

DRAFT REPORT OF THE SCRUTINY PANEL: How the Council can generate commercial income?

Foreword by Councillor Baines, Chair of the Scrutiny Panel

The overall funding base for local authorities has continued to shrink. As central government funding allocations to local authorities are reduced, so councils are forced to either cut their costs with as little impact on frontline services as possible, raise their revenues through council tax or by selling supplementary goods and services to residents, or by some combination of these. Many other councils have already developed or begun to develop, their commercialisation strategies given the changes in the external financial environment. For Charnwood Borough Council, the requirement is that a shortfall of circa £3m be needs to be generated from commercial income between 2020-2023 in order to plug the gap in the Medium-Term Financial Strategy. This report sets out the findings and recommendations of the Commercialisation Scrutiny Panel which sought to gain information into how the Council can generate commercial income to fulfil the need for potential new sources of revenue and to make recommendations as appropriate.

The Panel wishes to acknowledge and thank all those who acted as witnesses or provided written evidence to assist the Panel with its deliberations. (to be confirmed)

1. Background

The topic for this Panel was suggested at the meeting of the Scrutiny Commission on 3th June 2019 and agreed to be progressed as an informal Panel at its meeting on 4th August 2019. On 14th October 2019 it was resolved by the Commission to change the Panel to a formal Panel.

The Panel's first meeting was an informal meeting on 5th November 2019, followed by its first formal meeting which took place on 28th November 2019. After a third meeting the Panel concluded its initial business at its fourth meeting on 5th March 2020.

2. Panel Membership

Chair: Councillor Baines
Councillors Boldrin, Bolton, Charles, Hamilton, and Ranson.

NOTE: Councillor Snartt was identified as a member but when the meeting dates were arranged, he could no longer attend.

3. Terms of Reference and Reason for Scrutiny

The Panel's Terms of Reference, agreed by the Panel at its informal meeting on 5th November 2019 and confirmed by Scrutiny Commission on 9th December 2019 were as follows:

The Panel will:

- *consider if there are any areas for improvement or change in the Council's existing commercialisation strategy, and whether other policies require updating, and how they relate to national policy framework.*
- *put forward recommendations for future strategy.*
- *undertake informal factfinding research to establish what income generating activities are already in place at the Council and compare with information gathered from other similar types of Councils locally and nationally.*

The Scrutiny Commission wished the Panel to identify areas where the Council's income could be maximised, or further improved.

The Scope Document for the scrutiny review undertaken by the Panel is attached at **Appendix 1**. This sets out the above Terms of Reference and Reason for Scrutiny. The document outlines the position at the conclusion of the Panel's work and, therefore, includes additional stakeholders and resources identified by the Panel as its work progressed, notes added to assist the Panel and a summary of the progress made by the Panel.

4. Evidence, Stakeholders and Witnesses

The Panel received information from the following stakeholders and witnesses:

Information from officers within the Council

- Introduction from Chief Executive on the current position with respect to commercial income.
- Commercial strategy updates by the Strategic Director of Corporate Services.
- Ideas suggested by the Council's Staff Forum and feedback on suitability by relevant officers.

Information from other Councils

- Question session with Colin Sharpe, Deputy Director of Finance, Leicester City Council.
- Presentation by Elizabeth Warhurst, Head of Legal and Commercial Services and Lee Mansfield, Environmental Health Team Manager, North West Leicestershire District Council.
- Presentation by Peter Linfield, Executive Manager of Finance and Corporate Services, Rushcliffe Borough Council.
- Exempt briefing by Councillor Baines of meeting with Andy Vaughan, Corporate Director of Commercial and Operations, Nottingham City Council.
- Exempt briefing by Councillor Boldrin of meeting with Justin Henry, Commercialisation Manager, Ashfield District Council.

