
Kent's commercial services in a new strategic commissioning framework

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Faced with a tough budget settlement, increasing income generation becomes a key requirement for local government

- KCC net revenue budget circa £950m excluding Dedicated Schools Grant (DSG)
- £160m saving requirement over the next two years
 - 2011/12 = £95m
 - 2012/13 = £65m
- Potentially up to £340m over CSR period
- KCC published 'saving requirement' from CLG = 1.8%. Reality is closer to 10% in 2011/12
- 1500 posts will be lost over next two financial years



BUDGET



It is something we have been doing in Kent for a long time, our Commercial Services division is a huge success story

- Trading arm of Kent County Council, employing approximately 900 staff
- Turnover of £400m. Brokers further £400million worth of goods and services
- Non-budget funded, supports itself from margin of own activities. Annual dividend payment to the KCC £6.5m 09/10
- Target to increase dividend payment by £2.3m over the next two financial years.
- Also acts as a market moderator – estimated saving to KCC of £2m per annum



But commercial services aren't just about reducing costs and increasing the bottom line, they can help authorities meet their wider social, economic and environmental responsibilities

- LASER is the largest local authority energy professional buying organisation and provider of energy management consultancy service in UK
- Helps local authorities reduce cost and meet energy efficiency targets
- Procured 2,400 million kWh of electricity, 4,800 million kWh of gas and 18 million litres of petrol for the public sector authorities, including:
 - 23 London Authorities
 - 10 County Councils
 - 16 City & Unitary Councils
 - 40+ Borough & District Councils
- Review by the Cabinet Office found that LASER provided better procurement than other buying organisations, including their own, Buying Solutions.



And drive better financial and social value from the market through better procurement and market moderation

- Transport Integration Unit (TIU) is responsible for procuring all KCC transport provision including Home to School, SEN Transport, Supported Bus Network etc
- Kent Top Travel was established as a market moderator, to reduce contract inflation so we can deliver more for less
- This market expertise and market moderation helps us meet our wider social objectives e.g. Kent Freedom Pass (free bus travel for all 11-16 year olds)
- Office for Fair Trading analysis of bus markets concluded that Kent was the only non-metropolitan Local Transport Authority area with an 'effective and competitive bus market'



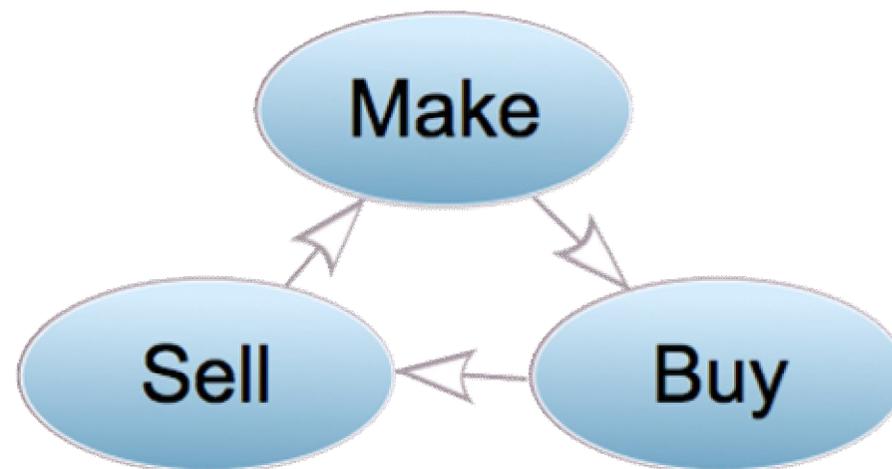
And it's not just within Commercial Services in which we are exploiting the commercial value of our services

- Our legal services team generates £1m annual net return for KCC serving both public sector and private clients
- Innovative solutions including working internationally (USA) and developing partnership with private law firms to expand the service offer
- Allows the service to charge less for internal clients and reduces cost of legal function across KCC
- Now looking at options to move legal services team to becoming an independent provider



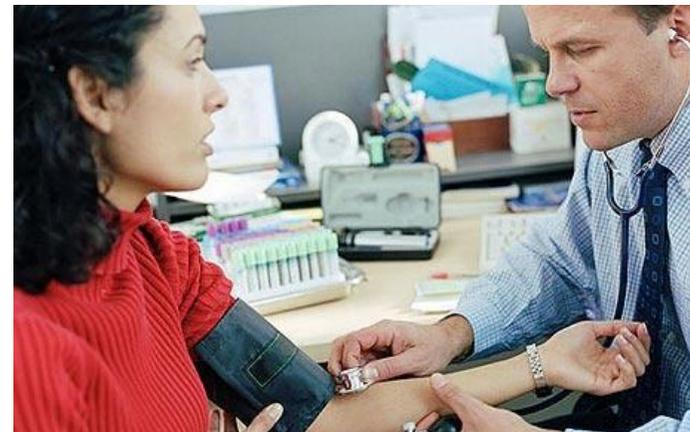
At the heart of the issue going forward is how authorities think about their role in service provision – what do we make, buy or sell

