

REPORT OF THE LEADER OF THE COUNCIL**COMMERCIAL DEVELOPMENT UNIT****Purpose of the Report**

1. To note the outcome from the pilot of a commercial development programme.
2. To agree the next steps for the three services which were the subject of the pilot phase.
3. To seek approval for the continuation of the commercial development unit for two years.
4. To agree the governance process for the possible future inclusion of other services within the commercial development programme.

Information and Advice

5. Local government needs to move to a position of self-sufficiency over the next four years as the Revenue Support Grant continues to fall. By 2020 the Council's main grant from Government will have virtually disappeared.
6. Government is also encouraging local authorities to consider the most suitable commercial opportunities as demonstrated by the following quote from Brandon Lewis, who was the Parliamentary Under Secretary of State at the Department for Communities and Local Government from September 2012 until July 2014.

“Increased commercialisation could absolutely be an answer to the financial difficulties for local government. There’s two ways to approach it: you can slash and burn and cut and cut, but there is a point for any organisation once you’ve shared all your management that you’ve got to look at actually where that revenue is coming from.” – Brandon Lewis (Local Government Minister, September 2014 – July 2016)

7. In March 2016, Policy Committee approved a commercial development pilot to explore the potential of income generation opportunities. Three services, Outdoor Education, the Education Improvement Service and Trading Standards, were selected to take part in a 12-week pilot. It was delivered by in-house resource with the support of Essex County Council who have already set up a successful commercial unit.

The Pilot

8. While many of the service leads were experts in their own fields, they lacked the confidence or commercial acumen to develop full business plans. As such, they were supported with an accelerated commercial learning programme that supplied the necessary skills to the service leads.

9. Half-day classes were tailored for each service in the process. Sessions covered the following subject areas:

- Sales
- Marketing
- Financial management
- People & change
- Systems & processes

10. The services were also supported in regular 1-1 sessions as they applied their learning to build a robust business case that took into account the size of the potential market, the percentage share they were targeting, how they intended to reach the target audience along with the exploration of any legal or ethical considerations.

11. Each of the plans was then scrutinised by a panel that consisted of the Chief Executive, the Monitoring Officer and the Section 151 Officer. A business expert joined the panel to provide external challenge. Members can then be presented with a series of recommendations on the strength of the proposals with the risks clearly outlined.

The Findings

12. All three service areas produced fully costed outline business plans that forecast income that could be generated over the next four years (Table 2). The cumulative total for the potential income for all three services is £15.9m.

13. The forecast increase in income will reduce the net budget required to provide these services. The net cost of delivering the three service reduces each year, producing a year-on-year saving to the Authority (Graph 1). The annual net budget will reduce from just under £2m in Year 1 to £0.435m by Year 4.

14. The commercial development unit supported the three services to develop commercial plans that show how they plan to generate additional surplus income and all three plans passed the scrutiny test by the Chief Executive panel.

