



<u>Committee and Date</u>
Audit Committee 27 <sup>th</sup> June 2019

<u>Item</u>
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## MANAGEMENT REPORT – COMMERCIAL STRATEGY UPDATE

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### 1. Background

1.1 The Council approved its first Commercial Strategy in March 2017. The vision states “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.

1.2 The strategy states that 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:

- a) 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.
- b) Invest to save: For example, proposals to introduce new technologies and redesign services to reduce demand and promote independence.
- c) Social Value: For example, proposals that will bring collective benefit to a community.

1.3 Officers will also consider investment proposals covering the following areas:

- 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.

**1.4** The current commercial strategy states that the following aspirational targets have been proposed and will be further refined:

- 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 31<sup>st</sup> March 2020.
- To deliver £50m of capital receipts by 31<sup>st</sup> March 2020.
- To reduce back office costs by 25% by 31<sup>st</sup> 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 31<sup>st</sup> March 2020.

## **2. 2019 Update**

**2.1** Two years on from the adoption of the commercial strategy officers have undertaken the following actions:

- 2.1. Presented a capital strategy for 2019/20 to 2023/24 which has been approved by Council in 28 February 2019. This sets out how asset management planning is a fundamental requirement of the strategy. It requires proactive management of the council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property.
- 2.2. Explained within the capital strategy how commercial activity and investment property are aligned with investment property held and acquired solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset

value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

2.3. Adopted a balanced portfolio approach to investment to ensure that an overall net average return is considered. This reflects that some investments will yield higher returns than others and limit exposure to volatility in any one area of investment. Officers have grouped commercial investment proposals into three categories being commercial, transformation and economic growth. This demonstrates how yield generating projects can achieve key outputs and outcomes that go beyond income generation and can lead to the creation of new jobs, homes, innovation, cost savings, carbon reduction, community and social value.

2.4. Adopted a new investment governance and management process, using a set of investment criteria, to prioritise the capital investment proposals that achieve the greatest range of financial and non financial benefits for the council. This is referred to as the "Hopper" process.

2.5 Identified an extensive pipeline of potential capital and investment schemes totalling £252m over the period 2019/20 to 2023/24 which are at various stages of the process. Of these £64.53m have been approved which include the acquisition of the Shrewsbury shopping centres, the development of the Tannery site in Shrewsbury and the provision of a new medical practice in Shrewsbury.

2.6 Officers have developed to outline business case stage five commercial projects estimated to require a further £36m of investment bringing the total investment requirement to be £100.5m. These require separate capital spending approvals that will be brought to Cabinet and Council during the course of the financial year.

2.7 The projected annual rental income generated from the investment property, approved and proposed, is estimated to be £7m. Officers are in the process of determining the appreciation of asset value/ capital growth associated with these investments.

2.8 The capital funding requirements for the proposed investment schemes need to be considered to determine the average net return and the cost of financing these investments.

2.9 Officers shall bring a refreshed commercial strategy to Cabinet and Council in the autumn 2019 which adopts the investment approach outlined, which reflects the learning from commercial activity undertaken over the last two years and which aligns with the refresh of the asset management strategy and the capital strategy. The refresh of the commercial strategy will ensure that targets are achievable, up to date and that the Strategy fully supports the corporate outcomes and the Financial Strategy's aims and objectives.

2.10 A commercial investment manager was appointed in May 2019 to identify and develop a further pipeline of investment projects to achieve the principal target of £10m to £15m of new revenue income to 2026/27. The manager will appoint and procure a team of specialists to determine the optimum pipeline of projects which spread the investment risk, adopt the investment approach and which achieve durable income streams and capital growth which help the council to become more financially sustainable.

2.11 Officers are also reviewing the other non land and property commercial activities that are being undertaken to see how these, and any new income generating activities, can be maximised. These include services that are trading, those which are transforming through digital enablement and those which involve sponsorship and advertising methods to increase income and cost savings for the council.

2.12 The council has, over the last two years, implemented a new leadership and management development programme which includes training and coaching specifically relating to commercial activities. Staff are encouraged and supported to suggest, test, implement and review commercial activities in their respective service areas. A new squad approach has been adopted which brings together staff from various departments and services to consider new commercial ideas and test how these can be implemented. Graduates are also being deployed to undertake research to support this programme.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
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<b>Cabinet Member (Portfolio Holder)</b>
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Councillor Steve Charmley - Portfolio Holder for Corporate Support
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<b>Local Member</b>
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<b>Appendices</b>
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