

# **Commercialisation in Local Government**

Report of the Auditor General for Wales

October 2020



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# Summary

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## Councils need the right culture, skills and systems to unlock the benefits and mitigate the risks of commercialisation

- 1 Local government has handled the impact of austerity well so far. This has been achieved in several ways. Mainly by implementing efficiency measures, cutting back on service offers, reducing staff numbers, and increasing council tax. With rising citizen expectations and increasing demand for services, councils face a challenging future. With the impact of the COVID-19 pandemic, they are also working in ways and delivering services to communities that may have fundamentally changed.
- 2 In recent years there has been a shift in councils' attitudes to change and innovation, largely brought about by austerity. However, whilst many councils are now thinking radically, a significant proportion are less willing to change, or have the will but are unsure how to. With future funding at best unpredictable, new thinking is needed to transform the way councils operate to protect and improve services for their communities. The result is that there has never been a more pressing need to innovate and transform local government, to think big and think radically about what councils do and how they do it, and the relationship they have with their residents.
- 3 Councils have undertaken some form of commercial activity for a long time, and many councils are exploring additional commercial opportunities to mitigate against the financial pressures they face. In the recent past commercial activity has mainly focussed on charging for services and selling services to neighbouring councils. Commercialisation has consequently focussed on traditional areas of council operation and has usually been an extension of well-established and well used services. However, with ever more ambitious financial targets, there is a need to look at different ways to make savings, safeguard services and generate income. Commercialisation is consequently becoming more important for councils.

- 4 There is no agreed definition of what constitutes 'commercialisation'. Working more commercially can range from:
  - a operating a service more efficiently by, for example, reducing cost, raising charges, attracting new customers or users;
  - b generating profit by charging more than it costs to provide a service and not subsidising it;
  - c delivering services differently with less council ownership, influence or control by outsourcing an activity or transferring an asset to a community group to enable the service to operate in the commercial world with little or no council subsidy or influence; and
  - d developing entirely new services in the 'private' marketplace in competition with private businesses for the specific purpose of creating profit.
- 5 However, because councils are responsible for the provision of an extensive range of public services, they must also balance being more commercially focussed with their primary responsibilities as the 'safety net' for their citizens and communities. A key challenge facing councils is to therefore judge the extent to which they should, or should not, pursue 'commercialisation'.
- 6 Should councils decide to invest in commercial opportunities, they need to be clear what the benefits of this are for the council, local people and the wider community. It is also important that a council's key partners and stakeholders understand and know what commercialisation is for the council, and what it is not given councils are investing public money. Being open about where money is being invested and the benefits this will bring is essential to get buy in from stakeholders.
- 7 If the approach to commercialisation is not well managed or does not deliver what is intended, it can also place the council's financial health at risk. And the more a council adopts a commercial mind-set, the more it pushes beyond its comfort zone and management of risk. It will place a council, its processes, members and staff in a very different place and there is no guarantee that everything will just come together, and work as expected. There is a degree of risk involved in commercial activity and it can require the investment of significant sums of money which may not be recouped if investment decisions do not deliver what was anticipated and/or customers do not use the new services and opt to buy from others.

- 8 Given the challenges of pursuing commercialisation and the need to maximise reward and minimise risk, on behalf of the Auditor General for Wales, we have examined how councils are approaching commercial ventures. Overall, we have concluded that **councils need to have the right culture, skills and systems to unlock the benefits and mitigate the risks of commercialisation.**
- 9 Below we provide an analysis of why commercialisation is important; the challenges facing councils in addressing these matters; and some pointers, drawing on our research and fieldwork, on how councils can take commercialisation forward.
- 10 This report is specifically targeted at helping elected members and senior officers to examine and judge the potential impact on their organisations when considering whether to undertake commercialisation. It will also help councils to demonstrate how well they are discharging their value for money responsibilities.
- 11 The report is split into seven sections. Each of the sections focuses on a core aspect of commercialisation. These are set out in **Exhibit 1**. In each of these sections of the report we summarise our key findings to help councils:
  - a understand this aspect of commercialisation;
  - b challenge current approaches; and
  - c judge where and how they could take this work forward.
- 12 Each section concludes with a short self-evaluation based on key questions for councils to reflect on and judge where they are now, and where they need to improve. These assessments can be used individually, but we recommend that you consider them together and this report in its entirety. Taken together, we believe these provide a helpful framework for councils to use when considering commercialisation.
- 13 Finally, **Appendix 1** sets out our audit methods and **Appendix 2** summarises some of the key legislation that underpins commercialisation.

### Exhibit 1 – The ‘building blocks’ of commercialisation



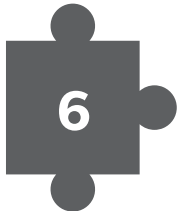
Agreeing what commercialisation means for us and our citizens / communities



Creating a commercial culture



Having the right skills and capacity to be able to initiate, implement and manage commercial ventures



Identifying the risk and reward of individual commercial ventures and managing reputational risk and political exposure



Robust options appraisal processes to decide on commercial ventures



Setting a clear vision and taking a strategic approach to commercialisation



Appropriate and effective accountability and scrutiny of commercial ventures

Source: Audit Wales.



# Recommendations

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## Recommendations

### Recommendations

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- R1** Undertaking commercialisation requires councils to have enough capacity, the right skills and robust but agile systems to be in place. **We recommend that councils use our self-evaluation tools to develop a strategy for the extent to which they want to pursue commercialisation.**



## Councils need to define and agree what commercialisation means for themselves, their communities and citizens

- 1.1 Commercialisation, if undertaken in the right way, properly planned, implemented and controlled, offers opportunities for councils to safeguard the provision of essential public services by delivering them through new models which reduce cost or generate profit. Pursuing commercial opportunities can also result in a greater choice of services to address wider needs in the local area and supports modernisation and transformation of a council.
- 1.2 Pursuing commercial opportunities and becoming more entrepreneurial also brings with it a degree of risk. Thinking commercially requires a council to be able to generate insight by joining different parts of the organisation together. To do this well you need to have people with the right skills who understand the wider operating environment and have commercial acumen. They must be able to make a compelling case for pursuing options and this must be based on good quality data and analysis.
- 1.3 Given that entrepreneurship is a process of balancing risk and reward, there are two fundamental issues that councils need to consider and agree on before pursuing commercialisation.

## Agree what commercialisation means for our council

- 1.4 At its simplest commercialisation is about selling goods or services to citizens or organisations. This is not controversial and is a well-established practice for local government. However, where it can become more controversial is the extent to which a council intends to pursue commercial activity. There are key questions that need to be considered to ensure a council sets appropriate parameters on the extent to which it wants to pursue commercial activity. We call these the 'principles of commercialisation'. For example, are they:
- going to pursue commercial activity that builds on their existing services?
  - going to enter entirely new areas of operation?
  - pursuing commercial activity only within their geographical boundaries?
  - prepared to pursue opportunities in other local authority areas and/or countries?
  - going to compete with local businesses?
  - going to compete with the third sector?
  - going to compete with other councils?
  - looking to recover all costs associated with the activity?
  - seeking to maximise profit generation?
  - clear on how they will use the profits they create?
- 1.5 Knowing up front the extent of what is considered acceptable for your council gives clarity to all on what commercialisation means for you, but also what it is not. In our fieldwork, we often heard a genuine concern from senior officers and elected members that commercialisation is (or could be seen as) privatisation or the selling off of council services. The danger is councils may lose their core purpose: 'Is our main aim to serve the public or to make money from them?' Commercialisation therefore needs to be considered in the round; warts and all.

- 1.6 Why is this important? Well, councils are the leaders of their local community and the safety net for some citizens. They are often the organisation people turn to when they are in crisis and need help. They organise and provide a wide range of services that help keep people safe and well. If they divert too much from their core activity, they run the risk of failing to meet their wider statutory obligations. The pandemic has shown how much citizens rely on council services and exposed how much austerity has threatened the provision of highly valued council services. The profile of local government's role in shaping and serving communities has been raised during our fieldwork and put simply, if councils continue to cut services it is questionable what relevance they continue to have for many of their citizens.

