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**REPORT FOR:            OVERVIEW AND  
                                         SCRUTINY COMMITTEE**

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<b>Date of Meeting:</b>	16 September 2015
<b>Subject:</b>	Commercialisation Strategy
<b>Responsible Officer:</b>	Tom Whiting, Corporate Director, Resources
<b>Scrutiny Lead Member area:</b>	Councillor Primesh Patel Councillor Stephen Wright
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Commercialisation Strategy 2015- 2018

**Section 1 – Summary and Recommendations**

This report sets out updates to the Commercialisation Strategy that was approved by Cabinet in June 2015.

**Recommendations:**

Members are asked to note the report and the continuing implementation of the Commercialisation Strategy as it continues to support the council's priorities and aims to deliver a significant financial return to 2018/19 and beyond.

## **Section 2 – Report**

### **Introductory paragraph**

In response to the significant cuts to Government funding that the council has already experienced and is going to continue to experience over the coming years, the challenge to the council is how to address this funding gap. There is no doubt that it is going to require a radically different approach.

Through being more commercial the council has the opportunity to put local services onto a more sustainable footing and to bring in new revenue streams which can also be invested in priority outcomes.

Commercialisation is a positive agenda for Harrow Council. It is an opportunity to build on the council's strengths and to make money from them for the benefit of local people.

### **Reasons for commercialisation**

The council still needs to make significant contributions to the Medium Term Financial Strategy which is requiring it to look more commercially at existing methods of service delivery.

The funding gap is significant and existing approaches alone are not going to be sufficient to offset this. To continue to deliver priority outcomes on a sustainable basis, becoming more commercially minded in all areas is going to become increasingly necessary.

In some areas, such as Legal Services, the council has had early successes so this has built confidence in this approach.

Examples from across the local government sector have also built confidence in the role that commercialisation can play in bringing money in to the council and helping put local services onto a more sustainable footing. Appendix A of the Commercialisation Strategy shows summary case studies of other local authorities that have achieved success through commercialisation.

### **Implications of the Recommendation**

The commercialisation vision is for Harrow Council to become an innovative and entrepreneurial authority that continuously drives positive annual contributions to the Medium Term Financial Strategy by generating extra revenue and delivering cost reductions through trading and business improvement.

Through this, local services can be put into a more sustainable footing to support local people as well as raising money to invest in our priority outcomes.

The Strategy aims to deliver a substantive culture change where staff actively look for additional opportunities without losing focus on their existing customer base and the quality of service delivery. Services will strive to be fit to compete and fit to market where appropriate, even if they do not currently provide services externally, and services making positive financial contributions shall increasingly be considered as the norm.

The council will have a clearer understanding of its portfolio of external service offerings, and understand not only which ones offer a greater return than others, but also what changes are needed to address any shortcomings.

## **Scope and objectives**

The Commercialisation Strategy makes it clear that the commercialisation approach is to be open to all service delivery options, and is intended to encompass all service areas (or elements of service areas) within the council.

Key objectives of the Commercialisation Strategy are to:

- Deliver a financial return and contribution in order to invest in services we have to run where we cannot recover adequate or any income, or to invest in new projects;
- Help enable non-statutory services to at least cover all their costs including overheads (and potential opportunity cost) in order to reduce risk of closure and be profit generating where possible;
- Actively engaging in market development and market shaping where no such market currently exists and using insight to manage specification and demand;
- Attract alternative investment models to support service delivery e.g. through social investment;
- Invest and use our financial strengths to deliver a financial return;
- Ensure that outcomes in the local community are delivered on a sustainable basis;
- Strengthen our reputation with residents, local businesses, the local government sector, staff, other customers, partners, and stakeholders in general;
- Become a services provider to new and existing customers both from within the local authority environment and beyond, particularly where we are uniquely placed to do so;
- Use the commercial knowledge acquired through this programme to gain a competitive advantage.

## Update since Cabinet in June 2015

There were a number of projects that were included in the Commercialisation Strategy that was presented in June. These were at various stages of implementation; some were very early-stage concepts, and some had already begun drafting detailed business cases.

Updates on each of these are presented below. Where contributions have already been captured in the MTFS Feb 2015, these have been referenced individually. Any further financial contribution will be available in the draft budget Dec 2015.

1. Legal Service Expansion – HB Public Law has expanded to include Hounslow and Aylesbury Vale with further expansion opportunities continuing to be explored. Harrow's Director of Legal & Governance Services is also Legal Director of Buckinghamshire County Council.