Graph 1: Combined service cost vs income over 4 years

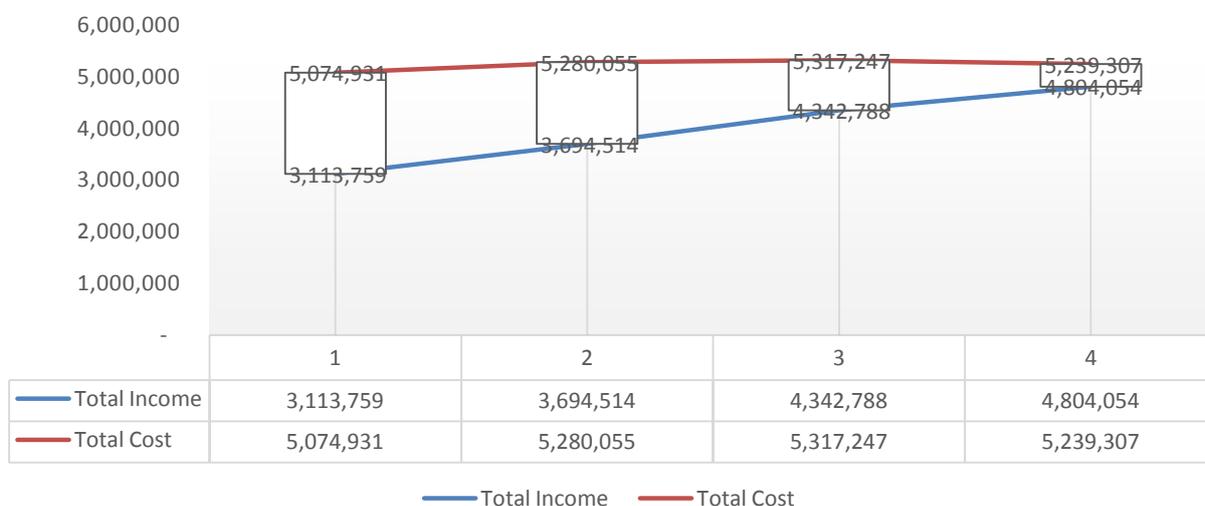


Table 1: Service Costs

	Year 1	Year 2	Year 3	Year 4
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Education Improvement	1,672,404	1,689,128	1,706,020	1,723,080
Outdoor Education	1,000,100	1,160,500	1,195,300	1,100,300
Trading Standards	2,402,427	2,430,427	2,415,927	2,415,927
Total Cost	5,074,931	5,280,055	5,317,247	5,239,307

Table 2: Income Profile

	Year 1	Year 2	Year 3	Year 4
Education Improvement	-1,010,864	-1,406,168	-1,847,285	-2,076,079
Outdoor Education	-809,700	-900,200	-1,000,040	-1,100,400
Trading Standards	-1,293,195	-1,388,146	-1,495,463	-1,627,575
Total Income	-3,113,759	-3,694,514	-4,342,788	-4,804,054

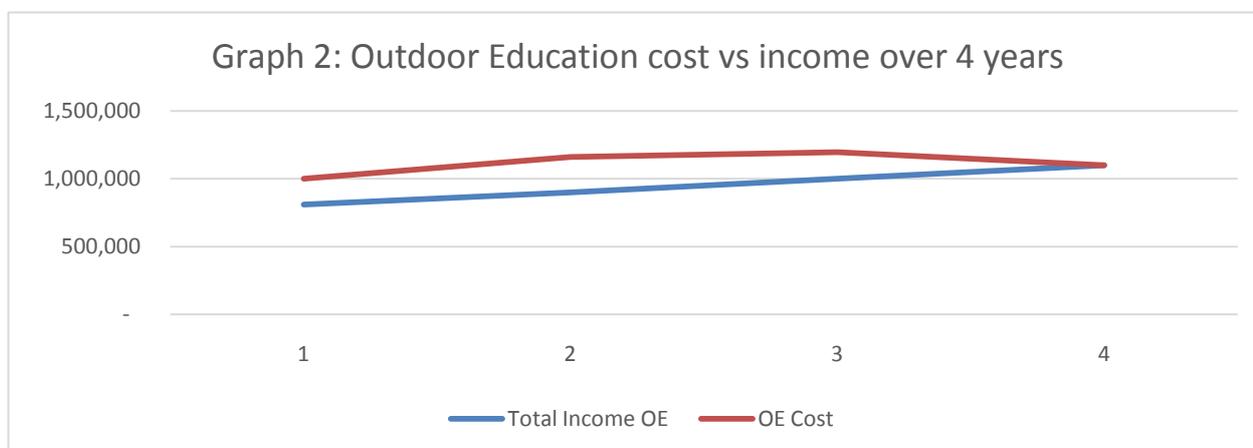
Table 3: Net Service Budget

	Year 1	Year 2	Year 3	Year 4
Education Improvement	661,540	282,960	-141,265	-352,999
Outdoor Education	190,400	260,300	195,260	-100
Trading Standards	1,109,232	1,042,281	920,464	788,352
Total Net Budget	1,961,172	1,585,541	974,459	435,253

Summary of the individual commercial plans:

Outdoor Education

The service will look to invest in sales capacity the first 2 years and as such its net cost will initially increase slightly over this period. However, by Year 4 the income will cover its entire cost with a small surplus returned to the Council. The growth plan is to market its services in nearby areas where there is little outdoor education provision. Particular focus will be on the Mill where there is currently under occupancy. Courses for instructor training will also be offered out of season to ensure that maximum use is made of facilities. Market research also demonstrated that the service was of a high quality but was charging a lower price than competitors so pricing would be adjusted to reflect the market. A quality outdoor education service would be retained but at zero cost (Graph 2).

