

Commercial Strategy 2018 - 2021

Version 2 – January 2019

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Welcome to the Council's Commercial Strategy which outlines our **commercial strategic aims**, how we will achieve them and how we will know that we have been successful.

The audience for this strategy is primarily the Council – its Members, its staff and its partners. Our commitment and aspirations for the next three years will be communicated to the public through a variety of channels and conversations so they know what to expect from us and can hold us to account.

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Introduction

The current financial conditions faced by every Local Authority are very challenging. The funding for our services comes from Government grants and funding raised by the Council through collection of Council Tax and commercial activity. Since 2010, successive governments have reduced funding for Local Government in England as part of their efforts to reduce the fiscal deficit and there has been a move away from central government grants towards a greater reliance on locally sourced taxation such as Council Tax and Business Rates.

The sector has done well to manage substantial funding reductions since 2010, but many Local Authorities are now nearing a cliff edge, with growing overspends and reducing reserves. Based on our current levels of service and the expected national and local demand trajectory, Peterborough City Council will need to make another £20m of savings over the next three years and we are proactively planning to meet the financial pressures in the years ahead.

As part of our 2018 -2021 Corporate Strategy the Council has recognised the need to become more commercially focused, developing strength and depth in our activity and creating commercial returns which underpin the delivery of crucial frontline services.

This Commercial Strategy aligns closely with other key strategies including the Medium Term Financial Strategy, Transformation, Demand Management, Energy and IT & Digital and Asset strategies and incorporates our Acquisition and Investment Strategy, our Fees and Charges Policy and our Procurement framework.

Through this strategy, the Council is signaling an intention - driven by necessity - to enter a new phase of enterprise, investment and commercial growth. We will work with partners who share our ambition and values and we shall continue to put the best interests of Peterborough residents at the heart of everything we do.

Strategic Priorities 2019-2021

Pride in our communities and environment.

First rate futures for our children, young people - and quality support for our adults and elderly.

Better jobs, good homes and better opportunities for all.

Commercial Vision

Our commercial vision is...

To develop a range of commercial activity which delivers financial and social return by becoming a Council which uses its assets, skills and position to generate significant levels of new income to support delivery of crucial front line services.

Our ability to deliver this vision will depend on a number of internal and external factors including: how well we use our powers and delegations; strength of our MTFs; the amount of physical, intellectual and brand assets which can be exploited; political appetite to accept new risk and our capacity to implement change and maximise opportunities.

In this strategy, commercialism includes:

- making a profit - from trading and investments;
- maximising value for money from contractual relationships;
- making robust decisions on a consistent basis with evidence and a sound business case;
- thinking about the return on investment for every pound we spend;
- considering the whole life cost of policy decisions, including market impact;
- collaborating with the market and with partners to develop alternative models for greater return;
- considering new and innovative ways of generating income; and
- maximising use of revenue and assets.

We shall adopt a commercial approach which allows everybody to share their ideas and for these to be evaluated swiftly using a robust methodology. We want our workforce, our partners and our communities to feel valued and involved in our new enterprising and commercial approach and our staff will receive appropriate skills development and training.

We accept that the Council may need to take more risk than in recent times in order to achieve its ambitions and commercial success. Governance, management and performance of new commercial enterprises, partnerships and contracts will continue to be robust to ensure that the Council adheres to its statutory responsibilities and that public money continues to be appropriately used and accounted for.

Commercial Themes

This strategy applies whenever we spend money with external suppliers, enter into or manage our commercial arrangements, generate income or make a commercial decision. Whilst the Commercial Services team will lead on delivery, they will work in partnership with all service teams across the organisation and externally with partners and customers. The 2018-21 Commercial Strategy prioritises three themes for this period:

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Commercial Themes		
Contract management, market shaping and procurement	Contribution and funding	Acquisitions and Investment
<ul style="list-style-type: none"> ◆ Short term focus on contract re-negotiations, joint commissioning and contract management. ◆ Entrepreneurial approach to procurement – working with the market to create different solutions. ◆ Improved contract negotiation and management with a professionally specified and negotiated contract <u>every</u> time. ◆ Extended joint commissioning arrangements across all services. ◆ Increase benefits realisation from payment terms and conditions. 	<ul style="list-style-type: none"> ◆ Develop a clear view of baseline position of all commercial activities. ◆ Ensure that income from fees and charges is optimised. ◆ Model options for alternative delivery – e.g. spin outs, joint ventures, mutuals - and ensure maximum return from existing initiatives. ◆ Develop an external income stream from sponsorship, business investors and philanthropists. ◆ Determine the profit and loss of current activities and define full cost recovery for all commercial services. ◆ Maximise return from all our assets. 	<p>All investment decisions should focus on achieving <u>at least</u> one of:</p> <ul style="list-style-type: none"> ◆ Increase number and type revenue generation/ invest to earn investments – for example investment in land and property development, rental property, renewables, schemes that grow Council's business rates income, or proposals to enable existing revenue streams to be maintained longer into the future. ◆ Invest to save - for example, proposals to introduce new technologies which reduce demand and spend on Council services. ◆ Invest for social value - for example, proposals that will bring collective benefit to a community.

