

# Exeter City Council Commercial Strategy



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# 1 Executive Summary

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The impact of budget cuts arising from reductions in central government funding has put increased pressure on revenue budgets and our ability to deliver services. In line with many other local authorities, Exeter City Council must either cut services or seek additional income from alternative sources to balance revenue accounts.

The City Council remains committed to delivering the best quality services to meet residents needs and where possible, their aspirations. Considerable time has been spent ensuring that services are delivered efficiently and effectively to provide best value, cutting services is a last resort.

Exeter City Council is committed to maximising the potential for commercialisation and income generation. Across the organisation there are a wide variety of services which have varying degrees of potential for commercialisation. Some services have already embarked on commercial activity such as Trade Waste, the Corporate Property Team has operated commercially for many years.

This strategy sets out our corporate approach to ensure that commercial operations return a level of income to cover the majority of running costs and to fill surplus capacity, but future commercial operations return a surplus. It also shows how commercial projects will be appropriately researched and planned, affording them the best opportunity to succeed and provide additional financial resources to the City Council.

Some commercial activity will address the recent declaration of a Climate Emergency, as well as focusing on the three strategic programmes that address the current, major challenges facing the city:

- Tackling congestion and accessibility
- Promoting active and healthy lifestyles
- Building great neighbourhoods

The name 'Exeter City Services' will be launched early 2020 to promote the wide range of services residents and businesses can purchase from the City Council. A range of marketing materials will be produced to promote these services, to generate cost recovery.

Key to the success of this strategy will be ensuring that those involved in its implementation have the appropriate skills and resources. To this end, the City Council has already undertaken a training programme for key officers and has set up a Commercial Team, led by an experienced commercial expert. Income achieved from commercial activity will be channelled back into delivering essential services, as this remains our key focus, commercialisation will be a mechanism to provide the best services we can. Key themes running through the strategy are:



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# 2 Definitions & Scope

## 2 Definitions & Scope

**Commercial activity is defined as the provision of services or the supply of products that generate a surplus from a source that is external to the City Council, after all costs have been accounted for.**

All costs include:

- All operational costs, fixed and variable
- Any appropriate contributions to overheads
- Opportunity costs
- Investment recovery
- Depreciation and capital costs
- Any other costs expended as a result of undertaking that particular commercial activity

Commercial activity will be a phased approach, with the recovery of full costs to deliver a particular service area a priority in phase 1 and phase 2 to deliver a surplus from commercial activity.

The scope of the City Council's commercial activity will be within the immediate area and will not include the development of student accommodation on land or property owned by the City Council.



# 3 Strategic Context

## 3 Strategic Context

### 3.1 National Context

Following on from a period of significant recession, central government commenced a period of austerity in terms of public sector spending.

Local government has suffered a disproportionate level of spending reductions. Research by the Local Government Association demonstrates that core funding for local authorities has reduced by more than 40% over a period of 8 years, with some local authorities facing reductions of more than 50%.

Despite central government assurances, this period of austerity has not concluded and most sources predict that by 2021/22 local government will need to be self-sufficient of regular central government funding (revenue support grant).

Caps have also been imposed meaning that in real terms the income derived from council tax has also reduced. At the same time, resources have shrunk significantly and local authorities' statutory obligations have increased, as have community expectations.

The 'General Power of Competence', introduced through the Localism Act 2011, has however provided a catalyst for councils to become more entrepreneurial and commercial in their activities. This provides a mechanism to develop future sustainable funding, albeit that this may require significant changes to council's approaches, mind-set and staff skills and competences.

### 3.2 Local Context

The City Council Formula Grant (central government funding) has reduced by some 60% over the past 10 years. In real terms, this represents a reduction of £7.7million, as a result, the City Council have made significant savings over this period, with some services being stopped. If we continue delivering services in the same way as we do today, there will be a significant funding gap over the next five years, with additional services being reduced significantly or stopped.

There continues to be an on-going requirement to 'balance the books' each year, and this means we have to continue to reduce our costs, generate additional income and prioritise spending. We anticipate cost reductions of some £3.7m between 2020/21 and 2023/24, unless we are able to generate additional income from commercial activity. At the same time, we remain ambitious and continue to seek to deliver the needs of the community that we serve.

