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LOCALIS

# The Commercial Edge

## Renewing the case for the local investment state

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## About Localis

Localis is an independent think-tank dedicated to issues related to politics, public service reform and localism. We carry out innovative research, hold events and facilitate an ever growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.

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## About Human Engine

Human Engine is a Financial Times top-ranked management consultancy with specialisms in strategy, people and performance.

It was founded by a group of former local government officers who think the public sector deserves better than it gets from traditional consulting firms – more human, more personal and more knowledgeable of the reality of delivering modern public services.

We have worked with dozens of public sector organisations to help transform their strategies, operations and cultures to be more agile, commercial and entrepreneurial in order to achieve financial sustainability and improved outcomes for local people and communities.

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## Executive Summary

Local authorities have engaged in commercial activity as far back as the twelfth century, when King John and the City of London raised revenue from commercial land charges to build London Bridge, through to the heyday of Joseph Chamberlain's Birmingham. Today's councils, however, are operating in a commercial environment that is unique to the here and now. In addition to austere budget cuts, social care pressures and a global pandemic, local authorities are subject to a commercial environment that is made especially difficult by a challenging media narrative, bought into by central organisations, that upholds the idea of council commercialism as inherently risky and morally suspect – continuously looking to make an example of any single local authority that gets it wrong as being applicable to the entire sector.

According to the Institute for Fiscal Studies, the coronavirus pandemic created a “perfect storm for councils, simultaneously increasing spending and reducing revenue-raising capacity”<sup>1</sup>. Local authorities have developed their 2021-22 budgets in the context of great uncertainty about how much to expect from central government and where other means of income generation are going to lie going forward. Moreover, the government has so far been adamant that money lost due to commercial investments by local authorities will not be covered by their income compensation scheme<sup>2</sup>. This presents an increasing need for commercial activity to be pursued strategically with caution, meticulousness, accountability and risk management embedded into respective agendas.

At the same time, we have reached a low watermark for political support for councils investing resources in assets or activities that deliver revenue streams to fund vital local public services. By latching onto ‘bad apple’ examples, this media-fuelled narrative depicts council commercial activity as something inherently risky and to be avoided. This is short-sighted and wrong. Undertaken with diligence, professionalism and conviction, commercialism can unlock latent place potential and deliver conspicuous and inconspicuous benefits to councils and the communities they serve. Strong, place-based answers to these questions are becoming increasingly necessary against a backdrop of an unhelpful national narrative and central government moving away from a commitment to the general power of competence.

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1. Institute for Fiscal Studies (2020) – COVID-19 and English council funding: how are budgets being hit in 2020-21?

2. Ibid.

## Contexts and Drivers

In this pressure cooker environment of increased spending pressures and decreased funding, commercialism has become increasingly prevalent as a means of sustaining income under duress, leading to a combination of demonstrative strategic local state resilience and, on other occasions, risky short-term and short-sighted decisions. These examples are few and far between when considered broadly but have nonetheless been latched onto in the construction of a wider 'bad commercialism' narrative, indicative of a shift in attitude from central government. Evaluations of commercialism *under duress* should not be conflated with evaluations of council commercialism overall – especially when good, resilient commercial practices undertaken by the local state have a very strong historical precedent with a wide range of excellent examples still found to this day.

This change in approach from the centre was typified in early 2021 in the revision of lending terms for the Public Works Loan Board (PWLB). The PWLB review followed on from a pre-pandemic report into local authority investment in commercial property from government spending watchdogs the National Audit Office, which revealed spend on commercial property acquisitions by local authorities in the three years to 2019 had increased by 14.4 times when compared with the preceding three years, with 49 out of 352 English councils accounting for 80 percent of commercial property spending during this time. Under the revised lending terms, council finance directors must in certify that that there is no intention to buy investment assets primarily for yield at any point in the next three years.

These recent shifts in attitude from central government outlined above, including changes in PWLB lending terms, are seen by the sector as a regressive step away from the presumption of a general power of competence introduced in 2011. At that time, amidst the beginnings of a decade of austere budget cuts, local government was told that it needed to be less 'risk averse' and embrace commercialism as means of being more creative and innovative with how they generate income and balance their books. However, with changes to PWLB rules and threats of direct action from MHCLG, it would appear as though central government are beginning to backtrack on this promising principle of decentralisation. This gap in understanding and interpretation of the role of commercialism in public service delivery needs to be closed, with a coordinated effort to build a case for local authorities to have the right to engage in commercial activity.

## Challenges Facing Commercialism in Local Government

- 1. Defining commercialism.** Throughout the sector, there is often debate and deliberation around definitions and language, and this is prominent around the notion of commercialism. Establishing a clear view of commercialism can be especially difficult in local government, due to the wide variety of services councils provide. Yet it is important to have a shared understanding of what commercialism means in practice. For council commercialism to become its most effective going forward, there must be a framework for it to ground itself in, attuned to local contexts, articulating these cross-system local priorities into a desired, outcomes-based approach.
- 2. Aligning commercial activity to public value.** Commercial ventures from local authorities are unique in the sense that public value creation, rather than simply focussing on profitability, is an outcome that they should be seeking to achieve. If commercial activity can be centred around creating public value, then residents and other stakeholders can be reassured that a commercial approach is one founded upon achieving better outcomes for residents. Good commercialism should be seen as supplementary to the broader goal of public value creation which, combined with long-term growth strategies and a democratic mandate, makes the local state uniquely patient and resilient when it comes to its value proposition as a commercial partner.
- 3. Commercial governance and managing risk.** Much of being a commercially mature council is about well-practised risk management. Commercially responsible councils need relevant, proportionate governance in place to plan strategically, diversify income streams and mitigate risk. Internal scrutiny (by Elected Members and officers alike) can encourage robust business cases, sound commercial decision making and evidence-based investments. This opens the door to sector-led improvement within local government, with well-run commercial councils reaching out and positively influencing peer councils who are similarly minded, encouraging greater local entrepreneurialism.
- 4. Commercial culture.** Aside from the more procedural practices, such as embedded lines of accountability, dynamic decision-making and a clear role for scrutiny, there must be a clearly defined understanding of the different aspects of commercialism and what they mean to the organisation and locality. This understanding will move councils beyond the oversimplified version of commercialism as being a matter of profit and sales, towards one that is able to balance a genuine commitment to place-based public value creation and maximising commercial potential by building commercial acumen and a commercial culture.

## Reframing the Debate

Evidently, the definitions and practices of commercialism are broad and diverse. What can be ascertained, however, are common themes of commercial maturity. These ideas are not new, but bringing together within the given context, the five themes give an understanding on approaches to local government commercialism and will support councils to apply to their place-based priorities:

1. Strategy and alignment
2. Supply
3. Demand
4. Market intelligence
5. Organisational culture

## Strategy and Alignment

Commercialism should not be seen as a 'bolt-on', but as a core enabler of a council's strategic plan, alongside community engagement, leadership development, service design, digital, employee experience and its other tools for transformation. Alignment of the organisation's policies, processes and behaviours to a more commercial way of working needs to follow from this because, without the right operating context, a culture of entrepreneurship is unlikely to survive. To fundamentally link commercial strategy to place, an area's assets should be central to its strategy and brand and considered roundly: each area will have its own unique mix of natural assets, built environment, industries, skills and employment opportunities, education, human capital, tourism and partnership dynamics. This is the essence of place-based commercialism.

## Supply

Councils spend up to 80% of their budgets with third parties and, despite a trend towards insourcing in some areas, most authorities still deliver most of their services via their supply chains – the value invested in this cannot be neglected. Recognising this, the post-Brexit Procurement Bill positions procurement to deliver public policy objectives including the creation of new businesses, jobs and skills; promoting supplier diversity, resilience and innovation; and tackling climate change and reducing waste. The *Transforming Public Procurement Green Paper* makes the case that councils need to prepare for the opportunities offered by the reforms, with government proposing "a new [central] unit to oversee public procurement with powers to review and, if necessary, intervene to improve the commercial capability of contracting authorities." The Local Government Association's National Procurement Strategy provides a maturity model for procurement in local government. Once the final details of the Procurement Bill are known, this should be updated and accompanied by a cross-cutting commercial skills programme for local government that matches the ambition of central government.



## Demand

The concept of demand is more complicated for local government than it is for the private sector in two ways. Firstly, councils must increase demand in chargeable services. This is one of the most traditional definitions of commercialism found across the sector, in which councils generate income through fees and charges, traded services or investment of property or land. Secondly, demand can be about managing down. Not all commercial activity is associated with 'investment' or 'sales'. Dealing and managing demand on high-need high-cost services **is** acting commercially. Although there are two opposite approaches to demand, their key features are the same. Understanding costs is critical to realising the financial benefits of income generation and demand management. Both income generation initiatives and demand management initiatives are not overnight sensations. Successful initiatives require carefully considered business plans, investment and market analysis.