### **Understand the potential impact of commercial choices on our citizens and communities**

- 1.7 Involving citizens and local communities is vital when it comes to developing a sense of ownership in local decision-making and service delivery. It is essential when councils are considering diverging from their core activity and engaging in things that many may consider outside their comfort zone.
- 1.8 The message from our survey is clear. Councils should invest in opportunities and activities that directly benefit their area and the citizens they serve but should not seek to compete with private businesses. They should not expose themselves to unnecessary risk even if there is an opportunity to recoup greater income. The people we spoke to value their council for doing what it does well. Whilst they see benefits in becoming more entrepreneurial, they do not want to see core services in jeopardy because their council is pursuing risky activities.
- 1.9 Importantly, our citizen survey highlights that there is strong support for councils to act more commercially. Nine in ten respondents broadly supported their council pursuing commercial activities which ultimately support the local area through economic growth and investment in the most disadvantaged communities. Two in three also agreed that the council should only pursue commercial activities that help to support and assist the most vulnerable in society. Many that we surveyed want to see their council take steps to safeguard highly valued local services and recognise one way of doing this is to increase revenue and develop new sources of income.

1.10 This support, however, comes with some strings attached:

- just over half of respondents (51%) did not support their council pursuing commercial activity in other parts of Wales;
- over half of respondents did not want to see councils competing with private businesses (53%); and
- most people responding to our survey (63%) opposed their council undertaking new commercial activity in other parts of the UK, and three quarters (74%) in other European countries.

1.11 When it comes to appetite for risk, citizens have mixed views. Just under 40% support their council using their financial reserves to generate income. But a quarter (23%) are opposed to public money being invested in commercial activities at all, and a fifth (17%) want to see their council prioritise getting their money back rather than take riskier decisions that can get a better return on their investment.

1.12 In addition, councils need to ensure the choices they take for their communities reflect the socio-economic make-up of the area. Many communities in Wales have significant social, health and economic challenges. Even before the pandemic, people were struggling with low incomes, low wage growth, in-work and out-of-work poverty. Similarly, many towns and businesses across Wales have also been struggling in recent years with reducing footfall, competition from online suppliers and rising costs. And this has been accentuated with COVID19.

1.13 The bottom line is that local councils need to be mindful of how their commercial choices affect their communities and local businesses. For example, we found that where councils have changed services to operate more commercially and increase income, citizens have not always had a positive experience. Our survey found that nine in ten citizens consider traded services like leisure to be more expensive now, and eight in ten stated that they could not afford to use services as much as they would like. Roughly seven in ten survey respondents also felt that the quality of their council's offer is not as good as before.

1.14 The opportunity to generate significant levels of new income must therefore be balanced with judging the potential impact on people and businesses. If you increase charges there could be a fall in usage – this may balance out, or you may see an increase in revenue. You could also experience a fall in income if services are felt to be unaffordable. Similarly, competing with private businesses may offer an opportunity to raise new income. But being in competition could put local businesses at risk, adversely impact town centres with more empty units/properties, and result in rising unemployment. Councils are very mindful of this based on our survey of elected members, where 53% of respondents flagged an adverse impact and reaction from the local community as a barrier to commercialisation.

## Agreeing what commercialisation means for us, our citizens and communities

Below we have set out a self-assessment to help councils evaluate their current performance and identify where they need to improve.

Issues for us to consider and agree	Yes, we are clear on this and no further work is required	No, there is more for us to do
We are going to pursue commercial activity that builds on our existing services.		
We are going to enter entirely new areas of commercial operation.		
We are going to pursue commercial activity only within our geographical boundaries.		
We are prepared to pursue opportunities in other local authority areas and/or countries.		
We are going to compete with local businesses.		
We are going to compete with the third sector.		
We are going to compete with other councils.		
We are looking to recover all costs associated with the activity.		
We are seeking to maximise profit generation.		
We are clear on how we will use the profits we create.		
We have involved citizens, businesses and stakeholders to help us define what commercialisation is for our council.		

Issues for us to consider and agree	Yes, we are clear on this and no further work is required	No, there is more for us to do
<p>We understand the impact of pursuing commercialisation on:</p> <ul style="list-style-type: none"> <li>• Citizens</li> <li>• Businesses</li> <li>• Our communities</li> <li>• Partners</li> <li>• Stakeholders</li> </ul>		
<p>We have gauged what is affordable for our citizens and communities.</p>		
<p>We communicate effectively internally and externally what commercialisation is for this council and what it is not.</p>		

## Creating a strong commercial culture is key to pursuing commercial activity

- 2.1 Councils are changing. The last 20 years have seen major shifts in how services are commissioned, managed and delivered with a growth in shared services, digital delivery, joint ventures, and city region and growth deals. Local government does not stand still and has a long history of innovation and change.
- 2.2 However, once a council has established the extent to which it wants to act more commercially, it needs to ensure that it has the right ethos or culture with clear and effective senior leadership to drive the process. To do this requires a council to ensure that the way that it works supports entrepreneurship and enterprise to create a 'commercial culture'.
- 2.3 From our fieldwork we found that changing the culture of organisations is the topic flagged most consistently as the key challenge facing councils becoming more entrepreneurial. Councils are beginning to apply a more commercial mindset to both in-house service provision, but also in considering new opportunities.
- 2.4 Early on, Monmouthshire County Council identified the importance of culture, and political and professional leadership. There has been a clear steer from the top of the Council on being more innovative and proactive. Rather than respond to austerity by continuing to make cuts, the council encourages staff to pursue options that can make a profit for the benefit of council services.
- 2.5 Some authorities have embedded commercialisation in their transformation programmes recognising that successfully becoming more entrepreneurial is ultimately about changing their organisation's culture. For example, the approaches in Cardiff Council, Rhondda Cynon Taf County Borough Council and Caerphilly County Borough Council.
- 2.6 Despite recognising the importance of creating a commercial culture and needing effective leadership to underpin new approaches, progress has often been limited and/or slow in some councils. Building the appetite, skills and culture within both the elected member group and the workforce to innovate and operate more commercially requires motivation, commitment and focus to accomplish. This can be challenging to achieve when you need to balance providing services for the public good with running services as a business that focusses on creating profit.



- 2.7 Our survey of elected members found that there is strong support for their council pursuing new commercial activity, with three-quarters favouring this activity. This is echoed by Corporate Management Team survey respondents where 83% noted that they have support from Elected Members to pursue new commercial activity, with the key drivers of the entrepreneurial agenda being the Leader of the council and/or the chief executive.
- 2.8 Despite this, seven in ten members do not want their council to take greater risks to generate greater rewards. Importantly, only a third of elected members believe that their council has the right organisational culture to be able to effectively pursue commercialisation.
- 2.9 Often the starting point for many councils at the beginning of their 'commercial journey' relates to winning 'hearts and minds'. We found that the task of nurturing a more commercial culture often sits with transformation lead officers and involves defining what commercialisation means to their council; what commercial activity is already taking place and determining the council's risk appetite.

2.10 From our research the key features of an organisation with a positive commercial culture will be embodied by the following – **Exhibit 2**:

**Exhibit 2 – A council with a positive commercial culture is characterised by...**



Committed, highly visible political leaders, with ambitious goals, supported by a strong officer management team



A clear understanding that commercialisation is 'how we do things around here, and commercialisation reflects our values'



Transparent, accountable and timely decision making



Acknowledging that those making decisions are accountable and will be held to account



Realistic expectations that are clearly understood by all areas of the council



Effective communication that makes clear what commercialisation is and what it is not



High levels of support between leadership and staff demonstrated by high levels of commitment to the council's commercial vision and strategies



Commitment to delivery and attention to detail and thoroughness in the execution of commercial policies and strategies

2.11 Involving local stakeholders in commercial decision making is a good way of drawing on local expertise, knowledge and skills and to ensure decisions are mindful of the local context. Councils also need to ensure that they effectively communicate with stakeholders and are clear about how commercial choices will impact on citizens, businesses and communities. This is important because citizens may not understand what is going on and may resent public money being spent on new commercial ventures such as commercial property acquisition.

### Creating a commercial culture

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more for us to do
We have set realistic expectations on what commercialisation is for us and this is clearly understood by all areas of the council.		
We understand that commercialisation is part of ‘how we do things around here, and commercialisation is reflected in our values’.		
We have committed, highly visible political leaders, with clear commercialisation goals.		
We have a strong officer management team that is clear on commercialisation and is supporting delivery of our goals.		
We have set clear expectations that decisions relating to commercialisation will be taken transparently and as soon as it is appropriate to do so.		

