



Funding our services: A Commercial Strategy

Part 1: What being commercial means for Reigate & Banstead

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1. Executive Summary

- 1.1 To deliver the Council's corporate priorities, as set out in our new Corporate Plan, Reigate & Banstead 2025, the Council faces tough decisions about funding. To avoid significant increases in Council Tax, the Council is looking to how it can generate surplus income in order that those funds can be reinvested into the provision of frontline services for our residents.
- 1.2 The Council's Medium Term Financial Plan (MTFP) identifies the scale of the potential funding gap that the Council is likely to be faced with – as much as over £5.5m within the next five years.
- 1.3 It is vital, therefore, that as well as continuing to operate in an efficient way, and provide excellent value for the taxpayer, the Council looks to do more to act commercially to generate additional funds.
- 1.4 In doing so, through this Commercial Strategy, the Council is committing to three guiding commercial principles (see section 5):
 - **Principle 1:** Our commercial activity will be ethical, and consistent with the Council's statutory responsibility to promote economic, environmental and social wellbeing in the borough, and our corporate objectives as well as in line with all relevant advice and guidance
 - **Principle 2:** Any decisions which have a commercial aspect will be based on a robust assessment of the business case using consistent relevant criteria, and appropriate due diligence and risk assessment
 - **Principle 3:** Surplus income generated through our commercial activities will be used to ensure the financial sustainability of the Council and continued delivery of services for local people.
- 1.5 Part 1 of this Commercial Strategy explains more about the commercial activity that the Council is proposing to undertake, how we will embed commercial thinking across the organisation, and how commercial decisions will be taken. It sets out the overall direction and parameters for our commercial activity, building on our Corporate Plan objective.
- 1.6 Part 2 of the Strategy (to be published following agreement of Part 1) will provide more detail about the implementation of the guiding principles set out above and explained within this Part 1 document, specifically in relation to investment activity.
- 1.7 We will report annually on our commercial activity progress and keep this strategy under regular review to ensure it remains fit for purpose.

2. Setting the scene

Our Corporate Plan

- 2.1 In 2020, the Council agreed its new Corporate Plan, Reigate & Banstead 2025¹. The plan sets out the Council's priorities and explains how we will focus our resources and deliver services to those living, working and spending time in the borough. These priorities include supporting vulnerable residents and local communities, strengthening

¹ www.reigate-banstead.gov.uk/rbbc2025

our local towns and centres, making sure our Reigate & Banstead remains an attractive place to live and moving towards being a more environmentally sustainable borough.

- 2.2 To deliver the Council's corporate priorities, Reigate & Banstead 2025 includes the objective to "Generate additional income and build our financial resilience, in order to sustain services, through responsible and sustainable commercial activities". Some of the ways the Council will do that are then summarised in the plan (Figure 1).

Figure 1: Reigate & Banstead 2025 extract: Funding our services

To achieve our corporate objective to generate additional income and build our financial resilience, in order to sustain services, through responsible and sustainable commercial activities, we will:

- Develop a commercial strategy to inform our income generation activities
- Expand our Council Tax and Business Rates collection and counter fraud services for other organisations where it makes commercial sense to do so
- Investigate other opportunities to sell or diversify our services and pursue these where supported by a robust business case
- Invest in new property assets or development opportunities in our economic area where these will provide a reliable revenue income stream or longer term capital receipt and help us sustain services
- Use our existing property assets to generate revenue income or capital receipts for the Council, including by bringing some of them forward for development

Funding the services we provide

- 2.3 The Council carries out a wide range of service and activities which benefit residents, businesses and visitors to the borough. These are the principal purpose of the Council's work and it is with a view to supporting and retaining these services that the Council wishes to formalise its Commercial Strategy.

Figure 2: Services provided by Reigate & Banstead Borough Council

- Waste & recycling collection
- Street cleaning
- Council car parks and parking enforcement
- Council greenspaces and allotments
- Housing Register and homelessness services
- Collection of local taxes and counter-fraud services
- Leisure and community centres and the Harlequin
- Local Plan and planning applications
- Community safety
- Business support
- Licensing and environmental health
- Community development and family support

- 2.4 We receive no revenue support grant from central government. Our ability to fund the services the Council provides comes primarily from Council Tax, with some additional funding including from some money we are able to retain from the business rates that we collect.

Figure 3: A note about Council Tax

Reigate & Banstead Borough Council collects Council Tax on behalf of a number of organisations, including Surrey County Council and the Surrey Police & Crime Commissioner. Of the Council Tax we collect, we are able to retain around 11.5% for spending on Borough Council services (see Figure 2). In 2020/21, this is equivalent to around £232.46 per year for the average household.