## Market Intelligence

Councils are uniquely plugged in to their local communities and local economies. This allows them to build a picture of the market that is both more granular than most national operators could hope to achieve and more strategic than most local organisations can develop alone. This positions local authorities perfectly as intelligent mid-market operators in respect of both buying and selling services. Having worked through the ethical considerations (outlined in detail in the Challenges section of this report) and identified their tolerance of risk, councils should put their data to commercial uses to drive decision-making and demand management, as well as to create systematically collected, refined and applied insights into income generation.

## Organisational Culture

A council's commercial culture must be visible both internally and externally. Whilst some portrayals of council commercialism have been unfair, it is undeniably true that there is inherent potential risk associated with commercialism, especially when supported by borrowing and the use of public funds<sup>3</sup>. In order to allow for tangible local state autonomy in commercial matters, there needs to be a rebuilding of trust facilitated by stronger, more vocal commitments to a change in approach and practice. This starts with a commercial culture that is lived and breathed throughout the organisation internally. The council's commercial ethos and approach needs to be shared to all staff – and in staff inductions – to set the context from the start. This means communicating clearly, consistently and often, explaining how commercial activity is aligned with the organisation's core purpose and support the delivery of place-based public value across the locality.

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3. National Audit Office (2020) – Local authority investment in commercial property

## Conclusions and Recommendations

There is a tremendous role for commercially minded councils, particularly when considering how to drive, fuel and recover local economies post-COVID. Utilising the Commercial Maturity Model can enable local authorities to assess their commercial strengths, weaknesses, areas for improvements, areas for investment and, ultimately, support the development of their place-based commercial approach.

As the sector leads local recovery from the pandemic, commercial decisions by councils, be that local investment, reshaping contracts to encourage social value or trading services, will influence place-based commercialism and place-shaping.

As such, we have drawn a set of recommendations for each stakeholder group to encourage clear, practical and actionable conclusions from this research.

## Recommendations for Local Government Leadership

- 1. Set out your definition and communicate widely.** Be clear how this aligns to the purpose and values of the organisation, adopt a simple statement of policy and communicate with staff, partners and customers.
- 2. Likewise, agree risk appetite and communicate this early.** There is no sense in imbuing staff with the spirits and skills of entrepreneurs then tying their hands with process and rejecting every idea that entrails risk.
- 3. Invest in the skills needed to deliver this.** Give your teams the tools and techniques needed to deliver the councils commercial approach and use these skills to add value to public services. This can include softer skills like creativity, adaptability and influencing as well as more traditional commercial acumen such as market analysis, sales and finance.
- 4. Work with partners and drive greater value out of contracts.** Social Value can be a means to delivering public value. Don't underestimate the value that can be harnessed from supply chains and rigorous contract management
- 5. Undertake a self-assessment of your commercial maturity using the commercial maturity model.** Be sure to be check and challenge your own organisation and focus on how commercial activity will deliver the councils public value objectives

## Recommendations for Elected Members in Scrutiny Roles

- 1. Understand the drivers, risks and legislative limitations of commercial decisions in your locality.** This includes the reasons behind commercial activity, extent of council powers to do so and how this is applicable to your given locality. This also relates to aligning commercial activity to the council's corporate objectives.
- 2. Have a clear framework for evaluating commercial decisions, including financial and social considerations.** Situations and priorities change and with them so can the impact of commercial activity. But using a consistent framework for evaluation can ensure the council maximising the social return on investment, as well as financial.

## Recommendations for Central Government Partners

- 1. Recommit to the principles of the general power of competence** to enable councils the autonomy to act in the interests of their locality.
- 2. Develop a broader understanding of commercialism.** Government has made great strides in sharpening the commercial capabilities of those involved in public procurement. But, for local authorities, commercial activity is much broader than procurement and contract management. At present, there is a risk that local and central government use the same terms to describe different things. A common language will enable better understanding.
- 3. Deepen understanding of why councils are taking commercial decisions by creating a commercial network.** Councils have routinely delivered successful commercial initiatives. There is an opportunity for cross-sector learning to promote and entrench good commercial practice and join the gaps between policy and practice.
- 4. Consider what support could be offered on capability uplift.** Support local government to introduce a sector-led commercial skills programme that matches the ambition of central government training initiatives to position the sector to continue to manage its own commercial activity without the need for intervention.

## Introduction

According to the Institute for Fiscal Studies, the coronavirus pandemic created a “perfect storm for councils, simultaneously increasing spending and reducing revenue-raising capacity”<sup>4</sup>. Prior to the Covid-19 lockdown in March 2020, much hope from the local government sector was placed in ‘Levelling Up’ after the formal end to the ‘age of austerity’ set in train by the 2010 Spending Review. The pandemic has demolished any such ambition, as an estimated £9.7bn of cost pressures and income losses have been reported by the sector in early December 2020<sup>5</sup>. This impact varies across authorities, with district councils bearing the harshest brunt, due to their relying most on income-generating services.

Of additional expenditure brought on by the pandemic, adult social care accounted for £2.5bn followed by an extra £283m on environmental and regulatory services. The biggest hits to income were lost fees, and charges of more than £2bn, a £1.68bn reduction in business rates money, £1.43bn in council tax and £516m in other commercial income. The most recent one-year spending round saw the local government finance settlement providing no long-term financial certainty.

The local government outlook for 2022 and beyond, with mounting demand and cost pressures, consists of a widening funding gap in the absence of continued statutory-maximum increases in council tax, additional revenue grants or fiscal decentralisation<sup>6</sup>. Local authorities have developed their 2021-22 budgets in the context of great uncertainty about how much to expect from central government and where other means of income generation are going to lie going forward. In response to this escalating crisis, central government’s approach has been characterised as ‘timely, targeted and temporary’ rather than a commitment to guaranteed blanket of economic stimulus<sup>7</sup>. Whilst the MHCLG-led approach has evolved throughout the pandemic to be more strategic, with the set-up of a financial support safety net and data collection on the financial impact for the sector, authorities are still wrapped up in uncertainty when it comes to long-term financial planning.

Moreover, the government has so far been adamant that money lost due to commercial investments by local authorities will not be covered by their income compensation scheme<sup>8</sup>, with Robert Jenrick insisting that the government will only fund councils for expenditure “...relating to the duties it expressly asked them to carry out”<sup>9</sup>. This presents an increasing need for commercial activity to be pursued strategically with caution, meticulousness, accountability and risk management embedded into respective agendas. In addition to this, there is a need to draw a clearer picture of how commercialism

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4. Institute for Fiscal Studies (2020) – [COVID-19 and English council funding: how are budgets being hit in 2020-21?](#)

5. National Audit Office (2021) – [Local government finance in the pandemic](#)

6. Institute for Fiscal Studies (2020) – [Assessing England’s 2021-22 Local Government Finance Settlement](#)

7. National Audit Office (2021) – [Local government finance in the pandemic](#)

8. Ibid.

9. The MJ (2020) – [No bail outs for commercial investments](#)

can fit with the public sector ethos in a manner that reflects strong place investment and the creation of public value.

## Methodology for Research

This research follows a grounded theory methodology, where ideas developed in research are tested against the experiences of people working in and around the area of study and adapted accordingly. We have undertaken a mixed-methods analysis aligned to the following research questions. The research has included a series of roundtable sessions with Elected Members and senior officers from across all tiers of local government. To support this a short survey was shared with councils.

## Research Questions

We have reached a low watermark for political support for councils investing resources in assets or activities that deliver revenue streams to fund vital local public services. Among standout examples of negative headlines, we can count the recent case of the London Borough of Croydon Council. In a very public collapse in early 2021, lapses in financial governance relating in part to the council's housing and hotel ventures, resulted in the issuing of a Section 114 notice and special measures implemented by central government. By latching onto 'bad apple' examples, this media-fuelled narrative depicts council commercial activity as something inherently risky and to be avoided. This is short-sighted and wrong.

Undertaken with diligence, professionalism and conviction, commercialism can unlock latent place potential and deliver conspicuous and inconspicuous benefits to councils and the communities they serve. A place-based assessment of council commercialism should ask:

- How can we reframe the conversation to being one about commercialism as a lynchpin of the local state's resilience and necessary risk management?
- Beyond this, how can we make the positive case for an entrepreneurial local government as a crucible of public value creation – delivering services to residents and businesses that are useful, beneficial and profitable with a purpose?
- To what extent can council commercialism restore place prosperity and mitigate the scarring effects of COVID-19 on our high streets, town centres and communities?

