



Officer and Date

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Item

Public

COMMERCIAL STRATEGY 2020 to 2023

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1. Summary

Cabinet members are asked to approve Shropshire Council's updated Commercial Strategy for 2020 to 2023 (Appendix A) which reflects the council's new corporate vision and plan. The strategy is closely aligned with the council's capital strategy, the asset management strategy, the economic growth strategy and the digital workforce strategy. The funds to deliver the commercial strategy are set out in the council's capital strategy which include property investment. The finance strategy 2020/21 to 2022/23 sets out the requisite savings and income targets for the commercial strategy.

The updated Commercial Strategy takes into account changes to central government policy changes, updated statutory guidance in the Prudential Code for Capital Finance in Local Authorities and the lessons learned from commercial activities undertaken over the past three years.

2. Recommendations

- 2.1 To approve the Council's updated Commercial Strategy for the period 2020 to 2023.

REPORT

3.0 Opportunities Appraisal and Risk Assessment

- 3.1 Failure to deliver the Commercial Strategy within agreed timescales and to levels approved by Council within the Financial Strategy prevents the Council from meeting savings targets and corporate outcomes.
- 3.2 A number of controls have been put in place to mitigate this strategic risk. These include a full review of the original commercial strategy and objectives approved by Council in March 2017, an investment fund being identified and included in the capital budget from 2019/20 to 2023/24, a process involving a Strategic Projects Officer Group being implemented to appraise and evaluate project proposals, and staff resources recruited to co-ordinate the commercial programme.
- 3.3 Commercial opportunities set out in the new commercial strategy build on the experience and knowledge gained by officers over the last three years and provide

even greater focus on partnership working and innovation in respect of integrated models of housing, health and care.

- 3.4 Projects will be appraised against a robust scoring method for property investments, based on established good practice, which helps to ensure that the Council is investing in a balanced portfolio, in order to effectively manage risk.
- 3.5 Not all planned and approved projects come to fruition. Some relate to third party decisions influenced by economic and commercial factors and their own appetite for commercial risk during the negotiation phase.
- 3.6 The council has an opportunity to deliver key elements of the commercial strategy by working with public sector partners to assess and appraise commercial opportunities that can be realised through better and more effective management and development of their collective estate, their workforce, their support services, their fleet and their service contracts. This is achieved by the council's involvement in programmes such as the NHS Sustainability transformation programme (STP), the One Public Estate (OPE) Programme, public sector procurement hubs and the emerging one public sector fleet programme.
- 3.7 The changes to the organisation and structure of schools and colleges has changed the market in which a number of council services operate and trade. This has created certain risks in terms of the potential loss of income associated with individual schools who have become incorporated into larger academy trusts. Conversely this has also created opportunities to provide different types and levels of service to new larger customers, and also to others not in the education sector such as housing providers.
- 3.8 The new commercial strategy also incorporates the opportunity to provide further services to public sector partners and the council's commitment to reduce the council's carbon footprint and response to the climate change emergency.
- 3.9 All projects undertaken will have a robust risk register in place which will be reviewed and managed throughout the duration of each project in line with the Corporate Opportunity Risk Management Strategy

4. Targeted Outcomes

- 4.1 The purpose and key objectives of the new commercial strategy are closely aligned with those set out in the asset management strategy. Most specifically these include:
 - 4.1.1. To Generate and diversify revenue streams through effective property investment. Led by the Council's Commercial Strategy team the Investment plan will generate new and durable income streams through the both the re-development or repurposing of its existing assets or the acquisition of new assets which will deliver a positive financial yield.
 - 4.1.2 To Reduce our carbon footprint and promote sustainable asset management. Recognising the importance of the climate emergency sustainability is absolutely key to the respective strategies.

