

Merton Council

Overview and Scrutiny Commission

15 November 2017

Supplementary agenda

This late report has been agreed by the Chair so that the Commission can receive a reference from the Financial Monitoring Scrutiny Task Group's meeting held on 14 November 2017

4 Business Plan Update 2018-22

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Committee: Overview and Scrutiny Commission

Date: 15 November 2017

Wards: All

Subject: Reference from the Financial Monitoring Scrutiny Task Group – Business Plan Update 2018-22

Lead officer: Julia Regan, Head of Democracy Services

Lead member: Councillor Peter Southgate, Chair of the Overview and Scrutiny Commission

Contact officer: Julia Regan; Julia.regan@merton.gov.uk; 020 8545 3864

Recommendations:

- A. That the Commission, in its scrutiny of the Business Plan 2018-22, takes into account the comments made by the Financial Monitoring Scrutiny Task Group at its meeting on 14 November, set out in section 2 below.
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To formally set out the reference from the Financial Monitoring Scrutiny Task Group in relation to its consideration of the financial monitoring report and a report on the council's approach to commercialisation. The reference is intended to assist the Commission in its scrutiny of the Business Plan Update 2018-22.

2 DETAILS

- 2.1. The Financial Monitoring Task Group, at its meeting on 14 November, scrutinised the financial monitoring report for the six month period ending 31 March. The Task Group RESOLVED to make a reference to the Commission asking it to note the following points arising from the monitoring report and to take these into account when scrutinising the Business Plan Update 2018-22:
1. The proposed use of £2.9million from the earmarked reserves to balance the budget;
 2. That there is just £0.5million head room left on the General Fund; before it reaches the minimum prudent level set for 2017/18
 3. That the predicted shortfall of savings to be carried forward from previous years will be £860,000 for 2018/19;
 4. That some of the problems experienced in achieving savings are longstanding and persistent, including demographic pressures in Adult Social Care and the unfunded costs of supporting in relation to unaccompanied asylum seeking children and those with no recourse to public funds; and intensifying price competition where council services compete with the private sector eg. building control
 5. The vacancy rate and use of agency staff and number of unfilled vacancies, after allowing for brought forward savings

- 2.2. The Task Group also received a report setting out the council's approach to commercialisation, which members welcomed. The Task Group RESOLVED to ask the Commission to be mindful of income opportunities arising from a more commercial approach by officers, including through examination of the refreshed Target Operating Models in 2018/19.

3 ALTERNATIVE OPTIONS

- 3.1. The Commission is requested to take the Task Group's comments into account and decide whether to include these in a reference to Cabinet.

4 CONSULTATION UNDERTAKEN OR PROPOSED.

- 4.1. The Constitution outlines the requirements for consulting scrutiny on the budget.

5 TIMETABLE

Reference from the Task Group to be discussed by the Commission at its meeting on 15 November.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. None for the purposes of this report.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The process for developing the budget and business plan is set out in Part 4C of the Council's Constitution. The role of the Overview and Scrutiny Commission and panels with regard to the development of the budget and business plan is set out in Part 4E of the Constitution.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. It is a fundamental aim of the scrutiny process to ensure that there is full and equal access to the democratic process through public involvement and engagement.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. None..

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. None for the purposes of this report.

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

- None

12 BACKGROUND PAPERS

- 12.1. None

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APPENDIX 1

Committee: Financial Monitoring Task Group

Date: 14th November 2017

Wards: all

Subject: Commercialisation

Lead officer: Chris Lee, Director of Environment and Regeneration/ Caroline Holland, Director of Corporate Services

Lead member: Cllr Mark Allison, Deputy Leader and Cabinet Member for Finance

Contact officer: Chris Lee / Caroline Holland

Recommendations:

A. That Members discuss the report and make comments as they wish.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. To provide Members with an update on the Councils approach to commercialisation. The Task Group wishes to assist the Council in closing the forecast overspend in the revenue budget by encouraging consideration of commercial and investment opportunities to raise additional funds. This report brings to Members attention some of the commercialisation work already underway and some planned for the future.

