

APPENDIX A



COMMERCIAL STRATEGY

Section 1 - Background and purpose

All public sector organisations currently find themselves in an extremely challenging environment, with mounting financial pressure, reduced resources and greater market competition.

Shropshire Council faces an underlying revenue budget gap which is forecast to be £37m by 2019/20 in terms of spending compared to resources with reductions in revenue support grant, uncertainties in future Government funding and increasing demand and costs of adult social care being the principle reasons for the financial shortfall.

At Shropshire Council we recognise the need to take more control of our own destiny and become a more commercially focused and financially sustainable council. One which embraces a more commercial culture in terms of how we think and act to ensure we deliver high quality services as efficiently and effectively as possible.

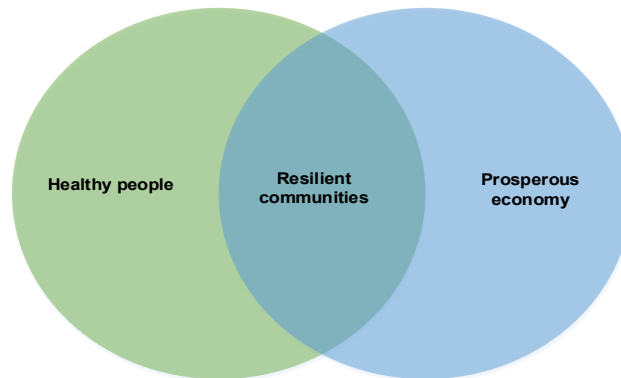
In doing so we shall continuously seek new opportunities to generate income for the Council. We shall invest in projects which provide a good return on investment whilst recognising the social and community value of the county's natural, built and historic environment.

This commercial strategy aligns closely with other key strategies including economic growth, digital transformation, broadband, workforce and skills development, investment and asset management. Each of these contribute towards our ambition to make Shropshire Council a leader of innovation, enterprise and growth which others will aspire to and wish to collaborate with.

This commercial strategy sends out a strong signal that Shropshire Council has entered a new era of business enterprise, growth and innovation. We will work with partners who share our ambition and values and we shall continue to put the best interests of Shropshire residents at the heart of everything we do.

Section 2 – Vision, ethos and approach

Here at Shropshire Council, our vision to “make Shropshire a great place to live, learn and work”, focuses on “Healthy people, resilient communities and prosperous economy”, as our key priorities for all of our work over the coming years.



Our commercial vision is...

To become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. One which uses its assets, skills and infrastructure to shape and improve public services and enable economic growth in the county. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2020/21.

We will adopt a commercial culture whilst retaining strong public, community and social values. We are willing to partner and work with others who share our ethos and values.

We aim to be consistently innovative and resourceful being as efficient as we can at all times. We will invest in schemes and projects that improve productivity, reduce costs associated with poorly utilised land and buildings, collaborate with partners and seek ways of using our assets to generate additional income.

We shall adopt a commercial approach which allows everybody to share their ideas and for these to be evaluated swiftly using a robust business case and project management methodology. People will feel valued and involved in our new enterprising and commercial approach. Our staff will receive skills development and training which we see as a value not as a cost to our organisation.

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.

Section 3 – Commercial assets

Shropshire Council has a rich source of assets, attributes and roles from which we can derive commercial value.

These can be summarised as being:

| | |
|-------------------------|---|
| Place shaping role | Using our strategic planning, economic growth, highways, broadband and education and skills development roles to shape and create the market for growth and enterprise. |
| Staff | Using and developing the knowledge and skills of our workforce to create the culture of trust, empowerment and involvement in commercial activities. |
| Infrastructure | Using and developing our digital and ICT, highways, street furniture and broadband infrastructure for commercial gain. |
| Land and buildings | Using our land and buildings to promote and deliver housing and economic growth whilst using the Council's lead role in the One Public Estate programme to co locate with partners to generate capital receipts and reduce costs. |
| 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. |
| Business intelligence | Using our vast amount of business and service data more intelligently to create new commercial opportunities and better service delivery models which will generate new income for the Council. |
| 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. |
| Brand and web presence | Using the high value of our web presence, search engine optimisation and brand value to promote our trading and commercial activities and those which we can partner with others to receive a financial return. |
| Liquid assets | Access to cash, cheap borrowing and liquid assets to enable investment. |
| Democratic organisation | An ethos to develop commercially for the wider public good. |

These assets and attributes will be applied to re define and re design how we work, where we work, who we work with and influence how we take investment decisions.

