

Policy & Resources Committee

23rd November
2016

Is the final decision on the recommendations in this report to be made to this meeting?

Yes

Review of the Maidstone Borough Council Commercialisation Strategy 2014/15-2018/19

Final Decision-Maker	Policy & Resources Committee
Lead Head of Service	N/A
Lead Officer and Report Author	William Cornall, Director of Regeneration & Place
Classification	Public
Wards affected	All

This report makes the following recommendations to the final decision-maker:

1. To note the progress made since MBC's first commercialisation initiatives were commenced in 2014, and the renaming of Commercial and Economic Development service area to Regeneration and Economic Development; and
2. That the strategy be refocused to the following areas;
 - Pursue a housing and regeneration agenda and receive a detailed strategy for this within 3 months.
 - Continue business improvement reviews for existing services.
 - Develop the shared services with partner local authorities.
 - Expand the grounds maintenance and commercial and garden waste services.
 - Utilise IT innovations to boost the cost effectiveness and user experience of the parking service.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all – the proposal to focus further commercialisation and investment on regeneration type activities will help the physical renewal of the borough.
- Securing a successful economy for Maidstone Borough – the proposal to focus further commercialisation and investment on regeneration type activities will build confidence and appetite for private sector partners to continue to invest in the borough.

Timetable

Meeting	Date
Policy & Resources Committee	23 rd November 2016

Review of the Maidstone Borough Council Commercialisation Strategy

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The commercialisation strategy was adopted in August 2014, so it is important to review the success of the strategy to date, and recommend how it can be refined and improved for the future.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 Maidstone Borough Council (MBC) approved its current five-year commercialisation strategy on 13th August 2014. This was a broad strategy covering a number of areas to include organisational culture, roles and responsibilities and a list of possible project categories that the council could subsequently take forward under the “commercialisation” agenda.
- 2.2 The production of the strategy was at the time led by the Head of Commercial & Economic Development, and it was insightful in terms of the likely withdrawal by government of Revenue Support Grant, as well the opportunities that were afforded within the Localism Act. In essence, the strategy was to be embedded within MBC’s financial framework, with a view to bridging the emerging funding gap in the Medium Term Financial Strategy (MTFS) through the following means;
- Review of services offered, and the standard at which they are offered.
 - Improved and more cost effective ways of doing business.
 - Fairer and more effective charging.
 - The introduction of trading.
- 2.3 The strategy proposed a two tier approach;
- Service & Unit Commercialisation, with a focus upon;
 - Commissioning.
 - Business improvement
 - Charging.
 - Corporate Investment & Trading, with a focus upon;
 - Property investment.
 - Corporate trading (of existing or new services).
- 2.4 Although the overall aspiration was that the profits from new business streams would contribute to the MTFS, an undefined percentage of the profit would also be made available for reinvestment back into the service that actually generated it.

- 2.5 The strategy also proposed some organisational changes whereby the Corporate Leadership team would assume responsibilities for considering new ventures prior to them going forward to Committee, and to resolve any conflicts that might arise as a result of pursuing new business streams versus delivering traditionally accepted priority services.
- 2.6 Furthermore, a Commercial Projects Development Service, led by the Head of Commercial & Economic Development, was created to offer support to other managers to enable them to identify and evaluate commercialisation opportunities within their service areas. To this end, workshops were held that generated a large number of opportunities and these were distilled and prioritised to several initiatives that were subsequently approved for implementation by the respective committees.
- 2.7 The business streams that are considered to fall within the scope of the Commercialisation Strategy are a combination of “Service & Unit Commercialisation” and “Corporate Investment & Trading”, and are as follows;