- 4.1.3 To Generate receipts to support our capital programme. Rationalise and reduce the estate to deliver receipts and support the Council's capital aspirations
 - 4.1.4 To Drive transformation to work more flexibly and efficiently, aligning with new delivery models. Creating fit for purpose administration accommodation at a critical mass to ensure staff are supported through digital transformation and back office savings continue to be delivered driving efficiency.
 - 4.1.5 To reduce revenue impacts. Optimising the estate to reduce the burden of repairs and maintenance and reducing operating costs.
 - 4.1.6 To Maximise opportunities of working with the wider one public estate. Working with public sector partners remains a key driver to drive out innovation across the public estate and creates the real opportunity for savings linked to new ways of working and collaborative procurement models.
 - 4.1.7 To further develop the excellent partnership working relationships enjoyed by the Council and remain agile in terms of making the best possible property investment decisions.
- 4.2 Furthermore the new commercial strategy identifies the following key areas for investment and an increased focus on commercial activity:
- 4.2.1 Investment which facilitates economic growth and regeneration in Shropshire.
 - 4.2.2 Investment which facilitates the delivery of the right homes in the right place to address unmet housing need.
 - 4.2.3 Investment in education, public health and care services in Shropshire towns and communities.
 - 4.2.4 Re-design and re-configuration of assets or services that enables innovation and permits lower ongoing revenue costs.
 - 4.2.5 New build or enhancement to existing assets to generate income.
 - 4.2.6 Acquisition of land and property that facilitates economic and housing growth and which creates durable income streams for the council.
 - 4.2.7 Assets that facilitate the release of other assets, where the net effect is an increase in value.
 - 4.2.8 Providing a greater range of professional services to public sector partners and customers.

4.2.9 Using energy efficient and digital technologies and methods to enable our workforce to be more flexible and agile and to reduce the cost of travel in the county.

4.2.10 Marketing and sponsorship activities which promote the council's commercial interests and the wider Shropshire economy.

4.3 In summary the commercial strategy should support and enable the delivery of the council's corporate plan and help to create a more financial sustainable budget for the council.

5. Financial Implications

5.1 Having reviewed all that we have learned over the first three years of the commercial strategy, from other local authorities, advisors and our own experience and looked at this learning in the context of our changing priorities, our definition of a commercial project has changed. It has become broader to capture a greater range of commercial activity and has removed aspirational income targets which were found to be difficult to achieve.

5.2 The council defines a commercial project as one which generates more income or savings than it costs to the organisation. This relates to services being traded to third parties, property investments that deliver a capital income for the council and property investments which provide a long term revenue return.

5.3 The commercial strategy approved by council in March 2017 set out the following financial objectives:

5.3.1 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%.

5.3.2 To deliver a minimum of £5m of new revenue income by the 31st March 2020.

5.3.3 To deliver £50m of capital receipts by 31st March 2020.

5.4 To date a pipeline of nine income generating projects have been identified, business cases have been approved and capital funding allocated. Not all of these projects are in delivery for a variety of reasons.

5.5 Four projects are in delivery. One example being the council led Tannery development in Shrewsbury which will deliver a 25 year revenue income stream, whilst working with partners to improve the health of residents in Shrewsbury, in a modern building with high environmental standards.

5.6 Our aspirational yields, as set out in the original commercial strategy, are proving to be difficult to achieve. Investment Portfolio property yields in Shropshire and those achieved by property investment funds nationally typically achieve 3-6%, with 7% being very good. The cost of external borrowing via the Public Works Loan Board,

and particularly following the 1% increase in the interest rate in October 2019, bring the net returns down to 1-2%.

- 5.7 It should be noted that the commercial returns supplement wider council objectives and responsibilities in respect of economic growth and regeneration, public health, education and social care, carbon reduction and transport. The delivery of modern and environmental buildings, the development of land for housing and the acquisition and development of commercial land to strengthen the county economy also generate increased levels of council tax and non domestic rates.
- 5.8 The council has committed £80m of capital funds over the period 2019/20 to 2022/23 to capital projects which deliver a commercial return. Table 1 sets out this out along with projects which are included, or to be included in the council's capital programme subject to further financial appraisal.

