



**COUNCILLOR
ANN MCLACHLAN**

CABINET

Monday, 27 June 2016

**DEVELOPING OUR COMMERCIAL
APPROACH**

Councillor Ann McLachlan, Cabinet Member - Transformation, Leisure and Culture (and Deputy Leader of the Council), said:

We have made a commitment to Wirral residents that we will achieve all 20 of our Pledges for 2020. Despite our ongoing financial reductions, it is a commitment which we are determined to meet.

To get there requires a fundamental change in how we do business. This report to Cabinet is one element of this change. Our approach to becoming more commercial is not about simply charging more for our services, it is not about becoming purely profit driven, it is about making our organisation more business-like, more able to take advantage of commercial opportunities which will benefit our borough, and our residents.

It is about having a private sector head, with a public sector heart. It is on this principle that we will begin to change how the Council thinks and behaves, making sure that every possible opportunity to drive up income and root out inefficiency is identified and maximised.

REPORT SUMMARY

This report sets out the requirements for a new approach to enable the Council to become a more commercial organisation; it explains our strategic vision and the principles which will govern our commercial strategy.

This report outlines key actions required to create the right environment to enable commercial success.

This matter affects all wards within the Borough. It is not a key decision.

RECOMMENDATION/S

Cabinet is requested to:

- i. Acknowledge the requirement for a commercial approach to support the achievement of the Pledges committed to in the Wirral Plan.
- ii. Agree the strategic aim, vision and principles of this overarching commercial strategy as outlined in this report.
- iii. Authorise Officers to develop plans and report back to Cabinet at a future date for formal agreement.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The Wirral Plan sets out a vision for Wirral, together with a set of 20 Pledges which will be achieved over the next five years to improve the lives of Wirral residents. In order to achieve these ambitions, the Council needs to modernise and work in a completely different way, and ensure it has the right culture, abilities, skills and approach to deliver the 2020 vision for Wirral. A key feature of Wirral's future is the requirement for a commercial approach to how we do business. Commercial success will generate income and maximise our assets, reducing pressure on service delivery and supporting the Wirral Plan.
- 1.2 The agreed framework for the new operating model (Outline Transformation Approach, Agenda Item 5; Cabinet 21 March 2016) details how the three main functions will support the commercial approach through strategic leadership, business transformation and delivery re-design supporting the evaluation and development of commercial opportunities. Through the Transformation Approach delivery options which will be developed for Council services will embody quality, efficiency, local employment, equality and diversity. They will drive an efficient, commercial and value-driven approach to public services.
- 1.3 Wirral Council's Commercial Strategy aims to take a commercial approach to service design, management and decisions, encouraging innovation whilst optimising assets and services to exploit opportunities to generate income surplus for reinvestment and reduce costs. An important element of the Commercial approach is finding the right balance between our public sector ethos and our commercial practices, ensuring we meet our pledges, to improve the lives of Wirral residents, as well as increasing income and opportunity.
- 1.4 Commercial activity is not new to Wirral Council. Wirral currently operates commercial services in a range of diverse sectors including leisure, theatre events, car park charging, garden waste and services to schools through a Community Interest Company (Edsential). We also have our own local Authority Trading Company (Wirral Evolutions) providing day services to vulnerable adults. This strategy will consolidate the Council's existing commercial activity and provide a structured corporate framework for commercial projects and all future commercial activity.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The development of a commercial approach is one of the Council's Financial Strategy Principles. These are contained in the Medium Term Financial Strategy 2016-21 which was agreed and adopted by Full Council on 3 March 2016. Along with the Wirral Plan, these are key policy documents and drive all other business planning processes within the Council. Consequently they are vital for the Council's future development.
- 2.2 In line with these, Wirral continues to progress a range of measures including re-commissioning, contractual negotiation and service re-design to develop its approach to the medium term budgetary pressures it faces. This is in order to maintain a financially sustainable future and meet the pledges outlined in the Wirral Plan. One of the principles is the development of a commercial approach. As such this is therefore, one of a number of options being developed to solve the financial challenges the Council faces.

3.0 BACKGROUND INFORMATION

- 3.1 The Medium Term Financial Strategy indicates the resource issues and principles that shape not only the Budget for the coming year but future budgets by identifying current issues as well as potential developments. The MTFs sets out the financial plans that support and enable the Council to deliver the Wirral Plan. Being one of the Councils key strategies it is critical to the Council achieving its pledges and reflects in financial terms the Wirral Plan. It is through this Strategy that future revenue and capital budgets are developed. The MTFs sets out the Councils financial strategy over the next four years, the responses and approaches that may be adopted to meet the challenges faced and to close the funding gap. An element of Wirral's future medium term financial approach is the requirement for a more commercial approach to all services. An overarching strategy for commercial activity is now required to provide a framework for this.
- 3.2 A commercial approach is a positive way of looking at service development not just a way of solving the financial challenges of an austere financial future. The approach will bring benefits from cash savings which sustain all Council services, to new skills for staff to operate and manage services in new ways.

