



Commercial Strategy: Progress report

December 2023

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Introduction

This report provides an overview of progress against the actions set out in Reigate & Banstead Borough Council's Commercial Strategy Part 1 and Commercial Strategy Part 2.

Part 1 of the Council's Commercial Strategy was agreed in November 2020, and Part 2 was agreed in December 2021. Both documents are available to download from the Council's website at [Associated strategies | Reigate & Banstead 2025 | Reigate and Banstead \(reigate-banstead.gov.uk\)](https://www.reigate-banstead.gov.uk). As part of the Commercial Strategy Part 2, it was agreed that an annual report on the Council's commercial activities and companies would be provided to the Council's Overview & Scrutiny Committee and the Commercial Ventures Executive Sub-Committee. This report serves that purpose for 2023.

The report also provides the annual update to the Council's Investment Appetite described within the Commercial Strategy Part 2.

Guiding principles and our overall approach to commercial activity

The Council's commercial activity can be broken down into two main areas:

- Investing in commercial assets; and
- Investing in commercial services.

Across both these areas, our activity is guided by three key principles:

- **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
- **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
- **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.

Our commercial assets and commercial services activity is carried out in accordance with the Council's established internal procedures, including (as appropriate) decision-making delegations, project and programme management frameworks, risk management processes and established arrangements for agreeing necessary funding. The Commercial Ventures Executive Sub-Committee retains formal oversight and responsibility for commercial activity.

Operational Context

Since the Commercial Strategy was written, the context in which the Council operates has changed.

In preceding years, local authorities had been granted general powers of competence, enabling them to participate in commercial activities in ways which had not previously been possible. With many councils already facing financial challenges, these commercial activities offered a potential source of additional funding to help secure their services. In combination with loan funding available from the national Public Works Loan Board (PWLB), numerous authorities therefore utilised these powers to make commercial investments, sometimes of considerable scale.

However, despite the appeal of using commercial activities to generate this additional income, the uncertain nature of such investments, combined in some cases with ambitions exceeding institutional experience and capacity, led to a sizable proportion of those investments becoming loss making. With many of these commercial investments funded through borrowing, this in turn led to multiple local authorities facing major liabilities which further threatened their financial sustainability. In response to these events, national guidance from the PWLB and the Chartered Institute of Public Finance and Accountancy (CIPFA) and HM Treasury was revised to effectively prohibit local authorities from borrowing for primarily commercial investment purposes.

The new guidance from CIPFA, in the form of the Prudential Code introduced in 2023/24, stipulates that investments by local authorities should not include borrowing for financial yield as their primary purpose, and that investments and risks should be proportional to the authority's net budget. It does however continue to be recognised that commercial and income generating elements may form part of activities such as regeneration, and that there remain a number of options for local authorities to invest in measures such as investing to save, delivering local benefits such as affordable housing, or investing using existing resources and assets.

For this Council, consideration of commercial matters is now primarily taking place within the context of the wider Financial Sustainability Programme, in line with the Council's Medium Term Financial Plan and annual budget setting process. The Financial Sustainability Programme shares many of the key concerns of the Commercial Strategy, with a focus on four key areas of Income Generation, Use of Assets, Prioritisation of Resources, and Achieving Value for Money. These align with the objectives of the Commercial Strategy, but also consider financial sustainability from a broader, more complete, perspective.

It should therefore be apparent that many of those matters identified within the Commercial Strategy remain relevant. There continues to be a need to effectively manage the Council's property assets, to review opportunities for place delivery and regeneration to benefit the borough, and for income generating activities and services more generally to operate in a financially efficient manner. This is reflected through actions such as optimising fees and charges, and managing property assets to minimise voids.

With the identified change in focus, activity through company structures is now also of declining importance to the Council. The Council has a number of existing interests in companies, but is currently pursuing a strategy of exiting from such investments, as has been reported to the Partner, Shareholder and Trustee Executive Sub-Committee.