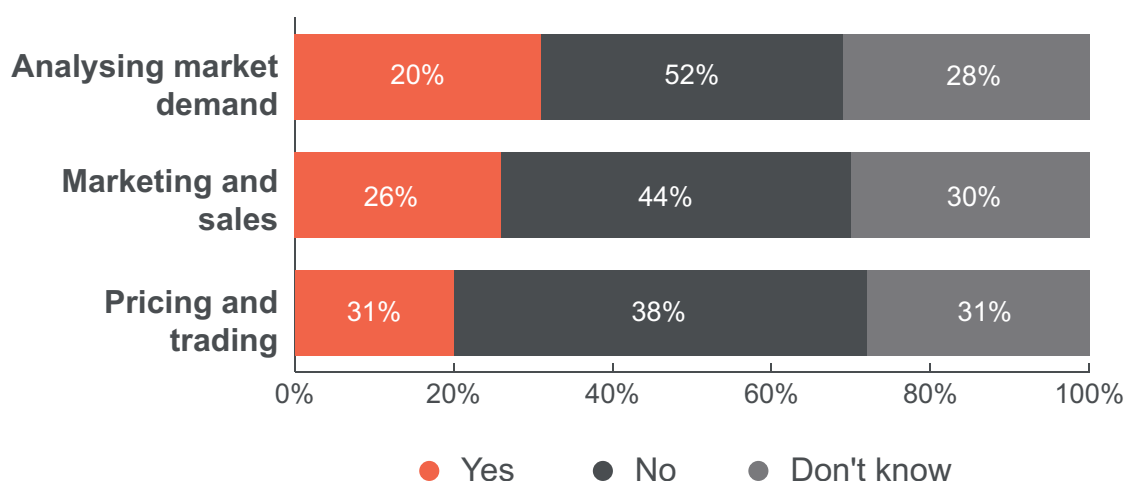
Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more for us to do
Those who make decisions on commercialisation are accountable for their choices and are held to account through clear governance arrangements.		
There are high levels of commitment to work together to deliver the council’s commercial vision and strategies.		
We have a good attention to detail and are thorough in how we assess and challenge ourselves.		
We have an open and honest learning culture to help the council learn from investment decisions from across the UK and use this information to shape our approaches.		

## Councils pursuing new commercial activity will need to invest in their workforce to ensure they have sufficient capacity and the right skills

- 3.1 The experience, knowledge and skillset required to successfully pursue commercial activities are not those that are traditionally associated with local government. However, as more and more councils begin to pursue commercial activities, it is important that they equip themselves with the right skills to do this well.
- 3.2 The pursuit of new commercial ventures requires people who can spot opportunities and apply commercial acumen to their understanding of the wider operating environment. Importantly, doing this well also requires senior officers and Elected Members to have the right skills to oversee and scrutinise decisions and commercial activity that involve public money.
- 3.3 Councils need people who can undertake robust options appraisals, cost modelling, market and segmentation analysis; people who are skilled at making a compelling case for pursuing options based on sound data analysis; and who can identify and mitigate risk in unfamiliar or new areas of business. **Exhibit 3** shows that in these key fields, councils believe that they do not always have the necessary skills and experience.

### Exhibit 3: The views of corporate management teams about having the right level of commercial skills in three key areas

Less than a third of corporate management team members believe that their council has the necessary skills and expertise to successfully undertake commercialisation in key areas.



Source: Audit Wales, Corporate Management Team Survey, January 2020.

- 3.4 Our survey of corporate management teams found that councils recognise that they are not currently resourced or skilled to pursue new commercial activity. Only 16% of respondents to our survey of corporate management teams believe that, broadly, their council has the staff skills and resources to pursue and deliver new commercial activity. Elected Members are of the same view, with 57% of those who responded to our survey citing officers' skill levels as a barrier to the successful pursuit of new commercial ventures.
- 3.5 Austerity – in many ways the catalyst for more and more councils needing to pursue commercial activity – has paradoxically also hampered councils' ability to do just that, by eroding the level of skills and expertise in their workforce. Council workforces are less resilient and lack the capacity to generate and deliver on new ideas because services are stretched, and people are under pressure.

- 3.6 Competing with the private sector to secure the right people with the right skills to progress commercial activity can also be challenging. Councils we spoke to highlight the difficulties of being able to attract people of the right calibre without an ability to match private sector salaries. There is a reluctance in some councils to offer market salaries, which inhibits their ability to secure people with the right skills and experience. Similarly, national bodies such as the Federation of Small Businesses, and Wales Trades Unions Congress believe that councils in the Cardiff city region are better placed to attract people with the right skills, but councils in other parts of Wales will struggle to compete with the private sector and need to pool their resources.
- 3.7 Despite these workforce pressures, only one of the commercialisation strategies we examined identified this as a major risk and had set out how that council is seeking to address it. This is concerning as over half of councils responding to our survey of corporate management teams highlighted that they needed to enhance staff skills to equip themselves to be able to pursue new commercial activities.

### **Bristol City Council's Commercialisation Strategy 2019-22**

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19-22

The Council recognises the importance of investing in its current workforce to ensure it has the skills and capacity to pursue new commercial activity. This includes a considerable amount of 'hearts and minds' work with Elected Members to promote the benefits of commercialisation – both financial and strategic – for Bristol, the Council and its citizens.

- 3.8 However, there are some councils that are addressing the issue of staff skills and capacity. At the time of our fieldwork in early 2020, Monmouthshire County Council had just established a Commercial Legal Team to help support the Council in delivering its commercial ambitions and focus on mitigating key risks. The Council actively sought to fill these new posts with people who primarily had a commercial background, rather than local government experience.

- 3.9 Some councils are addressing gaps by using external support – for example, Neath Port Talbot County Borough Council is working with the Association for Public Service Excellence. However, with councils increasingly looking at generating income through commercial means, many need to do more to invest in their workforce and ensure they have the right skills and capacity.
- 3.10 Our survey of corporate management team members highlighted that only six councils have invested in dedicated officers to lead on commercial activity. These are:
- Blaenau Gwent County Borough Council;
  - Caerphilly County Borough Council;
  - Merthyr Tydfil County Borough Council;
  - Monmouthshire County Council;
  - Pembrokeshire County Council; and
  - Swansea Council.
- 3.11 Almost two-thirds of the Elected Members who responded to our survey cited Elected Members' ability to effectively decide on options as a barrier to their council's pursuit of new commercial ventures. Responses to our corporate management teams survey correspond with this – only 19% said they believe that Elected Members are sufficiently trained and skilled to be able to consider, and then approve, new commercial ventures. Senior management team members are also highlighted by Elected Members as lacking in commercial acumen.
- 3.12 Our evidence identifies scrutiny as another area that councils need to invest in upskilling when pursuing new commercial ventures. Respondents to our corporate management teams highlighted weaknesses in their council's ability to effectively oversee commercial activity – 41% of respondents said that their council's scrutiny committee does not have the knowledge and experience to provide effective risk oversight of new commercial activity. If councils are to unlock the benefits of commercialisation, an investment in upskilling their workforce must form a key part of their commercial strategy.



## Our workforce, skills and capacity

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have prioritised the creation of a commercial culture and entrepreneurial mindset within the council.		
We have the right experience, knowledge and skillset required to successfully pursue commercial activities.		
We have enough staff to undertake commercial work.		
We have staff in the right services and with the required seniority to undertake commercial work.		
We can recruit the right people with the right skills to deliver our commercial work.		
We have set out how the council will equip elected members and staff with the key skills to successfully deliver commercialisation including: <ul style="list-style-type: none"> <li>• Analysing markets and demand</li> <li>• Marketing and sales</li> <li>• Pricing and trading</li> </ul>		
We have a training programme that is equipping our staff and elected members to undertake commercial work.		

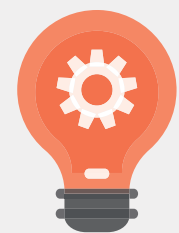
Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have defined and clarified roles, responsibilities and the legal powers for pursuing commercial activity.		
We have taken legal opinion to support all aspects of commercial activity and especially on how to treat profits raised, and staff are clear on how to address this.		
We can draw on and utilise the skills and knowledge of our local businesses and stakeholders to help us develop our workforce to become more commercially skilled.		

## Councils need to agree a clear vision and strategic approach for commercialisation that integrates with wider priorities

- 4.1 Councils and private business are not the same. They have different responsibilities, obligations and aims. While there may be a common language around income generation and acting commercially, councils also need to have due regard for their statutory obligations and duties. Whilst acting more commercially is focussed on generating income, this should not be an end in itself. Councils must also consider how commercial activity can help support the delivery of their core services and the achievement of strategic priorities.

