

TRANSFORMATION FUND BID TO FINANCE THE COMMERCIAL TEAM

To: General Purposes Committee

Meeting Date: 22nd October 2019

From: Director Business Improvement and Development

Electoral division(s): All

Forward Plan ref: Not applicable **Key decision:** No

Purpose: To consider a Transformation Fund bid to finance the work of the Commercial Team until March 2021.

Recommendation: The Committee is asked to approve the Transformation Bid proposal of £390,000 to fund the Commercial Team up to March 2021 as set out in Appendix A.

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1. BACKGROUND

- 1.1 In June 2018, Members agreed to create the new Business Improvement and Development Directorate. One of the responsibilities of the new Director was to lead commercial work for the organisation and to establish commercial capacity – both through a discrete resource to deliver commercial work and through the development of greater commercial acumen throughout the organisation.
- 1.2 In April 2019, the Commercial and Investment Committee (C&I) approved a new Commercial Strategy for the period 2019 – 2021. The strategy sets a clear focus on commercial objectives and describes three key work streams: Investments and Acquisitions, Contributions and Funding and Contracts and Procurement.
- 1.3 As part of the Council's 2019/20 business planning cycle, commercial targets have been set and, in January 2019, General Purposes Committee (GPC) agreed an outline investment from the Transformation Fund of up to £1m in order to build the strength and depth across our commercial activity to deliver these returns.
- 1.4 This paper proposes a drawdown of £390K against this agreed funding to establish dedicated commercial resource to fully deliver income targets in 2019/20 and 2020/21. From April 2021, the team will become self-funding from commercial returns.
- 1.5 This proposal will be considered by the Commercial and Investment (C&I) Committee on 18th October and is subject to the support of that committee.

2. DEVELOPMENT OF COMMERCIAL RESOURCE

- 2.1 Over the last year, the Council has significantly expanded the scope of its commercial work reflecting the ambitions of the Council:
 - Net income of up to £5m will be returned to the Council's budget in 2019/20 from property acquisitions and investment.
 - A revenue return in excess of £5.3m will be delivered in 2019/20 from This Land.
 - The Council has invested in the CCLA Local Authorities Property Fund which is expected to make a net return of £335k in 2019/20.
 - Successful marketing of the Shire Hall – resulting in bids from more than 30 organisations – has enabled the Council to appoint a preferred bidder and move forward on plans for a new civic headquarters in Alconbury Weald.
 - A commercial e-learning product has been developed for this Council's use and also for commercial return, with sales to other Councils and Public Sector organisations expected to return up to £200k between 2019 and 2021.
 - Over 60 of our high value contracts have been reviewed and the Council's contract register is scrutinised monthly - releasing savings, improving contract management and delivering better outcomes.
 - Annual gross return from our Farms Estate has increased to just under £5m.
 - The Council has approved the creation of a commercial joint venture company with University of Cambridge to further develop digital infrastructure across the county.

- 2.2 To date, this work has largely been managed between the Transformation, Property and Finance Teams, who have been working hard to deliver on the Commercial Strategy across all three work streams, with the Investments & Acquisitions work in particular advancing and delivering on target.
- 2.3 In addition, the Council has very successfully grown the work of its Energy Investment Unit (EIU), which secured investment through the Transformation Fund in May 2019. The work of the EIU is expected to generate a net return to the Council over the next 25-30 years of over £100m and reduce carbon by 17,800 tonnes per annum.