### Snapshot: What is place-based commercialism?

When we discuss place-based commercialism, we are advocating the tailored use of commercial principles discussed in this paper to a given locality. Not all localities are the same. Priorities are different and councils will need to utilise some principles more than others to generate public value through their commercial activity.

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Strong, place-based answers to these questions are becoming increasingly necessary against a backdrop of an unhelpful national narrative and central government moving away from a commitment to the general power of competence. This report will look to make the case for reframing the debate, as well as exploring how local authorities can best maximise commercial successes through using themes from our research to shape a new framework for commercialism in the sector.

# 1. Context and Drivers

## Commercialism Under Duress

Local authorities' budgets have been put under immense, concerted pressure for more than a decade. This issue has been continually exacerbated by an exponential social care crisis – with an increase of £8.5bn in cost pressures over the past decade – as well as a total funding increase of £2.4bn<sup>10</sup>. In the midst of the pandemic, only four percent of local authority directors were confident that their 2020–21 budget would be sufficient to meet their statutory duties; a drop of 31 percent when compared to the previous year<sup>11</sup>. On top of this, local authority finances are being faced with £6.9bn of additional cost pressures and are likely to see a £2.8bn reduction in non-tax income due to COVID-19<sup>12</sup>.

In this pressure-cooker environment, commercialism has become increasingly prevalent as a means of sustaining income under duress, leading to a combination of demonstrative strategic local state resilience and, on other occasions, risky short-term and short-sighted decisions to plug funding gaps rather than focus on longer term outcomes for local economies. These examples have been brought to the fore against the backdrop of unpredictable regional, national and global events.

While these examples are few and far between when considered broadly, they have nonetheless found themselves readily latched onto by media and government in the construction of a wider 'bad commercialism' narrative. The implications here being that *all* councils are undeserving of increased financial autonomy and subject to 'moral hazard' from ministers when seeking recompense for financial losses accrued because of the pandemic and the series of national lockdowns.

The reality of the situation is that, whilst there are 'bad apples', many local authorities have been successful in commercial ventures for the better part of a century and have built up large commercial portfolios. Admittedly, the past decade of austerity has placed increased pressure on authorities to find other means of sustainable income, leading some among them to engage in much more high-risk commercial activity and, in consequence, instances of undesirable outcomes. However, **evaluations of commercialism under duress should not be conflated with evaluations of council commercialism overall** – especially when good, resilient commercial practices undertaken by the local state have a very strong historical precedent with a wide range of excellent examples still found to this day.

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10. Local Government Association (2021) – [Social care reform and the social care workforce](#), House of Commons, 18 March 2021

11. The Association of Directors of Adults Social Services (2020) – [ADASS Budget Survey 2020](#)

12. National Audit Office (2021) – [Local government finance in the pandemic](#)

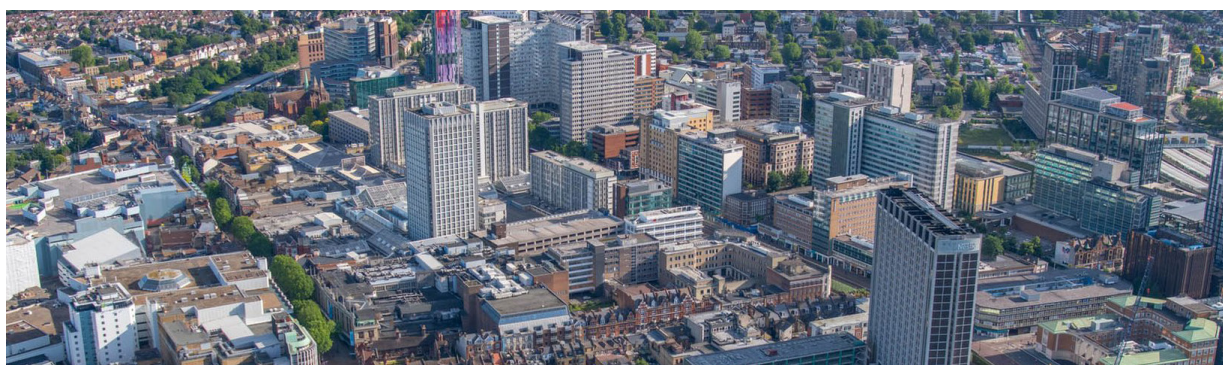
## Case study: London Borough of Croydon Council

Like many local authorities during austerity, Croydon Council has pursued a commercial agenda as a means of generating income. This includes a significant property investment programme, despite warnings of risk, market volatility and potential for drastic income loss attached to this. Some, such as the Colonnades shopping centre, have generated stable returns, particularly before the pandemic took hold. However, investments like the Croydon Park Hotel and the council's housing company, Brick by Brick, were less successful and have been stated to have contributed to the financial failure of the council, with bad governance and management as key reasons for this.

Reports have been scathing of Croydon, emphasising the council's bad management of budgets, low levels of reserves, poor leadership, and inability to properly manage commercial ventures. This has led to serious failures in financial governance and the council have often failed to identify, assess, or tackle risks, even when they have been advised to do so. For example, the aforementioned Croydon Park Hotel was purchased by the council for almost £5m more than the asking price – a fundamentally poor mismanagement of risk and public funds.

What has been left is a culture of malpractice in the council as well as being made an example for a national narrative of bad commercial practice in the sector. This narrative now sees the entire sector tarred with the same brush, resulting in an increasingly unsupportive approach from central institutions regarding commercialism from local authorities.

Croydon Council issued a Section 114 notice in November 2020 with a projected overspend of £60m which had now risen to £96.5 as of March 2021. The council is now subject to government interventions. Despite an emergency government loan of £120m over 2 years, it could take the better part of a decade at least to get Croydon Council's finances in adequate shape.





## Investment Decisions – Public Works Loan Board Changes

In early 2021, the government issued revised lending terms for the Public Works Loan Board (PWLB) and guidance to support local authorities to determine if a proposed project is an appropriate use of PWLB loans. Under the revised lending terms, in order to qualify for any PWLB loans, council finance directors must in future certify that there is no intention to buy investment assets primarily for yield at any point in the next three years. According to the Local Government Association, the inherent risk is that this would 'make it difficult for local authorities to continue to access PWLB borrowing to support service delivery including housing and regeneration, or to refinance existing debt'<sup>13</sup>.

The PWLB review followed on from a pre-pandemic report into local authority investment in commercial property from government spending watchdogs the National Audit Office, issued in February 2020<sup>14</sup>. The headline figures showed 14.4 times higher spend on commercial property acquisitions by local authorities in the period 2016–17 to 2018–19 compared with the preceding three years with 49 out of 352 English councils accounting for 80 percent of commercial property spending during this time.

## Changing Approach of Central Government

These recent shifts in attitude from central government outlined above, including changes in PWLB lending terms, are seen by the sector as a regressive step in decentralisation and stronger local autonomy. In 2011, Eric Pickles, then the secretary for communities, introduced a general power of competence. This was intended to signal a cultural shift from government towards genuine decentralisation and devolution. At the time, Pickles insisted that central government was 'keen to reduce the culture of local government dependency' stating that how local authorities intended to use their increased powers was 'up to them', going on to insist "...that's what decentralisation means"<sup>15</sup>.

These new commercial powers were meant to give local authorities the trust and confidence to act without having to seek central government permission. Off the back of this, amidst the beginnings of a decade of austere budget cuts, local government was told that it needed to be less 'risk averse' and embrace commercialism as means of being more creative and innovative with how they generate income and balance their books<sup>16</sup>. However, with changes to PWLB rules and threats of direct action from MHCLG, it would appear as though central government are beginning to backtrack on this promising principle of decentralisation.

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13. Local Government Association (2020) – [2020 Spending Review: On the Day Briefing](#)

14. National Audit Office (2020) – [Local authority investment in commercial property](#)

15. House of Commons (2011) – [General Power of Competence: Written evidence](#)

16. The MJ (2021) – [Councils defend 'misunderstood' commercial investments](#)

This gap in understanding and interpretation of the role of commercialism in public service delivery needs to be closed. Bridging this gap needs to be done promptly to avoid this becoming a major problem for the sector and standing in the way of sound local state commercialism. There needs to be a coordinated effort to build a case for local authorities to have the right to engage in commercial activity.

