



Commercial Strategy 2019-2023

North Hertfordshire District Council

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Introduction

The creation of a new service area in June 2018 specifically focused on investigating commercial opportunities for North Hertfordshire District Council is an exciting opportunity to explore new ways of working and undertake activities previously unavailable to the local authority. Successfully being more commercial will better position the Council to protect frontline services for our community.

In recent years the Council has been very successful in improving our financial position by undertaking good procurement exercises, investing in capital to reduce revenue costs and providing services to other Councils. While not under the formal umbrella of 'Commercialisation' the examples below show how the Council has already been working in a more commercially-minded way:

- Waste contract, with a joint procurement leading to a £2m saving
- Capital investments in leisure centres, reducing the cost of providing leisure by £1.7m
- Providing legal and IT support to other councils

This commercial strategy is required to address the financial challenges currently facing the public sector, which are unlikely to change in the near future. Therefore, it is important that the Council reviews the way it performs its statutory and discretionary functions by investigating and implementing new ways of working to improve the Council's financial position.

This strategy is intended to provide a consistent approach and guidance for Officers and Councillors to work within.

To ensure the Council is successful in this approach there are three key elements – **Structure, Strategy and Culture** – and we need to embed all three in order to give the best chance of succeeding.

The Commercial Strategy outlines:

Section 1: Why we need a Commercial Strategy

Section 2: What we want to achieve

Section 3: How we will deliver the plan

Section 4: How we will measure success

The Commercial Strategy will be supported by an annual delivery plan detailing the specific work programmes and projects that will help achieve our commercial ambitions. A Commercial Group will oversee the annual delivery plan and each Service Director will contribute to this.

Foreword

Commercialisation in local authorities has been a buzzword now for several years. As Councils have faced mounting financial challenges and are having to move towards being self-sufficient, being more 'commercial' has become increasingly important. Here at North Hertfordshire District Council, we have chosen to wholeheartedly embrace commercialisation, creating a new commercial team to drive forward our strategic approach, ensuring we maximise the benefits of commercialisation for the community. Alongside this, we will ensure that the benefits of commercial investments and opportunities are carefully weighed up against the risks, carrying out adequate due diligence and governance of projects.



Commercial projects cannot be viewed in isolation, we must take a commercial and business-like approach across all of our services if we are to ultimately thrive as an organisation. That is why embedding a commercial culture is so critical; upskilling all of our officers and ensuring they are engaged with our commercial objectives.

As well as being even more business like in our day to day activities, our approach will involve exploring internal and investment opportunities, delivering a new Property strategy and actively seeking new business opportunities that will deliver a financial return to benefit the district as a whole. While there is also some risk associated with commercial projects, the risk of doing nothing is far greater and why we must embrace a commercial approach with passion, drive and a commitment to succeed.

Cllr Julian Cunningham, NHDC's Executive Member for Finance

Section 1: Why we need a Commercial Strategy

Why have a Commercial Strategy?

The Council recognises it has to take more control of its own destiny and become a more commercially focused and a financially sustainable council. This involves embracing a more commercial culture in terms of how we think and act to ensure our services are provided as efficiently and effectively as possible with an aim to balance the Council's finances. The strategy is required in order to provide focus for the commercial activities.

This Commercial Strategy is required to address the financial challenges currently facing the public sector, which are unlikely to change in the near future. It is important that the Council reviews the way it performs its statutory and discretionary functions by investigating and implementing new ways of working to generate income which will improve the Council's financial position and help subsidise those discretionary services. However, that involves taking some risks, identifying the right opportunities and understanding some investments/projects will fail.

The Council recognises the need for a focus on commercial activities, as demonstrated by the senior management restructure and the introduction of the Service Director for Commercial, who has formed a new structure to assist the Council in delivering this strategy. This new structure will ensure teams across the Council are supported in the development and implementation of ideas/projects within their service areas. However, it is recognised that the role of the Commercial team is to support, rather than lead, these activities as the long term delivery will stay with the service area. There will be projects that remain in the commercial team, as this service will be exploring and implementing new ventures that have a commercial focus and will therefore remain with this service.

