

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

EXECUTIVE MANAGEMENT TEAM'S REPORT TO

Finance Assets and Performance Scrutiny Committee
25 March 2021

Report Title: Commercial Strategy Update

Submitted by: Head of Finance (S151 Officer)

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

Ward(s) affected: All

Purpose of the Report

To update the Finance Assets and Performance Scrutiny Committee in respect of the Commercial Strategy.

Recommendation

1. The update be noted by the Committee.

Reasons

Update on the Commercial Strategy which 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 On 16 October 2019 Cabinet approved the Commercial Strategy for the Council, which outlined a framework for identifying and managing commercial and income generation opportunities.

2. **Issues**

2.1 The Council faces challenging financial times. Our current Medium Term Financial Strategy anticipates a cumulative budget shortfall of £5.124m 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 The strategy approved at Cabinet on 16 October 2019 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.
- 2.6 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.
- 2.7 Due to the Covid-19 pandemic, the Council has been unable to fully progress with the Commercial Strategy due to the national lockdown restrictions and as a result have removed the anticipated income generation streams from the MTFS for the time being.
- 2.8 Since the approval of the Commercial Strategy, the Council has appointed a commercial investment adviser to undertake a review of the Council's commercial property portfolio. The recommendations of this reviews were various and included:-
- Hold fewer and better assets which would generate better incomes streams
 - Ring fencing of capital receipts for investment into assets
 - Reducing management costs
 - Invest in larger and better assets
 - Increase diversification of asset / investment base so risk is spread across various sectors and geographies
 - Establish a capital planned maintenance strategy
 - Investigate sustainable energy solutions for assets

3. **Proposal**

- 3.1 For officers to work up investment proposals for further consideration by Cabinet and FAPS in order to generate income to support the MTFS.

4. **Reasons for Proposed Solution**

- 4.1 Generating efficiencies and additional income by adopting a more commercial approach is key 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 coordinating 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 One Council programme, contract negotiation and service recommissioning.

6. **Legal and Statutory Implications**

6.1 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.

6.2 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.

6.3 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.

7. **Equality Impact Assessment**

7.1 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.

7.2 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.

8. **Financial and Resource Implications**

8.1 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.

8.2 When the Commercial Strategy was approved in October 2019 the funding structure consisted of investments being funded via the establishment of a Revolving Investment Fund made up of capital receipts, revenue contributions and prudential borrowing. Due to the Covid-19 pandemic the creation of this fund has been paused due to the inability of being able to progress with potential investment projects. The costs of employing the specialist commercial advisers would have been funded via this fund, however due to the pandemic this cost has been met from the Borough Growth Fund as references in the October 2019 Cabinet report. The recently approved 10 year capital programme includes £100,000 per annum for project feasibility studies.

8.3 A major projects group including the Chief Executive, S151 Officer and Executive Director of Commercial Development and Economic Growth will be set up to review and appraise commercial investment schemes prior to their consideration at Cabinet and FAPS.

9. **Major Risks**

9.1 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.

9.2 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.

10. **UN Sustainable Development Goals and Climate Change Implications**

10.1 The Economic Regeneration Strategy Action Plan supports UNSG and Climate Change objectives in a number of ways. Principally, through partnership working, promoting sustainable development, the re-use of land, enterprise, infrastructure and skills, the following UNSGs are supported.



11. **Key Decision Information**

11.1 There is no key decision as this report is an update following approval of the Commercial Strategy in October 2019.

12. **Earlier Cabinet/Committee Resolutions**

12.1 Cabinet approval of Commercial Strategy on 16 October 2019.

13. **List of Appendices**

13.1 Appendix 1 – Commercial Strategy

14. **Background Papers**

None