This commercial strategy has a key role for the City Council in delivering the council's vision, corporate plan and priorities, notwithstanding the ongoing external challenges that we face.

Exeter City Council provides in excess of 100 services to the local residential and business community, as well as visitors to the city. We will expand our commercial activity to ensure, that despite the financial challenges, we will remain able to deliver high quality services and deliver our corporate plan and the recently adopted Exeter Vision to ensure the city continues to grow.

A summary of links to local strategies is shown in Appendix A.

## 3 Strategic Context

### 3.3 Legal Context

The legal context is complex both in terms of actual legislation and case law. We will operate within this legal framework, including considerations relating to State Aid Compliance, and the Public Sector Duty within the Equality Act 2010 and the Localism Act.

Legal guidance will be sought on each commercial project to ensure the City Council remains within the law, especially when we enter phase 2 of the Commercial Strategy when we start to make a surplus.

There are a number of delivery models available to the City Council when commercial activity delivers a surplus. These include:

- Direct delivery through existing services. This is the existing model of delivery for Commercial Waste and Corporate Property.
- The setting up of a commercial company (Local Authority Trading Company - LATCO). This would involve it becoming a separate legal entity with a board of directors and appropriate structure. This type of company would be liable for corporation tax.
- The setting up of a Teckal company, where this company is a joint venture with other public bodies, however its trading is limited to the partners involved.

As the City Council develops and expands its commercial activity, we will determine the best delivery model for each activity through the development of a business case for each commercial activity.

### 3.4 Income Generation and Cost Recovery

The City Council already has a comprehensive programme of fees and charges that recovers costs to deliver a range of services, from charges for events and admission fees to application fees and charges for services such as pest control, waste and car parking.

Income generation and cost recovery is defined as achieving income that either partially or fully recovers the costs of providing for a service but does not generate a surplus. Income generation and cost recovery will be a key part of the council's aim to be financially sustainable alongside this strategy and will be the focus of phase 1 activity.



# 4 Vision

The Vision of the Exeter City Council's Commercial Strategy is that:

Over the next five years  
we will develop sufficient  
commercial activity to  
generate a surplus that  
makes a significant  
positive contribution  
to the financial stability  
of the City Council

This vision, that service managers will be required to sign up to, will help the City Council deliver high quality services that meet residents and business needs, and where possible their aspirations.

In order to achieve commercial activity we will need to re-invest some of the surplus from commercial activities for items such as the promotion of commercial services (Exeter City Services), the purchase of any new plant and equipment or other resources as identified in business cases and plans to win new contracts.

For commercial activity and each business case, we aim to:

- Research and develop a business case for each new commercial activity
- Minimise the risk through a phased approach
- Continue to provide quality employment and pay the Living Wage
- Recover full costs to enable services to continue
- Increase commercial skills and engender an entrepreneurial approach across the City Council

# 5 Measuring & Monitoring Success

## 5 Measuring & Monitoring Success

Essential to the continued success of commercial activities, will be the effective monitoring and review of each commercial activity. Activity will be reported to and monitored by the Senior Management Board on a 6 monthly basis to ensure the success of the City Council's commercial activity.

The following mechanisms will be put in place for each new commercial activity to monitor progress and to ensure success:

- Trading accounts for each commercial activity established that clearly show all costs associated with the delivery of the service or product - all operating costs, contribution to overheads, opportunity costs, gross and net surplus/loss and margins, all income, loan provision, depreciation and capital costs.
- Income and expenditure profiles for a minimum 3 year period that show projected surplus/loss and margins.
- As a minimum, all trading accounts will be updated and monitored on a monthly basis.
- Financial and operational performance will be monitored within the service and independently in accordance with Exeter City Council policies.
- Effective performance monitoring through the City Council's employee Growth & Development Reviews and day to day mechanisms to ensure optimum operational efficiency.
- To determine viability, a business case will be developed for each new commercial activity. As part of this process, there will be an internal audit process to decide whether or not to continue with a particular commercial activity.