3. MAIN ISSUES

- 3.1 The Council's approach has been successful to date, and many of the commercial Key Performance Indicators (KPIs) and income targets are on track for 2019/20. However, without dedicated resource to deliver commercial work, the Council is becoming limited in its ability to work on further schemes and there are still areas of the strategy which are a delivery risk due to lack of capacity – both in terms of time and skills:
 - 3.1.1 The contracts work stream of the strategy has significant potential. The Council spends in excess of £440m on third party contracts annually and early work on our contracts register suggest that a specialist and concerted effort in this area could reduce spend by up to 0.5% in the short term and by up to 4% over a three year period.
 - 3.1.2 The Council has committed to reviewing the procurement and commissioning cycle, with emphasis on strong category management, market intervention, refocused social value measures, dynamic procurement and the growth of localised micro enterprises. The Council will also need to be prepared to respond to the impact of changes in our environment (Brexit, Climate issues, place based services) on our markets and procurement regulation.
 - 3.1.3 The acquisitions and investments work stream of the strategy has been very successful this year, with internal governance mechanisms, due diligence processes and decision making proving sufficient to build an investment portfolio which generates a net annual return of over £5m from six properties. However, the C&I Committee has acknowledged that we are reaching the limits of our internal capacity to manage, maintain and proactively adapt our investment portfolio to generate the greatest returns and protect our investments. In recent months, the Council has been working with a firm of external investment advisors to consider further development of our investment portfolio and to make recommendations about appropriate governance structures to manage investment risk. While these advisors and our existing internal teams, can - and do - provide a degree of oversight across investments, to operate more effectively across a variety of asset classes we also need an experienced, internal 'client' function.
 - 3.1.4 The Council's asset portfolio - both property and non-property - is a major resource and is integral to the delivery of many Council services. It is essential that all assets are contributing to the Council's priority outcomes and the ongoing economic and

social development of the County. Further work on a comprehensive asset strategy is required, including a review of the Council's full asset register.

3.1.5 The Contributions and Funding work stream encompasses a number of strands within the Commercial Strategy and there are a number of key activities which are not on track for delivery this year, due to lack of capacity:

- development of an income stream from advertising and sponsorship - which we know has delivered good commercial returns in similar Councils;
- development of stronger relationships with our business community, where we have already seen an appetite for investment for social good;
- a complete review of fees and charges, including a consistent model and expectations for income generating services.

3.1.6 In the most recent commercial delivery plan, elements of both the Contracts work stream and the Contributions and Funding work stream were flagged as a concern due to lack of capacity to deliver. The return from these two work streams is £450,000 in the current Business Plan and - whilst there are plans to deliver against this target - without appropriate resource, the risk rating has been adjusted to red and amber respectively.

4. PROPOSAL

4.1 Currently corporate teams have been providing most of the resource to push forward with these pieces of work. However, capacity is limited as teams have core corporate functions to deliver and there are also skills gaps as these officers have not been recruited against commercial requirements. To fully deliver on current commercial targets, to ensure that we optimise future commercial potential and to continue strong risk management practice within a growing commercial portfolio, it is now necessary to establish a dedicated and appropriately skilled commercial function.

4.2 The establishment of a commercial function within the Business Improvement and Development Directorate was agreed in principle when the new Directorate was established. Now that the Commercial Strategy has been agreed, work streams are underway and the Council has received external advice on investment and acquisitions, the size and shape of this function can be determined. The new commercial function will replace the current ad hoc division of commercial work between the Transformation Team, Finance and Property, providing a clear point of responsibility and accountability for all commercial activity.

4.3 In line with the Council's commercial principles, this team will be as lean as possible and will have flexibility to expand or contract according to return on investment and performance measures. It is proposed that the minimum requirement to establish this new function will be one Head of Service post supported by dedicated resource seconded from the Transformation Team (one FTE Transformation Manager and one FTE Senior Transformation Adviser). Capacity and skills will be kept under review with a view to appointing a permanent, self-funding team by April 2021.

4.4 The Commercial Team will lead across all three work streams in the Commercial

Strategy and will be accountable for delivery of both existing and stretch targets.

