and should reach in excess of £9m by 2019/20. This forms part of the funding of an annual gross revenue budget (net of Housing Benefit subsidy) ranging from £27.7m in 14/15 up to £29.7m in 19/20. The main sources of income are set out in table 1 below.

Table 1: Main Sources of Income in NHDC

Service Area	Fees & Charges income 2015/16 £000's
Parking	2,279
Careline	1,060
Trade Refuse	937
Recycling sales	542
Building development control	500
Building control	357
Burial grounds	258
Land charges, licensing, pest control	483
	6,416

3.2.7 The Council's Medium Term Financial Strategy (MTFS) provides an enabling framework within which officers can work, and references specific to this topic are given below:

- The Council will maximise its commercial income where possible to ensure that fee charging services break-even over time and are provided with a nil cost subsidy from the taxpayer where appropriate, or return a surplus where appropriate, and will increase its fees and charges annually by the rate of inflation (or to reflect the impact of VAT increases or relevant comparative data obtained via benchmarking) except where legal requirements, contractual obligations, market forces or other special circumstances render this inappropriate. This can include exploration of trading opportunities as and when they are identified. The Council will also seek to optimise income from the use of its assets, offering concessions (as appropriate and affordable) to encourage use by all members of our community in pursuit of our strategic priorities.

- As a minimum the Council increases discretionary fees and charges annually in line with inflation, as measured by RPI. Responsibility for this process, and subsequent fee levels, lies with Strategic Directors. The Council has taken the decision that certain discretionary services should move towards a break-even position and some specific services must be provided at a net nil subsidy to the taxpayer wherever possible and in these cases fees and charges may be increased by more than RPI, should it be required. Any deviation from this strategy has to be explained and reported. Generally speaking, charges are maximised to a level where we are reasonably confident they will not deter use of the service or impact on achievement of the policy objectives the Council is pursuing. We are conscious of the price sensitivity for some areas of our charges and often charges can be in the upper quartile. It is therefore important that, as part of any review, we consider charges levied by competitors, and similar local authorities, to inform our own fee setting. The charging policy and particularly the level of subsidy for some charges is under constant review, as is applicability of charging for the use of our assets, as well as services. Further work on establishing services which are statutory or those which are discretionary will also influence decisions on charging levels and we make use of a combination of CIPFA (Chartered Institute of Public Finance and Accountancy) statistics, internal performance information and comparative data from other sources, to inform our decisions on charges.
NB. The MTFS approved by Council in September 2015 also includes a Fees & Charges policy document as an annex to the MTFS

- The Local Government Act 2003 permits local authorities to trade with both public and private sector bodies. In broad terms authorities may not trade for profit unless that activity is performed through a company. The Localism Act, while vesting a general power of competence, retains this requirement. Section 4 of the Localism Act restricts the ability of a local authority to carry out activities for a commercial purpose using the general power. Section 4 (2) provides that if a local authority undertakes a commercial activity in exercise of its general power it must only do so through a limited company. Consequently, these provisions will be considered when exploring alternative service delivery models.

3.2.8   Andy said the budget presented to Full Council on 12 February included the following: "This year the Financial Strategy also made further explicit proposals to continue investigating opportunities to further:

- Generate income from services and assets;
- Explore new income generation opportunities; and
- Perhaps use capital funds to acquire land and property for development and/or investment purposes with such land used for economic, commercial and business development, or other income generation purposes".

3.2.9   The Risk and Opportunities Management Policy was also reviewed by Finance, Audit & Risk Committee in December 2014. This has been revised to reflect the Council's current priorities and comments that, by managing risk, the Council could:

- Explore ways to generate additional income to protect and enhance the facilities, services and environment that we already have;
- Encourage an environment in which businesses and people can flourish;
- Use resources such as people, knowledge, investments and land and buildings to make changes to services and how they are delivered.

Current activities in NHDC – an Overview

3.2.10 Andy said some commercial or income generating activities have been undertaken by councils, including NHDC, for many years. These include the commercial property portfolio (industrial and commercial units – mostly ground leases), trade waste collections, recyclable waste, telecare provision (Careline) and leisure facilities. Additionally a number of discretionary services have operated under a principle of a full cost recovery basis, such as off-street parking and building control.

3.2.11 New ventures are being explored in various parts of the Council, led by the respective heads of service. If a Directorate identifies an opportunity and initial scoping suggested it might be worth exploring, an initial business case is prepared. Initial challenge to Service Heads is undertaken by the Corporate Board (Chief Executive and Strategic Directors) or through the annual budget setting processes across services. Subsequently this may be brought forward to Cabinet for consideration if potential viability is established.

3.2.12 Current examples include the setting up of a joint company by several Hertfordshire authorities for a Building Control Service; an expansion of the Careline telecare service and also a proposal (in its early stages) for a crematorium. Other related opportunities have been, or are being explored with regard to joint proposals with the leisure provider Stevenage Leisure Ltd (SLL) to increase income generation and therefore reduce/remove net costs to the Council from providing these discretionary services.

3.2.13 A corporate project to explore use of council land holdings is also underway, supported by EELGA. One aspect of this work is that the effective use of the Council's portfolio of assets (or adjacent sites that might be acquired) could enable leverage of partnership investment to deliver larger overall programmes. In considering options, a key issue is "what are our points of differentiation and therefore competitive advantage" (the USP).

<u>What are others doing?</u>

3.2.14 There are a range of approaches being taken by authorities across the country, driven by a variety of factors including size, scope/scale of services provided, entrepreneurial appetite and scale of efficiencies needed. Some options being progressed elsewhere that are not currently under exploration by NHDC:

• Market rate residential housing for sale or rent;
• Social housing;
• Commercial units - start ups, warehousing;
• Restaurant/hotel/flats construction and landlord function;
• Property investment;
• Homeless hostel (for the purpose of cost saving);
• Photo voltaic arrays;
• indoor ball pit play area;
• Outside events management.

(On photo voltaic arrays, there have since been tariff changes - with more proposed - which may affect this as a commercial opportunity. A solar farm planning application has been withdrawn because changes in funding make its viability uncertain.)

<u>Mechanisms</u>
3.2.15 There are also a variety of delivery mechanisms in use across Local Government for delivery, including:

• In-house teams;
• Local Authority trading companies;
• Mutuals (social enterprises which can decrease the liabilities of the Council);
• Social Enterprises.

3.2.16 When exploring options, the EELGA advice was clear that delivery options must support the business need, not the other way round. The choice of approach results from an assessment of the prime aims of the scheme, decision making requirements for the option, legislative requirements and also, to some extent, an individual Council's choice.

<u>Local Authority Trading Companies</u>
3.2.17 These are companies where the shareholder is the local authority (or local authorities). The Localism Act 2011 introduced a "power of competence" that encourages innovative and new forms of trading for local authorities. The LGA have indicated that approximately 52 Local Authorities are now considering establishing wholly owned Council development and housing companies in some form.

