

<b>SIGNED OFF BY</b>	Commercial and Investment Director
<b>AUTHOR</b>	Catherine Rose, Head of Corporate Policy
<b>TELEPHONE</b>	01737 276766
<b>EMAIL</b>	Catherine.Rose@reigate-banstead.gov.uk
<b>TO</b>	Overview & Scrutiny Committee
<b>DATE</b>	Wednesday, 9 December 2020
<b>EXECUTIVE MEMBER</b>	Portfolio Holder for Investment and Companies

<b>KEY DECISION REQUIRED</b>	Y
<b>WARDS AFFECTED</b>	All Wards

<b>SUBJECT</b>	Commercial Strategy: Part 1
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<b>RECOMMENDATIONS</b>
<p>1. That:</p> <ul style="list-style-type: none"> <li>(i) That the Committee notes the Commercial Strategy: Part 1, as approved by the Executive at its meeting of 19 November 2020 and set out in Annex 1.</li> <li>(ii) That the Committee makes any observations to the Portfolio Holder for Investment and Companies on the Commercial Strategy: Part 1 and to support the ongoing development of Part 2 of the Commercial Strategy.</li> </ul>
<b>REASONS FOR RECOMMENDATIONS</b>
<p>Having an approved Commercial Strategy will ensure that the Council takes commercial decisions in a clear, consistent and effective way, and in a manner consistent with corporate objectives and its statutory responsibility to promote economic, environmental and social wellbeing in the borough.</p>
<b>EXECUTIVE SUMMARY</b>
<p>To deliver the Council's corporate priorities, as set out in Reigate &amp; Banstead 2025, we need to generate surplus income which can then be reinvested into providing frontline services for our residents.</p>

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. It is vital, therefore, that as well as continuing to operate in an efficient way, and providing excellent value for the taxpayer, we also do more to act commercially to generate additional funds.

Following the member task group review of commercial activity in 2018, and the establishment of the Commercial Ventures Executive Sub Committee and a new commercial directorate in 2019, Part 1 of Commercial Strategy at Annex 1 now provides a framework for the Council's future commercial activity.

This 'Part 1' sets out the overarching direction and parameters for the Council's commercial activity. The definitions and principles that it includes, and the categories of activities it sets out, are intended to assist in the understanding of why this Council needs to undertake commercial activity, and how the funding allocated in this year's budget and proposed in next year's budget will be focused. Part 1 of the Commercial Strategy includes a Commercial Activity Action Plan, progress on which it is recommended be reported annually. The Action Plan will support delivery of new income generation opportunities for inclusion in future MTFP forecasts.

Following the agreement of Part 1, Part 2 of the Strategy will be developed, which will provide more detail about the implementation of commercial activity, particularly investment activity. Once developed, the intention is that Part 2 will be regularly updated to take account of market conditions, project progress and corporate financial projections.

As a subsidiary strategy to the Corporate Plan, providing more detail as to how an objective within the Corporate Plan will be implemented, the Executive has the authority to approve the Commercial Strategy. The Strategy has been developed in consultation with Commercial Ventures Executive Sub Committee members.

The Overview and Scrutiny Committee is here asked to note the Commercial Strategy: Part 1, as approved by the Executive, and to make any observations to the Portfolio Holder for Investment and Companies to support the implementation of Part 1 the Strategy and development of Part 2 of the Strategy.

## **STATUTORY POWERS**

1. 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.

## **BACKGROUND**

2. Since the Council's 2015-2020 Corporate Plan was adopted, the Council has had an ambition to be an increasingly commercial organisation.
3. In 2018, a member task group reviewed the Council's commercial arrangements in place at that time, and recommended a number of changes in approach, including the creation of a new Commercial Ventures Executive Sub Committee (CVESC) and a good practice Framework and Checklist to guide future commercial activity. The CVESC was set up in May 2019.

4. In parallel to this process, a new directorate has been established, headed by the Commercial and Investment Director and supported by staff resources from across the Council. The role of this directorate is to work with the CVESC to formulate, test, agree and progress the Council's commercial activity.
5. In early 2020, the Council agreed its new corporate plan, Reigate & Banstead 2025. The plan sets out the Council's priorities and explains how it will focus its resources and delivery services to those living, working and spending time in the borough.
6. Recognising the financial challenges that the Council is faced with, 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". It explains that the Council will develop a Commercial Strategy to inform its income generation activities.
7. The Commercial Strategy is being presented to the Executive in two parts. Part 1 (as considered here and at the Executive meeting of 19 November 2020) sets out the overarching direction and parameters for the Council's commercial activity, building on the 'funding our services' objective in the corporate plan. It is intended to provide clarity and aid understanding of the definitions and principles that will underpin our commercial activity. It also outlines the organisational priorities that will guide this activity and underpin spending decisions associated with funding allocated in the current 2020/21 and draft 2021/22 budget.
8. Part 2 of the Strategy will be brought to a future Executive meeting. This will focus primarily on the implementation of investment activities and include more detail about decision making criteria, the delivery model available etc. Once developed, the intention is that Part 2 will be regularly reviewed and updated by the CVESC to take account of market conditions, project progress and corporate financial projections.

