

COMMERCIALISATION AND INCOME GENERATION

**HEREFORDSHIRE COUNCIL
SCRUTINY MANAGEMENT BOARD
COMMERCIALISATION AND INCOME GENERATION
WORKING GROUP**

GROUP FINDINGS

Background

In November 2025, council's leader, Cllr Jonathan Lester, and then chief executive Paul Walker, approached the chair and vice-chair of Scrutiny Management Board to ask whether the group could undertake a rapid review of the council's fees and charges, asset management and other forms of income generation, to ascertain whether there were any opportunities to either reduce expenditure or increase the council's income. The group had already indicated it would review the draft commercialisation strategy the council had developed, noting that commercialisation is identified as a key programme of work in the council's [Transformation Strategy 2025-2028](#).

The chair and vice-chair of Scrutiny Management Board agreed to carry out this work, recognising that the council's 2026-27 budget would need to be agreed by Full Council in February 2026, just four months later. Scrutiny Management Board therefore agreed informally to establish a working group of its own members to undertake the review.

The group's work focussed on three broad themes: the council's approach to fees and charges, the management and use of council assets, and opportunities to support the council's financial sustainability through greater commercialisation and income generation. Whilst recognising the importance of identifying opportunities to improve the council's financial position, the group also sought to understand how these activities contributed to the delivery of Council Plan priorities and wider social, economic and environmental outcomes for Herefordshire.

In undertaking its review, the group considered information and evidence provided by council officers, including data relating to fees and charges, income generation and asset management. The group reviewed the council's current arrangements for setting fees and charges, examined the principles underpinning the management of the council's property and land portfolio, and members of the group met with senior officers to better understand how the council acquires, manages and disposes of assets and how these activities support corporate objectives.

The review also drew upon previous work undertaken in this area. This included reviews of fees and charges completed by PwC in 2011-12 and 2022-23, [together with the recommendations of the Income and Charging Task and Finish Group](#). The group considered the extent to which observations and recommendations from these earlier reviews remained relevant and whether opportunities identified previously had been implemented.

To inform its thinking on commercialisation and income generation, the group also examined examples from elsewhere in local government, including authorities that had adopted more commercial approaches to asset management, service delivery and investment. The group reviewed both successful and unsuccessful examples from across the sector to better understand the opportunities, risks and organisational requirements associated with commercial activity. Particular attention was paid to issues of governance, organisational culture, commercial capability and financial resilience.

The group was not able to examine all potential opportunities for income generation and commercialisation in detail. In particular, the group identified several areas that merit further consideration but were outside the scope of this review. These included opportunities to bring additional income into the public realm through closer working with parish councils and the wider

parish tier, and opportunities to work differently with the voluntary and community sector to support access to funding streams that are not available directly to the council. The group recognised that this latter area may require consideration of alternative commissioning approaches and a different approach to the management of risk and partnership working.

The group also identified traded services as an area that warrants further examination. This includes consideration of services currently delivered through Hoople Ltd and other arrangements, as well as opportunities to provide services to, or procure services from, other local authorities and public bodies. However, the group noted that many of these matters are expected to be explored in greater detail through the forthcoming spotlight review of Hoople Ltd. The group therefore considered it appropriate to avoid duplicating that work and to focus this review on fees and charges, asset management and broader commercialisation opportunities.

The group's conclusions and recommendations are therefore based on a combination of evidence provided by officers, analysis of council policy and financial information, consideration of previous reviews and recommendations, and learning drawn from practices elsewhere in local government.

Revenue - fees and charges

The group looked at how the local authority sets its fees and charges for chargeable services. In the 2024-25 financial year, Herefordshire Council received £45.009 million in fees, rents and other income, spread across the council's directorates as follows:

Directorate	Income £
Children and Young People	520,309
Community Wellbeing	17,605,843
Corporate Services	4,706,211
Economy and Environment	22,177,632
TOTAL	45,009,994

The largest sources of income were as follows:

Income type	Income £
Adult social care receipts	16,668,770
Car parking and parking fines	6,260,878
Property and land rents, hire charges, and fees	5,818,365
Corporate management	2,256,824
Waste management and energy generation	2,121,045
Building control	1,946,082
Burials and cremations	1,935,938

Many of the fees and charges set by the local authority are either:

- fixed by Government, with no opportunity for local variance
- are limited to a fixed percentage increase annually
- once received, can only be spent in the service area from which they are generated.