- 4.5 The Commercial Team will identify investment and commercial opportunities, carry out due diligence and commercial analysis before presenting these opportunities to Finance for additional review and discussion of financing options. Investment opportunities will then proceed to Investment Working group and then on to Committee.
- 4.6 The Head of Commercial will provide strategic oversight of all property investment opportunities in order to build a balanced portfolio and will also seek to build relationships with tenants in order to protect the Council from market fluctuations and maintain consistent revenue income from our investments. The Property Team's chartered surveyors will continue to manage the surveyors' input to property acquisitions and the Property Team will continue their pro-active role in maintaining and managing our investment assets, ensuring they maintain their value and mitigating operational risks.
- 4.7 The Head of Commercial post will report directly to the Director of Business Improvement and Development, form a key part of the Directorate Management Team and frequently engage with members through Commercial Board, Investment Group and Committee. The new role will cover a wide strategic remit in order to deliver and surpass the targets outlined in the commercial strategy. Beyond the life of our current strategy the role will be integral in planning the future commercial direction of the authority and building medium and long terms plans to embed and drive forward our ambitious commercial programme.
- 4.8 In order to find the right set of skills for the Head of Commercial post, a thorough search of various sectors will be required including the private sector. To test the market a preliminary recruitment search has been commissioned, which has received a very positive response. Once funding has been recommended by C&I Committee and approved by General Purposes Committee, interviews and assessment of candidates can take place.
- 4.9 The appointed Head of Commercial will require operational support to deliver on the Commercial Strategy and to become self-funding by April 2021. As such, it is recommended that resources be seconded from the Transformation Team to fulfil this need. Transformers are already working to deliver on the Commercial Strategy but this will formalise and fund dedicated commercial resource rather than continuing to divert from the core functions of the Transformation Team. Secondment will also ensure that specific commercial development and training needs can be better targeted to individual Transformation Team members.
- 4.10 The exact priorities and focus of the Head of Commercial are difficult to determine at this stage as the person appointed to fulfil this post will likely have a specific skill set, which, while allowing them to fulfil all aspects of the role, may result in different areas being prioritised. As such the two seconded post will be kept broad and flexible in order to allow delivery of the strategy and to promote the key areas of focus identified by the Head of Commercial.

5. FUNDING

- 5.1 It is recommended that funding for the Commercial Team is drawn down from the Transformation Fund for the period November 2019 to March 2021. The total for this period would be up to £390,000 to cover:
- recruitment and employment of a Head of Service
 - secondment of one FTE Transformation manager and 1 FTE Senior Transformation Adviser; and
 - targeted commercial training, as required.
- 5.2 This funding bid meets the criteria of the Transformation Fund under both the **Invest to Save** criteria (proposals that require an initial investment to achieve cash savings in future years, in line with Council and Service priorities as determined during the Business Planning Process (BPP)) and the **Invest to Advance** criteria (proposals that will deliver a quantifiable future income stream that could be achieved earlier with “bridging finance”, in line with Council and Service priorities as determined during the BPP).
- 5.3 Other options for funding have been considered including funding from capital receipts, funding from commercial income and reducing resource in the Transformation Team. A SWOT analysis of these options is included as **Appendix 2**.
- 5.4 Benchmarks on the current commercial income and savings the authority has generated to date, through commercial activity will be put in place, and any added value the team can generate above the benchmark will be attributed to the new commercial team. Should this added value be achieved through work with services, additional income or reduced spend will be allocated to the Commercial Team before being redeployed into further council initiatives.

6. ALIGNMENT WITH CORPORATE PRIORITIES

- 6.1 The Head of Service and seconded roles will undertake activities to deliver against the objectives within the Strategy until April 2021. This includes creating commercial returns to support the delivery of crucial frontline services which drive positive impact on all three Corporate Priorities.
- A good quality of life for everyone
 - Thriving places for people to live
 - The best start for Cambridgeshire’s children

7. SIGNIFICANT IMPLICATIONS

7.1 Resource Implications

- If the Transformation Fund bid is approved, this will result in a drawdown of up to £390,000 with the aim of the team becoming self-funding by April 2021.
- The Commercial Team will be accountable for the achievement of existing commercial targets and will specifically address the £450,000 of commercial income which is not yet on track in the current business plan (against reduced

spend in contracts and achievement of external income and sponsorship).

