

From: Paul Carter, Leader and Cabinet Member for Business Strategy, Audit, Transformation and Commercial and Traded Services
John Burr, Managing Director of Commercial Services

To: Policy and Resources Cabinet Committee – 22nd July 2016

Subject: Commercial Services update

Classification: Unrestricted

Summary: This is an update report that highlights the progress in Commercial Services in recent months as well the future improvements and the direction of the business.

Recommendation(s):

The Policy and Resources Committee is asked to review and note the contents of this update report.

1. Introduction

1.1 Commercial Services (CS) has existed in various guises for well over 100 years. In 2013 it was separated from Kent County Council (KCC) and set up as a fully stand alone, self financing private organisation with KCC being the sole shareholder. It is the largest single Local Authority owned trading organisation in the country with an annual turnover in excess of £400m, and is the third largest private Kent based employer with over 600 directly employed Kent based staff.

(NB. Commercial services operates under Teckal, Section 95 and Core Managed Service agreements).

1.2 The objectives of CS are as follows:-

- Annually contribute to the cost of running KCC services via returning a net trading profit to the shareholder (KCC)
- Provide all customers with best value products/solutions/services in compliance with procurement rules
- Bring new money into Kent and the local economy
- Back Kent businesses wherever possible
- Negotiate and manage accessible and compliant framework contracts
- Moderate markets for Shareholder benefit
- Act as a safety net to Shareholder.

1.3 The services that CS currently provide are :-

Energy

LASER - is the brand name for the energy business where KCC acts as the lead authority of an energy buying consortium, pooling demand to drive down costs for its member (public sector) organisations

Lumina – energy comparison and switching service for SME businesses

LED – Survey, design and installation of LED lighting into offices/buildings

Education Supplies (KCS)

Office supplies – Supplies stationery, consumables and equipment for the Educational and office environment

Furniture – Supplies Office, commercial and school furniture

Professional Services – Supplies printers, photo copiers and Multi functional devices

Recruitment

Connect2staff - provides solutions to private and public sector clients for permanent, temporary and contract vacancies predominantly in Kent and South East

Connect2Kent) – Permanent and temporary staff including the managed service for KCC

Direct services

Landscape services – Hard & soft landscaping, arboriculture & consultancy services

CTS Engineering – Commercial / private vehicle repairs & maintenance

CTS fleet – leased vehicle brokerage and short term commercial hire

Waste services – operational management of 2 waste transfer stations for KCC

inspection services – supply / maintenance of fire fighting equipment and PAT testing

1.4 Since CS separated it has had to develop its quality and commercial offer to ensure that it becomes, and remains competitive. This is so it can win work in open competition and not have to rely solely on 'mandated' work. In 15/16 a significant proportion of CS income was from non KCC clients.

1.5 Governance

A key area of focus where good progress has been made recently is Governance. There is a formal structure for reporting, and ensuring appropriate levels of transparency, challenge / support, compliance and accountability.

The business is managed by the CS Executive, which is led by the Managing Director. He, in turn, (along with the Group Finance Director (Neeta Major) reports on a monthly basis to the Limited Company Boards. These boards are made up of the Chairman, 2 external Non Executive Directors (NEDs) and 2 KCC NEDs (Emma Mitchell and Nick Vickers). The Ltd Boards are supported and advised by the Audit Committee (chaired by external NED), REMCO (Chaired by external NED) and the Investment Committee (chaired by the Group Finance Director). The Shareholder board, chaired by the Head of Paid Service meets on a quarterly basis.

2. Financial Implications

- 2.1 The business has regularly contributed to the delivery of dividends to KCC in recent years, and is due to make a contribution of £8.7m in 16/17. Next years target is £9.2m and this equates very roughly to 2% off each Kent resident's council tax bill.

CS's subsequent year's growth targets are extremely ambitious with each trading division challenged to achieve double digit bottom line growth year on year. This is despite the vast majority of CS customers being publically funded (eg. Local Authorities, NHS, academies, Emergency services) and therefore still experiencing significant budget pressures themselves due to the ongoing austerity measures.

- 2.2 Given the increasingly challenging targets, KCC is adopting a group approach to financial leadership to mirror large multi divisional private sector corporations (e.g. BT) which typically feature the following:

- A group finance team which supports the CFO (i.e. KCC's Corporate Director of Finance & Procurement) and executes the central finance functions;
- A formal relationship (typically a "dotted line") between divisional / subsidiary company finance directors and the CFO, which helps ensure reliable information for reporting and the performance management of divisions / subsidiaries;
- The CFO assessing the performance of the finance directors, and advising on their appointments.

