



Report to: Income Generation Sub-Committee, 16th January 2018

Report of: Corporate Director Finance and Resources

Subject: COMMERCIAL STRATEGY

1. Recommendation

1.1 That the Committee recommend the Commercial Strategy to full Council for adoption.

2. Background

2.1 Like all other Local Authorities in the UK, Worcester City Council's finances are in transition from a funding model based primarily on grants from central government to one based on locally-generated income. The withdrawal of central funding has significantly outstripped growth in other income over the last few years. Between 2010/11 and 2014/15 Central Government funding fell from £8.193m to £4.998m. The Revenue Support Grant element of this is set to continue to decline, from £1.856m in 2015/16 to zero by 2019/20.

2.2 From 2019/20 onwards, funding for services will be almost entirely from business rates, Council Tax and income that the Council can generate from its operations, including commercial activities. To offset the fall in grant income, the Council has set a target for achieving savings over the three years 2017/18 to 2019/20 of £2.8m. A Transformation Programme has been established to achieve this and is on track to deliver within the lifetime of the Medium Term Financial Plan (MTFP). This includes elements of increased income as well as reduced costs.

2.3 The Council has recognised the need to support service delivery by generating income for a number of years and has stated its intention to increase income in the 2017/18 budget papers published in October 2016:

The proposed approach to generating additional income will be on a project basis with three key areas of activity:

i. Updating our income budgets to ensure they reflect the current levels of activity and the actual income generated

ii. Increasing income on our existing income activities through a review of compliance, enforcement and a targeted business case approach to review the potential for income growth

iii. The development of two-three 'big ticket' income items that generate more significant levels of income

- 2.4 The purpose of the Commercial Strategy is to set out the means by which this approach will be implemented. It does this by:
- Demonstrating how a commercial approach to service delivery and income generating activities are compatible with, and actively support, the City Plan themes and the Council's corporate values
 - Aligning the strategy with other related strategies designed to deliver the Council's priorities
 - Setting out current income-generating activities to provide a baseline for growth
 - Establishing a systematic approach to fee-setting to achieve an effective balance between commercial opportunity and social value
 - Setting out strategic actions for implementing the strategy along with measurable progress milestones and a high-level implementation timeline
 - Laying down a statement of risk and key criteria for the selection of income-generating projects and that require investment within that risk profile
 - Proposing that the Income Generation Sub-Committee acts as the vehicle for oversight of delivery of the strategy.
- 2.5 The department for Communities and Local Government (DCLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA) are currently consulting on changes to the Prudential Code on Capital Financing. These proposals may limit some of the options available for income generation once implemented. The strategy will be updated to take into account such guidance as it is published but, in any event, all proposals taken forward will be subject to the appropriate regulations and guidelines – whether published or in draft.

3. Preferred Option

- 3.1 That a formal approach to commercial management and income generation is adopted by the Council to provide suitable guidelines for the development of commercial approaches to service delivery balanced with the need to maintain services at an appropriate level for those who cannot afford to pay.

4. Alternative Options Considered

- 4.1 That the strategy focuses solely on income generation. The report to Cabinet in October 2016 referred specifically to income generation as a separate activity rather than referring to a commercial approach. The Commercial Strategy has been developed on this wider basis to support progress towards a more commercial outlook in respect of all service delivery – not just for services that are specifically designed to generate income. This reflects the Council's need to re-think its approach to budget setting in the light of the changes in the Local Government funding regime and also addresses the emerging CIPFA and DCLG guidance that borrowing solely for the purposes of generating income is to be outlawed under the revised Prudential Code.

5. Implications

5.1 Financial and Budgetary Implications

The draft budget for 2018/19 includes the assumption of £100k increase in income per year for each of the last two years of the Transformation Programme: 2019/20 and 2020/21.

The Commercial Strategy is designed to ensure that this increased income is achieved. Other potential sources of income will be identified and potential income streams arising from these will be incorporated into future medium term financial plans.

5.2 Legal and Governance Implications

There are pending changes to the Prudential Code on Capital Finance which will potentially restrict the actions that the Council can take to generate income from investment. The Strategy will need to be revised to reflect these when the finalised versions are published.

5.3 Risk Implications

The Strategy outlines the potential impact on income generating activities should specific assumptions within the MTFP not materialise as expected creating additional pressures. It also sets out a risk-based approach to property investments which can be adapted for other income-generating projects. Overall risks relating to the Council's finances are reviewed regularly as part of the Corporate Risk Register and reported to The Policy and Resources Committee through the iterations of the MTFP.

5.4 Corporate/Policy Implications

The Strategy will form part of the suite of strategies published or under development that are designed to implement the City Plan and support the delivery of the Council's objectives within the context of its corporate values.

5.5 Equality Implications

None

5.6 Human Resources Implications

The transition to a more commercial way of working will require a degree of culture change across the organisation. The commercial approach, as outlined in the strategy, is compatible with the Council's values and its commitment to becoming an Excellent Council. Training and support for managers will be provided as part of the excellence programme but further training needs will be identified by the Income Generation Officer once this post is established.

5.7 Health and Safety Implications

None

Ward(s):

All

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Background Papers:

None