

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO CABINET**

16 October 2019

Report Title: Commercial Strategy

Submitted by: Interim Director of Resources and Support Services

Portfolios: Corporate and Service Improvement, People and Partnerships
Finance and Efficiency

Ward(s) affected: All

Purpose of the Report

To seek Cabinet approval for the commercial strategy.

Recommendations

Cabinet is asked to:

- (a) Approve the draft Commercial Strategy.
- (b) Request that the Constitution Working Group consider any changes that may be required to the Council's Constitution in light of the strategy, including schemes of delegation and finance procedure rules, for approval by full Council.
- (c) For Finance, Assets and Performance Scrutiny Committee to review and comment on the strategy at its December meeting;
- (d) To appoint commercial investment advisers to undertake a review of the Council's commercial property portfolio and make recommendations for investment or disinvestment (this contract is currently out to tender with an expected award by the end of October 2019);
- (e) For officers to work up investment proposals for further consideration by Cabinet.

Reasons

The Commercial Strategy provides a framework for the Council's commercial activity. It sets out how the Council will secure the delivery of high quality, sustainable, value for money services by being customer focussed, innovative and entrepreneurial.

1. **Background**

- 1.1 This report presents a Commercial Strategy for the Council, which outlines a framework for identifying and managing commercial and income generation opportunities.
- 1.2 A key plank in the Council's MTFs is to increase income for the Council. To deliver this increase in income requires a fundamental change in how we do business. This commercial strategy is one element of this change. It forms part of a suite of strategies and approaches, including the Digital Strategy and Investment Strategy, aimed at addressing the reduction in government grant and supporting the Council in achieving financial sustainability.

2. **Issues**

- 2.1 The Council faces challenging financial times. Our current Medium Term Financial Strategy anticipates a cumulative budget shortfall of £5.8m over the next 5 years. This is a significant amount for an authority which has already seen its external funding reduced by two thirds since 2010.
- 2.2 The need to identify further efficiencies, exploit our asset base and generate income is considerable. Coupled with increasing demand for services, higher public expectations, challenging national political circumstances and economic uncertainty, the Council must use all the means at its disposal to ensure that its medium term finances and ability to provide a full range of services to the local community are sustainable. That means that the Council must become more commercial: generating service efficiencies and new income streams; maximising existing revenue streams; having effective procurement and contract management processes; making prudent investment in income generating assets; and developing our strategic asset base in order to boost local growth.
- 2.3 Commercial activity is not new to the Council. The Council already has a substantial commercial property portfolio which contributes £400,000 annually to the Council's revenue budget and commercial services are operated in areas including leisure, theatre events, car parking and garden waste. The commercial strategy provides an overarching framework for these activities, ensuring a co-ordinated approach across the Council and access to the expertise needed to drive forward our commercial ambitions within a context of robust risk management.
- 2.4 An important element of the Council's commercial approach is finding the right balance between delivering social value and our commercial practices, ensuring that income generated through commercial activity is reinvested in local priorities, services and improvements for the long term benefit of residents of the borough.
- 2.5 Other outcomes that will be delivered through the strategy are:
- Strong working relationships with public, private and third sector partners in order to maximise collaboration and generate efficiencies.
 - An embedded commercial culture within the council and a workforce equipped with the skills they need to operate in a more commercial environment.
 - Supporting the council in delivering the council plan and growth agenda as a key pillar of the medium term financial strategy and our goal of financial self-sufficiency.
 - Optimising the council's use of digital technology to enable new, more efficient and flexible ways of working and interacting with customers and residents.
- 2.6 The strategy proposes a number of guiding principles which describe how we will achieve our commercial ambitions including acting with intelligence, integrity and agility and working collaboratively across organisational boundaries. The strategy is explicit that the Council will seek to extract maximum value from its land and property assets, challenge where services can be commissioned and stop activities that add no value or benefit to customers.
- 2.7 Delivering our vision for a more sustainable and business-oriented Council that maximises commercial opportunities will require a fundamental shift in how we do business and individual and organisational development around commercial thinking. As a first step towards embedding a more entrepreneurial culture we will invest in developing the skills of our members and our workforce. However, moving forward it will also influence the skills that we require in the people that we recruit in future into key roles and in the partnerships that we develop.
- 2.8 Investment decisions will be taken by Cabinet. In view of the potential scale of investment some changes will be required to key financial strategies including the MTFs, Investment Strategy and Treasury Management Strategy as well as financial approval limits. Changes may also be required to the scheme of delegation to ensure that timely decisions can be made as and when commercial opportunities present themselves. It would be appropriate to refer these matters to the Constitution Working Group for detailed consideration with a view to them putting forward recommendations for changes to full Council for approval.

