



Commercialisation and culture change evidence session

Barking Town Hall, LB Barking and Dagenham

Monday 2 September 2019

Attendees

LB Lewisham

Councillor Jim Mallory, Chair of the Public Accounts Committee

Councillor Louise Krupski, Vice-Chair of the Public Accounts Committee

Councillor Patrick Codd

Councillor James Rathbone

Councillor Mark Ingleby

Timothy Andrew (Scrutiny Manager)

Sunil Shahaney (Income Generation and Commercial Services Manager)

LB Barking and Dagenham

Councillor Dominic Twomey (Cabinet Member for Finance, Performance and Core Services)

Claire Symonds (Chief Operating Officer)

Hilary Morris (Commercial Director)

Following introductions and an overview of the work being carried out by Lewisham's Public Accounts Select Committee there was a discussion (from 11am – 1pm) based on the Committee's key lines of enquiry (as follows):

Key lines of enquiry (KLOE) for Lewisham's in-depth scrutiny review:

KLOE 1: creating a workable, vibrant and positive commercial culture

- How can we instil a more commercial mindset throughout the Council?
- How will the Council encourage and provide the structures necessary for officers at any level to instigate new ideas?
- How will the Council take more of a collective responsibility and lessen any blame culture so that officers have the freedom to act?
- Are there any corporate structures in place that could be hindering this kind of work? If so how should they be changed?
- How do we create a culture where risk is talked about openly and candidly for courageous ideas to be brought forward?
- How do we use the generation of income itself to motivate officers? Do we allow departments to keep back generated income for further innovative projects or does all the income come back centrally?
- How does the Council breed a culture of understanding among officers and members that this is positive change and done for the very best possible reasons and outcomes?
- Are the structures in place to do good constructive performance management of projects?

KLOE 2: training and Development for officers and members

- Does the Council have officers with the right skills and training to do this work? If not, how can a training programme be put in place and what are the resource implications of this?
- Do officers have enough time? How will projects be organised so that the every-day work of the Council is not adversely affected.

Key findings

1. LB Barking and Dagenham has embarked on a wholesale transformation programme of all of its functions and services.
2. Commercial entities/companies have been created to maximise business opportunities, these, in the main, are wholly owned by the Council this has helped to shift the focus of the whole Council towards commercialisation.
3. Officers were TUPE transferred to the newly established companies. – which now have the freedom to remunerate employees on more market facing terms, including developing performance related schemes within parameters agreed within the Shareholder Agreements.
4. Senior political leaders and managers are wholeheartedly invested in the transformation programme. There is also an understanding of risk – which enables a culture of innovation.
5. Political leaders are not involved in the day to day management of the external companies or on the Company Boards which are overseen by mainly independent external sector experts. The companies have been given the freedom to act at will (in line with their share holder agreements) within a strategic framework approved in their respective business plans
6. Measures are in place to manage and mitigate risks – but significant risks remain – including unforeseen changes in the economic environment at local, regional and national level.
7. Political oversight by overview and scrutiny is welcomed – but - the principal mechanism for challenge is via the shareholder agreement and shareholder panel as well as through operational performance monitoring of outcomes commissioned via the commissioning mandates.

Key observations from Lewisham's income generation and commercial services manager:

1. Commercialisation has senior-level buy-in: Claire Symonds (Chief Operating Officer) has responsibility and the Commercial Director reports to her.
2. LBBD's approach to managing budgets is predicated on two important strands (a) commercialisation (not fees and charges but more ambitious) (b) demand management. They have moved away from 'salami slicing' back-office costs.
3. LBBD's approach to commercialisation is 'big bang' (sic): The Council has set up several commercial entities e.g. for re-generation, energy management, school services (cleaning etc.) in a very short period of time.

4. Culture change is driven by live examples of success rather than formal training programmes (no “sheep-dipping”). However, senior management / cabinet LBBDD actively communicate (including roadshows) to 200 top leaders to take them on the journey.

Findings

1. These are some of the key points raised in the discussion and it is not intended to represent a comprehensive record of the discussions. Additional material has been included from documents referred to at the meeting.

