

Appendix 1: Nottinghamshire County Council Commercial Strategy

Overview

Over the years Nottinghamshire County Council has continued to look to commercially innovative ways to deliver services as well as capitalise on its traded services to deliver income to help deliver services that cannot generate income. Whilst excellent progress has been made the progress made so far will not deliver a significant contribution to help meet the significant funding pressures that the Council faces.

The Commercial Strategy aims to increase the contribution that commercial activity can make to help minimise the impact that significant cuts to funding have made and will likely continue in the coming years.

The commercial strategy takes a broad view of commercial activity and its contribution to the financial position of the authority, but also takes into account the positive contribution that traded services can make to the residents and businesses of Nottinghamshire.

Drivers for Commercialisation

- The Council still needs to make significant income and / or savings to offset the reduction in funding
- Our financial position is forcing us to look at more commercially focussed ways of delivering services
- Successful commercialisation across the sector has proven that income generation is possible
- Some success has shown that we do have the skills and knowledge to deliver savings through commercialisation

Principles and Scope of Commercialisation at Nottinghamshire County Council

Commercial awareness and activity can be wide in scope and cover areas such as improved contract management and procurement as well as investments and joint working arrangements. For the purposes of this strategy the scope of commercialisation is:

- Selling services
- Pricing & charging
- Fitness of traded services
- Commercial development
- Investment
- Contract Management
- Procurement

Commercialisation is an approach that should be open to all areas of the Council and should be considered as an option in any service review, but will not always be

an appropriate option. Key opportunities should be chosen to ensure that commercial projects can be resourced without extensive support.

The principles of commercialisation include:

- Open to all options of service delivery
- Risk aware and acceptance that not all commercial ideas will work
- Honesty about current performance
- Prepared to invest when based on analysis and forecast activity
- Make commercial decisions based on commercial analysis

Aims and Objectives

The main aim of the strategy is to deliver a financial return which contributes to the Council's financial position and helps sustain the delivery of services to the residents and businesses of Nottinghamshire. In addition further objectives will be:

- Help enable all non-statutory services to at least cover all their costs
- Establish the current performance of all traded services and forecast the potential commercial performance
- Invest and use our financial strengths to generate new income
- Identify and develop potential commercial ideas
- Develop exit strategies for commercial services with declining markets
- Develop and imbed commercial thinking and skills across the Council

Work Streams / Programmes of Work

Imbedding Commercial Skills

Work is currently underway on an interactive e-learning module that will form part of the key competencies for all Council employees to help provide a basic understanding of commercial concepts and how to apply them. Further commercially focused training is also being developed that can be delivered to groups at different levels. Specific sessions based around particular commercial areas such as cost and pricing are also developed as the need arises.

Employees that participate in the Commercial Development Unit programme are given a much deeper level of commercial understanding through the programme of commercial masterclasses that form the first part of the Commercial Development Programme with a variety of techniques and tools that are applied to the service undergoing the Commercial Development Unit programme.

Development of Commercial Ideas

A number of commercial ideas are being tested through both the Commercial Development Unit process and through service reviews. Any commercial concept should be market tested through these and other methods to establish the level of return on investment and the potential for successful delivery. Any method should be

designed to stress test any commercial idea and the measure of success should be ideas that have a low return on investment or high probability of failure being halted.

The Commercial Development Unit has operated as a stand-alone project and has demonstrated that it can help services deliver additional saving. An additional £400,000 saving was reported for the first pilot cohort. In order to embed this commercial approach further the Commercial Development unit will become part of the transformation programme ensuring that commercial thinking is considered alongside other transformation proposals.

Reviewing Current Commercial Performance

A number of reviews have been initiated in order to establish commercial performance such as the review of the Services for Schools portfolio as well as review into Place that contains some substantial traded activity. These reviews should seek to establish current commercial performance as well as forecasting future activity in order to develop commercial options. A programme of review should be undertaken to establish the commercial performance of all traded services either through the Commercial Development Unit or other review mechanisms.

Any service that undertakes the Commercial Development Unit process is continually monitored to ensure that they stay within the parameters that were forecast as a part of the business case. A system of commercial reporting should be developed in order to give Members regular oversight of commercial performance.