2 DETAILS

2.1. There are a number of areas where the council acts commercially. These include:

2.2. **CHAS** – The Council is the sole shareholder of a wholly owned Local Authority Company. CHAS 2013 Ltd [Contractors Health and Safety] is a very successful national company providing supply chain risk management, third party accreditation and health and safety assessment. CHAS provides services to over 1000 clients across the public and private sectors, with over 30,000 subscribing contractors. CHAS competes with national and international companies in a highly competitive growing market. its last published accounts show a turnover of £4.58m and Earnings before tax and dividend of £0.5m. The council benefits from an annual licence fee and a dividend

2.3. CHAS focuses on organic growth and in line with its commercial approach considers strategic acquisitions and in order to broaden its offer to its clients.

2.4. **Property** – The Council has a substantial property portfolio of investment [non operational] property. The estate contains two main industrial estates (Weir Road in Wimbledon and Willow Lane in Mitcham) and two main shopping parades (St. Helier Avenue and Green Lane in Morden). There are 394 commercial properties in total that include 100 industrial leases, 113 retail leases and the remainder miscellaneous other uses such as electricity sub stations and agricultural land which is in Leatherhead. This currently

generates well in excess of £4m revenue per annum. The Financial Monitoring Task Group has previously explored rental income and rent reviews [25 July 2017] .

- 2.5. Whilst the council benefits from low void and rent arrears levels we are currently preparing to commission work to review the investment portfolio and to identify whether there should be any changes in the balance of investments. This could lead to a strategy of disposal and acquisition to ensure we are maximising our capital assets. A number of Councils have recently embarked on land and property acquisition strategies in order to generate a revenue stream. This has been completed through prudential borrowing or use of capital reserves and has in some instances involved purchasing land and property beyond the borough boundaries for those councils investing. The council takes a prudent approach to capital investments but will continue to look at whether there are investment opportunities which warrant the use of prudential borrowing.
- 2.6. The council already owns property outside the borough – in South Wales on the Gower as well as in Leatherhead, Surrey. In Leatherhead we are taking a particularly commercial approach to ensure we gain the maximum commercial return as the currently Greenfield land is considered through the local planning process as potentially developable residential land supply.
- 2.7. **Local Housing Company** – This is a significant commercial venture given that its purpose is to generate a financial return to the council. Many councils are setting up Local Housing companies, some with a purpose to maximise the delivery of affordable housing but some, like Merton, to focus on generating a financial return whilst being policy compliant in terms of affordable housing. Merantun developments will soon embark on the delivery of approx. 77 dwellings at the first 4 sites and has ambitious plans to generate a growing dividend return to the council. Opportunities for its work will arise from the planned regeneration in Morden town centre [where the council is the main freehold landowner] as well as speculative development through the purchasing of sites available on the open market. In these cases the company will need to prepare a business case to show how the land could be brought forward for development and deliver a commercial return before the council will enter into a facility [loan] agreement. Only where a return can be shown will the loan agreement be finalised. The details and outline business plan of the company have been set out for Cabinet and area available at <https://mertonintranet.moderngov.co.uk/documents/s16839/Covering%20report.pdf>
- 2.8. **Greenspace events** - The council has ambitious plans to generate a greater financial return from the utilisation of our parks and open spaces. The current model adopted is to seek private sector risk taking in the design, marketing and delivery of large events as seen in the successful Eastern Electrics event held in August this year. This generated c55 k income for the council from a 1 day event and we are looking to see how this could be grown as a model whilst keeping it at a scale such that it does not interfere with the quiet enjoyment of our parks and open spaces or the right of residents nearby to have a peaceful life. We continue to host a large number of smaller events in house and have benefitted from a full time marketing

manager to assist with the digital marketing of these. The annual fireworks event is a good example of how we have developed a more commercial approach with on line ticketing and improved digital marketing to maximise revenue.

