

COMMERCIAL STRATEGY

Section 1 - Background and Purpose

Section 2 – Underlying Principles

Section 3 - Objectives

Section 4 – Income Generating Financial Challenge

Section 5 – Organisational Responsibility

Section 6 - Assets and Resources

Section 7 - Risk and Reward

Section 8 - Delivery Plan Approach

Section 9 – Regulation and Delivery Models

Section 10- Links to other Strategies

Glossary - Commercial definitions

Section 1 - Background and purpose

Public service organisations are currently operating in an extremely challenging financial environment with increasing pressures from reduced Government support, increasing demand for services and reduced resources.

With the removal of Government grant funding in 2020/21, the Council needs to generate other sources of income by becoming more commercial focused. By 2020/21, further to the four year settlement provided by the Government in 2016/17, the Council will have reduced Government funding of up to £2.9m

The Council recognises the importance of maintaining a financially sustainable position in the long term which is demonstrated by the 10 Year Financial Strategy approved at Full Council prior to the beginning of each financial year. The four year longer term funding information improves the Council's financial planning and supports the medium term financial stability of the Council.

The purpose of this Commercial Strategy is to address the income generating financial challenge, focus on improved efficient and effective ways of working, and concentrate on the capability and capacity of the organisation, the deployment of resources and doing things differently.

By embracing a more commercial culture the Council will seek out new opportunities to create income, invest in people and projects that provide a good rate of return, support the Council's priorities and values whilst ensuring the rewards generated are balanced with the required level of risk.

This Commercial Strategy aligns closely with other key strategies across the Council including the Council Plan, Economic Development Strategy, the 10 Year Financial Strategy and Efficiency Plan, the 10 Year Capital Programme, the Local Plan and the Asset Management Plan. Together these strategies support the vision in the Council Plan and contribute to the Council's ambition of community leadership and working with partner organisations.

The Commercial Strategy aims to unite projects, schemes and initiatives that are currently on going across the Council under one focussed area with a range of ambitious new activity to ensure the Commercial Strategy is both relevant and aspirational; it will provide leadership and coordination in all income generating activities.

The Commercial Strategy supports the Council's future to ensure that the Council remains an affordable and sustainable organisation whilst working with the community and partners to deliver the Council's priorities.

Section 2 – Underlying Principles

The council will use the following principles to guide the identification and selection of investment opportunities:

1. Commercial opportunities will accord with the Council's values and contribute towards the delivery of its priorities as set out in the Council Plan.
2. Investment opportunities should not have a negative impact on the Council's reputation.
3. At all times the council will act prudently with public funds ensuring opportunities adopted are affordable and sustainable.
4. Primarily the Council will look to generate new sources of income from in the district of Hambleton, but will also explore opportunities further afield.
5. A broad set of success criteria will be established in which to evaluate schemes and projects providing and understanding of the required direction of the council.
6. A full risk assessment will be undertaken on each project individually.
7. Acceptance that not all schemes will succeed and that it is the value of the commercial programme as a whole that is vital.
8. Projects that require initial investment support to generate future income streams will be evaluated for the payback period, level of risk and reward.
9. A full business case will be provided for all projects which will consider skills, performance, efficiency and productivity levels, finance costs, market analysis, staff turnover and morale, stakeholder views, levels of investment, demand, risk, capacity and capability to deliver.
10. Appropriate external professional advice will be taken.

Section 3 - Objectives

The Council Plan 2015-2019 includes four strategic priorities of **Driving Economic Vitality, Enhancing Health and Wellbeing, Caring for the Environment** and **Providing a Special Place to Live**, to ensure Hambleton continues to be a place to grow.

The Council's Commercial Vision is:

Become Self-Sufficient by 2020/21 –

Review processes, streamline activities, engage with digital technology, enable economic growth and increase sustainable income streams to minimise the impact of the loss of central government grant on services whilst reshaping Hambleton District council

These **commercial strategy objectives** are a key enabler to realise the Council's 4 priorities:

- **Generate new income** – to enable the Council to become self-sufficient by 2020/21.
- **Generate different sources of income** – become more creative to maintain financial sustainability whilst balancing the level of risk and reward.
- **Improve efficient and effective ways of working** - by innovative, digital transformation and resourceful approaches. Invest in schemes that reduce costs, improve productivity, use digital technology, make savings, utilise the Council's assets to best effect and collaborate with partners.
- **Community Leadership for a commercial culture** - retain and build strong business relationships and work closely with partners and the public who share the Council's values.
- **Deliver increased income** - through clear prioritisation, policy alignment, effective governance, sustainable resources and the commitment required to enable implementation
- **Encourage entrepreneurialism and commercial ideas** – from staff sharing initiatives and learning from other local authorities. Staff will be valued for their contribution on new commercial initiatives and will receive training and development to increase commercial awareness and associated skills for the benefit of the Council and the District as a whole.
- **Adopt a robust monitoring system** - to ensure the use of public money provides best value and can be accounted for in a transparent way. Governance, management and performance review are key to the Council's commercial culture when engaging in new commercial enterprises, partnerships, contracts and agreement.

Section 4 – Income Generating Financial Challenge

The **purpose of generating income** through fees and charges or trading is:

1. a viable way to continue to provide the vital public services that the council has always offered to the community even when Government funding is falling;
2. a way of supplying services that the market does not currently supply, supporting services at risk to remain feasible or offering an affordable alternative for people if a lack of competition has inflated local prices. New, discretionary services provide residents with more choice;
3. to set up trading companies or investments to bring revenue back into the council and also into the area when trading is at a regional or national level; it is not to be seen as a move away from the core purpose of the Council;
4. to protect the council's VAT position, future income generating potential and associated partial exemption calculation;
5. to support local businesses and grow the economy.

To **embrace the financial challenge of generating income** the council:

1. refers the Commercial Strategy to the Financial Strategy, which is approved by Council prior to the beginning of every financial year, to identify the amount of income to be generated or savings to be made every year;
2. includes in the Financial Strategy the increased investment in staff to recognise the Commercial agenda which will ultimately be funded from increased income generated over the next 5 years;
3. creates a commercial reserve and a finance cost budget in the Financial Strategy to support schemes that need up front funding to yield return in the longer term, where each scheme will be reviewed on its own merit;
4. needs to establish credible baseline costs of services to ensure the level of income generated exceeds costs; benchmark information is also required to fully understand the delivery costs of services and schemes as well as anticipated income; robust financial modelling highlights the financial impact over the short, medium and long term;
5. recognises that some schemes will take time to generate income and it will be necessary to invest to obtain savings and a return over the 10 year Financial Strategy

Section 5 - Organisational Responsibility

To succeed in generating new income across the Council a dedicated resource will be established to provide leadership and co-ordination for commercial and innovative ideas; along with the programme management of all key Corporate Projects.

All levels of the organisation will support and recognise the responsibility towards the commercial agenda, be accountable for decisions that are made and co-operate by:

At an individual level

- Use our skills - to operate more commercially
- Use technology -to deliver a commercial service
- Use ideas - to generate revenue income or make existing services more efficient and effective.

At a team level

- Communicate – improve within teams and share ideas
- Redesign services - ensure they provide value for money
- Develop ideas – to generate revenue income or make existing services more efficient and effective.
- Engage – listen to the team, help develop ideas, understand the process of change.

At an organisational level

- Facilitate new ideas and income generation options
- Be clear about why we are doing things and what the outcome will be
- Investigate opportunities to work with others
- Use evidence to make decisions on service delivery and prioritisation of resources.

The approach taken to the Commercial Agenda affects the whole organisation to acquire a new way of thinking and this will be created via the development of a commercial skills programme to be introduced across the Council.

This will engage with a range of influential staff at many levels through a module commercial training programme over an 18 month period which recognises the investment required to be put into the workforce to create and adopt a new cultural aspiration to commercially generate income.

Section 6 - Assets and Resources

Recognise the Council's assets and resources to be utilised to the best effect to generate new income streams.