Reorganisation and reform

2. As with many other councils – the London Borough of Barking and Dagenham (LBBDD) has been subject to significant and sustained pressures on its budget. In 2015/16 it carried out a consultation with the community about the challenges facing the delivery of Council services to 2020¹. As a result, the Council embarked on a comprehensive reorganisation of its services – into a commissioning and delivery model.
3. ‘...it was decided that the Council will no longer have separate functional departments or directorates, rather that the organisation would be shaped around the needs of people, the place, and our goals. As a result, the delivery of services will be undertaken by a range of ‘Service Delivery Blocks’.’²
4. This reorganisation resulted in the creation of several commercial enterprises (in 2017 and 2018) – which were designed to operate autonomously on behalf of the Council.

BeFirst – was established to accelerate the development of social housing and regeneration schemes throughout the Borough.

Barking and Dagenham Trading Partnership – took on management of the workforce for facilities management as well as the cleaning and catering services. It offers maintenance, cleaning and catering services to business and government bodies within the area;

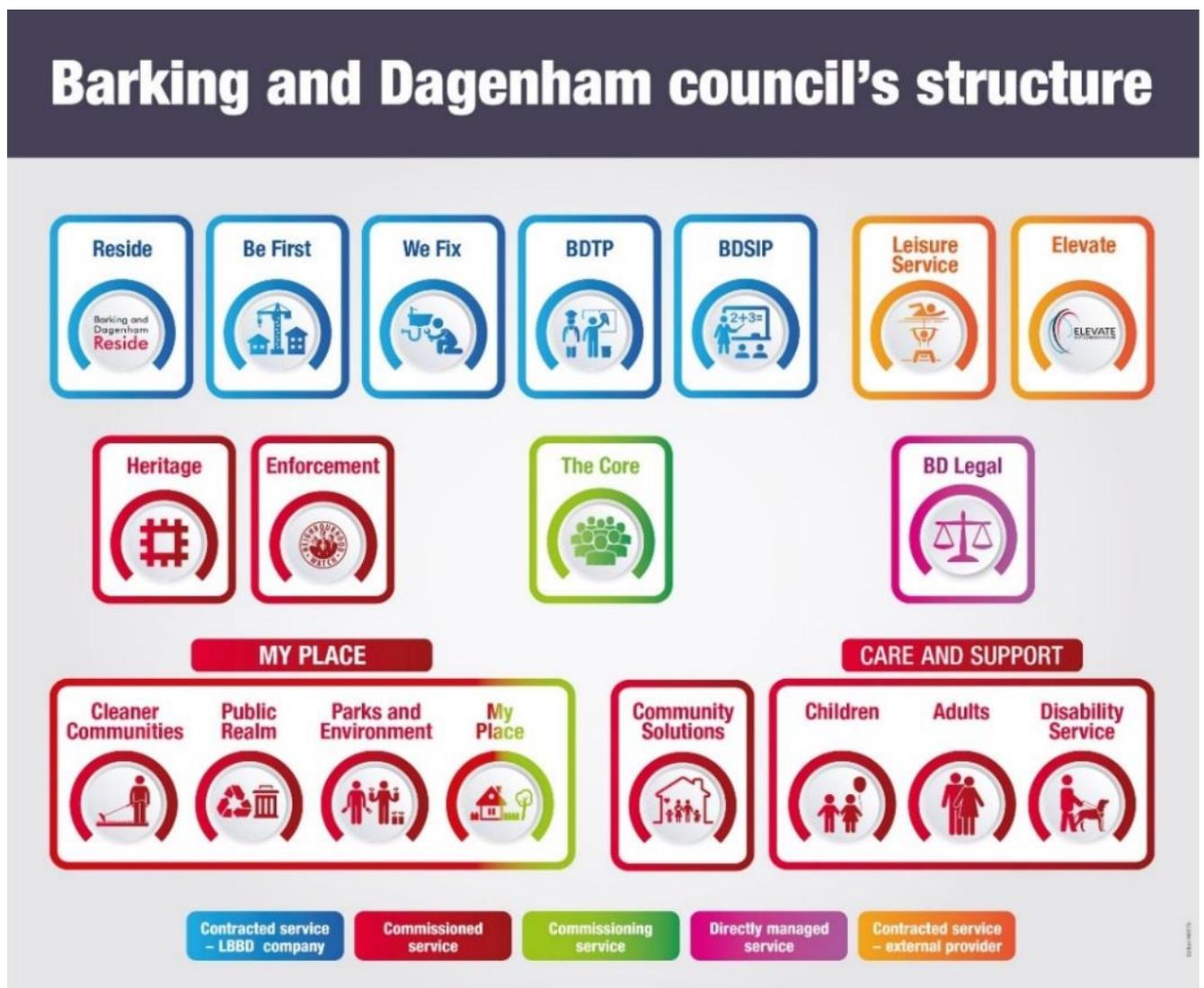
Barking and Dagenham Schools Improvement Partnership – was set up as a partnership between the Council and a number of schools, with the aim of providing services to schools to improve outcomes for pupils;

