

Report of	Meeting	Date
Director of Policy and Governance	Governance Committee	30/05/2018

COMMERCIAL HEALTH CHECK

PURPOSE OF REPORT

1. This report provides an overview of Grant Thornton's commercial healthcheck report and includes a self-assessment of the Council's commercial activities using Grant Thornton's 'beyond compliance' commercial health check diagnostic tool.

RECOMMENDATION(S)

2. To note the report and to discuss and agree the approach carrying out commercial health checks in the future.

EXECUTIVE SUMMARY OF REPORT

3. Most, if not all councils are exploring new ways of generating sustainable income streams in order to ensure their continued financial viability. While commercial activity undertaken by Council's is nothing new, activity is increasingly developing beyond traditional areas of holding land and assets.
4. This report reviews some of Grant Thornton's key findings and trends which formed part of their commercial health check report which was published in late 2017. One of the key findings is that commercial activity as well as generating income also needs to support the priorities of the place and provide social benefits.
5. It then goes on to carry out a self-assessment based on Grant Thornton's diagnostic tool. Overall the results are positive and help to demonstrate strong governance and risk management of the Council's approach to income generation.
6. Finally, a number of actions are noted which aim to further strengthen the council's approach to commercial activity.

Confidential report Please bold as appropriate	Yes	No

CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

8. A prolonged period of austerity has left local government with the challenge of protecting public services while dealing with severe budget cuts, particularly with the last allocation of the Revenue Support Grant being received in in 2019/20.
9. The tipping point in local government finances has led to a change in risk appetite at many councils , encouraging them to become more commercial. The aim is to generate income or make efficiency savings to ensure the sustainability of local services. However, many councils face a dilemma on commercialism – often criticised for not being business like enough on the one hand and for being overly-commercial on the other.
10. The council commissioned Grant Thornton in November 2016 to carry out an independent review of the Council's income generation. The review both looked at what opportunities were being progressed at that time, but also looked at the potential risk and returns of potential new opportunities such as loans to housing providers.
11. This information was subsequently used to develop a draft a paper, 'Generating income: developing opportunities' which was presented to the Council's senior management team and Executive Members as part of the corporate and budget planning process.
12. At the Governance Committee on the 24th January 2018, the external auditors governance committee update report noted that local authorities are changing their approach to commercialisation and that it was important that local authorities balanced the outcomes and risk of their commercial ventures.
13. Grant Thornton had recently launched a commercial healthcheck report and toolkit which provides insights into why and how local authorities are changing their approach to commercial opportunities and some of the related governance and risk management issues.
14. As we are increasingly looking to develop commercial schemes which deliver both sustainable revenue incomes streams and also help us to achieve the Council's priorities it was considered appropriate to bring a report back to a future Governance committee meeting that would summarise some of the issues raised in the report, including carrying out a self-assessment of the Council's commercial activities.

KEY FINDINGS OF THE GRANT THORNTON REPORT

15. Grant Thornton have found that there is a wide range of local government investment and treasury strategies across the UK, with more councils now adopting increasingly innovative approaches to commercialisation.
16. The report notes that Councils have both a legal and a moral duty to manage scarce resources responsibly and take a place based approach to choosing the most prudent commercial options, ensuing that appropriate checks and balances are in place to manage the associated risk.
17. Investing in property is the primary option, however for many councils investing in commercial assets is key to developing anchor institutions and strategic assets that contribute to place, ranging from airports, business parks, offices, hotels, solar farms and forestry, through to GP surgeries, gyms, shopping centres and cinemas. Some Council's are also investing outside of their local area to diversify the risk.

COMMERCIAL INNOVATION TRENDS

18. Grant Thornton's report grouped commercial opportunities which Council's are pursuing into four categories as summarised below:

Placed based market offer

19. Investing in the place, with councils playing a lead role as a facilitators, working with other local stakeholders to deliver improved outcomes.
20. Grant Thornton note a number of examples including Stirling Council who as part of their City deal are facilitating investment in a university campus, digital district and their harbour. The focus is on social as well as physical infrastructure and aims to create 3,000 jobs by increasing tourism by 25%.