The following evaluation criteria has been developed:

Evaluation Criteria		
No.	Area of Activity	Score
1	Meets ECC Corporate Plan	Y / N
2	Meets Exeter Vision	Y / N
3	Meets our residents needs	Y / N
4	Meets our business needs	Y / N
5	Project meets carbon neutral targets	Y / N
6	Borrowing costs are covered each month	Y / N
7	Provides a surplus each month	Y / N
8	Overall Risk	H / M / L
9	Resources available (spare capacity)	H / M / L
10	Demand established	H / M / L

## 5 Measuring & Monitoring Success

Business cases will be reviewed as a minimum every year and earlier if the following circumstances occur:

- There is a significant drop in income and/or the level of surplus
- There is a significant (negative) change to the customer base
- There is a significant change to the operational efficiency

Through each business case, we will measure the success or otherwise of our commercial activity through the setting of specific targets in relation to:

- The generation of income to recover costs
- The generation of a surplus
- % of local market growth
- Reputation and customer satisfaction
- Management of risk
- Development of our staff in commercial activity
- The value and number of new contracts won

Any significant variances in performance to that projected will be referred to the Commercial Board who were appropriate may conclude any commercial activity.



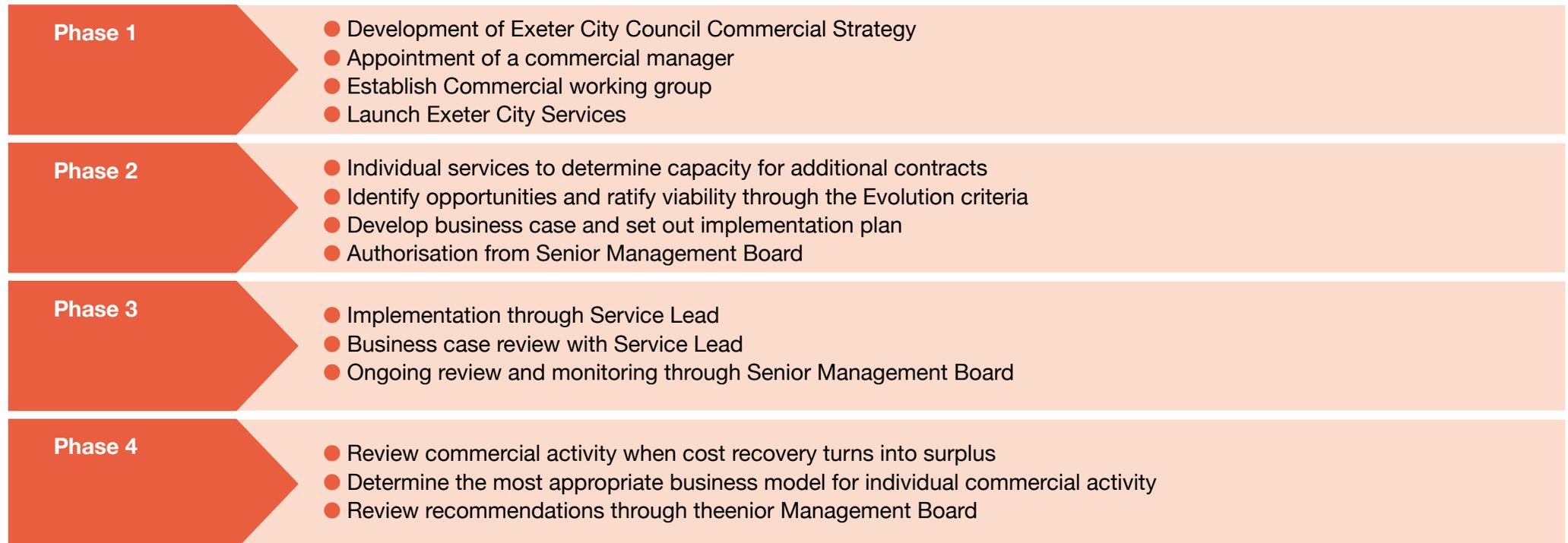
# 6 A Phased Approach

## 6 A Phased Approach

The change required by a service driven organisation when entering the commercial field is significant and will be challenging. Whilst there is clearly some examples of successful commercial activity within the City Council, to undertake more extensive commercialisation successfully, will require a step change and a change in mind-set for some areas.

The building blocks for successful commercialisation are listed in Appendix C which need to be embedded into the City Council to ensure success. A phased approach will be undertaken.