Section 4 – Commercial definitions

There are lots of definitions in relation to commercialism. In essence it's an approach or 'mind set' that helps our Council approach the challenges we face;

Commercialism

For Shropshire Council, 'commercialism' is an understanding of how we as an organisation need to operate in a more business like way. This involves empowering staff to be innovative, embrace new flexible and agile working and move towards running services at cost neutral and where applicable 'trading' and selling services.

This essentially means making sound decisions in terms of how we use our resources, how we invest public funds in projects and ventures to become more efficient and to generate income for the Council.

This will involve physical, technical and emotional changes which require strong and effective leadership and management at all levels of the organisation.

Enterprise

The Council sees this as the ability to think and act differently when considering the ways, we manage, operate, deliver and resource our services and products in order to deliver best value for our residents and customers.

This means being resourceful and looking for increased innovation and confidence to consider different options some that would not previously have been considered, trailing new ways of working and applying learning.

We have enterprising staff and volunteers. And we work with partners who are equally enterprising. Through the Workforce Strategy we shall provide our staff with the commercial skills they require to be inquisitive, innovative and enterprising in everything they do.

Trading

We are a multi-faceted organisation which commissions and provides a wide range of services across the county. We also trade in markets and sectors beyond our borders using the skills and expertise of staff with a strong and wide range of skills and knowledge.

We recognise that not all services can 'trade' or charge for what they do to customers to generate income. We also recognise that some can but have never been encouraged or enabled to do so.

We can all work in a way that puts our customers first, being aware of costs and delivering services as effectively and efficiently as possible. For ease there are three definitions of the types of charging or trading¹ a service can do;

- **Traded** More than 75% of a service's income is received by supplying services and products to external customers including other public sector organisations, schools, residents and/ or the private sector.
- **Part-traded** Less than 75% of a service's income is received by supplying services and products to external customers including other public sector organisations, schools, residents and/ or the private sector.
- **Non-traded** No income is received by supplying services to external customers as defined above.

Investment

The Council's capital investment decisions go beyond the traditional Public Sector approach of achieving social and community goals, replacing infrastructure and improving land and buildings. The principal focus will be on investing in projects and schemes that will generate some form of financial return on investment for the Council.

This approach will provide the Council with greater resilience and support the vision of being a financially sustainable council by 2020/21

All Capital Spending Decisions should focus on achieving at least one of three main drivers:

- **Revenue Generation/ Invest to earn:** For example, proposals that generate new sources of income for the Council, such as 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 and redesign services to reduce demand and promote independence.
- **Social Value:** For example, proposals that will bring collective benefit to a community.

Directors will oversee all commercial business activities ensuring they are appropriately governed, scrutinised, managed and monitored. Officers will also consider investment proposals covering the following areas:

¹ There is a difference between the power to charge for discretionary services and the power to trade commercially to generate income. Charging must be done on a cost recovery basis only. Trading i.e. doing something for a commercial purpose can be done for profit but must be carried out through a company.

- Capital Receipts Generation from Asset Sales
- Asset retention
- Borrowing Proposals (Internal and External Borrowing)
- Capital Spending Decisions
- External Lending Decisions

Investment decisions will be made having applied a robust business case methodology and will be evaluated against key investment principles. A set of financial and non-financial criteria shall be used to assess which schemes and projects are taken forward.

Section 5 – Commercial objectives

The Council's corporate plan has identified a number of key objectives that are directly linked to commercial activity;

- Commercial operating is increasing across the Council
- The efficiency of the Council has been improved
- Generating additional and sustainable income streams for the Council.

