

**CABINET
29 JANUARY 2019**

PUBLIC DOCUMENT

TITLE OF REPORT: COMMERCIAL STRATEGY

REPORT OF : SERVICE DIRECTOR - COMMERCIAL

EXECUTIVE MEMBER : EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY : PROSPER AND PROTECT AND RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is for Cabinet to consider and adopt the proposed North Hertfordshire District Council Commercial Strategy 2019-23, which sets out the strategic direction for the Council's commercial services over the next five years.

2. RECOMMENDATIONS

- 2.1 That Cabinet adopts the North Hertfordshire District Council Commercial Strategy 2019-23.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure there is a clear strategy that identifies how the Council understands commercialisation and what we are doing to embed a commercial culture.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Not to adopt a strategy, however, it is felt that a strategy will ensure the Council has a focus on what it is trying to achieve and more importantly how.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 The Executive Member for Finance and IT has been consulted and supports the Commercial Strategy.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 20 November 2018

7. BACKGROUND

- 7.1. Since the creation of the Commercial Directorate in June 2018, a new structure for this department has been authorised, comprising of a Commercial Manager, Commercial Officer and three Commercial Support Officers. Two of the Commercial Support Officer roles have been filled and the Manager and Officer roles will be advertised in January 2019.
- 7.2. This is an exciting opportunity for the Council to explore new ways of working and undertake activities previously unavailable to local authorities. Therefore, officers have started to explore potential commercial opportunities, which need to be explored further and detailed business plans will be produced on those that officers feel will provide a good financial return.
- 7.3. This report focuses on the production of the Commercial Strategy which is attached as appendix A.

8. COMMERCIAL STRATEGY

- 8.1. The Commercial Strategy is broken down into four key sections, these are:-

Section 1 : Why we need a Commercial Strategy

Section 2 : What we want to achieve

Section 3 : How we will deliver

Section 4 : How we will measure success

- 8.2. Section 1 of the strategy focuses on the need for a commercial strategy and explores the motivation and need to generate additional income from services that are allowed to charge, and the need to change to a culture that thinks commercially.
- 8.2.1. This section also provides an overview of the Council current financial position, explaining how we have managed to make significant savings in recent years (£6.2m since 2011/12 and a further £2.4m in progress in 2018/19). It also looks at the future saving that are required to improve the Council's financial position and identifies that to enable the Council to be self-sufficient the Council needs to improve its annual revenue net position which is currently estimated between £0.7m and £1.9m by 2022/23.
- 8.3. Section 2 of the strategy focuses on what the Council wants to achieve by having a commercial strategy. The strategy sets out the Commercialisation Vision, which is: -

“To stimulate innovation, develop existing services and new businesses, whilst developing a commercial culture for the benefit of our community.”

8.3.1. Alongside the vision there are three commercial strategic themes, these are:-

Culture

1: Enhancing the Council's commercial culture and capability.

Business Improvements

2: Become more business like in our day to day activities.

Investment

3: Increasing capital and revenue returns to the Council through investment opportunities.

8.3.2. The details of the strategic themes are covered in the next section. The overarching aim of the strategy is to deliver a greater financial return from commercial activities which then contributes to the Council revenue and capital accounts, with an aim to enable the Council to continue to provide statutory and discretionary services to its residents.

8.3.3. The strategy explains the need to explore internal and external investment opportunities and the need to undertake internal business improvement reviews where it is believed there is an opportunity to benefit the Council's financial position.

8.4. Section 3 of the commercial strategy sets out our approach to delivering each of the strategic themes (Culture, Business Improvements and Investment) throughout the next five years. These activities are based around six principles that must be taken into account:

- To ensure that all ideas are ethical
- To have a positive impact on the community
- When considering geographical scope to prioritise North Hertfordshire first
- To review the potential of expanding current ventures as well as implementing new ventures
- To spread risk through a balanced portfolio of activities and investments
- To initially prioritise ventures where we already have expertise, skills or experience

8.4.1. The first theme is '**Culture**', and provides an overview for the resources that the Council has committed to date. It also focuses on the future and sets out how the Council aims to embed a commercial culture; this includes the introduction of a Commercial Group that will establish strategic leads throughout the organisation. The need to ensure regular communication and the need to communicate at the right level. It also covers the development and implementation of a commercial training programme to reflect the types of skills that are required to ensure all staff and Councillors are better positioned to operate in a commercial council.