The purpose of this strategy is to:

- Ensure a consistent approach
- Provide political commitment and support
- Guide staff in bringing forward ideas
- Guide how to explore and fully research potential ideas
- Set out how to implement agreed ideas
- Communicate to the public what we are doing

Commercialisation in Context

The Council has faced financial challenges over a number of years and has delivered significant savings (£6.2m since 2011/12 and a further £2.4m in progress in 2018/19). Although the savings achieved have helped the Council deal with the cuts to its funding, 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.

The Council has been undertaking commercial activity in different forms for many years. Examples of this include, but are not limited to, trade waste, commercial property, Careline, selling services to other authorities, and leisure contracts bringing in revenue to the Council.

However, the introduction of the General Power of Competence (GPC) contained in the Localism Act 2011, allows councils to be more commercial and explore and undertake activities that historically they have not done. The GPC states that:

“A Local Authority has power to do anything that individuals generally may do” as long as it is not prohibited by other legislation.

This, therefore, gives councils the opportunity to be more commercial and explore a range of different business ventures which could help the Council deliver new services to the community whilst also improving its current financial position so it is better placed to face future financial pressures.

Commercial Strategy Drivers

The following key drivers have informed the development of this strategy:

- Our financial position is forcing us to look more commercially at how we deliver our services
- The Council has an ambition to be more commercial in order to reduce the reliance on central government funding

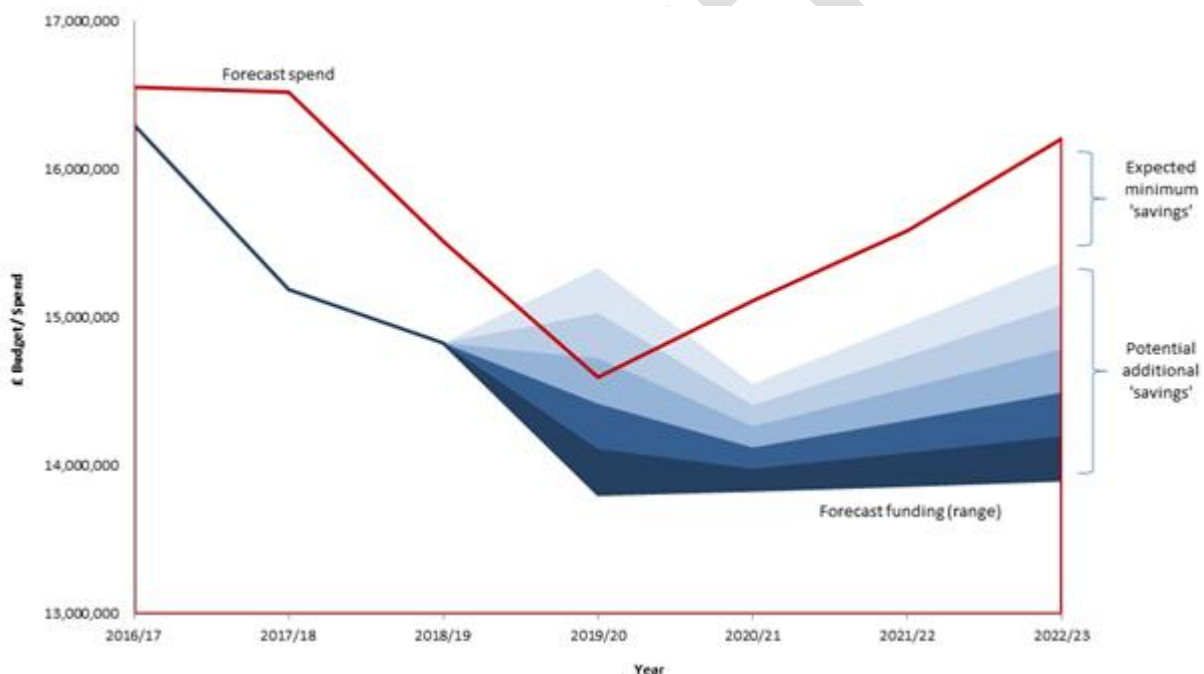
Links to other North Hertfordshire District Council strategies and policies