In considering this report, readers should therefore be aware of these contextual factors. It remains important for the Council to operate in a financially efficient manner, including with regard to effective management of assets, investments, and income generating services, and progress on the agreed Commercial Strategy continues to be reported on this basis. There should, however, also be awareness of the change in operational context and the move towards focussing on commercial activities as a part of the broader approach that is the Council's Financial Sustainability Programme, in accordance with national guidance.

Commercial Strategy Part 1 Progress Report

The Commercial Activity Action Plan within the Commercial Strategy Part 1 was November 2020 as an interim measure until the Commercial Strategy Part 2 had been produced. It focused on some initial commercial activity priorities and the embedding of a more commercial mindset within the organisation. Elements of it have been superseded by more detailed actions within the Commercial Strategy Part 2 and/or changes to the broader regulatory framework within which the Council operates. Nonetheless, there is value in providing a progress update against the action plan in this report.

Commercial Strategy Work Areas

Work area 1: Becoming more business-like in our day-to-day activities:

| Activity | Timeframe | Progress update |
|---|-----------------|---|
| Implement review of fees and charges and update policy | 2020/21 | Action superseded: see more detailed progress update under Part 2 (Commercial Services Priority 2). |
| Implement updated fees and charges policy | Q1 2021 | Fees and charges policy is reviewed and updated annually and presented to the Executive for their agreement each year. |
| Continue to explore opportunities to maximise income from selling our Revenues, Benefits and Fraud services | By Q1 2021 | Action superseded: See detailed progress update under Part 2 (Commercial Services Priority 1) |
| Explore other opportunities for income generation | Q2 2021 onwards | Action superseded: See detailed progress update under Part 2 (Commercial Services Priority 1) |
| Expand procurement and contract management skills and resources within the Council | 2020/21 | <p>A Procurement Transformation Programme began in July 2023. Progress to date includes:</p> <ul style="list-style-type: none"> • Procurement Consultant in role • Procurement Pipeline developed • Contract register developed • Analysis of historic spend complete • Procurement categories and owners identified • Category owner meeting scheduled for November 2023 as part of key stakeholder engagement • Procurement Board inaugural meeting scheduled for December 2023 • Outsourcing agreement concluded • Proposals for in-house delivery developed. • Procurement ownership moved from Legal to Finance • Procurement & Contract Management Principal role agreed, with recruitment process underway. |

Work area 2: Increasing capital and revenue returns through our assets and investments:

| Activity | Timeframe | Progress update |
|---|-----------|---|
| Evaluate and rebase current property asset holdings | Ongoing | Action superseded: See detailed progress update under Part 2 (Commercial Assets Priority 1) |
| Explore partnering opportunities | Ongoing | Conversations are ongoing across some service areas about the potential for sharing service delivery with other public sector partners. Activity at Surrey County Council with respect of a County Deal also continues to be monitored. |
| Implement robust investment criteria and maintain an update to date 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 | Action completed through publication of Commercial Strategy Part 2 |

Work area 3: Developing a commercial culture

| Activity | Timeframe | Progress update |
|--|-----------|--|
| Transformation work and appropriate recruitment: Review additional necessary steps following roll-out of the Revenues, Benefits & Fraud investigation services | Q2 2021 | <p>Specialist external expertise continues to be drawn upon where appropriate to ensure that the Council takes a robust approach to activity associated with delivery of the Commercial Strategy.</p> <p>Activities that deliver commercial benefits are progressed by existing Council service areas and are overseen by officer Boards and the Financial Sustainability Programme rather than through a dedicated commercial resource within the organisation.</p> <p>Counter fraud services are now in place with several local authorities within Surrey. Opportunities with a private sector company (NEC) continue to be discussed and rolled out nationally. Future work also includes structured marketing and promotion of services. As well as counter fraud services, we also provide debt recovery and inspections to other LAs and housing providers.</p> |