Mote Park Café	The café businesses are only going to be very low margin at best, but these should be maintained as part of our overall “offer” at Cobtree, Mote Park and the Museum. Since the Mote Park café was brought in house, and a £80k investment made in the premises, it has incurred losses of £23,274 at the mid-year point, but an improvement plan is now in place. Incidentally, the Café at Cobtree Manor was initially unprofitable but following management action it now is.
Mote Park Adventure Zone	<p>The Adventure Zone project in Mote Park was approved in Feb 2015, with capital expenditure of £790,000. It certainly has potential, but delivery has been slow, with the planning application not being submitted until Sep 2016.</p> <p>It is envisaged that the planning application will be determined early in the new year and following a value engineering exercise with our proposed contractor, the facility should be open for business by November 2017.</p> <p>A business case was also presented to the Heritage Culture and Leisure Committee to introduce a parking charge at Mote Park. This is the first full year of charging, and whilst income is forecast to be behind target at the end of the financial year (£130k v £205k), the opportunity remains to grow income further. Even now the introduction of parking charges has produced an attractive positive cash flow.</p>
Pet Crematorium	The Pet Crematorium has been slow to move forward, with planning issues being difficult to resolve. In terms

	<p>of council priorities, a proposed capital investment of £645,000 is significant. The final costs and updated business plan are currently being considered by Officers and a final recommendation will be made to Committee early in the new year.</p>
Debt Recovery Service	<p>Mid Kent Services launched an “in house” debt collection / bailiff service in June 2016. At this stage it is too early to evaluate its success and scope for expansion.</p>
Solar Photo Voltaic (PV)	<p>The solar voltaic (PV) installation project was delivered. Due to the ever decreasing “feed-in” tariffs available from government, this is presently not an area for expansion.</p>
Business Terrace	<p>The Business Terrace is performing well and is certainly delivering upon its broader economic development objectives. An initial capital investment of £250k was made to fit out the space on the first floor of Maidstone House. The rental income is covering all staffing and running costs with the exception of its share of the councils’ own business space rent payable to Capital & Regional. Realistically, given the modest scale of the operation this is to be expected due to the staffing overhead required. A detailed review of the project to date, exploring potential for growth will be brought to the December meeting of this committee. However, initial evidence indicates that there is no case to expand the operation other than potentially to underutilised space at Maidstone House to which MBC has already committed.</p>
Parking Innovation	<p>The team are now being encouraged to pursue cashless payment at our car parks through a more mainstream App provider. This will ultimately reduce revenue running costs as well as the need for so much capital expenditure, as well as provide a much improved customer experience. Commercial enhancements to this service area are already detailed within the Integrated Transport Strategy.</p>
Commercial Waste Collection	<p>This service has been running for four years, and so predates the commercial strategy as it was used as a proof of concept. It is proving successful, operating with just one vehicle; during 15/16 it generated revenue of £176,693 and a surplus of £69,723 after direct costs, with 348 customers. The vehicle is now at capacity and so given the scope for further growth, a business case for a second vehicle will be brought to the Corporate Leadership Team in January 2017 and,</p>

	<p>subject to the strength of the business case will be presented to the committees Housing and Environment Committee in March 2017.</p>
Garden Waste Collection and Grounds Maintenance	<p>This service has been a success, generating revenue of £753,321 and a surplus of £523,431 after direct costs for the financial year ending 31st March 2016. At the year-end there were 22,691 customers. The delivery of the service is outsourced to Biffa, who undertake it on favourable terms, as part of their over-arching refuse service. Given that there are circa 67,000 homes in Maidstone (albeit including flats); there is still considerable scope for growing the service further.</p> <p>MBC has also won a number of small commercial grounds maintenance assignments. At this stage the total revenues are not significant but our market intelligence suggests there are plentiful opportunities but we need to further develop our 'offer' to ensure such opportunities are cost effective.</p>
Business Improvement & Commissioning	<p>In 2013, MBC adopted the Customer Service Improvement Strategy. This included plans to review services to make them more customer-focussed and more efficient and shift transactions to cheaper channels: digital wherever possible or telephone where this was not possible. By 2016, the majority of the major customer-facing services had been reviewed, including Housing, Waste and Recycling, Revenues and Benefits, and the Customer Services team had been restructured to promote and deliver digital first services. Over £190K has been saved and staff time efficiencies of 14 FTE (or 18,200 hours per year) have been delivered.</p> <p>There is still more work over the next few years to do to improve the value for money of services and deliver a better digital experience for customers. This will be done through transformation, continuous improvement and reviewing services using commissioning principles, to include the digital work evolving with Swale and Tunbridge Wells through the Town Centre Advisory project.</p> <p>A commissioning project nearing fruition is that of CCTV, which could lead to overall VFM improvements of the service.</p>
Shared Services	<p>Mid Kent Services (MKS) is firmly established, with shared services in place with Swale and Tunbridge</p>

