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The commercial imperative

Finding the right path to achieving a sustainable commercial model



“Commercialisation is going to be one of the most important priorities for local authorities over the next decade. If they haven't already, council leaders and CFOs must start thinking about short, medium and long term strategies for generating their own income.”

Rob Whiteman, CEO, CIPFA

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Another challenging government spending review has intensified local authorities' focus on service commercialisation.

Introduction

Following another tough financial settlement for local government whereby government grants have been cut by 25% and organisations are expected to be financially self-sufficient by 2020, local authorities are intensifying their endeavours beyond cost cutting to also commercialise certain services as part of a drive to increase revenues.

In addition, the Local Government Association (LGA) estimates that the funding gap created by social housing rent reductions will amount to £1 billion by 2020. It is all part of central government's wider strategy to devolve fiscal responsibility for municipal services. And according to research from The Chartered Institute of Public Finance and Accountancy (CIPFA), local authority finance chiefs are less confident in their organisation's ability to keep delivering higher quality universal services, and in the sustainability of their overall financial position.

At a recent Leadership Forum, Civica brought together a group of local government and private sector leaders to understand more about these fiscal challenges, how local authorities have responded to this daunting climate, and what lessons they have learned along the way. We also conducted independent research across 45 local authority CEOs and CFOs with CIPFA, which equates to 10% of the market. In our ['Changing Landscape' series of reports](#) we highlighted the unprecedented nature of the pressures on all authorities and looked at some of the key responses.



Government grants cut by 25% & organisations are expected to be financially self-sufficient by 2020



A funding gap created by social housing rent reductions will amount to £1 billion by 2020

According to our research, commercialisation plays a significant part in 40% of local authorities' current strategies. What's more, a recent survey of Solace members showed that senior managers at the frontline of local government now rank financial self-sufficiency as one of their council's top three priorities.

In this report, we look more closely at how reduced central government funding has driven local government senior management teams to adopt commercial strategies and to identify alternative income streams, as they strive to become financially self-sufficient, on a sustainable, long term basis.

"I'm continually impressed by how local authorities are facing up to this era of unprecedented austerity. For many councils, survival and the preservation of core services has been the principal priority. Yet, even in light of these testing times, we have seen great examples of early innovation to address the fiscal challenge across the sector."

Paul Bradbury,
Group Business Development Director, Civica

Executive summary

Realising that the Government's austerity programme would kick in more quickly than expected and last beyond one full parliament, local authorities have looked beyond budget reduction and efficiency savings, to strengthen their efforts to commercialise services.

Identifying that point of difference is something that local government and private sector leaders have worked hard to achieve. **While commercialised approaches and options are plentiful, finding the right strategy that will deliver genuine and reliable returns while supporting community priorities is a task that few local authorities have found easy.**

At a recent Leadership Forum, Civica brought together a group of local government and private sector leaders to discuss how to find the right path to achieving a sustainable commercial model. The discussion covered the following areas:



Critical success factors influencing your commercial journey

Each local authority faces a unique combination of factors and challenges which must be taken into account before developing a commercial strategy. In this report we look at their appetite for risk and change through to the commercial 'nous' needed to succeed.



Four ways to generate revenue

Generating income is not an entirely new concept for councils, but many are finding closing the growing budget gap challenging to sustain, whilst evolving and redesigning services. Organisations must think innovatively, consider the role of trading and make the most of existing assets and partnerships. They must review opportunities to share and sell services amongst peers as well as how digital technology can drive efficiencies and new revenue streams.



Six steps to building a sustainable commercial model

For the majority of local councils, developing new commercial avenues is a completely new concept and not one typically supported by traditional cultures (organisational/political) or service delivery models. In this report, we list the six steps councils should take to build a sustainable commercial model to ensure they deliver and continue to deliver for their communities.

Just like private businesses battling with tight budgets, an unstable economy, increasingly complex demands from customers and rapidly innovating competitors, local authorities must be passionate, skilled, committed and disciplined. This is the only way to ensure they generate the results required to stake their claim to success in the commercial race and to improve the lives of all those in the communities in which they operate.



Critical success factors influencing your commercial journey

For many, the prospect of tackling austerity is a big enough test. Simply staying afloat and relevant is a weighty challenge for most council leaders. It requires strong leadership, tenacity and commercial drive to even identify the most appropriate strategies to address austerity and the new climate.