- Don't believe any authority has cracked this yet...but
- We need to rethink our view of 'commerciality' and think about new forms of commercial enterprise
- Especially given we are more likely to see a rationalisation rather than expansion of professional buying organisations as that sector seeks to reduce costs and maintain margins
- Takes us into thinking about service structure and service design into services provision using new vehicles such as commercial and trading partnerships so we can trade with other public bodies



And there are new market opportunities to drive commercial value from our scale, capacity and expertise

- New opportunities through wider public sector reforms as budgets and responsibilities are devolved to front line professionals and traditional public service networks are challenged (e.g. GP Commissioning, Academies, Free Schools)
- In Kent, we are in the process of establishing a new schools trading partnership 'EduKent' that will compete alongside the private sector to provide services for schools both in and beyond Kent
- Committed to developing a trading partnership to provide support services to emerging GP Commissioning Consortia

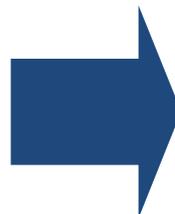
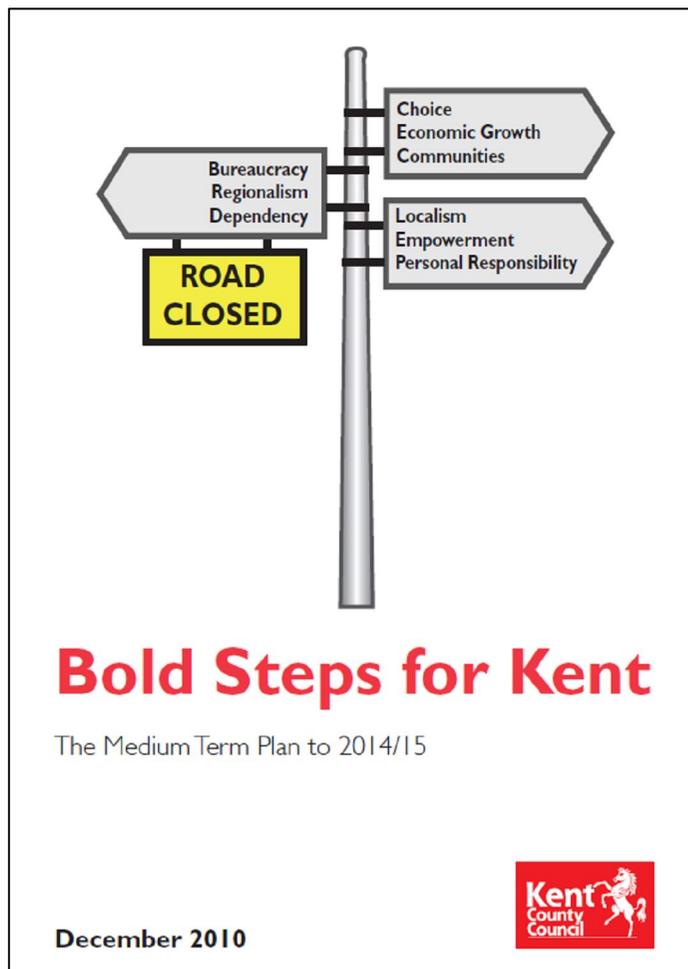


The double edged sword of the Localism Bill (if the public appetite is as strong as the Government's rhetoric)..

- The key challenge for local government going forward is how to undertake strategic commissioning when the market for public services is in a state of flux
- Fundamental tension between reducing costs and service transformation through economies of scale and the 'localism' agenda which promotes disaggregation and local control
- New mechanisms in the Localism Bill such as the proposed Right to Provide, Right to Challenge and Community Right to Buy will make strategic commissioning and the strategic management of assets more difficult
- Will the hoped for plethora of new voluntary and social enterprise providers compensate for the loss of scale and control?



And there are still opportunities within the Localism Bill to support a new commercial investment in social enterprise and voluntary sector



“Where appropriate.. we would consider taking equity in some social enterprises so that they can take on greater risk on contracts based on payment by results, but where reward payments are more significant, and the social enterprise could benefit from our engagement and expertise. Any returns from holding equity stakes would be recycled back into the Big Society Fund”

Our principal investment vehicle in developing this market will be the new Big Society Fund for Kent



- New £5m KCC fund approved as part of the February budget
- To provide capital start up and project based funding for Social Enterprises in Kent
- Also provide working capital to social enterprises wanting to bid for 'payment by results' contracts
- Aim is to attract match funding from external sources
- Part of the Big Society but also part of the strategic commissioning framework is to develop the social enterprise market in Kent
- Some grants available, but primarily investment through loans and equity stake in social enterprises (including potentially staff spin offs through Right to Provide).

But ultimately, you must be brutal where you aren't competitive and disengage where the market can provide better than you can

"we will withdraw from markets where these commercial enterprises fail to compete, whether in Kent or beyond, and irrespective of the market they operate in"

Bold Steps for Kent, Medium
Term Plan until 2014/15



Conclusion

- Maximising financial value and generating new revenue streams/opportunities from our services doesn't have to be at the expense of social value
- But with competing pressures – local government is going to have to balance those pressures very carefully going forward



Thank you for listening

