

**OVERVIEW AND SCRUTINY COMMITTEE  
21 JANUARY 2020**

**PUBLIC DOCUMENT**

**TITLE OF REPORT: UPDATE ON COMMERCIAL WORK PROGRAMME**

REPORT OF : SERVICE DIRECTOR - COMMERCIAL

EXECUTIVE MEMBER : EXECUTIVE MEMBER FOR ENTERPRISE AND CO-OPERATIVE DEVELOPMENT

COUNCIL PRIORITY : ATTRACTIVE AND THRIVING / PROSPER AND PROTECT

NEW COUNCIL PRIORITY : BUILD THRIVING AND RESILIENT COMMUNITIES / RESPOND TO CHALLENGES TO THE ENVIRONMENT / ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY.

**1. EXECUTIVE SUMMARY**

To provide the Committee with an update on the work that the Commercial Directorate has undertaken in the last year and what it is planning to undertake in future years.

**2. RECOMMENDATIONS**

For the Committee to note the report

**3. REASONS FOR RECOMMENDATIONS**

3.1 The report is following the request of the committee for a more detailed update on the work programme of the Commercial team and is for information only.

**4. ALTERNATIVE OPTIONS CONSIDERED**

4.1 None.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

5.1 The Executive Member and Deputy Executive Member for Enterprise and Co-operative Development have been kept regularly updated on the work of the Commercial team and have been fully briefed on the contents of this report.

## 6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

## 7. BACKGROUND

- 7.1 The Service Director – Commercial first presented to this committee in December 2018. At this committee he explained the new staffing structure that had been approved, the long term vision for the organisation and provided an overview of the key topics that would be included in the Commercial Strategy.
- 7.2 The Service Director presented the Commercial Strategy to this committee in January 2019, which was then considered and adopted at the January 2019 Cabinet meeting. For ease of reference for the committee, the agreed vision and three initial strategic themes are set out below:-

**“To stimulate innovation, develop existing services and new businesses, whilst developing a commercial culture, for the benefit of our community.”**

### Culture

1: Enhancing the Council’s commercial culture and capability.

### Business Improvements

2: Become more business like in our day to day activities.

### Investments

3: Increasing capital and revenue returns to the Council through investment opportunities.

- 7.3 In May 2019 the Commercial Manager and Commercial Officer commenced employment, which meant all roles were then filled within the Commercial team. The other two members of the team are two Commercial Support Officers. The Commercial Manager and Officers roles are essential for the Council to explore internal and external commercial opportunities. Both members of staff have private sector experience and the Commercial Officer has also worked in the public sector.
- 7.4 The Estates team has also recruited an Interim Property Consultant on a temporary contract, whom will work alongside the Commercial team to seek investment opportunities where property is involved.
- 7.5 At the September Committee the Service Director – Commercial provided a verbal presentation updating the Committee on the progress of the Commercial Strategy. Some Members of the Committee were expecting a formal report and more detail than what was presented, therefore, it was agreed that a further formal report with a clear focus on achievements to date and plans going forward be made at the next available Committee slot. Therefore the following was resolved:

**RESOLVED:** That the Service Director – Commercial present a written report to the next meeting of the Overview and Scrutiny Committee, which should provide the following information:

- (1) The work of the Commercial Team;
- (2) The essential provision of future forecasting

