



Report to: Income Generation Sub-Committee, 28th July 2021

Report of: Corporate Director, Finance and Resources

Subject: COMMERCIAL STRATEGY

1. Recommendation

1.1 That the Sub-Committee adopt the revised Commercial Strategy.

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 continued to decline, from £1.856m in 2015/16 to zero by 2019/20.
- 2.2 From 2019/20 onwards, funding for services has been almost entirely from business rates, Council Tax and income that the Council can generate from its operations, including commercial activities.
- 2.3 The Council has recognised the need to support service delivery by improving efficiencies and generating income for a number of years and stated its intention to increase income, and the means by which this will be achieved, in the 2017/18 budget papers published in October 2016. Income and Efficiency Plans are compiled and revised annually as part of budget-setting.
- 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 the current budget position to provide a baseline for measuring progress
 - 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
 - Interpreting the role of the Income Generation Sub-Committee as the vehicle for oversight of delivery of the strategy
 - Proposing the development of a resourcing plan to support funding bids and delivery of major Government-funded projects.

2.5 Since the publication of the strategy in 2018 The department for Communities and Local Government (DCLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA) have consulted on changes to the Prudential Code on Capital Financing. Subsequently, HM Treasury has published guidance which prohibits Local Authorities from accessing PWLB loans where they have proposed acquisitions of assets for commercial purposes in their forward capital programmes. One major component of the commercial strategy – to acquire and use assets to generate income – has therefore been removed.

2.6 This revision of the strategy reflects this change by deleting the risk assessment process for commercial investments, as this is no longer applicable, and refocusing on schemes which meet the Treasury's approved criteria. These are projects which are for the following purposes:

Service spending – the project supports delivery of services such as education, transport, public health, culture and related services

Housing – this is a specific category because of the special accounting arrangements that apply to local authorities

Regeneration – where the authority is addressing a market failure and/or is planning significant additional investment beyond the acquisition cost

Preventative action – perhaps to prevent a 'community use' asset falling into disrepair

Treasury Management – to allow authorities to refinance loans including internal borrowing (subject to that not being to get around the restrictions on borrowing for return)

2.7 The revised strategy also recognises the Council's success in attracting external funding, including match funding from partners, and sets out an approach to resourcing the new programme of activities that arise from this as well as participating in future bidding rounds.

2.8 Finally, the strategy seeks to take advantage of the exception to the borrowing rules in relation to Housing. The Income generation Sub-committee has previously requested an addition to the commission of a Council-Led Housing Development approach sponsored by the Communities Committee. This addition is to consider the option of creating a Housing Development Company to progress opportunities for mixed-tenure housing development which will provide much-needed housing and also generate income sufficient to finance the projects.

3. Preferred Option

3.1 That a revised strategy 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 manage its approach to budget setting in the light of the changes in the Local Government funding regime and also addresses the HM Treasury guidance on PWLB borrowing.

5. Implications

5.1 Financial and Budgetary Implications

There are no direct financial implications arising from this report.

5.2 Legal and Governance Implications

Under the Localism Act 2011, the Council has the powers to act as any reasonable person would do (the General Power of Competence). This extends to acting in a commercial way although the Council is prevented from commercial trading activities through section 95 of the Local Government Act 2003, unless it does so through a company set up for the purpose.

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 forms 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 arising directly from this report.

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 as necessary.

5.7 Health and Safety Implications

None arising directly from this report.

5.8 Economic, Social and environmental Implications

The Council can use its powers to engage directly in shaping the City and supporting initiatives which contribute to the health and wellbeing of Worcester’s residents, businesses and visitors. These powers can be used both to engage in activities which in themselves generate income, such as loans to third parties to support service

delivery, and to use income generated by services to support other activities and capital developments. Effective procurement procedures are also necessary to ensure that local companies have the opportunity to engage in bidding for Council contracts, which, in turn, drives efficiencies in council budgets and operations by regular revision of working arrangements.

Ward(s): All
Contact Officer: Shane Flynn – Tel: 01905 722536
Email shane.flynn@worcester.gov.uk
Background Papers: None