



<u>Committee and Date</u>
Audit Committee 5 th December 2019

<u>Item</u>

MANAGEMENT REPORT – COMMERCIAL STRATEGY UPDATE

Responsible Officer Tim Smith, Assistant Director Commercial Services
e-mail: tim.smith@shropshire.gov.uk Tel: (01743) 258676

1. Background

- 1.1 Members of the Audit Committee received a commercial strategy update in June 2019 which set out the priorities, objectives and methodology for appraising capital investment proposals along with a summary of the investment projects that are at various stages of development and delivery.
- 1.2 This followed the internal audit of the commercial strategy and plans for 2018/19 which resulted in an unsatisfactory level of assurance.
- 1.3 The audit work identified a number of significant issues leading to the following recommendations:
 - 1.3.1 To ensure that the Commercial Strategy's goals and objectives which are to increase income from investment are clear and achievable. Audit officers concluded that;
 - the recent review undertaken by Risk Management and the addition of the new strategic risk which is the failure to deliver the Commercial Strategy and the Council being unable to meet the corporate outcomes;
 - there is a lack of an investment fund to help deliver the £10m to £15m of additional revenue;
 - revision of the target to deliver a minimum of £5m of new revenue income by the 31.03.2020 be revised down to £2m;
 - 1.3.2 A full review of the Commercial Strategy should be undertaken. This review should 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. Any changes to the Strategy should be approved by Cabinet.
 - 1.3.3 To demonstrate accountability and responsibility for all commercial projects and to comply with the business case and project methodology as set out in the Commercial Strategy; key officers, including Directors should be reminded that commercial projects across the Council should be subject to the approved Hopper process. Projects that are currently progressing outside of this process should be subject to review to ensure that they are appropriate, meet the Council's corporate outcomes and financial objectives

and that the risks to these projects have been fully considered.

- 1.3.4 A review of commercial projects should be undertaken to ensure that the targets set in the Commercial Strategy can be achieved given that it is 18 months since the strategy was approved and only one commercial project is currently in delivery.
 - 1.3.5 Information such as the project prioritisation pipeline spreadsheet which has been prepared for Directors to approve should include key information such as the cost of the project, value for money, external funding, income payback, annual return, potential total return, yield and indicative return on investment. Projects should not be approved unless all the financial information is available, and it meets the criteria as set out in the Commercial Strategy.
 - 1.3.6 The strategic risk score for the commercial strategy risk should be agreed and included in the Strategy Risk Profile. Once complete the profile should be submitted to the Risk Management Officer for review.
 - 1.3.7 A full review of the commercial projects should be undertaken to establish if the Council's vision to be financially sustainable by 2020/21 is achievable.
- 1.4 A considerable amount of work has been undertaken in financial year 2019/20 to address the recommendations in the report. These are set out in the autumn 2019 update below.

2. 2019 Autumn Update

- 2.1 The following updates are provided chronologically to correspond with the issues and actions set out in paragraphs 1.3.1 to 1.3.7 above
- 2.1.1 To ensure that the Commercial Strategy's goals and objectives to increase income from investment are clear the following has been implemented
- A new strategic risk has been introduced to the council's strategy risk register which is the failure to deliver the Commercial Strategy and the Council being unable to meet the corporate outcomes. The risk was assigned to the Executive Director of Place and mitigating actions to address this are reported and reviewed on a quarterly basis.
 - An investment fund of up to £40m has been identified for financial year 2019/20 and 2020/21 to help deliver additional revenue. Several investment proposals and projects have been approved by Cabinet and Council. The balance of the £40m will be reported and approved in the capital budget strategy in February 2020.
 - The revision of the target to deliver a minimum of £5m of new revenue income by the 31.03.2020 down to £2m has been

considered and shall be included in the revenue budget for 2020/21.

- 2.1.2 A full review of the Commercial Strategy has been undertaken with regular updates provided to the Capital Investment Board which is chaired by the councils S151 officer and which includes all directors of the council and lead officers involved with capital and investment projects. It has been agreed that targets should be revised and are achievable, are up to date and that the Strategy fully supports the corporate outcomes and the Financial Strategy's aims and objectives. Members of the Capital Investment Board agreed that changes to the Strategy should be approved by Cabinet in February 2020.
- 2.1.3 The Capital Investment Board which includes all Directors of the council receive regular updates and reports to ensure that commercial projects across the Council are subject to the approved Hopper process. An expression of interest is completed for each project proposal and appraised using a scoring matrix. The projects which achieve the requisite score will be developed into a business case which sets out the inputs, outputs and outcomes for each project. The business cases form the basis of information required for decision reports taken to Cabinet and Council dependent on the level of funding required for each in accordance with the council's constitution.
- 2.1.4 A full review of all known and proposed council projects which require capital financing has been undertaken by officers and reported to the Capital Investment Board. This includes commercial projects which derive a positive financial return. Three investment projects are in delivery, three have been approved by Council and are subject to contract negotiation and a further pipeline of income generating projects has been identified up to 2023/24 which require further appraisal and capital financing.
- 2.1.5 Information such as the project prioritisation pipeline spreadsheet which has been prepared for Directors to approve does include key information such as the cost of the project, value for money, external funding, income payback, annual return, potential total return, yield and indicative return on investment. Investment projects will not be approved unless of the financial information is available. The financial scoring criteria will be revised, as part of the review of the Commercial Strategy, to reflect changes to the Public Works Loan Board base rate and to ensure that projects achieving a positive return on investment (having considered the financing costs and any other revenue costs) are scored appropriately.
- 2.1.6 The strategic risk score for the commercial strategy risk has been agreed and included in the Strategy Risk Profile. The profile has

been submitted to the Risk Management Officer for review. Quarterly performance reports are provided by the Executive Director of Place.

2.1.7 A full review of the commercial projects has been undertaken, as part of the capital project prioritisation process, to establish if the Council's vision to be financially sustainable by 2020/21 is achievable. Funding for the delivery of further commercial projects has been identified at £40m to achieve £2m additional income as set out in 2.1.1 above.

2.2 The above update is intended to provide reassurance to Audit Committee members that the key issues identified in the November 2018 internal audit report have been addressed. A full review of the current Commercial Strategy has been undertaken by officers and will be reported to Cabinet in February 2020. This will include reference to the investment fund and revisions that will be made to the financial strategy and capital budget.

2.3 Additional staff are being recruited to the council's commercial investment team to ensure that the approved methodology to identify, appraise and report performance against revised targets in the commercial strategy are suitably resourced.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Cabinet Member (Portfolio Holder) Councillor Steve Charmley - Deputy Leader and Portfolio Holder for Assets, Economic Growth and Regeneration.
Local Member
Appendices