

Proving Services Limited
Cranfield Innovation Centre
University Way, Cranfield
Bedfordshire, MK43 0BT
+44 (0) 1234 756020
www.provingservices.co.uk



Title	Commercialisation & Revenue Generation
Research Theme	Strategic Theme #2
Date Created	Thursday, 23 August 2018
Date Updated	Thursday, 27 September 2018
Author(s)	Simon Wilson, Andy Perrin, Karen Farquharson
Version	1.21
Status	Provisional & Tentative, For Discussion Purposes Only
Restrictions	FHRC Members Only

Strategic Theme #2:

Commercialisation & Revenue Generation, Rechargeable Costs Recovery & Costs Offsetting / Reduction

Contents

Strategic theme definition (description and scope).....	3
Strategic and political rationale.....	5
Structural changes and enablers.....	7
People, processes and systems changes.....	8
External partner(s) engagement (where applicable).....	8
Whole life costs.....	9
Cashable business benefits.....	9
Non-cashable business benefits.....	9
Dis-benefits and operational implications.....	9
Implementation and operational risks.....	10
Impacts on stakeholders and communities.....	10
Readiness and barriers to success.....	11
Retreat options.....	11

Terms & Abbreviations

COR.....	Costs Offsetting / Reduction
CRG.....	Commercialisation & Revenue Generation
DRT(S).....	Demand Responsive Transport (Services)
DTP.....	District, Town & Parish
FHRC.....	Future Highways Research Club
GPC (Localism Act 2011).....	General Power of Competence
HTST.....	Home To School Transport
ITIS.....	Information Technology / Information Systems
RCR.....	Rechargeable Costs Recovery
WLC.....	Whole Life Cost(s)

Strategic theme definition (description and scope)

The majority of highways authorities have perceived highways assets as financial liabilities. With ever decreasing budgets, asset management has become a process of allocating dwindling resources across a deteriorating asset. However, in recent years a number of convergent factors have driven a fundamental re-examination of the strategic value of the highways and transportation assets and services:

Schedule 1: Convergent Factors Driving Commercialisation

- The introduction of the Localism Act 2011, and a new General Power of Competence (GPC), explicitly gives councils the power to do anything that is not expressly prohibited by other legislation.
- “Enterprising Council” initiatives are driving a more commercially-minded approach to chargeable services; especially services that are value-added and are meeting needs that not being addressed by the private and / or third sectors.
- The significant reductions in local authority funding have forced authorities to either cut services or seek new sources of revenue. Budget shortfalls can no longer be compensated for through incremental improvements in economies or efficiency.
- New entrants to the market (especially in the communications and electric vehicle sectors) recognise that the existing networks and assets provide a platform for new technologies and a route to market.
- Existing private sector providers recognise that their clients are unable to continue to fund services at historic levels and that new approaches should be considered.

This research option considers the opportunities for increased revenue generation and / or costs reduction through:

Schedule 2: Considered Types of Commercialisation & Revenue Generation

1. **Commercialisation**
Creating marketable, value-added services and selling these to the public, businesses, other public sector organisations and / or regulated sector organisations.
2. **Revenue Generation**
Reappraising existing charging schemes to identify where fees could be increased to increase revenue.
3. **Comprehensive Rechargeable Costs Recovery (RCR)**
Many authorities charge the public and business for services. Often these charges do not reflect the actual cost of service delivery, and the service is provided at a loss. RCR options are used to ensure, where possible and allowable, the full costs of services are recovered.
4. **Cost Offsetting / Reduction (COR)**
Cost offsetting utilises alternative funding sources to offset all or part of the costs of a function. Cost reduction typically substitutes lower cost processes and technologies to achieve similar outcomes. For the purposes of this research theme, COR does not include improved efficiency measures achieved through processes redesign, nor does it include simple cost-cutting measures.



This research theme excludes the sale of assets and / or the permanent transfer of rights (often described as “selling the silver” options), as these do not provide sustainable revenue streams.