## A good strategic approach to commercialisation will:

- take a long-term corporate council-wide approach and start with the purpose and function of the council, not the form or structure of current service delivery;
- be based on a clear set of principles and values that set out the importance of social value and 'ethical' investment principles;
- integrate commercialisation initiatives with programmes of long-term transformation and/or organisational recovery to ensure commercialisation is part of a 'bigger picture' and not seen as outside core council activity;
- show the benefits and risks of commercialisation for citizens, the local economy and local communities, and clearly define what commercialisation is and is not for the council;
- integrate and link with wellbeing objectives, corporate priorities and other council and regional strategies, especially plans for organisational transformation and recovery from COVID-19;
- seek to ensure commercial activities deliver more than just profit, or at least do not hinder their wider contribution to the local area and community;
- recognise the importance of creating a commercial culture and entrepreneurial mindset;
- set out how the council will equip elected members and staff with the key skills to successfully deliver commercialisation;
- define and clarify roles, responsibilities and the legal powers for pursuing commercial activity. For instance – client, commissioner, contract manager, board of directors (Company Law), shareholders, etc;
- identify who is accountable for decisions; and
- have clear, transparent and appropriate governance arrangements for commercial activity that are embedded fully in the local democratic decision making and accountability system.






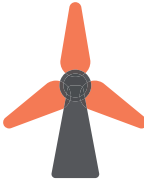
Source: Audit Wales.

- 4.2 From our fieldwork we found that few councils have created a strategy for commercialisation. Monmouthshire County Council has integrated its commercial approach with its Investment and Treasury strategy, and these align well with the corporate plan and wellbeing plan. Caerphilly County Borough Council has a draft commercialisation and investment strategy, but at the time of our fieldwork this had not been approved. A further six councils are in the process of developing a commercial strategy but have not yet agreed their commercial values and principles.
- 4.3 Whilst commercialisation has become more important, and figures more on scrutiny and cabinet agendas, our review of council papers in the last two financial years found that progress has mostly been slow. Too often councils are focussed on what they already do, and whilst a growing number talk about being more commercially minded in how they deliver services, few have developed a specific commercial policy or strategy. Lacking an agreed strategic approach to commercialisation means that councils are not maximising the potential benefit of commercial ventures and risks missing out on opportunities when they arise.
- 4.4 Other councils have been slower to adopt a strategic approach to commercialisation, and progress has been more organic, with the appetite for acting more entrepreneurial varying widely between senior officers, members and operational services. For instance, our survey of all 22 councils' corporate management teams found that in total eight councils have or are in the process of developing a commercial strategy and have not agreed their commercial values and principles.
- 4.5 Only 41% of elected members from across all 22 councils responding to our survey, agreed that their council has agreed a position on pursuing commercialisation. Despite two-thirds of elected members acknowledging that commercialisation will help to alleviate the impact of funding cuts, and over half feeling it would support delivery of wellbeing objectives, most have concerns about a commercial activity going wrong and less about learning from what is working. Generally, elected members see getting the **'return of their money'** as more important than getting **'a return on their money'**. Elected members are more comfortable with investment in commercial activity that helps to improve local infrastructure and deliver regeneration programmes than directly investing in ventures that simply create profit.

- 4.6 The best councils are using commercial opportunities to help deliver their strategic priorities and wider community benefits. From our work we saw several good examples of how councils in England use their statutory powers and approach to commercialisation to focus on:
- helping to support and assist the most vulnerable in society, especially when they 'fall' or 'fail';
  - improving people's lives and the place in which they live; and
  - creating new income streams to create wealth and improve the economic circumstances of those in disadvantaged communities.
- 4.7 For instance, defining both the commercial and strategic benefits of a potential venture will allow a council to identify both the opportunity to generate income and the wider benefits of pursuing an option. **Exhibit 4** provides examples of four commercial activities that can generate income for a council, and also help to deliver strategic benefits such as wellbeing goals.

### Exhibit 4: Defining the strategic benefit of commercialisation

Thinking of commercialisation in the round and highlighting both the profit and community/strategic benefit of options and activities can help decision makers to contextualise and make fully informed decisions.

Activity	Commercial Benefit	Strategic Benefit
<p>Energy supply</p> 	<ul style="list-style-type: none"> <li>• Profit with increased income</li> <li>• Ready to use infrastructure to be able to take advantage of the opportunity (data, etc)</li> </ul>	<ul style="list-style-type: none"> <li>• Tackling ‘fuel’ poverty</li> <li>• Championing social equality</li> <li>• Championing local renewables</li> <li>• Tackling poverty</li> </ul>
<p>Commercial Property</p> 	<ul style="list-style-type: none"> <li>• New income stream</li> <li>• Create profit</li> <li>• Grow tax base</li> </ul>	<ul style="list-style-type: none"> <li>• Regeneration (physical, social and economic)</li> <li>• Attracting inward investment</li> <li>• Supports delivery of local development plan targets</li> <li>• Acts as a catalyst for change – e.g. investment in designated regeneration zones, etc.</li> </ul>
<p>Private housing development – residential lettings and/or sales including affordable and low-cost housing for sale</p> 	<ul style="list-style-type: none"> <li>• New income stream</li> <li>• Create profit through rental income and sales</li> <li>• Create/use S.106 contributions to improve community infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Tackle homelessness and housing need</li> <li>• Reducing social inequality</li> <li>• Improving people’s health</li> <li>• Supports local housing developers</li> <li>• Create jobs/apprenticeships</li> </ul>
<p>Energy Generation</p> 	<ul style="list-style-type: none"> <li>• New income stream</li> <li>• Create profit through ‘Feed in Tariff’ scheme</li> <li>• Access to grant schemes and renewal programmes</li> </ul>	<ul style="list-style-type: none"> <li>• Addressing climate change</li> <li>• Tackling fuel poverty</li> <li>• Reducing use of fossil fuels</li> <li>• Reducing our carbon footprint</li> <li>• Increase ‘green’ energy supply</li> </ul>

- 4.8 In recent years, a number of City and Growth Deals have been signed. City Deals and Growth Deals give more power and flexibility to cities and regions to develop employment and skills, commercial opportunities, business support, housing, transport and inward investment. There are several such Deals in Wales – the Cardiff Capital Region and Swansea Bay City Deals and Growth Deals in Mid Wales and North Wales.
- 4.9 City Deals are bespoke packages of funding with devolved decision-making powers negotiated between governments and local councils. Audit Scotland’s January 2020 report on Scotland’s City Region and Growth Deals concluded that councils should ensure Deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development.

### Exhibit 5 – Tay Cities Deal

A regional economic strategy was developed first and used to inform the Tay Deal proposal. The strategy considered the economic issues identified in the Community Plans and Local Outcomes Improvement Plans (LOIPs) for the region. The objectives in the Tay Cities Regional Economic Strategy are based on the key priorities in Scotland’s Economic Strategy. Inclusive growth is at the heart of the Deal and there is a clear understanding of what inclusive growth means for the Tay Cities Region. More effort was made to engage with stakeholders when identifying projects, including through an open invitation for project ideas.



Source: Audit Scotland<sup>1</sup>.

1 Audit Scotland, [Scotland’s City Region and Growth Deals](#), January 2020



## A strategic approach to commercialisation

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have an agreed corporate council-wide approach to commercialisation.		
We have a clear set of principles and values that set out what we are trying to achieve through commercialisation.		
We focus on social value and 'ethical' investment principles in our commercial work.		
Our approach to commercialisation is part of a 'bigger picture' and not seen as outside core council activity.		
We have embedded commercialisation with programmes of long-term transformation and/or organisational recovery from COVID-19.		
We are clear on the benefits and risks of commercialisation for citizens, the local economy and local communities.		
We have clearly defined what commercialisation is and is not for the council.		
Our approach to commercialisation is integrated and links with wellbeing objectives, corporate priorities and other council and regional strategies.		
We are seeking to ensure that commercial activities deliver more than just profit and make a wider contribution to our area and communities.		
We have identified who is accountable for commercial decision making and it is clear where the 'buck stops'.		