In devising the Commercial Strategy we have been mindful of the need for it to align with and complement other key documents that contribute towards the overall success of North Hertfordshire District Council. In particular, this strategy has been aligned to:

- North Hertfordshire District Council Corporate Plan 2017/21;
- Medium Term Financial Strategy 2016/21;
- Service Delivery Plan
- Risk and Opportunities Management Strategy 2017/20
- Investment Strategy 2019/20

Financial Position

The Medium Term Financial Strategy (MTFS) details the challenges that North Hertfordshire District Council faces over the coming years and sets ambitious targets for the reduction in the net running costs of the Council. This Commercial Strategy will make a contribution to 'closing the funding gap' and is integral to delivering the overarching budget strategy. The graph below shows that the future funding of the Council is fairly unknown as it is dependent on changes to New Homes Bonus, a Fair Funding review and changes to Business Rate funding. The current MTFS is forecasting the need to make annual savings of £0.7m (6% of NHDC annual budget) by 2022/23. However this could be a lot higher if the New Homes Bonus is removed as a funding source, alongside a reduction in the funding that the Fair Funding review assumes that the Council needs. The savings requirement could then be at least £1.9m (13% of NHDC annual budget).



In the past, the Council has had significant capital reserves, which have allowed it to invest in its assets to maintain and improve service delivery, alongside initiatives to generate income and reduce costs. The majority of Council expenditure has been funded by the income received from the housing stock transfer, as well as receipts from the sale of Council assets (e.g. surplus land). Therefore, the stock transfer funding has mostly been exhausted, and most of the high value surplus land has also been sold. This means that (like most other councils) the Council will need to start borrowing to fund capital expenditure, for maintaining and replacing assets as well as any capital investments. Therefore, all business cases will need to calculate the potential investment using this approach.

Section 2: What we want to achieve

Commercialisation Vision

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

Our Strategic Themes

To achieve our commercial ambitions the Council will focus initially on the following strategic themes:

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.

Aims and Objectives

The overarching aim of the strategy is to create the environment that allows that Council to deliver a greater financial return from commercial activities which then contributes to the Council revenue and capital accounts.

We will explore internal and external investment opportunities and will undertake internal business improvement reviews where it is believed there is an opportunity to benefit the Council’s financial position.

A detailed work programme will be developed through the service delivery planning processes, and will be updated annually.

The initial objectives will be to:

- Deliver a financial return to the Council to help contribute towards statutory services or to invest in new projects
- Where possible, to assist discretionary services to achieve a break-even financial position, in order to reduce the risk of closure for these services and to assist the Council in generating additional income
- Actively seek new business opportunities that will provide a financial return to the Council
- Deliver services to new and existing customers from both within the local authority environment and beyond, particularly where we are uniquely placed to do so

Benefits of taking a commercial approach

Taking the approach outlined within this strategy will offer a number of key benefits, including but not limited to:

- Providing a real, tangible opportunity to make a contribution to the Council's financial position
- Developing staff to provide new skills which can be applied to other work
- Helping to provide a competitive advantage in key markets
- Transforming the organisation into an innovative workplace
- Bringing benefits to the local economy
- Ensuring the sustainability of discretionary services

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Section 3: How we will deliver

Our approach and resources

Our Commercial Approach

This section 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

Resources

The Council recognises the need to invest in both staff and systems/processes to deliver improved financial returns. The senior management restructure has funded the creation of the Service Director – Commercial, who has formed a new structure to assist the Council in delivering this strategy.

