

17 September 2014

Asset and Enterprise Committee

Commercialisation of Council Services

Report of: *Brett Regan – Commercialisation Programme Manager*

Wards Affected: *None*

This report is: *Public*

1. Executive Summary

1.1 Following the report of the East of England Local Government Association (EELGA) and an agreement in principle from Members to further scope and develop this work, officers have been exploring, scoping and testing potential areas of Council activity that could (in the short to intermediate term) be delivered in a commercial space with the aim of income generation.

1.2 This report performs three key functions:

- i) It outlines progress in all of the main activity areas;
- ii) It summarises the new powers available to councils to trade and generate profit in the market; and
- iii) It sets out proposals to create a Local Authority Trading Company for Brentwood.

2. Recommendation(s)

2.1 Members are asked to note operational progress in modelling and incubating services towards maturity for commercialisation;

2.2 Members are asked to agree the proposed common approach to Alternative Service Delivery models set out at Appendix A; and

2.3 Members are asked to agree in principle to create a Local Authority Trading Company (LATCO) and to refer a recommendation to Full Council for approval.

3. Background

3.1 The background and history to this work are contained in

The report to the Strategy and Policy Board of 19 March 2014 (<http://www.brentwood.gov.uk/minutesdocs/agendas/amdoc2965.pdf>) and

The minutes of the same meeting: (<http://www.brentwood.gov.uk/minutesdocs/minutes/amdoc2976.pdf>).

3.2 At that time, Members approved the development of formal commercial business models and to begin the setting up of a suitable commercialisation vehicle.

3.3 The table below outlines progress against each of the workstreams:

Work stream/ Activity	Summary of current position	Target Date Go Live	RAG
Safety and Security Service – CCTV and UAVs	<p>Imminent agreement for CCTV test project with Baytree Centre subject to final settlement;</p> <p>Testing and scoping of an innovative Unmanned Aerial Vehicle (UAV) Service for use in Property and Environmental Inspection is underway and early feedback is highly successful. Potential clients are already pressing for access.</p> <p>Charging structure under construction</p>	<p>Test project to end October 2014. Feed into Commercial Business Model with target Go Live April 2015</p> <p>Test project underway (September 2014) Training and accreditation by end 2014 in parallel with commercial business modelling for this segment</p> <p>Target Go Live by April 2015</p>	Green

Work stream/ Activity	Summary of current position	Target Date Go Live	RAG
Waste and other Depot services	<p>Initial conclusion is that domestic and trade waste substantially cross-subsidise and should be treated as a whole entity. Possible that Depot should be commercialised in whole rather than in part.</p> <p>Business modelling underway with target conclusion spring 2015.</p>	August 2015.	Green
MoT Service	Planning now agreed and a Business Model will be presented at a future Committee	Subject to Business Model	Green
Building Control	<p>Progress here is now led by external County Level consultancy project.</p> <p>Potential for Joint Commissioning in this area will require approval from Members</p>	Subject to external timetable	On-Hold
Careline	<p>Initial business case for proposal complete. (Paused subject to Service Area reorganisation.)</p> <p>This focuses on income generation through whole or part commercialisation of the Careline service and/or expansion into a commercialised end-to-end provision.</p>	Summer 2015	On-Hold

Work stream/ Activity	Summary of current position	Target Date Go Live	RAG
Website Advertising	<p>We have already concluded provisional negotiations with the Council Advertising Network (CAN) for a package of advertising including an understanding of likely income for first year;</p> <p>Joint Commissioning project now launched at County level with potential for broad partnership working and greater collective bargaining</p>	Review project complete and paper will go to Members in November subject to outcome of Joint Commissioning at County. Brentwood in advanced position	Green
Property Services <ul style="list-style-type: none"> • Acquisition of revenue generating assets • Acquisition of Investment Assets to generate revenue 	<p>Terms agreed in principle to acquire 5 residential units at Warley Trading Centre and consideration is being given to the conversion of Old House to residential to let to the private rented sector</p> <p>Approval required to acquire assets and allocate capital budget to this activity</p>	<p>Expect that Warley Trading Centre units will be contracted in November 2014 and available December 2015.</p> <p>Old House subject to necessary approvals to be deliverable December 2015</p> <p>April 2015</p>	Green

4. Issues, Options and Analysis of Options

- 4.1 The legal framework to allow local authorities to undertake trading activities has become more relaxed in recent years. There are specific powers contained in the Local Government Act 2003 which allow a local authority to undertake trading activity. These powers are progressively being used by local authorities to respond to changing circumstances and funding pressures.

