

A COMMERCIAL PROPOSAL FOR THE COUNCIL

Responsible Cabinet Member: Councillor Middleton, (Cabinet member for Resources and Commercialism)

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Executive Summary

The Administration's published financial strategy, set out three touchstone principles: smarter, sustainable, different. These touchstone principles have and will continue to shape this Council's response to Central Government's national austerity programme. This commercial proposal is driven and aligns with the "different" principle, in that it seeks to recognise that this Council cannot simply continue to deliver services in the same way. By 2020, this Council will need to work more closely with external partners to create capacity and maximise benefits. This Administration is committed to continuing to re-imagine how services can be delivered, whilst seeking both significant financial savings and safeguarding insofar as possible the services so valued by residents across all of Milton Keynes' varied communities.

Milton Keynes Council has to make financial savings and reprioritise spending equivalent to £59m by 2019/20, this includes reducing the cost of overheads, including property by around 40%.

This proposal recommends that the Council undertakes market testing to inform the procurement of a joint venture partner or partners in order to:

- Generate efficiencies in any MKC service, unless specifically excluded, so as to secure cost reduction.
- Create new commercial offers or to enhance the existing offers from any MKC service, unless specifically excluded, with an income share for MKC as a result.
- Offer a partner the opportunity to work collaboratively with the Council in developing major investment schemes, so as to maximise ongoing income or generate capital receipts. The scope of the delegation to this vehicle will of course need to be confirmed in the light of potential risks or the type of proposals which may emerge.

Once market testing has been completed, further approval will be required to commence the procurement process. In order to secure the best possible outcome from this market testing exercise and to facilitate the procurement of a joint venture partner(s), it is sensible and prudent that the Council secures additional capacity to support, inform and enhance this exercise. This report recommends the procurement of advice and support to:

- Manage the project overall, particularly ensuring alignment with other service changes and the development of a shared service proposal.
- Prepare for and manage the market testing
- Support the development of formal procurement documentation
- Provide specialist technical, legal and financial advice.

This additional capacity will enable the Council to maximise potential benefits as quickly as possible. The procurement will ensure advisors have experience of similar models, to simplify the process as much as possible.

1. **Recommendations**

- 1.1 That market testing to inform the development of a commercial offer to the market, on the bases outlined in section 4, be agreed.
- 1.2 That the procurement of additional advice and capacity designed to support, inform and enhance this market testing exercise, as set out in section 8 including the detailed timetable, be agreed.

2. **Context**

- 2.1 The Council is under significant pressure to protect and improve services; addressing the national austerity programme. The combination of changes to Government funding and increased local demand, which is not recognised in funding settlements, means there is a need to identify savings and reprioritise spending equivalent to £59m by 2019/20.
- 2.2 It would be very challenging for the Council to seek to address this funding/demand issue by only reducing staff and services. The size and growth of Milton Keynes means that continued reductions of this scale would increase the risks to the continued delivery of statutory services. This report therefore proposes an approach to maximise the benefits to the Council of a more commercial approach, which has been outlined in the Medium Term Financial Strategy.
- 2.3 Milton Keynes is fortunate. The local economy is strong, there is a demand for housing and business growth and Milton Keynes Council (MKC) holds a number of assets which it could exploit to help to address the financial position. While there are some local ideas which would generate income or reduce costs (e.g. Anaerobic Digester; Specialist Housing; rationalising property; providing temporary accommodation for homelessness and a solar farm) the progress in actually implementing these projects and realising the benefits has been slow.
- 2.4 Creating income and/or capital receipts from these opportunities is essential to the quality and sustainability of service delivery over the medium term. All the opportunities identified have the potential to make a significant impact, but will take time to negotiate and deliver. It is clear relying on internal capacity to bring these proposals forward will not deliver the potential benefits in the timescale required.
- 2.5 In addition, as other opportunities are identified in the coming months and years, having external advice and expertise available through a JV would help us determine the best solutions to maximise and expedite the benefits to the Council.
- 2.6 It is also the case that some services have the capacity to be operated on a more commercial basis, leading to ongoing income streams for MKC. Again, despite some progress in identifying these opportunities and working with colleagues to develop new ways of working, there is limited internal knowledge and capacity both in terms of delivery and support arrangements (for example in marketing, promotion and charging).