3.2.18 Other Local Authorities have concluded that a principal advantage of this option, over all others, is that it allows the Council(s) to focus on asset development through such an agency, without tying Councils to a single delivery model. It may also prove more attractive to the local LEP and/or other government funding agencies and private sector funds. This type of vehicle would be a company limited by shares held by the Council. Another benefit of a Local Authority controlled company is that it would fall outside the constraints of public sector borrowing and be able to act as a trading and commercial company. However it is not a single answer to the complex challenge of public sector investment and finance. There are, however, no well established Local Authority property companies to use as comparators. Pursuing this option also had VAT and Corporation Tax implications.

3.2.19 Andy said the Council was clear about the surplus it made from some of its commercial activities like aspects of the Veolia contract, but if commercial activities were to expand, the Council would need to structure its budget differently. Councils were not set up to make a profit and the Council's budget structure reflected different priorities.

3.2.20 That was not to say that there wasn't a good mix of skills in the Council, and that skills could not be acquired from outside. One local authority added another layer to its single layered car park and increased its revenue by 50% as a result.

Questions to the Task and Finish group
3.2.21 Andy asked the task and finish group for its view on how NHDC should progress commercialism and increased income generation in the future, including how much funding the Council should be prepared to invest up front. Aspects for the group to consider were:
- Setting a specific "commercial awareness" policy and defining an "appetite" for commercial/income generation
- Taking a co-ordinated approach, rather than each area progressing on their own initiative
- Resource support to prospective areas (possibly joined up with economic development)?
- A clear definition of the risk appetite for commercial and income generating activities
- Whether, when reviewing services as part of the budget or VFM process, all senior officers are required to consider commercialism as an option
- Including reference to a "commercial approach" in person specifications and service plans
- The need to invest in temporary/additional staffing with specific skills for business planning, change management and technical development.

3.3 Careline

3.3.1   Andy Godman, Head of Housing and Public Protection at NHDC explained that Careline was a valuable social enterprise with a turnover of £1 million. It was an assistive technology service providing community alarms and pendant alarms mostly to elderly people along with a 24-hour call centre which allowed people in distress to speak to an operator any time. Andy said that he came from the private sector, had an MBA and had worked in the past with Herts Community Meals (HCM). Andy had taken on Careline three years ago when it was a loss making service heading in the wrong direction, with losses totalling £150,000 a year and escalating.

3.3.2   Previously Careline had sub-contracted the provision of its services to other providers. That meant that of the £5.25 surplus generated per client per week, only 56 pence went to NHDC and its poor financial performance meant that Hertfordshire County Council (which has responsibility for adult social care) was considering getting Serco to run its community alarms service. Andy had gone to the county council and said that NHDC could do a better job. He proposed a model of vertical integration, in which Careline provided the alarms and backroom support; along with a model of horizontal integration where Careline supported care across all of Hertfordshire. Previously this had been provided by 24 different providers, irrespective of where clients were or what their circumstances were. Andy said his aim was for Careline to meet residents' needs in an economic way.

3.3.3   One of Herts County Council's main concerns was the cost of people going to care, with each person in care costing about £40,000 a year. Keeping just one in 255 clients out of care for three months made the business model plausible. As at 1 April 2015 Careline was the sole provider of community alarms services to Herts County Council, enabling Careline to achieve economies of scale. Careline no longer sub-contracts its services to other providers and now earns £3.25 per client, with Herts County Council providing the equipment. By boosting its revenues, Careline has turned a £200,000 loss into a £60,000 loss this year, and is expected to achieve a surplus next year, provided it is incorporated as a company.

3.3.4   Andy said he planned to move Careline away from telecare services and towards domestic CCTV, monitoring people with dementia. As part of this modernisation, Andy needed to understand Careline's costs, but the Council's current financial system made it very difficult to do so. Members asked whether the same problems occurred elsewhere in the Council. Andy Cavanagh said it was a lot easier with some areas of the Council than others.

3.3.5   On the subject of costs, members asked about the possibility of managers using outside services if the ones provided by the Council were either too expensive of unsuitable in other ways, and they were told this could be possible depending on the circumstances. The Council needed to get the right skills, and recognise that it might not have every skill for every project and those skills might need to be bought in.

3.3.6   Andy Godman said that keeping Careline's staff motivated was not a problem: if Careline did not succeed they would lose their jobs. Indeed 18 people working in telecare services in Broxbourne had already been sacked. Furthermore, many people worked for Careline because they want to work for a successful organisation which did valuable work in the community. Councillor Leal-Bennett said he been very impressed with the enthusiasm and dedication of Careline's staff.

Reflections on Careline's Journey

3.3.7   Andy said he had learnt a lot about marketing, VAT and much more. In terms of branding, the rest of Hertfordshire had little perception of NHDC, and the Council's brand didn't sell well outside North Herts. The service had therefore been re-named Herts Careline, because it was providing services to Hertfordshire. This re-naming had generated a lot of internal discussion in NHDC which was quite parochial in nature.

3.3.8   Andy said there were issues around decision making, clear reporting and repetitious bureaucracy. Andy had prepared 23 reports to date on Careline, mostly concerned with updates to colleagues rather than decisions. Rather than spend lots of time updating his colleagues, he would have preferred to have received a broad delegation so he could get on with the job. Instead he had run up against a local government monitoring and approval regime designed for different purposes.

3.3.9   Cllr Jarvis said this brought the discussion back to the Council's appetite for risk. If the Council lost money on ventures this would not be good, and two thirds of businesses fail within three years. A cultural shift would be necessary if the Council wished to pursue commercial ventures like Careline. Andy said doing nothing was not risk-free either. Excessive levels of oversight coupled with slow (or no) decision-making have prevented Careline from taking all the opportunities available to it. One potential client had tired of waiting for an answer and had chosen another provider instead. Furthermore, decision making was often diffuse and it was difficult to hold

anyone to account. In local government the emphasis was about protocols, structures and budgets, not about value.

Cost of the Careline Service and Recharges

3.3.10 Recharges are a form of internal charging within the Council in which service areas invoice each other for services provided to one another. Andy explained that the Council's system of corporate recharges had caused him great difficulties in both establishing the true cost of Careline, and in managing and controlling those costs.

3.3.11 Andy had undertaken an analysis of Careline's £170,000 losses and he found that establishing exactly what these costs were was very difficult due to the Council's accounting and information systems. After further investigation Andy found that £140,000 of Careline's losses were due to recharges from other service areas. Recharges were assigned to a service rather than based on actual use which had the effect of inflating Careline's costs artificially (and probably those of other front line services too). The issue of recharges is considered in more detail in section 3.6 below.

3.3.12 There were also difficulties with the requirement for Careline to be open about its costs and pricing, since these gave competitors information which would normally be commercially confidential. Andy said that as a discretionary service, Careline could sit outside the requirements of the Freedom of Information Act unlike, say, Veolia which had to provide data as a statutory service. Doing so would enable Careline to protect its competitiveness by keeping sensitive information from its competitors.