Information from other sources

- Presentation by Vivien Holland, Associate Director, Grant Thornton UK .
- Briefing from Cllr Bolton, attending LGiU Seminar titled 'Commercialisation training, developing a commercially aware organisational culture'.
- Question session with Councillor Jonathan Morgan, Leader of Charnwood Borough Council.

Documentation

The Panel had access to a library of guidance documents and copies of commercialisation strategies of other regional authorities as follows:

- House of Commons – Local Government – Alternative Models of Service Delivery
- Localis – Commercial Councils
- Grant Thornton – Commercial Health check in local Authorities
- CfPS – Risk and Commercialisation
- Kettering Borough Council, Commercialisation Strategy 2019
- Bromsgrove District Council, Commercialisation and Financial Strategy 2017-20
- Lincolnshire County Council, Commercialisation Strategy

- Derbyshire County Council, Enterprising Council Strategy 2018-2021

These documents can be found in the Members Library at:

[https://charnwoodextranet.moderngov.co.uk/ecCatDisplay.aspx?sch=doc&cat=13354&\\$LO\\$=1](https://charnwoodextranet.moderngov.co.uk/ecCatDisplay.aspx?sch=doc&cat=13354&LO=1)

Technical Support was provided to the Panel by:

- Rob Mitchell – Chief Executive
- Simon Jackson – Strategic Director of Corporate Services

5. Summaries of Panel Meetings

Summaries of the work undertaken at each meeting of the Panel are set out in the “Progress of Panel Work” section of the Scope Document at **Appendix 1**.

Full details of the information provided by witnesses and the issues considered by the Panel are detailed in the notes of the Panel’s meetings listed in Background Papers section of this report, also attached at **Appendix 2**.

The Panel met a total of four times as follows:

Meeting 1 (informal) – 5th November 2019

Meeting 2 – 28th November 2019

Meeting 3 – 23rd January 2020

Meeting 4 – 5th March 2020

6. Equality Impact Assessment (EIA)

The Improvement and Organisational Development Manager stated that the need for an Equality Impact Assessment would be considered following the final submission of the report.

7. Key Findings

The Panel obtained evidence from a range of sources both internal and external as described in section 4 above. In doing so the Panel made use of the evidence provided of practice at other councils who had implemented a commercialisation strategy or were in the process of doing so. The following summarises the key findings of the evidence considered by the Panel.

Ways to generate income from existing assets

The Panel considered methods by which the Council could generate income from existing assets or by streamlining services. Considering evidence provided by other Councils and Grant Thornton, suggestions included:

- Reviewing existing fees and charges
- Reviewing the Council’s Asset Register – are assets being efficiently handled, review returns on assets

- Selling the Council's services to other businesses
- Progressing the Housing Development company (as agreed by Cabinet)
- Consider bringing contracts in-house and reviewing whether older contracts were still fit for purpose.
- Progressing the digitalisation of services
- Consider sites for a solar farm

The Commercialisation mindset

The Panel considered evidence from other councils regarding the importance of developing the appropriate mindset to enable the Council to maximise its commercial potential. North West Leicestershire District Council (NWLDC) were at the start of its commercialisation journey and had focused particularly on building the appropriate culture within its organisation. Its 'Think Tank & toolkit', a team that had been created for generating and reviewing ideas from the organisation, improving in-house commercial skills of staff through training and embedding commercial activity into team planning and the performance reporting process was of interest to the Panel.

The Panel also considered how to utilise the resources available to the Council to generate commercial ideas. It considered that staff and residents were a valuable source of ideas and consulting councillors with private sector experience could be of benefit.

Decision making and scrutiny

The Panel considered evidence from other councils regarding the importance of developing a streamlined but effective decision-making policy for commercial investment. Rushcliffe Borough Council (RBC) and Leicester City Council shared their approaches to decision making. The overarching policy at RBC had been agreed at Full Council, with a small team of six comprising three councillors and three senior officers approving the expenditure for commercial property. Scrutiny of the property portfolio's performance occurred after the investment. At Leicester City Council processes in place to make fast decisions included a nominated Commercialisation Officer and officer group. If a project seemed viable the Lead Member would be consulted. North West Leicestershire DC had created a decision-making continuum, attached at **Appendix 3**, and embedded a culture in its organisation that to fail quickly and efficiently was OK.