However, those local authorities brave enough to take the journey to commercial success are making profound changes in the way they think and do things, and are already achieving impressive results.

Prioritising initiatives to address the funding gap on a long term basis is essential as the Government pushes hard to create the smaller state. This is driven by the unique factors and challenges that each council faces, such as political culture and risk appetite, leadership and vision, geographic location, the social structure of the population and access to capital, resources and the necessary skills.

“Commercialisation is going to be one of the most important priorities for local authorities over the next decade. If they haven’t already, council leaders and CFOs must start thinking about short, medium and long term strategies for generating their own income. Reappraising their appetite for risk is vital to making these endeavours successful. Not every attempt will make money and, as public bodies using the public purse, it’s a difficult position to be in. But a thorough review of risk management, cost and modelling systems, together with open conversation at a board level can make it easier.”

Rob Whiteman,
CEO, CIPFA

Our Leadership Forum agreed that to successfully implement commercial initiatives, the following four factors are crucial:



1. Having an appetite for risk & attitude to change



2. Leading commercial operations & setting a clear vision



3. Resourcing for growth



4. Considering the impact of your location & social structure



1. Having an appetite for risk and attitude to change

Just as they always have, senior managers must continue to take account of the political leanings of their elected members and the risk appetite of the authority itself.

Senior managers must be attuned to the fact that councillors are likely to be wary of making big changes to services, in case this negatively impacts on vulnerable local residents or causes a voter backlash. Where councils are looking to generate additional income, it must be seen to benefit all residents.

Our Leadership Forum agreed that some council members are uncomfortable with 'new models' where they are seen as creating a 'two-tier' service structure deriving revenue from those who can afford to pay for additional services. Councils naturally need to achieve budget savings, but fairness and protecting the most needy and vulnerable at the same time must remain a top priority.

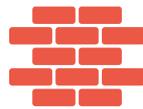
Furthermore, council members are often averse to risk and fear change more than the consequences of failing to make that change. Council leaders need to empower their staff to be bolder and to make decisions which are less risk averse. Our Leadership Forum demonstrated that, even where mistakes are made, an empowered workforce will work industriously to learn from their mistakes, manage risk and resolve issues.

From those surveyed, council leaders and CFOs across the UK believe that commercialisation is being held back by:



56%

the risks involved, discomfort about new models



40%

a restrictive organisational culture



2. Leading commercial operations and setting a clear vision

When faced with a large funding gap, councils require a huge amount of bold vision and expert leadership to move towards a more commercialised model.

Notably, our Leadership Forum indicated that there was no single approach that addresses these financial challenges. But a council can make genuine progress by analysing its assets, skills, resources, and the population that it serves. And it must put in place a strong leadership team, with commercial expertise to help develop their business, sales and marketing strategy.

"Local authority leaders must build a business case for change and set ambitious targets. By having a clear vision, they have an opportunity to execute on that strategy and a chance of closing their funding gap."

Wayne Story,
Group CEO, Civica

This commercialised model must then be supported by the appropriate organisational culture and mindset. It needs to control, regulate and be accountable in the traditional sense, but not to the extent that it stifles innovation. Council leaders typically have an intense understanding of local communities and their needs, and are especially well positioned to build on existing relationships and drive through a wave of new commercial services, as confident and assertive community leaders.

Depending on the unique characteristics of the local authority and population, local council leaders are in some cases required to make radical decisions. Do councils seek blockbuster income streams from bigger, riskier projects, or make marginal gains from a variety of initiatives? On this, local government leaders are not entirely united.

“Councils need to be conscious of their finite resources, because it is easy to become overstretched. Any income is good income, but if an authority has a budget deficit of £15 million, then you need to do something radical to generate the necessary revenue to bridge the funding gap.”

Nick Rowe,
Strategic Finance Partner, Ealing Council

Leadership Forum participants did suggest that efficiency should be a precursor to income generation. Addressing a budget deficit through efficiency gains must be the priority. Yet where councils are intent on generating income, they must be convinced that the services they are intending to trade will deliver commercial success, **“Identifying a core demand or a unique selling point (USP) must be the key priority, and councils must guard against delivering expensive or poor services”, according to Peter Gillett, Director of Cothan Solutions.**

Brendan Arnold, Director of Finance, Infrastructure and Transformation at Hull City Council, prefers to look at the bigger picture and address the financial situation with multiple initiatives, both big and small: “I think operating models should draw on the principles of business management. I believe this leads to pursuit of a ‘strategic pragmatism’, where solutions are selected for best fit in different service areas.”