Nonetheless, Council Tax represents a significant source of funding for the Council (approx. £14m in 2020/21). The amount we are able to increase our share of Council Tax is subject to restrictions by the government, for example, in 2020/21 increases were limited to 1.99% or £5 unless a referendum demonstrates local support for a higher level of increase.

- 2.5 It is the Council's aim to become financially self-sustaining; this means that the Council would not need to rely on income from central government to provide our services. Instead we want to generate more income ourselves through responsible and sustainable commercial activities. This will ensure we are in a robust financial position and will be able to continue to deliver the services that local residents and businesses need.
- 2.6 This Commercial Strategy provides more detail about how we will deliver the "Funding our Services" Corporate Plan objective; and use commercial activity to deliver a financial return to help fund the services we provide within the borough.
- 2.7 As a public body, it is important that we are transparent about our commercial strategy and the commercial decisions that we take, and that any such decisions are consistent with (and do not undermine) our statutory functions. Central to our commercial approach is therefore that we will consider all commercial investment in the context of our responsibility to promote economic, environmental and social wellbeing in the borough.

3. The scale of the funding challenge

- 3.1 Every year, the Council publishes a Medium Term Financial Plan (MTFP), looking forward five years². This document sets out the scale of the challenge for this Council in terms of reaching the goal of being financially self-sustaining.
- 3.2 The 2021/22-2025/26 MTFP published in July 2020 outlines the budget pressures that will need to be addressed by the Council from 2021/22 onward, including:
 - a. Making budget provision for future pay and pension increases
 - b. Budgeting for the costs of approved borrowing to fund planned Capital Programme commitments
 - c. The impacts of further government funding reductions anticipated in 2022/23
 - d. Revenue and capital budget growth to deliver priorities in the Corporate Plan; and
 - e. The ongoing impacts of the COVID-19 pandemic, for example forecast reductions in income.
- 3.3 Taking all of this into account, the MTFP forecasts the Council's budget gap as follows:

² The MTFP is agreed by the Executive annually. The 2021/22 to 2025/26 MTFP is available at <https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=1413&Ver=4>

Figure 4: MTFP Forecast Revenue Budget Gap (July 2020)

	Approved Budget 2020/21	Forecast Budget 2021/22	Forecast Budget 2022/23	Forecast Budget 2023/24	Forecast Budget 2024/25	Forecast Budget 2025/26
Forecast gap	nil	£1.866m	£3.956m	£4.626m	£5.286m	£5.536m
Annual increase in gap	-	£1.866m	£2.090m	£0.670m	£0.660m	£0.250m
Gap as a % of 2020/21 budget requirement	-	10.1%	21.5%	25.1%	28.7%	30.1%

- 3.4 There are various tools at the Council’s disposal to reduce the budget gap, but the MTFP identifies maximising our income and commercial activity as being key strands of the Council’s budget setting activity in future years.
- 3.5 For this reason, funding is and will continue to be allocated within the Council’s annual budget to support commercial activity. In 2020/21 this included:
- a. The Feasibility Studies (Commercial Ventures) reserve, established to ensure that funding is available to prepare business cases and obtain professional advice for new initiatives designed to deliver new sustainable income streams; and
 - b. A Capital Programme allocation of £50m for commercial investment.

4. What do we mean by ‘becoming more commercial’?

- 4.1 As outlined above, we want to become a financially self-sustaining Council. This will mean that we will not have to rely on any funding from central government. We consider that this will be essential to mitigate the very real risk that, in the future, financial support from central government will be withdrawn completely.
- 4.2 In theoretical terms, to become financially self-sustaining we either need to reduce what we spend on service provision, or generate income to continue to fund the services we provide.
- 4.3 In practical terms, we need to do both.
- 4.4 The Council has made considerable efficiency savings in recent years and continues to look for opportunities to make more. However there is a limit to the extent that such savings can be made without compromising service quality or ceasing to provide locally valued but non-statutory services.
- 4.5 Therefore, if we wish to continue to deliver on our Corporate Plan ambitions, we also need to become more commercial.
- 4.6 By ‘being commercial’ we mean we will seek to generate income to provide a financial surplus which we will then reinvest into local Council services. To do this we will need to continue the work to grow the commercial culture within the Council (which includes both officers and members) by encouraging skills and behaviours that support a positive approach to commercial work and to delivering our commercial strategy.