Work area 4: Governance and decision-making

| Activity | Timeframe | Progress update |
|--|-----------|---|
| Implement effective company holding structure for planned and current activities | 2020/21 | After initial investigatory work, it was concluded that a holding structure was not required. |
| Annual approval of business plans for Council subsidiaries, and training to ensure business plans are robust and well considered | 2021 | Company progress and priorities are provided via twice-yearly Companies Update reports to the Overview & Scrutiny Committee and the Partner, Shareholder and Trustee Sub-Committee. |

Commercial Strategy Part 2 Progress Report

The Commercial Strategy Part 2 provides more detail in relation to the overall framework set out in Part 1, and includes action plans for Commercial Assets and Commercial Services. These have formed the basis of Council activity over the past year with contributions to the delivery of the strategy from a range of different service areas.

It should be noted that since the Commercial Strategy Part 2 was agreed by the Executive in December 2021, the Council has also implemented its Financial Sustainability Programme, which overlaps with some elements of the Council's commercial activity.

Quarterly updates on the Financial Sustainability Programme are provided to the Council's Overview & Scrutiny and Executive Committees.

Commercial Assets

Priority 1: Evidence – Ensuring a robust understanding of our asset portfolio and its performance

| Task | Responsibility (timeframe) | Outcome | Progress |
|---|----------------------------|---|--|
| Undertake a deep dive into our current portfolio and develop a reporting template | Property (2021/22) | Robust understanding of asset portfolio and performance | A full review of the Council's property portfolio has been undertaken since the Commercial Strategy was agreed. This has comprised a detailed assessment of both budgets and asset performance. A reporting template has been developed. |
| Introduce quarterly reporting to CVESC on asset and portfolio performance | Property (2022/23 onwards) | Ongoing and up to date understanding of asset portfolio and performance | <p>Quarterly reports on the Council's property portfolio and the performance of Council-owned property assets are now provided to the Partner, Shareholder and Trustee Executive Sub-Committee (renamed from the Commercial Ventures Executive Sub-Committee).</p> <p>These quarterly reports provide the sub-committee with information on properties held, yields and valuations, occupancy levels, and market conditions. Those also provide information on environmental sustainability of properties, and any notable market issues or poorly performing properties.</p> <p>The potential for rapidly changing market conditions means that formal reports can only be a snapshot of a 'point in time' and are supplemented by ongoing monitoring by the Council's property team.</p> |

Priority 2: Asset Management – Maximising value from the assets that we currently own and/or manage for commercial income

| Task | Responsibility (timeframe) | Outcome | Progress |
|--|-----------------------------|--|---|
| Continue activity to re-let vacant floorspace and minimise the cost to the Council from void space | Property (2021/22) | Reduced costs to Council and increased income | <p>Work to monitor and prevent void properties has been continuing. As identified last year, a number of long-term voids have now been filled and relationships with existing tenants have been maintained to minimise new vacancies.</p> <p>There are a small proportion of new voids and related costs, however, these are offset by new income, including from The Rise development. The net effect of these factors on the budget for 2024/25 is therefore an improvement of £700k.</p> |
| Focus on the worst-performing assets in our portfolio to improve their commercial return (e.g. via upgrades, repurposing, redevelopment or disposal) | Property (2022/23 -2023/24) | Reduced costs to the Council and increased income or capital receipt | <p>Work was undertaken to review leases for café leases in the Council’s parks, and additional income of £100k is now projected for 2024/25.</p> <p>Work to monitor and explore optimal management and leasing arrangements for the Council’s lower value assets is continuing.</p> |
| As leases expire, implement upgrades to key investment assets to ensure they remain attractive to potential tenants | Property (Ongoing) | Maintenance of a reliable income stream from investment assets | <p>Work is underway to develop proposals for one commercial office building within the Council’s portfolio following departure of the tenant, with proposals being developed for Member consideration.</p> <p>Maintenance budgets and requirements have been reviewed to ensure that they remain appropriate, and have been captured within the revenue budget and capital programme.</p> |

