

**Meeting of the Urban Environment Scrutiny Committee - 29<sup>th</sup> January 2015**

**Report of the Chief Officer - Environmental Services**

**Environmental Management Commercial Services**

**Purpose of Report**

1. To detail the work that has been undertaken so far in relation to the strategic development of commercial services within the Environmental Management Division.

**Background**

2. A key priority for Dudley MBC is to “make Dudley Council amongst the best local authorities in Britain”. In order to achieve this goal we will have to drive efficiencies, introduce innovative ways of working and maximise income generation. Furthermore, it means delivering services that perform well and provide outcomes that complement the strategic objectives of the Council, at a cost that compares favourably with other similar councils.
3. It is clear that the current financial constraints imposed on local authorities will not ease in the foreseeable future and therefore any additional revenue will make a welcome contribution, easing the Council’s financial burden and securing employment. We should not constrain entrepreneurial activity and make sure we realise our full commercial potential.
4. The Environmental Management Division is responsible for a number of services that may have the potential to be expanded and operated on a commercial basis. Although services like trade waste have operated successfully over a number of years, competing with the private sector, there may be scope for a number of other services to either enter the commercial market or build on existing success. We can build from a solid foundation as recent soft market testing has confirmed that the services delivered by Environmental Management are competitive in terms of both quality and cost, when compared with the private sector.
5. The council’s income generation activity needs to meet two over-riding requirements: it needs to be sustainable; particularly if investment is required, there is no sense in coming up with an additional burden on the council’s finance. Secondly, it is essential that income generation is broadly aligned to the council’s corporate plans and objectives; it is important that we add value to the services we provide. We can only become commercial in areas in which we have experience and a legitimate presence. We do not want to develop a business in direct competition with the private sector, where the private sector will always be better and we can add no value.

6. Although this report focuses on the delivery of commercial services, a wide variety of income generation opportunities are potentially available to the council and keeping abreast of these can be challenging amidst the many other demands on officer time. It is worth considering a corporate income generation strategy that will reinforce the value and importance attached to taking up income generation activities. It further offers corporately agreed processes and direction to future work in this area for all officers involved in supporting the delivery of services across the authority.

### **The Five Case Model**

7. The Five Case Model is the approach for developing business cases recommended by HM Treasury, the Welsh Government and the UK Office of Government Commerce. It has been widely used across central government departments and public sector organisations over the last 10 years.
8. Optimising value for money is the primary aim of public sector spending. In practice this means:
  - Establishing a clear need for intervention - a case for change.
  - Setting clear objectives - what we want to achieve from our investments.
  - Considering a wide range of potential solutions - selecting the option which meets the objectives with the optimal balance of benefits, cost and risk.
  - Putting the arrangements in place to successfully deliver the proposal.
9. The Five Case Model provides the framework and tools to enable effective decision making when scoping and planning spending proposals in a robust and thorough manner and can be used at the strategy level, the programme level and individual project level. Its use should always be proportionate to the level at which it is being applied as well as the cost and risk associated with the investment.
10. In October 2014, managers from the Environmental Management Division participated in a workshop, facilitated by the Association of Public Service Excellence (APSE), exploring the meaning of “commercial” and why Dudley MBC might want to go down this route to generate income. It looked at what a commercial organisation might be able to offer to the authority at various levels: marginal contribution to overheads; significant contribution to compensate for any future budget deficit, an alternative funding base for services. In reality it was agreed that a trading company would move through these stages as it grew and became more profitable.

11. The workshop helped identify an adapted five case model that could be applied to commercial services.

- The Strategic Case - strategic fit and clear investment objectives.
- The Financial Case - affordability, financial support and likelihood of generating profit.
- The Commercial Case - attractiveness to the market and value for money.
- The Legal Case - are the powers in place to enable the Local Authority to undertake the business.
- The Operational Case - deliverability and plans for delivery.

The Case	The Question	What the Business Case Must Demonstrate	
<b>Strategic</b>	Is the proposal needed?	Will it further the aims and objectives?	Is there a clear case for change?
<b>Financial</b>	Is it affordable?	Are the costs and generation of a profit realistic?	Is the required funding available and supported?
<b>Commercial</b>	Is it viable?	Is there a market for the service to be offered?	Can we offer a value for money service?
<b>Legal</b>	Are the powers in place?	Has the correct trading vehicle been chosen?	Have the duties, responsibilities and liabilities been considered?
<b>Operational</b>	Is it achievable?	Do we have the management capacity and capability to deliver the project?	Do we have the facilities assets, systems and processes in place?

12. Proposals at the project level are developed in 3 stages through:

- **The Strategic Outline Case (SOC)** - makes the case for change, refines the long list of options into a shortlist and confirms that the legal powers are available.
- **The Outline Business Case (OBC)** - building on the SOC to confirm the solutions which offer best value for money confirm the management capacity and capability.
- **The Full Business Case (FBC)** - building on the OBC, taking the chosen options through putting in place delivery plans, assessing facilities and assets and providing the final detailed costing of the scheme.