The Council is in the process of setting up a company, to enable this to happen officers will have to be appointed as directors of the company and any further companies, therefore it is important that those officers are trained appropriately and understand what is required to be a director of a company.

The five year delivery programme that will underpin the Commercial Strategy acknowledges that with start up costs and lead in time before income is generated, it is likely that there will be relatively modest financial returns in the early years. As with many new businesses, as confidence in our ability, capacity and capability develop, it is anticipated that the financial returns will grow. The Council's commercial approach is not a 'quick fix' solution to a challenging financial position. It is a medium to long-term programme that should deliver lasting financial and social benefits for the district, throughout and beyond the next decade.

The commercialisation approach is open to all Council services (or elements of services), therefore it is important that all directorates continue to investigate ways of improving their services and explore ways of introducing commercial opportunities to improve them financially.

Theme 1 - Culture

Enhancing the council's commercial culture and capability

Background Context

In order to embed commercialisation within the Council, a Commercial Group will be formed which will establish strategic leads throughout the organisation. They will help to bring a co-ordinated approach to driving a stronger commercial focus across the organisation.

The Council will develop and implement a commercial skills training programme to develop the types of skills that are required to ensure all staff and Councillors are better positioned to operate in a more commercially minded council.

The Council is at the beginning of our commercial journey and more needs to be done to truly embed a commercial culture. We are also aware that we can learn from others. We highly value the opportunity to be involved with, and gain additional knowledge and support from, other public, private and voluntary sector organisations.

Specific Activities

To strengthen its commercial culture and capability, the Council will implement the following initiatives:

1.1 Developing a communications and engagement plan to involve all staff and Councillors in the Council's commercial approach

Conversations between staff and Councillors have highlighted the interest, need and desire to support the Council's commercial ambitions. The success of the commercial plan will require a team effort, with everyone playing their part.

It is important to create a range of ways for people to engage with us and find out more about the Council's commercial work. These will include regular updates through existing communication channels such as staff briefings, Insight features and notice boards. In addition, informal opportunities such as coffee mornings, suggestion boxes and 'commercial thinking' workshops will be promoted to encourage new ideas.

Working with the Communications team, regular updates will be delivered to keep staff and Councillors informed of our progress with projects.

1.2 Establishing a development programme for staff and Councillors that underpins the Council's commercial ambitions

The Council will continue to invest in both staff and Councillor development to help strengthen our commercial approach. The Commercial Group and Senior Management Team will ensure that the learning and development programme for staff and Councillors introduces a new commercial learning programme. Staff Regular Performance Reviews will highlight any commercial training needs, which would be identified and logged by the Learning & Development team. The Council is open to

learning from others through professional networks and events, whilst ensuring that any financial outlay is fully justified.

Additionally, the Council will explore the possibility of developing a peer review group with other local authorities to share best practice.

1.3 Ensuring that the Council's commercial activities are resourced appropriately

Business cases will need to be developed for all commercial projects and will need to detail whole-life costings, including staffing costs for developing and implementing the initiative. The Commercial Group will have responsibility for prioritising resources in line with the service delivery plan. If any specialist or temporary resources are required outside of budgeted costs, these will require approval in line with existing governance arrangements and financial standing orders.

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Theme 2 – Business Improvements

Become more business like in our day to day activities

Background Context

Councils have been required to provide Value for Money (VFM) services for many years. The current economic climate has driven local authorities to work in a more commercial manner, thereby reducing costs whilst maximising income.

Although North Hertfordshire District Council remains committed to funding high quality service delivery, we need to reduce the cost of providing services. This can be achieved in a number of different ways, for example outsourcing, working with partners or charging for services. However, to ensure that we can continue to provide high quality services, there needs to be a greater focus on generating income to help the Council reduce its funding gap.