**REASON FOR DECISION:** To allow the Overview and Scrutiny Committee to comment on the work of the Commercial Team.

## **8. COMMERCIAL UPDATE**

### **8.1 CULTURE**

- 8.1.1 One of the biggest challenges that have been identified is the need to ensure everyone is aware of what a Commercial Council looks like at North Hertfordshire District Council (NHDC). There is a need for officers and councillors to have a better understanding of what councils can and can not do to generate additional income or make a surplus.
- 8.1.2 The quote by Peter Drucker 'Culture eats Strategy for Breakfast' is an absolute reality. A limited understanding of commercialisation impacts the way both officers and councillors think and act towards exploring new opportunities. Recent research demonstrates that strategy will ultimately only succeed where cultural issues are addressed. Therefore, although we have a Commercial Strategy which has been adopted by this Council we need to ensure we have the right culture in place for it to succeed and that everyone understands the need to be more commercial is not just for the Commercial department but is for everyone.
- 8.1.3 We are aiming to embed a more 'business like' approach throughout the organisation. By doing this it allows officers to think differently, consider more opportunities and streamlines the way in which we work as a council. It also gives employees the freedom to think commercially, in a way that will improve their service area or the council as a whole. The term 'thinking commercially' refers to being more strategic and considering financial implications from an income stream perspective to benefit the council and surrounding District. It also allows NHDC to identify efficiencies within our current processes as well as striving to reduce costs without affecting the services provided.
- 8.1.4 The Commercial team have been working hard to ensure all staff understand what commercialisation is within local government, and how we are trying to be more commercial in our approach to implement this culture change. Below is an overview of some of this work: -
  - The Service Director provided a briefing to all staff last year to explain what commercialisation is and how this can provide opportunities for the council to explore.
  - A new intranet page has been launched, explaining what commercialisation looks like at NHDC.
  - A suggestion board has been displayed in the canteen to provide the opportunity for councillors and officers to 'post' their commercial ideas. This enables officers to 'think on their feet' and to have an informal discussion in an open space about commercialisation in general. The board is reviewed weekly and new ideas are scored and explored.
  - A dedicated email account has been set up to encourage people to email the team directly to suggest commercial ideas.

- An engagement/ communications plan has been created alongside the Communications team. This includes a poster refresh throughout the District Council Offices, as well as displaying new screensavers on employee's screens. This campaign will continue into 2020 and run alongside the training (see below for further details).
- The Commercial team has featured in 'Insight' to explain and update readers on the role of the team, as well as to remind officers and councillors to think commercially.
- A drop in session took place on 18 September, providing an opportunity for officers and councillors to meet the team ask questions, present ideas and find out more about the Commercial Group.
- The Commercial Group held its first meeting on 30 October 2019. This group is made up of officers from different service areas and are commercial champions that will help the council explore more opportunities. The creation of the group is in line with the Commercial Strategy and seeks to discuss the ideas of the Commercial department. This forum has so far been very useful, with the next meeting planned on 8 January 2020.
- The Service Director has attended all departmental team meetings to discuss commercialisation and to explain what the Council can and can not do.

8.1.5 The Commercial Team have been working alongside an external training provider to arrange two types of specific training sessions for both Councillors and Managers at NHDC. The first session took place in November and was aimed at officers that could become directors of the Council company if this is formed.

8.1.6 The second set of training is aimed at all Councillors and Senior Management Group attendees and will take place on 22 January 2020. This training will ensure all attendees have a better understanding of what commercialisation is within the public sector and allow them to think differently when seeking a commercial venture internally and externally.

8.1.7 Following this training, the Commercial Manager and the Service Director – Commercial will deliver bespoke Commercial training to all members of staff. This training will aim to ensure that all staff has a good understanding of commercialisation, think differently and be more open minded when identifying opportunities within their service area. It will also allow attendees to understand how they can contribute to the overall success of the Council. Ongoing training will take place with new employees as and when they join.

8.1.8 The Commercial Manager and Service Director are in the process of appointing an external consultant from 'CommercialGov' to ensure that the strategy and the delivery of commercialisation at NHDC are inline with other local authorities and the ever-changing climate. The consultant will aim to build upon the "strong foundations" already made at NHDC, and to review the methodology in which commercial activity is researched and taken through to viable business case level. The role of the consultant is also to make recommendations based on the work done by the team, and also support in evolving culture to ensure that thinking and acting commercially becomes the 'normal' way of operating at NHDC. The selected consultant has worked on similar projects alongside over 60 local authorities including; Cheltenham (who have recently achieved the 'Commercial Council of the Year' award), Mendip District Council and South Somerset District Council.

8.1.9 Three webinars have been made available to all Senior Management Group attendees these are:-

- “Developing a commercial venture and corporate approach”
- “Successfully launching a commercial venture”
- “Managing risks and legal issues”

Since being made available over 48 officers have viewed the above.

8.1.10 The Service Director - Commercial has set up a networking group which comprises of senior Commercial officers from seven Councils. This group shares best practice and is also a good way to discuss new ideas.