### Local Government Attitudes

Whilst commercialism within the sector has a rich history, more recently it has been turned to as a means of bolstering and diversifying income in the face of austere budget cuts, with more savvy councils also looking to instil more efficient, higher quality services with a clear focus on residents and the creation of public value. Furthermore, the sector has an aspiration to increase innovation and entrepreneurship that transcends partisanship and is found across most local authorities, with East Northamptonshire Council and others insisting that this skills package will ‘improve overall productivity’ and increase the potential for new models of service delivery that are better suited to our modern times . The commitment to meeting the needs of local residents more effectively and efficiently comes into play and by exposing staff to commercial ways of thinking, advances in technology and organisational practice can be taken advantage of to that end.

With that being said, there is a cautiousness that pervades the sector. Some feel as though commercial activity goes against the public sector ethos, on account of its use of public money, riskiness, and focus on profits and income generation. On the other hand, public ownership is a notably popular concept that continues to grow in approval amongst public sector workers and the general public – 55 percent of people want to see services run in-house by councils, whilst 64 percent of people distrust outsourcing companies to be in charge of council services .

### The Pandemic Era of Local Government

The aftermath of the pandemic presents an opportunity for a reset in the relationship between central government and local authorities. Retaining the positives of the local response to the pandemic and successive lockdowns will be crucial to reframing the conversation around commercialism to be one of recovery and resilience.

These positives include:

- A more efficient and targeted use of resources;
- A newfound appreciation amongst residents for their local space and;

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- Strengthened relationships between the local state and businesses
- The breaking down of silos and partnership working across local systems as well as within councils
- Community mobilisation, community-led service delivery and response

Despite these positives, the pandemic has left commercialism and commercial activity of councils without such successes. An estimated income loss of £9.7bn and zero support for losses from commercial investments<sup>17</sup> means there is a nervousness in the sector around the future of commercialism and what structure this could take.

## What does this Context Mean?

This context setting has explored a series of drivers to commercialism that outline approaches to commercial activity in local government and the downfalls and challenges faced by each. These can be summarised as:

- Commercialism as last resort: Associated with high-risk commercial activity that is used as a method of closing funding gaps when other methods (savings, efficiency, of reduction of savings) have been exhausted
- Outward focused commercialism: Councils have invested in property and land beyond their jurisdiction across different areas of the country. The changes to the PwLB means councils will no longer be able to borrow to fund such investments
- Locally competitive commercialism: Income generation initiatives can, and often, compete with local businesses. This can be counterproductive and undermines the local authority's role in facilitating economic growth

There is, however, a growing need to address the funding gap and income losses that have been emphasised by the pandemic. Place-based commercialism offers an alternative model for commercial activity, balancing commercial instinct and return with the delivery of public value to a given locality.

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17. National Audit Office (2021) – [Local government finance in the pandemic](#)

## 2. Challenges Facing Commercialism in Local Government

Our research has shown four key challenges that are impacting commercialism and commercial practice in local government:

- Defining commercialism
- Aligning commercial activity to public value
- Commercial governance and managing risk
- Commercial culture

### Defining Commercialism

Throughout the sector, there is often debate and deliberation around definitions and language, and this is prominent around the notion of commercialism. It is an area in particular need of grounding. For council commercialism to become its most effective going forward, there must be a framework for it to ground itself in, one that is itself reflective of how commercialism plays out in practice and is attuned to local contexts.

This must be done in collaboration with stakeholders, such as local businesses and the Local Enterprise Partnership to determine how this can be applied locally and where the boundaries to the council's commercial activity lie. Articulating these cross-system local priorities into a desired, outcomes-based approach would allow for commercial practice to be held to a consistently high standard that is able to deliver better services for stakeholders.

Establishing a clear view of commercialism can be especially difficult in local government, due to the wide variety of services councils provide. It is important to have a shared understanding of what commercialism means in practice. This will include having a strategy in place that clearly outlines the council's commercial ambitions and robust business plans for commercial projects or investments.

## Aligning Commercial Activity to Public Value

Measuring some public service outcomes is notoriously difficult. Using the notion of public value can support this. The Public Value Framework<sup>18</sup> defines public value to have four pillars:

- Pursuing goals: focusing on what overarching goals the organisation is aiming to achieve
- Managing inputs: testing the organisation's basic financial management
- Engaging citizens and users: highlighting the need to convince taxpayers of the value being delivered by spending and the importance of engaging service users
- Developing system capacity: emphasising the long-term sustainability of the system

Local authorities have a vested interest in creating public value for their local economy and residents through place-making and serving communities. Commercial ventures from local authorities are unique in the sense that public value creation is an outcome that they should be seeking to achieve, rather than simply focussing on profitability as the prevailing ethos. A social benefit to residents means a bonus return for the local state as a commercial investor that reaches beyond monetary gain. When producing commercial strategies, or engaging in any commercial activity, the focus should always be drawn from public value.

In this sense, if commercial activity can be centred around creating public value, then residents and other stakeholders can be reassured that a commercial approach is one founded upon achieving better outcomes for residents.

There is also the angle that if sound investments and commercial decisions are being made, there is the potential for other costs, most notably council tax, to be reduced – as budgets are being strengthened by other means. This is by no means a reason to have councils survive on commercialism in absence of proper support or sound fiscal policy elsewhere. Rather, good commercialism should be seen as supplementary to the broader goal of public value creation – an aspect that makes the local state commercially distinct when engaging with the market. Combined with long-term growth strategies and a democratic mandate, this makes the local state uniquely patient and resilient when it comes to its value proposition as a commercial partner of choice.

### Snapshot: What is public value?

An often 'catch all' term, public value is the method of understanding outcomes of public service where a financial value is notoriously difficult to measure. A recognised model of this is using the Four Pillars of Public Value Framework that defines public value as being the (1) the pursuit of goals, (2) managing inputs, (3) engaging citizens and (4) developing system capacity

18. HM Treasury (2019) – [The Public Value Framework](#)

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When it comes to having something to measure against, a distinctly local form of commercial awareness should be clearly articulating social and economic returns of every proposed investment and initiative. One way to ensure a commercial strategy is derived from local priorities and what is deemed as local public value is the use of the *Community Value Charter* model<sup>19</sup>. This can be used as a guiding framework for commercial ventures undertaken by a local authority as a mean of being able to evidence public value creation.



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19. Localis (2020) – [Brighten All Corners](#)

## Case study: Cornwall Council

In Early 2015, Cornwall Council's Public Protection Service shifted towards a more proactive approach to meeting the financial challenges of austerity by developing a new commercial strategy and focusing on delivery. Since, the council have set up 'Corserv' a group including council-owned businesses, such as a housing provider, Cornwall Airport Newquay, and a development company, each providing key local services to the people of Cornwall and beyond. The group provides back-office functions to all of these businesses, such as legal and financial capabilities. Cornwall Council are the sole shareholder of this group. Therefore, profits made by Corserv are sent back to the council as a dividend, allowing for further reinvestment in local infrastructure and public services. Recently, the group have delivered £7.75m back to the council, employed over 2,500 people, and have administered £13.46m worth of funding applications. Additionally, as part of their more commercially conscious approach, the council have set up a Business Regulatory Support (BRS) service. This provides business support, products, and services to the region as a means of producing additional income for the council thus supporting a more sustainable improvement and delivery of local public services. Having a single point of contact for extensive business support in areas such as environmental health, licensing and trading standards, planning, and fire safety demonstrate the ability to balance commercial growth with a product to support local business and promote public value in the region.

The success of the approach and subsequent strategies can be attributed to the bringing together of different departments, collaborative working with local stakeholders, a focus on customer needs, and an internal culture change that has embedded a strong synthesis between effective commercial acumen and a commitment to the creation of locally-attuned public value. The council also sing the praises of their local enterprise partnership (LEP) network, who, by bringing together key stakeholders and their assets for the sake of developing the region and improving productivity, have spurred on the council to use their assets and resources more effectively, as well as exposing them to ways of working and lessons that they otherwise may have missed out on. Furthermore, the council and the businesses that it owns are fundamentally committed to putting Cornish interests first. Their interwoven strategies consistently reiterate this principle and are lucid in how best to achieve it in practice. Moreover, the council are committed to 'responsible procurement' which produces benefits to the wider Cornish society, whether that be the council, the economy, the environment, or local communities themselves.

## Commercial Governance and Managing Risk

Everything councils do has risk attached to it and commercialism is by no means an exception. Much of being a commercially mature council is about well-practised risk management. The pandemic has presented many examples of local authorities being highly dependent on a small number of income streams of high value. Commercially responsible councils need relevant, proportionate governance in place, supported by skilled and commercially minded officers to plan strategically, diversify income streams and mitigate risk.