Priority 3: Asset (Re-)Development – Securing new income streams and/or capital receipts from development projects

| Task | Responsibility (timeframe) | Outcome | Progress |
|---|----------------------------------|---|--|
| Conclude development of Marketfield Way, Cromwell Road and Lee Street | Place Delivery (2021/22-2022/23) | Project place-shaping objectives achieved | <p>Marketfield Way (now known as The Rise): Practical completion was achieved in July 2023. The residential element has now been sold, releasing the final capital receipt for the Council, less retention. An expanded update on the Marketfield Way project is provided as a parallel report to the December meetings of the Overview & Scrutiny Committee and Executive.</p> <p>Cromwell Road (now known as Wheatley Court): Development concluded following practical completion in February 2022. Management and maintenance contracts have been agreed with a social housing provider, and the units have been let and occupied as of December 2022.</p> <p>Lee Street: Development concluded with practical completion in August 2022. All properties are now let.</p> |
| Continue marketing of units at Marketfield Way and Cromwell Road | Property (2021/22-2022/23) | Direct income streams secured | <p>Marketfield Way (now known as The Rise): The Council has let circa 75% of the commercial floorspace to date. Three commercial units remain to be let – Units 5, 6 and 8. The Council has a good level of interest in the remaining units and negotiations are underway with a variety of tenants.</p> <p>Cromwell Road (now known as Wheatley Court): Ground floor commercial units have not currently been let and will continue to be marketed.</p> <p>Revenue income: The 2024/25 budget proposals and MTFP include forecasts for income from newly-constructed commercial units at The Rise (Marketfield Way) development. These are based on an assessment of the level of rental income net of landlord overheads and handover expenses. Forecasts will be updated in future budget and MTFP reports as the remaining units at the development are handed over and tenancies are signed.</p> |

| Task | Responsibility (timeframe) | Outcome | Progress |
|--|--|---|--|
| | | | <p>Forecasts for other commercial projects, including the vacant commercial units at Wheatley Court (Cromwell Road), will be included when individual business cases have been approved and delivery timescales are confirmed.</p> <p>Capital receipts: In addition to revenue income receipts, the Council receives capital receipts from its development activity. The delivery of major schemes, particularly the Marketfield Way (The Rise) development, constitute the main source of capital receipts within the Council's capital programme.</p> |
| <p>Establish housing company as a mechanism to generate income from residential letting activity</p> | <p>Housing (2021/22)</p> | <p>Income stream secured via payment of dividends from company to Council</p> | <p>Initial work was undertaken in 2022 to investigate the opportunity to establish a housing company, however this is no longer being pursued as it did not present a viable solution.</p> |
| <p>Complete Horley Car Park feasibility work and progress to planning then development</p> | <p>Place Delivery, Property, Housing (2021/22-2022/23)</p> | <p>Place-shaping objectives and contribution to rolling project pipeline</p> | <p>Following initial feasibility work, this project is currently paused, and will be re-visited at an appropriate time.</p> |
| <p>Identify other pipeline projects for existing but underused assets</p> | <p>Property, Place Delivery, Housing, Greenspaces, Car Parking, Other services as required (2021/22-</p> | <p>Contribution to a rolling pipeline of projects to deliver a combination of corporate objectives,</p> | <p>Council property assets are subject to ongoing review for development or redevelopment opportunities, particularly with regard to underutilised assets.</p> <p>A site prioritisation matrix has been developed and a range of assets have been subject to detailed review, including agricultural and amenity sites. Further reviews will be taking place of other asset types, and viability assessments will be conducted as required.</p> |

| Task | Responsibility (timeframe) | Outcome | Progress |
|------|----------------------------|--|---|
| | 2022/23 and ongoing) | reduced costs to the council, income generation and capital receipts | Consideration of a broad development framework is being undertaken, with early stages regarding the contents, parameters and roles of the framework underway. |

Priority 4: Asset Disposal – Disposing of assets that are currently underperforming or surplus to requirements

| Task | Responsibility (timeframe) | Outcome | Progress |
|--|--|--|---|
| As leases expire, dispose of assets where it makes financial/operational sense to do so. See also priority 2 | Property, other services as required (Ongoing) | Reduced costs to the Council, capital receipts | Following the asset review referred to under priority 1 and the successful letting activity referred to under priority 2, no specific assets are currently identified for disposal. |