By taking a broader approach, councils can hedge their investments, reaping the rewards of successful programmes and minimising the downside risk of smaller projects that fail.

Brendan Arnold says: “A much more pragmatic approach has served this council well. We have saved £165 million and we have plans for an additional amount beyond that. I think organisations make the mistake of thinking that the small stuff doesn’t matter. It matters immensely and stacks up to numbers that really make a difference. If you ignore small opportunities and don’t exploit them, that is a missed opportunity.”

Council CEOs and CFOs from around the country say that the following approaches are the most effective way to use commercialisation to close the funding gap and keep core services running:



Council leaders and CFOs across the UK admit they’re holding commercialisation back from being embraced:





3. Resourcing for growth

Some of the leaders we spoke to have experienced or seen first-hand that councils can struggle with finding the resources and the ability to finance and drive forward new initiatives.

In fact, contrary to the belief that councils tackle a budget deficit by making radical cuts, many contributors to this report stated that they have addressed the funding gap by expanding the workforce selectively to develop revenue-generating projects.

Our council leaders agree that, by growing the employee-base in this way, they can find economies of scale and look at shared services models and trading services to the public and the private sector.

“Our business plan is called ‘Grow, Save, Change’, but the really interesting bit is to grow, which is an unusual concept when the sector is supposed be shrinking. If you do more things that are paid for, you can grow and deliver economies of scale and deliver corresponding improved benefits for the community also.”

Vic Allison,
Deputy Managing Director, Wychavon District Council

Councils also recognise that entering into partnerships with the private sector can enable local authorities to cut considerable costs and even to protect jobs as part of an outsourcing agreement. Austerity needn't lead to wholesale redundancies.

Sanjay Mackintosh, Head of Strategic Commissioning at Haringey Council says: “There is often an assumption that partnering to deliver a service will result in a loss of headcount to cut costs. That may have been the approach in the past through traditional outsourcing or public private partnerships.”

Mackintosh suggests that many councils are now looking to more ‘innovative delivery models’ that enable the council to transfer staff to a private sector partner and grow the service while protecting jobs and even developing further employment opportunities for local residents.

“Our recent survey of Solace members shows that senior managers at the frontline now rank financial self-sufficiency as one of their council’s top three priorities. The need to increase income, and to make ‘public profit’ from investment in commercial activities is making our ‘Creating an Enterprising Council’ training programme a popular choice!”

Kim Ryley,
Chair, Solace in Business



4. Impact of location and social structure

A council's ability to generate income is in part driven by its own geographic location and the social structure of its customers.

In more remote parts of the country, where big businesses are less inclined to base themselves, it is noticeably harder to boost the local economy. Equally, if the local population has a disproportionately high number of lower-income and unemployed residents, it creates an additional challenge when councils are looking to trade services to local customers or even when encouraging digital engagement with local residents. And these challenges crop up in unlikely places.

According to [Go ON UK](#) 23% of the UK do not have the basic digital skills needed to succeed in our evolving digital age. And in Sheffield, the UK's fourth largest city, the likelihood of overall digital exclusion is rated as 'medium' because a significant number of residents cannot afford access to the internet.

However, in many areas, customers are asking for additional services that they would be happy to pay a premium for and now expect to engage with the council through digital means. While being alert to local sentiment, councils need to gradually change the perception that every service is free. This is especially true when local authorities are building a commercial strategy.



23% of the UK do not have the basic digital skills needed to succeed in our evolving digital age

Local authorities' CEOs and CFOs surveyed say they are going to focus on:



Reducing the services they offer



Reducing the size of their workforce



Share and sell resources with other councils

...to meet the targets





Four ways to generate revenue

Generating revenue is not a new concept for local authorities, with parking, leisure and now business rates all obvious examples.

According to CIPFA's 2015/2016 income generation survey, councils across England are generating their largest areas of income through physical support services for older people (£1.4 billion), management and support services (£0.9 billion), primary schools (£0.8 billion) and parking (£1.4 billion).