2.9 The strategy will be reviewed by the Finance, Assets and Performance Scrutiny Committee at their December meeting. Effective oversight of investment activity and returns will be ensured via quarterly updates to FAPS as part of the regular finance and performance reports they receive.

3. **Proposal**

3.1 That Cabinet approve the commercial strategy. Next steps will then be:

- For the Constitution Working Group to consider any changes that may be required to the Council's Constitution, including the scheme of delegation and financial procedure rules, to facilitate delivery of the strategy;
- For Finance, Assets and Performance Scrutiny Committee to review and comment on the strategy at its December meeting;
- To appoint commercial investment advisers to undertake a review of the Council's commercial property portfolio and make recommendations for investment or disinvestment (this contract is currently out to tender with an expected award by the end of October 2019);
- For officers to work up investment proposals for further consideration by Cabinet.

4. **Reasons for Proposed Solution**

4.1 Generating efficiencies and additional income by adopting a more commercial approach is a key plank in the Council's plans for addressing the forecast funding gap and maintaining financial sustainability in the medium to long term. The strategy provides a framework for managing and co-ordinating commercial activities.

5. **Options Considered**

5.1 The Council continues to progress a number of strategies and approaches to ensure that it can maintain a financially sustainable future and deliver the key priorities set out in the Council plan. The commercial strategy is part of this suite of options which also includes service redesign, the digital delivery programme, contract negotiation and service recommissioning.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 The commercial strategy supports and is aligned to the corporate priority of financial sustainability and delivery of the MTFS.

7. **Legal and Statutory Implications**

7.1 There is complex legislation and case law that governs local government's ability to undertake commercial activities and generate income. This includes trading in services to make a surplus and the recovery of part (contribution) or the whole of the cost of a service through charging.

7.2 The Council will need to make sure that its commercial activities are legally and state aid compliant, including having regard to the Public Sector Duty within the Equality Act 2010, statutory guidance on local authority investments and The Prudential Code for Capital Finance in Local Authorities.

7.3 All commercial projects and investment opportunities will be examined to ensure that they are within the Council's powers and legal implications will be identified on a case by case basis.

8. **Equality Impact Assessment**

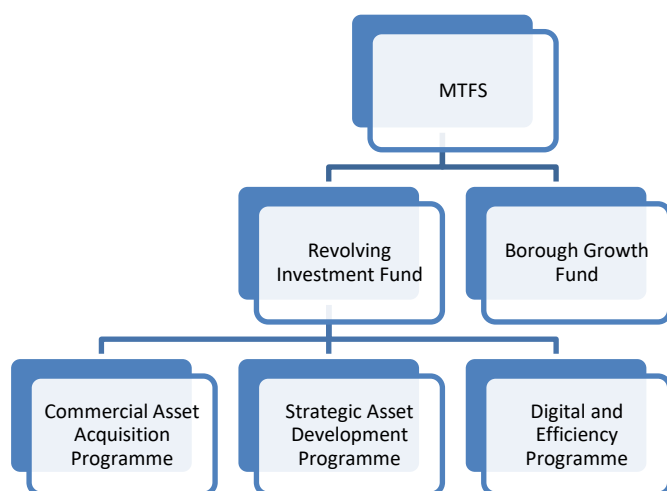
8.1 This report has implications relating to member and workforce development. Delivering our vision for a more sustainable and business-oriented Council that maximises commercial opportunities will require a fundamental shift in how we do business and individual and organisational development around commercial thinking.

