

Signed off by	Head of Corporate Policy, Projects and Performance
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To	Overview and Scrutiny Committee Executive
Date	Thursday, 8 December 2022 Thursday, 15 December 2022
Executive Member	Portfolio Holder for Investment and Companies

Key Decision Required	N
Wards Affected	(All Wards);

Subject	Commercial Strategy: Progress Update
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Recommendations
<p>That the Overview and Scrutiny Committee:</p> <p>(i) Notes the Commercial Strategy Annual Progress Report at Annex 1 and makes any observations to the Executive.</p> <p>That the Executive:</p> <p>(ii) Notes the Commercial Strategy Annual Progress Report at Annex 1, along with any observations of the Overview and Scrutiny Committee and agrees it for publication on the Council's website.</p>
Reasons for Recommendations
To support the effective consideration and awareness of the Council's work towards its Commercial Strategy.
Executive Summary

The Council has agreed a Commercial Strategy, with Part 1 approved in November 2020 and Part 2 agreed in December 2021. This report provides an update on progress on the actions set out in the Strategy over the last year.

The progress report is based around the action plans set out within Part 1 and Part 2 of the Strategy. The report also provides the annual update to the Council's Investment Appetite, as described in Part 2 of the Commercial Strategy.

It should be noted that since the Commercial Strategy Part 2 was agreed by the Executive in December 2021, the Council has also begun to implement its Financial Sustainability Programme, which overlaps with some elements of the Council's commercial activity. Quarterly updates on the progress of this Programme are provided separately to the Overview & Scrutiny and Executive Committees.

Overall, progress on delivering actions set out in the Commercial Strategy has been positive, with quantifiable income and savings secured, as detailed in the Annex.

However, some of the actions have not been progressed as envisaged at the time of writing. In the main (and more detail is provided in the Annex) this is due to either changes to the regulatory framework within which the Council operates or new evidence that has become available to the Council in relation to the viability or appropriateness of particular actions.

A number of projects and activities with commercial elements to them continue to be progressed and information will be provided to members about these using established reporting mechanisms as detailed in Part 2 of the Commercial Strategy.

Executive has authority to approve the above recommendations.

Statutory Powers

1. The Localism Act 2011 introduced the General Power of Competence, which allows local authorities to do anything that individuals generally may do as long as it is not prohibited by other legislation. We are therefore able to operate more commercially, and undertake a range of different business ventures.

Background

2. In common with most local authorities, the Council faces a combination of significant demand for its services, combined with constrained funding. Consequentially, in order to maximise the benefit it can provide to the Borough and its residents, it is necessary for the Council to be financially efficient and make best use of its resources.
3. The Council's Corporate Plan, Reigate & Banstead 2025, includes the objectives to be a financially self-sustaining council, and to generate additional income and build the organisations financial resilience, in order to sustain services, through responsible and sustainable commercial activities.
4. To support these objectives, the Council has developed a Commercial Strategy. Part 1 of the strategy was approved in November 2020 and set out the context and key guiding principles of the Council's approach and governance. Part 2 was approved in December 2021 and set out the Council's approach to investing in commercial assets and services, funding commercial activity and investment appetite.

5. The guiding principles established in Part 1 of the Commercial Strategy are set out below, and underpin all commercial activity undertaken by the Council.
 - 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.
6. The Council's overall financial position and information about the wider context in which we operate is provided in quarterly financial performance reports to the Overview & Scrutiny Committee and the Executive and as part of the annual budget setting process, most recently the draft Budget proposals presented to the Executive in November 2022.

Key Information

7. The Council's Commercial Strategy establishes principles, an approach and action plans for achieving the Council's objectives around commercial and investment activity.
8. The guiding principles of the strategy are set out in Part 1 and are presented in the background section above. These principles are reflected throughout the commercial activity of the Council.
9. There is a general commercial activity action plan set out in Part 1 of the strategy. This action plan provides a general overview of high level work towards the Council's commercial objectives.
10. Part 2 of the strategy includes two more focussed action plans, about commercial assets and commercial services respectively. These action plans include a number of priorities, target timeframes and outcomes across both of these areas.
11. Information on the Council's progress towards the delivery of these action plans is set out in Annex 1 to this report.
12. A number of key points regarding these areas are set out below.