£576k included in MTFS Feb 2015.

2. Recruitment Agency – An initial feasibility study into launching a recruitment agency suggested such an agency is viable, however further detailed work is being done on this at present.
3. Website Commercialisation – There are two streams to this project: Advertising on website assets and introduction of national and local deals. Advertising banners have gone live on harrow.gov.uk and the intranet, delivering £40k per annum. Advertising and sponsorship opportunities on a range of other council assets via the Lambeth Communications contract is being looked into.

£100k included in MTFS early savings July 2015 Cabinet.

4. Investment Portfolio – The Treasury Management Strategy is being reviewed to look at opportunities to achieve a higher rate of return from the council's cash reserves and borrowing capability. Commercial property is one of the asset classes being considered. Peer support has been sought from Luton Borough Council via the LGA.
5. Procurement Services – Similar to the expansion of the Legal Practice, a shared service with other authorities is being actively explored. The council's Director of Commercial, Contracts and Procurement is now also the Head of Procurement for Brent.

£402k included in MTFS Feb 2015.

6. Lettings Agency – Cabinet has approved a business case to launch a lettings agency.
7. Sexual Health Commissioning – Investigations are continuing with other boroughs on whether Harrow can lead on the commissioning of sexual health services.

8. My Community ePurse – An initial strategic outline case has been completed which is due to go before commissioning panels this month.
9. Construction Delivery Unit – A feasibility study is in progress which will address how the council's activities in construction delivery across a number of departments can be joined up for greater efficiency and if there is potential to sell such a service in the future.
10. Private Rented Sector Housing – As part of the regeneration plans, the council is looking at building homes which could then be rented to private tenants.

£2m included in MTFS Feb 2015.

11. Harrow School Improvement Partnership – HSIP is already providing a service to Brent. The opportunity to expand the service to other councils is being looked into.
12. Trade Waste – Now part of a broader Project Phoenix which has been launched to members and staff.

Further opportunities that have started to be looked at since Cabinet in June are:

1. Helpline – A feasibility study has been commissioned to consider whether Helpline services can be provided to other councils.
2. Property Purchase Initiative (100 homes) – Purchasing up to 100 properties to increase the supply of good quality temporary accommodation and mitigate homelessness costs.

To support these and other upcoming opportunities, the council is in the process of setting up its own trading companies. In addition, certain services or assets can be more effectively held and commercially operated through a wholly owned LLP.

Using appropriate legal and tax advice, the following corporate structure was agreed by Cabinet in July.

### **Hold Co**

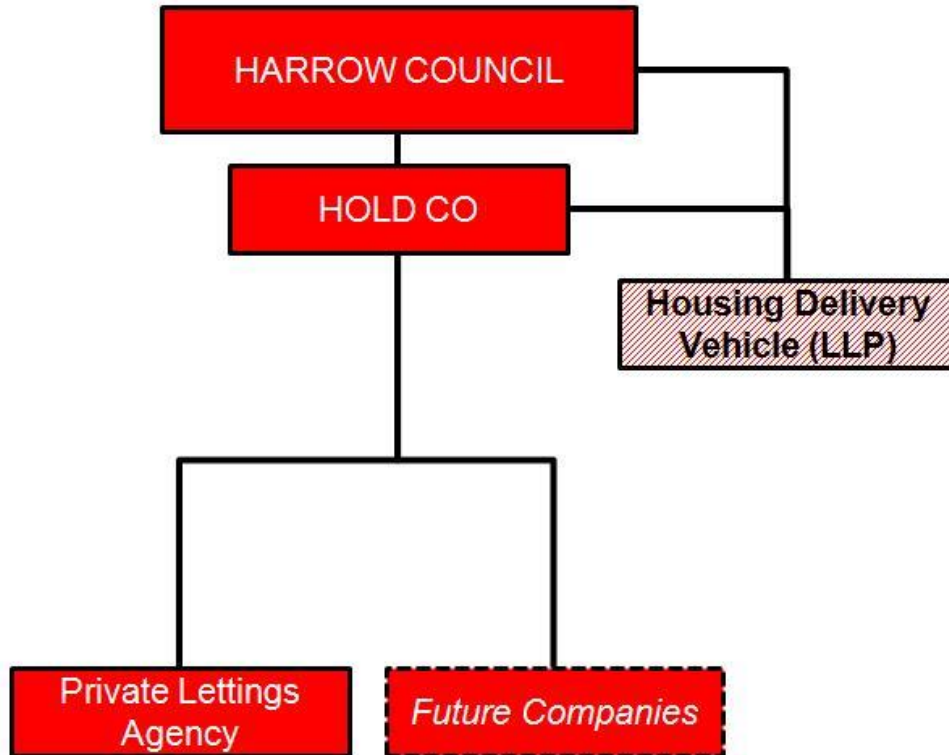
The purpose of Hold Co is to allow for the financial grouping of the different companies. It is not intended for Hold Co to have any operational role to play at this time. It is proposed that Hold Co has a small board of 3 directors who will be officers of the council.