The Council has the power to generate income through charging, trading, and investing – unless there is specific legislation or case law that prevents us from doing so. For example, local authorities are able to provide services to other public bodies for a fee. However, in many circumstances it is a legal requirement that trading takes place through a Local Authority Trading Company and authorities must assess whether or not this is necessary on a case by case basis. Councils can use their powers to trade or charge to:

- Address market failure
- Provide new discretionary services if there is a market need
- Recover costs for the delivery of discretionary services

The Council's approach to investment is governed by its Investment Strategy, which must also comply with legislation and financial regulations.

Specific Activities

To support its commercial approach the Council will implement the following activities:

2.1 Reviewing the trading and income potential of all services

The Council will review each service area's trading and income potential with an aim to provide a commercial development programme. The trading and income potential of services will be assessed using the following criteria:

- Opportunity to maximise contributions to overheads
- Scale of potential contribution versus required investment
- Current capability and commercial approach
- Current service performance
- Current and future market potential
- Corporate Plan priorities to meet district needs
- Any unique skills or market advantage within the service

2.2 Prioritising a business case development programme for commercial projects

A business case development programme for commercial projects will be established and overseen by the Council's Commercial Group. This will ensure that ideas and projects can be scoped, developed and implemented throughout the duration of the Commercial Strategy (2019-2023), with the primary intention of generating sustainable revenue income.

To ensure that all new initiatives are fully explored and robustly challenged the following process must be followed:

- Early Concept (completed Project Initiation Document)
- Outline Business Case
- Detailed Business Case
- Project Implementation and Delivery
- Lessons Learnt
- Benefits Realisation

2.3 Obtaining customer insight, market analysis and environmental scanning for business opportunities

In order to successfully identify commercial opportunities the Council will need to have a good understanding of customer needs and market potential. This will involve keeping up-to-date with national and local policy developments and legislative changes that could impact on commercial opportunities.

The Commercial Manager will be responsible for monitoring the commercial landscape to explore new business opportunities.

The Council's Commercial Support team will assist both the Commercial Group and individual services by providing research and analysis of customer and market trends.

2.4 Developing alternative service delivery models as appropriate

The Council has already developed alternative ways of providing its services. This includes shared services (such as Shared Internal Audit Service, Building Control, and the joint waste contract with East Herts District Council), partnership models (such as the Hertfordshire CCTV Partnership) and contracting out services (such as leisure services or grounds maintenance).

The Council will consider the most appropriate model for service delivery on a case-by-case basis taking into account legal and financial implications. In addition, capability and capacity will also be considered when judging the most effective delivery model. In most circumstances, the recommended model will be that which optimises quality of service, income generation and the Council's values.

Theme 3 – Investments

Increasing capital and revenue returns to the Council through investment opportunities

Background Context

The Council has undertaken a programme of using capital receipts to reduce revenue costs, for example with its leisure facilities and the refurbished District Council Offices. This approach needs to continue to assist the Council's financial position.

The Council has currently committed £3m for further investment into land and property developments and has identified a number of property investment opportunities that are currently being investigated. If successful these will provide an opportunity to increase the Council's revenue through capital investments.

The Council understands the need to explore investment opportunities other than just property. Therefore it is important that a holding company is formed which enables the subsequent formation of subsidiary companies that are able to undertake different activities.

Although the Council has previously used its own money to undertake capital improvements, it recognises there may be a need to borrow money in the future as the Council might not always have capital money available. All business cases will therefore be formulated on the assumption that the Council will borrow the funds required to invest.

Specific Activities

The Council will undertake the following activities to support its investment in housing and economic growth for increased capital and revenue returns:

3.1 Developing and delivering a new Property Strategy to add value to and diversify the Council's property portfolio

The Council has undertaken a review of its existing land and property assets to identify those with the greatest potential for delivering on capital value and/or revenue income. As a result, the first development project is underway (Harkness Court) with a number of other schemes in the pipeline.