3.4 Hertfordshire Building Control Consortium

3.4.1   Ian Fullstone, Head of Development and Building Control explained NHDC was engaged in a cooperative arrangement for building control services with 6 other Hertfordshire local authorities (LAs). Each of the 7 LAs initially contributed £12.5k to a central fund to cover initial start-up costs and expert advice. In order to reach a decision making point a bid, probably through the strategic priorities fund, for further funding will be required. Watford, Dacorum and St Albans had decided not to take part.

3.4.2   LAs had a statutory duty to provide a building control service. This means that if an application was submitted to the authority, it has a duty to accept that application. Originally LAs were the sole supplier of this service. However, in 1984 the Building Act established the legal framework for private building control bodies or Approved Inspectors (AI). The first AI to be approved and registered was the NHBC in 1985. Since 1997 the Approved Inspector Regulations has enabled additional AIs to be registered across all fee earning work categories.

3.4.3   This competitive environment for all fee earning aspects of the building control service has meant that it is more difficult for LAs to retain their market share and grow new commercial and domestic work. Consequently many LAs, including North Hertfordshire have struggled to ensure that the Building Control service they provide can compete effectively with the private sector, given that it is not a level playing field between the public and private sector. Central government requires that LAs always provide a service at cost. In order to sustain the service, new options for service delivery need to be explored.

3.4.4   There are a number of difficulties with the current approach of individual LAs trying to provide their own BC service:
- an ageing staff profile: average age of 48, with 41% of staff between 50 and 59;
- lack of resilience: recruiting is becoming increasingly difficult, as is retaining staff;
- lower efficiency and effectiveness of small teams;
- inability to compete on a level playing field with Approved Inspectors; and
- increasing private sector competition - over the past three years the market share of the Approved Inspectors has risen by 93% across the H7 (157% for NHDC) meaning a loss of market share in monetary terms of c.26%.

3.4.5   The impact of these factors for change on the Council has been a decrease in income to building control at an average of 12% reduction over the last 3 years (2012/13 – 2014/15); with a maximum reduction in 2013/14 of 20%. However, costs have been reduced to ensure a break-even position in 14/15.

3.4.6   The projected impact of a continued 12% reduction in income for this and the next five financial years is that the anticipated deficit for the building control fee earning account (applications) at the end of the financial year 2014/15 of £19.5k this rises to £193k in 2019/20. When added to the cost of the statutory non-fee earning work (dangerous structures, demolitions, approved inspector administration etc.) funded by the Council, the total cumulative cost to the general fund is £1.5m.

3.4.7   A Business Case has been produced and signed off by the Project Board. The Board, which meets monthly, consists of a representative of each of the seven participating authorities at Chief Executive or nominated Director level. The business case was put together by the project officer from North Hertfordshire District Council and lead officers from other LAs covering Human Resources, IT, Legal and Finance. Expert legal advice was sought from Trowers and Hamlins with commercial and financial advice sought from the East of England Local Government Association.

3.4.8   The proposed delivery vehicle was a non-profit making local authority owned company to deliver the building function on behalf of the 7 LAs. Limits of existing legislation over-riding the localism Act prevent a profit being made for this delivery vehicle. Collaboration by the 7 LAs would allow efficiencies to be made, so freeing up to staff to deliver complementary services through a second trading company utilising existing capabilities or new skills for profit. The decision making of the LAs cannot be delegated so a single LA is anticipated to issue all decisions on behalf of the seven.

3.4.9   The 7 LAs currently propose to incorporate a new holding company (working name 'HoldCo') in which each local authority would hold equal shares. HoldCo will own shares in:
      a) a not for profit company whose working name is 'LA7' which will provide building control services at cost for each authority; and
      b) a separate for profit trading company delivering complementary services whose working name is 'H7', which will provide services to other local authorities as well as developers and builders and other customers.

3.4.10   The potential service benefits from a collaborative arrangement are identified as:
- improved service resilience;
- improved economy, efficiency and effectiveness;
- improved customer service;
- increased ability to retain, develop and recruit staff and thus improve service quality;

- provision of a broader service to customers.

3.4.11 In addition to Hertfordshire a number of other counties are exploring collaborative arrangements e.g. Essex and Suffolk. Norfolk has already established a collaborative working arrangement comprising 5 LAs. Discussions are being held between these county 'clusters', including Hertfordshire, with regard to working together in partnership. South Norfolk, the lead authority for the Norfolk cluster, has also successfully registered and been approved to operate as an approved inspector (a private sector building control provider) outside of their administrative boundary, and discussions are underway with regard this opportunity to work together.

3.5 Legal Aspects of Commercial Activities in NHDC

3.5.1 Anthony Roche, Acting Corporate Legal Manager and Monitoring Officer at NHDC said that commercialisation of Council Services was not a new concept. He cited the example of a local authority running out of patience at gas utilities companies digging up the city's roads to lay new mains and not providing cost effective energy to its citizens and businesses. The authority decided to buy the two companies, run them itself and generated a profit. This example was Birmingham City Council in the 1870s. Additionally many of the powers and delivery models available and being used around the country are not new. What is new is the pace and scale of change – driven by the financial pressures all authorities face and encouraged by the introduction of the General Power of Competence in the Localism Act.

3.5.2 Services can be delivered through:-
- Shared services, outsourced contracts or joint ventures
- Council owned vehicles
    - Companies limited by shares/guarantee
    - Community Interest Companies
    - Charities
- Public sector mutual (organisation wholly owned by the workforce)
- delivered in house

3.5.3 Any successful model for delivering public services will always need to be underpinned by a robust business case demonstrating benefits for the public sector, the delivery partner and service users. The availability of different delivery models means that local authorities can match different solutions to particular services to achieve the best fit for their particular service needs. The models also allow local authorities to build sustainable commercial relationships with a wider variety of providers (including employee mutuals, not-for-profit and charitable organisations) as well as the established private sector providers providing a range of service delivery options for the benefit of customers and the local economy.

3.5.4 When considering the delivery model to use, there are a number of questions to consider before deciding on the appropriate model including:
- What environment will it operate in – will it compete and/or trade?
- Political and user views
- What is the primary purpose – ability to influence and call to account management or to make a return or both?
- What are the most important benefits it hopes to achieve – and are these realistic?
- How will income be generated?

- What are the economic constraints?
- How will it be funded?
- How will its funding affect its freedom of operations?

3.5.5   There was no one size fits all approach. Issues such as extracting profit, taxation and procurement rules all play a part in determining the right structure to adopt. There was an inherent conflict between a public sector ethos and commerciality, between the duty to the public and the duty to create a profit. One of the challenges for any successful project was how to change the culture to take advantage of the opportunities available. Anthony cited two hypothetical local examples – crematorium vs print service. A crematorium could be a new service offered to the community, with members potentially sensitive about the charging policy and quality of operation for understandable political reasons. Members might therefore wish to have close oversight on how it operated which would likely slow down decision making. A print service which competes for work in the market place would need to have freedom to compete and bid for contracts, so close oversight which slowed down its decision making processes would render it uncompetitive.