Commercial Objectives and KPIs

Objectives

The Council's Corporate Strategy identifies a number of key objectives that are directly linked to commercial activity;

- An overarching increase in return from commercial activity to support delivery of crucial front line services.
- A wider range of investments, providing a portfolio approach to risk and reward.
- Additional, sustainable income streams from external funding.
- A reduction in spend across contracted activity.
- An embedded commercial culture across the organisation.
- A reduction in net budget for traded or semi traded services.
- An increased return from energy schemes

Measures of success (KPIs)

These objectives will be measured in a number of ways, for example;

- (£) Additional income generated to support front line services.
- (%) reduction in the net budget of a service by reducing variable cost of a service.
- (No.) of procurement exercises completed using new framework.
- (%) increase in contribution to fixed costs and overheads (%) and contribution to staff costs (%).
- Increase in commercial activity in services demonstrated by the level of additional income contributing to fixed costs, staff and overheads (%).
- (No.) of staff reporting more confidence in commercial decision making
- % increase in the number of partnerships with private and public sector bodies for commercial benefit.

(Indicative) Targets

Work streams and associated KPIs for each of these commercial objectives and for priority themes are being developed. Once completed and risk-assessed, return will be built into budgets for 2019 - 2021. In the meantime the following aspirational targets have been proposed and will be further refined during the early part of 2019:

- To invest in schemes and projects which can deliver £15m to £20m of new revenue income over a period of five to ten years
- To deliver a minimum of £5m of new revenue income by the 31st March 2020.
- To deliver £4m of capital receipts by 31st March 2020.
- To deliver commercial skills development to 33% of Council staff by the end of 2019, rising year on year by 33% to 100% by end of financial year 2021.
- To make a 2% saving across the contracts annually for the lifetime of the strategy.

Appendices

Business Case Methodology

To ensure that commercial return is optimised and that public money is appropriately used, it is crucial that decision making is robust and consistent and is always based on a sound business case. The methodology which will be used to develop business cases for all commercial proposals will be taken from HM Treasury guidance on how to appraise and evaluate policies, projects and programmes – known as ‘The Green Book’.

Business cases will always reflect financial value AND social value and will be built on *Five Case Model Methodology* which is applicable to programmes and projects and comprises of five key areas:

The Strategic Case: makes the case for change and demonstrates how the project will deliver against strategic priorities.

The Economic Case: shows that the project will deliver best public value (financial and social) to society.

The Commercial Case: demonstrates that the preferred option will result in a well-structured deal between the Council and its providers.

The Financial Case: demonstrates the affordability and funding of the preferred option, including the support of stakeholders and customers.

The Management Case: details robust arrangements for the delivery, monitoring and evaluation of the project.

Business cases will developed through VERTO, the Council’s programme and project management IT system which will guide managers through these areas. Further, detailed information is available at:

<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

Commercial Assets

The Council has a number of assets which can be classified as:

Land and buildings	Using our physical assets to generate income, capital receipts and reduce costs.
Place shaping role	Using our strategic role in society to shape and create the market for growth and enterprise.
Workforce	Using the knowledge and skills of our workforce to create commercial value
Infrastructure	Using and developing infrastructure assets such as digital platforms and IT highways for commercial gain.
Business intelligence	Using our vast amount of business and service data intelligently to create new commercial opportunities and better service delivery models which will generate new income for the Council.
Partnerships	Using and selecting the most appropriate private, public and third sector partner to deliver the schemes and projects that derive the maximum level of income for the Council and value for customers, residents and communities.
Customer intelligence	Using the various channels that the Council has to communicate with the public and use the customer information and contacts we have to help design and develop new commercial opportunities
Market Strength	Use our economic, infrastructure and asset strength to influence how the supply chain and infrastructure providers operate and partner with the Council to derive commercial benefits and new income streams.
Liquid assets	Access to cash, cheap borrowing and liquid assets to enable investment.
Brand	Use of brand value to promote our trading and commercial activities and those which we can partner with others to receive a financial return.

Statutory Guidance

In February 2018, MHCLG published updated statutory guidance on Local Government Investments and statutory guidance on Minimum Revenue Provision after issuing a consultation and response.

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

The guidance sets out the requirement to prepare an investment strategy at least once a year which must be approved by Full Council. We can decide how the information is presented, and it can form part of another document such as the capital strategy or the treasury management strategy, but it must disclose the contribution that investments make “towards the service delivery objectives and / or place making role of the local authority” and must describe how commercial decision are governed.

The commentary published alongside the guidance specifies indicators for the investment strategy, including measuring gross debt as a percentage of net service expenditure and commercial income as a percentage of net service expenditure and we are required to set limits for these indicators in both Councils.