Table 1 - Financial Summary of Commercial Investment Fund Availability

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Totals £m
Approved capital budget allocation	20.0	20.0	20.0	20.0	80.0
Unallocated b/fwd	0.0	12.4	23.6	43.5	
a) Drawdown into capital programme					
Tannery – block C & B	7.6	0.4			8.0
Whitchurch medical practice		3.7	0.1		3.8
Commercial site acquisition - Shrewsbury		1.2			1.2
Strategic acquisition – Oswestry central		3.5			3.5
Balance of unallocated fund	12.4	23.6	43.5	63.5	
b) Schemes not yet in capital programme					
Strategic acquisition – Oswestry east		4.0			4.0
Medical practice - TBC			3.5		3.5
Tannery – Block A		7.4			7.4
Food enterprise centre			3.0		3.0
Unallocated balance c/fwd	12.4	12.2	25.6	45.6	

- 5.9 The value of projects approved to date and which have been drawdown into the council's capital programme (a above) is £16.5m. Schemes which are not yet in the capital programme (b above) are valued at £17.9m. The forecast available balance of funds is £45.6m.
- 5.10 The council's financial strategy 2020/21 to 2022/23 includes the following income generation targets in respect of the property investment.

	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
P39 Raise income from investment in assets	0.5	2.0	2.0	4.5

- 5.11 Officers can report that investment projects approved by council to date, and which are included in the capital programme, are forecast to achieve the target of £0.5m in 2020/21, with a pipeline of further projects involving construction and development of modern, environmentally buildings contributing towards future income targets.
- 5.12 Council services and staff provide a wide range of professional services on a commercial basis to other public sector bodies and customers including finance, audit, risk & assurance, human resources and organisational development, property and estates, IT and digital, planning and building control services, environmental health etc. Traded income is reported in the respective team and service budgets.
- 5.13 The Commercial strategy and the council's commercial approach recognises that this is a whole council approach, not one that is simply focussed on property and land investments. The commercial team will work with teams across the council to capture and report all trading activities and provide further information, advice and guidance to grow commercial activity. Trading performance shall also be reported back to council on a regular basis via the quarterly revenue budget monitoring reports.
- 5.14 Officers will continue to provide updates on all commercial activities and progress being made to achieve the associated savings and income targets via a variety of means, including the quarterly capital and revenue monitoring reports for Cabinet and Council, regular reports to the Capital Investment Board and to the relevant Scrutiny Committee.

6. Legal Implications

- 6.1 The Council has a wide range of legal powers that can be considered when bringing forward projects that involve generating income and acting more commercially, whilst ensuring the Council acts within its statutory obligations as a local authority. The outcomes and outputs of the majority of commercial projects have other objectives and benefits that assist with the performance of the Council's functions.
- 6.2 At the commencement of a commercial project officers will identify and consider the appropriate legal powers that would enable the Council to undertake the project and specialist legal advice may be obtained in respect of these powers, particularly in complex projects or innovative projects for a local authority, to ensure that the Council's involvement in the project is not ultra vires and that the project is structured appropriately. This ensures that the appropriate and relevant legal powers are set out in all in their decision making.

7. Climate Change Appraisal

- 7.1 Energy and fuel consumption. This strategy supports a number of innovative programmes which seek to reduce energy use and fuel consumption and to be

more efficient, for example col-location and the creation of hubs to support service delivery and reduce journey numbers. This will have a positive effect.

- 7.2 Renewable Energy Generation. Exploring the potential to lead on renewable energy generation projects is one of the key themes the strategy supports. This will have a positive effect.
- 7.3 Carbon offsetting or mitigation. This strategy does not directly make decisions on carbon offsetting or mitigation. This will have no effect.
- 7.4 Climate Change Adaption. The purpose of the strategy is not to seen specific measures which will help Shropshire to adapt to the effects of extreme weather, so will have no effect.