### **Private Lettings Agency (PLA)**

PLA is intended to be the vehicle to deliver the Harrow Lettings Agency project though its scope could be extended in the future, given its standing as a trading company. Any change of scope will be subject to Cabinet approval (as expressed in the reserved matters within its shareholder agreement).

## **Housing Delivery Vehicle (HDV)**

HDV is intended to be the vehicle to own and deliver the Property Purchase Initiative project and may in the future be the ownership vehicle for Private Rented Sector housing. The proposal, following independent advice, is to create this as a Limited Liability Partnership, owned by the council and Hold Co.



The council continues to explore and evaluate other potential commercial opportunities and decisions to progress these will be brought to Cabinet as appropriate. These opportunities may require the creation of additional trading vehicles in the future or they may be able to trade through the vehicles that were agreed in July. The structure adopted has been evaluated on the basis of it being able to support the council's future ambitions as well as current opportunities.

Separate business cases are being drafted to support the set up of these trading companies. In addition to the business cases, annual business plans are also required from each company against which progress will be reviewed on a quarterly basis.

## **Programme activities**

**Pricing** – a review of the council's subsidy position on fees and charges is in progress. Internal discussions have taken place to challenge where costs are not being recovered and to ensure options for doing so are being explored.

**Contract specifications** – The council's standard terms and conditions have been revised to include stronger provisions for continuous improvement. A

new Commissioning & Commercial Board has been established, where senior council officers across all service areas will challenge and scrutinise new contract proposals. The contracts register is being regularly reviewed and revisions to specifications are now built in to a *business as usual* approach.

**Commercial awareness training** – Training options have been reviewed and the council is expected to begin delivery later this year.

**Capability and culture review** – Consultations with managers has been concluded and a coordinated plan is in development (led by OD) to address this feedback and ensure the council is effectively set up to be more commercial.

## **Financial Implications**

Based on the council's current pipeline of opportunities, it is expected that the Commercialisation Strategy will deliver £5m of benefit. Some of this is already captured in the MTFs, as commercialisation initiatives are helping directorates deliver their income/savings targets. Further financial contributions will be made available in the draft budget in December 2015.

## **Performance Issues**

There are no performance issues associated with this report.

## **Environmental Impact**

There is no environmental impact associated with this report.

## **Risk Management Implications**

The council is facing significant funding gaps over the coming years and therefore adopting the Commercialisation Strategy is a necessary step to begin to make positive contributions to the MTFs. There is a greater risk of the council not pursuing this approach.

A separate risk register is being maintained, however, it is expected that each initiative will begin maintaining its own risk register once it passes a feasibility stage.

For any initiatives requiring substantive funding or resources, initiative owners will be required to carry out suitable feasibility studies and put together business cases where appropriate, before any significant investments are made.

The council's budgets in future years will increasingly see highly valued local outcomes being deliverable and affordable and linked to the success of its commercial operations. There is ample evidence that this is the direction of the local government sector. The success of the council in supporting and benefiting from its commercial activities will be key to the continuing delivery of local services.

## **Equalities implications**

An Equality Impact Assessment was carried out and identified no direct equalities impacts arising from the decisions within this report.

## **Council Priorities**

The Commercialisation Strategy supports the council's priorities by:

- Enabling Harrow Council to offset the significant funding gaps being experienced through Government cuts.
- Becoming more commercially-focused in all areas of the commissioning cycle to help sustain priority outcomes in the local community.



### **Section 3 - Statutory Officer Clearance**

Name: Steve Tingle

on behalf of the\*  
Director of Finance

Date: 02/09/15

Name: Stephen Dorrian

on behalf of the\*  
Monitoring Officer

Date: 02/09/15

**Ward Councillors notified:**

**NO**

### **Section 4 - Contact Details and Background Papers**

**Contact:** Anand Pajpani, Commercial Business Partner, 020 8424 1039

**Background Papers:** Commercialisation Strategy 2015-2018