3. **Commercial Approach**

- 3.1 MKC has been developing its commercial approach for a couple of years in a number of ways:

- a) The development of MKSP as a basis for commercial trading. This has enabled a focus on traded services, with some success. There has been a growth in traded income turnover from £950k in 2014/15 to an estimated £1.7m in 2015/16; mostly from schools. This is expected to make a contribution to overheads of c£250k. Although this is a welcome contribution, the level of likely growth will have limited impact on the scale of the budget gap (£59m) over the next four years.
 - b) All colleagues have been encouraged to be more commercially focused and several end to end reviews are currently underway to streamline processes and reduce transaction costs. However, there is limited capacity to take this forward and while some teams have embraced a change in culture, there are still some which have not recognised the need for change. There is limited internal capacity to co-ordinate this approach overall and to drive improvement.
 - c) A Commercial Development Board has been established to consider business cases from across MKC, which could potentially create income opportunities. This Board assesses the potential benefits, the need for investment and the relative risks to determine which proposals should be taken further. Several income generation schemes have been suggested and are being developed by the Board.
 - d) Taking a more commercial approach to investment, for example the Residual Waste Treatment Facility, which, although more economic for MKC alone, created the opportunity to benefit from selling capacity.
 - e) The creation of MKDP to develop the assets purchased from the Homes and Communities Agency, which allows specialist property and development expertise to be harnessed to maximise the value of the assets.
- 3.2 While all of this activity is helpful and makes a positive impact on budget requirements, it is clear that the necessary pace and scale of change will not be achieved incrementally. However, in creating this proposal, work should continue on smaller scale trading activity and collaborative working.
- 3.3 Opportunities for investment proposals will need to be evaluated to determine which continue to be progressed alongside procurement and which are included in the commercial proposal.

4. **Proposal**

- 4.1 The proposal is therefore to accelerate the commercial aspirations of the Council by seeking a partner or partners through a joint venture or similar model to improve efficiency and practices, thereby, generating cash savings; delivering capacity that can be sold; and identifying and progressing investment opportunities. Market testing will inform the development of the commercial offer including defining the services that may be included. In real terms, if there is sufficient interest in one or another service area, it will be considered for inclusion.
- 4.2 It is currently proposed that the following elements could be included in a commercial offer, the final form of which will be determined following market testing:
 - Planning administration
 - Building control

- Transport administration
- Trading standards
- Licensing,
- Crematoria and cemeteries
- Environmental health
- Taxi licensing
- Registrars
- Emergency planning
- Strategic asset management
- Progression of major investment schemes (e.g. Specialist dementia housing and Anaerobic Digester)
- Property management and facilities management

4.3 The Council's requirements from a commercial partner would be as follows:

- Maintenance of current service standards as a minimum
- Investment in a commercial offer and infrastructure
- Cost reduction to the council as a result of selling services
- Specialist property and investment knowledge
- Track record of asset management and financial cost reduction
- Ability to bring in specialist capacity
- Experience of managing proposals through to implementation, and a track record of delivery against forecast benefits.

4.4 It is currently expected that the commercial procurement will offer a joint venture partnership(s) to:

- Generate efficiencies resulting in a cost reduction from any MKC service, unless they are specifically excluded.
- Create new commercial offers or to enhance the existing offers from any MKC service, unless specifically excluded, with an income share for MKC as a result.
- Offer a partner to work with the Council in developing proposals to maximise ongoing income or generate capital receipts. The scope of the delegation to this vehicle will need to be confirmed, in light of potential risks or proposals which may be considered.

4.5 The nature of the relationship and the structure of the deal would be developed through a procurement process. Partnership governance and delegation levels would need to be carefully considered. To make the commercial proposition attractive the joint venture vehicle will need the capacity to make choices from a commercial perspective, but there will need to be some retained MKC decision making based on business case proposals, particularly when considering the best use of assets.

5. **Advantages and Disadvantages**

5.1 These are as follows:

COMMERCIAL OFFER TO THE MARKET	
Advantages	Disadvantages
<ul style="list-style-type: none"> • Could maintain or improve service quality • Achieve savings for the council • Secures investment in processes and ICT • Potential additional employment for MK, as a strong growth area with good transport links, which could be an attractive hub. • Substantial investment and ongoing infrastructure to create a commercial delivery model • Provides the additional capacity and strategic property management which is creating delays in MKC. • Accelerates the process of investment and returns with a financial benefit to the Council in the medium term • Enhances the specialist capacity where necessary • Takes a commercial view on investment proposals • Asset and service investment potential in MK • Complements the property expertise and work undertaken by MKDP 	<ul style="list-style-type: none"> • Need to get in early to develop our market offer and not suffer a lack of interest due to “market fatigue” • The size may be less attractive than a wider offer. • Will need to explain the rationale for excluding some services. • Will potentially share the potential benefits. • Will take time to develop the partnership and set up governance arrangements.

6. **Market Feedback/ Experience**

6.1 Some concept discussions have been conducted to date, which together with experience from key individuals has led to the understanding that:

- MKC would have a good potential commercial offer;
- There is value in being an early proposal, rather than allowing others to go first;
- There would need to be a mix of services to guarantee an annual return to offset the potential risks, but bigger benefit from some of the capital schemes;
- A commercial incentive has resulted in improved services in some areas.
- The final structure could be a joint venture or a series of joint ventures as appropriate;
- Size and scale If this approach is to be supported further market testing would be carried out to shape the offer.