Digitalisation and fintech

21. This is the use of disruptive technologies to deliver service transformation and attract alternative finance, alleviating budget pressures both directly through efficiency savings and indirectly by facilitating sustainable revenue models for SME's and community groups in place of grant support.
22. Examples include Oldham Council who allow quicker payment of invoices for local suppliers in exchange for a small discount, creating an income stream for the Council and improving cashflow management for the suppliers and Angus Council who facilitate a crowdfunding platform that allows businesses, individuals and community groups to campaign for funding, alleviating the call on the Council for grants. So far Crowdfund Angus has raised over £168,000 for local people and community groups which have led to further investment of over £450,000 into the area through private investment, additional grants and events.

Partnering local for added social value

23. Local public bodies come together to deliver commercial and social impact.
24. For example Winchester City Council have built a doctors surgery to delivery an income stream and work with health partners to improve the health of residents in Winchester, improving the quality of the environment by the construction of a modern building with high environmental standards.

Cross boundary franchising and equity release

25. Peers join forces outside of Council boundaries to extend the services of established companies.
26. For example Wolverhampton Council's Yoo recruit is negotiating with two other Council's about extending its interim agency offer to areas outside of the city to benefit from shared set up costs. Yoo Recruit has a turnover of £11 million and profit of £0.2 million.

CHANGES TO THE GOVERNANCE OF COMMERCIAL ACTIVITIES

27. Increased public scrutiny and the need to ensure a balanced approach to commercialisation have culminated in new rules. These will change the way local government is able to trade, borrow and invest.
28. The continued rise of commercialism in local government has led to intense scrutiny of its borrowing and investment activity over the past 12 months.

29. Attention grabbing headlines that councils are betting billions on property purchases have coincided with calls by Government and accountancy professions to review commercialism by Councils.
30. CIPFA and the MHCLG responded to these changes by introducing:
- a new Capital Strategy report that the council must approve annually. The report will require additional disclosures regarding the council's investments in non-financial assets such as property and land.
 - a list of quantitative indicators, which will highlight to members the total risk exposure from borrowing and commercial investment decisions and aid the decision making process.
31. The disclosures and indicators used will be at the individual authority's discretion to reflect the varying risk appetite between councils.

SUMMARY OF THE COUNCILS CURRENT COMMERCIAL PROJECTS

32. The table below and self-assessment which follows is based on recent and current commercial projects which form part of the Council's Transformation Programme. It does not include long standing commercial activity such as the leasing of properties and assets.