- 2.9. Annually we arrange and deliver c120 events, however most of the income is generated from a small handful of these. The 2 fireworks events generate c180k per annum. Income from the All England Tennis Championships amounts to c 80k but only a proportion of this is 'commercial' an area we have expanded in the recent past to capitalise on the commercial opportunities in the park in the vicinity of the queue.
- 2.10. Greenspaces rental income – Income from rental of buildings and space within our parks and recreation grounds generated c350k in 2016/17.
- 2.11. **Commercial aspects to frontline services.** As a council we deliver a vast range of statutory and non-statutory services. Many of these offer the potential for commercial services to be provided to supplement and complement the main services and these are growing. Through the cross council TOM [Target Operating Model] process the council has encouraged the exploration of commercial opportunities. Some examples of these include:
 - 2.12. **Shared Regulatory Services Partnership** – development of additional paid for services such as pre application advice and support in areas of licensing, food standards / preparation, and trading standards. These paid for services are already being delivered but will grow further as we take on Wandsworth Councils regulatory services and the economies of scale allow for the appointment of a commercial manager. The council is also looking at how it could maximise the relationship with CHAS in the cross selling of these services given that we will have the largest regulatory service provider in London.
 - 2.13. **Planning** – the delivery of pre application advice and provision of planning performance agreements.
 - 2.14. **Printing** – Since the occupation of the 13th Floor at the Civic Centre by Central London Community Healthcare (CLCH), they have approached the Print and Post Room to deliver some of their posters, campaign information and utilise our post arrangements. This is bringing in a small level of additional income.
 - 2.15. **Parking** – Off street car parking in town centres is often used by shoppers, theatre goers or those who visit our restaurants and bars . There is a growing opportunity to tie up with such operators and offer a joined up experience [event plus parking] at a premium to the council. Particularly with the digitisation of parking payments [Ringo etc.] this become more possible and we are looking closely at how we can maximise this.
 - 2.16. **Advertising** – This is an area where we currently generate money from street based advertising stands [free standing and at bus shelters] as well as sponsorship at roundabouts. Subject to planning permission the council could seek to generate more money from digital and fixed advertising on buildings it owns and on the highway.

2.17. **Building Control** – The Council operates a Building Control function in competition with the private sector [Approved Inspectors] The Council service cannot make a surplus over a 3 year accounting period [it should break even] This is an area where the Council in common with others across London has lost and continues to lose market share despite seeking to maximise the opportunities inherent in being part of the council and operating alongside Development Control. We have taken time to act more commercially and cross sell the B.C. service when planning decisions are taken however more users [developers and householders] choose to employ A.I.s. The charges for an A.I. service are usually lower than for a Building control service operated by the council. However this often reflects the lower number of visits to the property and the detailed work undertaken by the council service. It is unclear at present whether a competitive Building control service can be sustainable.

2.18. **Capacity and approach** – Historically commercialisation has not been a natural skillset of Local Government staff and we are having to respond to the challenges we face and adopt more commercial approaches. This has required us to develop existing staff as well as supplement the workforce in areas to build commercial acumen. The Council transformation programme has funded a commercial manager and marketing manager post for 2 years to build capacity and this has had a positive impact. Our Target Operating Model approach focuses attention on commercialisation and will, when run again for the 3rd iteration in December this year, require business managers to explore commercial opportunities.

3 ALTERNATIVE OPTIONS

3.1. The Council could avoid commercialisation and in doing so be risk averse but also fail to take advantage of the financial benefits.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. None specific for this report

5 TIMETABLE

5.1. There are no specific timetable matters relevant for this report save for the next TOM process which commences in December 2017.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. This report deals solely with the financial benefits and risks of commercialisation. Appendix 1 provides a summary of income including some commercial income in E&R

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. With the ever increasing constraints on Local Authority funding there is ever increasing pressure to identify income streams and/or opportunities for savings. This report identifies examples of where the Council is using the assets it owns or services it provides to enable income generation.

7.2 There are long established powers for councils to trade:

- The Local Authorities (Goods and Services) Act 1970 enable councils to enter into agreements with each other and other public bodies, for the provision of goods, materials and administrative, professional and technical services, and for the carrying out of maintenance.
- The Local Government Act 2003 enables a council to charge for services, to both provide extra service at cost and to trade with the private sector. Under this Act, the Government authorises trading via a trading order. The Trading Order currently in force was made in 2009, which permits all councils in England to trade or “to do for a commercial purpose”, anything which they are authorised to do for the purposes of carrying out their ordinary functions, which included use of the granted general power of competence.
- Under the Local Government Act 2003 and Trading Order, as augmented by the Localism Act 2011, for a council to exercise the power to do things for a commercial purpose (which the Council could not do otherwise), this has to be done through a company. This has enabled the setting up of companies by the Council as described in the main body of the report.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. There are no specific Human rights, equalities or community cohesion issues arising from this report.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. There are no specific crime and disorder implications arising from this report.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. There are no specific health and safety or risk management issues arising from this report.

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

- Appendix 1 – income including commercial income summary E &R

12 BACKGROUND PAPERS

- 12.1.

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