8. Background

- 8.1 The council's first commercial strategy was approved in March 2017. This set out our ambition 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. This ambition does not change.
- 8.2 Since the 2017 strategy was approved a number of external factors have impacted on our commercial activities, including opportunities and constraints, for example:
 - 8.2.1 There is a much greater willingness for public sector partners to work together, which is opening up new opportunities and markets.
 - 8.2.2 We are operating in a competitive market particularly in relation to property investment and our desire to focus on our economic area and administrative boundary means that the number of investment opportunities is restricted geographically.
 - 8.2.3 In addition it is not realistic to expect returns of 5% if we have to borrow for every project.
 - 8.2.4 There has been a change in demand for our traded services from some of our traditional markets such as education as a result of academisation and greater competition from the private sector. Academy trusts have become larger in scale and ever more challenging in terms of expectations on price and levels of service.
 - 8.2.5 New customers and markets have emerged in terms of trading which include the housing sector, public sector partners in particular health, town and parish councils and private sector customers.
 - 8.2.6 Borrowing through PWLB over 35-50 years is increasingly common depending on the whole life assessment of the asset and length of term of the associated property leases.
 - 8.2.7 Investment in new service delivery models for housing, health and care services along with public to public sector collaboration such as the council's

investment in medical practices allows services to be integrated and designed into primary care networks at reduce cost and with long term revenue streams for the council.

8.2.8 Different capital funding models are being reviewed which involve private investors, in particular pension funds, seeking to use the council's covenant strength to gain long term financial returns. Income strip schemes are becoming prevalent whereby the commercial risk and investment is borne by private funders with councils shaping the developments and becoming a tenant with sub tenants delivering a long term net revenue return to the council.

8.2.9 The requirement to reduce the council's carbon footprint, rationalise and re purpose under utilised and energy inefficient buildings and enable our workforce to use different methods of travel and digital tools to undertake their work provides opportunity to achieve savings and generate income for the council.

8.3 Since March 2017 the council has through its workforce development strategy implemented a leadership and development programme for senior and future leaders that includes training and development in respect of commercial culture, techniques and methods. Staff engagement and feedback has been extremely positive with an increasing number of service teams seeking to be innovative, more efficient and seeking ways of generating income from their business activities.

8.4 Officers recognise that commercial activity needs to be captured, measured, reported and scrutinised across all areas of the council. A quick win be for a baseline volume and value of commercial activity to be captured and reported using consistent accounting codes in business world against which growth in commercial activity and income can be measured and consistently reported.

8.5 Members of the commercial team will work with colleagues to ensure that information, advice and training will continue to be provided for council staff who aspire to be commercial in their approach to delivering high quality services to their customers and stakeholders.

9. Conclusions

9.1 The council has undertaken a range of commercial activities, including property investments and trading professional services, since the first commercial strategy was approved in March 2017. Some valuable lessons have been learnt which have been incorporated into the new commercial strategy for 2020 to 2023.

9.2 Officers will continue to monitor the global, national, regional and local environment and seek further opportunities to invest in commercial activities that strength the county's economy, deliver new innovative ways of providing public services, enable our workforce to more flexible and agile and work with public sector partners building on our one public estate principles and delivery model.

9.3 Officers will continue to plan, appraise and implement a pipeline of commercial projects that will utilise the investment fund to deliver the revenue and income

generating targets, which in turn will help the council to become more financially sustainable.

- 9.4 Commercial and financial performance will be regularly reported and incorporated into the council's quarterly capital and revenue monitoring reports for Cabinet and Council.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Cabinet Members:

Cllr Steve Charmley, Deputy Leader and Portfolio Holder for Assets, Economic Growth and Regeneration

Local Members:

All Members

Appendices:

Appendix A: Shropshire Council Updated Commercial Strategy 2020 – 2023