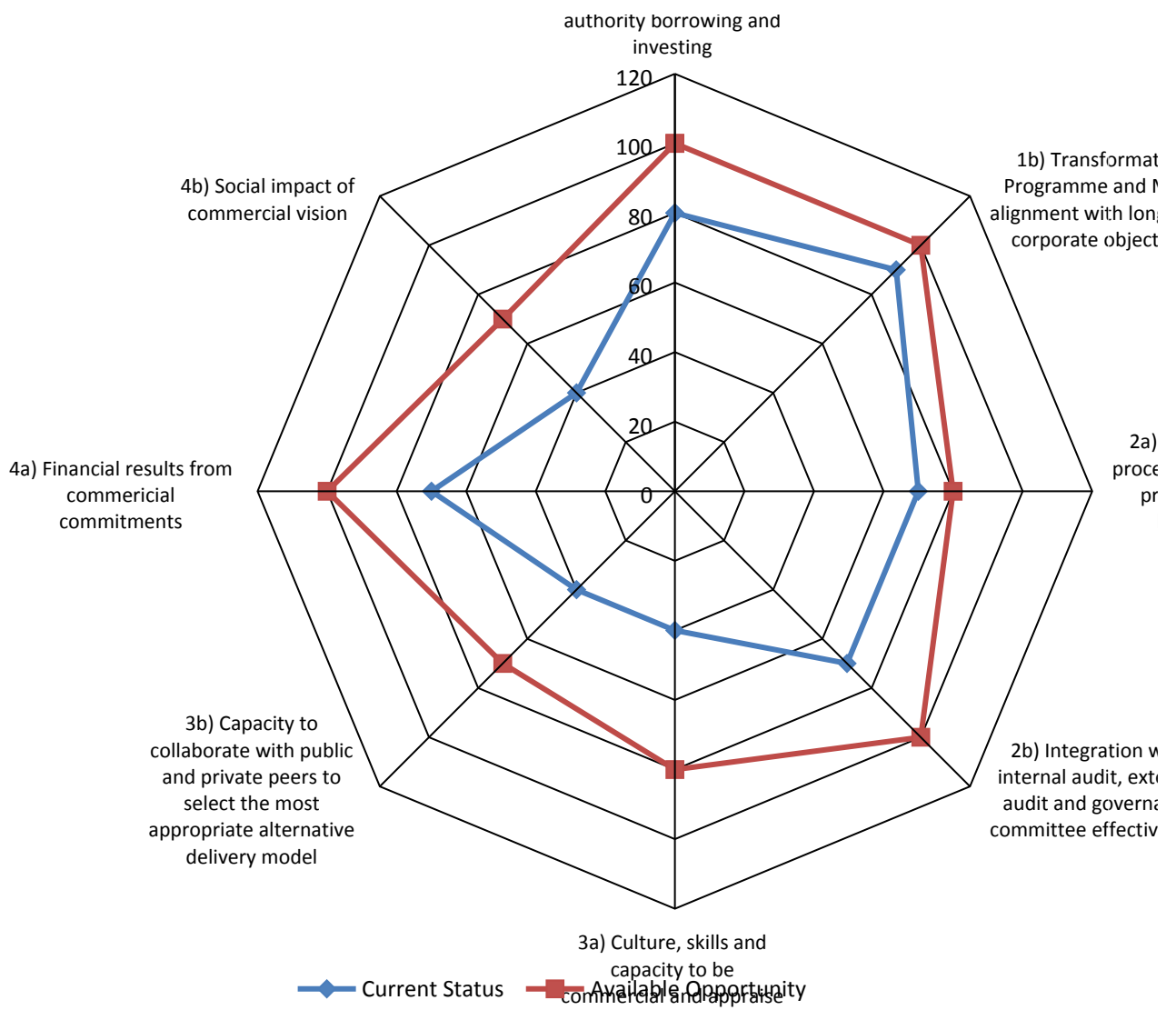
Project/ opportunity	Summary	Status
Market Walk	The Council purchased Market Walk in 2013 for £23million following a thorough due diligence process. Deloitte managed the centre for the first 12 months, working closely with Council staff to transfer skills and knowledge during this period. Since the purchase the number of void units has decreased and improvements have been made. Examples include new seating areas, planters and events programme.	Complete. Market Walk generated a net income (after borrowing costs) of approximately £900,000 in 2017/18. It supports the council's priority of a strong local economy and long term outcome of a vibrant town centre.
Market Walk extension	The Market Walk Extension project aims to develop new retail and leisure units in the town centre. As well as generating a sustainable revenue income stream, it aims bring a new offer to the town centre, create new jobs, increase footfall, support existing businesses which will all support the local economy.	The extension to Market Walk shopping centre is due to open in quarter 3 of 2019/20.
Waste contract review	The Council's current waste contract with Veolia is in its final year, and therefore procurement of a new waste contract is underway. The Council's waste contract is worth approximately £3.5m annually and is the council's largest contract. It is expected that the contract review should	The procurement process is underway. It is expected that a new contract will be awarded in August 2018, with the new contract commencing in April 2019.

	<p>achieve saving on the current contract cost.</p> <p>Waste is also one of the highest priority services, and ensuring a good service standards is also key to resident satisfaction.</p>	
Leisure contract review	<p>The Council's existing leisure contract with Active Nation is due to come to an end in 2019/20.</p> <p>Work is underway to review a range of options to deliver leisure services in the future.</p> <p>Similar to the waste contract review, generating savings on the existing contract in one key aim of the review, together with delivery of a quality leisure provision for the borough.</p>	<p>An initial external review of options has been conducted by an external consultant.</p> <p>An overview and scrutiny task and finish group have also investigated the leisure contract review.</p> <p>Further work will take place in the next year to establish and agree the best model and then to procure/deliver a new service which should be in place for October 2020.</p>
Housing company	<p>Chorley, similar to many Council is investigating options for establishing a housing company as a way of generating income and also addressing housing need.</p>	<p>It is currently estimated that £100,000 net income could be achieved from 2019/20..</p> <p>An internal working group has been established to develop a business case for the project and external advice will be procured as required.</p>
Utility company	<p>We are at the early stages of exploring options to establish a utility company. This is being explored with a view to generating a revenue income stream and providing low cost energy to Chorley residents and beyond.</p>	<p>Initial stages</p>
Employment sites	<p>The Council's employment sites provide a significant opportunity to achieve sustainable income streams while also delivering the Council's priority of developing a strong local economy.</p>	<p>The MTFs has included a target to achieve £100,000 revenue income from the sites by 2020/21.</p>
Fees and charges	<p>At the budget Council meeting in February 2018 a fees and charges policy was approved to ensure that fees are reviewed frequently and consistently. It also set two principles which should be achieved if possible, which are that fees and charge should assist the Council in achieving its strategic priorities and in line with legislation they should enable the Council to recover full costs including overheads.</p>	<p>All charges within the Council's control will be reviewed on an annual basis where it is permissible and efficient to do so.</p> <p>The fees and charges increased as part of the 18/19 review included bereavement services, street naming and numbering, bulky waste collections and community centre hire charges.</p>
Primrose	<p>The flagship, accommodation</p>	<p>The construction of the site is</p>