Resources

- Make the best use of the Council's assets
- **Budget prioritisation** to ensure funding is aligned to priority areas
- Maximise the use of **existing resources**
- **Reward people** new or innovative ideas that generate income and are adopted

Skills and behaviours

- Provide **training, development and coaching** that supports a more commercial approach and efficient use of time
- Ensure employees have the **skills** to deliver services and **adapt to changes**

Digital Innovation

- Make **better use of existing systems** to make sure that they are operating efficiently and effectively
- Use **technology and software** to support the Council to be more commercial and to improve the efficiency of working practices used to undertake the Council's business

Knowledge and data

- Use **data held across the Council** to identify customer needs and opportunities for improvements in service delivery and commercial ventures
- **Research opportunities** identified by other Local Authorities
- Ensure **evidence** is in place to inform decision making and prioritise the use of resources to deliver value for money

Marketing and Communications

- Ensure effective **marketing** is in place to maximise income from existing services and promote new services
- **Communicate** the outcome of initiatives and celebrate success
- Identify **income generating advertising opportunities** utilising our assets to promote our own and other services
- Forge relationships with **external partners** to promote our services
- Work with private and public sector organisations where **joint marketing campaigns** would be mutually beneficial

Section 7 – Risk and Reward

Risk is a key component of commercialism with some areas of the Council being less exposed than others.

Level of risk - All commercial ventures have an element of risk; it is the balance of risk that is important and the level of risk that the Council is willing to accept for the income that is generated.

Assessment of risk – In order to evaluate risk you need to understand the Council’s risk boundary. Communication is key across all areas of the Council; involve senior management to take responsibility but also utilise skills from across the whole Council.

Accepting risk / Risk appetite – undertaking more risk for commercial projects does mean that projects may not necessarily succeed. All commercial organisations accept a certain level of risk and it is important to understand the level of acceptable risk. The Council will need to understand its risk appetite as foremost it is not a commercial organisation by nature.

Balance of risk / Quantifying Risk - If no risks are taken then commercially viable projects will never be realised. The Council recognises that not all ventures will be successful; however the risk and return needs to be balanced with the council’s duty to ‘look after the public purse’.

Mitigating Risk - A risk register is essential for all projects undertaken to identify, score and have a plan of action to reduce risk. Undertaking due diligence is also essential to obtaining a better understanding of the risk involved.

Approaching risk for each individual Commercially Income Generating Activity:

1. Utilise the experience and knowledge of other local authorities and organisations but always review it in respect of Hambleton District Council. .
2. Identify what you want to achieve and communicate it across the Council.
3. Recognise the level of risk which the council has an appetite for whilst balancing risk and reward all the while considering actions to reduce risk.
4. Use external experts to carry out due diligence and identify risks, since no individual employee have sufficient expertise in developing commercialism across the Council.

Section 8 - Delivery Plan Approach

The Commercial Strategy provides a framework to support all areas of the Council in adopting a consistent, comprehensive and robust approach to commercial activity and income generating schemes whilst encouraging long-term strategic planning.

To deliver commercial plans, the Council's Project Methodology approach will be adopted:

1. Identify new commercial income generating, cost reduction, saving ideas
2. Use the commercial income generating criteria to evaluate and assess all initial ideas of the project
3. Communicate widely across the Council and consult with all relevant Departments in relation to risk levels, scope, objectives, constraints, etc
4. Develop a Project Mandate with initial outline approach and identify the Senior Responsible Officer
5. Obtain confirmation that the project is a viable proposition via a Management Team report
6. Portfolio Holders /Members updated as appropriate by the relevant Director
7. Project Team formed - input obtained from Finance, Legal, ICT and Asset Manager as required
8. Project Initiation Document prepared – finalise costs, business model, income to be generated , cost benefit analysis etc
9. Sign off by Management Team
10. Approval at Cabinet
11. Commencement of project

Further details on the Delivery Plan can be found in the supporting Implementation Plan documentation. (yet to be formed)

The project methodology will include a robust monitoring system and performance review on a quarterly basis. Performance Indicators will be created to ensure that outcomes and budgets are achieved as well as identifying that customer needs are met and service delivery meets the community needs.

Section 9 – Regulation and Delivery Models

Legal regulations when considering if income generating schemes are possible are listed below. However these are the basic legal powers and further review work will be required for each individual project.