13. It is important to be pragmatic about proportionality - the breadth of evidence across the five elements is the key to scoping, planning and justifying any investment, the depth of evidence required should be proportionate to the risk and value of the proposed investment.
14. A brainstorming session was recently undertaken in Environmental Management to determine what type of services could be developed, the opportunities available and the barriers. The results of this session can be found in Appendix A. It is important to note that Environmental Management has existing successful commercial waste and grounds maintenance activities and is currently developing the MOT/testing facility at Narrowboat Way.

## **Conclusion**

15. This scrutiny exercise has confirmed that a legal framework does exist for councils to deliver commercial services. However, in addition to the legal case, it is important that an appropriate strategic, financial, commercial and operational case is developed, on a service-by-service basis, if we are to deliver successful commercial enterprise with minimum risk to the council.
16. It is suggested that to trial this approach, two new commercial activities, commercial recycling and cleansing are tested against the five case criteria and an appropriate business case is developed.
17. It would also seem appropriate that an overarching income generation strategy is developed for the authority that links into future council strategy and complements existing work that has been undertaken.
18. The legal framework and income generation strategy will provide a foundation for new commercial opportunities to be reviewed and where appropriate considered across a range of service areas that also seeks to supplement and support the council's overarching aims and objectives.

## **Finance**

19. The costs associated with the scrutiny arrangement is delivered within existing budgetary allocations. Any potential commercial activity should have a positive long-term impact on the Council's revenue budget.

## **Law**

20. Scrutiny Committees are established in accordance with the provisions of the Local Government Act 1972 and the requirements of the Council's Constitution, which was adopted under the Local Government Act 2000, subsequent legislation.
21. This report is substantially concerning the legal powers to act as well as alluding to the benefits and advantages of taking a course of action. The comments made above are the outcome of substantial research and thought and have been shared and endorsed by the Council's Legal Team.
22. As indicated above this is a relatively new area for the Council and needs to be approached with care and planning. The legal risk areas will need to be regularly checked and reviewed.

## **Equality Impact**

23. Provision exists within the recommended scrutiny arrangements for overview and scrutiny to be undertaken on the Council's policies on equality and diversity. Any new services developed as a consequence of Scrutiny recommendations, will be subject to an equality impact assessment if appropriate.

## **Recommendation**

24. It is recommended that:

Scrutiny Committee notes the contents of the report.



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## Background Papers:

1. Dudley Metropolitan Borough Council Commercial Development Report (APSE)
2. Notes from Dudley Commercial Development Workshop
3. Buckinghamshire Income Generation Strategy

<b>Potential Commercial Opportunities</b>	<ul style="list-style-type: none"> <li>• Increase the commercial waste collection</li> <li>• Widen the green waste collection</li> <li>• Increase recycling particularly commercial waste</li> <li>• Generating energy from the Borough's natural/collected resources, eg biomass, water, wind, sunlight and incineration</li> <li>• Local heating schemes</li> <li>• Offer wider pest control and proofing services</li> <li>• Expand Green care services for garden and grounds maintenance, including tree surgery, into the private sector</li> <li>• Commercial cleaning/facilities management</li> <li>• Carry out MOTs, including commercial vehicles, for the public and other businesses</li> <li>• Offering training facilities to the private sector</li> <li>• Commercial driver CPC training</li> <li>• Undertake the work required on roads and pavements in new development to bring them up to adoptable standards</li> <li>• Undertaking bridge retention wall investigation and maintenance for other local authorities</li> <li>• Expand Pest Control Service</li> <li>• Develop Green Care Service, targeting schools in particular</li> <li>• Look at alternative arboricultural options</li> <li>• Commercial cleansing of industrial and new development sites</li> <li>• Build on existing "lead authority" role in relation to flooding, providing technical expertise and works management</li> <li>• Develop Civil Engineering Team, operating on consultancy basis</li> <li>• Provide Street Lighting service to private developers and commercial/retail sites</li> </ul>
<b>Potential Barriers to Commercial Enterprise</b>	<ul style="list-style-type: none"> <li>• The culture of Local Government is risk averse</li> <li>• "Making a profit" can be seen in a negative light - a cultural issue</li> <li>• What would happen to the profit?</li> <li>• Transparency - how would employees in the Trading Company be shown what they are doing is having a positive contribution to the core services?</li> <li>• A bureaucratic culture that can be slow to respond</li> <li>• Lack of "business" experience</li> <li>• Would it be possible to maintain a culture of social responsibility and core ethics?</li> <li>• Getting the Legal Department on board</li> <li>• Getting the Members on board</li> <li>• Adequate financial investment in a time of austerity</li> <li>• Building a business take time and would not fit the annual budget cycle</li> <li>• Competition with existing local businesses</li> <li>• Lack of time to put business cases together</li> <li>• Lack of resources and knowledge to grow a business</li> <li>• Monday to Friday 9 am to 5 pm culture</li> </ul>
<b>Existing Skills &amp; Assets</b>	<ul style="list-style-type: none"> <li>• Experienced and well trained staff</li> <li>• Existing infrastructure and assets</li> <li>• Dudley MBC seen as trustworthy and ethical</li> <li>• Dudley MBC well placed in terms of geographical location</li> <li>• Enthusiastic response from those managers present at the workshop</li> <li>• Huge amount of local knowledge</li> </ul>

