

Report to: Income Management Sub-Committee, 15th November 2023

Report of: Corporate Director - Finance and Resources

Subject: COMMERCIAL STRATEGY UPDATE

1. Recommendation

1.1 That the Sub-Committee notes progress against the Commercial Strategy 2021-2024 and proposals for the revised strategy to be developed.

2. Background

- 2.1 At its meeting of 16 January 2018 the then Income Generation Sub-Committee approved a Commercial Strategy for the period 2017-2020. This was subsequently revised and extended for the period 2021-2024. As the current strategy is due for renewal, therefore it is appropriate to review progress to date and consider what direction to move forward. The current strategy is attached at **Appendix 1** for reference.
- 2.2 The strategy was developed because, like all other Local Authorities in the UK, Worcester City Council's finances were 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 significantly outstripped growth in other income between 2010 and 2020. Between 2010/11 and 2014/15 Central Government funding fell from £8.193m to £4.998m. The Revenue Support Grant element of this continued to decline, from £1.856m in 2015/16 to zero by 2019/20.
- 2.3 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. However, following the Covid-19 pandemic, the Government reintroduced direct funding in the form of Services Grant and, subsequently, a Funding Guarantee. In 2023/24, these grants along with residual New Homes Bonus totalled £1.2m but there is no guarantee of them being sustained for more than one year.
- 2.4 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

2.5 The aims of the Commercial Strategy were to set out the means by which this approach would be implemented. It did 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 that require investment within that risk profile
- Proposing that the [then] Income Generation Sub-Committee acts as the vehicle for oversight of delivery of the strategy.

3. Progress to date

3.1 Each of the above strategic aims and objectives have been met.

3.2 Income budgets have been reset so that they are based on data for the previous three years. This has overcome the previous problem of income budgets being set to the previous year's outturn or remaining the same on the grounds that any individual year was unrepresentative. This provides a challenging target for the coming financial year as income achieves year-on-year growth but can result in income budgets becoming unsustainable if not kept under review. Bereavement income, for example has been falling and the budgets have been reduced to reflect this.

3.3 Income has increased against our main income streams in overall terms between 2018, when the strategy was set and 2023. While the budgets for 2023/24 look progressive against this backdrop (an increase of £730k on 2023/24 actuals), income to Q2 of 2023/24 indicates that these are achievable in overall terms if not in respect of individual services.

Year	Income (000)
2018-19 Actual	8,603
2019-20 Actual	8,551
2020-21 Actual	6,733
2021-22 Actual	8,602
2022-23 Actual	9,206
2023-24 Budget	9,936

- 3.4 Part of the reason for the overall increase is the inclusion of income from property acquisitions that took place in 2019 and 2020. These represent the 'two-or-three big-ticket' items' that took place under the original objectives. Property income rose from £284,000 in 2018 to £1.408m in 2022/23 due to these acquisitions, which have played a significant part in supporting the Council's finances since they were purchased. The Council also invested in the CCLA Property Fund which has brought in higher than average income, although the full benefits of this will be realised once the holdings are realised in the form of capital receipts.
- 3.5 Other significant items include loans to third parties such as Lower Wick Swimming Pool Association, Worcestershire FA and the Hockey Club/RGS company. The first two are generating small amounts of income over time. The arrangement with the Hockey Group is yet to be finalised but remains to be secured once legal documents have been completed.
- 3.6 In respect of the detailed aims the Commercial Strategy has achieved its purpose of demonstrating how a commercial approach is compatible with the Council's strategic aims and corporate values. There is now a systematic approach to fee setting, so that fees and charges are reset at least in line with inflation each year and target income is not simply reset to the previous year's actuals, and greater flexibility has been introduced by enabling officers to adjust fees in response to market conditions in year, subject to this having less than £10,000 impact in that year.
- 3.7 The key focus of the strategy, however, was on setting a risk appetite for the Council and providing a decision-making framework for investment. This was a valuable component in securing the investment properties as these are considered to be very secure investments and also in supporting decision making in respect of properties that fell outside of the agreed risk profile. The work of the Committee has, therefore, been essential not only in generating additional income but in maintaining the security of the Council's income streams over the long term.

4. Strategy development

- 4.1 The Commercial Strategy was introduced under prevailing financial conditions, as outlined above. Moreover, it was developed at a time when local authorities were seeking to maximise the value of their access to low-cost borrowing to invest in income-generating assets. Following a series of policy changes designed to limit the scope of this activity, the landscape for investing in income-generating assets of this type has changed.
- 4.2 The Council has always taken the approach that assets acquired under the strategy should not be only for commercial reasons but also support wider strategic aims, particularly where they support local economic regeneration. Under the terms of the Treasury guidance on the use of PWLB loans introduced in 2022, Councils can still invest in property using PWLB borrowing where there is a local economic benefit, such as bringing disused properties into use, acquiring a property as part of land assembly or acquiring assets for social housing. Therefore, a revised strategy should continue to support this kind of investment, re-affirming that this is compatible with existing aims and other strategies, such as the Economic Development Strategy, the Affordable housing Enabling Strategy as well as the Masterplan and City Plan.
- 4.3 As well as developing the framework for acquiring new assets, the strategy also needs to consider the development of existing income-generating assets. The Capital

and Asset Management Framework 2019/20 – 2024/25, approved by the Policy & Resources Committee in October 2018, set out an approach to managing assets which requires an ongoing consideration and regular re-appraisal of their benefit to the Council. This is in both financial terms and in respect of furthering the Council's aims.

- 4.4 Under this approach, an internal review of non-operational tenanted properties was undertaken in 2021 which was designed to:
- Understand the make-up and rationale of the Council's non-operational tenanted portfolio
 - Identify from the existing non-operational portfolio a list of properties where enhanced income opportunities (revenue or capital receipts) may exist
 - Where properties are clearly held for non-income generating purposes, to identify where investment is needed to increase the social value expected of them
 - Devise a simple individual property plan for each to release this value.
- 4.5 This exercise was repeated in 2023, identifying a series of properties where the value of income streams can be weighed against the value of a capital receipt, should the Council decide to release the property. Decisions are needed on a case-by-case basis according to the circumstances prevailing for each one. Decision-making is therefore delegated to officers under standing orders. However individual decision will be brought to Committee where there are identified social, environmental and economic implications that need to be considered.
- 4.6 In addition to the tenanted portfolio, the Council also owns commercial assets, such as car parks, which play a critical role for the city itself and need to be considered as part of a city-wide – or even County-wide – developments. These form part of wider strategies such as the Transport Strategy and the Air Quality Strategy which directly shape the decisions around the income-generating aspect of these assets. The Commercial Strategy therefore needs to consider how such assets will be deployed in future.
- 4.7 The third area for consideration of a revised strategy is how we address discretionary services. The budget-setting process for 2023/24 and 2024/25 in particular have incorporated the principle that costs of discretionary services should be met by the users of those services rather than by Council Tax payers as a whole. The 2024/25 process, in particular, has highlighted a number of activities where there is a significant subsidy provided by the Council and this has led to a series of decisions relating to such activities as Saturday skips, bulky waste collection, allotments provision and entry fees for exhibitions and events.

5. Preferred Option

- 5.1 That the Commercial Strategy be revised to establish a set of principles for a strategic approach to:
- Commercial property acquisition within the framework of Treasury Guidance on PWLB borrowing;

- Management of existing assets, both tenanted and non-tenanted to maximise the value of these assets within the context of the Council's overall social, economic and environmental objectives;
- Establish an agreed approach to the management of discretionary services, recognising the principle that these should be delivered as far as possible without subsidy from general Council resources.

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Background Papers: None