



HOW CAN LOCAL AUTHORITIES MOST EFFECTIVELY OPERATE COMMERCIALY?

INSIGHTS REPORT

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On 8th September, WSP, corporate partner of NLGN, hosted an Innovation Exchange in Birmingham. Participants reflected a range of different roles and expertise: people with responsibility for commercial strategy, finance or service delivery from twenty local authorities and a few representatives of the private sector, all NLGN members. The day was designed for everyone to share their experiences in an intensive, day-long peer-learning session.

This report is based on insights from participants both on the day, and in interviews with each participant in advance, with a particular focus on lessons learnt.

FOREWORD

It was a pleasure to host the latest in the series of NLGN's Innovation Exchanges in our Birmingham office. The discussion was very wide-ranging, highlighting the different experiences of local authorities in moving towards greater commercialisation. The discussion was open, challenging and supportive. It was encouraging to see all participants sharing their experiences openly so that others might learn.

WSP was delighted to bring together councils from across the country to explore the many similarities between the public and private sector. It was fascinating to identify common themes in terms of creating a commercial culture and encouraging entrepreneurship. Whilst we also have many differences, there is much we can learn from one another in this area of critical importance to local authorities going forwards. Thank you to NLGN, and I look forward to future events.

MARTYN BROOKS

WSP's Director of National and Local Government Services

COMMERCIALISATION: THE CURRENT STATE OF PLAY

It is important to define what we mean by ‘commercialisation’. As part of the public sector, local authorities exist to provide public goods. The need to explore commercial activity is borne out of the overriding imperative to be financially sustainable despite funding reductions, so that it is still possible to provide those public services in the future.

On a practical level, various strands of activity councils consider commercial fall roughly into two categories. The first relates to costs – either recovering them through charging for services such as garden waste or car parks, to enable a degree of cross-subsidisation, or in minimising them by finding new efficiencies through sharing services, which district councils in particular have pursued successfully. The second relates to generating significant new income streams by trading existing services to other councils or parts of the public sector, such as school support services, or using existing assets or access to capital investment to create new returns. For example, many are expanding their property portfolios, acquiring hotels or petrol stations.

Councils are at very different stages of development – when asked to place themselves on a scale of zero (not at all commercial) to 100 (fully commercially developed), the highest placed was at about

80 and the majority congregated broadly in the middle, with a few considering themselves to be at the very early stages around the 20 mark. The experience of adopting a more commercial approach has been highly varied, but can be seen to fall into roughly three main groups:

- **BOTTOM-UP:** A few councils have taken an approach which has emphasised an enabling culture, allowing creative ideas for commercial approaches to bubble up. After this developmental phase, strategies are then put in place to become more coordinated. This has involved giving staff permission to come forward with ideas, and has created a number of different projects on a relatively small scale.
- **TOP-DOWN:** Where political and managerial leadership has been driving commercialisation, these councils have pursued much more of a “lightning” strategy. This might have involved outsourcing multiple services on a large scale or setting up independent trading companies with significant responsibility for service delivery. Where this has happened, after an initial phase of vigorous activity the priority shifted to find new ways of influencing these services as demand evolved. For these authorities, recognition quickly emerged that different skills such as contract management and investment capacity are fast required, in order to make these initiatives effective. However, even in authorities which might appear to have a clear strategy, this has sometimes

developed in hindsight – and there is still something of an experimental approach.

- **MIDDLE-OUT:** The majority of councils have a lead individual or team driving the development of commercial activity, and have needed to engage other key parts of the organisation in the merits of commercialisation. This has involved working in a more networked way across the council and service heads, and identifying opportunities to influence, some of which are detailed below.

CAN LOCAL AUTHORITIES GET USEFUL INSIGHTS FROM THE PRIVATE SECTOR ON HOW TO OPERATE MORE COMMERCIALY?