Reside – was established to buy, let and manage affordable/shared ownership housing with the aim of improving operational performance of the assets and the housing offer for local residents.

¹ ‘Agiliysis enables the London Borough of Barking and Dagenham’s bold vision for community focused transformation’: [link](#)

² LBBDD report to Cabinet (2017) Home Services and Traded Services Full Business Cases [link](#)

- The transformation programme has enabled the Council to manage its budgets in a new way. There is no longer a requirement for finance officers to send out cuts pro-formas to 'salami slice' budgets. Savings were made through the complete reorganisation of the authority. Funding for the transformation programme has been largely drawn from the flexible use of capital receipts.



- Developing a commercial culture and establishing income generating activity were founding ambitions for the new companies. Additionally, the scope and scale of the transformation programme made it clear to employees at all levels of the Council that the organisation was serious about making wholesale changes to the way it operated.
- The Council monitors the activities of its commercial enterprises as a shareholder through its Shareholder Panel – which is chaired by the Deputy Leader. It also manages an Investment Panel – which oversees allocation of funding for major schemes and assesses risks.

8. There are no Councillors on the board of the Council's commercial entities and the political leadership does not have daily intervention in company activities. However, there is political oversight of company aims and objectives through business plans and the Council has observers (who do not have voting rights) on the independent boards.
9. The Council commissions services from its arm's-length companies to provide outcomes based on the Council's corporate plan and Borough Manifesto. Nonetheless, there is a fundamental separation between the Council's role as a commissioner and the Council's role as a shareholder.
10. The Companies are structured to maximise opportunities to generate income. One of the ways the Council sought to do this is by creating a holding company with service specific subsidiaries - which means the Council can contract with the company directly without competition via Teckal exemption.
11. Shareholder agreements and business plans for the new companies were tightly drawn up and carefully thought-through before implementation and the business plans are annual revised which means there are ongoing arrangements for managing risks (these are summarised below).

Officer skills and adaptability

12. As LBBD embarked on the transformation programme it realised that some Council staff had commercial skills - but not all.
13. Whilst there were a number of transfers under TUPE - the new commercial bodies were enabled to recruit staff on the terms and conditions they wanted - with in some cases performance related pay. Built into this system, however, were policy considerations - in line with the Council's social aims and Borough Manifesto. This means that the highest paid staff in its commercial enterprises can only be paid a defined ratio to the lowest paid employees.
14. The radical nature of the transformation programme brought out the creative side of a number of Council officers who welcomed the change as an opportunity to improve and reform. The scale and ambition of the programme spurred on creativity.
15. Engaging with staff through 'creative workshops' was an important part of the programme and this enabled staff at all levels the opportunity to think about how their services could be structured. The programme also gave people the opportunity to think differently. Senior officers recognised that people were worn out by 'salami-slicing' of budgets.