<p>Local Authorities (Goods and Services) Act 1970</p>	<ol style="list-style-type: none"> 1. Power to provide goods and services to other local authorities and public bodies 2. Requirement to keep separate accounts 3. No prohibition against profit making 4. No limit to surplus capacity 4. Procurement rules likely to apply in full 5. No requirement to set up a company or alternative vehicle
<p>Power to Trade - s95 Local Government Act 2003</p>	<ol style="list-style-type: none"> 1. Must be done through a company 2. Authorities must prepare and approve a business case 3. Support services from the authority must be charged at full cost 4. Cannot be use where this is a duty of the authority to provide this services 5. No longer limited to better performing authorities 6. Definition of a company is 'limited' - no use of Limited Partners or Limited Liability Partners
<p>Trading under the General Power of Competence - S1 Localism Act 2011</p>	<ol style="list-style-type: none"> 1. A local authority has power to do anything that individuals generally may do 2. S1(4) - general power of competence includes power to do something for a commercial purpose or otherwise for a charge 3. S4 - if exercising power from a commercial purpose, must do so through a company 4. This is similar to the powers provided from s95 LGA 2003

State aid - When setting up a new company it is important that state aid and specialist advice in this area is recommended for your unique circumstance. Under EU legislation public authorities are forbidden to provide subsidies or other aid to private entities in order that there is fair competition across the whole of the EU. There are exceptions and some exemptions may apply.

Delivery models - When considering the legal model to use for commercial activity there is one main rule - form should always follow function. It is important to recognise what you're trying to achieve and then see which model fits; the following will form part of the decision making process:

strategic fit, partnership opportunities, ownership distribution, control and influence, procurement regulations, tax considerations, risk allocation, sources of additional investment, whether private sector capabilities are desirable, exit strategies and competitive advantage.

There are a growing number of delivery models and legal arrangements available with no one approach gaining dominance. While such choice can allow you to tailor make your design to your unique circumstance, it can be difficult to navigate through all of the options.

Tax and business advice - When considering which legal form is the most appropriate, in addition to obtaining legal advice it is important to also obtain tax and business advice. A common pitfall is to seek legal advice alone. A legal expert may be able to advise on the technical implications of each model but they may not be in a position to provide the business expertise which you will require to maximise the opportunities available.

An overview of the most commonly used delivery models is included in the table below.

Commonly Use Delivery Models

Shared services or joint working	A number of bodies come together to deliver services to each other that they previously provided separately. The main driver is achieving efficiency; bringing independent departments and resources together can release efficiency without a reduction in standards, however, the financial benefits are limited. Developing and implementing shared services arrangements still takes time to design and plan while relationships can have a significant impact on the outcomes. Other key considerations for shared services are being able to directly employ expertise that individual authorities couldn't afford and providing resilience in service continuity.
Joint ventures	A commercial arrangement where two or more organisations establish a new entity for a specific purpose. When between the private and public sector it can provide advantages over traditional contractual arrangements. Shared ownership, risk and reward creates a different dynamic and can build more positive, collaborative relationships than traditional contracting. A typical driver is to attract private sector investment and joining up the different knowledge and skills from the two sectors. Robust governance and contractual arrangements that suit both parties are vital.
Local authority trading company	These are 100 per cent owned by a local authority but can operate commercially therefore can participate in a much wider market than a council could. A key benefit is that financial return comes directly back into the council while the council can maintain a high level of control as the parent organisation. This in turn makes it easier to retain a public service ethos and have the company share the goals of the local authority. However, too much control can stifle the innovation and entrepreneurialism that the trading company was set up to take advantage of.

<p>Mutual</p>	<p>There are many different types of mutual but in short, they are owned and run by and for the benefit of their members who can be employees, customers, suppliers, investors or other organisations. They fit well with a public sector ethos and benefits include employee control which in turn can improve productivity, staff morale and innovation as staff are active agents.</p> <p>Enterprising councils Supporting councils' income generation activity 31 Limited company These can be limited by shares, by guarantee or public limited and provide limited liability to the members/owners for the activities and debts of the company. A memorandum and articles of associate are the governing documents outlining the objectives of the organisation along with powers, duties and responsibilities, in line with the Companies Act. Charites and CICs can take a limited form, adding additional legal and regulatory requirements.</p>
<p>Community interest company (CIC)</p>	<p>A company must satisfy several criteria to become a CIC. They must then comply with CIC law and the CIC regulatory framework. Everything that it does should contribute towards benefit for the community. This focus provides greater access to funding, albeit not to the same level as a charity. There are restrictions on how assets and profits can be used to safeguard their use for the community; these restrictions are outlined in the articles of the company.</p> <p>Trusts As a non-profit-distributing organisation, trusts are an effective way of managing an asset or resource for the benefit of a third party. Councils can transfer responsibilities and functions to other organisations through a trust, for example, transferring a local park to a town council.</p>
<p>Charity</p>	<p>A charity must comply with charity law and the charity regulatory framework. The main aim of a charity is to provide benefit to the public and a key attraction is the ability to increase access to different funding streams such as grants and donations as well as benefit from tax advantages. Charities have the freedom to trade but do have restrictions on what they can do with their profit.</p>

