

# Taking a commercial approach

## A guide for local authorities in Scotland to income generation, trading and charging



# Why self financing?



- Austerity cuts from central to local overall
- Growth in demand for adult and childrens
- Statutory services continued protection
- Non statutory services being squeezed
- Driven rise in self financing behaviour
- Ongoing low growth means no respite in CSR
- Therefore ongoing need to commercialise



# Introduction



# Deciding to Act



# Aims and Objectives



# Resourcing Action



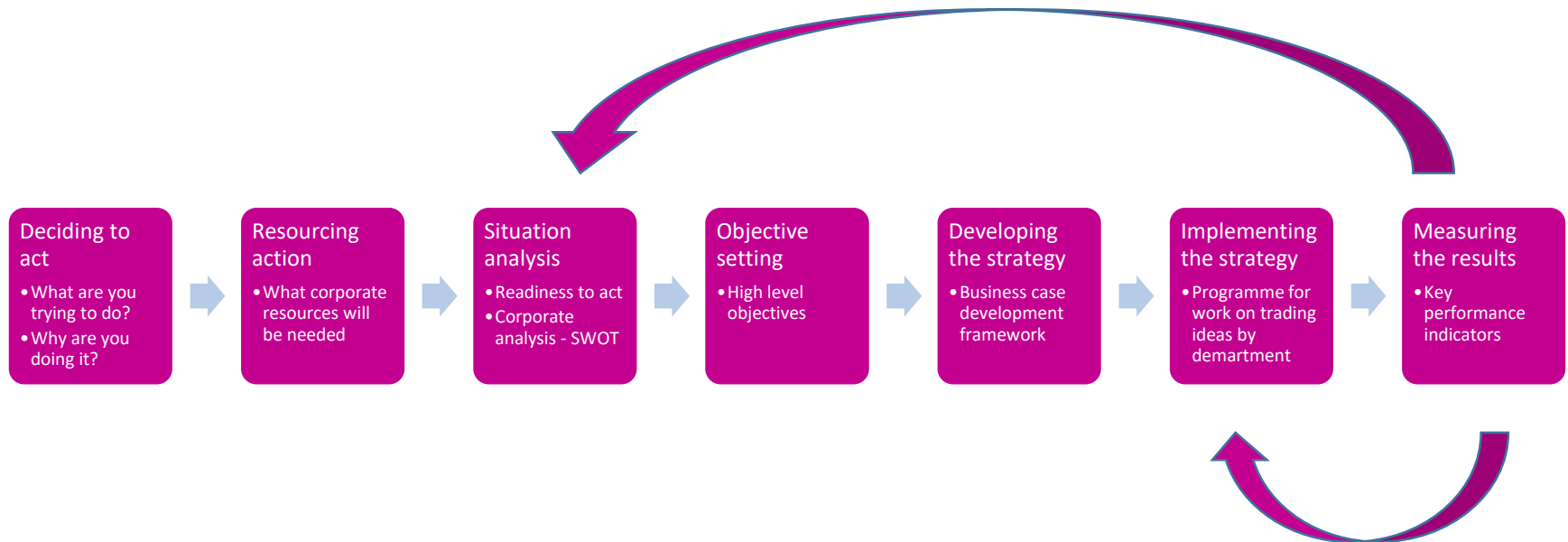
# Strategy Development and Implementation



# The Role of Leadership



# The role of leadership





# Options for Management and Resources



# Legal Issues



# Risk Issues

Business case element	Generic Risk	Comment
Strategic	Trading activity not consistent with political ethos of council	Business cases should actively demonstrate how a proposed initiative will contribute to corporate priorities. Where no such contribution is identifiable there is no case for proceeding.
	Trading activity results in backlash from private competitors  Negative press or public feedback	It is the nature of competition that there are winners and losers. It is however important to be able to demonstrate that the council is not operating unfairly and that any adverse impact on local business is fully understood and acceptable before trading commences. In some cases these can be presented as a positive – e.g. if a council roofing service puts cowboy builders out of business this is unlikely to be seen negatively.  Where risks of negative public perception are identified these can be mitigated through an effective communication strategy to ensure that there is wide-spread understanding of the benefits that will flow from the trading initiative.
	Trading failure results in reputational damage	Careful consideration of the risk/reward ratio and a robust balanced business case are required.  Clear communication strategy and well thought through risk mitigation strategy essential for high profile initiatives.
Legal	Trading activity deemed unlawful Challenge from competitors	Most trading activity is low risk in this respect but where there is doubt about vires it is essential to ensure that appropriate advice is taken. Councils should always act reasonably and demonstrate that they have taken account of the impact of any trading activity on local businesses etc. When trading through a separate corporate entity such as a wholly owned company or LLP advice should be taken on procurement and state aid implications. LLP advice should be taken on procurement and state aid implications.

Business case element	Generic Risk	Comment
Commercial	Demand failure Supply failure	Understanding the market is a crucial element of a robust business case. Deep knowledge of the customer is a prerequisite of any successful trading venture.
Financial	Trading fails to generate a profit Trading failure leads to loss of sunk expenditure	The business case should set out profit and loss projections on a basis that is acceptable to council finance team. Trading should not continue where it is unable to operate on a financially sustainable basis. Risks such as non-payment should be assessed and mitigated i.e. by requiring payment in advance where appropriate. Clarity over the extent of sunk cost exposure should be included in the business case and go to careful consideration of the risk/reward ratio. Unaffordable levels of exposure should be avoided. Spreading financial risk across a range of different initiatives will help to off-set the impact potential of individual failures.
Operational	Inability to provide service because of staff shortage or lack of suitable equipment Diversion of resources impacts on delivery of core services	Business case should clearly demonstrate what resources are required and where they will come from. Good business planning is essential - including contingency planning. Core service delivery should be protected and in most cases it will not be acceptable to rely upon existing capacity to deliver commercial activity.



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