Most Future Highways Research Club (FHRC) member organisations are currently implementing comprehensive rechargeable costs recovery, where costs are known and rechargeable. Therefore, this research theme focuses on Commercialisation and Revenue Generation (CRG) and Costs Offsetting / Reduction (COG) options where these utilise new methods and or emerging technologies.

The scope of the research theme includes both highways and transportation options. Based on the analysis completed to-date, some of the identified options may be more appropriately placed in the commercialisation portfolios of other services / functions. Future development of this theme may reassign highways and transportation options in separate services-specific portfolios.

The current umbrella portfolio of CRG, COR and RCR options includes:

Table 1: Schedule of CRG, COR & RCR Options

Option ID	Description	Type & Service*
1010	Bio-Mass Collection & Resale	CRG/H
1020	Commuted Sum ¹	RCR/H
1030	Bus Stop & Bus-Side Advertising	CRG/T
1040	Asset Sponsorship & Street-Side Advertising	CRG/T
1050	Services on Private Roads & Commercial Estates ²	CRG/H
1060	Services on Public Sector & Regulated Services Estates ³	CRG/H
1070	Using Highways Estates for Energy Generation	CRG/H
1080	Commercialising S278 Services	RCR/H
1090	5G Mobile Lamp Mast Repeaters / Fixed Wireless Broadband ⁴	CRG/H
1100	Street Furniture / Infrastructure as Technology Platform	CRG/H
1110	Selling Services to Other Authorities	CRG/HT
1120	Recycling of Aggregates	CRG/H
1130	Battery Banks (Cost Offset) ⁵	COR/HT
1140	Renewable Powered Fleet (or Low Carbon Powered Fleet)	COR/HT
1150	Electric Vehicle Infrastructure (Granular, Demand Driven)	CRG/H
1160	Electric Vehicle Infrastructure (Concession)	CRG/H
1170	Demand Responsive Transport (DRT) Services	COR/T
1180	Classroom Virtualisation ⁶	COR/T
1190	In-Home / Vulnerable People Virtual Care / Overwatch ⁷	COR/T?
1200	Driverless Public Transport Services	COR/T
1210	Commercialising S139/169 Permits ⁸	RCR/H
1220	Increasing / Extending On-Street Parking Fees / Permits	CRG/H
1230	Car Club Permits / "Dockless" Bikes	CRG/HT
1240	Selling Concessions to Traders ⁹	CRG/H
1250	On-Street Licenses ¹⁰	CRG/H

¹ Against future maintenance costs.

² Road maintenance and winter services.

³ Road maintenance and winter services.

⁴ Sold as a concession to either (a) a communications services provider or providers, or (b) a communications infrastructure provider or providers.

⁵ Typically required in combination with energy generation schemes.

⁶ Home to School Transport (HTST) cost-offset.

⁷ In-home video cameras and speakers to support vulnerable people living in the community. Transportation costs offset / reduction.

⁸ Skips and scaffolds permit schemes.

⁹ For trading in laybys, car parks, "Park-and-Ride" car parks and on other publicly-owned highways estates.

¹⁰ For café owners and street traders.

Option ID	Description	Type & Service*
1260	Downward Devolution (See <i>Downward Devolution</i> Research Theme)	COR/H
1270	Crowd-Funded Schemes	COR/HT
1280	Training & Knowledge Sharing ¹¹	CRG/✗
1290	Commercialising S37/38 Services	RCR/H
1300	Commercialising S184 Services	RCR/H
1310	Congestion & Pollution Charging Zones ¹²	CRG/✗
1320	Road Charging Schemes ¹³	CRG/✗

*H: Highways Service, T: Transportation Service, HT: Highways & Transportation Services,
 ✗: Discontinued, Suspended or Merged Option (see footnotes).