3.5.6   The key issue for Anthony as Monitoring Officer was the importance of governance considerations, including the decision making prior to the implementation of a project and also the governance structure of the project itself. Governance tended to be an afterthought with much of the focus, perhaps understandably, on the financial aspects. However governance needed to be at the heart of the considerations. The perception might perhaps be that this means putting up hurdles which prevent innovation. Done correctly, having the right structures in place does not hinder the delivery of a project, but can enhance the prospects of success.

3.5.7   Governance had a role to play during the initial consideration of a potential project's strategy. The strategy needed to be more than just 'to save money' and should include acceptable boundaries for officers to explore within. It was important the Council had clear guidance, policy and regulations in place to guide officers on what was required; what should be in a business plan to allow Cabinet or Council to make a decision; and what support the lead officer needed and its availability – legal, finance, HR, IT, risk and insurance. Due to resourcing or expertise gaps that support may need to be bought in, adding to the cost of the project. It was important to understand at the outset to what extent should the lead officer be guided by that support; and whether he or she had the expertise to deliver the project.

3.5.8   Part of identifying the right delivery model was also identifying its governance structure. Failure to get that right risked storing up problems further down the line, which may only come out when there is a problem.
- Accountability – who makes decisions on what and who is responsible for them? Are limits placed on the delegations?
- Control – what is the role of members, officers, directors, service users, contract managers?
- Board members – who should they be? What are their responsibilities? There needs to be clarity of roles between responsibilities to the Council and responsibilities to the delivery model chosen. The obvious temptation is to use experienced officers/members, but that creates conflict if they remain partially employed by the Council. Who is available to judge the actions of the company? Who decides if the delivery model remains the best option for the Council, or whether an alternative approach is better?
- Conflicts of interest – already mentioned, but they equally apply to portfolio holders because of commissioning/contract management responsibilities.

- Managing risk – this needs to be considered at a strategic level, taking into account the number of projects and the resourcing available, which affect the ability to deliver. The appetite for risk needs to be understood, including the potential risk of failure of a project.

3.5.9   There was an inherent conflict between a public sector ethos and commerciality. If there are public services or public funds at stake there might be a temptation for members to want to keep a tight rein on projects, to scrutinise decisions taken. However that will slow down decision making and may stifle innovation – two of the benefits of a more commercial structure with directors given freedom to operate. The Companies Acts place responsibilities, requirements and duties on directors and that is a frequent source of conflict. It is therefore important that the Council understands that the role of a director and the role of shareholders, as the best interests of the company are not always the best interests of the Council and the directors cannot be sacked every time there is a disagreement.

3.5.10 He ended with some cautionary tales – not to discourage the Council from pursuing more commercial activities, but to demonstrate the importance of good planning and so we can learn lessons of others and avoid similar issues. Where there are problems they can lead to reputational damage, potential service failure and cost.
- Serco/G4S – large scale outsourcing of central government contracts; £179.5m clawback because of routine overcharging – demonstrates the importance of contract management after services have been outsourced
- Barnet – entered into a joint venture with Harrow, HB Law, to deliver legal services; Barnet did not retain any in house legal expertise to contract manage or sense check; June 2014 reports on proportionality and allowances had not been given legal clearance but they went forward anyway, with incorrect information and made wrong decisions – demonstrates the importance of retaining internal expertise
- Welsh public interest reports – Welsh Audit Office reports highlight potential issues, one example was Caerphilly where the Chief Executive changed leading to a greater pace of working and a higher appetite for risk; the Audit Office identified that key governance policies had not been updated to take into account the new approach – demonstrates the importance of appropriate control measures

3.5.11 Anthony's final message was that simple is often best – do not jump to a conclusion that setting up a company is the right approach. It may be, but equally it may not be. There are a number of options that can be considered in order to choose the right model to deliver the particular service. The best approach would be for managers to explain to Legal (and others) what they wanted to achieve so legal could help advise on the best way to deliver it.

3.5.12 Members said that if the Council used its muscle to enter a particular marketplace, it could put local providers out of business. If this was done unfairly (for example because the Council subsidised the service by shouldering costs that a normal business would need to carry itself) there could be a risk of a legal challenge from the private sector. Anthony said it would depend on the circumstances. The crematorium would not be competing with any small local suppliers but if the Council ran its own waste collection service it would be compete with large multi-national organisations. It was important to choose the right opportunities.

3.6 Recharges Revisited

3.6.1   In the light of the difficulties with recharges which the task and finish group had heard about in the context of the commercialisation of Careline in section 3.3 above, the Scrutiny Officer Brendan Sullivan introduced a report which Andrew Cavanagh had originally prepared for the Finance, Audit and Risk Committee in 2010.

3.6.2   Brendan explained that recharges were defined as costs incurred for services or materials charged by one department to another. According to the Best Value Accounting Code of Practice (BVACOP) 2002, the total cost of a service should include an appropriate share of all support services and other overheads.

3.63.   Accordingly, the Council had a policy of recharging the full cost of support services and facilities to the relevant service area. This practice was not just limited to the public sector, it was also usual in the private sector where recharges (plus a profit element) are applied to goods and services to ensure that businesses make a profit. For example, the purchase price of a new car includes the direct costs of manufacture, plus the indirect costs that are recharged to the buyer on each car purchased such as marketing, showroom costs etc.

3.6.4   Recharges should be **apportioned reasonably** in a **consistent manner**. They did not in themselves add to the overall costs of the Council as they were an internal transfer of costs already incurred. The report said that the Council's recharging protocol provided a means for service managers to challenge colleagues for the cost of a service provided. Recharges needed to be considered when services carried out their benchmarking exercises against other local authorities in order to ensure the full costs (including support) have been assessed, although it had to be borne in mind that other authorities might apportion recharges very differently, making meaningful comparisons difficult.

TABLE 2: BVACOP recommendations for charging of overheads to service users

Principle	BVACOP Recommended Approach
Complete recharging of overheads	All overheads not defined as unapportionable central overheads or costs of democracy should be fully recharged to service areas.
Correct recipients	The system used must correctly identify who should receive overhead charges.
Transparency	Recipients must be clear about what each recharge covers and be provided with sufficient information to enable them to challenge the approach being followed.
Flexibility	The recharging arrangements must be sufficiently flexible to allow recharges to be made regularly enough and to the level of detail appropriate to meeting both users' and providers' needs.
Reality	Recharging arrangements should result in the distribution of actual costs based on fact. Even if the link cannot be direct, reality should be the main aim.
Predictability/ stability	Recharges should be as predictable as possible, although there will be practical limitations to this.
Materiality	It is unlikely that a simple system will be adequate to meet all other requirements noted above. However, due regard should be given to materiality to minimise the costs involved in running the system.