16. The scope and scale of the transformation programme (as well as the requirement to continue 'business as usual) necessitated upfront investment in consultancy support – which was provided via the Council's relationship with Agilisys.
17. As a result of the transformation programme - the vast majority of people in the organisation moved to a new job role – over the medium term it also resulted in a two thirds reduction in agency and consultancy staff. However, the change was achieved without any forced redundancies, though there was a large voluntary redundancy scheme.
18. In terms of training for staff - there was a focused programme for the top 200 managers in the organisation – who received support to enable them to lead the change in their service areas. However, there was not a broad ranging "sheep dip" offer of training to all officers.
19. The vision for the change was clear from the beginning – and leadership of the organisation were upfront about the move to an increasingly commercial mindset.
20. There remains a rigorous focus on what managers are spending their money on and why. The transformation enabled an increased emphasis on managers being accountable for their budgets and any pressures or unanticipated costs arising in their in their areas.

Risks and opportunities

"We trust our ability to come up with new ideas to deal with risks in times of adversity."

Councillor Twomey

21. The Council clearly and extensively communicated the risks of not doing anything to change services. The transformation programme helped managers to understand that their services had to change in order to continue to exist.
22. The Council's commercial focus has been recognised in the wider community – and a number of proposals and ideas have been submitted from external organisations, businesses and public sector partners. This includes commercial investors who recognise the stability of working with the Council.
23. Senior leaders accept that in order to maintain the pace of change and to achieve the benefits of the transformation there's nothing that shouldn't be looked at for transformation or investment and they consider each proposal on the balance of risks, priorities and reward.
24. Conversations about the appetite for risk were an important part of the development of the shareholder agreements between the Council and its commercial entities.

Mechanisms were in place to guide the risk strategies of the Council's commercial bodies.

25. There remain some risks to the transformation. This includes the risk of officers returning to inefficient ways of delivering services. It is recognised that ensuring good practice is embedded at all levels of the organisation takes time.
26. The Council's commercial entities are in a position (backed by the Council as a landowner, local service provider and organisation backed by long term financial stability) to access opportunities that private entities do not.
27. The provision of housing by Council companies also enables the Council to meet its policies for tackling the housing crisis. At present Reside has no properties for rent or sale at full market rates, though it is recognised that this may need to change if the economic circumstances change.

Governance and rigour

28. The Council maintains a tight focus on the development, planning and delivery of the specifications for new commercial enterprises. Officers engaged with the Council's commercial enterprises recognise that processes have to be robust.
29. Decisions about major investments, whether these are sought from the companies or internal officers are considered by the Council's 'investment panel' before approval. The Panel is guided by a 'gateway appraisal process' which officers use to manage the process of making new investments across a number of stages: from outline viability, on to further assessments of feasibility up to detailed costing, development, benefits realisation and assessment of new proposals.
30. Each company operated by the Council is developing its own style of operations and points of view. There is a degree of competitive tension between them and between the different internal relationships between commissioning and commercial perspectives that ensures quality of outcomes as well as checks and balances. The Council also maintains communication with the end users of Council services and, where possible, they are included in the competitive process.
31. Scrutiny was consulted on the transformation programme. As with the rest of the transformation programme - governance had been streamlined so that there were fewer committees and less meetings but the structure ensured that there were opportunities for pre-decision scrutiny.
32. The Council also has a 'shareholder panel' to act as an advisory body to the Cabinet. Its role is to ensure that the Council's legal responsibilities as a shareholder are fulfilled and

that the activities of the commercial entities are aligned with the Council's strategic objectives. The following terms of reference are from a Council report:

'The terms of reference for the Shareholder Panel outline its main purpose as being to:

- Review and monitor long term strategic objectives via Company Business Plans prior to consideration and approval by Cabinet as the Shareholder. Oversee and ensure compliance with all TECKAL related obligations.
- Monitor Company compliance with approved and adopted Business Plans.
- Monitor the exercise of any Reserved Powers according to the Articles of Association by Cabinet or as delegated by Cabinet.
- Monitor compliance with any legal duties required of a Shareholder.
- Review Company financial performance on a quarterly basis and report to Cabinet any concerns.³

33. In September 2019, scrutiny at Barking and Dagenham considered a report outlining the findings of an internal review⁴ that had been carried out on behalf of the Shareholder Panel. The review identified a number of areas of good practice, including: the clarity of the legal agreements in place between the Council and its companies; the strength of formal business planning process – including the submission of plans to the Council annually for review and approval; the structuring of the relationship between the Council and the companies, including the separation of the Council as a shareholder and commissioning customer.