Commercial Assets

13. A full review of the Council's property portfolio has been undertaken, including both budgets and asset performance. This has informed agreement of a new Asset Management Plan by the Commercial Ventures Executive Sub Committee, covering the period 2023-2028.
14. Despite currently challenging commercial market circumstances, good progress has been made to vacant properties, such that over the past year an additional £1.197m of rental income has been secured from new lettings, and £384k of costs associated with property voids has been avoided. Proactive work with tenants has also resulted in interim solutions to avoid or reduce the financial impact of other property vacancies.

15. Work is now ongoing to ensure optimal management and leasing arrangements are in place to maximise the financial return the Council receives from its commercial assets, exemplified by the work on catering concessions considered by the Commercial Ventures Executive Sub Committee in November 2022.
16. In relation to asset (re-)development, the past year has seen conclusion of development schemes at Camelia Close (Pitwood Park), Lee Street Horley, and Wheatley Court (Cromwell Road), delivering a combination of capital receipts and revenue returns for the Council. Together with positive progress on the build and letting of Marketfield Way, this has enabled (conservative) income receipts to be factored into the Council's Medium Term Financial Plan, contributing to a reduction in the Council's future funding gap.
17. Other opportunities continue to be explored for new regeneration schemes including those requiring land assembly, although the current market means that financial viability is a continuing challenge. Following a decision by the Executive in October 2022, the Council is actively seeking to purchase properties to provide emergency and temporary housing to reduce our expenditure on private sector accommodation solutions.

Commercial Services

18. Over the past year, the main focus of activity in this area has been a full review of the Council's fees and charges, as presented in the draft Budget agreed by the Executive in November 2022. This review has identified the potential to generate an additional approximately £0.5m per year from increased charges; in addition, an exercise to 'rightsized' budgets will result in a further net benefit of around £0.5m.
19. Following work to investigate the possibility of establishing a housing company, this has not been taken forward due to it not proving financially viable, however positive work continues with Raven Housing Trust to explore options for joint work on housing delivery in the future.
20. Similarly, proposals to establish trading companies for the Council's Revenues, Benefits & Fraud work, or other trading opportunities, are not currently being pursued although our work to support other public sector partners with revenues, benefits and fraud services continues to be recognised for its successful outcomes. In the meantime, other service areas are exploring the potential for shared services where this could result in more financially beneficial delivery models.

Next Steps

21. As noted above, the Council's activity to deliver the actions set out in the Commercial Strategy Parts 1 and 2 aligns well with the Financial Sustainability Programme. The focus on pursuing commercial asset opportunities and commercial service opportunities will continue over the coming year to the extent that it is compatible with the wider framework within which local government operates.
22. This will include the ongoing proactive management of our property estate as well as work to explore longer term regeneration and redevelopment opportunities. Consistent with the Financial Sustainability Programme, it will also include specific workstreams to ensure that Council services are delivered in an efficient, cost effective and (as appropriate) commercially-focused manner.

Options

23. The following options have been identified for the Executive:

- Option 1: Note the progress update on the Council's Commercial Strategy and the observations of the Overview and Scrutiny Committee and agree the report at Annex 1 for publication. This option is recommended as it supports the effective consideration and awareness of the Council's work towards the objectives of its Commercial Strategy.
- Option 2: Request additional information and/or do not agree the report at Annex 1 for publication. This option is not recommended as awareness of the update provided supports the continued work of the Council towards the objectives of its Commercial Strategy.

Legal Implications

24. There are no direct legal implications arising from the recommendations of this report.
25. As identified within the Commercial Strategy, appropriate governance of commercial activities requires that any legal risks associated with such activity are properly monitored and considered. This may require utilising appropriate legal advice, including from external advisors, where relevant.