- Beyond this, the Commercial Team will be expected to identify opportunities to achieve additional commercial returns in 2020/21 and beyond. This figure will be developed in consultation with the new Head of Service and will be subject to revision as the level of resources made available for commercial activity changes.

7.2 Procurement/Contractual/Council Contract Procedure Rules Implications

- One of the priority areas of the Commercial Strategy focuses on developing an innovative approach to procurement and contracting. Work is ongoing in this area, involving the Procurement Team with oversight from the Commercial Board in order to identify opportunities and threats on our contract register and act on them to deliver savings and upskill staff across the organisation.
- All of the relevant procurement processes have been carried out by Human Resources to appoint Penna to run a recruitment search.

7.3 Statutory, Legal and Risk Implications

- Our ability to deliver on the Commercial Strategy will depend on a number of factors including the extent to which the authority uses its legal powers and delegations and the political appetite to accept new risk. Full business cases, which consider legal implications and clearly articulate risk and reward, will be developed for all commercial proposals.

7.4 Equality and Diversity Implications

- The business case template for commercial work includes equality and diversity implications for all initiatives. Further to this, as the proposal includes the recruitment of a Head of Commercial post, proper recruitment processes will be followed to ensure equality and diversity.

7.5 Engagement and Communications Implications

- The appointment of a Head of Commercial will be widely communicated. Alongside this, the Commercial Strategy, will be communicated through different channels and to different audiences in a variety of formats in order to encourage a commercial outlook and invite business cases to be submitted to the Commercial Team.

7.6 Localism and Local Member Involvement

- Social value is a key element of the Commercial Strategy and all commercial business cases will consider value (both social and financial) to our local area. Members of the C&I Committee will be involved in reviewing (and often in developing) Business Cases for commercial proposals. Where there is a direct impact in a locality, Local Members will be notified according to the Council's constitution.

7.7 Public Health Implications

- The Strategy is focused on creating sustainable funding for the delivery of crucial frontline services, many of which have a positive impact on Public Health priorities.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Tom Kelly
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Yes Gus De Silva
Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law?	Pending Fiona McMillan
Have the equality and diversity implications been cleared by your Service Contact?	Yes Rachel Green
Have any engagement and communication implications been cleared by Communications?	Pending Christine Burchill
Have any localism and Local Member involvement issues been cleared by your Service Contact?	Yes Amanda Askham
Have any Public Health implications been cleared by Public Health	Yes Tess Campbell

Source Documents	Location
Commercial Strategy	<u>Commercial Strategy 2019-2021</u>
Commercial Strategy Action Plan update June 2019	<u>Commercial Strategy Action Plan June 2019</u>

TRANSFORMATION FUND BID – COMMERCIAL TEAM***Investment Proposal Supporting Information / Transformation Fund Bid***

Bid Title	Commercial Team
Service Area / Directorate	Business Improvement & Development
Sponsoring Director	Amanda Askham, Director, Business Improvement & Development

Brief Description of Bid	<p>This Bid is to draw down funds from the previously agreed transformation funding to support commercial activity. The funding will be used to:</p> <ul style="list-style-type: none"> • recruit and employ a Head of Service • fund secondment of one FTE Transformation manager and 1 FTE Senior Transformation Adviser; and • procure targeted commercial training, as required. <p>It is proposed that these roles become self-funding through the commercial activity undertaken during the first 15 months in post. The post will report to the Director of Business Improvement and Development and will be accountable for the delivery of the Commercial Strategy including Investments and Acquisitions, Contributions and Funding and Contracts and Procurement.</p>
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Type of Bid	Invest to Advance and Invest to Save
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Strategic Links	Finance, Property, LGSS Law, Joint Management Team, Transformation, Business Intelligence, This Land
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Cash Flow	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000
Revenue Advance	133	257	0	0	0	0
Capital Advance	0	0	0	0	0	0
Savings/Income	0	-450	-950	-1450	-2200	-2950