For example, [Section 55 of the Road Traffic Regulation Act 1984](#) states that receipts from car parks can only be spent on parking provision and management in the first instance, and after that on a limited range of highways management or development activities.

The group learned that the council's fees and charges are generally reviewed annually by the relevant service manager or director, in time for budget setting for the following financial year. As a result, the fees and charges for the 2026-2027 financial year are reviewed and changed in the period October 2025-January 2026. The group were able to see a list of the fees and charges set by the council, as well as the shared spreadsheet used to determine annual fee increases. However, the group could not ascertain how council managers with budget responsibility determined the level at which their fees and charges were set and changed annually. There appeared to be no mechanism by which managers determined the cost of operating their service, and therefore no means to calculate a service fee that would not result in a subsidy for the service. If, as a result, a service was subsidised, there existed no method to determine the purpose or desirability for the subsidy.

In discussion, the group noted that budget holders ought to understand the cost of delivering the service that they managed. It agreed that managers who had discretion over the fees that they set should ensure that the fees covered the full cost of delivering the service. If the fees did not do this, then the implied subsidy should be linked to a council plan priority. This could most easily be recorded and therefore verified with an adjustment to the spreadsheet used to determine annual increases. Adding columns that asked managers to determine the cost to provide a service, the fee being set, and the policy being used to determine any subsidy of services, would provide the assurance that fees were set at a level that reflected the cost-of-service delivery or the reason for the implicit subsidy of a service.

In the previous 15 years, there have been two systematic reviews of fees and charges, both carried out in partnership with the consultants *PwC*. These reviews took place in 2011-12 and 2022-23.

The 2011-12 review was itself [tracked by a scrutiny task and finish group](#). The review noted that Herefordshire Council recovered a lower percentage of its service costs through fees and charges compared to similar local authorities. This was a point also made by the 2022-23 review, noting that Herefordshire Council recovered 9.6% of its service delivery costs compared to an average of 12.6% across comparator local authorities.

The 2011-12 review also made several observations and recommendations that are pertinent to this review, which are included as Appendix A to this report. It noted then that there existed opportunities to increase income generation through an increase in fees and charges, endorsing a set of principles for charging that sought to assist in doing so. These included a commitment to full cost recovery for chargeable services, underpinned by an understanding of the true cost of providing such services. Any council subsidy to the cost of providing a service should be linked to a local authority priority, and any concessionary scheme should be based on an ability to pay. The review, and the task and finish group also both noted that it could increase public support for the fees and charge set by council if it were made clear the purpose of fees and charges, how they were set, and in the case of parking and waste management, what the income was spent on.

The 2022-23 review was narrower in focus, looking specifically at opportunities to maximise income generation rather than how fees and charges aligned with local authority priorities or whether the council approached fees and charges setting with full cost recovery as an objective. As mentioned previously, this review noted that Herefordshire Council recovered less of its service delivery costs than other local authorities, but without stating why this was the case. It made recommendations to increase service delivery cost recovery, some of which have been put into place to assist in future budget setting. The group however were not given examples of where this had happened.

From its review the group concluded that there may exist some opportunity to raise some charges. For example, it noted from the 2011-12 and 2022-23 reviews that there may be an opportunity to increase short stay city and town centre car parking charge, which were relatively low compared to those charged by other local authorities.

The group therefore recommends that Herefordshire Council's annual review of fees and charges includes (a) a calculation of the cost to provide the service (b) the service fee required to cover the cost of the service and (c) a link for any subsidy to an objective of the Herefordshire Council Plan.

Asset management

The group wished to understand how the council was maximising income from council assets (such as property leases and car parks) and from asset repurposing or disposals. It also sought to understand the council's strategic approach to asset management, and how this aligned to both strategic objectives and creating the income (or reducing expenditure) to better deliver those objectives.

The task and finish group chair met with the council's head of housing development to understand more about how the council acquires, uses and disposes of its capital assets. Herefordshire Council's asset management register lists nearly 1100 buildings and parcels of land owned by the local authority. The council's principles for managing this portfolio is contained in its strategic asset management framework. According its introduction, the framework aims *"to adopt a proactive, sustainable, solution-oriented approach to manage assets in support of the economic, social, and environmental needs of the county. This will help maximize the value of service delivery to customers without compromising the ability to meet the needs of future generations"*.