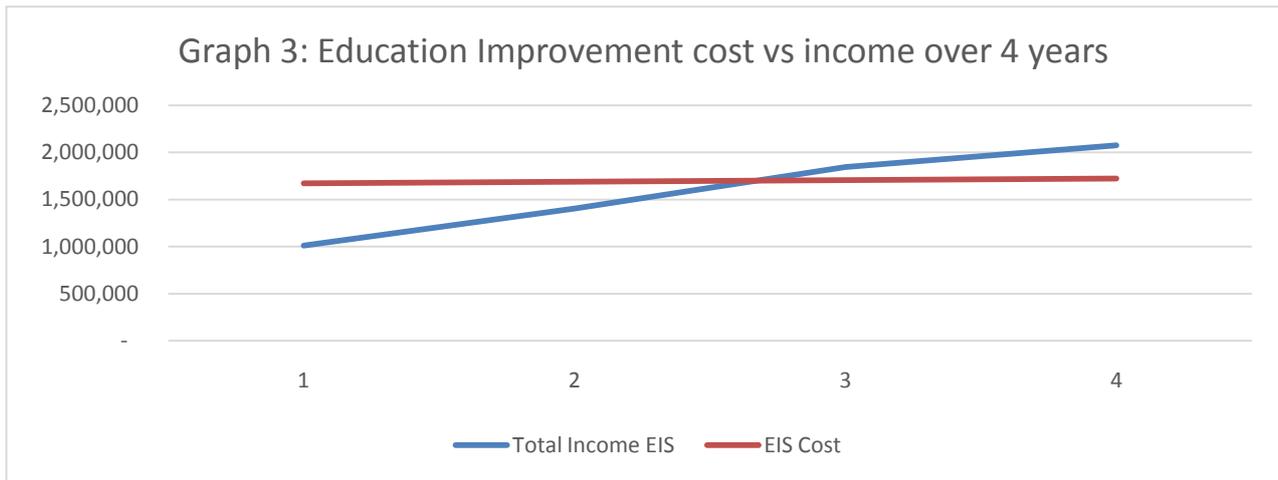


Education Improvement Services

Lincolnshire does not currently have an education improvement service.

The offer from Nottinghamshire is regarded as high quality and would be of high interest within the area. The use of self-employed associates keeps any cost increases to a minimum.