While managing commercial risk may be no straightforward matter for the private sector, it should at least be easy to define. Take the example of reputational risk: in strictly commercial terms, reputational damage can be measured by loss of revenues or market share. For local authorities, it is both more subtle and more fundamental: reputational damage can undermine public trust and confidence. At the extreme, this might jeopardise the legitimacy of the organisation to determine the public good. When this happens, democracy fails and whatever commercial benefits were once forecast will pale in comparison.

But governance must be kept in proportion. Commercial practice in the public sector is broad and various – it can range from setting up Teckal trading companies or complex, multi-million-pound joint ventures to simply instilling a more entrepreneurial culture within the organisation. These scenarios must be treated very differently. It is reasonable and responsible to exercise robust governance, assurance and scrutiny over bodies that are at arm's length to the council and spending significant amounts of public money. But excessive internal governance that acts as an impediment to trialling low risk innovations will stifle staff creativity and morale.

It is vital that councils do not see commercial activity as a homogenous mass, as in the case of Belfast City Council, which voted to reject a council commercial strategy that sought to “enhance culture and competency, make better use of assets and deliver sustainable and value-for-money services” on the basis that “[the council is] not a business”.<sup>20</sup> Rather, they should apply a pragmatic and risk-based framework that ensures appropriate governance and scrutiny of public finances while supporting empowered and engaged officers to innovate, pilot new ideas and deliver at pace.

Scrutiny plays a key part in effective commercial governance. Internal scrutiny (by Elected Members and officers alike) can encourage robust business cases, sound commercial decision making and evidence-based investments. While scrutiny often has an important role in holding the executive to account, it should also work to improve the quality of decision making, support colleagues in the effective implementation of those decisions and share responsibility for the outcomes.

There are many examples of effective scrutiny producing better outcomes across the sector. The

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20. Rudgewick (2021) – [Council rejects commercial strategy](#)



Centre for Governance and Scrutiny, in collaboration with Localis, produced a governance, risk and resilience framework that is richly laden with guidance on improving scrutiny practices and beyond<sup>21</sup>. What is critical here is a cultural shift in the way commercialism and scrutiny interact within local authorities. If scrutiny is thought of as simply being ‘checked up on’ by an external organisation, then the authority will lack the challenging, robust and reflective environment needed for self-improvement and the building of trust, between them and the public as well as between the local state and central government.

Officers in commercial roles benefit greatly from the role of scrutiny committees as ‘critical friends’ who are invested in improving the quality of outcomes. Effective scrutiny of commercial practice in central government has, among other reforms, led to the creation of a cross-departmental Government Commercial Function, a common set of people capabilities and standards for those in commercial roles and a catalogue of practical toolkits, advice and guidance to support good practice.<sup>22</sup>

This opens the door to sector-led improvement within local government, with well-run commercial councils reaching out and positively influencing peer councils who are similarly minded, encouraging greater local entrepreneurialism. Place-based commercialism can remove competition between councils, enabling leading councils to equip the wider local government sector with a tangible commercial edge.

## Data: Availability and Ethics

When it comes to their personal data, customers have many of the same rights and protections in dealing with the council as they would a private company. Their data should only be stored and processed securely; it should not be stored any longer than is necessary, customers must be able to opt of their data being used for marketing purposes.

The picture becomes murkier when we consider one of the key principles of the GDPR – the lawful basis for the processing of data. Whether through census data, council tax collection or the exercising of safeguarding duties, the council’s statutory roles and responsibilities provide a lawful basis for the collection and processing of vast and diverse sets of data that would rely on consent in the private sector.

For commercially minded councils, there are multiple ethical considerations that arise from this. First of all, if individual pieces of data have been gathered through the exercise of a statutory function or public service delivery, then they can only be used for the purpose for which they were lawfully collected and shared as needed to fulfil said purpose. However, when aggregated, meta-data creates

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21. Centre for Governance and Scrutiny (2021) – [The governance risk and resilience framework](#)

22. GOV.UK (2016) – [Commercial Continuous Improvement Assessment Framework and Commercial Functional Standard](#)

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an overview of the local market without needing to identify or reveal individual sources or values within it. Therefore, so long as the data is aggregated and it is protected on an individual basis, then this type of data can ethically and lawfully inform a local authority's commercial strategy. The role local authorities have played in administering grants and rates relief for businesses during the coronavirus pandemic reveals further ethical dilemmas. Data gathered from this process will paint a picture of the local economy that can be used to identify commercial opportunities and gaps in the local market. Whilst inherently valuable, use of this data could potentially cause a conflict of interest with regard to a number of a local authority's business support functions.

It could be considered irresponsible not to use this intelligence when developing business cases for commercial ventures – as it allows for a more efficient process with more locally-attuned outcomes. However, without the statutory obligation to do so, a local authority using this data to identify market failure and step in as a provider of last resort could be seen as local government stepping too far into the commercial economy. A situation could present itself where market failure has been identified and rather than support the businesses that are failing, it would be more commercially viable for the authority to pursue the venture themselves. Potentially pursuing commercial ventures on this basis, using the data that local authorities have at their disposal, presents a critical tension between an authority's public service commitments and producing good commercial strategy. There is no universal answer regarding the ethics of this and it is down to the local authority to cautiously assess the use of data in this manner on a case-by-case basis.

The picture with data on the public sector's supply markets is almost an exact mirror image. Contract management, in general, is poor across the sector – data on third party suppliers is not uniformly or even systematically collected, less often still refined into commercial intelligence, and virtually never shared between departments, agencies or authorities. In their 2019 discussion paper<sup>23</sup>, Tizard and Walker proposed made three recommendations to improve the quality, availability and application of publicly held data on commercial contractors:

1. Improve collection of data on outsourced contracts,
2. A 'Domesday Book' for all public sector contracts,
3. Structural reform of audit, scrutiny and accountability across the sector,

Progress towards these reforms is underway. Most recently, with the announcement of that the Audit, Reporting and Governance Authority will be strengthened with new powers to oversee the local

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23. Tizard & Walker (2019) – [A Domesday Book for public service contracts: better data, better value for money](#)

government audit system<sup>24</sup>. The Transforming Public Procurement Green Paper<sup>25</sup> also proposes two game-changing measures for both the public sector and those who do business it:

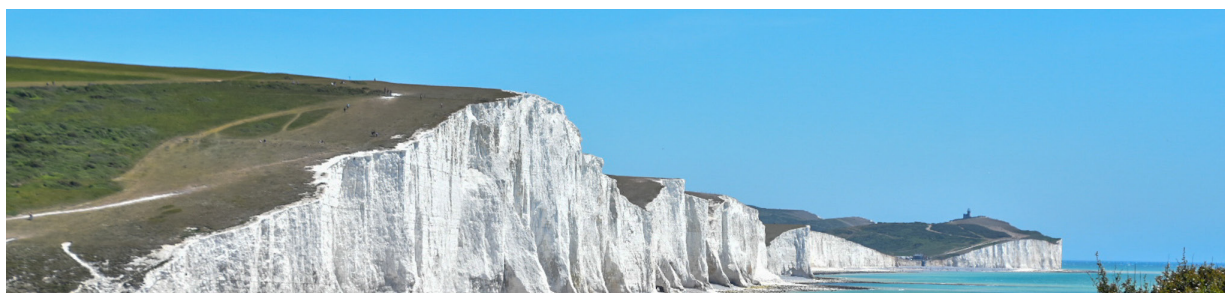
1. Requiring all contracting authorities to implement the Open Contracting Data Standard so that data across the public sector can be shared and analysed,
2. Establishing a single digital platform for supplier registration that ensures businesses only have to submit their data once to qualify for any public sector procurement.

These developments are welcome and long due. However, they are still draft legislative proposals and the programmes required to implement them will be technically and logistically complex. In the meantime, there remains no common digital strategy for procurement in the public sector. On the whole, necessary changes required in how the public sector collects, shares and harnesses its commercial data have yet to come to a simmer.

## Commercial Culture

Central to unlocking the potential of commercialism to bring about public value is to instil a culture that is instinctively commercial and associated skills and working practices. As discussed above, most people working in the sector do so with a strong public service ethos. Asking them to embrace a more commercial approach will require a huge shift in mindset, as well as a focus on new skills. Aside from the more procedural practices, such as embedded lines of accountability, dynamic decision-making and a clear role for scrutiny, there must be a clearly defined understanding of the different aspects of commercialism and what they mean to the organisation and locality.

