

## Committee: Sustainable Communities Scrutiny Panel

Date : 2<sup>nd</sup> September 2015

Agenda item: 7

Wards: all

### Subject: Commercialisation

Lead officer: Chris Lee, Director of E&R

Lead member: Councillors: Andrew Judge , Nick Draper, Judy Saunders, Edith Macauley

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### Exempt or confidential report

The following paragraph of Part 4b Section 10 of the constitution applies in respect of information given in **Appendices 1, 2 and 3** only of this report, which is exempt from publication. Members and officers are advised not to disclose the contents of these appendices:

**Appendices 1,2 and 3** contain exempt information as defined in category 3 of section 10.4 of Part 4b of the constitution in that it discloses information relating to the financial or business affairs of the local authority.

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### Recommendations:

- A. That Members note and comment on the report.
- B. That Members consider whether this is a subject they would wish to focus on through a Task Group

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## 1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To inform members about the approach to commercialisation in Environment & Regeneration. For the purpose of this report commercialisation is defined as the approach taken to optimise income from services delivered. This is through enhanced or new discretionary services.
- 1.2. The Department has identified the need to be more commercial as a priority and is addressing capacity and skills gaps. Commercial opportunities are being pursued with some success.
- 1.3. This report deals solely with the commercial activities of E and R and it should be noted there are other, opportunities in other Departments – eg Advertising and CHAS .

1.4.

## 2 DETAILS

- 2.1. Environment and Regeneration delivers a broad range of services, the majority of which are non statutory. Like most other councils facing

significant financial challenges the Department is seeking to maximise the surplus it can generate from discretionary services. The Gross annual direct budget (Excl. depreciation & NNDR) for the Department is c£9m with external income amounting to c£28m . Some of these income streams are outside the scope of commercialisation due to Regulations [ eg Parking income and grants from Government ] .

2.2. Table 1 below provides a breakdown across the main areas.

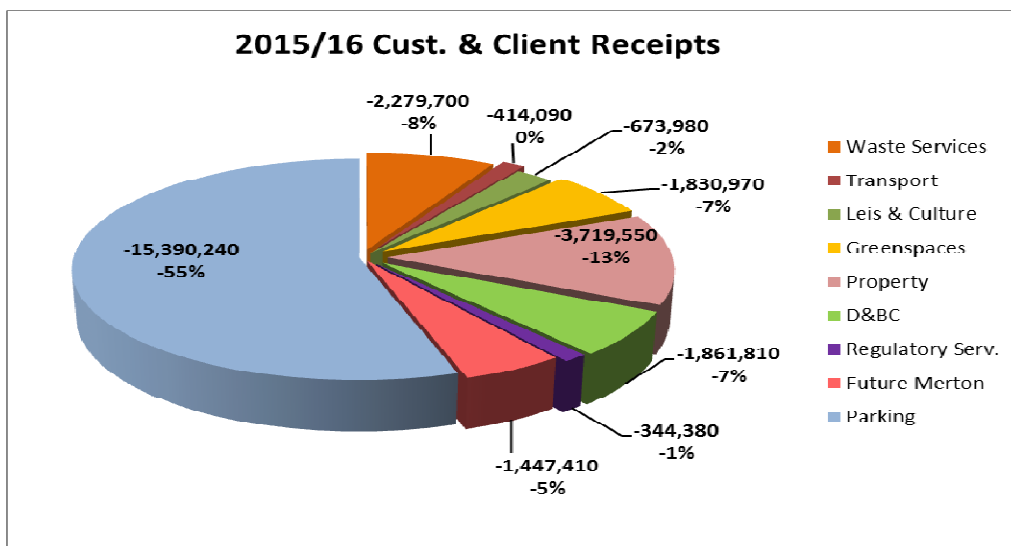


Table 1

2.3. Commercial income is growing and will need to in order to help contribute to meeting the Councils financial challenge.

Income change year on year;

YEAR	TOTAL	% CHANGE
2012/13	£11,052,771	
2013/14	£12,721,081	15%
2014/15	£13,162,722	3%

Table 2

2.4. In preparing the Departments Target Operating Models [ TOMs ] in 2013/14 it became apparent that there was scope for increased income through a more commercial approach for a range of services . Three particular areas offered more opportunity and they are detailed in this report and appendices. These are:

- Commercial waste
- Parks open space / leisure services
- Building control

2.5. The work on TOM also helped identify a number of inhibitors to maximising commercial income . These included ;

- 2.6. Culture – Local Government is not naturally a commercially minded organisation , whilst this is changing it is clear that this requires attention. At both political and management level there is a need to create a more commercial mindset and adopt different approaches to achieve success. These sometimes cut against the traditional approach and can pose risks both financially as well as reputationally. For example consideration of financial rewards for staff exceeding commercial targets or investing in new ventures to generate commercial income can be risky and in a risk averse environment does not come naturally.
- 2.7. Skills- the TOM work identified that there was a shortage of skill and expertise in key areas . Despite investment in a learning and development programme across staff involved in commercial activities in 2011 there remained a gap in our skill base and expertise.
- 2.8. Systems and processes – A need to ensure our systems and processes are as commercial as possible to make to easy to do business and for customers to choose Merton services when competing with the private sector. This includes Customer relationship Management , on line service sign up as well as technology for front line staff to be able to deal professionally with customers in the field.
- 2.9. As a consequence the Department was successful in obtaining financial support via the Council Transformation Board to invest in capacity to improve its approach to commercialisation. Whilst other Departments also had opportunities these were not as large as in E and R . A sum of c£300k was allocated for two 2 year fixed term posts and for marketing materials. The posts of Head of Commercial sales and Marketing Manager were both filled in early 2015 . The Head of Commercial sales is now vacant with the postholder recently resigning, however good progress has already been made in developing commercial and marketing plans for a number of key areas.
- 2.10. Three particular areas were prioritised for attention to seek to increase income. The commercial sales and marketing plans for these areas are attached at Appendices 1 2 and 3 . The position is summarised as follows .
- 2.11. Commercial waste .The council currently provides a waste collection and disposal service to businesses across Merton. In terms of legislative requirements a Waste Collection Authority, if requested to do so, must arrange for the provision of waste collection and disposal services for businesses within the authority. The Waste Collection Authority can make a reasonable charge for the provision of this service. However, there are many private sector waste management companies providing similar services, acting as competition within the market. Some authorities have chosen not to provide a service and effectively implement fees and charges that cannot compete with the private sector.
- 2.12. Merton has successfully delivered a service that more than covers costs. Other benefits of operating the service include the ability to influence the cleanliness of the public realm in particular through the link with our regulatory function and such initiatives as Time Banding in town centres.

- 2.13. The service is included in Lot 1 of Phase C of the current procurement exercise being undertaken by the SLWP and the partnership is using this opportunity to discuss with bidders the opportunities to manage and grow of authority portfolios. Nevertheless it makes sense for the Council to seek to grow this business up to the point of expected externalisation in April 2017. The Council currently has c 30% of the market share which generates income of c£1.2m p.a. The commercial approach adopted included a review of fees and charges, as well as more detailed analysis of the competition. This has led to changes in our pricing structure. This is particularly important when seeking to minimise the weight of waste when large receptacles are provided. In common with most waste carriers charging is by volume and not weight yet our waste disposal costs are by weight. Thus it is important to ensure that receptacles are not abused and the staff winning business take care to ensure the fees are appropriate.
- 2.14. The staffing structure has been reviewed and revised with an increased emphasis on sales skills which are being developed. We are in the process of recruiting to a dedicated Waste Sales Manager position.
- 2.15. The marketing and advertising of the service has been enhanced to target the businesses we wish to attract and to create geographical critical mass where possible – eg. Trading estates , which help reduce operating costs
- 2.16. Following on from the development of the service’s commercial strategy, officers have been working with the Marketing Manager to develop a sales and marketing offer that is focusing on re-branding the service as a value for money, flexible, reliable and convenient service. This is based on the council’s unique selling point that is based on local infrastructure and knowledge. Marketing materials are being developed based on this re-branding and appropriate marketing channels being identified. As a result of targeted sales activity we have seen a steady increase in new contracts since April 2015.
- 2.17. The table below provides a comparison of additional income secured during the first quarter of 2014/15 and 2015/16. These figures are based on customer invoices sent out. These are distributed quarterly, hence the significantly high figure for the first month of the quarter. The invoices sent out in subsequent months are for new business secured (or lost) during those months.

	15/16	14/15	Difference
April	326,668.09	308,850.28	17,817.81
May	2,217.74	-2,591.83	4,809.57
June	11,750.86	5,948.56	5,802.30
<b>Q1</b>	<b>340,636.69</b>	<b>312,207.01</b>	<b>28,429.68</b>

- 2.18. The issue around business processes is very relevant in this area where we are working to improve them to allow for more flexible pricing / short term discounts and provide for weight bands to limit waste disposal cost risk.
- 2.19. **Garden waste** – the council does not have a statutory duty to collect garden waste free of charge but can require households to separate garden waste

from other waste streams. Ideally, we would promote home composting which would lead to an overall reduction of waste arising and the need for it to be managed. However, in 2011 the council introduced a subscription based garden waste service.