Further details (i.e. descriptions and analysis) for each option are included in the following FHRC resources:

Schedule 3: FHRC Portfolio Analysis & Options Resources

1. **CRG Portfolio (2-x) Detailed Analysis Workbook**
 - Automated Excel 2016 workbook.
 - To be completed by FHRC members.
2. **FHRC Option 2 CRG, RCR & COR Option Descriptions**
 - Word 2016 document.
3. **Value Analyser™ (Options Evaluation Factor Set)**
 - Automated Excel 2016 Application & Factor Sets
4. **FHRC Concessionary Framework Template**
 - Word 2016 document.

This strategic theme focuses on the development and assessment of a portfolio of strategic options. This document does not include the analysis for specific CRG, RCR and COR options. This analysis can only be conducted in context of a specific authority.

Strategic and political rationale

In response to the Localism Act 2011 and the restructuring of local government financing, many authorities are adopting commercial practices and commercialisation portfolios to mitigate funding shortfalls. Typically, this falls within the wider scope and principles of an “Enterprising Council” strategic programme.

Table 2: FHRC Strategic Drivers: Option Alignment & Contribution¹⁴

FHRC Standard Factors	Weighting	Alignment & Contribution
Ensure Network Availability	100	M
Deliver Affordable & Sustainable Services	100	H
Attract Inward Investment & Economic Stimulation	80	M
Provide Comprehensive Value for Money Assurance	90	M

¹¹ Discontinued, now merged with Option 1110: Selling Services to Other Authorities.

¹² Requires primary legislation, option suspended.

¹³ Requires primary legislation, option suspended.

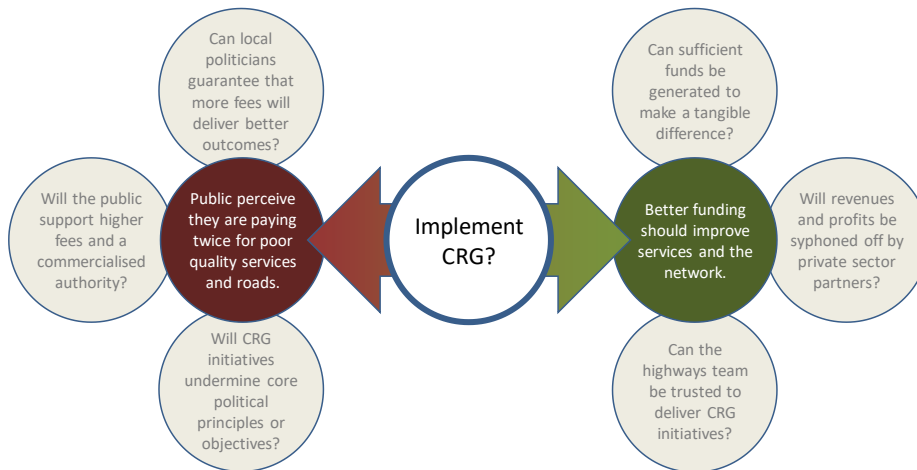
¹⁴ Based on the assessments completed by Suffolk, Lincolnshire, West Sussex, Oxfordshire and Derbyshire.

Implement Tangible Service Improvements	100	L
Services & Asset Plan Aligned with Customer Needs & Political Priorities	80	M
Deliver Environment Protection Polices	70	L
Ensure Public Security & Safety	100	L

As expected, a collated assessment of the analysis completed by members of the FHRC illustrates the primary driver is to increase revenues and recover costs. This analysis assumes that any resultant revenues will be reinvested in improving highways and transportation assets and services (as shown in Table 2, above).

Politically, CRG options may resolve and create issues in equal measure, resulting in a dilemma for local politicians. The two key issues, based on the interviews conducted to-date, appear to be (a) the loss of public support as fees are increased or extended and (b) uncertainty regarding the ability of the highways team to think and act commercially (see Figure 1, below).

Figure 1: Commercialisation & Revenue Generation (CRG): A Political Dilemma



As highways maintenance is a top priority for the UK public (second only to health)¹⁵, the implications of this strategic theme need to be considered and implemented carefully to ensure that the public experience tangible network improvements; especially if costs to the public are to rise.

