

18 December 2017

Agenda Item: 6

REPORT OF THE SERVICE DIRECTOR, COMMUNICATIONS, MARKETING AND COMMERCIAL DEVELOPMENT

COMMERCIAL DEVELOPMENT UNIT: SERVICE OUTCOMES AND APPROVAL

Purpose of the Report

1. To seek approval for the services that have successfully passed through the Commercial Development Unit (CDU) to progress to full implementation of their commercial plans.
2. To seek approval for the next services to enter the Commercial Development Unit.

Information and Advice

3. Policy Committee approved the two-year funding of the Commercial Development Unit in November 2016 following a successful pilot with three services (Education Improvement Service, Outdoor Education, Trading Standards).
4. Since the pilot six more services have entered the commercial development process (Procurement, Brooke Farm, Catering and Facilities Management, Document Services, Energy Services and County Supplies).

The Process

5. Services undergo an 8-week accelerated learning process that provides the commercial skills necessary to build a fully costed, outline business case with four-year financial projections. At the end of the process, the plan is scrutinised by a panel that includes the Chief Executive, the Monitoring Officer, the Section 151 officer and an external business person. The Finance and Major Contracts Committee then makes the decision about whether to give services the go-ahead. Services will then have to take reports to their own committees or other relevant committees to enable specific elements of the commercial plan such as staffing changes.
6. Progress reports are taken to the relevant service committee while services are supported by the Commercial Development Unit for the first 12 months of trading. Early interventions will be made where any services fail to keep on track with income or cost projections.
7. The intention is to get as many services as possible to a position of zero cost or to one where they are returning surplus income to the authority which could be used to support other services.

8. Policy Committee agreed that seed investment for commercial plans would come from an earmarked reserve of £0.5m in the Strategic Development Fund.

Outcome from Commercial Development Unit Cohort 2

9. Three services participated in the second cohort assessment process which took place in July 2018:
 - Catering & Facilities Management
 - Document Services Hybrid Mail
 - Brooke Farm (Returning from cohort 1)
10. Each service presented their commercial plan to the panel that consisted of the Chief Executive, Finance Officer, Monitoring Officer and an external business person.
11. **Catering and Facilities Management** – the plan for the Catering Service focuses on retaining and increasing in value the existing catering contracts with schools. Facilities Management are currently struggling to cover costs due to overhead charges and above market value staff wages. The panel felt that the plan still needed further work. The service were asked to return to the next assessment centre after further developing their commercial plan.
12. **Document Services Hybrid Mail** – a hybrid mail solution is where users can send mail from their desktop. The mail is then printed, inserted into envelopes and sorted at a central point so that advantage can be taken of lower print and postal rates. Further savings are achieved in printing and business support. This solution is currently being implemented in the authority. The proposed plan is to allow external organisations to also use the authority's hybrid mail solution which would lead to even greater mail discounts. The service is asking for an investment of £59,000 from the ring-fenced investment pot in order to buy the necessary licences and to achieve the relevant industry accreditation. A four-year sales forecast predicts the investment will be paid back by year two and will deliver almost £150,000 surplus income back to the authority over the next four years. The panel felt that this was a conservative forecast and that the actual return was likely to be higher. A number of public sector partners have already shown an interest in using this system should Members give approval to proceed.
13. **Brooke Farm** – the service, which provides training and employment opportunities for individuals with learning disabilities within a horticultural and farm shop setting, currently costs almost £700,000 a year. The commercial plan could reduce the cost to around £200,000 a year by year 4, whilst enhancing the offer to service users. The main elements of the plan are as follows:
 - Adjust prices and product lines to take advantage of the lack of a convenience store in the village
 - Redevelop the shop and café areas to take advantage of the local trade (walkers and after school market)
 - Make more space for plant sales which are one of the best-selling and most profitable ranges
 - Phased withdrawal from the grounds maintenance market which operates at a loss
 - Disposal of land which is not suitable for growing crops / plants – due to poor soil conditions, it is cheaper to buy in than to grow.
 - Install a play area to make it more of a destination for families
 - Improve car parking and access to ensure safety of increased trade

14. These changes would allow Brooke Farm to cover a large percentage of its cost and provide services users the chance to gain a wider range of skills. This may increase the chances of service users being offered employment opportunities.
15. The service would like to invest £353,000 of capital funds for the redevelopment work and the new adventure playground which could be offset from the receipt of the sale of land. Over a four year period the savings and additional income could generate savings of over £689,000 to the authority.