A key part of the guidance states that councils may not “borrow in advance of need” to profit from the investment of the sums borrowed and Local Authorities in England are also directed to have regard to the Statutory Investment Guidance the informal commentary to which cautions local authorities against:

- becoming dependent on commercial income;
- taking out too much debt relative to net service expenditure; and
- taking on debt to finance commercial investments.

Issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018:

Borrowing in advance of need

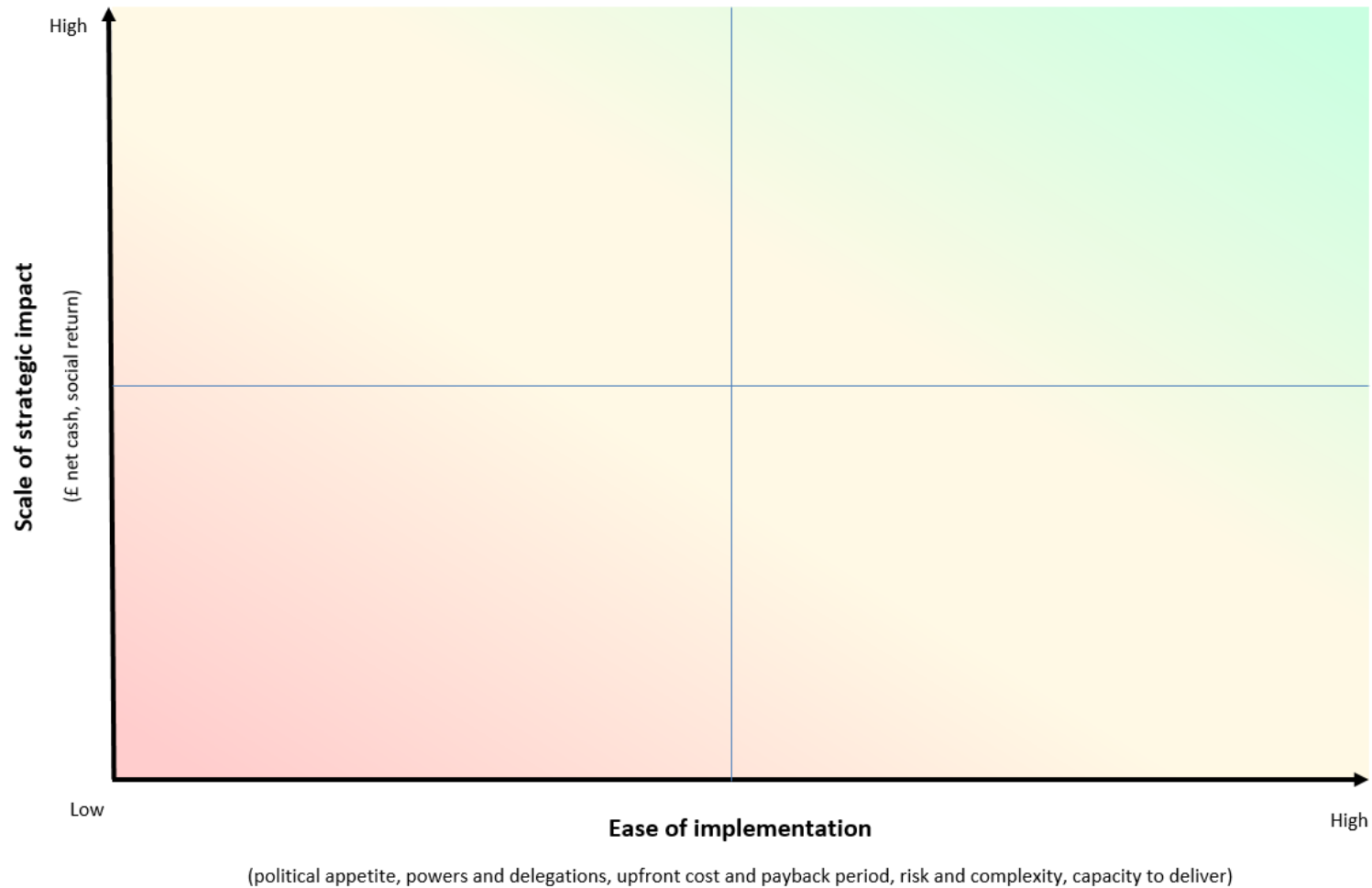
“Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.”

Where a local authority chooses to disregard the Prudential Code the Strategy should explain:

- **Why the local authority has decided to disregard; and**
- **The policies in investing the money borrowed, including management of the risks.**

Opportunity Appraisal Framework

To be developed on approval of commercial objectives



This Commercial Strategy, its themes and enablers have been developed in consultation with Members, lead officers and our partners. The strategy is intended to foster engagement in the commercial culture and builds on good practice and approaches we have been testing and refining over the last two years.

We hope the ambition and themes are inclusive and engaging and this strategy encourages leaders, employees, partners, stakeholders and customers across Peterborough to participate in the important work of public service.

We welcome any feedback, offers of collaboration or ideas for improvement to Business.Improvement@Peterborough.gov.uk Thank you.