

To: City Executive Board

Date: 5 December 2012

Report of: Executive Director, Community Services

Title of Report: External Income Generation – Update Report

Summary and Recommendations

Purpose of report: To provide an update on the progress of charging for discretionary services following the approval of the approach in a report to the City Executive Board on 21 September 2011.

Key decision? No.

Executive lead member: Councillor Bob Price

Policy Framework: Corporate Plan - Efficient, effective Council.

Recommendation(s): The City Executive Board is recommended to:-

1. Note the report.
2. Continue to support the recommendations agreed in the 21 September 2011 report.

1. Background

1.1 In September 2011, the City Executive Board received a report on the Council's approach to charging for discretionary services and resolved the following:-

- Approved the overall framework for charging third parties for discretionary services.
- Approved the overall framework for the supply of goods and services to other public bodies.
- Delegate the decision on whether to enter into arrangements with private sector bodies under which the Council would charge for services provided within or outside the City to the relevant Director, provided that the value of such arrangements did not exceed £100,000.
- Delegate the decision on whether to enter into arrangements with other public bodies under which the Council would provide goods and/or services to other such public bodies within or outside the City to the relevant Director, provided that the value of such arrangements did not exceed £100,000.
- Agreed to provide a report in a years time showing:-
 - The services sold.
 - The amount of money raised.
 - The effects of this within the Council's budget identifying specifically, if possible, where this has allowed us to reduce the costs of services within the budget.

1.2 This report provides the update agreed in the final resolution.

2. Direct Services

Introduction

2.1 Following the approval of the September 2011 report, Direct Services started the process of moving from a largely opportunistic approach to charging and trading to a more focused strategy.

2.2 The preliminary activities were:-

- To agree a management structure and roles to support the approach.
- To assign responsibilities and write job specifications.
- To mobilise the management team and agree an initial trading plan.

Progress

2.3 Following the preliminary activity, there was a period of putting in place the necessary infrastructure to support professional commercial operations. This included:-

- Agreeing a sales and marketing strategy.
- Communications with staff and trades unions (mobilization).
- Production of detailed sales plans.
- Producing documentation and gaining approval from Legal Services.
- Agreeing branding.
- Undertaking a detailed analysis of our cost base by service team and establishing a pricing policy.
- Designing and building a commercial website.
- The design and production of marketing brochures.
- Agreement to necessary basic internal processes responsibilities (e.g. pricing and quoting).
- Obtaining transformation funding to support a sales professional.
- Establishing capability to monitor web portals for tendered works.
- Establishing a document library and high quality tendering capability.

2.4 This work was completed by January 2012 which allowed the timely recruitment of a sales professional in February 2012. This, together with the establishment of a new board structure, meant we were able to start meaningful sales activity from March 2012 and thus invoicing in April 2012.

Services Sold and Market Competitiveness

2.5 Overall our sales approach has been successful and we have won external business for all of the services we are offering. Our market pricing is competitive and the feedback we have received for the quality of the services provided is good.

2.6 There are detailed sales plans with quotas and customer type by quarter but we have also had to react to aggressive targeting of our commercial waste service business by competitors in order to retain as much existing business as possible. This has to some extent necessarily diverted our plan in the first quarter.

Building Maintenance

2.7 This service has had some notable successes. We have SLAs in place with five of the cities main letting agents. We have started to deliver services on a diverse range of trades. The expectation is that this business will grow as the agents gain confidence in the quality and reliability of the service provided. At that stage we would look to negotiate

exclusive contracts for all of their work. Disabled Facilities Grant work was also an early success, in particular level access showers, where all of the initial round of quotations were converted into orders. In addition the joinery shop has just completed an order with a value of around £30k which is about to be invoiced.

2.8 We are making some headway with large contracts (those requiring CEB approval) and were ranked first equal for a planned works Pre-Qualification Questionnaire (PQQ) for a large housing association. We did not, however, proceed to tender stage with this as it later became clear that the value and geographical distribution of the properties were more than we were capable of undertaking at this stage since we are still finalising the details of the building services offering. A PQQ for responsive works for a smaller and more local housing association has just been submitted and should we eventually win this contact then the net contribution would exceed all growth targets for the next three years.

Commercial Waste

2.9 The aggressive targeting of our customers by competitors with below cost pricing has had an impact on sales. We have responded by retargeting our direct sales effort and by strengthening our account management capability. Although this has caused us currently to be below year to date quota, there have been some notable “saves” where we have received notifications to end contracts but have reversed these decisions. This has been particularly the case with city colleges where large contracts have been saved.

2.10 For the full year we expect that the changes we have made will enable us to meet targets.

2.11 The offering of an initially free (three months) food waste trial has been successful in converting prospects to customers and also signing existing residual waste only customers to our complete offering.

2.12 The expectation is that the bin weighing capability that is now in place will be a strong unique selling point to gaining new business as well as keeping pressure on operational costs.

Streets and Grounds Maintenance

2.13 The low barriers to entry for grounds work make this a difficult area to compete on price. To compete we have taken an approach of selling a combined offering. At one school we now have an annual contract for grounds maintenance works together with one off clearance activities, engineering works and building maintenance. This has been achieved with a strong sales effort and quality service.

2.14 By way of an example the extract below is from a local school of the positive feedback we are receiving:-

“Thank you for your team last week, they did a sterling job. There have been numerous comments from staff returning today on how well and so much better the school grounds are looking! “

2.15 The street cleaning team has also been successful in winning and growing business on trading estates and complexes.

Motor Transport:

2.16 This service has been successful in increasing works and indicative prices are competitive, however, we have not yet been successful in winning meaningful fleet business. Smaller fleet owners such as schools tend to have a loyalty to local garages so we are now targeting larger fleets and are in advanced discussions with another local authority.

Engineering

2.17 This service remains a strong source of revenue generation, mainly as this is a longer established external offering and referrals and repeat business support our direct sales effort.

2.18 Legislation transferring ownership of private sewers and lateral drains to local water companies and the associated maintenance responsibility have severely impacted on the demand for our jetting services for domestic customers so we will be targeting private organisations in the next quarter.

Revenue and Margins

2.19 As we are currently structured, legislation requires that for charging non public sector organisations we may only recover our costs, but that is all of our costs including overheads. For public sector organisations there is not this constraint and we are able to charge what the market will bear.

2.20 Currently, for the year to 30 September, additional external turnover from new customers is £330k which is ahead of the profiled target.

2.21 The full year budget target is to increase total turnover from additional internal and external work by £1.24million versus 2011/12. This will yield a net contribution of approximately £541k to the general fund. We are on track to achieve this target.

2.22 Within the Council's Medium Term Financial Plan there is a significant amount of budgeted income from external trading especially in the areas referred to in this report. Whilst other sources of income of this nature do reduce the net expenditure of the council the strategy is not without risk. Income once included in the budget needs to be maintained year on year if the budget is to remain in balance which is distinct from reduction in costs which generally once removed from the budget stay that way. To mitigate such a risk the Council does allow for a high degree of contingency for unachieved income more than what it would normally provide for unachieved savings.

3. Other Service Areas

3.1 With the exception of Leisure and Parks whose new business targets are profiled to start later in the year there is not currently significant activity to expand external business in other service areas. Leisure and parks have appointed a business development manager who has developed a strong trading foundation that is now being built on. Options for a suitable sales framework and strategy that would potentially incorporate all service areas and meet the wider Council's needs are currently being considered.

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