3.6.5 Recharges should be calculated in accordance with the seven general principles containing within the BVACOP shown in Table 2.

3.6.6 Recharges were calculated annually in a certain sequence, with back office functions recharging each other before those costs were then recharged to other services on the basis of area occupied (eg accommodation), head count (eg payroll), time allocations etc.

3.6.7 For time allocations, the Council did not favour the use of time recording (except in certain circumstances) as this was thought to be too time consuming based on previous experience of using such a system. Estimates of time allocation were updated at the year end before the final recharges were applied to the accounts. These are necessarily estimates as the authority has chosen not to incur the cost and administrative overhead of implementing a formal time recording system.

Discussion

3.6.8 Anthony Roche said it could be difficult to estimate actual percentages of legal time charged for each individual who worked in Legal Services. While a property planning lawyer might predictably spend about 50% of his or her time on planning, it was very difficult to predict how much time Anthony as Monitoring Officer would spend in a year on particular topics. In a previous private sector job, he had found time recording to be time consuming and not necessarily either an efficient or accurate way of recording how time is spent. There was also the issue of what to do with non-chargeable admin time which could not easily be assigned to other services.

3.6.9 Officers doubted whether there was much in-year adjustments of recharges to take account of changes of circumstances such as staff changes or the need to devote large chunks of time to particular projects. An example was cited from 2009/10 where the time was not accurately recharged to a project, and it therefore had received free legal time without those costs being properly recharged.

3.6.10 They also queried the claim that recharges could easily be challenged. Anthony explained that he had challenged recharges for telephone lines assigned to Legal Services even though they did not use the majority of the extensions. On further examination it turned out that the allocations had a historical basis when Legal Services have been part of a bigger Legal and Democratic Services section long since defunct, and the recharges had not been updated. Despite Anthony's challenge the recharges were not significantly changed. He was aware of one service area which was heavily recharged by the customer service centre despite doing much of the work themselves.

3.6.11 Brendan said this showed a difference in philosophy and approach between private sector and public sector. In the private sector a manager running a commercial operation could choose to buy as much or as little accountancy and legal support etc as he wished according to his needs. In the Council, support services and corporate management had a certain cost and those costs were allocated to services whether they actually used them or not. Brendan illustrated this by showing an Excel spreadsheet showing the Council's recharges for 2014/15 split by service and by recharges. The full spreadsheet is available from the Scrutiny Officer and on the Overview and Scrutiny Committee web page.

3.6.12   Members recognised this was a highly technical subject which had been examined before without a satisfactory solution being found. There were two main issues:

- the accuracy of how recharges were assigned; and
- that recharging the costs of back-office and corporate management functions which might not be efficient to front line services shielded them from effective scrutiny.

3.6.13 The implications of this were fundamental because a commercial service competing in the private sector would need to control its costs in order to be competitively priced. At the moment recharges appeared to be inaccurately assigned and not directly related to the amount of time which was actually given to those services. The group noted the hefty recharges assigned to Careline (set out in Annex 2 to this report) particularly for Accountancy, Payroll and HR, and noted that there was no recharge for Legal Services. (NB. The components of the Accountancy recharge include debtors, creditors, debt and debt recovery as well as accountancy services.)

3.6.14 The group discussed whether there were different approaches to recharges which might be more appropriate. For example instead of charging all backroom and corporate management functions directly to service areas, it would be possible to allocate much of these costs to the heading of "overheads", "corporate stuff" or something similar, since this was clearly what some of the costs were being used for.

3.6.15 Members asked whether Careline or other services could use outside providers if they were cheaper, but they heard this was problematic. The Council had a convention that internal services should be used where available, and the Council discouraged the use of outside services even though they might be cheaper and of better quality; and in any case, the cost of support services and the recharge system remained the same so those costs would still be borne by the service. If a service was exempted in some way from the Council's recharge system, the surrendered costs would be re-distributed amongst remaining services unless genuine efficiencies were made.

3.6.16 As an example, Andy Godman said Careline had needed to print some brochures and NHDC's print room had quoted £1,000 for the job. A commercial quote came in at £50. This gave him a dilemma as to whether to pursue the best solution for Careline, or whether to always use Council services when they are available even though they might be inferior in terms of cost (and sometimes quality). Andy said he had no say in how much NHDC's service recharged Careline. Accountancy recharges to Careline were in the region £60,000 which compared to about £9,000 in the private sector for an equivalent service.

3.6.17 Andy said that the total recharged element of Careline's costs was approximately £140,000 a year. He had done some benchmarking with similar private sector providers and found that similar organisations had equivalent costs in the region of £50-55,000. That meant that these organisations had a competitive cost advantage of £80-90,000 compared to Careline, and this could mean the difference between making a profit and a loss. This meant the Careline is spending more than it should, and cause a dilemma for him as the manager who is accountable for the operation and efficiency of his service area.

3.6.18 Anthony said that most start-up business would probably have quite low overheads. In contrast, Council start-ups would potentially have all of the recharges

from support services and corporate management attached to them, possibly burdening them with additional costs from the outset.

3.6.19 The group recognise that the current mechanism for recharges was unsatisfactory for a number of reasons and a real problem for services competing with private sector providers. Provision of services needed to be on a commercial footing if services were competing in the marketplace, otherwise they could not compete effectively. Members recognised that the Council had reputation and accountability issues (and costs) which commercial organisations did not necessarily have either at all or to the same degree, and therefore the Council would sometimes have higher overheads in order to fulfil some of its statutory and other corporate obligations and priorities. However the meeting considered that the Council's current approach to recharges needed to change so as not to prevent or disadvantage services trying to compete in a competitive environment; and to ensure that back room services and corporate management were as efficient as possible.

3.7   Other Issues

3.7.1   Brendan Sullivan began by referring to table 1 (reproduced below) from the previous meeting which had set out the Council's main sources of income. Income from sales, fees and charges was estimated to be almost £8m in 2015/16 and expected to reach in excess of £9m by 2019/20.

Table 1: Main Income from NHDC Service Areas

Service Area	Fees & Charges income 2015/16 £000's
Parking	2,279
Careline	1,060
Trade Refuse	937
Recycling sales	542
Building development control	500
Building control	357
Burial grounds	258
Land charges, licensing, pest control	483
	6,416

3.7.2   Brendan said two things had struck him about the table which meant it did not give the full picture. First, the table recorded income but not costs. It was all very well saying that NHDC receives £1million in income from Careline, but if it costs NHDC, say, £1.2 million to generate it, then the Council was not making any money from that activity. If the Council was to measure the success of its commercial activity, it would need to be clear about its costs as well as its income.