Understanding and defining this, along with investment in commercial skills, will create a shared place-based approach to commercialism throughout the organisation. This understanding will move councils beyond the oversimplified version of commercialism as being a matter of profit and sales, towards one that is able to balance a genuine commitment to place-based public value creation and maximising commercial potential by building commercial acumen and a commercial culture.



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24. Clarence-Smith (2021) – [Audit, Reporting and Governance Authority to have powers over council audits](#)

25. Cabinet Office (2020) – [Transforming public procurement](#)

## Case study: Wealden District Council

In the midst of wrestling with financial pressures and going through the motions of cost-cutting, reducing services and outsourcing, Wealden District Council began to formulate a refined commercial agenda as a means of potentially generating additional income. From the outset, the council have ensured that their commercial strategy and practice is informed by a commitment to a 'double-lock' principle – where projects not ongoing generate a commercial return for the council but must also deliver public value for Wealden's communities too. If a project purely delivers commercial return with little to no tangible public value, then it does not align with the organisation's commercial strategy and will not be pursued. This sees the council treat their commercial agenda as investing in place, rather than chasing profits and allows them to position themselves as a unique commercial partner in the local market – able to accept conditions, situations, and trade-offs that typical private sector entities may be less inclined towards.

As part of their refined commercial agenda, the council have undergone a restructuring, spearheaded by the new Head of Commercial Services role and an emphasis put on commercial acumen and commercial skills in the recruitment process for all roles. This refreshed governance overlay has come with developing an understanding amongst senior management and members on how commercial projects are best approached, what due diligence is necessary, and ensuring that all are able and feel comfortable to scrutinise activities. An audit committee looks after Wealden's finances and quarterly reports on commercial activity are taken to the committee. Moreover, an asset management group – comprised of the leader of the council and senior officers – is tasked with providing detailed scrutiny, particularly at the early stages of new commercial projects.

Lastly, the council is committed to exposing staff to ways of working that are more commercially minded and innovative, which has led to great success and improved service delivery. Investment in training and development for all staff within the organisation has been provided, allowing for staff to understand what being commercial means, how it is different from typical public responsibilities, and to embed what the authority's commercial strategy should mean in practice. A major part of this shift in organisational mindset has been a 'Leading Wealden Forward' initiative, which sees 3rd and 4th tier managers required to take on a management training course that includes a module on commercial understanding & skills. From this, staff have been able to buy in to the commercial strategy and more effectively use council assets – such as data and various technologies – to drive the strategy into good practice.

## 3. Reframing the Debate

To overcome these challenges, there is an opportunity within the sector to reframe the debate and be clear on what commercialism means. Evidently, the definitions and practices of commercialism are broad and diverse. What can be ascertained, however, are common themes of commercial maturity – together forming a strong framework to ground understandings of commercialism in going forward:

- 1. Strategy and alignment:** Ensuring commercial activity is aligned to the organisational strategy so it is clear the role commercial activity has in creating public value and improving quality of services.
- 2. Supply:** This includes commissioning, procurement and contract management.
- 3. Demand:** Striking the right balance between generating demand in income-generating services and managing high-cost, non-value adding demand. This cost-conscious thinking is a key feature of a commercial approach.
- 4. Market intelligence:** Supporting supply and demand, commercial activity relies on understanding the markets you do business in, as either a supplier or a buyer.
- 5. Organisational culture:** Creating a way of working that supports commercial activity, communicating this to the organisation so that people are aware of why they are doing it and outlining a position that everyone can engage with and align to their daily work.

These ideas are not new, with all councils applying each to a greater or lesser extent. But bringing together, within the given context, the five themes give an understanding on approaches to local government commercialism and will support councils to apply to their place-based priorities.

## Strategy and Alignment

89 percent of organisations globally say that commercial awareness is needed to achieve their main business outcomes<sup>26</sup>. With 8 out of 10 councils saying they would have to raise tax or cut services without their commercial activities<sup>27</sup>, the case should be clear that responsible commercial practice can help to support local priorities and create more sustainable public services.

Commercialism should not be seen as a 'bolt-on', but as a core enabler of a council's strategic plan, alongside community engagement, leadership development, service design, digital, employee experience and its other tools for transformation. Councils must agree overarching objectives for commercial activity and be clear how this aligns to their core purpose, statutory requirements, and broader public value goals.

Alignment of an organisation's policies, processes and behaviours to a more commercial way of working needs to follow from this is because, without the right operating context, a culture of entrepreneurship is unlikely to survive. The organisation's policies need to allow a degree of calculated risk taking and processes must allow it to act at speed when an opportunity arises. Furthermore, the messages from leadership must be consistent and clear.

What is important to note here is that local authorities will inevitably be growing unique commercial approaches – often mixing various forms of commerciality to find what works for them. This should be firmly rooted in an ethos of creating value for the local area. To fundamentally link commercial strategy to place, an area's assets should be central to its strategy, part of a local authority's brand, and considered roundly. Each area will have its own unique mix of natural assets, built environment, industries, skills and employment opportunities, education, human capital, tourism and partnership dynamics.

This is the essence of place-based commercialism. A city council's income from car parking is a rural county's investment in solar farms. A district borough's investment in housing to support local population growth is a metropolitan borough's traded support services for local SMEs. Grounding this with examples, in the most recently published Annual Parking Report, Westminster City Council generated £87.815m revenue from parking in 2019/2020, with £69.471m reinvested back into council services<sup>28</sup>. In comparison, West Sussex County Council have invested in a 25-year renewable energy solar farm programme on a 35-acre closed landfill site<sup>29</sup>. Each locality is unique in its social, economic and environmental makeup and this can and should be exploited for a place-based commercial edge that creates public value.

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26. Financial Times (2015) – [Embedding Commerciality White Paper: Practical guidance on how firms are growing professionals' business awareness](#)

27. Localis (2015) – [Commercial Councils: The rise of entrepreneurialism in local government](#)

28. Westminster City Council (2020) – [Westminster Annual Parking Report 2019/20](#)

29. Pratt (2018) – [UK's second subsidy-free solar farm completed by West Sussex Council using battery storage](#)

## Supply

With the public sector spending at least £290bn a year with third party suppliers, this piece of the commercial jigsaw cannot be overlooked<sup>30</sup>. It is a key component in delivering public services, achieving value for money, creating social value and targeting resources towards levelling up.

Councils spend a significant parts of their budgets with third parties, and, despite a trend towards insourcing in some areas<sup>31</sup>, most authorities still deliver a majority of their services via their supply chains – the value invested in this cannot be neglected. Insourcing emphasises this point further – with the need to plan a robust handover, carefully manage the transition and develop a detailed understanding of costs.

The post-Brexit Procurement Bill positions procurement as a means to deliver public policy objectives including the creation of new businesses, jobs and skills; promoting supplier diversity, resilience and innovation; and tackling climate change and reducing waste. The proposed legislation represents the most radical overhaul of public procurement in at least 20 years and the government’s *Transforming Public Procurement Green Paper* makes the case that councils need to prepare for the opportunities offered by the reforms;



*“Contracting authorities should also ensure they have the right organisational capability and capacity so that their commercial teams are sufficiently experienced and trained to ensure effective commercial delivery. They should assess the procurement skills across their organisation, including benchmarking themselves against relevant standards, to ensure they have the appropriate capability to implement the new reforms and realise the huge potential benefits.”*

Failing to do so could be very costly to local autonomy and empowerment, with government proposing “a new [central] unit to oversee public procurement with powers to review and, if necessary, intervene to improve the commercial capability of contracting authorities”.

These proposals come in the wake of recommendations from the Public Accounts Committee (PAC) and the National Audit Office concerning government commercial skills, with focus sharpened following the collapse of Carillion. The PAC stated in a 2018 report<sup>32</sup> that

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30. Cabinet Office (2020) – [Transforming Public Procurement](#)

31. Public Finance (2019) – [Coming Home: Local Government Insourcing](#)

32. House of Commons, Public Administration and Constitutional Affairs Committee (2018) – [After Carillion: Public sector out-sourcing and contracting](#)



*“The Government must improve its skills in the negotiation and management of contracts, so that it best employs the strengths of the private sector while also understanding its limitations and weaknesses.”*

These recommendations have been embraced by the cross-cutting Government Commercial Function, which has developed a capability framework for civil servants in commercial roles and practical guidance around outsourcing and market management. Although much of the guidance is transferable to other parts of the public sector, it is initially intended for professionals in central government departments.

The Local Government Association’s National Procurement Strategy provides a maturity model for procurement in local government. In line with our recommendations for sector-led improvement, this should be updated once the final details of the Procurement Bill are known. It should be accompanied by a cross-cutting commercial skills programme for local government that matches the ambition of central government and strongly positions the sector to continue to manage its own commercial activity and risks without the need for intervention.