The task and finish group also looked at the asset management strategies at local authorities that had taken a considerably more entrepreneurial approach to property acquisition, using these properties primarily or solely as a means to generate income to fund council services. The group noted that many local authorities had taken on considerable debt in pursuing speculative property portfolios, and had as a result found themselves exposed to financial risk that in some cases had resulted in bankruptcy. The group also noted that some authorities had taken on considerable debt but had been able to manage the associated risk effectively. Authorities that used their capital programme primarily to deliver council priorities (for example in housing and economic development) were better able to manage the risks associated with large debts than authorities who used their capital programme primarily to deliver financial return. Authorities that

focus on using their capital programme to deliver council priorities are also able to deliver financial returns to the council.

The group considered that the council could make more effective use of its assets by adopting an approach similar to that proposed for fees and charges. Assets should have a clear and demonstrable link to the priorities set out in the Council Plan. As a minimum, each asset should be expected to be revenue neutral, with the income it generates covering the cost of its management and maintenance. Where possible, assets should generate a positive financial return and produce more income than they cost to maintain.

Where an asset incurs a net cost to the Council, the level of subsidy should be clearly identified and justified by reference to a specific Council Plan priority. The group also considered that assets which do not contribute to the achievement of Council Plan priorities should be reviewed and considered for disposal.

The group therefore recommends that Herefordshire Council adopts an asset management framework which requires all assets to support a Council Plan priority, achieve at least revenue neutrality where practicable, and clearly identify and justify any subsidy. Assets that do not contribute to Council Plan objectives should be reviewed for disposal.

The purpose for holding all buildings and land should be understood and linked to Herefordshire Council Plan objectives. The group was unable to ascertain a link between some holdings and their purpose in delivering the objectives of the Council Plan. These included the Cyber Quarter, Maylord Orchards, College Road Campus, Three Elms Trading Estate. If the council has a purpose for these assets, it should link them explicitly to its strategic objectives in its Asset Management Strategy. The group learned that work to make these links was underway, and the group believes that Scrutiny Management Board should review this work once it has been completed.

Herefordshire Council should also have a clear understanding of the revenue costs and benefits of its property and land assets. Although it should not hold buildings and land purely for a revenue return, it should nonetheless aim to maximise the revenue return on all buildings and land that it possesses. As with the council's fees and charges, where the revenue impact of the asset is negative, the implied subsidy should be explicit and clearly assigned to meet a priority in the Herefordshire Council Plan.

Although the council's asset holdings should serve council objectives, there is also the council's overarching objective to deliver cost-effective services for Herefordshire. In this regard Herefordshire Council should prioritise investment in land and buildings where there is a business case that the investment would deliver net savings to the revenue budget, whether through building new buildings, acquiring existing buildings or repurposing properties that it already owned. This approach to asset management often provides a dual benefit to the local authority, as it can provide the local authority with greater control over and stability for the services that it provides. As an example, if Herefordshire Council owned properties that could house people who are temporarily homeless, it would not have to rely as strongly on the rental market to find accommodation to meet its homelessness duties.

The group understands, however, that making capital investments to provide revenue savings carries an element of risk. For example, a change in legislation might reduce or negate a duty entirely, leaving the local authority with unwanted assets. Capital investments should therefore not be seen as a means to avoid making savings through service efficiency and a focus on prevention in the council's operations that are funded through the revenue budget. Furthermore, outright ownership of assets may not be the most effective way to balance the need to provide stable and cost-effective services. Renting or leasing may instead better balance stability with flexibility, for example, leasing a fleet of vehicles to provide home to school transport services would reduce reliance on taxi and private hire companies and provide greater control over required capacity. This could be preferable to owning vehicles outright, which provides less flexibility in increasing or reducing service provision according to demand.

The group also considered the circumstances in which the council should make capital investments that are intended primarily to deliver Council Plan priorities, such as increasing the supply of affordable housing or supporting economic development. In general, the group agreed that such investments should seek to deliver both a social return, through the achievement of strategic objectives, and a commercial return, through either increased income or reduced expenditure. Where an investment is not expected to generate a positive revenue return and instead carries an ongoing net revenue cost, the rationale for doing so should be explicit. In such cases, any subsidy should be clearly identified and linked to a specific outcome within the Herefordshire Council Plan, ensuring transparency about both the costs incurred and the objectives being delivered.