However, it's clear that this approach alone is not enough to sustain and evolve services. Organisations must think radically. According to our Leadership Forum attendees, in spite of these challenges, they have effected change and are constantly looking for further innovations and commercialised programmes.

According to their CEOs and CFOs, UK councils are most likely to share and sell resources amongst their peers and trade services directly with their community in order to generate revenues. They are least likely to make the most of existing assets to do so.



£1.4 billion physical support services for older people



£0.8 billion primary schools



£0.9 billion management & support services



£1.4 billion parking

The Leadership Forum discussed four revenue generating opportunities that, in their experience, should be considered:



1. Trade directly with your community



2. Make the most of existing assets & boosting the local economy



3. Share & sell services amongst your peers



4. Drive digital: To create efficiencies & new revenue streams



1. Trade directly with your community

Councils have made significant inroads into the local government budget deficit through trading services. By utilising existing skills and resources, and by engaging private sector expertise, councils can generate income through an enterprising approach.

This ranges from starting residential green waste collections for a monthly or annual fee, to the creation of a new energy utility to sell gas and electricity to local customers. Clearly some projects require a greater depth of investment in terms of capital expenditure, time and resources, but they can also generate significant long-term returns.

Wychavon District Council launched a green waste collection scheme eight years ago and very quickly attracted several thousand customers and a long waiting list to join the scheme. It now has ambitious plans to grow its customer base to over 18,000 by March 2018 and expects this to provide a significant contribution to offsetting the council's deficit.

“Commercialisation is no different to managing an investment portfolio for your pension. It doesn't make financial sense to put all your shares into one 'pot', which is why we spread our bets across a selection of high, medium and low risk investments.”

Phill Rowland, Chief Financial Officer, Civica



18,000

Wychavon District Council plans to grow its green waste collection scheme customer base to over 18,000



UK councils are most likely to share & sell resources amongst their peers & trade services directly with their community in order to generate revenues



Bristol City Council is one of the most ambitious and progressive local authorities in the UK, returning more to the UK than it takes out and regularly ranked as one of the most liveable cities in the UK.

In 2015 it established the governance arrangements for commercialisation and delivery of services in a new way to meet the challenges of the 21st century. Bristol has articulated a rationale for entering or establishing new services based upon a number of principles, such as correcting market failure, realising strategic goals, etc.



As part of this approach, the council established Bristol Energy, a new utility that will be one of the first municipal companies to enter the market. It has invested into the company based upon Market Economy Investor Principle (MEIP), along the same lines as private equity investors would do, including return rates from the investment, which are above 20%.

Bristol recognised that it had a large customer base that was suffering from what it perceived as a clear market failure; that low-income residents on pre-pay gas and electricity meters essentially pay more for their energy than wealthier residents. In addition, Bristol City Council had built up a great deal of energy sector knowledge through its status as European Green Capital in 2015.

Bringing a project like Bristol Energy to market required serious investment and external expertise. Consultants were brought in to help develop the business model and to offer a second opinion. The energy team from a Big Four accountancy firm was brought in to perform due diligence on the project and provide knowledge, experience and commercial skill to the Council.

“There’s a hell of a lot of ability in local authorities, but when there are specific areas that are new to the organisation you need to find that external expertise that the rest of the organisation can learn from.”

Bill Edrich,
Director of Energy, Bristol City Council

The Leadership Forum warns that a lot of traded services don’t actually make money at all, because it is very difficult to generate revenue with a public sector mind set. When councils look to trade services it is important to assess the market through three different lenses and ask; Do we have a service that really fits with the strategic aim of the council? Do we have something unique that has a competitive advantage? And, is there a market failure from the private sector? If there is a genuine overlap, then this helps to identify an organisation’s “sweet spot” for trading services.