	<p>Wells for IT, HR, Legal, Internal Audit and Planning Support. These services have a Shared Service Board where their respective financial and operational performances are monitored.</p> <p>MKS has also launched an “in house” counter fraud team in April 2016. The project was possible following a joint bid to KCC, Kent Police and Kent Fire and Rescue who fund the service to the value of £155,000pa.</p> <p>Furthermore, MKS have entered into arrangements with Medway council and Tower Hamlets council to provide interim management support in relation to IT and HR services.</p> <p>There are also other shared services for Licencing and Environmental Health too, although these do not fall under the MKS banner.</p>
Property Investment and Development	<p>This area has been very successful in generating new income, especially when buying existing properties, requiring little or no investment. Where the council has aspired to take on the property development role to realise the investment, progress has been slow in terms of acquisition and the appointment of professional teams.</p>

2.8 Therefore, two years on, the following observations can be made;

- Shared Services with MBC’s partner local authorities are truly embedded as a means of driving down costs, building resilience, quality and sharing expertise.
- Business Improvement and Commissioning is now very much business as usual for MBC. The notion of reviewing how services are delivered is seen by all staff as an integral tool to achieve and demonstrate Value for Money (VFM). Various service reviews and commissioning exercises are programmed for the coming years, to include the commissioning exercises for the CCTV and Park and Ride services, all of which is underpinned by the training that the teams have received through the Commissioning Academy.
- Smaller low margin business areas such as cafés have proven time consuming and not profitable (to date). Realistically, they will not make a material positive contribution to the MTFs, so this is not an area for expansion. Efforts will be made to make the Mote Park café profitable, but if this cannot be done, MBC will instead revert to a private sector operator.

- The expansion of environmental services into garden and commercial waste has been very successful. This is because it taps into an existing expertise and infrastructure, in an area where there is already an existing business relationship with the customers that have been brought on board. These two areas will be a definite focus for immediate business development activities to grow the revenue streams.
- In terms of property development and other capital investment type projects, to include the Adventure Zone, the Pet Crematorium and the new housing projects, progress has been slow at times, when appointing the most appropriate professional teams, finalising business plans and effectively commissioning and procuring the new buildings. Most likely this has been because of a lack of staffing skills and experience in delivering such capital expenditure projects, and the fact that the delivery of these projects has been dispersed amongst different teams. Such projects need to remain a focus, but will now be delivered from within a single team, so that skills and consistent working practices can be cultivated. This direction of travel was signalled by a Policy and Resources Committee decision in July 2015 to change the skill set within the Corporate Leadership Team.
- Property investment and development (Aylesbury House, Magnolia House, Square Hill and Queen Anne Road) has dovetailed with our approach to driving down temporary accommodation costs for MBC's homeless households, so has served a twofold purpose. Avoided temporary accommodation costs in the last financial year for Aylesbury House and Magnolia House totalled £281,528.

2.9 Looking to the future, it is proposed that housing development and regeneration is the mainstay of our commercialisation strategy. The reasons for this are as follows:

- When borrowing to invest, MBC has a competitive advantage as it can borrow more cheaply than market competitors, often over longer periods. Also, MBC would be starting this approach from a zero debt position.
- By building up our existing asset base, MBC would secure a long term, stable revenue stream that could be used to support core services in the medium to long term. Also, the asset base would be tradeable presenting an opportunity for capturing market growth upon disposal.
- As a local authority, MBC has very long term planning horizon, and so investing in property for the long term is a good strategic fit.
- There is a shortage of good quality homes for market rent in Maidstone, and so MBC could contribute to meeting this need, whilst generating an attractive yield from investing in this sector.
- By focussing upon building new homes (rather than acquiring second hand stock) MBC would be helping to regenerate the borough through these new buildings. Furthermore, MBC would also be able to capture the

developers' profit. This would generally be retained as equity by MBC, but from time to time, when the market conditions are right, some new homes could be sold for private sale, recycling the cash invested plus crystallising the profit.