8.2 As a first step towards embedding a more entrepreneurial culture we will invest in developing the skills of our members and our workforce. However, moving forward it will also influence the skills that we require in the people that we recruit in future into key roles and in the partnerships that we develop.

9. **Financial and Resource Implications**

9.1 The aim of the commercial strategy is to facilitate sensible investments, based on local need and subject to robust risk management, which enable the Council to improve outcomes for our residents in accordance with the priorities set out in the council plan. This includes making a contribution towards the budget savings required to bridge the forecast funding gap over the next 5 years through income generation, as opposed to reducing spending on services.

9.2 The diagram below shows the proposed funding structure. In summary, investments will be funded via a Revolving Investment Fund established with pump priming funds provided from capital receipts, revenue contributions and prudential borrowing. A proportion of investment returns will be used to support the MTFs with the remainder recycled into new investment opportunities.



9.3 Investments will be split into two categories: commercial assets and strategic assets.

9.4 The overriding objective of the Commercial Asset Acquisition Programme will be to generate and secure a long-term and sustainable income stream for the Council. This will be achieved by investing in assets with a projected minimum level of return of 2% above the cost of borrowing and other holding and management costs. The investments will not be required to meet other Council objectives and priorities e.g. regeneration, economic development or housing and can be located outside the borough.

9.5 Direct investment in commercial property offers a relatively familiar path as the Council already has a diversified property portfolio including office, retail and industrial assets which currently generates a net annual revenue stream. Other potential investment opportunities include renewable energy (for example solar farms and solar bonds) and development of a commercial loan portfolio including loans to registered social landlords within the borough to fund housing development.

9.6 The aim of the strategic asset development programme will be to steer and manage development opportunities from the Council's property asset base so as to deliver capital receipts and improved revenue income streams but at the same time securing the regeneration, economic development and housing objectives of the Council. Examples include acquisition and development of strategic town centre sites, housing and industrial sites within the borough (including, for example within the Chatterley Valley Enterprise Zone). Developments may be undertaken on a co-investment basis with public, not for profit and private sector partners.

9.7 The draft MTFs assumes that the digital delivery programme will generate efficiency savings of £150k p.a. from 2021/22, rising to £600k p.a. in 2024/25. This assumption will be validated as part of the

development of the full digital business case. Any surplus savings generated will be recycled via the Revolving Investment Fund.

9.8 There is a significant opportunity for the Council to capitalise on its ability to borrow at historically very low rates (from the Public Works Loans Board), and acquire income producing investments which are capable of generating net revenue after deducting the costs of finance. The scale of capital investment will primarily determine the return and a substantial capital investment will be required to realise a significant income stream and ensure a balanced and diversified portfolio. The initial scale of investment envisaged is £50m. At a target return of 2% per annum this would generate an income for the Council of £1m per annum. Any surplus returns will be recycled to fund future investments.

7.9 The costs of employing specialist commercial advisers, providing training for members and officers involved in investment decisions and undertaking due diligence on early investment opportunities will be met from the Borough Growth Fund. £100,000 of the fund has been allocated to support the development of the commercial strategy in 2019-20.

10. **Major Risks**

10.1 Management of risk is central to our commercial approach and all potential activities will be assessed with due regard to the risks being taken. This will be in line with the Council's corporate approach to risk management including review of risk frequency.

10.2 As part of a robust risk management process the Council will seek to partner with industry experts and specialists, carry out meticulous due diligence and ensure rigorous approval processes and project scrutiny.

11. **Sustainability and Climate Change Implications**

11.1 None.

12. **Key Decision Information**

12.1 The strategy will affect all wards in the borough. The level of investment required will be significant and approval of the commercial strategy will be a key decision.

13. **Earlier Cabinet/Committee Resolutions**

13.1 None

14. **List of Appendices**

Appendix 1 – Draft Commercial Strategy

15. **Background Papers**

15.1 None