Outcome of Commercial Development Unit Cohort 3

16. Three services participated in the third cohort assessment process which took place in November 2017
 - Catering & Facilities Management (Returning after cohort 2)
 - County Supplies
 - Energy Services
17. Each service presented their commercial plan to the panel that consisted of the Chief Executive, Finance Officer, Monitoring Officer and an external business person.
18. **Catering and Facilities Management** – Further work needs to be undertaken in this area which will now happen outside of the CDU process. A report will be brought back to the committee once this work has been completed.
19. **County Supplies** – County Supplies is a one stop shop for a range of supplies that covers stationery, office furniture, workplace equipment and a host of other items. They only supply the public sector and the main customer base is schools. Over the last 3 years County Supplies has been operating at a loss. The overall commercial plan is to reduce costs and increase income to the point that the business is at least breaking even and delivering a small surplus. This will allow the Authority to consider if it wishes to retain the Service or sell it on. There has been previous interest in purchasing the business. The main points of the commercial plan are:
 - Increased attendance at exhibition events generating an additional £225,000 in sales
 - Lease excess warehouse space generating £17,000 per year
 - Move to SAP software from Chorus saving £55,000 per year
 - Review supplier and reduce product lines saving £58,000 per year
 - Reduce number of printed catalogues saving £2,000 per annum
 - Development of a new website to generate online orders will reduce manual processing. This will incur a one off cost of £50,000, but will save a minimum of £20,000 per year due to reduction in Customer Service Team

The savings and investment should take the service into surplus by 2018/19. The investment of £50,000 to develop the website and £16,000 for procurement support to undertake a further review of procurement of suppliers would be paid back within the 1st year of the commercial plan. This investment will come from the ring-fenced investment pot.

20. Energy Services – The Energy Services Team undertakes work across the Authority to ensure we are consuming energy in an efficient manner and generating savings where possible. It also works with schools to review their energy use and access funding in the form of a loan to implement energy schemes that will save money. The cost of any loan is less than the saving meaning it comes in real terms at no cost to the school. The team include a small management fee within the cost of the loan. Schools also purchase their energy through the team for which a commission is earned as well as securing cheaper energy prices for the Authority. The overall commercial plan is to expand this offer to academies, other public sector bodies and schools outside of Nottinghamshire. The main points of the plan are:

- To market the scheme to a wider audience such as academies, colleges, district councils, and schools in Derbyshire, Leicestershire and Lincolnshire
- To expand the number of schools buying energy through us therefore increasing the amount of rebate we get from the energy suppliers
- To increase staffing by 1 FTE from 2019 in line with increased demand

The overall aim of the service is to get to a zero budget position with its cost to the authority reducing year on year. By 2020/21 it will be delivering a small surplus of £18,000. But as well as being no cost to the Authority it will still be generating savings to the Authority as well as to schools and other public bodies.

21. A summary position of the services that have been through the CDU to date can be seen in table 1 below, a report on the year end trading position will be brought to committee in April 2018.

Table 1: Current position of services in the CDU

Cohort	Service	Status
Pilot	Education Improvement Service	Approved and currently trading in Q3
Pilot	Outdoor Education Service	Approved and currently trading in Q3
Pilot	Trading Standards Commercial Service	Approved and currently trading in Q3
Cohort 1	Brooke Farm	Awaiting approval from members
Cohort 1	Procurement	Withdrew due to no financial return possible
Cohort 2	Catering & Facilities	Returned in Cohort 3, further work required
Cohort 2	Document Services	Awaiting approval from members
Cohort 3	Energy Services	Awaiting approval from members
Cohort 3	County Supplies	Awaiting approval from members

Services recommended for inclusion in Commercial Development Unit Cohort 4

22. The next cohort is due to start in January 2018 and the following services have been recommended following conversations between the service lead and the relevant Committee Chair:

- **Registrations** – This service already provides add on extras in addition to its statutory duties. Going through the CDU would enable them to look at maximising these as well as developing other commercial offers.
- **Early Years** – This service is very similar to the Education Improvement Team that went through the pilot cohort, in that they provide both statutory and traded quality assurance and training to early years providers.
- **County Enterprise Foods** – This service is already trading in terms of the meals service it provides in people homes, but still at a cost to the Authority. The service will be looking to extend the commercial aspects of its offer to cover the adult care costs of the service.

Other Options Considered

23. By not pursuing commercial opportunities it would mean that all the expected savings over the next four years would need to come from service reductions and efficiencies.

Reason/s for Recommendation/s

24. To support the Council's financial position by seeking to reduce the budget needed to run some valued services or, ideally, to return an income to the Council.

Statutory and Policy Implications

25. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

26. These are contained within the body of this report.

Equalities Implications

27. Equalities implications will be considered by each of the services as they develop their commercial plans.

RECOMMENDATION/S

It is recommended that Committee approves:

1. The commercial plans for Hybrid Mail, Brooke Farm, County Supplies and Energy Services with regular updates back to committee as well as a 12-month monitoring by the CDU with the committee deciding if the services should continue trading after that time
2. The inclusion of the three services set out above in the next cohort (cohort 4) of the CDU.

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Constitutional Comments [CEH 08/12/17]

28. The recommendations fall within the remit of the Finance and Major Contracts Committee by virtue of its terms of reference.

Financial Comments [RWK 07/12/2017]

29. The financial implications are set out in the report in paragraphs 12, 15, 19 and 20.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- Commercial Development Unit Report – Policy Committee, November 2016

Electoral Division(s) and Member(s) Affected

- All