- MBC, by developing some new homes of its own, would be making an active contribution to the delivery of the emerging Local Plan and it would also accelerate the yield of New Homes Bonus (NHB) (over the last six years MBC has received £18.6m of NHB).
- Given MBCs' desire to have a greater focus upon regeneration and place making, as per the role of the report author, it would be appropriate to align the commercialisation strategy to support this agenda, whereby funds available for capital investment are allocated largely to housing and regeneration projects.
- The track record of commercialisation projects to date indicates that property based projects have been the most reliable source of returns and provide the best fit with our skills and experience as a local authority.

2.10 While the focus of property development will be on housing, investment in other property categories is not ruled out where this meets our investment criteria and provides a good strategic fit.

2.11 Funding investment in property will remain within the constraints of the Prudential Code for Local Authorities. In other words, it must be affordable, prudent and sustainable, and the Council must be able to service and repay any borrowing undertaken.

2.12 In terms of MBC's property development activities to date, the shortfalls in delivery are being addressed by the creation of a specialist team within a re-bannered **Regeneration & Economic Development** service area (formerly Commercial and Economic Development). This now contains a specialist team, created out of existing staffing resources, that has a remit for MBC's sizeable (£1m+) housing and regeneration projects, so that there can be a focus upon delivery, working to standardised project protocols, with an emphasis upon being an "effective client", utilising the services of specialist consultants to oversee the quantity surveying, project management and contract administration tasks.

2.13 This regeneration agenda will have an emphasis upon housing led development projects. Typically, the schemes developed could have the following tenure mix;

Market Rent Housing	35%	These homes would be pre purchased by Maidstone Property Holdings (MPH), MBC's market rent vehicle that will be funded by long term prudential borrowing, New Homes Bonus and any surpluses that MBC wishes to deploy. These homes would be mid-market, perhaps aimed at young professionals.
Market Sale Housing	30%	Dependent upon MBC's risk appetite, this could be passed to the appointed contractor to deliver, or MBC

		could enter into a joint venture with the contractor on this element or MBC could choose to take the entire commercial risk itself.
Affordable Housing	35%	These homes would be pre purchased by a partner housing association to own and manage. They would also make interim payments to fund the construction of these affordable homes.
	100%	NB. The first two projects that MPH will develop under this framework will be Union Street and Brunswick Street. While these are being worked up (they will not complete until Sep 19), MBC will invest up to £4.5m to acquire 15 further homes for use as temporary accommodation, which will bring the portfolio to around 50 units, which will fully meet the foreseeable need. This investment will be set out in a new Temporary Accommodation strategy to be considered by the Communities Housing & Environment Committee in December 16.

2.14 Assuming that MPH chose not to participate in any market sale housing, and so invest only in market rented housing, at a typical cost of £200k per unit, **for purely illustrative purposes**, the table below demonstrates the possible costs and returns from varying sizes of investment packages over a 5-year period; The table set out below is reproduced in larger scale at Appendix C.

	5 Year Investment Package				
Number of market rented homes built per annum	30	40	50	60	70
Number of market rented homes built over 5 years	150	200	250	300	350
Total cost of market rented home (£200k per unit land, works & on costs)	£ 30,000,000	£ 40,000,000	£ 50,000,000	£ 60,000,000	£ 70,000,000
Gross rental yield	6%	6%	6%	6%	6%
Net yield (after management, maintenance, voids & bad debt)	4.5%	4.5%	4.5%	4.5%	4.5%
Long term cost of funds / debt (Interest)	3%	3%	3%	3%	3%
Net rental income per annum	£ 1,350,000	£ 1,800,000	£ 2,250,000	£ 2,700,000	£ 3,150,000
Interest costs per annum	£ 900,000	£ 1,200,000	£ 1,500,000	£ 1,800,000	£ 2,100,000
Net cash flow per annum	£ 450,000	£ 600,000	£ 750,000	£ 900,000	£ 1,050,000
NB1. Once modelled within a discounted cash flow, rental income would rise annually versus static interest costs, so as to enable repayment of the capital invested.					
NB2. Capital growth occur over the medium to long term, and so this could be realised through sale of the assets in the long term, to boost returns further.					
NB3. Borrowing could be reduced by utilising New Homes Bonus, so net cash flows per annum could increase.					