The following stages summaries our approach to commercial activity:



# 7 Planning

To prepare ourselves for commercialisation the City Council have already:

- Recruited a Commercial Manager who will be responsible for the development of commercial activity and implementation of this strategy and in monitoring and managing commercial activity across the City Council. They will have a key role in developing the Commercialisation Working Group.
- We have prioritised commercialisation in our corporate plan and have created a corporate lead at Director and Manager Level.
- Appointed a consultant to assist in the development of this strategy and some initial audits, business cases and plans.
- Delivered commercial training to our Senior Management Team and a wide range of managers across the authority.
- Set up an arm's length company to deliver residential and commercial developments under the name, Exeter City Living. The company is 100% City Council owned with shareholder dividends returned to help balance council budgets and support front line service delivery.

In order to maximise the ability to recover costs and eventually a surplus, and to minimise risk, it will be essential to firstly test the business case for any commercial activity and secondly, to write a comprehensive business case and plan.

The purpose of these business cases will be to:

- Establish the viability, risks, management thereof and likelihood of success of generating a surplus
- Set out a clear implementation plan with SMART actions, monitoring and measurement mechanisms
- To enable the Senior Management Board to make informed decisions on proposed commercial activity and any financial commitment needed

Appendix D shows what each business case and plan will need to include.

### 7.1 Learning from others

There are a significant number of local authorities that have developed commercialisation to different degrees. We will seek to learn from others as we develop our own commercial activity.

Appendix E shows a list and a summary of some of these authorities.

# 8 Implementation

## 8 Implementation

A Commercial Team has been set up to lead the commercialisation process on a day to day basis, they are seen as dedicated capacity within the City Council to research, develop and implement commercial business cases.

A small commercial working group of officers will be established to gather ideas from staff of all levels. This will be an open invitation to attend and held twice a year, the purpose is to discuss ideas and to bring these to reality.

In order to ensure that commercial decisions are made transparently, effectively and in a timely manner, business cases and plan will be reviewed and authorised by the Senior Management Board.

Once operating costs have been attributed, new income generated through commercial activity will be shared equally by both the service area and centrally, to incentivise officers and managers to be involved with developing ideas and bringing them to reality.

### 8.1 Managing Barriers and Risk

Commercial activity has inherent risks and we understand that not all commercial ventures will succeed. We will further develop a culture whereby risk is understood, taken where appropriate, monitored and managed effectively. We will encourage a learning culture where the lessons from any unsuccessful venture are transparent and empower development and future success.

A list of barriers and risks shall be maintained at service level and developed as part of the business case. This list will be reviewed regularly and appropriate action taken to mitigate risk factors and overcome barriers taken. Barriers and risks will be assessed both at the business case and planning stage and through annual reviews or more regularly where this is required.

Terms of Reference of what commercial activity is for the City Council sits alongside this strategy, to ensure consistency in decision making and what should be pursued.

To assist and speed up the delivery of commercial activity, the Commercial Team will project manage new ideas. This provides extra capacity to support service areas and bring ideas to reality. Service leads will be engaged throughout the whole process and once completed, projects will be handed back to service areas to continue to deliver the service, additional income or efficiency savings.

Risks and barriers will inevitably be specific to each activity; however general risks and barriers are identified in Appendix F.

## 8 Implementation

### 8.2 Entering the commercial market

There are a number of ways in which the City Council can enter into the commercial market. As part of phase 1, business activity will be cost recovery rather than truly generating surplus. With the exception of Exeter City Living, we do not intend to set up a separate trading company to deliver commercial activity in Phase 1.

As commercial activity expands we will regularly review the delivery mechanism of each venture in line with financial predictions, to ensure we stay legally compliant. An options appraisal will be completed with advice from legal and finance to determine the correct delivery mechanism for commercial activity, if income provides a surplus (phase 2).

Individual business cases and plans could identify that the purchase of an existing business may be the best way to enter a specific or new market. The Commercial Team will ensure that the purchase of an existing business does not conflict with the City Council's vision, three strategic programmes and our climate emergency declaration.

Like all commercial activity, a business case will be developed when there is a proposal in buying an existing business. The business case will determine the benefit to the City Council, service delivery and future efficiencies in the decision making process.