8.4.2. The second theme is '**Business Improvements**'. This theme explores how the council has been successful in Value for Money services for many years, and how the current economic climate has driven local authorities to work in a more commercial manner, thereby reducing costs whilst maximising income. It explains how council's have the power to generate income through charging, trading, and investing.

- 8.4.3. This section also focuses on a number of activities that are important to ensure a commercial approach these include; reviewing the trading and income potential of all services, prioritising a business case development programme for commercial projects and obtaining customer insight, market analysis and environmental scanning for business opportunities
- 8.4.4. The third theme is '**Investment**' and focuses on how the council aims to increase capital and revenue returns to the council through investment opportunities. This outlines some specific projects that the council is currently undertaking. The need to have a new property strategy which will aim to improve the councils' financial position and the creation of a holding company and two subsidiary companies (development and lettings) to improve the financial value of our assets.
- 8.4.5. The final part of this section focuses on risk and opportunity management and identifies the need for officers and councillors to be more risk aware, rather than risk averse for a commercial approach to work. It also explains that with all new ventures, there are risks of some ventures failing.
- 8.5. Section 4 looks at how the Council will measure success and focuses on managing our performance, which explains that the Commercial Group will oversee the effective delivery and implementation of the commercial strategy. It also includes a commercial programme which will be updated annually.

9. LEGAL IMPLICATIONS

- 9.1 Cabinet has within its terms of reference to prepare and agree to implement policies and strategies other than those reserved to Council.
- 9.2 There are various legislative provisions that give Local Authorities the power to trade, such as S1 of the Local Authority (Goods and Services) Act 1970, S95 of the Local Government Act 2003 and S1 of the Localism Act 2011 ('the general power of competence'). As part of the assessment of any proposed trading activity pursuant to the commercial strategy the Council will need to ascertain the most appropriate power and comply with any associated requirements.
- 9.3 Under Part 1 of the Local Government Act 2003, Local Authorities are required to adhere to the Prudential Code as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Local Authorities are also required to adhere to any statutory guidance issues by the Minister for Housing, Communities and Local Government.

10. FINANCIAL IMPLICATIONS

- 10.1 The General Power of Competence (GPC) contained in section 1 of the Localism Act 2011 allows councils to do anything that individuals generally may do, unless it is precluded by other legislation. This can include the ability to charge for goods and services and therefore generate income. However where the Council is making a profit from an activity it is required to carry out that activity through a trading company. In determining whether the Council is making a profit, it will be necessary to determine the full costs (including a fair allocation of overheads) and income of the service.
- 10.2 In terms of capital investment in commercial opportunities, there has been new guidance issued by the Minister for Housing, Communities and Local Government and also statements from CIPFA as to how this should be interpreted. These changes are a reaction to the significant levels of borrowing that has been undertaken by some Local Authorities for the purposes of property investment. The latest guidance attempts to preclude Local Authorities from borrowing where the primary or main purpose of the investment is for income generation. It is still possible to use capital reserves (whether existing or generated in future) for such investments. This may mean that the Council needs to consider how it allocates future funding. Given that there is a limit to the availability of future assets for generating capital receipts, this will limit the number and size of commercial projects that can be undertaken. It will therefore be necessary to prioritise the opportunities that come forward.
- 10.3 The financial risks and potential returns associated with ventures would be highlighted when a proposal is put forward. If this requires capital funding, then even though capital reserves will be used, their use will increase the need to borrow to fund the existing capital programme. Therefore the returns from the commercial venture will need to at least cover the equivalent cost of the overall borrowing requirement. Costs of borrowing are made up of interest payments and setting aside a Minimum Revenue Provision.

11. RISK IMPLICATIONS

- 11.1 Risk implications have been covered in the body of the report.
- 11.2 There is a Corporate Risk entitled "Income Generation", which assesses the risks associated with the Council adopting a more commercial approach to service delivery, whilst focusing on the many opportunities and positive benefits it could achieve by delivering the aims and objectives of the Commercial Strategy.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 The strategy states that all proposed ideas will be of an ethical nature and will be considered to have a positive impact on the community as a basis for consideration. In line with the council's commitment to demonstrate due regard the Equality Duty, it will conduct equality impact assessments that require them (i.e. any key decisions, major budget implications and any revisions to major service provisions).

13. SOCIAL VALUE IMPLICATIONS

13.1 The Social Value Act and "go local" policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resources implications for this report.

15. APPENDICES

15.1 Appendix A - Commercial Strategy

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18. BACKGROUND PAPERS

None