Investment in Commercial property

Initially the Panel focused its attention on why the Council had chosen to progress its investment in commercial property. Officers highlighted that the Council believed investment in commercial property was the correct approach in the short term to mitigate its budget pressures and that the income needed to be achievable at a scale that made a difference and come on stream at significant scale within a relatively short time (realistically within the 2020/21 financial year) to mitigate those budget pressures.

Evidence provided to the Panel suggested that purchasing of commercial property within the Borough's boundary could create conflict between its need for pure commercial income and its strategic objectives. This could then impact the Council's

decision making with respect to its relationship with residents, and its social and regeneration strategic objectives. Investment in property outside the Borough's boundaries could be from a purely commercial perspective, giving the Council the ability to be tougher in negotiations and have less local political pressure. Rushcliffe Borough Council explained that when purchasing outside its boundaries it ensured it understood the local market it operated within, and that the asset was within commutable distance to mitigate the risk. Leicester City Council were keen to consider investment from a strategic benefit viewpoint and how it matched its strategic objectives, rather than as a purely commercial income stream. Ashfield District Council noted that the investment into property to let, had generated significant income for the Council.

Examples of commercial property investment that were less successful in generating income were provided by case studies from Grant Thornton UK, Nottingham City Council, and Leicester City Council. The reasons ranged from shared services projects struggling with austerity cuts, challenges with social care services linked to national minimum wage, local energy supplies being complex to set up, and shopping centres being susceptible to national chains moving away.

The criteria for assessing potential commercial opportunities was key to making fast decisions. RBC shared its Commercial Property Investment assessment matrix which the Panel considered a helpful tool. The key to property investment was managing the risk and being proportionate to the size of the council.

Future commercialisation opportunities

Evidence provided to the Panel suggested that Charnwood Borough Council could consider other areas for generating commercial income in the longer-term including:

- working with partners such as Loughborough University, LLEP or companies in the private sector
- commercial development, social and private rental housing / building
- investing in warehouses, industrial and office space,
- investing in hotels, shopping centres,
- installing solar farms, developing enterprise zones,
- borrowing to fund infrastructure investment, local loan funding scheme to promote economic regeneration.

9. Recommendations made by the Panel

In undertaking its work, the Panel reached the following conclusions regarding how the Council could generate commercial income:

Recommendations to the Cabinet and/or Scrutiny Commission

Recommendations

- 1.
- 2.

3.

reasons

Observations

1.

2.

3.

.....

10. Background Papers

Agenda Papers and Notes of formal Panel meetings available on the Council's website at:

<https://charnwood.moderngov.co.uk/ieListMeetings.aspx?CId=235&Year=0>

Informal meeting (1) notes as detailed in paragraph 5 of this report can be accessed at:

<https://charnwoodbc.sharepoint.com/sites/papers/exempt/Forms/AllItems.aspx?viewid=c950fdd3%2D963e%2D4777%2Da220%2D84dce826906e&id=%2Fsites%2Fpapers%2Fexempt%2FCommercialisation%20Scrutiny%20Panel>

Exempt Information considered by the Panel as detailed in Paragraph 4 of this report can be accessed at:

<https://charnwoodbc.sharepoint.com/sites/papers/exempt/Forms/AllItems.aspx?viewid=c950fdd3%2D963e%2D4777%2Da220%2D84dce826906e&id=%2Fsites%2Fpapers%2Fexempt%2FCommercialisation%20Scrutiny%20Panel>

11. Appendices

Appendix 1 - Scope Document

Appendix 2 – notes of meetings nos. 2, 3, 4

Appendix 3 – Decision making Continuum from North West Leicestershire District Council