2.15 Given the Council's strategic and enabling role, there will also be other regeneration projects where the council can take a shorter term enabling role, as per Maidstone East, whereby funds are invested for land assembly and / or master-planning purposes, readying a site for onward sale to a private sector developer, so that MBC's initial investment (and profit) can be recycled into the next project. Similarly, given the rural nature of the borough, there will also be opportunities to facilitate the delivery of "rural exception sites" for much needed affordable housing, leading on land identification, assembly and Planning, but bringing in partner housing associations to develop out the projects.

2.16 In terms of completing the review, returning to the two-tier approach referred to in the commercialisation strategy, it is apparent that the senior staffing structure has evolved to meet these changing needs, as the two new director posts have a shared responsibility to deliver the refocussed strategy. The Director of

Finance & Business Improvement has within his remit the areas of commissioning, business improvement and charging (maximisation of), as well as implementing an appropriate treasury strategy to fund the capital investments. For the Director of Regeneration and Place, the focus will be identifying and delivering the housing and regeneration projects.

- 2.17 Assuming MBC is minded to support this shift in emphasis, the next step would be to invite from officers a detailed Regeneration Strategy, setting out priorities, delivery mechanisms, desired returns, quantum of investment and time-frames. Furthermore, by the end of the strategy period, it is envisaged that commercialisation will be fully embedded, so that there will not be a need for a follow on strategy.

3. AVAILABLE OPTIONS

- 3.1 To continue with the current commercialisation strategy through to 2018/19.
- 3.2 To note the progress made since MBC's first commercialisation initiatives were commenced in 2014, and the renaming of the Commercial and Economic Development service area as Regeneration and Economic Development.
- 3.3 That the strategy be refocused to the following areas;
- Pursue a housing and regeneration agenda and receive a detailed strategy for this within 3 months.
 - Continue business improvement reviews for existing services.
 - Develop the shared services with partner local authorities.
 - Expand the grounds maintenance and commercial and garden waste services.
 - Utilise IT innovations to boost the cost effectiveness and user experience of the parking service.
- 3.4 To cease all commercial activities.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred options would be 3.2 and 3.3 as they are the only means by which MBC will generate sufficient returns to support its MTFS. They are also the only options by which it can achieve its aspirations for regeneration and place-making.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 This course of action has been discussed informally with the two other CLT members, and at the Leaders meeting.
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 To notes the contents of the report, debate the merits of the proposals, and if in agreement, receive a new regeneration strategy to be received within three months.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<i>As detailed on page 1.</i>	William Cornall
Risk Management	A move towards a greater focus upon regeneration through capital investment will create risks around treasury management, market risk and project delivery controls.	Richard Clarke.
Financial	The commercialisation strategy and its refocusing towards housing and regeneration is an essential part of our Medium Term Financial Strategy and hence to our approach to balancing income and expenditure over the medium term. Any new strategy for regeneration will dovetail with a refreshed treasury management strategy.	Mark Green, S 151 Officer
Staffing	The creation of the Economic and Regeneration team will mean that some (one or two) lower level staff maybe switched across into this team from elsewhere, if they are currently involved in regeneration projects.	William Cornall
Legal	Not at this stage.	[Legal Team]
Equality Impact Needs Assessment	Not at this stage.	[Policy & Information Manager]
Environmental/Sustainable Development	By the council investing in regeneration and housing type projects, there is the possibility of the council pursuing a more progressive environmental agenda through its new buildings.	Rob Jarman
Community Safety	No issues to consider.	John Littlemore
Human Rights Act	No issues to consider.	Alison Broom
Procurement	No further procurement issues to consider.	Mark Green
Asset Management	As the residential property portfolio grows, suitable management arrangements will need to be put in place.	John Littlemore

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Commercialisation Strategy 2014/15-2018/19.
 - Appendix B: Financial analysis of current and previous commercial projects.
 - Appendix C: Possible costs and returns from varying sizes of investment packages over a 5 year period.
-

9. BACKGROUND PAPERS

None.