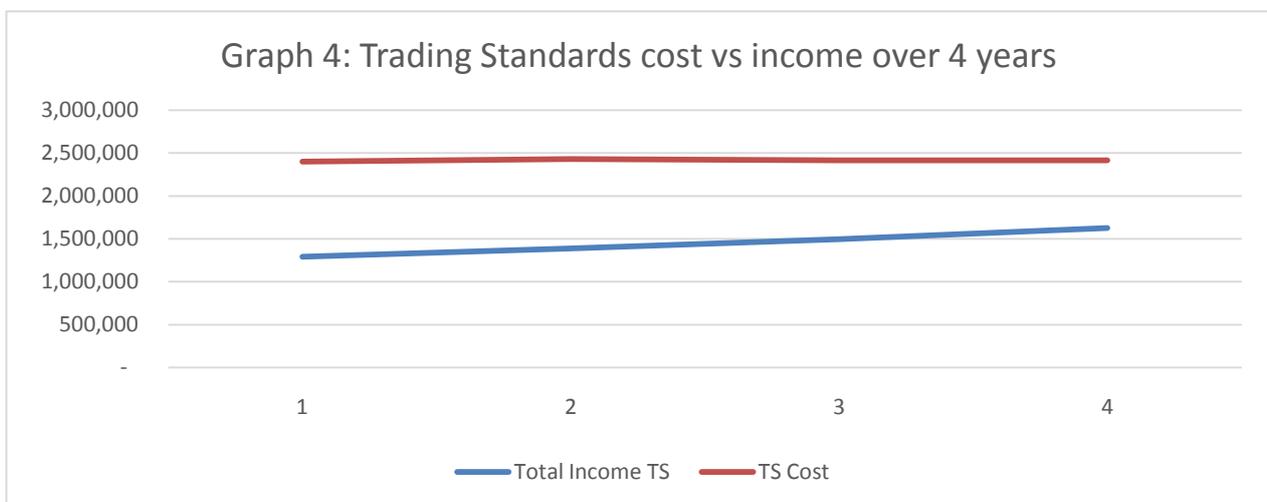
The service is constantly developing new products and training in line with national educational policy and guidance, ensuring that there is always something to offer both current and new markets. The service is forecast to return a surplus by Year 4 of £353,000 (Graph 3).



Trading standards

The service plan ensures that all its costs when operating commercially can be recovered and by making sure all work undertaken commercially is charged at the right amount. The commercial element of the service will offset the overhead costs of the whole service.

Unlike the previous plans, there is currently no path for this service to fully cover its full costs but it can increase its income to reduce the budget by 33% over 4 years (Graph 4) whilst maintaining the same level of service to residents and business. It also maintains its ability to respond to major issues such as foot and mouth outbreaks.



Lessons Learned

15. As would be expected from a pilot project, there are a number of areas which will require improvement.

- **Governance** – There was clearly insufficient member involvement through this process. The revised process recommends that all areas that are proposed to go into the process come from Service Committees in the first instance with the final selection to be approved at Policy Committee. After completing the process a report will be provided to Policy Committee where the final approval will be sought. The relevant Service Director would be required to keep their Committee informed throughout the process and a regular update report will be submitted to the relevant Service Committee.
- **Time commitment** – this is a process that is done with the service not to the service. As such there needs to be a significant commitment to not just attend the masterclasses and coaching classes but also to apply the learning outside of these sessions. Sufficient lead-in will be provided to the service so that they can clear diaries to dedicate the time needed to go through the process.

What next?

16. The commercial development unit has shown how services can be supported to develop fully-costed plans to grow additional income that will improve the overall budget position of the Council.

17. Subject to members' approval, immediate action can be taken to take other services through the process. It is anticipated that nine services a year could be supported in the way outlined.

The existing services will need to be supported and monitored as they implement their plans. This will remain in place for at least the first 12 months with regular reports taken to the appropriate service committee. Services that fail to hit predicted income targets will be helped by the commercial team to address any issues. Service Committees will be recommended to stop early any commercial activity that is failing with no viable intervention plan.

18. It is recommended that due to the reduced scale of the Trading Standards proposition that this is monitored by the existing management arrangements and this is treated as business as usual.

19. In terms of the governance process, the following is recommended:

- Service Committees will be encouraged to put forward and approve any commercial opportunities that would benefit from going through the process.
- Policy Committee will approve the final work schedule with three services going through the unit every four months.
- All business plans that pass the due diligence test will be brought back before Policy Committee for decision.
- Regular update reports will be taken to the relevant Service Committee to keep members informed about progress against income targets

Resources and savings

20. To date existing staff, together with the support of Essex County Council, have been used to run the process. It will also be necessary to consider how the commercial unit is resourced.
21. All the operating and staffing costs associated with the commercial programme will be covered by the additional income that it supports services to deliver. This would mean that the unit would be self-funding from Year 1.
22. In order to make sure that the savings returned to the authority are maximised, the numbers of additional posts has been kept to three FTEs who would be employed. All of the roles would require individuals with considerable commercial expertise.
 - a. Head of Commercial Development
 - b. Commercial Development Manager
 - c. Commercial Analyst

The cost of these posts at the top of the estimated grades including all on costs is estimated to be £188,200, but this is subject to job evaluation and grading.