## Councils need robust options appraisal processes to be able to evaluate and decide on commercial choices

- 5.1 An effective options appraisal will identify the most appropriate set of actions needed to achieve desired outcomes. It needs to have the right information and data to consider and decide on the right option. It should clearly show how the commercial opportunity contributes to delivering corporate objectives. Options appraisals need to follow a structured and documented process so Elected Members know what to expect and are clear on their role in decision making.
- 5.2 We found some good examples of councils' consideration of a range of commercial options. Monmouthshire County Council has clear routes of accountability for their two-stage process, with investment proposals first presented to an Investment Committee for consideration on whether to proceed to undertake due diligence and further negotiation. The Investment Committee then receives a business case and recommendation following the conclusion of the due diligence process. This process allows for a full discussion of options and assessment of risks and provides elected members with opportunities to challenge and examine business cases in detail before deciding to invest. Likewise, at the time of our fieldwork Caerphilly County Borough Council were introducing a new business planning template and options appraisal process. Templates included options for crowdfunding and community asset transfer.
- 5.3 The findings of our survey of corporate management teams identify that roughly half of councils believe they have a robust approach to options appraisal for commercial ventures and are focussing on the key issues when considering choices. For instance, risk to the council and risks associated with undertaking the venture, the 'true' cost of options and how they will be funded, likely service usage and how options fit with statutory responsibilities such as the Welsh language and equalities. These are key areas to focus on to inform discussions and provide assurance to decision makers.
- 5.4 Councils' appraisal arrangements generally have less emphasis on external factors. For instance, quantifying and understanding the impact of options on local business and the community, analysing markets, and determining pricing and trading issues. Competition analysis is especially underdeveloped. Business cases mostly do not include a sufficiently detailed assessment on the impact of competition. This is important because commercial investments can either have a detrimental or a stimulating effect on local competition.

- 5.5 In addition, through our fieldwork and document reviews, we identified several other areas where options appraisal processes and documentation need strengthening. Options appraisals are generally not reported or made available publicly. We recognise the likelihood of commercial sensitivities in assessing options, however this must be balanced with the wider council responsibilities of acting transparently especially in relation to the investment of public money. Being open wherever possible is a principle we would expect councils to embrace.
- 5.6 In some councils, documentation is not sufficiently detailed and is based on a simple 'yes' or 'no' sign-off, without an accompanying rationale for the decision. We found that a number did not include implementation and benefits realisation timescales, nor summarise or set out why an option has been rejected. In addition, few include the risk of 'doing nothing' as an option. Including an analysis of why an option is not supported and being clear on the wider risks of doing nothing helps to strengthen working practices and decision making by elected members.
- 5.7 Diversification is the best way to increase the stability of investments and decrease the risk of losing money if a single commercial venture decreases in value. However, we found that too many options appraisals consider commercial investment in isolation and did not consider the total investment portfolio. Diversification does not remove risk in its entirety, but it will help maintain a portfolio's stability over time. It is important to therefore consider individual options within the totality of all investments that have been approved and rejected to ensure decision makers see the totality of current activity.
- 5.8 Ensuring clear links between commercial decisions and strategic priorities or corporate objectives and identifying the social value and long-term community benefit such as increases in average earnings, more apprenticeships, and local procurement needs more emphasis. Equality impact assessments and single impact assessments are not routinely included in business cases. Some impact assessments take a short-term focus and several national stakeholders noted a tendency to treat them as a 'tick box exercise'.
- 5.9 A good way of doing this is by completing a commercial due diligence assessment. Due diligence helps to consider the risk of funding decisions and is essential in creating an environment of accountability and transparency. Due diligence is important to enable elected members to make an informed decision on whether to pursue a commercial venture or not – **Exhibit 6**.

## Exhibit 6 - The importance of commercial due diligence

Commercial due diligence is the process of gauging the commercial attractiveness of an investment decision. Unlike financial due diligence, which focuses solely on the financial health of the decision, commercial due diligence provides a fuller overview of both the finances and also the internal and external environment the commercial venture will operate in.

A commercial due diligence assessment will analyse performance, the likelihood that the targets will be met, and highlights potential problems that may occur. The assessment helps to provide councils with an in-depth knowledge of their venture and the market in which they are positioned. It is designed to enable the council to make an informed decision, and highlight any potential risks associated with the commercial decision it is taking.

A commercial due diligence assessment will vary but typically will include the following information:

- Review of the options appraisal predictions
  - How realistic are targets?
  - How achievable is the business plan?
- Research and assessment of the market
  - Where is the option positioned within the market?
  - Where is the market heading?
  - How could this affect the value/success of our venture?
  - What are the trends in the market?
- Analysis of competitors and customer base
  - Who are the strongest and weakest competitors?
  - How will this venture perform against its competitors?
  - What is its customer profile?
- Revenue/capital modelling
  - What are our prospects for reaching our projected revenues?
  - How much can we expect to make over a set period?
- Pricing and margins
  - How have average prices fluctuated historically?
  - What is the forecast for prices in the future?

Source: Audit Wales.



## Options Appraisal for commercialisation

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
<p>We have a clear options appraisal process for deciding on each commercial option.</p>		
<p>Within each commercialisation options appraisal we always:</p> <ul style="list-style-type: none"> <li>• clearly define our objectives, the constraints/ risks, the potential rewards and what we want to achieve;</li> <li>• gather enough information to fully understand the options being considered;</li> <li>• consider a wide range of options for the commercialisation venture;</li> <li>• include consideration of the risk of ‘doing nothing’;</li> <li>• assess and analyse options using an agreed rating/scoring matrix; and</li> <li>• select the appropriate option based on our analysis.</li> </ul>		
<p>We make transparent decisions based on good-quality information when deciding on each commercialisation options appraisal.</p>		
<p>We implement the decision that has been taken on completion of an options appraisal in a timely manner and effectively.</p>		
<p>We have robust performance management arrangements in place to monitor delivery of the selected option.</p>		
<p>We review the effectiveness of our decisions and undertake post-implementation evaluation to check that the objectives we set are being delivered.</p>		

## Councils need to define and agree their appetite to risk and reward when deciding on pursuing commercialisation

- 6.1 Risk appetite is a hot topic and matters because it is fundamental to making the right decisions. It is often driven by recognised financial and accounting standards, corporate governance regulations, and other statutory requirements<sup>2</sup>. The ability to understand and express risk appetite allows decision makers to decide how much risk the council should take in each situation.
- 6.2 The attitude and appetite for risk is therefore a political decision: it is part of a council's culture and is set by the senior leaders of the organisation. It is important for all levels of the council to understand their risk appetite, from the Cabinet to the Corporate Management Team to the project manager, and for these multiple levels to be consistent, coherent and aligned in their attitude to risk.
- 6.3 However, being good at managing risks is not about avoiding decisions and maintaining the status quo. No decision is risk free. There is always some uncertainty associated with decisions and decision-making, and there is always risk. Similarly, doing nothing may also be risky, as cost pressures from ageing populations, increasing demand for services and increasing wage bills continue to grow. In the current financial climate, thinking that the status quo is the less risky path could itself be a far riskier decision than seeking to change a service or develop a new one.
- 6.4 In respect of taking decisions on commercial activity, councils need to contextualise the relative risk with the potential reward that will be received. This is important because some councils (particularly in England) place a high reliance on commercial income to fund frontline services. Therefore, any loss of commercial income could have a detrimental effect on front line services. Councils must therefore weigh the potential reward against the risks to decide if it is worth putting public money and the Council's reputation at risk.

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2 For example, CIPFA's [Statutory Guidance on Local Government Investments](#) makes clear that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed and that a local authority should avoid exposing public funds to unnecessary or unquantified risks.