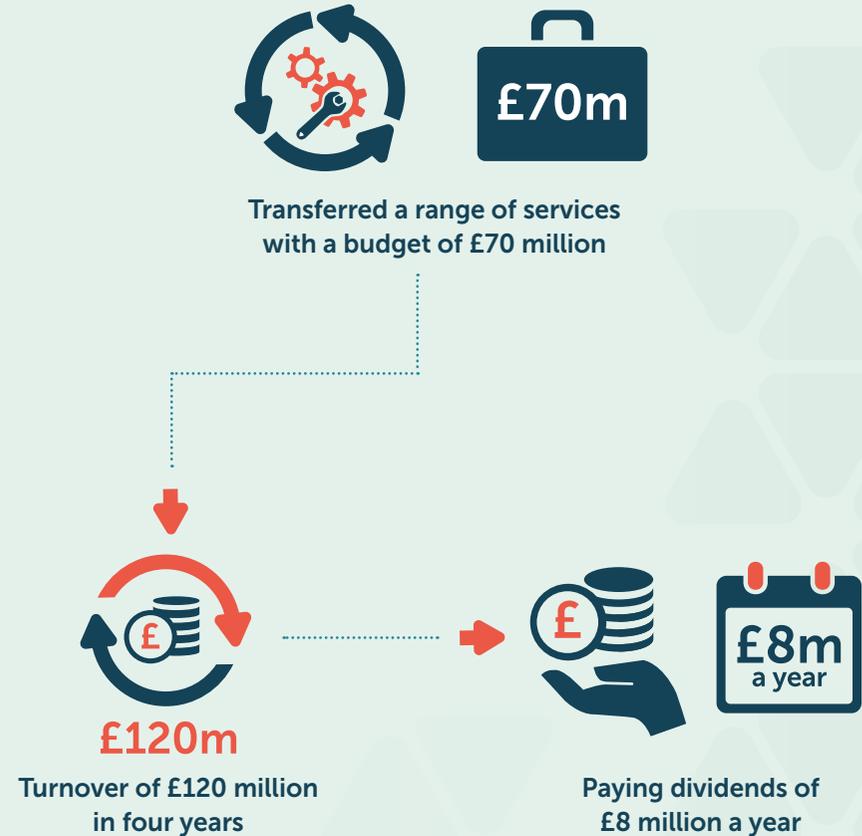
Cornwall Council established new wholly owned trading companies, Cormac Solutions and Cormac Contracting, in 2012.

Cornwall transferred a range of Environmental, Highways, Fleet and Facilities Management services with a budget of £70 million into the companies that now have a turnover of some £120 million in the fourth year of operation. This pays a dividend to the council of around £8 million a year.

“The council recognised that they needed to build their commercial function to enable trading and also focused on accelerating operational change including working practices and a new operating model, as well as culture and staff engagement. As you build the organisation and trading grows, then you make a profit and build more economies of scale from the initial investment in technology and other assets. It is an increasingly profitable business.”

Mike Butler,
Managing Director, Peopletoo

Trading services can be an extremely valuable source of income, yet it can also deliver a range of ancillary benefits and have a profound social impact. **Cornwall Council's new approach has increased net employment by 17%** and led to a range of apprenticeships, work placements and initiatives to support vulnerable groups. Cormac supports local SMEs and promises them 14-day payment terms, where applicable. By operating a commercialised approach, it has generated a healthy source of income and boosted the local economy, which in itself helps to bolster revenues and reduce benefit expenditure.





2. Make the most of existing assets whilst boosting the local economy

The Leadership Forum members also highlighted the cost savings and income generated by taking a commercialised approach towards the use of existing or available assets.

A review of a council’s land portfolio, acquiring and developing land for resale or rental purposes, as well as speculative investment to grow local tax revenues, can be a significant income generator. Forum participants also discussed the redevelopment of existing properties to reduce spending on areas such as temporary accommodation for local residents.

Using strategic assets to drive rental schemes is a widespread theme in local government. A number of councils have sought to protect high streets by buying up the freehold of properties, creating an important direct income stream. Furthermore, by having some control over the local economy, the council can influence growth and generate further income from new business rates.

“There is an indirect benefit to the economy. It creates more work for local people, which means fewer benefits paid out. It increases business rates and means more money for the council. We can then reinvest in other things. Owning land and property gives you lots of options for development and quite often gives you a return. Better property use and development can really help grow council resources.”

Vic Allison,
Deputy Managing Director, Wychavon District Council



Wychavon District Council in Worcestershire has adopted a sophisticated land strategy, which has included purchasing land, developing, sales and rental initiatives.