2.3 KCC Corporate Finance is working on strengthening further still its role as a business partner that supports decision-making and contributes value, while fulfilling its traditional and still vital role in financial control. To achieve this, KCC Corporate Finance requires:

- A deep understanding of the performance of KCC's directorates / business units and in the future, increasingly its portfolio of wholly-owned subsidiaries (e.g. Gen2 Property, Legal Services ABS, Commercial Services); as well as
- A strong adherence to essential KCC-wide standardised processes, policies and management reporting.

This can be achieved most efficiently and effectively if there is a Group approach to financial leadership in place.

2.4 The Finance Directors / CFOs of all of KCC's wholly-owned subsidiaries would jointly report formally (via a 'dotted line') to the Corporate Director of Finance and Procurement, as well as to the subsidiaries' Managing Directors / CEOs.

2.5 Financial implications for KCC of a group finance approach –

The implementation of a Group approach to financial leadership should deliver medium term cost savings across the KCC 'Group' as a result of, in particular:

- The streamlining of processes, reporting and oversight through elimination, simplification, standardisation and automation.
- The sharing of costs at a senior finance level.
- There will be no additional costs relating to any existing posts across KCC.

3. Policy Framework

3.1 The existence and operation of CS fully complies and supports KCC's strategic aims and objectives. This includes its position as a commissioning authority, as well as protecting front line services through commercial trading operations.

4. Recent and future objectives

Since the appointment of the new Managing Director (December 2015 – John Burr) much has been done to ensure that good foundations are in place. Good progress has been made but the lack of investment in certain areas (eg. IT systems and processes), and limited commercial & business development resource has meant that there is an element of 'catch up' required. New systems and resources are currently being deployed and the return on these investments are starting to be realised. Over the next 6 months there will continue to be a roll out of business management systems that will allow the company to manage its affairs in a more efficient and timely way. This, coupled with process re-engineering, performance management and staff training, means that the ambitious growth plans do have some real substance behind them.

Other areas where good progress has been made in recent months are; a refocus of the business to bring its allegiance much closer to KCC, a complete revisit on what success for the business is and how this will be achieved, a cultural change programme to instil a business wide belief in customer service & quality, and an increased level of ownership and accountability within the senior management. This has necessitated some changes to the members of the Executive and Senior Management Team.

4.1 Next 6 months

The key objectives/targets for the next 6 months are as follows:-

- Deliver a revenue contribution of £8.7m to KCC
- Finalise and implement the business Development & Growth Strategy
- Commence a business wide, holistic approach to business development and marketing
- Building a sustainable business development pipeline
- Increase the amount of cross and upselling and ensure benefit is maximised from every opportunity
- Submit the years 2 & 3 business plans for shareholder approval, thus giving a 3 year rolling programme that ties in with KCC's 3 year planning process.
- Ensure that the business basics are fully embedded
- Fill the outstanding Executive vacancies; Commercial & Business Development Director, Divisional Director – Direct Services, and Divisional Director – Recruitment.
- Implement the outstanding system and process improvements
- Ensure that the stated benefits are realised from the actions and investments
- Ensure CS operates in such a way that KCC is proud of it
- Fully embed the customer service culture that is required to combine the best from the public and private sector
- Improve operational efficiency to improve margins and competitiveness
- Network closely with other KCC traded services to ensure a holistic approach to the market.

4.2 Longer term

The normal day to day business development activities will continue and this will be combined with our business efficiency improvement programme. This will help keep the business stable as well as facilitating a small amount of year on year growth. However, with yearly double digit bottom line growth as the key financial driver there are a series of key of 'step changes' that will be required. These will include :-

- Identifying, bidding and winning a selection of outsourced type service/works contracts
- Implementing a central marketing approach, that identifies and drives 'holistic solution' offerings.
- Working in a cooperative and supportive manner with other traded services
- Develop new business offerings into existing and new markets
- Increase geographic coverage through networking, technology and local presence
- Possible strategic acquisition(s) where this complements and enhances the CS offering

5. **Conclusions**

Commercial Services has been, and continues to be on a journey. It is a large profitable organisation that is committed to delivering satisfaction to its customers and maximum benefit to its shareholder. It is not perfect, but it is now very self aware of the areas that require focus to ensure that they raise the standards to match that of other excellent parts of CS.

The new era of openness, transparency and mutual support mean that this KCC owned business has an exciting future. It has always had a great deal of potential, and over the next 12 months this will be unlocked and used in a controlled and planned way.

6. **Recommendation(s)**

Recommendation:

The Policy & Resources Cabinet Committee is asked to review and note the contents of this update report.

7. **Contact details**

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