Section 10– Links to other Strategies

Constitution – all commercial activity is in line with the legal legislative requirements as detailed in the constitution

Council Plan – sets out the vision to ensure the district is a place to grow. It aims to provide high quality, cost effective services which are valued by, and help the lives of, residents, communities and businesses.

10 Year Financial Strategy - The Financial Strategy informs the Council's estimated financial position and includes the Government funding four year settlement, other resources, service pressures and priorities. It shows the Council's financial resilience over the next 10 years and that the Council will be self-sufficient relying only on council tax, business rates, externally funding and commercially generated income as its funding streams.

10 Year Capital Programme – sets out the expenditure on the Council's assets whilst ensuring at the end of the 10 year programme sufficient reserve funds – grants, contribution and capital receipts – remain available so that the Council's capital plans are affordable, sustainable and prudent. In addition to reserves being maintained the Council can also use borrowing to support the Capital programme.

Economic Development Strategy - plays a key role in the support of the Commercial Strategy and has been allocated £5,000,000 of reserves to progress economic projects across the District

Asset Management Plan – utilise the Council's assets to best effect to ensure that the Council Plan has the effective infrastructure to support its aims and priorities.

Local Plan - The Local Plan sets out local planning policies and identifies how land is used, determining what will be built where. Adopted local plans provide the framework for development and local peoples' views are vital in shaping this and helping determine how their community develops. The Local Plan is being finalised for 2018 and contributes to the Commercial Strategy in ensuring the growth to the Council tax base and attracting developers to the area.

Glossary - Commercial definitions

Commercialism – is a greater understanding of the organisation working in a more efficient, effective and ‘business like’ manner to generate income. The commercial decisions made need to incorporate an understanding of the risk appetite involved, the resource utilised and the investment made.

There will be a cultural change throughout the organisation which will require strong leadership and management across the Council to empower staff to be innovative, embrace new flexible and agile working to move towards running services on a cost neutral basis and, where applicable, ‘trading’ and selling services.

Due diligence – is an investigation of a business, contract or person which contributes significantly to informed decision making by enhancing the amount and quality of information available to decision makers and by ensuring that this information is systematically used to deliberate in a reflexive manner on the decision at hand and all its costs, benefits, and risks.

Entrepreneurialism - Entrepreneurship is the capacity and willingness to develop, organise and manage a business venture along with any of its risks in order to make a profit or generate new sources of income.

Income generate - is the consumption and saving opportunity gained by an entity within a specified timeframe, which is generally expressed in monetary terms.

Innovative – is the application of better solutions that meet new requirements, unarticulated needs, or existing market needs which is accomplished through more-effective products, processes, services, technologies, or business models that are readily available to markets, governments and society. The term "innovation" can be defined as something original and more effective and, as a consequence, new, that "breaks into" the market or society.

Investment - to allocate money (or sometimes another resource, such as time) in the expectation of some benefit in the future

Invest to Save - to allocate money (or sometimes another resource, such as time) in the expectation of some benefit in the future which results in reduced income being spent or deferred consumption in the future that pays back the initial money allocated and generates more.

Resource – is a source or supply from which benefit is produced; Typically resources are materials, energy, services, staff, knowledge, or other assets that are transformed to produce benefit and in the process may be consumed or made unavailable. Benefits of resource utilisation may include increased wealth or wants, proper functioning of a system, or enhanced well being

Risk - is the potential of gaining or losing something of value. Values (such as physical health, social status, emotional well-being, or financial wealth) can be gained or lost when taking risk resulting from a given action or inaction, foreseen or unforeseen. Risk can also be defined as the intentional interaction with uncertainty. Uncertainty is a potential, unpredictable, and uncontrollable outcome; risk is a consequence of action taken in spite of uncertainty.

Trading - involves the transfer of goods or services from one person or entity to another, often in exchange for money. A network that allows trade is called a market.