Pay Back Period in Years	1.5
Savings/Investment Ratio over 10 Years	£2,950,000 / £390,000 7.5/1

Measure of Performance Improvement	Baseline	19/20	20/21	21/22	22/23	23/24
Commercial Income	-£4.7million	-£4.7million	-£5.2million	-£5.7million	-£6.4million	-£7.1million

Risks and Contingencies	<p>The income generated through this proposal is predicated on the availability of funding to use for investment proposals and other commercial ideas. Therefore there is likely to be some variation in this figure. It is anticipated the returns will equate to approx. 5% of the amount invested for the investment stream of income.</p> <p>There is a continued risk that further advice from Central Government will increase the scrutiny and difficulty in obtaining funding for investment activities.</p> <p>Returns from the Contracts work stream will be dependent on the willingness of services to engage and work with the Commercial Team and in the capacity, skills and ambition in our Procurement and Commissioning teams in particular.</p> <p>Returns from the Contributions and Funding work stream will be dependent on the willingness of services to engage and work with the Commercial Team and in the capacity, skills and ambition in our 'traded services' and income generating teams in particular.</p>
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Decision and Date	
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APPENDIX 2

FUNDING OPTION SWOT ANALYSIS

Funding Option	Strengths	Weakness	Opportunity	Threat
Transformation Fund	<p>Uses fund appropriately to change service model and accelerate delivery of savings/income.</p> <p>Funding would be committed until March '21 giving time for the team to develop some bigger commercial opportunities.</p> <p>Transformation Fund funding for commercial activity already agreed in principle</p> <p>The monitoring requirements attached to transformation funding will provide an extra layer of scrutiny and visibility on the performance of this team.</p>	<p>Reduces funding available for other transformation initiatives.</p> <p>Commercial Team needs to become self-funding - reduces this requirement initially.</p> <p>Return on investment measures may be confused by/overlap with returns from existing commercial schemes.</p>	<p>Frees up all commercial income generated by the team to be invested in frontline service delivery.</p> <p>May encourage further commercial bids to the Transformation Fund.</p>	<p>Could undermine credibility of function with other services (if not self-funding from day one).</p> <p>May limit the flexibility of the team – i.e. to consider long term returns.</p>
Revenue Pressure/ funded by in year commercial returns	<p>No initial outlay by the authority to fund the Team</p>	<p>Risk of adding £133k pressure to the Council's budget with only 4 months of the year to recover.</p> <p>Requires some mechanism to recoup income from services the team works with such as traded services, or services</p>	<p>Immediate focus for the team on securing additional income to ensure team is sustainable – urgency may lead to increased ambition and determination.</p>	<p>Could lead to unnecessary internal charging mechanisms.</p> <p>Immediate focus for the team on securing additional income to</p>

		that generate income through fees and charges.		ensure team is sustainable – urgency may lead to narrow focus and increased risk.
Capital Receipts	<p>Does not add direct pressure to revenue budget.</p> <p>Well understood process of monitoring and allocating capital receipts to transformational activity.</p> <p>Capital receipt funding could be used to fund the team on an ongoing basis, freeing up all commercial return for front line services.</p> <p>Capital receipts could be used to fund the team until March '21, giving time for the team to develop some bigger commercial opportunities</p>	<p>Reduces available capital receipts for other schemes.</p> <p>Legislation on use of capital receipts may be change in future years.</p> <p>There are currently no Capital Receipts available to Fund the Team.</p> <p>Given the limited number of available Capital Receipts we would need to carefully manage them in order to ensure sufficient funding was available for the Commercial Team.</p>	<p>With the new recommendations on borrowing being brought before Committee there is an opportunity to secure some new Capital Receipts to Fund the Team.</p> <p>May allow the Commercial Team more freedom to act strategically and pursue commercial targets that will provide the greatest net gain for the authority in the long term.</p>	<p>Lost opportunity downside with less capital receipts available for other investment opportunities .</p>