One key programme is its regeneration of Droitwich town centre, which has involved the construction of a supermarket and a rental income from the tenant. **Vic Allison, Deputy Managing Director** of the council says there is a definite financial return from its initial investment, but it has also brought **“economic benefits to the locality and increased footfall to the town centre.”**

By boosting the local economy, the council can generate a higher income from business rates – increasingly important in light of the revenue support grant (RSG) being phased out and councils progressively being allowed to hold on to 100% of business rate revenues – and increase employment, thus reducing benefit expenditure.



£10 million agreement to help build a supermarket, creating 150 new jobs

Last year, Wychavon completed a £10 million agreement to build another supermarket in Evesham town centre on which the supermarket chain will pay a commercial rent. The store is predicted to create up to 150 new jobs and will help regenerate the town centre. The council’s sound fiscal strategy has enabled it to fund the scheme without any external borrowing.



3. Share and sell services amongst your peers

Many councils have identified shared services partnerships as a means of cutting costs considerably and narrowing the budget deficit.

Seven councils in East Anglia are part of the [Anglia Revenues Partnership \(ARP\)](#), a council tax collection and housing benefits distribution service. ARP estimates that it has saved some £2.5 million across the seven councils.



However, councils have been operating in silos for many years and not all are immediately open to the shared service model. Those aiming to sell services or share resources with others must ensure they have the sales and marketing expertise to sell the service to potential partners and make sure these partners are fully aware of the benefits from the outset.

“Shared services strategies can prove pivotal in helping councils meet their financial targets. Shared services work because they typically protect jobs, reduce costs to the individual council, and improve the actual service offering. If councils then decide to sell that service to other authorities, then they can secure a vital source of income.”

Gary Bell,
Managing Director, BPO, Civica



Worcestershire councils share revenues and benefits services to cut costs.

In 2007 Wychavon, Worcester City and Malvern Hills councils entered a three-way agreement to combine their revenues and benefits departments, with the integrated service operating from Wychavon Council’s offices in Pershore. Wychavon has since expanded its shared services agenda to a number of other services including building control, regulatory services, IT and audit, working with other nearby councils.

As austerity has hit home and councils have sought to create further efficiencies and to protect jobs, the South Worcestershire councils entered a deal with Civica in 2013 to outsource their revenues and benefits service. At the time, savings were estimated to be £3 million over a five-year term, with the councils highlighting the importance of the agreement in safeguarding jobs. 111 employees joined Civica as part of the South Worcestershire Partnership, creating the “Orchard Centre” in Pershore - a processing and collection services operation that supports other councils around the country.

The Orchard Centre now serves other authorities such as Coventry City Council, and forms part of [Civica’s OnDemand service](#). There are now over 80 local authorities trading on this OnDemand service across four key hubs; The Orchard Centre in Pershore, The Severn Centre in Gloucester, The Elway Centre in Rhyl and The Kingston Centre in Hull. Partners such as Wychavon get a share of the profit from these trading services.



Savings over a five year term safeguarding jobs

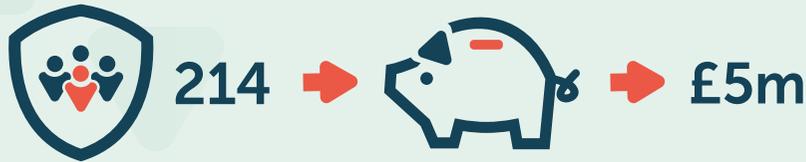


Over 80 local authorities trading on this OnDemand service



Hull City Council saves £5 million through shared services

In November 2015, Hull City Council began a seven-year partnership with Civica, involving the transfer of 214 employees, to provide services such as housing benefit, council tax collection, business rates and debt. The deal was acclaimed by Hull for protecting 214 jobs and saving the council £5 million.



Protecting 214 jobs & saving the council £5 million

It also enables Civica to provide services to other local authorities from its transactional processing centre based in the council's Treasury Building. While this increases Hull's income stream, it also helps the processing centre to expand and employ more local people, providing a further benefit to the local economy.

Andy Brown, City Customer Services Manager at Hull City Council, explains the rationale for choosing a private sector partner to help run its revenues and benefits service:

"We knew this is a high expenditure area, which is transaction intensive. With tens of thousands of cases, you only need to make a small percentage difference in efficiency to make big savings and it also lends itself to technology."
Andy Brown, City Customer Services Manager, Hull City Council

Without the agreement, the council faced making 30 staff redundant to help reduce the service budget by £700,000 a year.