There are merits to exchanging learning points between the private and public sector, whilst understanding the distinct purposes and roles of each. The private sector has a clear understanding of what being commercial means – essentially being a financially secure organisation which optimises returns to its various stakeholders. Companies tend to be arranged by how they raise money, with everyone responsible for their portion of profit and loss. Creating profit is not just about generating income, but also about cutting costs against your overall balance.

Councils receive money in different ways, so how revenue is allocated to costs is much more complex, and the risks and opportunities around different “accounts” are much more variable. How far councils need to focus on saving money is debatable – although as a result of austerity, this is undoubtedly required to some degree. Some services will find it easier than others to save money, become self-sufficient or generate income, for example those where the service is transactional. More relational services like social services are huge spenders of resource – how can they be expected to generate income? For example, social workers are a profession with a clear discipline and priority caseload, so are not best placed to manage their own supply chain, but could there be opportunities for staff to provide deeper insight into potential cost control?

It might be over-simplistic to define the private sector, although commercial overall, as totally entrepreneurial. Some large corporations have sales teams which are highly entrepreneurial and seeking new business. However, the bulk of delivery staff may be less so, as they comprise individuals with technical capabilities focussed on project delivery. So as local authorities consider what it means to become more commercial, they needn't think the whole organisation requires a constant state of active entrepreneurialism, and pressure to come up with new ideas. Rather, it is about ensuring the parts you

need to be entrepreneurial are successful in this, and the remaining organisation more attuned to its value.

Participants identified three core areas for further discussion: developing a culture conducive to commercial activity; the practicalities of commercialisation; and casting forward to the future.

1. HOW CAN A MORE ENTREPRENEURIAL OR COMMERCIAL CULTURE BE ENCOURAGED WITHIN A COUNCIL?

The institution of the council itself can create cultural barriers to working in a more commercial way, or encouraging entrepreneurialism. As large bureaucracies, sometimes there is an interplay of cultural and practical blocks on developing the agility required to pursue opportunities.

The culture of a council can create a risk-averseness amongst members who may have a legitimate concern about public understanding of the expansion of council commercial activity. As a politically accountable institution, this can create a culture that works against being enabling of greater risk or less understood activity amongst the staff. Participants cited different

parts of the council as particularly working against an entrepreneurial culture – such as HR (not recognising the skills need) or legal (citing regulatory barriers rather than seeing their role as enabling). In this way, it can be hard to distinguish between cultural barriers, eg “that’s not the way we work around here” and regulatory or practical barriers, eg “that’s not legally possible”.

The imperatives of commercialisation can be seen as counter to a public service ethos, so even where new income-generating schemes are well underway, terms like “profit” remain taboo. This is perhaps reasonable given councils as a whole organisation are not legally allowed to make a profit, and words like “surplus” or “cost-control” are likely to have internal resonance. Understanding commercialisation in terms of generating “value” is something local government could develop – not chasing income, but instead creating value for the local community and economy as part of the process. In this way, there is also an opportunity for long term partnerships to create and deliver value.

Many, especially in the “middle-out” group, were pursuing workarounds rather than developing a more permissive flexible wholesale culture, conducive to commercialism. However, failure to identify and overcome cultural barriers can store up problems. Participants cited examples of where, at present, frontline staff who interface with citizens haven’t had a strong notion

of “customer care”. In the private sector when the phone rings it is considered an opportunity, whereas in a local authority, it is seen as a potential problem.

On a more structural level, one participant articulated the culture challenge as manifesting in an inferiority complex vis a vis the private sector, which could lead to less confident and rigorous contract specification and management. For example, councils could be stronger negotiators – they “don’t always interrogate the rump of the cost”, and focus instead on the margins. Contract management should be seen as an investment not a cost, and they should negotiate with providers to drive down costs, so that contract year five does not look the same as contract year one.

Participants shared a number of tips on how they were addressing culture change in practice:

- **START SMALL AND PROMOTE SUCCESS:** Identify areas where you can get some quick wins commercially, then use these results to gain internal influence. One council communicated the impact of commercial success in terms of “numbers of jobs saved by 2020” to spread positive recognition of its value. Promote the success of those doing things well – celebrating achievements can bring others on board and encourage alternative thinking.