The Council's Estates department and Commercial Team will be responsible for the implementation and continued development of a land and property asset programme. This will enhance business case development for new projects, identifying any short and long term investment opportunities.

In recognition of the fact that the Council is moving from a position where it has held some assets long term (the current commercial property portfolio generates a steady income of approximately £1m per year) and sold other assets for capital receipts, to a position where it will look for investment opportunities, a new Property Strategy will be developed.

3.2 Establishing a property company

The Council has identified a number of property investment opportunities that are currently being investigated. To enable the Council to maximise these opportunities a number of companies need to be set up, there will be a holding company and two subsidiary companies (property development and letting company).

Once established the Council will need to determine who is best placed to refurbish or build the properties, either the Council or the development company. The lettings company is needed for the Council to transfer assets to, which can then let at a commercial rate. The aim of this will be to improve the financial value of our assets and provide a financial improvement to the Council's revenue position.

3.3 Investigating new business investments/opportunities

The Council will investigate new commercial investments and business opportunities by monitoring the market and seeing if there are any unexplored opportunities that the Council can pursue. The Council will also work with our partners to explore new business opportunities to improve the financial position of the Council. A robust process from project initiation to completion will be followed in line with paragraph 2.2 above.

Risk and Opportunities Management

There is increased risk in adopting a more commercial approach, which means the Council (both Officers and Councillors) will need to be more risk aware, rather than risk averse.

An informed view of potential risks will need to be taken for each commercial project and a decision made on the extent to which risks are to be tolerated, mitigated or avoided altogether.

With all new ventures, there is a risk that some will fail. If a business is performing badly and there are concerns that it can not be turned around, the company directors will need to act responsibly and wind up the business. Therefore, it is important that all company directors are familiar with the Companies Act 2006 and comply with it.

The risk of doing nothing, however, is greater than that of trying to pursue a 'Commercial Council'. As set out in the financial section of this document, if we do not improve our financial position we will have to review the provision of discretionary services, which will have a significant impact on our residents. Therefore, it is felt this approach gives the Council a better opportunity to be able to continue providing discretionary services.

The Commercial Group will maintain a strategic and project-level risk register that will be regularly reviewed by Finance, Audit and Risk Committee.

Section 4: How we will measure success

Managing our performance

The Commercial Group will oversee the effective delivery and implementation of the commercial strategy.

The commercial strategy will be supported by an annual delivery plan, identifying the commercial initiatives that are to be developed and implemented within each financial year. The delivery plan is expected to be confidential due to the commercially sensitive nature of many of the initiatives.

Commercial projects and activities will also be reflected in relevant service business plans with progress reported through the Council's existing progress and delivery frameworks.

Measuring the success of commercialism within the Council is not as straightforward as recording additional income, as for many statutory services fees are set centrally or they are legally required to be breakeven. We also need to capture and report on how the Council is embracing commercialism in its day to day activities, whether through reducing costs, offering additional services or staff attitudes.



Commercial Strategy Programme 2019 - 2023

Activity	Description	Lead Officer	Target Completion Date
Commercialisation launch	Ensure all systems and procedures are in place for staff to propose new ideas. Establish a framework and campaign for development of new proposals in order to create a shortlist of new opportunities. Establish Commercial Group	Service Director – Commercial	April 2019
Selling our services	Identify services that are currently trading or could trade and meet with them to explore new opportunities and or improve their performance.	Commercial Manager	March 2021
Commercial Awareness Training	Investigate training options and pricing. Create training programme Implement training	Commercial Manager	November 2019
Holding Company	Set up a trading company and subsidiary companies as agreed by Cabinet (March 2018).	Service Director – Commercial	March 2019

Harkness Court	Undertake works at Harkness Court, in line with planning application approval, and rent out or sell.	Senior Estates Surveyor	Autumn 2019
Property Strategy	Produce an Asset Management Strategy that includes the opportunity to acquire land and property.	Senior Estates Surveyor	March 2020