5. Commercial Activity Principles

- 5.1 There are some fundamental principles that we are setting to underpin all our commercial activities. In setting and applying these principles, there can be reassurance that any commercial activity that is undertaken by the Council is done so in a way that is consistent with our statutory roles and responsibilities and our adopted Corporate Plan.
- a. **Principle 1:** Our commercial activity will be ethical, and consistent with the Council's statutory responsibility to promote economic, environmental and social wellbeing in the borough, and our corporate objectives as well as in line with all relevant advice and guidance
 - b. **Principle 2:** Any commercial decisions will be based on a robust assessment of the business case using consistent criteria (as detailed in Part 2 of this Strategy), and appropriate due diligence and risk assessment
 - c. **Principle 3:** Surplus income generated through our commercial activities will be used to ensure the financial sustainability of the Council and continued delivery of services for local people.
- 5.2 In relation to capital investment, these principles will be applied in addition to any other principles set out in the Council's Capital Investment Strategy.

6. Generating income to provide a financial surplus

- 6.1 There are a range of ways in which the Council can generate income, in addition to its ability to collect Council Tax. Section 10 of this Strategy provides more information about the activity that we will undertake to generate income to provide a financial surplus.

Becoming more business-like in our day to day activities:

Setting fees and charges

- 6.2 The Council collects fees and charges for a range of services. Some of these are statutory and/or the Council has no discretion over *whether* to collect them or the level of the fee or charge.
- 6.3 There are however some fees and charges where the Council does have discretion to set the terms of collection and the collection amount. In these instances, it is important that the Council fully recovers its costs for providing the service, promptly raises the monies due and minimises the levels of arrears and debt write offs.
- 6.4 The Council's Fees and Charges Policy³ sets a framework for the review of existing charges or any new charges proposed. It explains in more detail the legislation that exists that governs the Council's ability to charge and generate income. As part of the commercial work, that Policy and its implementation is currently being reviewed. The outcomes of that review are expected to be published in early 2021.

³ Latest version at the time of writing available at <https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MIId=1404&Ver=4>

- 6.5 One aspect of our commercial strategy is therefore to ensure that our approach to setting fees and charges reflects the need for the Council to become more commercial and cover its costs.

Generating income from selling the services we provide to other organisations or new customers

- 6.6 The Localism Act 2011 introduced the General Power of Competence, which allows local authorities to operate more commercially, and undertake a range of different business ventures.
- 6.7 The Council already generates income from discretionary services it provides (such as garden waste collection) and through selling its expertise to other public sector organisations (for example, undertaking fraud investigation for other local authorities)
- 6.8 An important strand of our commercial strategy is to continue to explore opportunities to maximise the trading and income generation opportunities from our services, whilst retaining our high quality core and statutory service offer. There are a range of different delivery models which the Council can use to undertake service trading activities, including (but not limited to) the creation of Local Authority Trading Companies.

Procurement and contract management

- 6.9 A further opportunity for the Council to become more business-like in its day-to-day opportunities is through the letting of contracts and the procurement of services. This has the potential to enable (for example) added value, economies of scale, reduced costs or more favourable terms.
- 6.10 The Council's ongoing work to review and improve our procurement and contract management procedures and practices will help ensure these contribute to our commercial strategy.

Increasing capital and revenue returns through our assets and investments:

Making best use of our property assets

- 6.11 The Council owns a number of property assets, including operational buildings and public spaces, and buildings that it rents out to community users or commercial tenants. We publish a register of the assets that we hold on the Council website⁴ along with an Asset Management Strategy.
- 6.12 We can take a commercial approach to using these assets in a variety of ways, including:
- a. Ensuring that space within operational Council buildings is used efficiently, and where space is not needed for operational uses options to rent it out are explored
 - b. Making sure that our commercial leases are well-managed and our commercial rents reflect market rates
 - c. Disposing of assets which no longer make commercial sense for the Council to retain
 - d. Bringing forward property assets for redevelopment to deliver corporate priorities, investing our capital to deliver improved income generation.

⁴ https://www.reigate-banstead.gov.uk/info/20089/land_and_property/275/asset_management

6.13 The Council is undertaking a review of its property assets and asset management approach to ensure that our property portfolio helps contribution to our commercial strategy.

Investing to generate new sources of revenue income

6.14 The Council is also able to invest in new sources of revenue income. This could be property assets, or other income generating opportunities.

6.15 Some general principles to guide our investment activity are already set out in the Council's Capital Investment Strategy⁵. This includes how risks will be assessed and value for money secured.

6.16 Recognising that this aspect of our commercial strategy comes with a wide range of associated considerations, Part 2 of this Commercial Strategy will focus specifically on our future framework for investment and explains in more detail the approach we will take as we implement our strategy, including how a balance will be struck between financial yields and social value considerations.