Review of Pricing and Charging

The Council has a host of discretionary services that it is allowed to charge for. Even though the Council cannot make a profit from these services it is allowed to fully recover its costs. This does give scope to offer concessions to certain groups but still recover the full cost of the offer of the discretionary service by variations in pricing for different groups. But the first step in ensuring that full cost recovery can happen and a pricing strategy developed for services is the establishment of the true cost base. Once this baseline cost has been established then the appropriate concessions and pricing can be planned to allow the most vulnerable groups to still access these services whilst protecting the service by recovering the full cost. A review is currently being undertaken to establish all the areas of charging in order to establish a baseline.

Establishment of Alternative Service Delivery and Trading Entities

Currently due to legislation no internal trading service would be able to operate as a profit making service that would pay a dividend. Although traded services may return a surplus in some cases that would offset against a wider budget. Although no service is currently at this point, in the future, if the Council wanted to generate profit from any service, it would need to set up an appropriate trading vehicle such as a trading company. A number of other Councils have set up singular trading companies or other vehicles that all traded activity operates through. This removes the cost of setting up individual trading vehicles, as multiple services can trade through the one trading vehicle. There is currently no need to set up an alternative

trading company, but maybe considered in the future if there was a commercial business case for it.

The Council has instigated a number of Alternative Service Delivery Models in recent years covering Highways (Via), Property (Arc) and Libraries (Inspire). These were developed with the aim of assisting in meeting budget reduction targets, through maintaining service delivery at a lower cost, rather than with the intention of generating significant additional income. All ASDMs have achieved their initial aim and there may be scope for Via and Arc in particular to generate income through increased dividend returns going forward.

Property Investment

The Council does not currently invest in Property for the purpose of revenue returns. Sales of existing property do deliver capital receipts, but in the main the property was not originally acquired for this purpose. A number of other local authorities have begun to invest in commercial property, in some cases investing significant amounts. The Council's experience of managing investment for the Nottinghamshire Pension Fund is that any investment in a single asset class such as property has significant risks. Changes in economic outlook can impact the capital value of the asset or the ability of the asset to generate a revenue return, for example through a major tenant going in to liquidation. Both of these can have significant short term impacts and could lead to a need to reduce spend on services to cover investment shortfalls.

The Council does own a number of commercial units and farms that deliver a return through rental income. Although these commercial properties were not originally purchased for the purpose of generating a commercial return. Analysis of the market will be made to ensure the most appropriate options are reviewed in order to generate a return where possible.

A number of local authorities have invested into residential property investment, particularly where the authority has a responsibility for housing. Again this is an area that requires significant investment but has significant risk and changes in economic outlook can impact a return and lead to a need to reduce spend on services in order to cover investment shortfalls. At this time the Council has no plans to use investments in this way.

Effective Contract Management

Effective contract management will ensure that we get the best from our relationships with our suppliers and partners. The planning stages in the formation of contracts when commissioning is key to ensuring we get best value for the Council and residents as well as maintaining a constructive relationship with suppliers and contractors. The management of contracts requires flexibility on both sides with no surprises and effective management through the agreement and monitoring of key performance indicators. The Council's Procurement Strategy sets out our approach to Contract Management in more detail.

Corporate Procurement and Commercial Financial Management

By taking a commercial approach to procurement we will be able to ensure best value whilst leveraging our buying power. Using market intelligence and data we will strengthen our position when working with suppliers ensuring we work together to understand their cost base and co-design to get the best outcome for the Council and residents. Where possible we will look to establish payment by results contracts without disadvantaging small and third sector organisations. The Council's Procurement Strategy sets out our approach in greater detail.

Investment Strategy

The Council has an Investment Strategy within the overall Treasury Management Strategy, however this is mainly focused on the investment of short term cash balances within the financial year. The Council has reviewed the option to borrow money for the long term at low rates from the Public Works Loan Board (PWLB) to invest with the aim of achieving a return higher than the interest payable, and hence generating an income stream to offset budget cuts. The review highlighted the significant risks with this approach, in particular given the Government's proposals to change accounting rules so that reductions in capital value have to be recognised immediately they occur. At this time the Council has no plans to use investments in this way.