

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

1. To seek approval to pilot a more commercial approach to generating surplus income that will help protect vital services.

Information and Advice

2. The financial outlook for the Council is expected to remain challenging for the foreseeable future which will make it increasingly difficult to continue to provide vital services at the same level as in the past.
3. The generation of new and existing income streams that deliver true surplus income – the amount remaining once the full cost of generating the income has been subtracted – would allow the authority to reduce the amount of savings that need to be delivered over the coming years.
4. The Council needs an easy and cost-effective way to identify the services that have the greatest potential to develop surplus income along with any investment that is required in order to maximise the opportunity. As many of the staff do not possess all the necessary commercial skills, the solution needs to find a way to support the delivery of the income at minimum risk.
5. Other local authorities, including Kent County Council and Essex County Council, are already operating successful commercial models. Over the last six months the Council has been investigating the models adopted by a number of authorities. This included a visit to Essex to hear about its Commercial Incubator model. This research, alongside discussions with internal stakeholders, has resulted in the proposal to pilot a Commercial Development Unit.

Commercial Development Unit

6. The vision for the Commercial Development Unit is:

To provide appropriate Council functions with the tools, knowledge and skills to enable them to operate commercially in order to deliver surplus income that can then be used to protect vital services for the people of Nottinghamshire.

This vision is underpinned by a set of principles (**Appendix 1**). The vision and principles will guide the approach to commercial activity undertaken by the Council.

7. The Commercial Development Unit would ensure that a consistent and strategic approach is applied in a way that meant that resource was targeted and prioritised appropriately. This would deliver a better value for money approach than each service developing or buying commercial expertise individually.
8. A detailed overview of how the Commercial Development Unit would operate is included at **Appendix 2**. In summary, the unit would consist of a small team that contained commercial experts who could develop a commercial mind-set and skills through coaching, training and support. One of the deliveries would be a series of commercial master classes.
9. This training and development would be delivered through three months of intensive support with a key output being the delivery of a full business case that would test the viability of the commercial proposal. This support would include all aspects of developing a business case such as analysis of competitors, market data, pricing, legal issues and financial forecasting. A balanced scorecard would help to identify all the areas that would need to be looked at before a service went to market. In tandem a full implementation plan would be devised to secure the resource needed from support services.
10. The business case would then go through an assessment centre. This would include a gateway review, an assessment of the skills acquired by the service and a presentation of the business case to a panel. This review of the process would provide confidence that all aspects of the business case viability had been considered. This would allow any decision to be made in full awareness of the investment needed, the expected return and any risks.
11. The Commercial Development Unit would then provide a further 12 months of intensive support to those services whose business case received the authority go-ahead. Thereafter the performance of the service would continue to be reviewed and monitored with appropriate advice and guidance provided.
12. The unit would see a new cohort of three services entering the process every three to six months. The expectation is that this would produce 18 business cases for review in the first two years of operation.
13. A financial forecast for the Commercial Development Unit concept has been undertaken with actual income figures. The financial modelling applied the following simplistic assumptions uniformly across all services apart from Services for Schools:
 - Operating costs will be 95%-100% of income generated
 - Operating costs will increase by 4% in year 1 and reduce in years 2-3
 - Income will grow by 5% each year
 - An investment of £50,000 per year is required for each of the service areas

The simplistic assumptions have been tailored specifically for Services for Schools and are as follows:

- We have removed Catering, Cleaning and Landscaping due to the high operating costs of these areas

- There is no investment of £50,000, as this would be taken from operating surplus
 - We have assumed that not all individual services will return a surplus so have included a 5% loss of non-growth areas
 - Overall operating costs will increase by 4% in year 1, but will reduce in years 2-3
14. These assumptions are intended to represent an average position with some services being higher and some lower. The average margin represents a 4% surplus margin.
15. The model also assumes that the staff and operational cost of the Commercial Development Unit, which is estimated at £160,000, would need to be funded through the delivery of additional surplus income.
16. The financial model indicates that a net surplus could be as much as £4 million over a five year period with the Commercial Development Unit covering its costs after year two.
17. While there is always a risk associated with operating in a more commercial way, the assessment is designed to fully expose the level of risk and only progress the business cases that stand up to scrutiny. The performance of commercial services would be monitored in the first 12 months of operating to ensure they stay on track. Investment would be withheld if income targets were not met. Regular reports would be provided to policy committee so the potential surplus is fully understood.
18. This report proposes that a small pilot project is set up to test the financial model assumptions and concept.

Commercial Development Unit Pilot

19. It is envisaged that the pilot would initially be set up using internal resource and some expert support from the commercial team at Essex County Council along with the use of some of their training and processes.
20. The pilot, which would see three services taken through the unit, would result in an evaluation report that would be brought back before members with a further recommendation on whether to proceed with the full model. This would include three full business cases and any lessons learned from the pilot.
21. The cost of the pilot would be £75,000 which would include a payment of £50,000 to Essex County Council. The additional £25,000 would be used for the purchase of market data, research and sector specific advice. In return for the £50,000 paid to Essex County Council they would provide:
- Training of staff associated with the Commercial Development Unit
 - Training materials to be used with service areas and as part of master classes
 - Support carrying out the pilot
 - Provision of processes and documentation
 - Onsite support in carrying out the pilot and reviewing / compiling business cases
 - Peer review of NCC model
 - Access to secondary market / sector data

Other Options Considered

22. Without generating surplus income, the authority will need to deliver a higher level of savings over the coming years. In the absence of a central solution, services are likely to develop a non co-ordinated approach which will be less efficient and effective.

Reason/s for Recommendation/s

23. To allow the council to test a process that potentially provides a route to generating surplus income, as well as ensuring all commercial proposals are reviewed with a full business case that allows the Council to assess the risk and chances of success with all the relevant information.

Statutory and Policy Implications

24. 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

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

Equalities Implications

26. Equalities implications have been considered as part of compiling this report.

RECOMMENDATION/S

It is recommended Policy Committee approves:

- 1) A pilot for the Commercial Development Unit as stated in this report
- 2) To provide a one-off budget of £75,000 to enable the pilot to progress
- 3) To receive an update report on progress of the pilot
- 4) To receive an evaluation report on the pilot which will include a recommendation on whether to proceed with the full model.

Councillor Alan Rhodes
Leader of the Council

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

Constitutional Comments (LM)

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

Financial Comments (SEM)

28. The financial implications are set out in the report. The initial costs 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

Appendices

Appendix 1 – Commercial Development Unit Vision & Principles

Appendix 2 – Commercial Development Unit Overview