3.7.3   The second thing was that different kinds of income were bundled together and some of this income was not really the product of commercial activity. It was reasonable to classify charges for discretionary services like Careline - services that the Council is not obliged to provide and people are not obliged to use – as commercial activity; but Brendan did not think that charging a statutory fee for processing a planning application could really be classified as a commercial activity.

3.7.4   Anthony explained that the Council could make a surplus of certain types of activity but not from others: for example it could not recover any costs from

processing benefit claims. In other service areas there were no restrictions on the surplus a Council could make (subject to the appropriate structure being in place). It depended on the services, the regulatory framework, and other factors. For example the Council could earn a surplus from its building control services provided outside the district, but not the services provided within North Hertfordshire.

3.7.5   The meeting discussed a number of commercial activities which the Council might consider which might create a surplus or save costs. These included turning Town Lodge into homelessness hostel by refurbishing it, as this might be cheaper than paying for the cost of bed-and-breakfast; investing in private housing; and acting as a commercial property landlord. The Council had a particular skill set and resources and it might be sensible to concentrate on doing something which the Council was already familiar with such as trade waste and recycling.

3.7.6   It might also be possible for the Council to buy or invest in businesses which were a going concern. Given the pressure on the Council's revenue budget, one option might be to use the Council's capital to generate revenue to offset its costs. The group considered it might be useful for the Council to employ a commercial manager who could examine its existing services, determine which opportunities were available and whether the Council staff have the required skills in order to run such services as commercial operations.

3.7.7   The meeting noted that the Council might need start up funding for new ventures, and it should be aware that that between two thirds and three quarters of all new businesses failed within a few years. This came back to the Council's appetite for risk which was not thought to be high. If a business did fail, the Council wouldn't want to persist with it and extracting itself might be awkward and might impact on its reputation.

3.7.8   Anthony said that Basingstoke and Deane Borough Council had retained ownership of its shopping centres in Basingstoke. Receiving a regular, secure income from its commercial property insulated Basingstoke from the impact of budget cuts, NHDC could buy a series of commercial properties and bring in managing agents to run them, thereby converting capital into revenue. NHDC would need to identify where revenue savings or increased income were coming from if the July 2015 budget squeezed local government as expected. Cllr Levett said the Letchworth Garden City Heritage Foundation was a good example of a community based organisation with a very astute commercial perspective particularly with respect to commercial property. Although the Council would probably not want to compete with the Heritage Foundation in Letchworth, other towns in the district offered possibilities.

3.7.9   The Group said that if the Council was going to compete with people in the commercial sector it might need to buy in expertise if it lacked the expertise itself. The Council would need to decide whether it wanted businesses that were simply profitable, or whether they wanted to provide community benefits as well; and to determine whether these two things were necessarily compatible. The Council needed to decide what its long-term strategy was and what was good for North Herts. It might be possible to boost its revenue from leisure and tourism given the district's proximity to Luton Airport, and to that end it might be worth employing a tourism officer to take advantage of this opportunity. If the Council was uncomfortable being associated with certain types of business, it could create a separate entity which generated profits for the Council. The meeting heard that North Herts Homes had created the Rowan Homes brand to built luxury properties to generate income to re-invest in affordable housing.

3.7.10 Brendan said that it was all very well identifying lots of potential money earning opportunities, but the meeting needed to consider whether the Council really had the skills, structures and culture to create or invest in businesses and make a success of them. As an example of the challenge this represented, he cited the Council's failure to produce the business case requested by Cabinet two years previously examining the pros and cons of building a crematorium in North Herts. This was an enterprise which would have community benefits and was thought likely to be profitable for the Council as well. If the Council wanted to move into the commercial arena it would have to be much more effective at implementing the decisions that it took, as some of the Council's approach to new work had been slow and ineffective, for example the grants policy review, the failed shared services project and more.

3.7.11 This did not bode well for trying to deliver new enterprises, especially if they were in unfamiliar areas. The meeting said the Council needed to understand and review its delivery mechanisms and make sure that they were working effectively and not needlessly bureaucratic. The way to make sure things happened was to make one person responsible and to hold them accountable for it. That was what happened in business and this would be something the Council would have to do if it wanted to improve its services and/or run them on a commercial basis.

3.7.12 The meeting agreed that the Council needed political direction about what it wanted to do about commercialisation, and also to understand the Council's appetite for risk. It might also be useful to have short, medium, and long-term aims for commercialisation.

3.8   The Commercial Approach of Colchester Borough Council

3.8.1   Cllr Steve Jarvis, Cllr David Leal-Bennett and Brendan Sullivan met Adrian Prichard, Chief Executive of Colchester Borough Council on 11 June 2015.

3.8.2   Adrian is a career local government officer with a background as HR professional and he has been Chief Executive with Colchester Borough Council since August 2004. Prior to becoming Chief Executive, Adrian was an Executive Director with the Council. During that time he had strategic responsibility for modernising the Council, Best Value, Performance, Customer Service and Electronic Government. He also took strategic responsibility for social and economic regeneration, housing, leisure, tourism, culture and the arts. Previously, Adrian was Assistant Director for Human Resources for Suffolk County Council for ten years, having worked before this for Buckinghamshire, Essex and Hampshire County Councils in the field of personnel management. He runs his own consultancy business, and the Council allowed him 20 days to do consultancy in his own time.

3.8.3   Adrian explained that Colchester's approach was very much driven by the financial squeeze back into 2008/09. The Council took the view that it would need to cut its costs, significantly raise its income and develop new income streams if it was going to survive and prosper. This meant doing things very differently, use its finite resources sustainably and target those resources at the most vulnerable.

3.8.4   Growing existing income streams and developing new ones required a clear vision, a certain appetite for risk among members and officers and a new way of working. The Council's focus is to look at full business cases, including true costs, to set clear targets and this approach was instilled in its officers. Staff have been empowered, drawing on their expertise and creativity, but this is backed up by project management discipline led by the Executive Project Management Office (EPMO).

The EPMO is led by two experts, one from banking, the other with a military background. They have modified PRINCE 2 to meet the Council's needs and to ensure project management delivers results and is not a glorified and long winded paper exercise.

3.8.5   Colchester is an entrepreneurial Council which aims to meet its customers' expectations as well as make efficiency savings. They have re-engineered their business processes, allowing them to assess customers' needs at first contact so people are directed to the right person. They have brought in a person with customer journey skills who has followed the customer journey from beginning to end to see what works and what doesn't; and they have revamped their Council processes accordingly so people can do more of the kinds of things that they want to do in the private sector, such paying for things themselves and doing things online. By shifting the transactional costs onto other people or onto cheaper methods, this helps the Council reduces costs: it costs the Council £12.50 to do a face-to-face interview, £4 for a telephone call and 12p for an online contact, and Colchester has found £64,000 of savings from reducing avoidable contacts or providing alternative means of contact.

3.8.6   Adrian said the Council had to be clear about which its services it delivers and which it doesn't. This means saying no sometimes, but this was necessary to avoid mission creep.