### 8.3 Marketing

The City Council are developing our corporate Marketing Strategy, and commercial marketing will be a key priority of this. As we embark on commercial activity we will need to determine:

- Branding - commercial activity will be called 'Exeter City Services', promoting the wide range of City Council services that charge an income.
- Who are target customers are and how best to communicate with them.
- What our unique selling points and market advantages are and how best to market them in winning new contracts.

# 9 Commercial Property Assets

The overall vision of the Commercial Property service is:

To maintain a portfolio of assets that enables the Council to perform excellently in the delivery of services and corporate plan objectives.

Property assets owned by the City Council are managed directly by the City Council.

A SWOT analysis is currently being developed as a part of completing an Asset Challenge on each property and a Strategy to develop a way forward. The development and implementation of the City Council's Asset Strategy will make a significant contribution to this commercialisation strategy, in cost recovery.

The City Council has committed to not building purpose built student accommodation on land we own, or to convert property we own. This type of development may be commercially viable, but we have committed to focus on residential accommodation and commercial build.

Key risks within this area are the potential decrease in asset value and revenue if there are economic shocks within Exeter, together with a current backlog of maintenance and in particular with operational assets to deliver services.

Current priorities managed by the Corporate Property team include:

- The regeneration of the Bus & Coach Station Site - CityPoint (underway)
- The release of city centre surface car parking sites for redevelopment
- The on-going Asset Challenge programme across the portfolio (underway, to be completed by autumn 2019 with actions to be picked up on thereafter)
- The revision of our Asset Management Strategy and implementation of emerging action plans (underway)

## 9 Commercial Property Assets

The City Council have a varied portfolio of property assets within the boundary of the city; we have different aims and objectives in relation to each of these assets that can be broadly categorised as:

Commercial	Other Property
<b>Industrial</b>	<b>Operational property, including car parks</b>
Income generation, capital growth, economic stimulus	Supporting the provision of services, where appropriate capital growth
<b>Retail</b>	<b>Community Assets</b>
Income generation, capital growth, economic stimulus	Supporting community activities
<b>Leisure</b>	<b>Surplus property</b>
Income generation, capital growth, supporting healthy lifestyles	Awaiting disposal at the most economically advantageous point
<b>Other commercial</b>	<b>Housing</b>
Income generation, capital growth, economic stimulus	Provision of social housing, income generation
	<b>Land</b>
	Income generation, capital growth, economic stimulus

# 10 Action Plan

## 10 Action Plan

Exeter City Council Commercial Strategy. First Year Implementation Plan. The Short, Medium and Long term aims are set out in the table below:

Short Term Goals	Medium Term Goals	Long Term Goals
<b>Organisational</b>	<b>Organisational</b>	<b>Organisational</b>
Draft Strategy to be adopted by Exeter City Council	Continue to look for income generating opportunities	Make a significant contribution to becoming become financially self sufficient
Develop an annual action plan that sets out specific targets for commercialisation	Continue to incrementally improve profits and increase commercial activity through implementation of annual business development plans	Continue to incrementally improve profits and increase commercial activity through implementation of annual business development plans
Review procurement rules and financial regulations to ensure that they are fit for purpose to enable lean and nimble decision making in the business ventures.	Draft a set of support contracts/frameworks which enable quick use of specialist contractors to help with commercial operations when required	Continue to fully comply with procurement regulations
Review procurement to identify potential commercial opportunities	Consider the provision of procurement support for external organisations and develop a USP of reducing external spend for clients	Reduce the amount of City Council budget spent externally
Senior Management Board (SMB) to review all business cases	Research ideas put forward by officers and if viable, develop business case and business plan	Review if this is the correct body business cases are reviewed by
Develop the Commercial Manger role	Implement the role of the Commercial Manager as shown in the Commercial Strategy	Review the role of the Commercial Manager 6 months prior funding coming to an end
Review the allocation of overheads to commercial activities	Commercial Manager to manage customers, increase sales and develop new business opportunities in line with the approved annual business plan	Consider the provision of corporate support services on a commercial basis to other organisations