7. Building the commercial culture

7.1 If the Council is to successfully deliver on its commercial objectives and the actions and priorities set out in this strategy, it is essential that a commercial culture is embedded within the organisation at necessary points.

7.2 This means ensuring that staff and councillors understand the Council's commercial objectives and are able to support them through their day to day work and decision making. It also means ensuring that the Council has the skills and resources available to make delivery of our commercial strategy a success.

7.3 A lot of work has already been done in this area, but it is important that it continues.

The Commercial Directorate and the Commercial Ventures Board

7.4 In support of the Council's commercialism agenda, a new directorate within the Council has been established, headed by the Commercial and Investment Director, and supported by staff resources from across the Council.

7.5 Together this team has developed this Commercial Strategy and will be responsible for its implementation. This will include:

- a. Aligning the Council's commercial work with corporate objectives including place shaping, delivering social value and environmental sustainability
- b. Promoting business awareness within the Council
- c. Developing and creating new commercial opportunities for the Council
- d. Determining how commercial projects are managed and reported on a standard basis to ensure clear and correct governance
- e. Continuing to develop, maintain, record and update the Council's investment framework and clear criteria on which the Council will make commercial decisions
- f. Baselineing and reporting on the performance of current assets
- g. Coordinating business planning and financial modelling to assist in achieving a balanced and agile portfolio of investments

⁵ See <https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=1413&Ver=4>

- h. Engaging with external agents in relation to the types of development opportunities the Council wants to explore
 - i. Providing advice to decision makers on opportunities to improve, develop or redevelop assets to ensure asset value is retained or increased
 - j. To monitor and report on risks, conflicts and performance indicators to ensure procurement and governance compliance
- 7.6 To ensure strategic oversight within the organisation (and mirroring the governance structure (see Section 8)) a Commercial Ventures Board (CVB) has been established to allow relevant senior Council officers to review, input into and monitor the delivery of commercial activities. The Commercial Ventures Board supports the operation of, and decision-making by, the Council's formal governance structures.
- 7.7 The Commercial directorate (via the CVB or other means) may also provide advice in relation to non-commercial projects being progressed by other directorates as to potential commercial opportunities arising from such projects.

Project and risk management

- 7.8 The Council has a well established project management framework. This, in addition to our Commercial Governance Framework and Checklist (see Section 8) will be used to ensure that commercial projects are:
- a. Properly planned, controlled and managed to achieve their objectives
 - b. Appropriately prioritised so that the Council's resources are used effectively
 - c. Have the right visibility and levels of approval within Council governance groups; and
 - d. Support the Council's corporate objectives
- 7.9 Risk assessment and control/management is an inherent part of the Council's project management framework, with risk assessed at the project inception stage and risk registers maintained and regularly reviewed throughout project delivery. Part 2 will provide more information about how risk will be assessed in relation to commercial investment decisions.

Supporting staff and councillors to think and act commercially

- 7.10 Acting commercially is not new for the Council, which has been undertaking income generating activity for a number of years.
- 7.11 However, it is important that the organisation continues to ensure that staff and councillors are supported to develop the skills to think and act commercially. To do this, and to assist in the development of this strategy, we will provide support, training and professional development opportunities to relevant officers and members as required.
- 7.12 Embedding commercial thinking, along with the other measures outlined in this section, will ensure that for all projects (even where income generation is not the primary driver) the potential to generate commercial benefits is considered from the outset along with the delivery of other commercial objectives.

Use of external expertise

- 7.13 Whilst supporting staff and councillors to operate more commercially is a central part of our commercial strategy, we recognise that in some cases the relevant commercial skills may not exist within the Council.

7.14 Where this is the case, the Council will commission expert external support to ensure that its commercial activity is founded on robust evidence and advice. This could include (but may not be limited to) legal, financial and property market advice. Where possible, this external expertise will be sought on a partnership basis to help secure added value and contribute to the building of further organisational capacity.

Funding the development of robust business cases

7.15 Recognising the central importance of robust background work to fully test potential commercial opportunities, the Council has established – through its budget setting process – a Commercial Ventures Feasibility Reserve specifically to aid in the development of business cases for new initiatives designed to deliver additional sources of funding. This reserve can be accessed by services across the organisation to help develop commercial propositions.

Communicating our commercial strategy

7.16 Acting commercially to generate income streams to fund Council services is a central part of our Corporate Plan. However, we recognise that there are challenges around communicating our need to operate commercially and explaining how this relates to our core responsibility to deliver important statutory and non-statutory services for local residents.

7.17 It will be essential that – in communicating about specific commercial activities that the Council is undertaking – clear explanations continue to be provided about why commercial activity is needed, and its purpose and the local benefits that it secures.