■ SET THE TONE AND PRINCIPLES

AT THE TOP: A clear vision is essential in order to take staff with you. Some commercial teams have focussed on securing and developing leadership buy-in where they identified this was required. One has set up a commercial board including members and senior officers, to which issues and suggested actions are brought. This approach has developed trust and assurance. Another commercial director worked directly with the cabinet and chief executive over a period of six months to define commercialisation upfront, and tackle fears and uncertainties head on. They acknowledged the “big bad corporate” stereotype and had fun with it, where it helped to develop a rapport.

■ WORK DIRECTLY WITH DIFFERENT

TEAMS: The term “commercialisation” can feel generic, and different teams can feel it is irrelevant to them. Large spending departments like adult social care for example have huge costs; therefore it is important to work with them to deepen their understanding of the homecare provider market, on their terms. One council managed a property-related service at risk of being outsourced, and worked to galvanise staff around the need to be more commercial, supporting them to develop a business plan. They came up with an innovative idea involving selling services to private landlords that had bought social housing stock, maximising council expertise.

■ IDENTIFY AND REMOVE BARRIERS:

Ensure processes like budget codes and timesheets don't get in the way of allowing people the freedom to experiment. Working with the performance management team to redevelop the performance framework in line with a commercial culture could help shift expectations and reward. In some cases, an overweening strategy can itself be a barrier. One participant said the council had moved away from a "mega-plan" and has a short five-sider instead – therefore less of a rigid document liable to become outdated quickly, to more of a permissive statement that gives licence to be creative.

■ BRING IN NEW SKILLS WHERE

NEEDED: Bring in those with commercial expertise either to boost your in-house expertise or to externalise support around projects. But, ensure that in each case, thought is given to how the mindset of this this expertise can filter across other parts of the organisation. For example, the role of commercial director is one which many councils have newly created. Although it often doesn't have authority, it is a role that needs to exert influence and employ networked working across the council. For example, in demystifying what it means to be more commercial for service teams.

2. WHAT ARE THE KEY IMMEDIATE STRATEGIC IMPERATIVES OF COMMERCIALISATION AND HOW CAN THEY BE BEST BE IMPLEMENTED?

In order to be effective, different elements were identified by participants as core aspects to get right for commercial activity, with key practical imperatives being risk and governance.

RISK

As the flip side to any potential reward, this is an aspect of commercialisation that many participants agreed councils had not yet got the balance of. This was related to cultural issues unique to the politically accountable culture of a council – at worst this can feed a blame culture or an unwillingness to take undue risks, and due to election cycles, long periods where definitive action was more difficult.

There is a need to recognise and understand the existence of risk. The private sector talks of being risk "aware" rather than "averse" – it isn't something that can be avoided, but managed. The process of being risk aware in the private sector was identified as:

- Identify the risk/s.
- Identify how they can be reasonably mitigated.
- Identify the residual risk – who in the arrangement is best placed to bear it? If it is passed around there is a danger it will fall on someone least capable of responding to it.
- Consider the processes that need to be in place to capture residual risk – for example if X scenario happens, what are the contingency plans?

Some councils were receiving external support to measure risk around commercial activity, so that officers feel more confident in their role relaying this to members. At times, being too risk-averse can lead to over-strategizing, rather than what one participant noted was a key imperative, “just do it”. In the private sector, risk is weighed up, but the process is smoother because the profit motive means speed is often of the essence.

Sometimes in councils, there is a problem of too many masters and many different parts of the organisation needing to input, whereas commercial entities can resolve issues more quickly. This leads to a focus on how governance can enable effective decision-making.