## **8.2 BUSINESS IMPROVEMENTS**

8.2.1 The Commercial team have received in excess of 100 ideas (an example of these ideas can be found in Appendix A). These ideas have derived from a combination of officer research, employee interaction and liaising with other councils. In order to determine the viability of an idea specific to NHDC, the team follows an internal process, shown below:

- **Stage 1**  
The idea is scored against the commercial criteria (written by the team) and includes elements such as financial implications, resources required, political issues and competition.
- **Stage 2**  
If the idea does not reach a score above 50% according to the criteria, it is not pursued any further by the team.
- **Stage 3**  
If a score is over 50% the idea is assigned to a Commercial Support Officer, who investigates and compiles the research paper. As part of the research process, the team meet with the service area that has either suggested the idea or could be responsible for the project. Further research is then carried out including include liaising with relevant councils or organisations.
- **Stage 4**  
Following the research, a detailed business case will be completed (the level of detail will be determined by the size and scale of the idea). This will be presented to the Commercial Officer and Commercial Manager for approval.
- **Stage 5**  
The Service Director – Commercial will take the idea for further discussion and approvals via the Senior Management Team meeting. This will be discussed further before seeking the approval of Councillors.

8.2.2 There are currently two projects under consideration and progress will be subject to business case. The table below demonstrates these projects and their current status.

Project Title	Estimated Income/ Savings Per Annum (£)	Status
<p><b>Purchasing Annual Leave</b> This scheme will allow employees to purchase an additional five days leave (pro-rata for part time staff) at a cost depending on their grade. This will be managed through salary deductions and will run alongside the current holiday period (April-March).</p> <p>Employees would not have the option to buy back additional annual leave, although this may be considered due to Service area demands.</p>	<p>Estimated savings to NHDC:</p> <ul style="list-style-type: none"> <li>• Low position: £9,500* at a 5% staff take up</li> <li>• Midpoint position: £94,000* at a 50% staff take up</li> <li>• Maximum position: £187,000* at a 100% staff take up</li> </ul> <p><i>*Based on salary figures of Full Time Equivalent staff from HR and taken at a salary midpoint per grade.</i></p> <p>Current take up across other Councils vary from a 3% take up to 10%. See below for breakdown of take up by Council and what this would equal to for NHDC.</p> <ul style="list-style-type: none"> <li>• Thurrock: 3% (£5,600)</li> <li>• Basildon: 4% (£7,500.)</li> <li>• Dacorum: 5.2% (£9,700)</li> <li>• Central Bedfordshire: 8.85% (£16,600)</li> <li>• Babergh and Mid Suffolk: 10% (£18,800).</li> </ul> <p>This will require a set up fee of £600 which covers the administrative costs of adding the function onto the current Wider Wallet system.</p>	<p><b>Purchasing Annual Leave</b> This scheme will allow employees to purchase an additional five days leave (pro-rata for part time staff) at a cost depending on their grade. This will be managed through salary deductions and will run alongside the current holiday period (April-March).</p> <p>Employees would not have the option to buy back additional annual leave, although this may be considered due to Service area demands.</p>
<p><b>Implementing a Community Lottery</b> A Community Lottery that will generate additional revenue in support of good causes within the district. Funds raised through the Lottery</p>	<p>Tickets cost £1 each. The price of the ticket is broken into the following areas:</p> <ul style="list-style-type: none"> <li>• 50p directly to the players chosen good cause</li> <li>• 10p which will be</li> </ul>	<p><b>Implementing a Community Lottery</b> A Community Lottery that will generate additional revenue in support of good causes within the district. Funds raised through the Lottery</p>

will effectively substitute (not fully) the Authority's grant funding, which has been reduced as a consequence of the ongoing budget cuts.

Both voluntary and community organisations will have the opportunity to benefit from this initiative, raising funds via ticket sales. When a ticket is purchased, the player then chooses which good cause they wish to support.

The following calculations are based on the total percentage of NHDC player population (how many players signed up in respect of the District population).

For comparative purposes, 28% of ticket sales from the National Lottery go to good causes, 27.5% from the Postcode Lottery and 20% from the Health Lottery.

controlled by NHDC and could be used to replace existing funds and therefore be a potential saving

- 20p to the prize fund
- 17p to the external Lottery management company for administration and management
- 3p VAT.

Estimated income to the community grants fund controlled by NHDC:

- 1%: £5,500
- 1.5%: £8,300
- 2%: £11,000

Estimated income for good causes:

- 1%: £27,000
- 1.5%: £41,500
- 2%: £55,500

A sample of *minimum* take up figures across other Councils varies from 0.9% to 2% based on area population. See below for breakdown by Council and what they have raised for good causes so far.

- East Herts: 0.9% (£34,000)
- Bexley: 0.6 (£36,000)
- Broxbourne: 1% (£23,000)
- Lincoln: 1.7% (£42,000)
- Melton: 1% (£12,000)
- Aylesbury Vale: 2% (£85,000).