- 2.20. Through effective promotion and selling the number of customers has increased from just over 3,600 to the current figure of 6,129. This represents less than 10% of households with gardens and there is capacity to extend further the number of customers. Based on analysis of similar schemes operating throughout the country the council should be targeting 15% - 20% participation in the scheme.
- 2.21. At present the service is on target to generate over £328,000 per annum. Operating costs are £326,100, creating a small surplus. In addition to this, the waste disposal saving from not having to landfill this waste equates to approximately £65,000.
- 2.22. This service is in the scope of the Phase C procurement and again the SLWP is taking this opportunity to discuss with bidders through dialogue opportunities for growing the customer base significantly and provide some form of additional revenues to the council.
- 2.23. **Parks and leisure services** – Merton’s open spaces are a tremendous physical asset which already help to generate c£1.3m in income (Excluding Merton and Sutton Joint Cemetery Board, , and rental income).
- 2.24. The analysis undertaken in developing the commercial sales and marketing plan has helped to identify the scope for more events in our parks and open spaces as well as the sports offer available. A new classical music event is being piloted in Wimbledon Park in September this year with a hope that this, with others, will become part of the calendar of events in our open spaces. Opportunities for musical as well as food festival and other types of events are under consideration. Further work is underway to seek to increase income from sports activities whilst offering enhanced services. This also applies to cemeteries where a changing population with different cultural and religious requirements demands that the service offers a broader range of services at a premium.
- 2.25. Online Booking & Payment for parks events - The online booking and payment system, which is linked directly to the council's financial management system and credits all income immediately within the general ledger has provided a sounder and more commercial front end for the service. We used this to sell tickets for events such as the annual firework display, tennis car parking and the staff tennis draw, generating increased income whilst improving the customer service and efficiency of the back office.

EVENT	PERCENTAGE BOOKED ON-LINE	COMMENT
2014 fireworks events at Wimbledon and	27% of the net income	20,990 tickets were sold delivering a total net income of £157,014.17 from ticket

Morden Parks		sales Proactis figure shows £158,913? A net total of £42,712.50 online
Wimbledon Tennis Car Park 10	26%	The total takings (before VAT deduction) for car parking is £108,815 and £28,000 of this is on-line bookings Proactis figure shows £72,275 (after VAT deducted)?  2014 figure was £82,498 (before VAT deduction) Proactis figure shows £86,868 (after VAT deducted)?  Therefore a 32% increase in 2015

Commercial Sports, Leisure & Arts Activities – We have developed more commercial products for our market such as online navigation courses, outdoor education, a marine college, specialist arts programmes for care homes and activities for children. Also moved to trade beyond the borough boundaries by both delivering services outside of the borough as well as attracting people from outside the borough to come and use our services. Commenced charging for specialist services where external agencies and organisations seek our specialist advice and work, e.g. Speaking at conferences.

Leisure Centre Contract – worked with Greenwich Leisure Limited to improve the range and scope of leisure offer including investment in a spa at Wimbledon Leisure Centre and a floodlit multi-use games area at Canons Leisure Centre. This work, combined with some energy efficiency changes to the contract, has resulted in a more commercially beneficial contract.

- 2.26. **Building Control** – This is another area where the Council operates in a competitive market . ‘Approved Inspectors’ or private Building Control surveyors currently hold about 30% of the market share in the borough. The services are offered to householders and commercial developers to ensure that development is built in accordance with Building Regulations. The Council has a distinct advantage in being able to offer this as an added service alongside the statutory Planning process. The core service has to operate at no surplus but there are opportunities to cover more core and overhead costs with significant benefit to the Council.
- 2.27. The approach taken has been to enhance the way in which this service is marketed to potential users and to seek large commercial partnerships for larger developments . Pricing and ensuring that costs are appropriate is a challenge. The in house service has a clear incentive to ensure that development enhances the borough whilst approved Inspectors may have no long term relationship with Merton and may wish to reduce costs to a level which militates against sustainable development
- 2.28. The Building Control, section has devised a detailed commercialisation plan to expand the income generating services provided to the public and to market the existing service to ensure the business is competitive with the Approved Inspectors. In association with the new marketing and commercialisation officers a bespoke plan of action has been set out to raise

awareness of the service within the Borough. However, due to the increased difficulty in recruiting Building Control Surveyors and at the same time officers leaving or retiring, it has become increasingly difficult to secure sufficiently qualified temporary staff to support the service notwithstanding frequent attempts to do so. In addition, Approved Inspectors are becoming more aggressive in the market place. BC succession planning has been added to the departments risk register in recognition of the issue and officers are looking at new ways to take the service forward.