- 6.5 For instance, acquiring commercial property such as airports or harbours, retail parks, supermarkets, hotels, education campuses or GP surgeries to generate income through rents offers an opportunity to make large sums of money. It is also riskier because it often requires unsupported borrowing to invest in such acquisitions. In 2014-15, English councils invested just over £1 billion to acquire land and buildings. By 2018-19 the figure had risen to £4.4 billion. The Ministry of Housing, Communities and Local Government (MHCLG) data shows that in 2018-19 the largest investors in commercial property were Spelthorne Borough Council at £270 million, Warrington Borough Council with £220 million and Eastleigh Borough Council which spent £194 million<sup>3</sup>.
- 6.6 The growth in borrowing to fund commercial acquisitions in England has therefore raised concerns in both government and professional bodies like the Chartered Institute of Public Finance and Accountancy (CIPFA), that councils are taking progressively riskier decisions. The latter advises councils to refer to the government guidance, which cautions councils against becoming dependent on commercial income; taking out too much debt relative to expenditure; and taking on debt to finance commercial investments.
- 6.7 For example, when considering property investment, if retail properties remain vacant for long periods and are not generating any rental income then other sources of funds will be required to maintain loan repayments. Similarly, a downturn in the property market is likely to lead to a fall in property values and the risk of negative equity for the investor local authority. Risks are also apparent for other non-property related commercial ventures<sup>4</sup>.
- 6.8 In response to the increased risk of borrowing for commercial activity, some important changes are being made. Firstly, the MHCLG consulted on revising the Prudential Code in 2017<sup>5</sup> to require the development and publication of an annual capital strategy. Secondly, CIPFA published new guidance in autumn 2019 focused upon commercial property investment. And thirdly, and most significantly, the HM Treasury Public Works Loans Board's future lending terms consultation on loans provided for commercial investments<sup>6</sup>. Taken together, it is anticipated that the impact of these changes will reduce the level of public borrowing for commercial investment in the future.

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3 Ministry of Housing, Communities and Local Government, [Local Authority Capital Expenditure and Receipts, England: 2018-19 Final Outturn](#), 26 September, 2019.

4 Bournemouth Borough Council set up a Bank of Bournemouth with the aim of lending to local businesses. Eighteen months later it was forced to close having only acquired 22 customers in that time.

5 GOV.UK, [Proposed changes to the prudential framework of capital finance](#), November 2017 (updated February 2018).

6 CIPFA, [Future Lending Terms Consultation](#), July 2020

6.9 One of the most important decisions for any council considering commercialisation, is therefore, how much risk to take. The phrase 'risk appetite' is often used to describe the level of acceptable risk, but there is no accepted definition for this term. Important management decisions can often involve risk taking, and councils need to be able to answer some key questions:

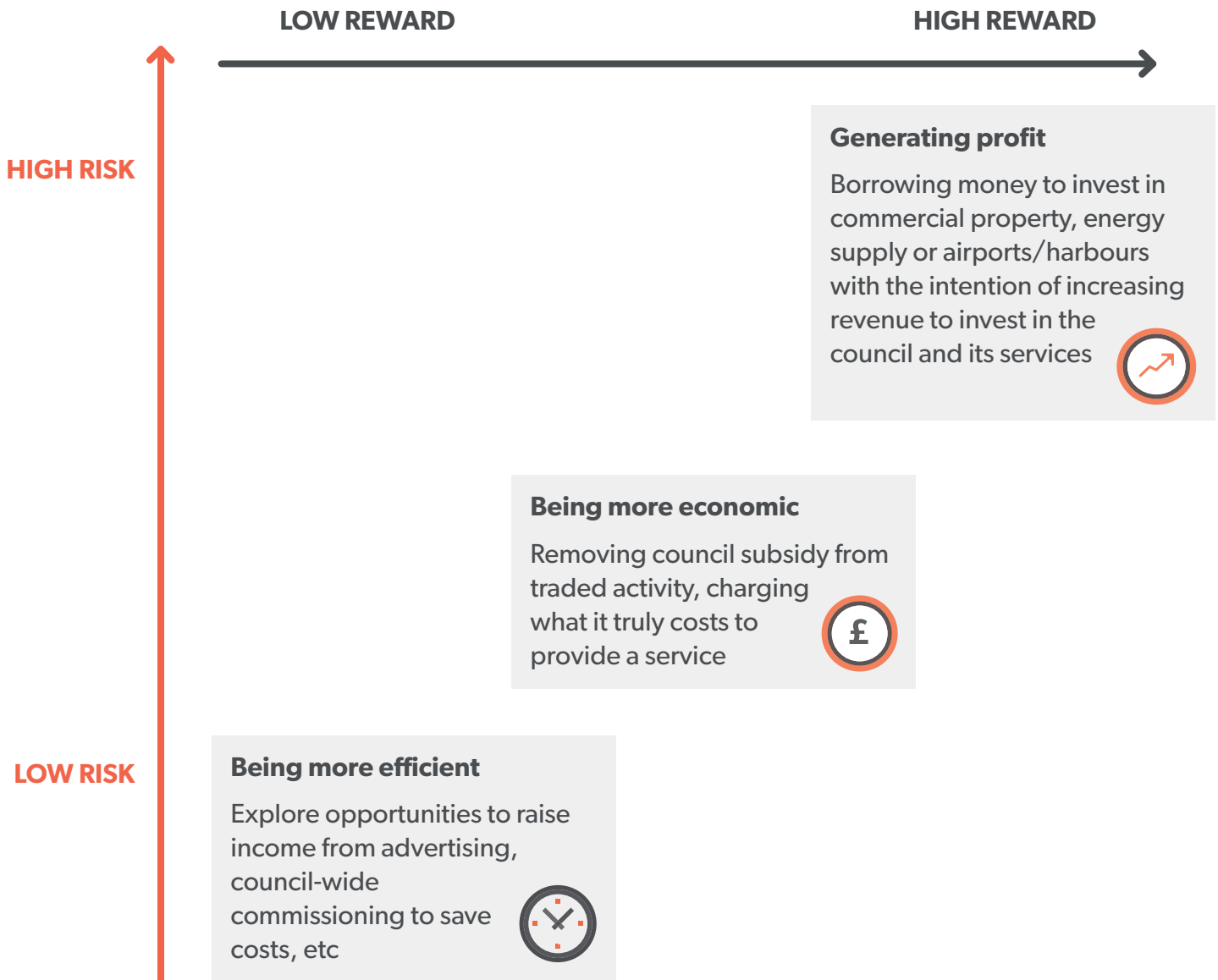
- How much risk do we face?
- How much risk can we take?
- How much risk should we take?
- How much risk do we want to take?
- How much risk will we take?
- How much risk are we taking?
- How much risk are our citizens comfortable with us taking?

6.10 Consequently, councils need to assess and understand the decisions they are making and seek to mitigate and control their potential impact. Councils need to therefore highlight the likelihood of things happening and how severe the impact could be. This assessment should be jargon free and easy to understand. Some options will be relatively low risk with low reward and others the opposite – **Exhibit 7**.



**Exhibit 7 – The risk: reward ‘matrix’**

Councils need to consider the risk and reward of the commercial decisions they take. Being low risk often means that the financial return is low. Accepting greater risk can bring greater reward, but it also places the council’s finances and services in danger if it does not work out as envisaged or hoped.



Source: Audit Wales.

6.11 Councils need to therefore consider what the risk means for them and how comfortable they are undertaking such an activity. This is not a black and white issue – it is about getting the balance of the decision right when you are considering commercial choices. Based on our fieldwork and research, we summarise below the key features of an effective approach to assessing risk and reward when evaluating commercial investments – **Exhibit 8**.

### **Exhibit 8 – The key features of an effective approach to assessing risk and reward when evaluating commercial investments**

- ✓ Understand who and what is at risk, and who will benefit from the commercial decisions. Pure financial gain for a Council is too narrow an objective and the wider social or economic worth of a decision needs to be considered
- ✓ Ensure commercialisation forms part of the Council's high-level strategic risk assessment process
- ✓ Assess the impact of risk on business continuity scenarios such as the impact of a drop in investment income and a fall in demand
- ✓ Ensure commercialisation is subject to appropriate due diligence, scrutiny and evaluation which includes consideration of wider social benefit, market shaping, and impact
- ✓ Focussing on social responsibility considerations such as keeping investment local, and not investing in companies or banks with a poor track record on ethical investment
- ✓ Using a single impact assessment template that considers all relevant legal issues, social wellbeing, environmental wellbeing, economic wellbeing, and equality, diversity and Welsh language considerations
- ✓ In considering risk focus on the impact of 'doing nothing' as well as doing something

Source: Audit Wales.