According to research, most Council's have targeted a 0.5% increase in players per year in business cases to a maximum of 3% in year five.

will effectively substitute (not fully) the Authority's grant funding, which has been reduced as a consequence of the ongoing budget cuts.

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The following calculations are based on the total percentage of NHDC player population (how many players signed up in respect of the District population).

For comparative purposes, 28% of ticket sales from the National Lottery go to good causes, 27.5% from the Postcode Lottery and 20% from the Health Lottery.

8.2.3 In recent years the Council has had to act more commercially, via generating income or providing services more efficiently, the table below demonstrates some specific services that have been successful in this area. Although generating income from selling our services improves the Councils financial position, our first priority must be to focus on delivering our core services, therefore, the income that is generated can be variable from year to year.

8.2.4 It is good that many departments are taking this approach which demonstrates that our employees are already thinking commercially and are on board with delivering these incentives. The Commercial team will continue to become more integrated across the different service areas to support this type of commercial thinking and activity.

<b>Project title</b>	<b>Forecasted income 2019/20</b>	<b>Status</b>
Providing woodland and meadow burials	£5,500	Ongoing
Selling our IT services	£16,700	Ongoing
Garden Waste Collection Service	£764,100	Ongoing
SLL ice skating rink	Awaiting figures once the project has completed	November 2019 – January 2020

8.2.5 The aim is to take a business partnering approach whereby the Commercial team will actively seek opportunities alongside service areas by having a greater understanding of the area and its potential efficiencies. This will also keep momentum going throughout NHDC regarding commercialisation, and allow employees to have a better understanding of the Commercial itself.

8.2.6 The majority of ideas that have been brought to the team are internal opportunities; however the team are also exploring external opportunities. External opportunities are considered as large investment ideas that are more likely to remain the responsibility of the Commercial or Estates team whom also report to the Service Director – Commercial.

### 8.3 Existing Property Portfolio

8.3.1 The District Council has a fixed asset property portfolio with an overall capital value of approximately £103 million. Part of this portfolio comprises investment properties with a capital value of approximately £18.2 million, generating a net rental income to the Council of approximately £1.1 million annually and a yield of approximately 6% per annum. The investments mainly consist of commercial and retail ground rents. The remainder of the Council's portfolio includes land for development, several buildings earmarked for refurbishment or conversion, together with operational properties such as the Council Offices, community centres and leisure centres.

### 8.4 Property Acquisition & Development Strategy

8.4.1 To build on the Commercial Strategy adopted by the District Council, Estates is writing a Property Acquisition & Development Strategy. The intention is to present this Strategy to Cabinet on 28<sup>th</sup> January 2020 with a view to its adoption for the next



5 years, and will be subject to annual review. The draft Strategy was presented to the Political Liaison Board on 5<sup>th</sup> November 2019.

- 8.4.2 The Property Acquisition & Development Strategy's core goal is to secure property opportunities for the purposes of the District Council's functions or for the benefit, improvement or development of its area. The goal is expressed through a set of objectives in the Strategy. By way of example, acquiring property in support of a regeneration programme that generates enterprise and employment is one objective.
- 8.4.3 The Strategy puts in place a framework of principles that apply governance and rigorous appraisal to property acquisition and development decisions by the District Council, to protect the long-term security and minimise risk for capital outlay by the Council. The Strategy also aims to help secure positive financial returns wherever possible for the purposes of its functions or the benefit, improvement or development of its area.
- 8.4.4 The Strategy provides a range of qualitative and quantitative criteria by which property opportunities will be appraised. One example is lot size. The Strategy advises targeting single investments in the range of £3 million to £5 million to promote a proportional and balanced property portfolio, limit management costs and to help ensure an optimal risk-return outcome for the District Council.
- 8.4.5 Once the Property Acquisition & Development Strategy is approved by Cabinet, and the necessary capital funding is in place (which is subject to the budget process), the District Council will be in a position to pursue suitable property opportunities that satisfy the governance and due diligence criteria of the Strategy in pursuit of the Strategy's core goal and objectives. Whilst the Strategy does not identify specific property opportunities, Estates and the Commercial team are in position to explore options.

## 8.5 Property Disposals

- 8.5.1 The District Council is proposing to dispose of the following surplus sites. These disposals will generate capital receipts to fund the Council's capital programme and acquire and develop new assets. The estimated capital receipts are shown in the Part 2 report.

