

## COMMENTS FROM THE SENIOR MANAGEMENT TEAM

*The Senior Management Team welcome the opportunity to comment on the outputs from the Task & Finish Group. Given the very limited time available from the report being provided to publication deadline and the wide ranging nature of matters covered in the report the comments are focussed on the recommendations. It is intended that, subject to consideration at Overview & Scrutiny Committee and Cabinet Corporate Board review the detail of the report and supporting information to inform future actions.*

## 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 or Building Control; some, like the proposed crematorium are intended to fulfil a community need resulting from 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.**

*SMT agrees that there has been significant progress to date in developing commercial opportunities and that a 'step change' may be required to drive through some new areas of commercial activity. The Council overall would need to review its approach to commercial operations and its risk appetite. A number of areas have been promoted previously however these have been rejected by Members through the budget workshop process as not fitting with the Council's key objectives and/or risk appetite. The act of appointing a lead officer may be part of a future arrangement but the starting point would be having the clarity of vision about what the Council wish to deliver.*

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.**

***SMT are aware that a Trading Board is used in Colchester which is one of a number of models that could be adopted. It would be inappropriate to comment on the circumstances that existed in Colchester or their skill base however in the North Herts Senior Management Team there is a wealth of commercial experience including procurement, land and property, law and finance. Corporate management arrangements are kept under regular review as part of the duties of the Head of Paid Service and if some form of commercial board would be helpful in delivering the Council's objectives then this will be explored further.***

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.**

***SMT had promoted property investment in previous rounds of Corporate Business Planning and will continue to identify options for Member consideration. SMT agrees that this area of investment can offer higher levels of returns than current investment. These types of investments are generally of a long term nature. The Treasury Strategy has been amended to allow this type of investment.***

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.**

***SMT considers that the optimum arrangements should be used to manage a property portfolio (or indeed other areas of business). To be prescriptive in advance of determining what it is that needs to be delivered would be premature. It may, for example, be more effective for us to develop our capacity/expertise and manage others' resources.***

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.**

*This is already done on a regular basis. The Asset Management Group reviews the assets and confirms which category they sit in. Where an asset is suitable for disposal, the AMG will then consider the best way to achieve a return. Some are sold on the open market and others will be sold with planning permission or potentially developed out either by the Council alone or the Council in partnership with someone else. There is also a project underway with HCC and other partners looking at optimising use of assets and opportunities for sharing premises etc and freeing up sites for disposal/development. The larger sites with most return are being looked at first eg- in Dacorum and Hertsmere and once those projects have completed, others will follow. Additionally within the District we have already commissioned an external review of assets which involves other public sector estate landholders.*

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.**

*SMT agrees that keeping careful control of all costs is important and we regularly compares our costs with other similar Councils. Recharges have been looked at on at least three occasions in the last three years and Accountancy currently have a temporary accountant reviewing the basis for recharges and whether they remain appropriate, bearing in mind the need to comply with CIPFA best practice guidelines. There will also be further breakdown of the recharge heading to clarify which support service is charging for what. The current Finance recharge for example covers accountancy time, transactional charges for creditors/debtors, debt recovery etc. Managers are able to challenge recharges if they believe they are too high and are encouraged to raise with the service accountant who will investigate and suggest any changes that may be necessary. A report recently produced by LG futures which compares NHDC unit costs against all other authorities notes that for central services "North Hertfordshire's unit costs are 2.5% lower than the nearest neighbour average, and ranked 11th highest in the group. Nationally, North Hertfordshire's unit costs are 0.4% below average, and ranked 92nd highest out of 201 comparable authorities."*

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.**

***SMT encourages officers and Members to undertake training, mentoring and networking in relation to their roles within the Council and other opportunities that may be available. Senior Officers regularly attend events and training regionally and nationally and in a number of instances have provided advice and mentoring to other Councils on commercial opportunities. The agreed approach to learning and development requires all staff to be provided with training etc of this nature according to assessed need in relation to their roles including 'commercial' activities where appropriate. If the policy direction increases focus on commercial activity there would be a corresponding shift in L & D.***

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.**