34. However, the review also outlined a number of risks, including: the lack of alignment between company business plans and the development of business cases in the first year of operation; the lack of a clear methodology by which the Council should review quarterly reports produced by the companies; and – the lack of a risk register to evaluate the risks faced by the whole Council from the operation of the companies.

The future

35. The Council is still in the process of delivering the transformation programme so in terms of definitive measures of success, it is still too early to say and expectations regarding what is possible are still evolving. However, reports⁵ to the Council's Cabinet in early 2019 indicate that the Barking and Dagenham Trading Partnership forecast to double its financial return to the Council from £744k to £1.4m (for the 2017-18 financial year). In addition, it was reported that the schools partnership was due to produce a surplus as opposed to the deficit it had forecast.

³LBBB Shareholder Panel – internal governance review report (2019): [link](#)

⁴ LBBB Final internal audit report, May 2019: [link](#)

⁵ LBBB Commercial company business plans, report to cabinet March 2019: [link](#)

36. The report also indicates that the Partnership is due to significantly increase its returns to the Council over its business plan period (2018-2022) – following a strong first year of trading which has exceeded expectations.
37. It was recognised that there were some issues in the development and delivery of the transformation programme. But – broadly, the programme is progressing as planned and that the scale of ambition of the programme meant that it was likely to encounter some ‘bumps in the road’.
38. Planning for the future is sufficiently good to avoid serious risks. However, it is recognised that the Council is not in the same position as other investors. In a difficult financial climate, it cannot not pause investment decisions or curtail its commercial activity until the situation has improved – it has to continue delivering on its business plans and to ensure that it was generating income year on year.
39. Members and officers are motivated by the vision for the transformation – to ensure that every investment made by the Council should be driven by the intention to support the most vulnerable.
40. One of the key benefits of the transformation programme is that managers are conscious of the costs of the delivery of their services. It is recognised that in order to make comprehensive changes to the organisation officers need to know what they are spending money on and the price of the delivery of those services.
41. In local government generally, demand and the costs for delivery of services continues to rise. The Council is focusing future efforts on preventative work and demand management. It is recognised that the costs of delivering services can be contained if there is early intervention as opposed to working with people once they have reached a point of crisis.
42. In future, the Council intends to increase focus on the “end to end” processes of service delivery. In particular, the Council’s service delivery providers for children’s and adult services are putting increasing efforts on analysis, data and service user insight to determine whether there are opportunities for improvements.

Background documents

LB Barking and Dagenham recognised as entrepreneurial council in the Local Government Chronicle Awards: <https://www.lbbd.gov.uk/news/east-london-council-bags-prestigious-entrepreneurial-council-award>

Scoping report for LB Lewisham’s commercialisation and culture change in-depth review: <http://councilmeetings.lewisham.gov.uk/documents/s66408/06%20Scoping%20report%20-%20commercialisation%20and%20culture%20change%20review%20100719.pdf>

LB Barking and Dagenham - Shareholder Panel – Internal Governance Review Report

<https://modgovapp.barking->

[dagenham.gov.uk/documents/s133301/Shareholder%20Panel%20Governance%20Audit%20Report.pdf](https://modgovapp.barking-dagenham.gov.uk/documents/s133301/Shareholder%20Panel%20Governance%20Audit%20Report.pdf)

LB Barking and Dagenham budget framework 2019/20 and medium term financial Strategy

2019/20 – 2020/21: <https://modgovapp.barking->

[dagenham.gov.uk/documents/s128822/Budget%20Framework%202019-20%20Report.pdf](https://modgovapp.barking-dagenham.gov.uk/documents/s128822/Budget%20Framework%202019-20%20Report.pdf)

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