

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

EXECUTIVE MANAGEMENT TEAM'S REPORT TO

Finance Assets and Performance Scrutiny Committee
08 September 2022

Report Title: Commercial Strategy

Submitted by: Director – Commercial Development and Economic Growth

Portfolios: Finance, Town Centres and Growth and One Council, People and Partnerships

Ward(s) affected: All

Purpose of the Report

To provide an update of the Council's Commercial Strategy.

Recommendation

That Scrutiny Committee:-

1. notes progress on the Council's Commercial Strategy

Reasons

The Property investment market is currently buoyant such that as soon as assets are coming to the market they are selling. Therefore, decisions regarding acquisitions need to be made in between Cabinet cycles.

1. Background

- 1.1 On 16 October 2019, Cabinet approved the Commercial Strategy for the Council. The Strategy outlines a framework for identifying and managing commercial and income generation opportunities.
- 1.2 The Finance Assets and Performance Scrutiny Committee received an update in respect of the work being carried out under the Commercial Strategy in March 2022.
- 1.3 A major source of potential income generation is the property investment market. This market is very strong at the moment so when properties become available they are selling quickly.
- 1.4 The Council's investment consultants are continuing to advise on potential investment opportunities
- 1.5 Since 2019 the Council has adopted a Sustainable Environment Strategy and a Sustainability Base Pledge. Cabinet have requested that this is reflected in the investment opportunities brought forward as part of this strategy.

2. **Issues**

- 2.1 The Council faces challenging financial times. Our Medium Term Financial Strategy is continually being updated and anticipates a cumulative budget shortfall of circa £4m over the next 5 years.
- 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 that contributes £400,000 annually to the Council's revenue budget. It also operates commercial services 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 that describe how we will achieve our commercial ambitions. It includes 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 The new income generation opportunities currently being explored are listed below:

- Land at Parkhouse Road West, Chesterton

This site measures approximately 2 acres and is situated on the edge of Parkhouse Industrial Estate. The Council has appointed consultants to carry out a market analysis demand survey in respect of a number of sites throughout the Borough of which this is one. The results of this study will inform the mix of units on this site. A design and build contractor is to be appointed to develop out the site following which the Council will let out the space. This will be subject to a separate future Cabinet report. The aspirations for the site and its use is for a 'Green' industry, with sustainable energy and building solutions along with Green Travel plans, setting the tone for future sustainable industrial sites across the Borough.

- Land at Apedale, Chesterton

In January 2022, Cabinet approved the letting of this 4.5-acre site on a 25-year term for battery storage. The Company are currently carrying out their due diligence prior to finalising the lease terms.

- Land at Chatterley Valley

The landowner/developer is now progressing with the land remediation works to level the site to create the building platforms, utilising Town Deal Funds and investment from Staffordshire County Council. It is the intention of the Council to invest in a small business park to support the supply chain of the Advance Ceramic facility being developed.

- Land off Hassell Street, Newcastle (rear of the former Zanzibar premises)

Aspire Housing are redeveloping the site of the former Zanzibar premises and it is proposed that they sell part of the site to the Borough Council for commercial development. As part of the market analysis demand survey that has been commissioned, this site is to be assessed, which in turn will inform future proposed uses.

- York Place, Newcastle

The Council has acquired the York Place shopping centre as part of the Future High Streets Fund regeneration initiative in Newcastle Town Centre. The future uses of this development are currently being considered.

2.8 In addition to the projects above, the Council needs to be in a position to procure additional revenue generating assets. The market for commercial assets is currently buoyant and disposals move at a pace which militates against being able to take decisions to purchase through the current cabinet decision making cycle. Rather, a more agile decision process is required without compromising the rigour of opportunity appraisal that needs to underpin asset acquisition.

2.9 It is the Council's clear plan to maximise its use of sustainable energy solutions for its operations but this will also include investing in sustainable energy solution opportunities as well as making sure that our sustainable agenda is reflected in any investments we make. Opportunities are actively being investigated such as solar energy generation solutions.

2.10 In order to facilitate acquisition it has been agreed by Cabinet to delegate the decision making process to the Director of Commercial Development and Economic Growth in the basis of:

- A commercial appraisal which is approved by the S151 Officer
- Consideration of the appraisal by the Corporate Capital, Assets and Commercial Investment Review Group
- Consultation with the Leader and Deputy Leader
- Reporting to Cabinet at the earliest opportunity

3. **Reasons for Proposed Solution**

- 3.1 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.
- 3.2 The Property investment market is currently buoyant and as soon as assets are coming to the market, they are selling. Therefore, decisions regarding acquisitions need to be made in between Cabinet cycles.

4. **Options Considered**

- 4.1 Officers to continue to review new investments and report any opportunities to Cabinet. This option carries with it the disadvantages associated with not being able to move quickly between Cabinet cycles.
- 4.2 Officers seek suitable investments and, following consultation with both the Portfolio Holder for Finance, Town Centres and Growth, secure these investments and subsequently report the matter to Cabinet. This is what is being proposed.

5. **Legal and Statutory Implications**

- 5.1 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.
- 5.2 The Council will need to make sure that its commercial activities are legally and subsidy control (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.
- 5.3 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. Specialist legal and/or professional advice will be required and funded as from the capital programme.

6. **Equality Impact Assessment**

- 6.1 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.
- 6.2 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.

7. **Financial and Resource Implications**

- 7.1 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 contributing 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.

- 7.2 The approved 10-year capital programme in February 2022 includes £100,000 per annum for project feasibility studies.
- 7.3 Officers including the Chief Executive, S151 Officer and Executive Director of Commercial Development and Economic Growth review and appraise commercial investment schemes prior to their consideration at Cabinet and Corporate Capital, Assets and Commercial Investment Review Group. The operation of the scheme is open to scrutiny by the Finance, Assets and Performance Scrutiny Committee.

Major Risks

8.

- 8.1 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.
- 8.2 As part of a robust risk management process the Council will continue to seek advice from industry experts and specialists, carry out meticulous due diligence and ensure rigorous approval processes and project scrutiny.

9. UN Sustainable Development Goals (UNSDG)

- 9.1 The Commercial Strategy 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:-



10. Earlier Cabinet/Committee Resolutions

- 10.1 Cabinet approval of Commercial Strategy on 16 October 2019.

11. List of Appendices

- 11.1 None

12. Background Papers

- 12.1 None.