## KEY INFORMATION

### The financial imperative to be commercial

9. In recent years, the Council has received no revenue support grant from central government, so its ability to fund the services it provides comes primarily from Council Tax, with some additional funding from a retained portion of the business rates it collects. Further changes to the way central government funds local authorities are anticipated, which make it even more important that the Council continues along the path towards becoming financially self-sustaining.
10. The Council's latest Medium Term Financial Plan (MTFP), published in July 2020, outlines the budget pressures that will need to be addressed by the Council from 2021/22 onwards.
11. The table below, taken from the MTFP, forecasts the Council's budget gap as follows:

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

12. 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 key strands of the Council's budget setting activity in future years.

### **Definition and commercial guiding principles**

13. 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. If the Council wishes to deliver its corporate plan ambitions, it also needs to become more commercial.
14. By being commercial, we mean that the Council will seek to generate income to provide a financial surplus, which it will then reinvest in local Council services. To achieve this, more work will also need to be done to create a commercial culture within the Council.
15. The Commercial Strategy (at Annex 1) identifies some fundamental principles that will underpin all the Council's commercial activities:
  - 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
  - b. Principle 2: Any commercial decisions will be based on a robust assessment of the business case using consistent criteria (to be 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.

### **Commercial activity focus**

16. The Commercial Strategy also outlines what the commercial activity focus of the Council will be over the coming years. In summary, this will include:
  - d. Becoming more business-like in our day-to-day activities – including the way in which we set fees and charges, how we generate income from selling the (non-statutory) services we provide, and how we undertake procurement and contract management
  - e. Increasing capital and revenue returns through our assets and investments – including making best use of our property assets, and investing to generate new sources of revenue income
17. Recognising that the second of these comes with a wide range of associated considerations, following agreement of the Part 1 Commercial Strategy at Annex 1, the Part 2 Strategy will be developed to specifically focus on the Council's future framework for investment and explain in more detail the approach the Council will take. This will include consideration of how changing market circumstances will be monitored and how the Council will balance financial yields and social value considerations as it considers investment opportunities.

### **A commercial culture**

18. The Strategy sets out the role of the Commercial Directorate, the Commercial

Ventures Board and the Commercial Ventures Executive Sub-Committee. It will be essential that the organisation continues to ensure that staff and councillors are supported to develop the skills to think and act commercially; and as appropriate, support, training and development opportunities will be provided to relevant officers and members.

19. However, recognising that in some cases the relevant commercial skills may not exist within the Council, external consultants may be commissioned to ensure that our commercial activity is founded on robust evidence and advice.

### **Monitoring, reporting and review**

20. The Part 1 Commercial Strategy at Annex 1 includes a Commercial Activity Action Plan. The Action Plan will support delivery of new income generation opportunities for inclusion in future MTFP forecasts.
21. The CVESC reports annually on the performance of the Council's current companies and will, from 2021, prepare a report explaining the progress that has been made on delivering against this Action Plan, and its Investment Programme. The report will be published on the Council website and reported to the Overview & Scrutiny Committee.
22. The Commercial Strategy is intended to have a lifespan of 3 to 5 years and will be reviewed on an annual basis in conjunction with the MTFP and other supporting strategies. Recognising the current climate of economic volatility and market changes, it is intended that Part 2 of the Strategy will be reviewed and updated more frequently.

### **LEGAL IMPLICATIONS**

23. There are no direct legal implications associated with the approval of the Commercial Strategy, although the Strategy notes that work to review and improve our contract management procedures and practices will help ensure these contribute to our Commercial Strategy.
24. The Strategy explains that any commercial decisions will be based on a robust assessment of the business case and appropriate due diligence. Where the relevant specialist skills do not exist within the organisation, external legal advice may be taken to inform this process.

### **FINANCIAL IMPLICATIONS**

25. Securing a robust financial future for the Council is the objective that is driving the Council's commercial activity, as set out elsewhere in this report.
26. The Commercial Strategy provides more information about the parameters that will guide the Council's commercial investment activity. It is intended to be read in conjunction with the Capital Investment Strategy 2021/22 that was approved by Executive in July 2020 and sets out an overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of council services.
27. A significant constituent of future commercial activities will require investment in capital assets. In setting its budget for 2020/21, the Council agreed to allocate £50 million in the approved Capital Programme towards commercial activities including implementation of the Commercial Strategy and building the required capacity and

skills. At that time, it was noted that, over the medium term, the scale of investment required would have to further increase if the full budget challenge is to be addressed through commercial activities.

28. At 31 March 2020 the revenue budget also included the allocation of £1.898 million in an earmarked reserve to fund feasibility expenses when developing new commercial opportunities for consideration. This funding helps ensure that business cases are based on sound evidence and that potential risks are quantified before decisions are made.
29. Further information about the budgetary implications of implementation of the Commercial Strategy in future years is set out in the Service and Financial Planning 2021/22 report which was also considered by the Executive at its meeting of 19 November 2020..