## Councils need to understand and manage reputational risk and political exposure when deciding on which commercial opportunities to pursue

- 7.1 Poor commercial investments can dent public perceptions of the decision-making ability of their local council. This is important because a poor understanding and mismanagement of risks can have a severe impact on a local council's reputation, and this can have significant knock-on effects on the public perceptions of the trustworthiness and effectiveness of our democratic institutions. Poor risk management can also affect staff morale, deter high quality staff applying for council jobs, and adversely affect the willingness of stakeholders and suppliers to work with the council. Ultimately it will also influence the council's appetite for taking risks in the future.
- 7.2 A council's reputation is not formed in the same way as that of a private sector company. The public's view of councils is heavily influenced by previous experience, expectations, political beliefs and an array of other personal factors such as your age, health and wellbeing. From our survey with citizens it is also very clear that people view councils very differently to private businesses – they have a different role and value.
- 7.3 One way of councils managing reputational risk is to pursue ventures that are bedded in doing things ethically and ensuring commercialisation supports a council's reason for being; activity which is as much about addressing local problems such as fuel poverty or growing the third sector and investing in ways that embody the council's vision.
- 7.4 Senior council staff need to work closely with elected members and give them reassurance any commercial decisions will not leave them unduly over exposed. Focussing on the wider benefits of a commercial decision is one good way of framing this debate. For instance, highlighting that commercial ventures can often be more responsive to residents' needs, offer greater choice and provide better quality services. Commercial approaches can provide affordable alternatives to private businesses and respond to unmet demand and enable councils to deliver services that the private market does not supply.

- 7.5 Making socially responsible commercial investments is one way of improving citizens' confidence in their local council's decision-making. There are some good examples of socially responsible policy making in Wales. Flintshire, Monmouthshire and Cardiff councils are at various stages of establishing systems to monitor the organisation's ethical standards and performance. Cardiff has a Standards and Ethics Committee and a new Socially Responsible Procurement Policy<sup>7</sup> and the council plans to consider commercial investments as part of the committee's work programme.
- 7.6 Our detailed examination of a sample of ethical governance policies from across the UK plus analysis of comments and opinions from our national interviews and fieldwork find some important learning points on socially responsible commercial investment. These include being clear on what social investment, ethical governance or fair-trade means for the council and its communities. Favouring local companies and keeping investments local are an increasing feature of council commissioning frameworks and recovery planning to ensure investment makes a positive impact on a council's communities. The Welsh Government's 2017 **Ethical Employment in Supply Chains Code of Practice**<sup>8</sup> provides a good range of information that will help councils ensure their activity supports ethical employment practices.
- 7.7 Following our detailed evaluation of commercial investments across Wales, we set out below in **Exhibit 9** four key principles for how councils can seek to manage reputational risk and political exposure.

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7 [Cardiff Council's Socially Responsible Procurement Policy](#)

8 Welsh Government, [Code of Practice – Ethical Employment in Supply Chains](#), 2018

## Exhibit 9: Principles of 'Socially Responsible' commercialisation



Establish a set of ethical and socially responsible standards for commercialisation and insist suppliers, lenders, and partners act in accordance with these



Effectively communicate what the council is trying to achieve internally and externally



Ensure council leaders and staff practice what they preach and demonstrate ethical and socially responsible behaviour



Creating an open and honest learning culture to help the council learn from investment decisions from across the UK and use this information to shape its work

Source: Audit Wales

## Balancing the risk and reward of commercialisation

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
<p>We have agreed what is an acceptable level of commercialisation risk.</p>		
<p>When considering and approving a commercial venture we know:</p> <ul style="list-style-type: none"> <li>• how much risk we face;</li> <li>• how much risk we can take;</li> <li>• how much risk we should take;</li> <li>• how much risk we want to take;</li> <li>• how much risk we will take;</li> <li>• how much risk we are taking; and</li> <li>• how much risk our citizens are comfortable with us taking.</li> </ul>		
<p>When approving a commercial venture:</p> <ul style="list-style-type: none"> <li>• we set a realistic net profit target – i.e. profits after all operating expenses are accounted for; and</li> <li>• we have made a realistic forecast of income by month for each commercial venture.</li> </ul>		

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
<p>We have established a commercial due diligence process, and we use this to support us when approving commercial risks. Our due diligence assessment leads us to:</p> <ul style="list-style-type: none"> <li>• set realistic and achievable targets and business plan goals;</li> <li>• research and assess the market and identify where we are positioned;</li> <li>• assess where the market is heading and how this will affect the value/success of our venture;</li> <li>• identify and analyse who are our strongest and weakest competitors and assess how we will perform against them;</li> <li>• identify our customer base and profile likely usage and demand for our venture;</li> <li>• evaluate our prospects for reaching our projected revenues and in what period;</li> <li>• identify average price fluctuations historically;</li> <li>• forecast prices in the future; and</li> <li>• model revenue spend and capital spend.</li> </ul>		
<p>We risk assess commercial activity and ensuring the same level of governance and accountability arrangements extends to all high-risk commercial activity consistently.</p>		
<p>We have effective delegation arrangements for low risk commercial activity.</p>		
<p>Our approach to commercialisation aligns with the council's priorities and we are clear how each option contributes to delivering our corporate plan and wellbeing objectives.</p>		

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We effectively communicate internally and externally what the council is trying to achieve through commercialisation and specifically focus on the social value of our ventures.		
Our options appraisal process includes a specific assessment of how the commercial venture will deliver social value for the council.		
We have established a set of ethical and socially responsible standards for commercialisation.		
We insist suppliers, lenders, and partners act in accordance with our ethical and socially responsible standards.		
Our monitoring and evaluation of commercial ventures explicitly focus on what social value is being delivered.		



## Councils need to have effective governance and oversight of commercial decisions

### Sound decision making leads to better commercial investments

8.1 Doing business in the post pandemic world means maximising all the resources councils have and taking every opportunity to support the economy. Having appropriate governance and accountability arrangements to approve and scrutinise new commercial activity is key to achieving this wider goal. **Exhibit 10** shows the Bristol City Council approach to understanding how to balance commercial freedom with public accountability. The City Council's Commercialisation Strategy 2019-22 identifies and sets out the need to get the right balance between operating commercially and being accountable and transparent for public money.

#### Exhibit 10 – Bristol City Council approach to managing the tension between operating in a commercial environment whilst having due regard to the proper use of public money

##### Operating commercially

Financial return – Profit motivation and financial return to shareholder.

Commercial freedom – Unfettered: Financially motivated decision making, e.g. to participate in tax efficiency schemes bringing Council into disrepute.

Confidentiality – Strict confidentiality: Accusations of secrecy and breach of transparency legislation.

Swift decisions – Decision making autonomy: Quick and opaque decision making, can suffer from 'siloed thinking' as not joined up with city.

Industry standards – Procurement Autonomy: Ability to implement the latest industry systems, but with no ability to share data with the Council.

##### Proper use of public money

Impact/improved outcomes – Improved outcomes aligned to Council's strategic outcomes and social mission

Democratic control – Tightly Controlled: Micromanagement by elected officials, as opposed to business experts.

Transparency – Unrestricted transparency: Damage to the companies' commercial interests and market position.

Due process – Operational control: Organisation losing dynamism and market position, with layers of approval required to act. Competition with council business for day to day decision making.

Council systems – Procurement control: Organisation being locked into Council procurement rules/approval processes which may lead to delayed systems implementation and competition for council resources.

- 8.2 We find elected member engagement and involvement in commercialisation issues vary. The best approaches involve elected members early and have specific, well defined, and regularly updated policies that are appropriate to local circumstances and support councillors to discharge their governance, decision making and oversight responsibilities. Industry standards and best practice should be considered in any decision-making process, and we find the most effective councils are outward looking and seek to learn about what works and from other councils' experiences.
- 8.3 Despite finding a mixed picture of effective governance and oversight of commercial decisions in Wales, we did identify some good approaches through our review of cabinet and scrutiny papers. Both Monmouthshire County Council and Neath Port Talbot County Borough Council have created specific cross-party investment committees made up of councillors, officers and external experts, which can help de-politicise issues. Conwy County Borough Council and Flintshire County Council follow a pre-decision scrutiny model and provide elected members with the opportunity to challenge and shape the focus of commercial activity on wider issues such as economic wellbeing. Cardiff Council uses task and finish groups to undertake in-depth analysis and research and identify options for future commercial activity.

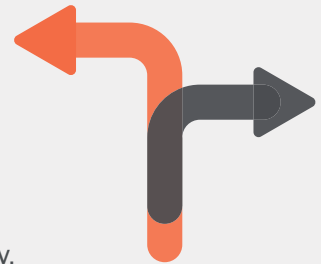
## Exhibit 11 – ensuring effective governance and oversight of commercial decisions

Dorset County Council has a clear decision-making framework for the governance and oversight of commercial issues. The Council sees this as integral to ensuring there is a transparent and accountable 'One Council' approach to commercialisation and income generation.