Commercialisation

The group considered the role that commercialisation could play in supporting the council's financial sustainability over the medium and longer term. It noted that commercialisation should not be viewed simply as a means of generating additional income, but rather as an organisational approach that seeks to improve services, strengthen financial resilience and make more effective use of public resources. Commercialisation implies services holding detailed knowledge of the council's customers and having the resources and the ability to respond rapidly to emerging opportunities. It also implies the ability to work with partners in commercial, public and third sectors in different ways in order to meet customer needs. It implies a clear approach to innovation across services and across partnerships.

The group recognised that successful commercialisation is primarily a cultural and organisational challenge rather than a technical one. Drawing on examples from across local government, as well as the council's own experience of transformational change in areas such as the adoption of relational practice within children's services, the group noted that improvements in outcomes and reductions in costs often arise from changes in organisational behaviour, leadership and ways of working. Commercialisation should therefore be understood as a long-term programme of cultural change rather than a series of isolated income-generating projects.

Achieving this change will require investment in skills, capability and leadership. Managers across the council will need support and training to develop commercial awareness and to identify opportunities to improve efficiency, generate income and deliver greater value from council

resources. They will also need access to specialist skills in Data, Digital and Technology to be able to respond to commercial opportunities.

Members will also need to agree governance arrangements that enable appropriate levels of innovation and prudent risk-taking whilst maintaining strong oversight, accountability and effective delivery.

The group therefore believes that the council should adopt a clear commercialisation strategy that sets out its objectives, appetite for risk, governance arrangements and priorities for action. The group was able to review an early draft of the council's emerging approach and believes that it can provide a number of observations to support its further development.

The importance of governance emerged consistently throughout the group's work. Case studies reviewed by the group repeatedly highlighted governance as a critical factor in understanding, managing and mitigating the risks associated with commercial activity. The group found that successful commercial organisations and local authorities were characterised not merely by an appetite for innovation, but by clear decision-making structures, robust challenge, well-defined responsibilities and strong arrangements for monitoring performance and risk. The group also noted the importance of organisational and political stability in supporting successful commercial activity. Case studies reviewed by the group suggested that authorities which had been most successful in pursuing long-term commercial and investment strategies benefitted not only from robust governance arrangements but also from a shared understanding of purpose and direction across their political and managerial leadership. Political stability can assist in creating the confidence required to take long-term decisions and maintain a consistent strategic approach over many years.

The group recognised that Herefordshire Council operates in a different political environment. Unlike some authorities that have experienced prolonged periods of administration by a single political group, Herefordshire Council has a diverse political composition and is governed by a minority administration. The group therefore believes that strong governance arrangements, a clear organisational culture and a shared understanding of the council's strategic objectives are particularly important. In such circumstances, successful commercialisation is more likely to depend upon broad agreement about the council's priorities, risk appetite and desired outcomes, ensuring that commercial activity can be pursued consistently and with appropriate oversight irrespective of political differences. Conversely, weaknesses in governance at other local authorities frequently contributed to poor decision-making and the ineffective management of commercial ventures. The group therefore believes that effective governance arrangements should be viewed as a prerequisite for increased commercialisation rather than as a constraint upon it. New approaches to governance and project management may be required in some areas to ensure that commercial activity is focused on those opportunities that are most likely to support the council's strategic objectives and financial sustainability.

The group further recognised that the council may need to strengthen its commercial capability through targeted recruitment and by ensuring that staff with relevant experience are able to influence decision-making. This may require management arrangements and project structures that allow specialist expertise to be deployed effectively and that support cross-service working

on specific commercial initiatives. New approaches to governance and project management may therefore be required in some areas to ensure that commercial activity is focused on those opportunities that are most likely to support the council's strategic objectives and financial sustainability.

Finally, the group considered the importance of ensuring that commercialisation remains a means to an end rather than an objective in itself. Commercial approaches should be used where they support the delivery of council priorities and provide demonstrable benefits for residents and taxpayers. They should be applied proportionately and with a clear understanding of both the opportunities and risks involved. The council should therefore promote a culture that encourages innovation, commercial awareness and evidence-based decision-making, supported by appropriate training and leadership, whilst avoiding the pursuit of commercial activity for its own sake.

The group therefore recommends that Herefordshire Council adopts a commercialisation strategy, supported by appropriate governance arrangements, workforce development and organisational culture change, to enable the council to pursue commercial opportunities in a manner that supports the delivery of Council Plan objectives while maintaining effective oversight and management of risk.