## 10 Action Plan

Short Term Goals	Medium Term Goals	Long Term Goals
<b>Organisational</b>	<b>Organisational</b>	<b>Organisational</b>
Review HR policies with consideration to further enable commercial activity	Reduce/stretch corporate support costs	Ensure HR policies and practices fully support commercialisation
Develop plans to gain quality and environmental standards where required	Update as appropriate job descriptions and person specifications to reflect commercial requirements	Maintain quality and environmental standards
Further develop general commercial skills, initially prioritising the Commercial Board and Team	Gain ISO 9000/14000 or appropriate standards	Embed commercial skills throughout the organisation
Commercial finance skills are developed and trading accounts set up	Further develop general commercial skills across the organisation	Commercial finance skills are embedded and support further commercial growth
Produce a plan to develop a commercially focussed workplace culture which recognises innovation and commercial achievement.	Business cases and plans contain appropriate detail and trading accounts are managed to facilitate profit	Embed a commercial culture across the organisation
Allocate funding and resources to empower commercialisation	Implement the plan and align the required resources to enable successful delivery	Continue to make available funding for commercial opportunities where business cases are made
Develop a mechanism in which commercial business cases and plan have been authorised	Continue to make available funding for commercial opportunities where business cases are made	Review and adjust as required
Fully integrate IT systems to enable commercialisation	Review if the Senior Management Board is the most appropriate method	Ensure IT systems enable on-going commercial success

## 10 Action Plan

Short Term Goals	Medium Term Goals	Long Term Goals
<b>Focussed Commercial Activity</b>	<b>Focussed Commercial Activity</b>	<b>Focussed Commercial Activity</b>
Complete the programme of service audits/ reviews of those areas considered as the first tranche of commercial services. Use the review to identify strengths and weaknesses when measured against what we know about our competition and identify areas for commercial focus.	Develop further IT capacity to improve commercial success	Continue with service reviews and audits as required
Develop Business cases and plans for areas where the audits have identified sufficient potential for generating a surplus through commercialisation	Focussed Commercial Activity Review alternative services and develop a business case and business plan if commercially viable	Continue with sustainable growth in line with business plans
Implement the business plan for commercial and trade waste	Reinvest income to grow services and increase financial returns as business grows. Expand range of commercial services offered.	Continue to develop commercial and trade waste as appropriate
Undertake efficiency reviews to ensure services are sufficiently competitive for commercialisation to succeed	Develop commercial and trade waste subject to the operational and financial tipping points	Continue to monitor and manage efficiency to retain a competitive edge
Implement other business plans where a business case has been made (first tranche)	Continue to monitor and manage efficiency to retain a competitive edge	Expand business cases and plans and where appropriate implement them
	Expand business cases and plans and where appropriate implement them	

## 10 Action Plan

Short Term Goals	Medium Term Goals	Long Term Goals
<b>Risk</b>	<b>Risk</b>	<b>Risk</b>
Develop risk registers and management systems to understand and manage commercial risks	Continue to effectively manage risks and learn from results	Embed a culture of appropriately managed risk to maximise commercial opportunities
The Senior Management Board to monitor and review commercial activity	Annual review of KPI's	Annual review of KPI's

Short Term Goals	Medium Term Goals	Long Term Goals
<b>Commercial property</b>	<b>Commercial property</b>	<b>Commercial property</b>
Develop the commercial asset challenge programme	Implement the asset challenge programme	Achieve optimum returns from all of our assets
Develop City Council Asset Strategy	Implement the Asset Strategy	Achieve optimum returns from all of our assets
Increase income from our property portfolio	Continue to increase income from our property portfolio	Achieve optimum returns from all of our assets
Implement an effective disposal programme	Re-invest capital from disposal programme to achieve optimum returns	Continue to diversify our assets and achieve optimum returns

## 10 Action Plan

Short Term Goals	Medium Term Goals	Long Term Goals
<b>Marketing and customer care</b>	<b>Marketing and customer care</b>	<b>Marketing and customer care</b>
Develop branding & Corporate Identity with Services and Communications & Marketing Team	Enhance and develop the brand to encompass new commercial opportunities	Continued brand development
Communications and Marketing to develop and agree a commercial marketing strategy with the Commercial Team and associated services	Implement the commercial marketing strategy Targeted marketing campaigns as and when required	Commercialisation is embedded within marketing
Market research capacity and skills are developed	Market research supports the development of business cases	On-going market research supports commercialisation
Develop systems to record, monitor, manage and utilise customer satisfaction	Continue to monitor and manage customer satisfaction and develop customer relations	Utilise customer relations to expand commercialisation