Figure 2: Higher Fees: Sustaining Public Support



¹⁵ In an AA survey conducted prior to the May 2018 local elections, 48% of those polled said that health and social care was the most important issue to them. That was closely followed by 47% who said that local roads maintenance was the most important issue. Highways again, was the second was important issue in a survey reported by YouGov in July 2018.

To sustain public support, many authorities are guaranteeing that all revenues generated through highways initiatives are being reinvested in local highways and transportation services (as illustrated in Figure 2 above). Where this guarantee has been offered, the issue appears to have become less divisive.

Where revenues are redirected towards other services and where highways assets and transportation services continue to decline, public support cannot be expected in the longer term.

Structural changes and enablers

The following stages are typically required for developing and managing a portfolio comprising CRG, RCR and COR options:

Schedule 4: Key Steps & Considerations

1. **Developing commercial skills and operational practices.**
 - a. Including a more commercial culture in support of better services.
2. **Assessing the current costs and fees for rechargeable services.**
 - a. Ensuring all costs are recovered.
3. **Assessing opportunities and barriers.**
 - a. Service-by-service.
4. **Developing and prioritising CRG, RCR and COR options, assessing *inter alia*:**
 - a. Option costs.
 - b. Cashable benefits.
 - c. Non-cashable benefits.
 - d. Dis-benefits.
 - e. Benefits certainty and sustainability.
 - f. Organisation readiness.
 - g. Implementation and future operational risk.
 - h. Competitive position.
 - i. Market attractiveness.
 - j. Legal and statutory duties compliance.
 - k. Political and public acceptance and support.
5. **Creating a team for portfolio management and options implementation.**

Where an overarching Enterprising Council programme is in place, a portfolio management processes and resources may already be available. Where this is not the case, a service-specific portfolio management team and process can be established.

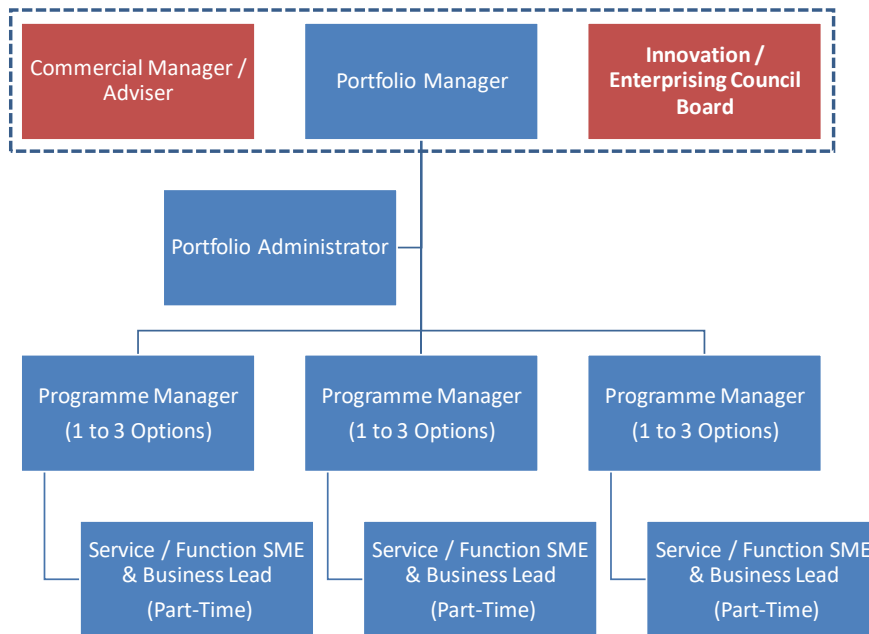
Cultural changes are also required if CRG, RCR and COR initiatives are to be successfully implemented and operated. Many politicians reported frustration when trying to understand the true operating costs for services and functions. A culture that focuses on delivery with little regard for the actual costs of a service is often presented as having a virtuous, public-service orientation. Commercialisation, by extension, is therefore often seen as undermining public services, rather than enhancing and securing them (see ***Readiness and barriers to success***, below).