<b>Property/Site</b>	<b>Proposed Disposal Date</b>
Town Lodge, Bungalow, Document Centre & Store, Gernon Road, Letchworth	2020-21
Land at Ivel Court, Letchworth	2020-21
Land rear of Clare Crescent, Baldock	2020-21
Land off Windmill Close, Barkway	2021-22
Land rear of Baldock Road, Letchworth	2021-22
Land off Templars Lane, Preston	2021-22
Former Depot, Icknield Way, Letchworth	2022-23
Land off Yeomanry Drive, Baldock	2022-23
Land at The Snipe, Weston	2022-23

## 8.6 Property Refurbishments

- 8.6.1 The District Council is proposing to refurbish the former Careline offices at Harkness Court, Hitchin into four residential units. The proposed date of refurbishment completion is 2020-21. Following refurbishment, additional homes will be created and additional rental income generated. The estimated rental income is provided in the Part 2 report. Two further proposed property refurbishment projects are outlined in the Part 2 report.
- 8.6.2 Since planning permission was obtained for the conversion, there have been delays to this project. This first is due to approval for an external canopy structure to the property in order to secure the installation of an upgraded power supply for the four flats proposed. This requires settle's approval and the utility provider to upgrade the power supply. The aim is to commence refurbishment work in March/April 2020, but is based on resolving the utility issue.

## 9. LEGAL IMPLICATIONS

- 9.1. There are various legislative provisions that give Local Authorities the power to trade, such as S1 of the Local Authority (Goods and Services) Act 1970, S95 of the Local Government Act 2003 and S1 of the Localism Act 2011 ('the general power of competence'). As part of the assessment of any proposed trading activity pursuant to the Commercial Strategy, the Council will need to ascertain the most appropriate power and comply with any associated requirements.
- 9.2 The District Council can borrow to acquire or develop property for the purposes of NHDC's functions or for the benefit, improvement or development of its area. In its capacity of local authority, the District Council cannot borrow to acquire or develop property purely in order to profit from the investment of the sums borrowed. However, this does not necessarily preclude the Council generating a surplus from property acquired or developed pursuant to the Strategy.

## 10. FINANCIAL IMPLICATIONS

- 10.1. Financial implications are covered in the body of the report.

## 11. RISK IMPLICATIONS

- 11.1. The body of the report has referenced the relevant risks associated with the update.
- 11.2. There is a Corporate Risk entitled "Income Generation", which assesses the risks associated with the Council adopting a more commercial approach to service delivery, as well as focusing on the many opportunities and positive benefits it could achieve by delivering the aims and objectives of the Commercial Strategy.

## 12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

- 12.2. The strategy states that all proposed ideas will be of an ethical nature and will be considered to have a positive impact on the community as a basis for consideration. In line with the council's commitment to demonstrate due regard the Equality Duty, it will conduct equality impact assessments that require them (i.e. any key decisions, major budget implications and any revisions to major service provisions).

### **13. SOCIAL VALUE IMPLICATIONS**

- 13.1. The Social Value Act and "go local" requirements do not apply to this report.

### **14. HUMAN RESOURCE IMPLICATIONS**

- 14.1. There are no direct human resources implications for this report.

### **15. APPENDICES**

- 15.1. Appendix A – An example of Internal Commercial ideas

### **16. CONTACT OFFICERS**

- 16.1 Steve Crowley, Service Director – Commercial ([steve.crowley@north-herts.gov.uk](mailto:steve.crowley@north-herts.gov.uk) / ext 4211)
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- 16.4 Christopher Robson, Senior Estates Surveyor ([christopher.robson@north-herts.gov.uk](mailto:christopher.robson@north-herts.gov.uk) / ext 4252)
- 16.5 Ian Couper, Service Director – Resources ([ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk) / ext 4243)
- 16.6 Reuben Ayavoo, Policy and Community Engagement Manager ([reuben.Ayavoo@north-herts.gov.uk](mailto:reuben.Ayavoo@north-herts.gov.uk) / ext 4212)
- 16.7 Tim Everett, Performance & Risk Officer ([tim.Everitt@north-herts.gov.uk](mailto:tim.Everitt@north-herts.gov.uk) / ext 4646)

### **17. BACKGROUND PAPERS**

- 17.1 North Hertfordshire District Council's Commercial Strategy.