Commercial activity and key decisions to pursue and support such activity are overseen by the Commercialisation and Income Generation Board.

The key responsibilities of the Board are to:

- act as a gateway for commercialisation and income-related business case investment;
- make 'go' and 'no-go' decisions in relation to new and existing income opportunities and ensure that income decisions are taken on evidence-based principles which support realistic estimates of the income level to be achieved;
- ensure that commercialisation and income generation is being maximised within the framework set out in the policy;
- monitor and review performance of commercialisation and income generation against agreed targets;
- receive and consider an annual review of all chargeable Council services;
- consider and take decisions on proposals for changes in prices and the balance of cost and income;
- consider and take decisions where it is proposed that a 'subsidy' will be required; and
- consider and take decisions on concession rates and target groups.



Source: Dorset County Council, Commercialisation and Income Generation Strategy.

## Effective scrutiny of decision making can ensure better results and ensure lessons are learnt

- 8.4 Effective scrutiny is important because, at its best, it can contribute to good decision making and ensure public money is being spent wisely. Our survey of councils' corporate management teams highlights that 86% of respondents believe their council has appropriate and clear scrutiny processes to oversee commercialisation and 84% that elected members are provided with the information they need to challenge and scrutinise commercial matters.
- 8.5 However, only 27% believe that elected members have effective skills, expertise and knowledge to be able to provide effective challenge and scrutinise decisions and options. This is not helped by gaps in key information and elected members are often not getting the level of detail required to scrutinise and decide on commercial choices. For instance, consideration of usage, pricing, market conditions, competitor analysis and growth. Corporate management team members acknowledge that these are big gaps in key data needed to understand, monitor and evaluate commercial activity.

### Exhibit 12 – ensuring effective scrutiny of commercial decisions

Medway Council in Kent set out the key role of internal scrutiny in its commercialisation framework in 2015 and updated it in 2020. Specific Member training and guidance has been developed to help scrutinise commercial activity. This includes case studies and performance measures that set the agreed balance between economic, social and environmental objectives contained in business plans.

The six key areas the council has identified for scrutiny include:

- helping drive forward cultural transformation and setting a good example.
- supporting judgements about the rationale underpinning commercial activity.
- a focus on reputational, financial and partnership risks.
- oversight of relationships between partners.
- oversight of performance monitoring (rather than performance monitoring itself).
- early engagement with scrutiny is included in the business development process for major and mid-sized commercial ventures. Minor investments have specific checks and balances under delegated powers contained in the updated council corporate governance framework.

Source: Medway Council.



- 8.6 Our detailed review of all 22 councils' cabinet and scrutiny meeting reports and minutes since January 2018 highlights the importance of clear recommendations that are underpinned by good quality evidence when presenting information to elected members. The best scrutiny reports and minutes also clearly set out what constitutes commercial activity and recognise the importance of monitoring progress and the impact of commercial activity against an agreed range of outcome measures and relevant council priorities/wellbeing objectives.
- 8.7 The importance of good and effective scrutiny of commercial options cannot be underplayed or overestimated. Warrington Borough Council clearly defined its risk appetite and aligned its income generation strategy with the council strategy, customer strategy and the medium-term financial plan to ensure long-term financial sustainability of investments. Scrutiny Members also agreed what things the council would not invest in, and what things would unnecessarily expose them to risk. Because commercial ventures often require significant funding and have greater levels of risk, councils need to ensure they do more scrutiny, not less, to safeguard public money.
- 8.8 From our research the key features of an organisation with effective governance arrangements that support a positive commercial culture are shown in **Exhibit 13**.

**Exhibit 13 – a council with a positive approach to scrutinising commercialisation is epitomised by....**

- A transparent approach that sets out how decisions are made and by whom
- A confident decision-making culture with elected members not afraid of challenging officers and holding people to account
- Engaging and involving the business community and key stakeholders and ensuring there is cross-party political support
- Ensuring scrutiny is adding value and not unnecessarily slowing down the decision-making process
- Mainstreaming and integrating scrutiny of commercial activity into corporate governance arrangements
- Undertaking pre-decision scrutiny work to help shape choices and post-decision scrutiny work to ensure what is agreed is working
- Scrutinising the setting of targets and measures of success to judge improvement over time, and monitoring these when they have been agreed
- Sharing learning and drawing evidence from other councils in Wales and elsewhere to learn from what works

Source: Medway Council.



## Governance and scrutiny of commercialisation

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have a training programme that is equipping our elected members to effectively scrutinise commercial ventures.		
We have clear and appropriate governance structures to evaluate, scrutinise and approve commercial ventures.		
We have mainstreamed and integrated scrutiny of commercial activity into our corporate governance arrangements.		
We act in a transparent way and everyone is clear on how decisions on approving commercial ventures are made and by whom.		
We have a confident decision-making culture and elected members are not afraid of challenging officers and holding people to account.		
We receive good quality information to: <ul style="list-style-type: none"> <li>• judge whether we should approve a commercial venture; and</li> <li>• monitor and fully evaluate performance of our commercial ventures.</li> </ul>		
We draw on and utilise experts to help us scrutinise commercial ventures.		
Our scrutiny is adding value and not unnecessarily slowing down the decision-making process.		

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We undertake pre-decision scrutiny work to help shape choices.		
We undertake post-decision scrutiny work to ensure what we approve is working.		
We set targets and measures of success to judge improvement over time, and monitor these when they have been agreed.		
We scrutinise all our commercial ventures to ensure they are delivering for the council.		
We share learning and draw on evidence from other councils in Wales and elsewhere to learn what works, what does not, the risks we face and the potential rewards.		



# Appendices

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- 1 Audit methodology**
- 2 The key legislation governing commercialisation**



# 1 Audit methodology

## Review of literature

We have reviewed a wide range of documents and media, including:

- Welsh Government policy, statutory guidance and legislation;
- all 19 PSB Wellbeing Plans;
- all 22 councils' cabinet and scrutiny papers since January 2018;
- a range of income generation and commercial policies and strategies;
- data published by StatsWales and the Office for National Statistics; and
- other relevant research and guidance from government, councils, CIPFA, and research bodies.

## Surveys

We completed a detailed telephone survey with 842 people from all 22 council areas in Wales. We completed an online survey with all elected members and received 263 responses from all 22 councils. We also surveyed all 22 Corporate Management Teams and received replies from 44 individual officers. We had responses from all 22 councils in Wales.

## Fieldwork

We completed a range of national and local interviews with local authority staff in Monmouthshire County Council, Carmarthenshire County Borough Council, Caerphilly County Borough Council and Neath Port Talbot County Borough Council. We also visited councils and regional offices in Bristol and Manchester. We undertook a range of interviews with national bodies including APSE, the Joseph Rowntree Foundation, NESTA, the Local Government Network, and heard detailed case studies at a UK Government event 'Local Government Commercialisation: Generating Income To Support More Effective Public Services'.

## 2 The key legislation governing commercialisation

Activity	Key legislation
Specific Powers	<p>Local Government Act 1972            Local Government (Miscellaneous) Act 1976            Road Traffic Regulations Act 1974</p>
Public Bodies	<p>Local Authorities (Goods and Services) Act 1970 – General powers to work with other public bodies in collaboration to provide services.</p>
Community wellbeing	<p>The Local Government Act 2000 gave local authorities a general power to provide services or activities necessary for the wellbeing of the local community.</p>
Power to trade	<p>Local Government Act 2003 – Included a general power for councils to charge for discretionary services. Allows for trade through an LA company where a council has a statutory power to perform the service which is subject to trading. A council can:</p> <ul style="list-style-type: none"> <li>• charge for anything so long as there is legal authority for the council to run the service (and unless charging is prohibited);</li> <li>• charge for anything that it must do to set up, run and invest in a service;</li> <li>• trade for commercial purposes in anything that it wishes for the wellbeing of the community; and</li> <li>• make a profit on its trading activities</li> </ul> <p>These freedoms allow a council to stimulate innovation in the delivery of its services and set up potential trading vehicles to carry out a service for the wellbeing of the community.</p>
General Power of Competence	<p>Localism Act 2011 – In England only and has created powers to trade with the public and private sector. Allows councils to do anything an individual can do, unless prohibited by law and subject to public law principles. This does not exist in Wales, but the Welsh Government has included it in the draft Local Government and Elections (Wales) Bill.</p>





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