GOVERNANCE

Good governance in this context needs to provide an adequate balance of the assurance required in a democratically accountable body with the autonomy required of effective commercial operations. Linked to issues of both culture and risk, governance has been used at times as a delaying tactic which slows things down or focusses on minutiae, when what is needed is speed and clarity. The corporate world has checks and balances too – the difference is that the layers are focussed on speed of sign-off – so that decision-making is arranged with a strong enabling focus.

Discussion amongst local authority participants (all of whom were officers) focussed on the role of members, and providing them with the assurance they required to effectively hold commercial ventures to account. Several tips were shared for ensuring members feel sufficiently supported in their oversight role:

- **BE CLEAR ABOUT THE MEMBER ROLE:** This can take different forms but clarity is essential. Some commercial ventures have members sitting not on boards, but on shareholder panels. This distinction means that, as shareholders, they see the business case. They protect the council’s interest but do not have executive decision-making powers, thereby retaining commercial flexibility.

Where the decision has been taken not to have councillors on the executive board, effective and supported scrutiny is essential.

- **ENSURE ROBUST TERMS OF REFERENCE:** Effective governance and oversight is dependent on this, so is worth investing time in. Make sure any conflicts of interest are identified. One senior officer made it a priority to secure consensus between all political groups, so that activity would not be used as a political football.
- **BE PREPARED:** Put in the groundwork before meetings with cabinet and leading members, so that when a business case gets to members, they are fully robust. If an inferior product appears before members for sign-off, this can undermine trust and confidence.
- **BE HONEST AND TRANSPARENT ABOUT THE RISKS:** But also don't overstate them unnecessarily. Members want advice and support, and will want officers to be confident about a project.
- **ENSURE YOU HAVE THE RIGHT SKILLS:** Appropriate training is an investment in future returns. For example, the Institute of Directors runs a good training course "how to be a director". This can ensure officers develop the

expertise required as new commercial ventures take shape and a transition is required. One council which had established a shareholder panel involving elected members, supported their role by investing in training and development.

3. LOOKING TO THE FUTURE: WHAT DOES AN EFFECTIVE COMMERCIAL COUNCIL LOOK LIKE IN THE 2030?

In the absence of a clear end vision, it is hard for councils to plan for the short term, so it is important to envision what a future "commercial" model council might look like, and recognise steps towards this. Key features might include:

MARKETS

In addition to commercialising current activities by ramping up trading or generating income from existing assets, councils might operate in new markets and play a more confident, market-shaping role. This could be driven by two factors – the first being market failure where demand exists, for example capacity-building or back-office support in the homecare market. Secondly, there could be opportunities to offer new products or services which understand emerging opportunities, such as housing

for students and young professionals, or white-label services such as insurance or energy, capitalising on the secure brand of the council. It will be important to understand future trends such as electric cars or environmental opportunities. Not all councils can operate in all markets so there will be an increasing need to specialise, and potential to create economies of scale across existing local authority boundaries.

ORGANISATION

The workforce will likely be leaner but contain more specialised skillsets, reflecting council commercial activity. There would likely be more career progression between private and public sectors so that the skills and expertise of the local authority workforce is diversified. More flexibility will be required in the local authority workforce, in line with trends more generally, but potentially also stronger development commitments and incentive structures such as performance-related pay for some roles.

LOCAL ECONOMY

With local government finance reforms likely to increasingly link the revenue available to a council to the health of the local economy, the parallel development of commercial activity needs to be aware of the impact on local businesses. The council may become a stronger market shaper but shouldn't be in competition with the local economy. On

a broader level, a more commercially aware culture within a council can feed through to influence a more empathetic inward investment approach, focussed on unblocking barriers to business location and expansion.

CONCLUSION

Participants agreed that the imperative to commercialise is certainly being driven by risks, but in the process local government is taking on new risks. Ultimately, the focus needs to be on creating the right environment to support the activity required, generating additional value, and understanding how culture and procedures can enable or work against this. In the future, a more commercial culture will need to operate alongside a strong public service ethos, and ultimately seek to create improved services, outcomes – and value – for people.