7. **Relationship to MKDP**

- 7.1 MKDP will remain as the advisors to MKC on all general land development matters, with the commercial offer complementing this advice through more specialist expertise in the development of business cases for specialist assets.

8. **Additional Capacity**

- 8.1 One of the major reasons the Council has been unable to develop and exploit its assets and potential for income generation is a lack of internal capacity and skills. In order to progress the procurement of a joint venture partnership, at a pace to deliver benefits quickly some additional capacity will be required to:

- Manage the project overall, particularly ensuring alignment with other service changes and the development of a shared service proposal.
- Prepare for and manage the market testing
- Support the development of formal procurement documentation
- Provide specialist technical, legal and financial advice.

- 8.2 Similar models to the one potentially to be explored through a market testing exercise already exist in the local government market. As such, a range of companies able to assist the development of such models already exist in the professional marketplace. The first stage would therefore be to procure a package of support which will meet the majority of these needs. This would ensure that the responsibility for co-ordinating and resolving issues is managed through a contractual arrangement. The alternative would be to procure separate elements of support for project management, professional advice and procurement. This would mean the Council becomes responsible for negotiating between advisors and resolving issues, which may result in delays.

9. **Other Options**

- 9.1 The proposal is not prescriptive about the nature of the agreement so there are only three other options:
- 1) Do nothing – which from the evidence so far, would show some commercial development and potentially one or two investment opportunities being developed, but with a relatively marginal impact on the budget requirement.
 - 2) Outsource services - a procurement approach would determine the benefits from this type of arrangement, however, this would give the Council less flexibility about service delivery as the context for the Council changes and less control over service quality.
 - 3) Develop an alternative shared service model. However, the experience of procuring a regeneration partner has illustrated the benefits of having a single provider working on strategic asset management and the maintenance of assets. At present the Council is not aware of a potential shared service partner that is exploiting the use of assets and property in this way.

10. **Process**

- 10.1 There would be a period of informal market testing which will allow the scope to be fixed before the formal procurement. It is therefore important that alternative approaches, or items out of scope or items added into the offer are defined relatively quickly to help shape the procurement. The process of creating a joint venture would be through competitive dialogue procurement, its scope will be subject to a further Cabinet approval.

10.2 In order to achieve benefits as soon as possible, the procurement will need to be focused and well managed. It is anticipated this will be led by a team of senior managers from across MKC, informed by experienced professional advisors.

11. Timetable

11.1 The following timetable is aspirational, but considering MKC's financial position, the potential benefits and the wider context, we need to progress quickly. The programme timetable will be reviewed in light of soft market testing and appropriate specialist technical advice.

WHAT	WHEN
Procure appropriate external support	December/ January 2015
Planning and pre-procurement including soft market testing	January/ February 2016
Cabinet approval to go out to tender	March 2016
Formal invitation to tender and selection by PQQ	April 2016
Competitive dialogue – ISOS/ ISDS	June to August 2016
ISFS and evaluation	September 2016
Bid clarifications and final evaluation	October / November 2016
Preferred bidder and commercial close	December 2016 to February 2017
Mobilisation and formal go live	April 2017
Benefits realisation	Dependent on contract – could request some benefits early on

12. Implications

12.1 Policy

The recommendations of this report are consistent with the Council's Medium Term Financial Plan.

12.2 Resources and Risk

The first stage of this work will be to procure some additional advice and support to plan and manage this complex and challenging procurement. It is estimated that this will cost c£0.4m over a two year period. However, this work will be procured in a staged manner, so the commitment will only be for the soft market testing initially to confirm if there is a commercial proposal and the level of interest in the market. This cost will be funded from £0.2m one-off resource which is recommended as part of the 2016/17 Budget and £0.2m from the Value for Money reserve, which will be repaid from the benefits delivered by the procurement.

Once appropriate advice and support has been secured, more detailed plans and specifications will be developed, which will inform decisions on the potential procurement of a partner. The full procurement exercise will only be taken forward if soft market testing shows that there is an opportunity to create additional income for the Council and/ or capital receipts.

N	Capital (at this stage)	Y	Revenue	N	Accommodation (at this stage)
N	IT	Y	Medium Term Plan	N	Asset Management

12.3 Carbon and Energy Management - None

12.4 Legal –Market testing is a usual stage as part of developing a procurement process. There are no further legal implications at this stage.

12.5 Other implications – At this time there are no implications from these recommendations but in the longer term it is not envisaged that this would lead to TUPE transfers or capacity losses. The proposal should secure existing capacity and has the potential to grow it.

N	Equalities/Diversity	N	Sustainability	N	Human Rights
N	E-Government	N	Stakeholders	N	Crime and Disorder
N	Carbon and Energy Mgmt				