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

- Increase in commercial activity demonstrated by the level of additional income being achieved such as increase in total contribution to fixed costs and overheads (%) and contribution to staff costs (%).
- Reducing the net budget of a service by reducing variable cost of a service.
- Additional income will be measured and monitored in terms of increases in turnover, profit and return on investment with income targets set for teams that are charging for services and efficiency targets set for all services.
- A de minimus level will be established for all third party income above which all new income can be categorised and measured to monitor and evaluate commercial performance.
- Embed a commercial culture across the organisation through developing and upskilling our staff to be more enterprising and innovative.
- % increase in the number of partnerships with private and public sector bodies where this derives the greatest commercial and financial benefit.
- % increase in new jobs, including apprenticeships, created resulting from the Council's commercial input.

We are working through the details of our commercial objectives and, once completed and risk-assessed, we will build these into our future Financial and Treasury Strategies. In the meantime the following aspirational targets have been proposed and will be further refined during 2017:

- To invest in schemes and projects which can deliver £10m to £15m of new revenue income over a period of five to ten years with net returns of investment exceeding 10%.
- To deliver a minimum of £5m of new revenue income by the 31st March 2020.
- To deliver £50m of capital receipts by 31st March 2020.
- To reduce back office costs by 25% by 31st March 2019.
- To deliver commercial skills development to 25% of Council staff by the end of 2018, rising year on year by 25% to 100% by end of financial year 2021.
- To make significant savings in the way we manage our buildings and reduce cost by over 30% by 31st March 2020.

Section 6 – Business case and project methodology

The Council will adopt a robust business case and project methodology to all investment schemes and projects.

The various stages of the methodology are in the final stages of development and will be tested on future schemes, d but are likely to include:

1. Identify an innovative commercial **idea/concept**, discuss with colleagues, and where appropriate begin discussions with relevant Portfolio Holder, Deputy Portfolio Holders and partners.
2. Develop a **concept business case** which will appraise various business models and may identify further pipeline projects.
3. Prepare an **outline business case** considering financial implications, investment criteria² and identify any wider benefits.
4. **Project team** formed; to identify key activities and deliverables.
5. Prepare **detailed business case**; to include benefits, risks and returns.
6. **Directors' sign off**
7. Seek **Portfolio Holder** approval.
8. **Formal Cabinet/Council** approval.
9. **Go live.**

The project methodology will also identify the governance, management and operational requirements to ensure that accountability is maintained and decisions taken in accordance with legislative requirements and the Council's constitution.

Quarterly and annual performance reporting will be adopted for all investment and commercial schemes and ventures which are implemented. This will help to inform contract performance, service performance, financial performance, customer performance etc.

² The financial considerations will include identifying Return on Investment (ROI) calculations, capital requirement, potential income generated, anticipated yield, break-even point and payback period.

Section 7 – Timescales and outputs

Our commercial plan will identify the commercial activities that will, over the next twelve months, convert this strategy into practice and start to embed the commercial culture in the organisation.

It will be the responsibility of the Head of Business Enterprise and Commercial Services to report to Directors and Cabinet, via the Portfolio Holder for Corporate Support progress against the timescales, outputs and commercial activities that are set out in the commercial plan.

The short term timescales and outputs are as follows:

- January/ February 2017 – develop and agree our approach for commercialism to include business case and project methodology along with governance, performance management and monitoring frameworks.
- 1 March 2017 – seek Cabinet approval of the Commercial Strategy.
- By 8 March 2017 – adopt a commercial communications plan.
- By 31 March 2017 – develop the commercial materials and information and launch this via the Staff Intranet.
- By 31 March 2017 – establish a Commercial Board and agree terms of reference.
- By 31 March 2017 - establish the commercial support and resources required to co-ordinate and report the commercial activities being undertaken.
- By 1 April 2017 onwards – agree the final performance measures and reporting mechanism with Directors and Portfolio Holder/s.
- By 1 April 2017 onwards – ensure that all key strategies are aligned and that lead officers ensure that no commercial/ investment opportunity is missed from the business case methodology and approach.
- April 2017 onwards – fact find and establish current commercial activity via initial baseline survey of staff to include new commercial ideas/ concepts.
- April 2017 onwards – begin the commercial awareness aspects of staff development and upskilling.

The medium to long term timescales and outputs are set out in section 5.