Where private sector or third sector partners are involved, this can introduce additional complications; especially where there are prevailing risk / reward sharing arrangements. A review of current contracts may be required to ensure that any revenues generated, or cost savings accrued, are not claimed by third parties.

People, processes and systems changes

Typically, a portfolio management team would comprise; a portfolio manager, a portfolio administrator and programme managers for each of the options; managing option design, development and implementation. Off-the-shelf IT/IS portfolio and project management tools can be used to administer the individual initiatives. Value Analyser™ and the Portfolio Analysis toolkit can be used to assess and prioritise options and assess the benefits and costs accrued.

Figure 3: Commercialisation Portfolio Management Team



The costs of the portfolio management and commercialisation teams (the core elements of an Enterprising Council programme) are recovered through increased revenues and costs reduction initiatives.

External partner(s) engagement

Private sector partners can provide valuable assistance in designing, implementing and operating commercialisation options. They can also provide an abstraction layer between traditional, mandated services and innovative, value-added, commercial services.

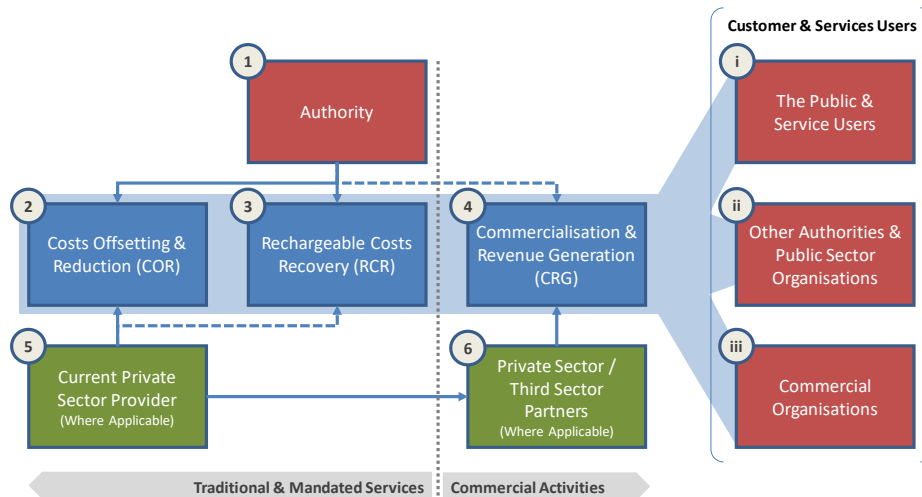
Historically, private sector providers have focused on cost reduction; largely driven by reducing budgets. This has resulted in lean, operationally-focused provider-side teams and a deficit in innovative thinking and strategic change¹⁶. Often, providers have morphed into low-cost, outsourced teams and many of the benefits of private sector engagement have been undervalued and lost.

By utilising the capital and market expertise of private sector partners, host authorities are able to operate concurrently in two markets, with minimum exposure. Here again, a pragmatic and commercially-orientated philosophy needs to be adopted by senior stakeholders on all sides. Private sector partners need to explore, qualify and quantify how they are able to add value to each dimension of the portfolio (CRG, RCR and COR), as illustrated in Figure 4.

¹⁶ 2015, 2016 Provider Assessment, FHRC.

In some cases, entirely new partners will be required. These will require new procurement frameworks and / or concessionary frameworks.

Figure 4: Working With Third Parties



Whole life costs

The Whole Life Costs (WLC) of Enterprising Council portfolio management will vary authority-to-authority, based on:

Schedule 5: CRG, RCR & COR Portfolio Management Cost Considerations

1. The size the team managing the CRG, RCR and COR options.
2. The scale of costs for commissioning the selected options.
3. The operational for the implemented options.
4. The operational longevity of each of the options.
5. The cost of risk associated with each option.
6. Any risk / reward sharing arrangements with private sector partners.
7. Any fees payable to third parties.
8. The cost of decommissioning the option at end-of-life.