"The council still has control over governance and policy, but the private sector brings those commercial and marketing skills and a slimmed down structure that helps the decision making process."
Andy Brown, City Customer Services Manager, Hull City Council

Brown says that councils are democratic organisations full of knowledge and service expertise, but can potentially benefit from commercial and marketing expertise from an appropriate external partner. He believes that the partnership with Civica strikes the right balance, saying the partnership has delivered substantial financial savings from day one and has improved service performance.

This deal is mutually beneficial too, enabling the two partners to trade more effectively in the wider market. Brown believes that "**councils tend to trust other councils**" and the partnership's new transactional processing centre has already succeeded in winning new business from other local authorities.

"All local authorities are challenged to maintain and improve services while spending less. This partnership is the most recent in a similar line we've been working on. This increasing popularity shows that councils are waking up to the benefits of collaborating with private sector organisations to begin their journey into commercialised activities, by delivering a people-focused shared service model."

Gary Bell,
Managing Director, BPO, Civica



4. Drive digital: To create efficiencies and new revenue streams

Pursuing a digital strategy has helped many local authorities, not only to respond to the digital agenda, but also to achieve significant cost savings by shifting services online.

Digital transformation should however be part of a much wider strategy to cut costs and to drive commercialisation. A future-proofed local authority can leverage their digital platforms and business intelligence to obtain further efficiencies (providing services their customers want) and also to access new revenue streams.

Through the effective digitisation of their services, NI Direct has achieved impressive results through its programme to deliver 16 transformed services and 3.5 million new transactions by April 2016.

Significant cost savings were immediately realised through improved operational efficiencies. **The General Register Office of Northern Ireland's new digital ancestry service connects to a global audience with 15,000 orders per month and 100 orders per hour from searches to over 9 million records.** This created substantial new revenue streams that stretched beyond the small geographic boundaries of Northern Ireland.



Through effective digitisation NI Direct gained 3.5 million new transactions

3.5 million

Local authority CEOs and CFOs cited the following digital strategies as being essential to running a successful commercial operation:



1. Outsourcing aspects of the business to external IT experts



2. Moving systems to the cloud



3. Big data, data analytics & business intelligence



4. Automated communications & workflows



5. Channel shift to digital by default & driving greater self-service by the public



Six steps to building a sustainable commercial model

For the majority, revenue generating activities outside of the normal bounds, such as council tax, parking tickets, leisure facilities are a completely new concept.

It is not something the traditional model of council service delivery or culture typically supports. As such, a substantially new approach is needed and one size won't fit all. Authorities must get to know their market, make the most of their existing commercial contacts and develop a strategy which fits their circumstances locally.

With any commercial program, we recommend the following sustainable approach is considered, to ensure expectations are met and that the best result for the authority and community is delivered.

“Local authorities are trying to find their place in a very different world to what they’re used to. But it’s not as simple as saying ‘that works for the private sector so it will work for us’. They must ensure their communities remain at the heart of everything they do, while balancing their needs against sensible commercial value propositions.”

Rob Whiteman,
CEO, CIPFA

Six steps to building a sustainable commercial model

1. Get to know your market

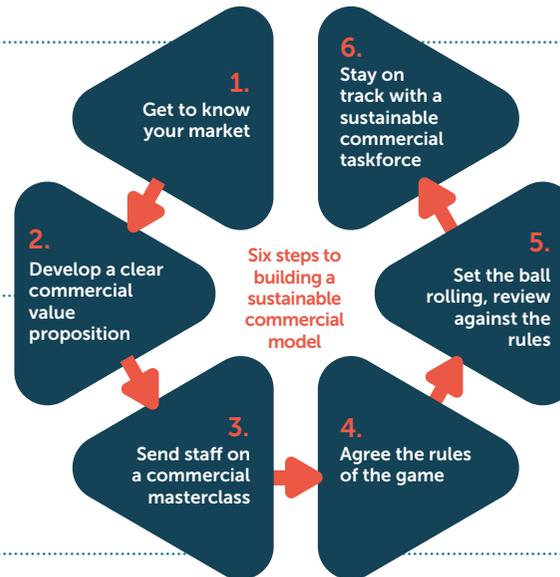
- ▶ Understand your citizens, their behaviour, interactions and channels of choice
- ▶ Gain insight into local community dynamics through data segmentation and analysis
- ▶ Review relevant projected demographics for the next decade
- ▶ Collaborate with other data holders to get both the bigger picture and granularity