- 4.2 It is proposed to create, in the first instance, a Local Authority Trading Company by way of an 'umbrella corporation'. Below this, a series of operationally focused, wholly-owned subsidiaries (formed on the basis of commercial business models) will control and trade in the various activity areas.
- 4.3 As they are completed over the coming months, full and detailed commercial business models for each of the activities will be presented to Members for approval along with a request for authorisation to begin trading under the auspices of the new company.
- 4.4 Attached as Appendix A to this report is a draft protocol for the business modelling process.
- 4.5 In addition, commercial property investment acquisitions could be held within the General Fund and the management either undertaken in-house or out-house as appropriate. Residential investments likewise could remain in the General Fund, however, it is recommended that the management of these assets is undertaken through a trading company structure or through a third party independent management company to reduce any risk of the market perceiving the units as being for public rather than private sector lettings.
- 4.6 Consideration needs to be given to the Governance structure of a trading company or group of companies. This is likely to evolve over a period of time. The Council will remain responsible for the supervision and monitoring of any Council functions which are discharged through a trading company, where there would be a contractual relationship between the Authority and the company.
- 4.7 Although there are a number of models available, it is suggested that the Directors of the trading company or any of its subsidiaries should be drawn from elected Members and the Senior Management Team of the Council. Directors would be accountable to the Authority as the ultimate, sole shareholder.
- 4.8 Attached as Appendix B to this report is a comparison of Company Vehicles and Structures.
- 4.9 It should be noted that it is entirely acceptable, and of practical advantage in fact, for the Council to commence trading whilst services remain in-house. Current legislation does not require the Council to create a trading vehicle before beginning to trade, though a raft of benefits and flexibilities become available once this approach is adopted (not least, the capacity to manage risk at arms length). By initially trading in-house, the Council retains the

advantage of being able to cultivate its 'family market' by providing services to other councils and public sector bodies in the first instance before widening its client base.

5. Reasons for Recommendation

- 5.1 Although Brentwood will by no means be the first Local Authority (or Public Body) to pursue this as an option for delivering services, it is worth reiterating the key practical advantages to taking this course in the particular circumstances of Brentwood.
- 5.2 This solution provides the greatest market flexibility to our services and, in doing so, maximises income generating potential. Enabling legislation has now moved us from a highly constrained position to one which provides us with broad flexibility to generate income in a variety of markets.

6. References to Corporate Plan

- 6.1 A Modern Council: Between 2013 and 2016 the way the Council looks and works will be transformed. We will make it easier for customers to access services and information, cut out bureaucracy that doesn't add value and make sure taxpayers' money is even more wisely spent. We will become more entrepreneurial. We will have services delivered by those best placed to deliver excellence and value-for-money, whilst holding onto and enhancing our role, duties and powers as local council and community leader.

7. Implications

Financial Implications

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- 7.1 It is prudent for the Council to explore entrepreneurial opportunities, as part of a wider business transformation programme. Entrepreneurial activity is in line with the Council's New Ways of Working approach and the vision and priorities set out in the Corporate Plan 2013-16. It is an essential element of the Council's approach to filling the budget gap.
- 7.2 Start up costs will be identified as part of the commercial business modelling.

Legal Implications

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7.3 There are no legal implications at the present time but resource will be required to monitor and assure this process in terms of both vires and eventually procurement laws.

8. Background Papers (include their location and identify whether any are exempt or protected by copyright)

- Minutes of Strategy and Policy Committee Meeting (19 March 2014)(available on line with links above);
- 'Commercial Opportunities – Investigation of Options for Brentwood Borough Council' (available via the Council's Website)

9. Appendices to this report

Appendix A – Protocol for considering Alternative Service Delivery models

Appendix B – Comparison of Company Vehicles and Structures

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