As the number of variables is significant, a separate CRG Portfolio Analysis toolkit has been developed for FHRC members.

Cashable business benefits

The cashable benefits of the portfolio can be calculated using the Portfolio Analysis Toolkit (see FHRC resources).

Non-cashable business benefits

The non-cashable benefits (social, reputational, environmental and political) can be assessed option-by-option. Currently, this is beyond the design scope of the Portfolio Analysis Toolkit.

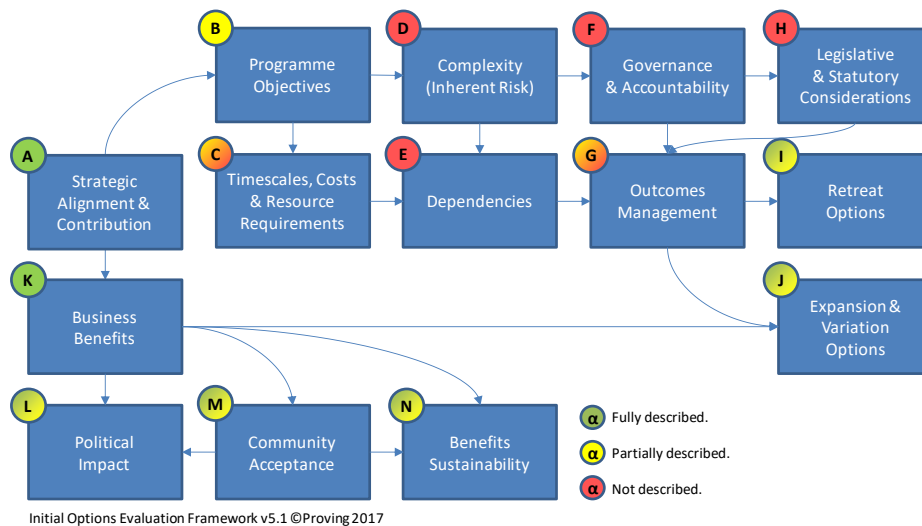
Dis-benefits and operational implications

The financial dis-benefits (costs and cost of risks) of the portfolio can be calculated using the Portfolio Analysis Toolkit (see FHRC resources).

Implementation and operational risks

An initial assessment of the implementation and operational risks of this strategic theme are summarised in Figure 5, below. The profile of risk will change significantly based on options selected for inclusion in the portfolio.

Figure 5: Risk Summary



Based on the CRG, RCR and COR options being pursued by the members of the FHRC, the profile of risks demonstrates a high risk in design, development and implementation for options that are culturally alien to many public sector providers. Overall the strategic and operational business benefits are typically compelling.

Impacts on stakeholders and communities

An assessment of the impact of each option for each stakeholder group will be required prior to option implementation.

Schedule 6: Stakeholder Impact Assessment: Key Stakeholders

- **Politicians**
- **Other Councils**
- **Districts**
- **Parishes and Town Councils**
- **Neighbouring Authorities**
- **Officers**
- **Partners (Delivery / Value Chain)**
- **Public / Asset & Service Users**
- **Regulators & Other Agencies**
- **Blue Light Services**
- **Special Interest Groups**

High-level stakeholder impact assessments can be completed using the Value Analyser™ (see FHRC resources).

Readiness and barriers to success

The readiness of the authority, the sector, customers, partners and any new technologies / methods will be to be assessed for each option prior to implementation.

A high-level evaluation of the identified barriers to success can be completed using the Portfolio Analysis Toolkit (see FHRC resources).

Retreat options

Retreat options will need to be assessed for each option in the portfolio. Currently, this is beyond the design scope of the Portfolio Analysis Toolkit.