Priority 5: Asset Acquisition – Purchasing assets which deliver broader benefits in line with our corporate plan

| Task | Responsibility (timeframe) | Outcome | Progress |
|---|--|---|---|
| Investigate opportunities to invest in emergency and temporary housing solutions, or other housing products to meet local needs | Housing, Property (from 2022/23 onwards) | Reduced housing revenue costs to the Council, contribution to wider housing objectives Direct or indirect income stream(s) | Proposals agreed by the Executive in October 2022, March 2023 and September 2023 to purchase temporary and emergency accommodation for homeless single people and families in the borough, helping to avoid/reduce the cost to the Council of expensive emergency accommodation placement in the private sector. The revenue budget impact of the proposal will depend on the pace of change in homelessness demand. |

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| Task | Responsibility (timeframe) | Outcome | Progress |
|--|---|--|--|
| Investigate opportunities to invest in social or economic regeneration in the borough | Property, Place Delivery (from 2022/23 onwards) | Direct or indirect income stream(s) or capital receipts, contribution to wider regeneration objectives | See priority 3. Work is ongoing to review potentially underutilised assets in the Council's ownership to inform development of a future pipeline and development approach. Work to investigate opportunities to invest in the social or economic regeneration of the borough will be conducted in accordance with the adopted Local Plan. |
| Investigate opportunities to invest in renewable energy solutions | Sustainability, Property (from 2022/23 onwards) | Reduced energy revenue costs to the Council, contribution to wider sustainability objectives | <p>Following the commissioning of energy audits last year, £434,000 funding has been secured via strategic CIL for solar PV (to generate renewable energy) across 9 council buildings. This will both reduce the Council's carbon emission and spending on our energy bills.</p> <p>The first property to be fitted with solar panels will be Priory Park Pavilion, Reigate, for which planning permission has been secured. In addition to these buildings, £89,000 funding has also been secured from Surrey County Council to install solar panels on temporary and emergency accommodation being purchased by the Council, which will also result in some small-scale cost savings for the council.</p> <p>In the longer term it remains the intention to explore more ambitious / innovative opportunities for renewable energy generation from Council-owned assets.</p> |
| Identify land assembly opportunities to enable the delivery of corporate objectives and pursue accordingly | Property, Planning, Place Delivery (from 2022/23 onwards) | Land acquired to enable the future delivery of other corporate objectives | Opportunities continue to be explored in relation to land assembly to deliver corporate and local plan objectives. Opportunities will be reported as they arise in the manner described in the Strategy. |

Commercial Services

Priority 1: Trading services – continue to incrementally grow our existing trading activities for medium-term income generation and introducing commercial into services that we currently provide non-commercially or new services that align with our remit

| Task | Responsibility (timeframe) | Outcome | Progress |
|---|--|---|--|
| Explore options to expand and consolidate the Council's Revenues, Benefits and Fraud income generating activity, including potential to establish a trading company | Revenues, Benefits & Fraud (2021/22-2022/23) | Generation of increased income stream | The team continues to provide services for a broad range of third party organisations and to be recognised for its high quality work and successful outcomes. A company structure is not currently considered necessary and would increase operating costs, and is therefore not being pursued at this time. |
| Explore options to expand and consolidate the Council's Garden Waste customer base | Neighbourhood Operations (2021/22-2022/23) | Generation of increased income stream | The service has grown by approximately 1000 memberships within 2023/24 to date. |
| Establish housing company as a mechanism for the Council to generate income from residential letting activity | Housing (2021/22) | Income stream secured via payment of dividends and loan premium from company to Council | Initial work was undertaken in 2022 to investigate the opportunity to establish a housing company, however this is no longer being pursued as it did not present a viable solution. |