3.8.7   The benefits of channel shifting are not all one way. In the past residents had to apply for a parking permit using an application form and wait until it was processed before they obtained a physical parking permit which had to be displayed in their vehicle. This was laborious for the resident and council alike, and could be problematic if the resident changed vehicles, the permit was lost in the post, the renewal was delayed etc.

3.8.8   Now residents pay for a virtual permit through the Council's "MiPermit" system. The virtual permit is logged with the registration number of the vehicle so when a patrolling enforcement officer observes the vehicle parked they can check the registration number against Colchester's system in real-time. The advantages of the vitual permits are:
- There is nothing to display in the vehicle;
- permits are valid as soon as they are purchased, no need to wait for the permit to arrive in the post;
- the vehicle details can be changed online at anytime, as many times as is needed, and changes to vehicles on the permit are immediate;
- both the Council and the residents save time and the Council saves money, with any transactional savings being taken from the relevant budget.

3.8.9   Commercialisation has involved identifying 4-5 key services where commercialisation can work such as pendants (a Careline-type system), contracts and asset management. Colchester has a sizeable older population and the Council targeted them and their families for new pendant business, and the service now returns a £400,000 profit net of recharges and other costs.

3.8.10 Their approach to contracts is innovative, switching staff time away from procurement and into more aggressive management of contracts, with an emphasis on contractors finding savings for the Council without cutting services. Colchester spends £30 million on contracts for ICT, grounds maintenance, waste collection etc.

Previously 70-75% of staff time was spent on procuring contracts and 25% on managing them, This made little commercial sense so the emphasis has changed, with responsibility for managing contracts pushed up to Strategic Directors. Contracts invariably contain provisions for inflation and other increased expenses, and the Council closely monitors contracts to see whether these costs have been realised in practice. Adrian meets the Managing Director of Veolia every four months. At his last meeting he challenged him about his costs, asked him to find £100,000 of savings for the Council without affecting the service provided.

3.8.11 They have also reviewed their asset usage. Instead of selling off land to developers and receiving a capital receipt, now they don't sell it if there is an income generating opportunity. For example they spent £10 million to build Colchester Football Club a new ground, working with the county council to put infrastructure in place. Now the football club pays £300,000 rent each year, the accompanying commercial operation pays 7.5% of its turnover to the Council, and the community uses the facility at free or subsidised rates. The Council helps the club promote events and of course will share in any additional turnover generated. The Council earned £500,000 last year which it used to service its interest debt and repay some of the capital, with the rest going into the revenue budget.

3.8.12 The Council manages the asset using the Colchester Community Stadium Company, an arms length company created by the Council to be responsible for the effective running of the entire Community Stadium as a financially viable enterprise. It is a limited company wholly owned by the Council (limited by shares). The Council is liable to contribute to the debts and liabilities of the organisation if it was wound up to the value of £1. It board has five directors who make sure the club operates properly. The Trading Board asks the Chairman and Chief Executive to attend one of its meetings annually to report on its activities.

3.8.13 The Council is quite prepared to borrow in order to invest and there were a number of examples of this including the new Colchester FC Stadium and a new office block planned for the town centre. The County Council had built a park and ride facility which led to a decline in usage at Rowan Car Park. The Council decided to build an office block on the site and is currently applying for planning permission to do so, and has already agreed to let the building to a firm of solicitors on a 15 year lease.

3.8.14 As for community development, the Council identified opportunities to transfer costs away from the Council, and manage future demand differently. They seemed to be particularly effective in using section 106 monies, for example building a village hall which was then be owned and run entirely by the parish council itself.

3.8.15 It places great emphasis on performance management and upskilling staff. The Head of Waste Service has been given a target of making 5% efficiencies in the Council's street cleaning budget over the next 3 years, and would then be held responsible for meeting that target.

3.8.16 It has also put money into upskilling and cross skilling staff, and were flexible enough to allow even telephony staff to work from home while carefully managing the performance. Performance issues were quickly addressed by training and if they did not improve the Council move quickly to disciplinary proceedings.

3.8.17 Channel shifting meant there were opportunities for transfer of transactional costs from the Council to the customer, provided the Council properly understood the true nature and costs of its work. The Council had undertaken an analysis of all its

contact with the public. For example they found that much of the work of Electoral Services was transactional in nature, being concerned mostly with registrations for much of the year. This work was then shifted into a support function, allowing the Council to trim posts in Electoral Services. They have also rationalised their admin support functions, making further savings there.

3.8.18 Colchester BC has a large contract with Capita for a number of services and has recently launched Capita Connect, a self service application for Council Tax which gives citizens online access to their Council Tax account at any time, reducing the burden on call centres and front office staff. Customers can also request a payment arrangement online, validated by the Council's own recovery rules.

3.8.19 The introduction of Capita Connect more than doubled average daily self service in April 2015 compared to the previous year; and at same time led to 53% fewer phone and face to face contacts than the previous April for Council Tax. The launch of Connect was accompanied by changes to phone scripts and letters, steering customers toward the new processes and opportunities available.

3.8.20 The Council had taken a decision to get councillors and staff involved in its mission. Its Trading Board was established to use the available member skills to assess the prospects of potential commercial ventures. It consisted of nine members appointed by the group leaders, and all business cases went to the trading board. It was not a decision-making body but an advisory one which robustly reviewed business cases and advised Cabinet accordingly, Cabinet nearly always accepting its recommendations. All the political parties were represented on it, and the leader and portfolio holder attended regularly. They also invited outsiders to take part when it was helpful to do so. Officers discuss business cases in advance with the portfolio holder before they are sent to the Trading Board to evaluate their profitability, risks and suitability for the Council's portfolio.

3.8.21 The Council had introduced a culture change which gave staff and managers more latitude and more empowerment. The Council's aim was to be free from dependence on government grant by 2017, and they had not raised Council Tax for the previous 6 years. One of the most impressive things was that they were very clear about their costs, that investment should produce savings, and that these savings were closely followed up by the project management office. For example the Council spent £5 million on Colchester Leisure World which it manages directly, but this generated an income of 4.2 million. The Council continues to subsidise this by £800,000, but aimed to dispense with subsidies within two years at which time it would probably be commercialised. The managers had relocated and revamped the restaurant, boosting income by £50,000, and held a very successful membership drive to bring in more revenue. The channel shift also allowed the Council to generate more business. Many customers preferred to use apps on their phones that Launch of Leisure World app led to more than double mobile bookings, rising from 2,000 to 4,800.

3.8.22 The Council's corporate and organisational objective was to be more business like, as well as more commercial, and to think about innovative solutions to problems. For example rather than pay £1,000 to house a homeless person in bed-and-breakfast, the Council could pay that person's rent of £95 a week for a few weeks. Many ideas like this came from staff, including one to set up a community portal with benefits for both the community and the Council. It was up to managers to assess and manage the risks and then follow through with the ideas. It was about trusting staff, holding them to account and managing them properly; and also about

supporting them and not blaming them when things went wrong. Senior managers were committed to coaching and mentoring at least two members of staff each.