Financial Implications

26. There are no direct financial implications arising from the recommendations of this report.
27. As identified within the Council's Commercial Strategy and the Key Information above, the Council's ability to operate in a commercially efficient manner, whilst continuing to adhere to its guiding principles and wider obligations, will be a necessary component of the organisation's financial sustainability within current contexts.
28. The progress towards the actions set out in the action plans within the Commercial Strategy helps to support this requirement and the Council's wider work regarding financial sustainability.
29. As identified in the Council's Medium Term Financial Plan and the Key Information above, the Council continues to face a potential budget gap in coming years. Ongoing progress towards the action plans and wider objectives of the Commercial Strategy will therefore continue to be an important component in addressing this potential gap and supporting the Council's long term financial sustainability.

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 recommendations of this report do not have any direct consequences for staff, residents or other service users, including those with protected characteristics. However, the Council's duty to have regard for the equalities implications of its actions is reflected within the guiding principle of the Commercial Strategy for its commercial activity to be ethical, and should be considered throughout the evaluation of any actions regarding commercial assets, services or other activities.
32. Where changes are made to services, or new services are introduced, including changes in provision or pricing, an assessment of equality impact must be undertaken. These serve to identify potential implications of the changes, including those which might affect persons with protected characteristics, and require services to consider how any negative implications can be avoided or mitigated. Where other actions may have similar implications, they will also need to be supported by equality impact assessments.
33. Where the Council is able to operate effectively and support its financial sustainability through commercial activities, this can also potentially provide additional resources to help address existing challenges facing the borough and its residents, including those relating to equality and persons with protected characteristics.

Communication Implications

34. The Council's Commercial Strategy, Parts 1 and 2, is publicly available on the Council's website.
35. Subject to Executive agreement, the annual report at Annex 1 will be published alongside the two strategies.
36. Communications activity may take place as required with regard to specific commercial activities or projects referenced within the Commercial Strategy; such communications will be considered on a case by case basis and with regard to the guiding principles of the strategy.

Environmental Sustainability Implications

37. There are no direct environmental sustainability implications arising from the recommendations of this report.
38. The environmental sustainability implications of individual commercial activities will be considered and monitored as part of the wider governance and decision-making identified within the strategy. This is reflected in the first guiding principle of the strategy, should form part of the business case for and development of any commercial activity proposals, and should be consistent with the Council's established Environmental Sustainability Strategy.
39. As the Council progresses its Environmental Sustainability Strategy this may identify opportunities for related income generation or investments delivering ongoing savings associated with that work. Such opportunities will be reviewed and considered within the principles and approach identified within the Commercial Strategy.

Risk Management Considerations

40. The future financial sustainability of the Council is an identified risk on the Strategic Risk Register. The risk register identifies the role of the Financial Sustainability Programme as a key mechanism in addressing this risk, through both the reduction of costs and increasing income. As demonstrated in this report, our activity to delivery actions within the Commercial Strategy has over the past year made a positive contribution to both those objectives.
41. The Commercial Strategy Part 2 provides a summary of the key (general) risks associated with commercial property-related and service-related activity. Project-specific risks and operational risks are identified and managed through the Council's project management framework and the Council's operational risk registers respectively.

Consultation

42. The Members of the Executive (including members of the Council's Commercial Ventures Executive Sub-Committee) have been consulted as part of the preparation of this report.
43. Any observations from the Overview and Scrutiny Committee at its meeting of 8 December 2022 will be reported to the Executive by way of addendum or verbal update.

Policy Framework

44. The Commercial Strategy is consistent with the Council's Corporate Plan for the period 2020 to 2025.
45. 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 Powers

1. Reigate & Banstead 2025 (The Council's Corporate Plan): available online at www.reigate-banstead.gov.uk/rbbc2025
2. Commercial Strategy Part 1 and Commercial Strategy Part 2: available online at https://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/reigate_and_banstead_2025/4