### **EQUALITIES IMPLICATIONS**

30. Under the Equality Act 2010, we have a duty to have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other prohibited conduct; and advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not share it. This duty applies to all decisions made in the course of exercising the Council's public functions.
31. The Commercial Strategy Part 1 does not have any direct implications for staff, residents or other service users including those with protected characteristics. Rather it sets out broad parameters for the delivery of commercial activity by the Council.
32. The requirement for equality impact to be assessed is incorporated within the Council's Project Management Framework. It will be important that the equality impacts of individual commercial projects are fully considered and that, in developing proposals, consideration is given to how positive impacts can be increased for those with protected characteristics, as well as how negative impacts can be reduced.

### **COMMUNICATION IMPLICATIONS**

33. The Commercial Strategy will be publicly available on the Council's website.
34. No dedicated communications are planned in relation to the Commercial Strategy. However, communications activity may take place in relation to specific commercial activities referenced in the Strategy: this will be considered on a case by case basis.
35. It should be noted that, when consultation was undertaken on the draft corporate plan, references to commercialism prompted concerns among a number of respondents, either because they did not know what the term meant or because they were wholly or partially against a local authority operating commercially.
36. The Strategy at Annex 1 explains in more detail what commercialism means for Reigate & Banstead. However, in communicating about specific commercial activities the Council is undertaking, it will be important that clear explanations continue to be provided about why commercial activity is needed and its purpose (that is, to generate a surplus to reinvest in services for local people).

## **RISK MANAGEMENT CONSIDERATIONS**

37. The future financial sustainability of the Council is an identified risk on the Strategic Risk Register. The risk register recognises that the Council is expecting to be increasingly reliant on income from fees, charges and its treasury and commercial investments. It identifies a range of mitigating action, including ensuring that the Council continues to invest in skills and expertise to support delivery of the Council's financial and commercial objectives while managing associated risks.
38. Organisational capacity and culture is also an identified strategic risk, recognising that remaining an efficient and effective Council will require a continually ambitious organisation and culture, including both officers and members.
39. The Commercial Strategy at Annex 1 recognises these strategic risks and provides information to inform the achievement of controls and implementation of mitigating actions. The Strategy also sets out how risks associated with individual commercial projects and activities will be managed.

## **OTHER IMPLICATIONS**

40. Human Resources: Considerations around embedding a commercial culture within the organisation are set out in paragraphs 16 and 17 of this report and in the Strategy itself. Further information about the resourcing of the commercial directorate are also included in service & financial planning proposals for 2021/22.
41. Environmental: No direct environmental implications have been identified associated with the Commercial Strategy. However it will be important that the environmental implications (positive or negative) of commercial projects and activities are fully considered within business cases and through the decision-making process.
42. Covid-19 pandemic: Whilst no specific implications arising from the current Covid pandemic have been identified for the Commercial Strategy, the experience of recent months demonstrates the need for the Council to take a flexible and evidence-based approach to its commercial activity. The Strategy places the Council in a strong position to continue to do this in the coming months and years.

## **CONSULTATION**

43. The Commercial Ventures Board (comprised of senior Council officers) and members of the CVESC have been consulted as part of the preparation of this strategy.
44. The Overview and Scrutiny Committee is now asked to consider the Strategy and to make observations to the Portfolio Holder for Investment and Companies.

## **POLICY FRAMEWORK**

45. The production of a Commercial Strategy is consistent with the Council's recently adopted corporate plan.
46. As noted in the Financial Implications section, delivery of the Commercial Strategy will continue to be a key consideration in service and financial planning; and provides

the long-term solution for this Council to be able to agree a balanced budget year on year.

## **BACKGROUND PAPERS**

1. Commercial Governance Review 2018 – Report to Executive, March 2019: available online at <https://reigate-bansteadintranet.moderngov.co.uk/documents/s3542/Commercial%20Governance%20Review%202018.pdf>
2. Changes to Executive Sub-Committees – Report to Executive, May 2019: available online at <https://reigate-bansteadintranet.moderngov.co.uk/documents/s4815/Commercial%20Governance%20Changes%20to%20Executive%20Sub-Committees.pdf>
3. Reigate & Banstead 2025: available online at <https://www.reigate-banstead.gov.uk/rbbc2025>
4. Medium Term Financial Plan, July 2020: available online at <https://reigate-bansteadintranet.moderngov.co.uk/documents/s9657/Annex%201%20-%20Medium%20Term%20Financial%20Plan%20202122%20to%20202526%20-%20FINAL.pdf>
5. Capital Investment Strategy 2021/22: available online at <https://reigate-bansteadintranet.moderngov.co.uk/documents/s9659/Enc.%201%20for%20Capital%20Investment%20Strategy%20202122%20-%20FINAL%20-%20Copy.pdf>