3.8.23 The Council also has a can do approach. When other parking providers changed their pricing, the Council realised it needed to be able to vary its own car parking charges. Lawyers initially objected to this but they worked with colleagues to find a solution instead of just erecting barriers. Part of this process meant understanding who might challenge a flexible pricing arrangement, the likelihood of a challenge and what it would cost if a challenge was successful. In the end, a solution was found using delegated authority. Adrian said his managers were expected to engage with lawyers and accountants (and vice versa) to find solutions and make things happen.

3.8.24 Adrian returned again and again to the issue of investment to produce savings and/or income, and holding his managers to account to make sure these were realised. For example the Council had put £2.7 million into upgrading its IT that this had returned £5 million of efficiency savings. The project office monitors return on investments. Online transactions increased by 27% in the year between Q4 2013 and Q4 2014. The average phone and face to face contacts decreased by 26% over the same period.

3.8.25 Recharges are an issue at Colchester, but there is more challenge between service areas and accountants to make sure they are realistic. Also, they are very determined to tackle their corporate and fixed costs so that the business runs as efficiently as possible. They recruited a commercial manager who had ruffled a few feathers, but he has demanded and received profit and loss accounts for each service area, and the Council is pushing now for real-time financial information of the sort available in the private sector.

3.8.26 The Council collaborates with a number of other services. Interestingly Colchester is the lead authority on a shared building control service in Essex, similar to the one being proposed in Hertfordshire. But instead of going for a big bang approach of commercialisation, Colchester preferred to make efficiencies where they can, by sharing services and taking out 9 building control managers who at the moment are running the individual building control services. Colchester's approach was to Identify and make efficiencies first, take savings and then consider moving to the next stage.

3.8.27 The Council is a member of the North Essex Parking Partnership which runs civil parking enforcement in Braintree, Epping, Harlow, Tendring and Uttlesford and Colchester. Off-street services are also provided for all except Tendring. This service is centrally managed from Colchester, with the on-street element being delivered on behalf of Essex County Council.

3.8.28 The Council is also a member of the Colchester and Ipswich Museum Service Joint Committee, which was formed with Ipswich Borough Council in 2007. It manages Ipswich's museums' service, saving £250,000 by rationalising the service's management.

3.8.29 The Council chooses its delivery vehicles according to its aims and objectives. Colchester Borough Homes Ltd is a limited company wholly owned by the Council. It was established with no share capital and is limited by guarantee. The Council is liable to contribute to the debts and liabilities of the organisation if it was wound up to the value of £1. It aims to break even overall. It has tenants, councillors and independent people on its management board.

3.8.30 It is an alternative way of delivering the Council's housing landlord services, and gives tenants a bigger say in the management of the dwellings. It means that Council housing is still owned by the Council, but managed by a separate organisation. The Council pay for these services through the management fee and this is agreed annually under the review process provided for under the management agreement. The company is currently providing a repairs service for partner organisations. The service is still at an early stage but the Council hopes to expand it in future.

4. ACKNOWLEDGEMENTS

The group would like to thank those who contributed to and attended the review:

Adrian Pritchard — Chief Executive, Colchester Borough Council

Eddie Gibson — Senior Manager, EELGA

Cllr David Levett — Portfolio Holder for Planning and Enterprise

Cllr Julian Cunningham — Portfolio Holder for Policy, Transport & Green Issues

Cllr Terry Hone — Deputy Leader of the Council and Portfolio Holder for Finance and IT

Andrew Cavanagh — Head of Finance, Performance and Asset Management, NHDC

Andy Godman — Head of Housing and Public Protection, NHDC

Ian Fullstone — Head of Development and Building Control, NHDC

Anthony Roche — Acting Corporate Legal Manager and Monitoring Officer, NHDC

Brendan Sullivan — Scrutiny Officer, NHDC

Jacqui Hamilton — Unison Representative, NHDC

North Hertfordshire District Council
Overview and Scrutiny Committee Task and Finish Group

Commercialisation of Council Services

SCOPE

Terms of reference
To examine the feasibility and desirability of commercialising some of the Council's services or undertaking new commercial services.

Expected Outcomes
- To understand the Council's appetite and capability for running commercial services.
- To identify service areas which are suitable for commercialisation and those which are not.
- To identify discretionary services which the Council provides free of charge which it could consider charging for either in their existing or in a modified form.
- To identify new activities which the Council could undertake to generate income.

Timeframe
Two evenings, first meeting to be held on 25 February 2015

Link with Council Priorities
Living within our means
Working with local communities.

Potential Witnesses and Community Engagement
Eddie Gibson, EELGA
Andy Godman, Head of Housing and Public Protection Service
Ian Fullstone, Head of Development and Building Control
John Robinson/Andrew Mills (proposed North Hertfordshire Crematorium)
Anthony Roche – Acting Corporate Legal Manager and Monitoring Officer
Jacqui Hamilton - Unison Representative
Another Local Authority

Key Questions
- What appetite does the Council have for running services on a commercial basis.
- What are the range of models that Councils use in order to run services on a commercial basis?
- Which Council services are suitable for commercialisation?
- Does the Council have sufficient expertise to run commercial services and what are the key factors necessary for this to happen?
- What are the presentational difficulties in charging for services which the public may perceive it has already paid for wholly or in part?
- What are the legal constraints on the Council which may prevent it from obtaining additional income and/or profiting from, or reducing the costs of its services?

- Sould the Council consider undertaking new activities which could generate income, and if so, what kind of activities would be profitable?

Green Issues
Nothing obvious

Information documents
NHDC's Risk and Opportunities Management Strategy for 2014/17
Maximising Income Generating Opportunities – Maidstone Borough Council

Membership

Cllr Steve Jarvis (Chair)
Cllr Leal-Bennett
Cllr Morris
Cllr Radcliffe
Cllr Rice

Portfolio Holders – Cllr Hone (Finance and IT)
Cllr Levett (Planning and Enterprise)
Lead Officer – Andrew Cavanagh, Head of Financial Services
Support Officer - Brendan Sullivan

RECHARGES TO CARELINE 2014/15

	Recharge Item	Cost(£)
Careline Centre	Internal Print	4,810
	Internal Training	280
	Refuse Collection	1,090
	Accountancy	61,810
	Click Charges	260
	Communications	3,670
	Comp Services	8,970
	Customer Servs	1,990
	Document Centre	400
	Employee Relations	13,890
	Health Care	1,240
	Information Unit	1,380
	IT Maint & Supp	7,270
	Learning & Development	6,070
	MFD recharge	550
	MSU	610
	Payroll	15,710
	PHE Dir Mgnt	6,130
	Postage	150
	Property Services	1,820
	Staff Parking	250
	Training	1,850
	Training (p&t)	1,460
Total		**141,660**