Further context and strategy drivers are detailed below;

3.3 **Financial**

The Council, together with the majority of Local Government, is facing a challenging financial future. The mix of austerity, with reducing central government grant, and increasing financial demands is making the Council address questions about the long term sustainability of all the services arranged by the Council. The Medium Term Financial Strategy focuses on ensuring that resources are targeted to the 20 Pledges while operating within the reduced financial resources that will be available. The setting of next and future years' budgets will be difficult. The level of savings required to balance the Council's budget are considerable with savings of £129 million by 2020 whilst maintaining key services to residents. Significant savings are expected throughout the next 5 years as public sector expenditure is reduced.

Budget Gap Five Year Position

2016/17	2017/18	2018/19	2019/20	2020/21	Total
£28m	£26m	£21m	£21m	£33m	£129m

The five year financial projection above highlights that there will be a gap between the Council's available resources and spending pressures. The Council has been, and will continue to work through one of the most challenging financial periods it has ever faced. To respond to this the Council must reshape to meet this new financial reality. Wirral has made savings in the period 2011-2016 and will in the future.

The approach in the MTFs is to continue to avoid direct cuts to services where possible and deliver transformational change. It is based on a series of Financial Strategy Principles that form a framework within which the Council will develop its detailed financial plans over the period to 2020/21. One of these principles is that the Council will -

Exploit and maximise commercial opportunities. This may be through the challenge and renegotiation of contracts as well as the maximisation of income opportunities to offset cuts to services.

3.4 *Wirral Plan*

In order to achieve the ambitions of the Wirral Plan we are committed to delivering a modern public service, organising ourselves to deliver our aims and recognising the need for the Council to be much more commercially focussed, harnessing the spirit and practices of commerce to secure outcomes for residents. This will mean leveraging greater value from assets and resources as well as maximising commercial opportunities and income generation through a range of service models delivered within a public sector ethos. This Strategy is important as it will provide a commercial framework, promote innovation and ensure cost effectiveness through contract and service review and support the growth plan.

3.5 The Wirral Plan highlights that Wirral must become an innovative outward looking organisation that is responsive to new technologies, to cultural and societal change, and to the evolving needs of Customers in order to achieve its objectives. Many Local Councils are leading the way, demonstrating resourcefulness and initiative to rise to the challenges that communities face.

3.6 *Peer Review*

The Corporate Peer Review report of November 2015 suggests, by way of financial strategy, that: *'There are some great opportunities to take a more commercial approach. This is currently significantly underdeveloped in Wirral. Whilst it will not be appropriate for every service area, overall a more commercial approach will help as part of the work to bridge the funding gap. Some initial ideas on commercial opportunities were summarised in the financial review report and there are a range of potential ideas within service areas'*.

This strategy recognises the Peer Review findings and provides the framework for development and delivery of commercial opportunities.

3.7 *Localism Act*

The Localism Act 2011 introduced a new General Power of Competence (GPC), which gave Councils the power to do anything that an individual can do which is not expressly prohibited by other legislation. This gives Wirral Council flexibility and opportunity to act in its own financial interest, undertaking trading and some commercial activities; but limits of the GPC sections 3 & 4 of the Act do apply.

3.8 *Our Commercial Success to Date*

Wirral currently operates commercial activities in a range of diverse sectors including, leisure, theatre events, garden waste and services to schools through a Community Interest Company (Edsential). The Council has also created Wirral Evolutions. This is an example of a local authority trading company, and is very much in line with a developing trend in local government of more Council owned trading companies. As trading bodies, they can provide their services to a much wider market than a council department. Local authority companies represent alternative service delivery vehicles and exist alongside in-house delivery, trusts, social enterprises, outsourcing and other delivery models, but with particular emphasis on the concept of trading. The

advantages of such operations are that a local authority can only enter into trading in the wider commercial market through a company. This strategy will provide a structured framework for greater commercial activity.