Gardens Retirement Village	scheme, will house 65 high quality self-contained apartments and will also include community facilities such as a dance studio and café. The development aims to provide a space where people aged 55 and over can live independently whilst also having access to help when needed. It is expected to open in April 2019.	due to complete by the end of March 2019. The council is currently establishing an allocations and rental policy.
Digital Office Park	The Digital Office Park, just outside of Chorley town centre will provide 5,000m2 of Council owned bespoke digital office and start up accommodation.	The project is due to start shortly and income should be achieved in 2019/20.

COMMERCIAL HEALTH CHECK – SELF ASSESSMENT

33. Grant Thornton's research shows the councils will need to do more than simply comply with the new rules to ensure an approach to commercialisation that balances outcomes and risks. The health check diagnostic tool is designed to give local government leaders extra comfort and confidence that they are pursuing a suitable balanced approach.
34. The health check includes four sections of consideration:
- Section 1 – Outcomes based MTFS planning
 - Section 2 – Audit and assurance framework
 - Section 3 – Stakeholder engagement
 - Section 4 – Corporate performance



35. The table below provides some narrative to support the scoring above and identifies a number of actions which have been highlighted as part of the self-assessment process.

Assessment criteria	Response	Example / action
1a) Compliance with revised rules for local authority borrowing and investing	A draft Capital Strategy report will be taken to Governance Committee in September 2018 to approve its content including new local indicators and disclosures.	ACTION: The final report will be published with the budget papers at budget council in 2019. A mid-year review of the Capital Strategy will be taken to Governance Committee in September 2019.
1b) Transformation programme and MTF alignment with long term corporate objectives	The transformation programme and MTF does align with the Council's corporate objectives and long term outcomes. To date, the any income generation/ commercial opportunities are only considered if they also deliver on one or more of the Councils priorities.	The purchase of Market Walk and the development of the Market Walk extension, as well as generating a sustainable revenue income stream also aim to improve the town centre and local economy.

<p>2a) Robust gateway process for opportunities, prioritisation and business case development.</p>	<p>New and existing opportunities for income generation are overseen by the Council's transformation board, which acts as a programme board. As opportunities progress they are reported through a number of stages involving officers and Members. Prioritisation of options also follows a similar process which includes the corporate planning and budget planning timetable.</p> <p>Green book appraisal is also carried out as part of the consideration regarding land and assets.</p>	<p>The Council's approach to project and programme management is based on Prince2 but it is applied in a flexible and practical way.</p> <p>Formal gateway reviews as used by some large local and central government projects is not used, and unlikely to be relevant to the Council's projects but there could be some elements of the process which may strengthen our current approach.</p> <p>ACTION: Investigate the gateway review process and identify any learning which could be used to strengthen the Transformation boards governance.</p>
<p>2b) Integration with internal audit, external audit and governance committee effectiveness</p>	<p>Internal audit is aware of the Council's commercial projects and will risk assess and audit the projects as it would with other council's services. Internal also provide support and challenge to project teams and programme board. External audit will received and audit the Council's commercial activity on an annual basis as part of the statement of accounts, MTFS and VFM review. This report forms the first of what is proposed an annual report to governance committee on the council's commercial activity.</p>	<p>ACTION: Consideration could be given to alternative commercial self-assessments with external assessments, or external assessments could be used if and when any area of concern relating to the council's commercial activity arises.</p>
<p>3a) Culture, skills and capacity to be commercial and appraise available options</p>	<ul style="list-style-type: none"> • Commercial skills and culture is relatively new to the Council and as such a number of training and development opportunities have been arranged for staff over the last 24 months. • Utilising commercial skills to achieve the best possible outcome for the Council is a key management competency in our management competency framework. • In addition to this we have 	<p>For example, commercial skills are a key part of the Council's leadership development programme.</p> <p>Despite this, we still have more to do to embed a commercial culture in some areas of the organisation, to further develop the commercial skills of new an existing staff so that over time we are less reliant on expensive external advice and have more commercial capacity in house.</p>