Conclusion

The group found limited evidence that significant additional income could be generated through increases to fees and charges alone. It found no evidence that services understand the gap (if any) between the cost of their service and the income raised through fees and charges. Whilst opportunities may exist in some areas to improve cost recovery or to review individual charges, such opportunities are unlikely to make a substantial contribution towards addressing the council's longer-term financial challenges. The council should still pursue these opportunities within a wider commercialisation strategy. The more significant finding from the review is that the council should adopt a clearer and more consistent approach to understanding the costs and benefits of the services it provides, the assets that it holds and the investments that it makes. In particular, where the council chooses to subsidise a service, asset or activity, that decision should be explicit, transparent and clearly linked to the delivery of a Council Plan objective. This principle emerged consistently across the group's consideration of fees and charges, asset management and capital investment.

The group also concluded that the council's assets and investment decisions should be viewed primarily as tools for delivering strategic objectives rather than simply as mechanisms for generating income. The council should seek to maximise the social, economic and environmental value derived from its assets whilst also seeking commercial returns wherever it is reasonable and appropriate to do so. Similarly, where capital investment is undertaken to deliver corporate priorities, the council should seek both social and financial benefits, recognising that any ongoing subsidy should be justified by a clearly defined public benefit. The group broadly supported the council's current direction of travel in relation to asset management but believes there is scope to strengthen the links between assets, investment decisions and the delivery of Council Plan outcomes.

Finally, the group concluded that commercialisation should be regarded as a long-term organisational change programme rather than a collection of individual income-generating initiatives. Successful commercialisation depends upon effective governance, strong leadership, the development of commercial skills and a shared understanding of purpose across the organisation. Given Herefordshire Council's political composition and governance arrangements, these factors are of particular importance. The group therefore believes that the greatest opportunities available to the council lie not in any single commercial venture, but in developing the culture, capability and governance necessary to make better use of the council's resources, assets and investments in support of its strategic objectives and long-term financial sustainability.

Recommendations

The group makes the following recommendations:

- Herefordshire Council's annual review of fees and charges includes (a) a calculation of the cost to provide the service (b) the service fee required to cover the cost of the service and (c) a link for any subsidy to an objective of the Herefordshire Council Plan.
- Herefordshire Council adopts a commercialisation strategy, supported by appropriate governance arrangements, workforce development and organisational culture change, to enable the council to pursue commercial opportunities in a manner that supports the delivery of Council Plan objectives while maintaining effective oversight and management of risk.
- Herefordshire Council adopts an asset management framework which requires all assets to support a Council Plan priority, achieve at least revenue neutrality where practicable, and clearly identify and justify any subsidy. Assets that do not contribute to Council Plan objectives should be reviewed for disposal.

Appendix A**Recommendations made by the 2011-2 Income and Charging task and finish group**

1. Council consistently applies the principles for setting or amending fees and charges agreed last year and revised by this group and by PwC. These principles should be set out as part of the annual budget papers where the full schedule of fees and charges is included: any future presentation of the schedule to Members should include a covering report setting out how the principles have been met.
2. Any new charges or any changes to existing charges in excess of inflation, should be tested and reported against the Council's stated principles for setting or amending fees and charges. Over a period of time, not exceeding 18 months, all existing charges should be tested against the principles in order to provide a baseline for future review.
3. The Council should develop a consistent approach to engaging service users and taxpayers more in decisions about whether and at what level to charge for services; and questions should continue to be asked in consultations about services and wider engagement exercises to do with Council finances. As part of this engagement, the Council should describe the financial and non-financial contribution of charging and rationale for levels of subsidy for services to local people and make that available on its website and at service hubs and information centres.
4. Staff should receive the necessary training to behave in a business-like/commercial manner in developing and delivering upon council services
5. The appropriate finance mechanisms and tools should be made available to enable service costs and management overheads to be apportioned and managed effectively to ensure cost recovery.
6. Benchmarking should be undertaken to learn from commercial markets exhibiting functional or capability similarities to council services.
7. Enabling systems and tools should be in place to minimise the implementation and running costs of service charges and to ensure appropriate information about service use and user behaviour is captured to inform future planning and service delivery.
8. Services should be classified to distinguish between those that are Mandatory, Discretionary and Commercial to aid transparency and clarity for staff, councillors and the public.