## Demand

The concept of demand is more complicated for local government than it is for the private sector. There are two distinct elements of demand for local authorities to consider in the commercial landscape, which seek to push demand in opposite directions.

Firstly, and more commonly associated with commercial activity, councils must increase demand in chargeable services. This is one of the most traditional definitions of commercialism found across the sector, in which councils generate income through fees and charges, traded services or investment of property or land.

Secondly, demand can be about managing down. Not all commercial activity is associated with investment or sales. Dealing and managing demand on high-need, high-cost services *is* acting commercially. This is not to say councils should turn service users away from these services, but it is commercially astute and delivers public value to minimise the need for these services through different means. A prime example of this is the continued investment from local authorities in the early intervention and prevention agenda to reduce demand on high-cost services. Ensuring people can access support before reaching crisis saves organisations money by reducing demand on more traditional social care services. This cost-conscious thinking is a key feature of a commercial approach.

Although there are two opposite approaches to demand, their key features are the same.



Understanding costs is critical to realising the financial benefits of income generation and demand management. A common mistake across the sector is conflating cost with price. When setting prices for income generation services, it is important to calculate the value customers place on it, not how much it costs to deliver. In addition to this, a common feature of demand is the need to invest in order to save. Both income generation initiatives and demand management initiatives are not overnight sensations. Successful initiatives require carefully considered business plans, investment decisions and market analysis.

## Market Insight and Intelligence

From understanding key supply markets to knowing what value customers place on their services, every decision a commercially-minded council makes will be driven by insight. Investments will be made with a long-term view of local and national contexts. Risks in key supply markets will be identified before they hit the headlines. New products and services will be developed based not just on what the organisation can do but what customers are willing to pay for. Whether an organisation's primary commercial focus is selling traded services or the effective management of its supply base, market analysis is one of the most crucial capabilities across local government – and one of the most neglected.

Councils are uniquely plugged in to their local communities and local economies. This allows them to build a picture of the market that is both more granular than most national operators could hope to achieve and more strategic than most local organisations can develop alone. This positions local authorities perfectly as intelligent mid-market operators in respect of both buying and selling services.

Having worked through the ethical considerations outlined in the Challenges section of this report and identified their tolerance of risk, councils should put their data to these commercial uses:

1. Decision Making – using the full range of available data and market intelligence to inform better decision making, whether forecasting the return on investments or estimating market share and growth for chargeable services. The application of data is paramount; authorities should ensure that they have the commercial skills and capabilities to interpret data and refine it into actionable insight.
2. Demand Management – data-driven demand management can help councils predict where the greatest strain will be placed on services and take proactive measures to manage it down. Significant cost reductions can follow, but it is not about ignoring or eschewing customers' needs. Properly targeted, councils can use the data they hold to redefine their relationship with customers and help their needs to be met by more efficient (and in many cases more effective) means, including increased capacity and resilience in local communities. Targeting resources where they

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will have greatest impact can help communities become more self-sufficient and, by preventing higher cost demand hitting statutory services, give councils a commercial edge with public spirit.

3. Income Generation – this will have a high degree of local flavouring, depending on an authority’s historic decisions regarding fees and charges, traded services and arms-length trading companies. Regardless of the specific mix an organisation has pursued, all of its income generating activities will benefit from systematically collected, refined and applied insights – from determining what residents are willing to pay for discretionary services to understanding competitors’ charging mechanisms for services to schools.
4. Supply – effective commissioning, procurement and contract management rely on good quality data. But evidence for whether and when the private or voluntary sectors would be better placed to deliver public services than local authorities is patchy, at best. Perceptions of value for money are still overly reliant on what suppliers tell their public sector customers, with too little benchmarking, market analysis and sharing of intelligence across the public sector to ensure competitive tension and ongoing value during the lifetime of contracts. Organisations should first seek to improve the quality of their internal data and then share commercial intelligence more widely with partners locally and peers nationally.

## Organisational Culture

As identified earlier in this paper, organisational commercial culture is a key theme of commercialism across the sector. As such, it is also identified as a principle of a commercially minded and commercially mature organisation.

A council’s commercial culture must be visible both internally and externally. Whilst some portrayals of council commercialism have been unfair, it is undeniably true that there is inherent potential risk associated with commercialism, especially when supported by borrowing and the use of public funds<sup>33</sup>. Amongst the public there is often an understandable wariness and pervasive anxiety. Whilst the propagation of information in a coordinated manner will abate these worries somewhat, it can only achieve so much. In order to allow for tangible local state autonomy in commercial matters, there needs to be a rebuilding of trust facilitated by stronger, more vocal commitments to a change in approach and practice when it comes to matters of accountability, transparency and scrutiny.

This starts with a commercial culture that is lived and breathed throughout the organisation internally. The council’s commercial ethos and approach needs to be shared to all staff – and in staff inductions – to set the context from the start. This means communicating clearly, consistently and often, explaining how commercial activity is aligned with the organisation’s core purpose and support the delivery of

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33. National Audit Office (2020) – [Local authority investment in commercial property](#)

place-based public value across the locality.

A commercial culture also relies on officers and Elected Members who have the right skills, knowledge and abilities to deliver commercial initiatives. Commercial skills development should be targeted to the organisations commercial approach but also wide enough to enable to organisation to be flexible and have the skills to adapt to new opportunities – be that market analysis tools and techniques, financial analysis, contract management or strategy development.

### Commercial Maturity Model

These five themes offer a framework for commercial thinking and activity in local government and can be used to determine a place-based approach to commercialism. By this we mean *'how effectively can commercial activity be utilised within a given locality'*. For each principle, the Commercial Maturity Model sets out an overview of expected activities, processes and outcomes that would be expected of organisations, from *Level 1 – Establish* through to *Level 5 – Lead*.

Using this framework will enable local authorities to understand their current approach to commercialism, existing gaps and where to focus effort in the short and long term. A council's place-based commercialism will determine which themes are most important to their strategy. For example, a council with high third party spend will focus efforts on supply principle, or councils with a diverse income generation portfolio will ensure they are showing the qualities associated with the demand principle.



Theme	Level 1 – Establish	Level 2 – Embed	Level 3 – Practise	Level 4 – Enhance	Level 5 – Lead
<b>Strategy and Alignment</b>	Overarching objectives agreed. High level commercial strategy in place that is aligned to organisation’s goals and supported by leadership. Decision making is clear.	Cross-organisation working group(s) in place to embed strategy, supported by local plans. Commercial strategies and financial plans are specific, aligned and mutually supportive.	Commercial activity is systematic, joined up and well governed across the organisation. Risks are managed collectively and opportunities collaboratively.	Strategy is reviewed and enhanced, particularly recognising opportunities of changing legislation, of which the organisation will be on the cutting edge.	Strategy regularly reviewed and shaped with key suppliers. The organisation sets the tone for others to follow; its voice is prominent and influences national policy and legislation.
<b>Market Intelligence</b>	Organisation has accessible data on its third party spend. Along with basic research, this informs options appraisals, business cases, commissioning and commercial plans.	Business cases, commissioning and commercial plans driven by both customer needs and market analysis, including spend, price and cost, supplier profiling and market intelligence. commissioning and commercial plans driven by both customer needs and market analysis, including spend, price and cost, supplier profiling and market intelligence.	Production of intelligence and analysis is systematic and regular (not ad hoc). Intelligence is readily available. Intelligence is regularly and systematically shared within the organisation to avoid duplication of effort.	Intelligence and analysis is structured in a cross-cutting way (e.g. by spend category, supply market or customer group) to drive a strategic approach to both sourcing and income generation. Process is fully supported by digital tools, with optimal balance of technology and human insight in analysis.	The organisation is widely regarded as leading the sector and setting the standard for market intelligence in both capability and application. Best practice is shared and the service is sold for a commercial return.
<b>Supply I (Commissioning and Procurement)</b>	Organisation has basic policies and procedures in place, and these have been effectively communicated internally. There are recognised roles and responsibilities for people in commissioning and procurement roles and these are communicated.	There is a suite of tools, templates and training available to ensure consistency and good practice. Commissioning strategies and decisions are complementary to the organisation’s wider objectives and priorities.	There is a commissioning framework in place which provides both consistency and flexibility. Commissioning strategies are consistently linked to organisational priorities and clearly contribute to top-level outcomes. Supplier engagement takes place routinely as part of the commissioning cycle.	Organisation has a clear commissioning strategy in place, which sets out the delivery model it operates and its approach to market shaping. A community of practice is in place for those in commissioning and procurement roles to share best practice.	Organisation is widely regarded as leading on good commissioning, procurement and commercial practice. It plays an active and leading role in shaping its key markets to achieve its objectives and priorities. The organisation is sought out by others as an exemplar of best practice.