- 2.29. In addition to the above the Department is also exploring the commercial opportunities in other areas . These include issuing fire certificate checks and inspection of damp proof courses
- 2.30. Environmental Health – We are currently looking at a range of services for which we provide information and advice free of charge and developing a charging mechanism for the same. As an example we are looking at developing a charged for business service for information and advice provided by officers regarding specialist knowledge relating to contaminated land or Air quality matters. This form of charging would reflect closely the charging regime currently operated by Planning officers FOR Pre Application advice.
- 2.31. CCTV – We have invested in new infrastructure and are exploring the opportunity for commercial investment where businesses wish to connect to our monitoring facility. This would entail capital investment by the business and a revenue contribution to the operating costs . Currently we benefit from income from Circle MPH.
- 2.32. Housing . We are developing proposals for a Housing Development Company which would be a Trading Company of the Local Authority . This company would develop Council land for Housing. The housing will be planning policy compliant with a relationship with Housing Association for the provision of Affordable Housing. The commercial benefit for the Council will be via the supply of Private rental housing as well as Housing for sale . Sites have been identified across the borough including within Morden Town centre as part of the regeneration proposed.
- 2.33. Development Control – Offering enhanced pre planning application advice and Planning Performance Agreements help to deliver services in demand from developers seeking essential advice and generate additional income .
- 2.34. The section has successfully grown the pre application service to provide significant income and has improved the way pre application advice is professionally provided. In addition, the team has successfully launched the concept of the Planning Performance Agreement throughout the Borough and developers have been keen to take it up as it provides some certainty from their perspective. The section needs to ensure these services, when secured , are delivered in each case otherwise there will be reputational harm. At present this is proving problematic with a high reliance on temporary staff with a high turnover but plans are being devised to overcome these hurdles .
- 2.35. Within the Transport Services section officers are exploring a number of opportunities to secure additional revenues, particularly through sweating

fleet assets outside of core hours of service provision to client departments (SEN and Adult Social Care) Officers have also identified additional commercial opportunities through the workshops and has invested in a Tachograph centre to provide calibration services for tachographs.

- 2.36. Under the current licencing system the Passenger Transport team are not permitted to make a profit; any surplus income has to be reinvested in the service and used to off-set the operational costs of the unit as a whole. In 2014/15, utilising the fleet outside of core hours of service provision and SLA for children and adults has brought in an additional £115K, which together with a £60K underspend, due to operational efficiencies, meant that the unit delivered £175K back to the service teams for SEN and C&H.
- 2.37. In addition the Council has invested in a Tachograph centre recognising that there was a gap in the market in the SW of London. The tachograph centre enables us to ensure that the legal requirements of our own fleet are fully met, and the surplus capacity is available for commercial work. The establishment of this facility has reduced the down time of council vehicles that previously had to be taken to a centre near Guildford for tachograph checking and calibration.
- 2.38. However, the business case for the new facility included opportunities to market services to external organisations in order to fully utilise capacity. Systems were first put in place and the council is now developing its offer to the market. This is in its early days but in late 14/15 brought in around £2,000 surplus, all based on word of mouth. This can be significantly improved upon with formal marketing, which is currently being developed. The council has also recently put in place chip and pin facilities which will enable us to take fees over the counter rather than taking account work only, which should increase our commercial opportunities in this field.
- 2.39. The workshops facility is also subject to externalisation through the Phase C procurement project and the South London Waste Partnership is exploring commercial opportunities with bidders to secure guaranteed levels of income and additional profit share arrangements.
- 2.40. Energy – The Department has successfully implemented a number of phases of Photovoltaic [ solar or ‘PV’ ] panel installations on Council owned property and benefitted from energy savings as well as income from the National Grid .
- 2.41. In some areas the Department is withdrawing from a commercial offer where the business case no longer makes sense. This is the case for pest control where the economies of scale are such that we are no longer able to compete on price and the decision has been taken to procure the service we need on the open market and withdraw from directly provided services which no longer make a surplus.

### **3 ALTERNATIVE OPTIONS**

- 3.1. The Council could decide not to provide any discretionary services. This would reduce opportunities for financial income and potentially a range of services valued by customers.

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**



4.1. None.

## **5 TIMETABLE**

5.1. The work on commercialisation is ongoing and part of a number of service plans.

## **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

6.1. The MTFs currently includes an agreed saving of £250k in relation to generating additional commercial income, taking effect in 2016/17.

6.2. This is in addition to any specific income related savings also contained within the MTFs, which is in the region of £570k.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

7.1. Providing , trading and charging for services has been a feature of Local Government for a considerable time and is covered by legislation including within The Local Government Act 1972, 1976 and 2003

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

8.1. There are no specific issues.

## **9 CRIME AND DISORDER IMPLICATIONS**

9.1. There are no specific issues

## **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

10.1. There are no specific issues

## **11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

- Commercial Plans for Commercial waste , Building control and Parks / open spaces – **ALL CONFIDENTIAL**

## **12 BACKGROUND PAPERS**

12.1.

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