8. Governance and decision making

8.1 The Council's Corporate Plan highlights the importance of transparency when it comes to the commercial decisions that the Council takes.

8.2 The Council is in the process of establishing robust governance and decision making structures that ensure that commercial decisions are evidence-based, clearly justified and undertaken in a transparent and accountable way.

Commercial Ventures Executive Sub Committee

8.3 In 2019, the Commercial Ventures Executive Sub Committee (CVESC) was set up to monitor the performance of, and take decisions on, the Council's existing and potential commercial ventures and other investments.

8.4 Comprised of a minimum of three members, including the Leader, Deputy Leader and Executive Members with responsibility for Finance and Investments it meets regularly to take decisions on commercial projects.

8.5 It also exercises the shareholder function of the Council with regard to its existing and future companies (see below) and is authorised to agree the incorporation and winding up of companies.

8.6 Further information about the work of the CVESC can be found in the Committees section of the Council website⁶.

⁶ <https://reigate-banstead.moderngov.co.uk/mgCommitteeDetails.aspx?ID=328>

Commercial Governance Framework

- 8.7 In 2018, a member task group reviewed the Council's commercial arrangements in place at that time and recommended (along with the establishment of the CVESC) use of a Commercial Governance Framework to assist the Council's commercial decision making.
- 8.8 This framework⁷, and the accompanying checklist, is used by the CVESC to ensure that a transparent and structured approach is taken to the initiation, planning, execution and closure of commercial projects.

Council-owned companies and other commercial entities

- 8.9 The Council currently has interests in three companies; Greensand Holdings, Horley Business Park Development LLP and Pathway for Care Ltd. The CVESC exercises the function of the Council as shareholder or partner in relation to these companies and will do so for any other commercial entities established by the Council (alone or in partnership) in the future.
- 8.10 As part of delivering this Commercial Strategy, a review is being undertaken of the Council's current company structures and planned future activities to ensure that it is fit for purpose. This will include advice on suitable tax and accounting arrangements. Part 2 of the strategy will provide more information about the delivery models available to the Council.

9. Monitoring and review

Monitoring and reporting progress

- 9.1 Section 10 of this Part 1 Commercial Strategy presents our Commercial Activity Action Plan. This action plan will be kept under review by the Commercial Ventures Board and Commercial Ventures Executive Sub Committee.
- 9.2 Part 2 of this Strategy will include our Investment Programme, which will provide more detailed information about the investment opportunities that the Council will seek to explore and (as appropriate) progress.
- 9.3 The Commercial Ventures Executive Sub Committee reports annually on the performance of the current companies and will, from 2021, prepare a report explaining the progress that has been made on delivering the Commercial Activity Action Plan and the Investment Programme. This report will be published on the Council website.

Review of our Commercial Strategy

- 9.4 This Part 1 Commercial Strategy is intended to have a lifespan of three to five years. Recognising that economic volatility and market changes are an inevitability, we will consider annually whether a review of the Part 1 Strategy is required. Part 2 of the Strategy, and documents in support of our commercial investment, will be reviewed more frequently to ensure that decisions are made in light of up to date local information and intelligence.

⁷ Adopted in response to the 2018 Commercial Governance Review – see <https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=223&Ver=4>

10. Commercial activity action plan

Theme	Activity	Timeframe
Becoming more business-like in our day to day activities:		
Setting fees and charges	Implement review of fees and charges and update policy	2020/21
	Implement updated fees and charges policy	Q1 2021
Generating income from selling the services we provide to other organisations or new customers	Continue to explore opportunities to maximise income from selling our revenues, benefits and fraud investigation services	By Q1 2021
	Explore other opportunities for income generation	Q2 2021 onwards
Procurement and contract management	Expand skills and resources within the Council	2020/2021
Increasing capital and revenue returns through our assets and investments:		
Making best use of our property assets	Evaluate and rebase current holdings	Ongoing
Increasing skills and resources within the Council	Exploring partnering opportunities	Ongoing
Investing to generate new sources of revenue income	Implementing robust investment criteria and maintaining an update understanding of market yields to ensure appropriate opportunities are explored and that a balanced portfolio is maintained – further information to be provided in Part 2 of this strategy	Ongoing
Developing a commercial culture		
Transformation work and appropriate recruitment	Review additional necessary steps following roll-out of the revenues, benefit and fraud investigation services	Q2 2021
Governance and decision-making		
Implement effective holding structure	Ensure efficient structure in place for planned and current activities	2020/2021
Annual approval of business plans for Council subsidiaries	Member and officer training to ensure business plans are robust and well considered	2021