2. Develop a clear commercial value proposition

- ▶ Consider what makes your proposition unique
- ▶ Review the proposed offering against obvious and potential competitors
- ▶ Ensure your offering is saleable, defensible, and has a competitive cost base
- ▶ Build everything around a full financial picture, ensuring you balance the projected income of a service against the cost to deliver it
- ▶ Don't forget to consider how it may be affected by State Aid rules

3. Send staff on a commercial masterclass

- ▶ Put your designated team on a business management training course to ensure they're able to understand, implement and manage: businesses cases, financial management, sales and marketing
- ▶ The Solace Group and CIPFA run a range of learning and development courses in this area



6. Stay on track with a sustainable commercial taskforce

- ▶ Remind yourself why you're doing this - to drive revenue back into the authority and help minimise the funding gap
- ▶ Engage appropriately skilled and experienced commercial staff
- ▶ Evolve new commercial models in line with successes and lessons learnt
- ▶ Continuously collaborate and knowledge-share across commercial operations
- ▶ Regularly review progress against the council's transformational road map

5. Set the ball rolling, review against the rules

- ▶ Regularly monitor progress against pre-agreed targets and business case
- ▶ Make sure the proper process is being followed
- ▶ Ensure the management team are accountable for their progress
- ▶ Learn when to intervene - if any of the rules are being broken or things go wrong

4. Agree the rules of the game

- Whichever revenue generating path you choose, ensure that you agree:
- ▶ Outcomes - clear measures of commercial success - what does good look like?
 - ▶ Process - what operating framework will be most appropriate?
 - ▶ Management of risk - who is accountable and how much commercial freedom should they have?

Conclusion

Local authorities have intensified their efforts to commercialise and innovate as a result of the ongoing austerity climate.

As part of this, there is a stronger culture of knowledge sharing and collaboration throughout local government. The decision in 2010 to abolish performance league tables for councils has heralded an era of collective working and regional development groups. Joint initiatives and sharing of best practice has increasingly become the norm.

All this means that the very fabric of local government is transforming rapidly. Authorities have made huge progress in cutting costs and generating new income streams. Yet, our Leadership Forum members were in agreement that there is still much more to do and many opportunities to pick up pace. It's never too late to start.

Nick Rowe, Strategic Finance Partner at Ealing Council is optimistic about the future: "If you look at when austerity started, we have delivered on almost every target. In some ways, we have created a rod for our own back, by continually delivering." Rowe believes that local authority workforces are building a greater understanding of the direction of local government and the need for it to commercialise: **"Most people are acutely aware of what is going on in the bigger picture. You can't just have a change programme being delivered by a chief executive. You need to have buy-in from all the staff and to make sure that everyone in the organisation goes along with the journey."**

Our leaders commented that the landscape will continue to see significant change, with further consolidation amongst councils, the adoption of shared services models and partnerships with the private sector. The devolution agenda will certainly encourage the search for greater efficiencies and commercialisation strategies, because consolidated local authorities will have a wider geographical footprint and a combined strategic direction.

Peter Gillett, the former Chief Finance Officer at Bristol City Council and now Director of Cothan Solutions, expects further shifts in the financial climate, with the Government phasing out revenue support grants for councils, but allowing them the full retention of business rates. **"I think councils have little option other than to embrace commercialisation. They simply can't continue to rely on existing funding streams to provide front line services."**

The evidence from our Leadership Forum indicates that most local authorities have travelled some way down the road of commercialisation, but that they are far from completing the journey.

"Local authorities are juggling a wide range of transformational activities. While adding commercialisation to the mix may seem daunting, with no sign of financial and service demand pressures abating – it's essential. As always, those who make the journey with the most passion, commitment to success and flexibility will be the ones who see the best results. And ultimately will be the ones who most improve the lives of the communities in which they operate."

Wayne Story,
Group CEO, Civica

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