	<p>procured external advice and support where we have not had the skills in house.</p> <ul style="list-style-type: none"> • A number of new posts have recently been developed as part of the Business Development and Growth restructure, which require a commercial skill set. 	<p>ACTION: To ensure commercialisation is incorporated into the refresh of the Council's Organisational Development Strategy.</p>
<p>3b) Capability to collaborate with public and private peers to select the most appropriate alternative delivery models</p>	<p>To date the delivery model of each commercial option has been considered as part of the due diligence process of each project.</p> <p>While this is not necessarily a point of concern to date, going forwards as more commercial opportunities progress it could lead to a fragmented and inefficient set of delivery models.</p> <p>This was highlighted at a recent SMT away day and an action to look corporately at business models was given to the transformation board.</p>	<p>ACTION: The Transformation board has been tasked with reviewing and updating a previous piece of work on governance models, specifically looking at delivery models for the council's commercial activity.</p>
<p>4a) Financial results from commercial commitments</p>	<p>Looking at the most recent example of new commercial activity, the purchase of the Market Walk shopping mall has been highly successful. It returns a net income of approximately £900,000 per annum.</p>	<p>Financial modelling is key to developing the business case for future commercial opportunities.</p> <p>Reviewing and reporting the financial results of all commercial activity will be done as a matter of course.</p>
<p>4b) Social impact of commercial vision.</p>	<p>Similar to the alignment with the Council's corporate priorities, the aim is to ensure a positive social impact as part of our commercial project delivery.</p> <p>The social impact is different for each project but may include things like the creation of jobs and apprenticeships for local residents, use of local suppliers and contractors where possible, community support, work experience and engaging with local schools.</p> <p>The Market Walk Extension is</p>	<p>ACTION: Further work could be done to set a framework or guidelines to ensure a more consistent and targeted approach to achieving positive social impact as part of the council's commercial projects.</p>

	a good example of this, where an agreed social impact performance indicators are due to be agreed as part of the main contract with the construction company.	
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36. Overall, the self assessment demonstrates that a strong approach to commercial activities undertaken by the Council. The Council's transformation programme and commercial activities is closely aligned to the Council's long term objectives, the transformation board and corporate and budget planning process ensures numerous opportunities to prioritise, monitor and consider new and existing commercial opportunities. In addition there is close working with both internal and external audit and the governance committee.
37. It does also highlight some areas where which we need to develop and strengthen further such as exploring alternative delivery models and further developing commercial skills and culture of our workforce. These development areas had already been identified by the senior management team and actions agreed to address them.
38. In terms of financial results and commercial impact the score is based the commercial and income generation activity detailed above being new to the Council. The scoring acknowledge the success of the purchase of Market Walk in terms of financial results, but also acknowledges the risk and takes a cautious approach with the projected returns of the projects which are still in progress. Similarly, the aim of the current projects is that they should also delivery positive social impacts, and there are clear targets identified for projects such as the market walk extension, but these are still to be delivered, and as suggested above a more structured approach to social impact maybe useful.

IMPLICATIONS OF REPORT

39. This report has implications in the following areas and the relevant Directors' comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area	✓	Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

40. Chorley Council's finance team continues to support the council's medium term financial strategy and within this the numerous projects delivered through the transformation programme. It has been important for the team to recognise when additional external expertise is required to manage the complexities of pursuing an increasingly commercial transformation agenda.

COMMENTS OF THE MONITORING OFFICER

41. I echo the comments in the report. The self assessment demonstrates a strong commitment by the Council to robust governance arrangements in the delivery of commercial objectives. Members can take comfort from this.

REBECCA HUDDLESTON
DIRECTOR OF POLICY AND GOVERNANCE

Background Papers			
Document	Date	File	Place of Inspection
Grant Thornton – Commercial Health Check Report	2017	***	https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/search/commercial-healthcheck-in-local-authorities.pdf
Grant Thornton – Income Generation – Independent Review	2017	Chorley Council – Income Generation.pdf	Transformation Team Drive

Report Author	Ext	Date	Doc ID
Rebecca Huddleston	5779	22/05/2018	Commercial Health check