Theme	Level 1 – Establish	Level 2 – Embed	Level 3 – Practise	Level 4 – Enhance	Level 5 – Lead
<b>Supply II (Supplier Management)</b>	There are recognised roles and responsibilities for people in contract management roles and these are communicated.	There is a suite of tools, templates and training available to ensure consistency and good practice. A segmentation methodology has been applied to understand the proportionality of contracts and which tools to use for supplier management. This is supported by technology and some task automation.	There is a framework for contract management in place which provides both consistency and flexibility. Without exception, all contracts are managed in a proportionate way and are managed for overall value: Quality, Cost, Logistics, Management and Innovation.	Organisation drives its supply chain development with a category approach, using market intelligence. There is a marked move from contract management to relationship management. Suppliers are engaged in major decisions and key suppliers increasingly viewed as partners.	Genuine partnerships established between buying organisation and key suppliers, including joint working on commercial ventures. There is a Supply Chain Steering Group which brings the organisation’s key partners to the table as a strategic advisory board. Organisation is widely recognised by others as leading in supplier relationship development.
<b>Demand</b>	Costs are understood. Services, fees and charges are known and documented. Income generation targets are set for the organisation at a top and local level.	More sophisticated understanding of costs developed, including the distinction between cash, productivity and opportunity. Demand (not cost) is determining price.	Business cases and service design consistently and explicitly consider income potential. The organisation has joined up the customer experience user-centric service design, single accounts and product/service bundling.	All of the organisation’s services have been scoped for income generation potential. Those that can generate a commercial return are doing so. Those that can’t are optimised for cost.	Organisation provides outstanding value for public money by constantly growing and diversifying its income sources. More funding is from commercial services than from taxation. Organisation’s brand has commercial value.
<b>Organisational Culture</b>	Benefits of a commercial approach are communicated and the organisation is ready to accept change. Introduction to commercial context in staff induction programme.	Champions for commercial activity, including income generation and supplier management, identified. Commercial is visible in the values of the organisation. Corporate curriculum of transferable commercial skills available to all staff.	Commercial thinking is recognised as a desired behaviour for all staff. Performance appraisal for key staff includes specific commercial objective(s). Key staff receive advanced training in commercial skills.	Commercial thinking included in competencies and selection criteria for all roles. The organisation shares best practice and trains others. Achievements are publicised and used as part of talent attraction strategy.	Commercial culture pervades the organisation at all levels, recognised by internal and external awards. Organisation is an employer of aspiration for entrepreneurial people. Skills are constantly developed and the organisation is recognised as a leading source of knowledge and training ground for top talent.

## 4. What does this mean for Place Based Commercialism?

Considering the positive and negative examples of commercial activity discussed in this paper and our approach to reframing the debate using the five themes of commercialism and the Commercial Maturity Model, how do local authorities put this into practice?

At the beginning of this paper, we set out three research questions and our discussions have led to answers to each and areas for further debate. Commercialism, undoubtedly, has a role to play in the future of local public service delivery and place-based commercialism will have a critical part in the recovery from the pandemic over the coming years. How that happens in practice is in the hands of local authorities, who will be able to adapt the principles of commercialism presented above to their specific public value aims and objectives.

Taking each question in turn, we asked:



*How can we reframe the conversation to being one about commercialism as a lynchpin of the local state's resilience and necessary risk management?*

Our research shows commercial governance and risk management as being a key challenge faced by the sector. We have also shown how commercialism, in a place-based context, can deliver public value objectives. A commercial strategy that is rigorous in its governance, scrutiny and approach to risk management can support councils deliver their broader strategic aims.

Despite this, reframing the debate is not something that will change immediately. Councils should use the Commercial Maturity Model to enable them to reframe the debate locally and highlight their commercial aspirations across the five themes.



*How can we make the positive case for an entrepreneurial local government as a crucible of public value creation – delivering services to residents and businesses that are useful, beneficial and profitable with a purpose?*

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The ongoing, narrow-minded narrative and promotion of 'bad apple' examples of council commercialism have dominated the agenda. However, we have been able to identify positive cases of 'good commercialism' that have led to supporting councils wider public value creation. We have put forward a case to suggest that a place-based commercialism can be at the heart of this, with councils operating commercially to generate a public value return, as well as generating revenue to support frontline services.

It is also important to ensure councils are able to measure this impact. We have recommended a distinctly local form of commercial awareness and measurement to articulate social and economic returns of each commercial proposal that are important to the council – these should be aligned to the council's corporate objectives.



*To what extent can council commercialism restore place prosperity and mitigate the scarring effects of COVID-19 on our localities and communities?*

The sector has played a pivotal role in the country's response to the coronavirus pandemic since its onset and the first national lockdown in March 2020. The power and impact of its people services have never seen such importance and the awareness and respect for the sector has grown. As we move towards recovery, we will see the council's role in place shaping and community cohesion come to the fore – and commercialism can have a role in restoring place prosperity to localities and communities.

There are emerging initiatives across the sector where this is taking place, with commercial strategies highlighting the role of partnerships to deliver key commercial outcomes as part of reshaping of strategies for pandemic recovery. Partnership across systems, with communities or other public sector organisations can continue to support with demand management and deliver services in a more efficient, effective and targeted manner. Likewise, council commercial strategies can act as a method of attracting inward investment, be that government funding or private investment, to deliver against the local levelling up agenda.

## 5. Conclusions and Recommendations

There is a tremendous role for commercially minded councils, particularly when considering how to drive, fuel and recover local economies post-COVID. Utilising the Commercial Maturity Model can enable local authorities to assess their commercial strengths, weaknesses, areas for improvements, areas for investment and, ultimately, support the development of their place-based commercial approach.

As the sector leads local recovery from the pandemic, commercial decisions by councils, be that local investment, reshaping contracts to encourage social value or trading services, will influence place-based commercialism and place-shaping.

As such, we have drawn a set of recommendations for each stakeholder group to encourage clear, practical and actionable conclusions from this research.

### Recommendations for Local Government Leadership

- 1. Set out your definition and communicate widely.** Be clear how this aligns to the purpose and values of the organisation, adopt a simple statement of policy and communicate with staff, partners and customers.
- 2. Likewise, agree risk appetite and communicate this early.** There is no sense in imbuing staff with the spirits and skills of entrepreneurs then tying their hands with process and rejecting every idea that entrails risk.
- 3. Invest in the skills needed to deliver this.** Give your teams the tools and techniques needed to deliver the councils commercial approach and use these skills to add value to public services. This can include softer skills like creativity, adaptability and influencing as well as more traditional commercial acumen such as market analysis, sales and finance.
- 4. Work with partners and drive greater value out of contracts.** Social Value can be a means to delivering public value. Don't underestimate the value that can be harnessed from supply chains and rigorous contract management
- 5. Undertake a self-assessment of your commercial maturity using the commercial maturity model.** Be sure to be check and challenge your own organisation and focus on how commercial activity will deliver the councils public value objectives



## Recommendations for Elected Members in Scrutiny Roles

- 1. Understand the drivers, risks and legislative limitations of commercial decisions in your locality.** This includes the reasons behind commercial activity, extent of council powers to do so and how this is applicable to your given locality. This also relates to aligning commercial activity to the council's corporate objectives.
- 2. Have a clear framework for evaluating commercial decisions, including financial and social considerations.** Situations and priorities change and with them so can the impact of commercial activity. But using a consistent framework for evaluation can ensure the council maximising the social return on investment, as well as financial.

## Recommendations for Central Government Partners

- 1. Recommit to the principles of the general power of competence** to enable councils the autonomy to act in the interests of their locality.
- 2. Develop a broader understanding of commercialism.** Government has made great strides in sharpening the commercial capabilities of those involved in public procurement. But, for local authorities, commercial activity is much broader than procurement and contract management. At present, there is a risk that local and central government use the same terms to describe different things. A common language will enable better understanding.
- 3. Deepen understanding of why councils are taking commercial decisions by creating a commercial network.** Councils have routinely delivered successful commercial initiatives. There is an opportunity for cross-sector learning to promote and entrench good commercial practice and join the gaps between policy and practice.
- 4. Consider what support could be offered on capability uplift.** Support local government to introduce a sector-led commercial skills programme that matches the ambition of central government training initiatives to position the sector to continue to manage its own commercial activity without the need for intervention.



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