- 3.9 The financial context, as stated before, in which the Council operates means that the Council already undertakes a range of activities to generate income and make savings. These range from sharing services with other Councils, traded services to commercial activities such as Leisure services. Without these the Council would have had to cut services. The Council generates over £200m in income, the major sources of income being: Fees and Charges (2016/17 budget at 48m), Council Tax 2016/17 £120m and Business Rates 2016/17 £35m.
- 3.10 ***Commercial Success elsewhere in the Sector***
Many councils are turning to this approach to overcome the financial constraints, demonstrating resourcefulness and initiative to rise to the challenges that communities face. Examples of commercial success in the Local Government Sector include;
- 3.11 *Nottingham Council's* Commercialism Programme is one of their key responses to reductions in funding and the challenging social and economic landscape. Commercialism, which is embedding a business-like approach across the workforce, impacts on every part of Nottingham's business and in the last financial year generated in excess of £4m in increased revenue and achieved significant cost reductions.
- 3.12 *North Lincolnshire Council* offer a portfolio of commercial services including Construction & Site management services, Arboriculture and landscaping, vehicle maintenance and MOT's, IT and Digital Services and Procurement Consultancy.
- 3.13 *Buckinghamshire County Council* has established 'Buckinghamshire Law Plus' to deliver legal services to local authorities and voluntary and wider public sectors. The company objectives are to develop a commercial legal firm, operating efficiently to deliver high quality legal services for a range of public and voluntary sector clients; develop a client facing delivery model, focusing on providing high standards of expert legal advice; and share specialist knowledge to enable professional development for staff and trainees.
- 3.14 ***Proposed Vision and Principles for Wirral Council's Commercial Approach***
- 3.15 An important element of the Commercial approach is finding the right balance between our public sector ethos and our commercial practices, ensuring we meet our pledges, to improve the lives of Wirral residents, as well as increasing income. This is reflected in the vision and principles.
- 3.16 To define our Commercial approach the following vision is proposed for recommendation;
"Wirral Council will take a customer focussed, innovative, commercial and entrepreneurial approach to secure the delivery of high quality and value for money services to support the Wirral Plan."
- 3.17 To underpin this strategy the following key principles have been developed and are proposed for recommendation;

- AIM - Maximise charging, trading, assets and investment opportunities to generate income, surpluses and reduce costs.
- STRATEGY - To develop and implement a plan that will transform the operation of the Council into a business that takes a commercial approach to ensure that we are more flexible, more efficient, more effective and will ensure we deliver better and sustainable outcomes for local people.
- CUSTOMERS & MARKETS - To provide goods, services, and works to Wirral residents and other public organisations and operate within a complex model of multiple markets, rather than a single service model, within a social value ethical framework.
- CULTURE - Foster and embed an innovative and commercial approach through a commercial development programme across the Council.
- SUPPORT TO SUCCEED - Provide rigorous, flexible processes and support services that promote and develop commercialism.



3.17.1 Management of risk is central to our Commercial approach and all potential activities will be assessed with due regard to the risks being taken

3.18 ***Creating the Right Environment***

This paper details the Vision and Principles; this is considered the first phase of the development of Wirral's commercial approach, providing the foundation for further development. It is recognised that achieving a commercial approach to everything we do is a long term aim which will require a programme of work supporting key themes.

It is proposed that next phase, the development of plans to enhance the commercial approach, starts immediately.

3.19 The following key themes have been identified for the second phase;

- *Commercial Strategy Development (Phase 2)*

The development and implementation of a plan that will transform the operation of the Council into a business that takes a commercial approach. Including;

- A 3 year plan of action defining objectives and targets
- Assessment of the structure, resources and commercial support required to meet objectives
- Understanding Customers (including internal services, residents, businesses and other public sector organisations), Markets, Trading Options and Pricing
- Development of a Commercial Toolkit which will include a framework to support the development of new propositions and provide commercial support to staff
- Establishment of a model and methodology for the development and evaluation of commercial opportunities which integrates with the transformation project and finance plan
- Governance & Risk Management
- Communicating the Strategy

Culture

Work is currently being undertaken to finalise a new Operating Model for the Council. This is focussed on delivering better outcomes for residents rather than structure based upon traditional, old-fashioned blocks of services. The model is designed to enable us to be more flexible, more effective and deliver better value for money for Wirral residents.

This will reflect the fundamental change we need in how the organisation works, plans and delivers in the future. Re-organising ourselves, with the right people with the right skills in the right roles, is critical to our future. It puts us in a better position to develop new, innovative and improved models for delivering services – at less cost – and achieving the outcomes residents want.

Delivering our ambitious plans for the future will require a fundamental shift in how we do business and a change in culture. The new operating model is designed to move us towards that new culture, values and behaviours where we think commercially and design our approach based on outcomes for residents, around partnerships, insight and evidence – working to achieve a new Wirral, where all public resources and activity are invested in achieving the vision we set in the Wirral Plan.