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| Task | Responsibility (timeframe) | Outcome | Progress |
|---|--|--|--|
| Explore new commercial trading opportunities arising from the implementation of the Government's Waste & Resources Strategy | Neighbourhood Operations (2022/23 onwards) | Potential to secure a revenue stream to either mitigate against service provision cost increases or to generate income | <p>Information on the future implementation of the national Waste & Resources strategy was announced on 20 October 2023, renamed to the Resources & Waste Strategy. National consultations on the announced implementation will be completed prior to confirmation of final details.</p> <p>The announcements made do not indicate significant potential for new commercial trading opportunities to emerge as a result of the strategy's implementation, but will continue to be monitored.</p> <p>Although not related to the commercial aspect, there are significant implications for the waste and recycling team, with the roll-out of additional recycling services to 5500 properties by March 2026. This will impose an additional resource requirement. Consideration is also being given to the viability of rolling-out a full service to existing customers by May 2025, which will again require supporting resources.</p> |
| Consider other service areas where there may be potential to introduce trading activity | Various (Ongoing) | Potential to generate income to cover costs or introduce new income streams | No additional areas for trading activity are currently being pursued, however reviews are ongoing, overseen by the Financial Sustainability Programme, across service areas about the potential for sharing service delivery with other public sector partners. |

Priority 2: Fees & Charges – Maximise income from existing non-statutory fees and charges and introduce new non-statutory fees and charges where appropriate

| Task | Responsibility (timeframe) | Outcome | Progress |
|--|----------------------------|--|--|
| <p>Assess all fees and charges for compliance with the Fees & Charges Policy and maintain rolling review to ensure continued alignment and amend charging models to increase receipts where this can be justified.</p> | <p>Various (Ongoing)</p> | <p>Costs for non-statutory service provision covered by relevant fees and charges as far as possible</p> | <p>A detailed review of fees and charges was undertaken as part of the 2023/24 budget setting process. This review identified £1.186m in revenue budget improvements through a combination of increased income and ‘right-sizing’ of existing budgets. Fees and charges have also been reviewed within the 2024/25 budget setting process, and further additional income of £0.540m is anticipated, although the annual budget remains at a draft stage at the time of writing. Recent increases in fees and charges have been undertaken in line with the Council’s Fees & Charges Policy to reflect the increase in the cost of delivering services in recent years, influenced by high levels of inflation. With inflation now falling, increases to fees and charges income in future are likely be smaller in future years.</p> |
| <p>Introduce enhanced charging in relation to pre-application advice</p> | <p>Planning (2022/23)</p> | <p>Costs for non-statutory service provision covered by relevant fees and charges</p> | <p>Enhanced pre-application advice charges were introduced in 2023/24, with budgeted additional income of approximately £18k per year for the Council. Pre-application charges have also been reviewed as part of the 2024/25 budget setting process, with increases anticipated in line with inflationary pressures.</p> |
| <p>Continue to explore opportunities for the introduction of new fees and charges</p> | <p>Various (Ongoing)</p> | <p>Costs for non-statutory service provision covered by relevant fees and charges as far as possible</p> | <p>New street naming and numbering charges were introduced in 2023/24, with budgeted additional income of approximately £39k per year for the Council. A further £3k is expected for 2024/25. Further options for introduction of reasonable additional fees and charges for non-statutory services are continuing to be monitored. Where proposals are developed, additional income forecasts will be included within annual budget proposals.</p> |

Summary of the Council's current investment appetite (2023/24 update)

The Commercial Strategy Part 2 includes a summary of the Council's investment appetite, to be updated annually to inform the Council's commercial activity. Changes to the investment appetite are reflective of current market conditions and trends.

| Asset category | 2021/22 | 2022/23 | 2023/24 |
|------------------------------|---------|---------|---------|
| Offices | Red | Red | Red |
| High Street Retail | Red | Red | Red |
| Industrial/Distribution | Amber | Red | Amber |
| Leisure (hotels, gyms) | Amber | Amber | Green |
| Hospitality (food and drink) | Amber | Amber | Green |
| Housing | Green | Amber | Green |