The Head of Commercial Development would run the unit along with a designated Service Director. The role's primary focus would be supporting services to develop business cases for commercial propositions through the unit's accelerated development programme.

The Commercial Development Manager would focus on supporting services in their trading activity once they had been given the go-ahead. They would work alongside finance to check if the service remained on track with its income and cost projections. The role would also require effective interventions in a trouble-shooting capacity if the service failed to hit targets.

The Commercial Analyst would support the above two roles by supplying robust business analysis to ensure that any plans were built on solid evidence and data.

23. The alternative would be for each service area that is considering a commercial proposition to employ their own commercial resource. This would be considerably more expensive and would result in an inconsistent approach with a reduced chance for shared learning.
24. It is also recommended that the Service Director, Communications and Marketing, who has led on the development of the commercial programme, continues to oversee delivery while longer-term structural plans are considered. This would be done in addition to existing duties.
25. A small operating budget would also be attached to the unit of £59K which would be used in the main to fund any specialist market research where the knowledge did not exist in the authority.
26. The total operating cost of the Commercial Development Unit of £247,200 would be covered from Year 1 from the additional income that would be generated as a result of the initiative. As more services are put through the unit, the surplus income would increase further. After putting just three services through the unit, the contribution to the Council's budget position is shown in Table 4.

Table 4: Incremental savings

£	Year 0	Year 1	Year 2	Year 3	Year 4
Total Net Cost	2,656,895	1,961,172	1,585,541	974,459	435,253
CDU Costs	-	247,200	247,200	-	-
Total cost/budget	2,656,895	2,208,372	1,832,741	974,459	435,253
Incremental savings	-	448,523	375,631	858,282	539,206

The incremental savings figure refers to the reduction in net budget to run the three services and includes the estimated running cost of the Commercial Development Unit. This net saving will be included in the Medium Term Financial Strategy (MTFS). The savings figure would also increase as more services are put through the process although until this has happened, any figure would be an estimate.

27. Any seed investment for the commercial plans would come from an earmarked reserve of £0.5m in the Strategic Development Fund.

Other Options Considered

28. The alternative to a central unit would be the creation of separate resource in departments or attached to individual service areas. This approach would be considerably more expensive and not provide a uniform gateway test to minimise risk. The ability to share learning would also be reduced.

29. The option to not pursue commercial opportunities was explored but this was ruled out because this 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

30. To help support services in maximising commercial potential to support the Council's increasing requirement to become self-sufficient financially.

Statutory and Policy Implications

31. 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

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

Equalities Implications

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

RECOMMENDATION/S

It is recommended that Policy Committee approves:

- 1) The continuation of the commercial development support to services for the next two years
- 2) That the three commercial plans developed as part of the process are approved with regular update reports taken to the service committees
- 3) The establishment of the three posts and budget to run the Commercial Development Unit as outlined in the report
- 4) That the governance process for the consideration of other services within the commercial development programme, as detailed in paragraphs 14 and 18, be agreed.

Alan Rhodes
Leader of the Council

For any enquiries about this report please contact: Martin Done/Mark Knight

Constitutional Comments SLB 27/10/2016

34. Policy Committee is the appropriate body to consider the content of this report subject to the Council's Employment Procedure Rules which require all reports regarding staffing structure changes to include HR advice, and for consultation to be undertaken with the recognised trade unions.

35. The recommendations fall within the terms of reference for Policy Committee.

Financial Comments ((RWK 27/10/2016)

36. The report proposes the creation of a Commercial Development Unit for a two year period at an estimated cost of £247,200 per annum. This additional cost will be funded from the budgetary saving arising from the implementation of the business cases developed for the three services to be supported in the pilot project detailed in the report. The net budgetary savings over a 4 year period are set out in Table 4 in paragraph 25.

37. The initial costs of implementing any proposals in business cases would be met from the Strategic Development Fund.

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.

Electoral Division(s) and Member(s) Affected

- All