This will require individual and organisational development around commercial thinking. We will develop the skills of our workforce and it will also influence the skills that we require in the people that we recruit in future into key roles and in the partnerships that we develop. An organisational development plan and cultural change programme will be developed to support this by September 2016.

- *Commercial Opportunities*

Understanding and prioritising the best opportunities available to Wirral is the key to the success of this Commercial Approach. This work will detail opportunities available across three key areas:

- **Fees and Charges**
Wirral Council already undertakes charging and the revenue currently received represents a substantial level of income. Work is required to understand the true cost of delivery, the return on investment and to understand how current fees and charges compare to the commercial market where appropriate. Wirral is restricted regarding the fees it can charge in some cases
- **Services and Units**
As detailed in the framework for the new operating model (Outline Transformation Approach, Agenda Item 5; Cabinet 21 March 2016), the Delivery function will lead on designing, negotiating and implementing appropriate delivery options for a range of services, in order to drive major improvements and efficiencies, promote innovation and improve customer experience. As part of this work some services will be re-organised and grouped with other services with shared outcomes. Phase 2 of the Commercial Approach will be to work with the Strategic Hub to identify, evaluate and develop commercial opportunities.
- **Investments**
The Wirral Growth Plan provides a vision for sustainable, accelerated economic growth based on a more connected and talented Borough where all residents contribute to and benefit from sustained prosperity. The preparation of the Plan has been undertaken within the context of the Wirral 2020 Vision and reflects feedback and input from a range of partners in order to capture linkages between all elements of the Plan that will deliver growth for the Borough.

Stimulating business growth and inward investment through implementation of the plan will support the Council's commercial approach by increasing business rate revenues and generating new market opportunities.

The provision of good quality housing that meets the needs of Wirral's current residents and those of the future workforce is a key enabler of growth. It is therefore critical that we work with partners to be clear about how housing investment should be quantified, prioritised and targeted. This includes working with Registered Providers, private sector partners including landlords and developers and investment companies to understand the market and the demand drivers for growth.

The plan to build 3500 new homes by 2020 will support the Council's commercial approach by increasing Council Tax revenues and generating further market opportunities.

One of the key factors in supporting Wirral businesses to grow, and in attracting new investment to the Borough, is the provision of modern, fit for purpose commercial facilities. The Council and other public sector bodies have an extensive and diverse property portfolio including municipal offices, industrial units and ground leases that can be optimised to ensure that they meet the current and future needs of businesses.

The commercial approach to estate management will maximise surplus and return on investment guiding continued improvement, risk management and a Customer focus to estate management activity.

This element will also address commercial aspects of corporate investment and the development of investment opportunities to support the growth plan and maximise return of investment.

- 3.20 It is proposed that plans to implement our commercial approach are reported back to Cabinet in line with the transformation plan for approval.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The Medium Term Financial Strategy provides a strategic overview of the issues facing future authority finances in the period 2016/17-2020/21. One of the strategy's Principles is that the Council will exploit commercial opportunities where possible. The delivery of a fully developed Commercial Action Plan will assist the Council in meeting an element of the financial challenges it faces. This may be through the achievement of efficiency savings and the generation of income which will help to bridge the funding gap and potentially provide funding for reinvestment.

- 4.2 At present there are no specific financial implications. However once the Commercial Action Plan is developed there will be a number of financial implications.

5.0 LEGAL

- 5.1 The Council has powers to charge for services and in certain circumstances to trade. This may require different delivery models, specific commercial projects will be examined to ensure that they are within the Council's powers.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 This report has implications relating to workforce development. For this commercial approach to be successful, individual and organisational development around commercial thinking must be implemented. We will develop the skills of our workforce and it will also influence the skills that we require in the people that we recruit in future into key roles and in the partnerships that we develop. An organisational development plan and cultural change programme will be developed to support this by September 2016. This report does not have any direct implications relating to ICT or Assets.

- 6.2 Once the Commercial Action Plan is developed and pieces of work are progressed, any implications relating to resources will be detailed and any requirements for engagement applied as appropriate.

7.0 RELEVANT RISKS

- 7.1 There are no risks relating to this report.
- 7.2 Once the Commercial Action Plan is developed and pieces of work are progressed, all relevant risks will be considered and reported as appropriate

8.0 ENGAGEMENT / CONSULTATION

8.1 Once the Commercial Action Plan is developed and pieces of work are progressed, any requirements for engagement/consultation will be applied where appropriate.

9.0 EQUALITY IMPLICATIONS

9.1 Once the Commercialism action plan is developed and pieces of work are progressed, the EIA process will be applied where appropriate.

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APPENDICES

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date