

Shropshire Council

Commercial Strategy

Updated 2020-2023

Innovate to Thrive



Shropshire
Council

Foreword

At Shropshire Council we continue to think and act commercially in terms of how we do business and how we provide services for people and customers. We are constantly reviewing ways of innovating, reducing cost and generating income. Our commercial strategy has been updated to reflect what we've learnt since the first strategy was adopted and how we shall respond to market changes nationally, regionally and locally. We shall continue to invest in our workforce, our estate and in digital technology to enable the council to become more financially sustainable. We shall invest in land and property in the county which helps to regenerate our towns and grow our economy. We shall invest in housing to address unmet need and invest in buildings and infrastructure that allow us to provide services in a more integrated way for local people. We shall also support our Climate Change commitment and seek innovative and commercial ways of reducing the council's carbon footprint.



Mark Barrow,
Executive Director of Place

Shropshire Council strives to provide better services and outcomes for people and customers. The need to act in more innovative and commercial ways remains a key focus to enable the council to become more financially sustainable.

We continue to provide a range of high quality professional services for customers and sectors within Shropshire and beyond our administrative boundary. Our staff have received training, advice and encouragement to be more commercial and by working together they continue to do this successfully.

The council has invested in property and digital technologies to improve how and where we do business and provide services for Shropshire residents. We have set up a housing company to address unmet housing need.

We have found some of our property investment targets set in 2017 difficult to achieve however we have demonstrated with schemes such as the Tannery in Shrewsbury that we can regenerate areas, create jobs, provide accommodation for learners, provide energy efficient buildings and generate long term income streams for the council. We can and will do more of this in partnership with others.



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

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2. Vision and Purpose

All local authorities are facing a perfect storm of budget shortfalls, market competition and reduced resources, along with increasing demand for essential services, including the current crisis facing adult social care. Driving up income generation to meet budget shortfalls is essential.

Our corporate vision 'Innovate to Thrive' recognises that in this climate we can no longer continue to deliver services in the traditional way that local authorities have been accustomed to and rely on traditional funding sources. We need to find ways of investing to simultaneously earn both a financial, environmental and social return.

We recognise the need to take more control of our own destiny and become a financially sustainable council. One which embraces an innovative and enterprising culture in terms of how we think and act to ensure we deliver high quality services and outcomes as efficiently and effectively as possible for our residents.

Our Commercial Vision

We aim to be consistently innovative and resourceful, whilst being as efficient as we can be at all times. We will collaborate with partners and invest in schemes and projects that improve outcomes for Shropshire residents, reduce costs and seek ways of using our assets to generate additional income.

Our collective mission is to think and act more commercially, acting within the law and with resources available, help enable the organisation to be financially sustainable.

What does being commercial mean?

The contribution that commercial activity can make to minimise the impact of funding cuts is vital to our future.

Acting commercially is really just running our organisation well, making sure that we maximise opportunities to generate income through new revenue streams and capital receipts, whilst also seeking to adopt innovative ways to work more effectively and create savings as a result.

Shropshire Council defines a commercial project as one which makes a return, saving or receipt beyond what it costs to the council. We also recognise that a project may result in the creation of an asset of capital value, as set out in Capital Strategy.

The core aim of this strategy therefore is to deliver a financial return, which contributes to the Council's spending plans and helps to sustain priority outcomes for the county's residents.



3. Links to other council strategies

The Commercial Strategy responds to, informs, and works with, the following:

Shropshire Council Corporate Plan 2019/20 to 2020/21

Our vision:

Innovate to thrive

Our 6 Priorities are:

- More people with a suitable home
- Care for those in need at any age
- A good place to do business
- A healthy environment
- Sustainable places and communities
- Embrace our rurality

The Commercial Strategy will support the Council in generating income and savings which are set out in the council's financial strategy. This is essential to close the spending gap and protect service delivery. Our performance will be monitored via the quarterly financial monitoring reports for Cabinet and Council.

Planned Capital & Investment Strategy 2019/20 to 2023/24

The Capital Strategy 2019/20 to 2023/24 sets out the importance of effective commercial activity and robust investment property decision making, as well as their relationship to our asset management processes. The strategy also identifies the provision of an investment fund, for commercial projects.

Housing Strategy/Housing Development Company

The engagement with the Council's housing development company remains a key driver for the next five years. The company will establish new sites and a pipeline of opportunities exists across the Council. This strategy will support work to identify further opportunities for housing of all types, including those of a purely commercial nature, but also those in emerging markets, where we may wish to intervene in order to drive forward the benefits and those which deliver new housing models to support enhanced service delivery to our residents.

Economic Growth Strategy

Enablement and delivery of the economic growth strategy has and continues to be one of the Council's highest priorities, whether continuing to invest in successful infrastructure (business parks or industrial estates) or enabling future investment so the Council can take a key role leading in place shaping. Many commercial projects will have the twin aims of supporting economic growth as well as generating returns, so these two workstreams will continue to mutually support one another.

Asset Management Strategy

This Commercial Strategy sets out the strategic objectives for commercial activity across the Council, the framework for their delivery and a number of the targets relate specifically to property investment and development. The Asset Management Strategy provides the foundations for these aspects.

Climate Change/Carbon Emission Reduction Strategy

The Commercial Strategy seeks to identify, lead, support and measure positive action on climate change, not only where this generates energy and cost savings, but also where this presents commercial opportunities in which Shropshire Council can act as trailblazers in new markets.

One Public Estate

Central to this strategy is the principles of a One Public Estate. This strategy commits the Council wherever possible to engage with partners with a view to exploring co-location options and the potential for sharing accommodation, services and other assets. As well as efficiencies this commitment has secondary benefits such as income generation through renting surplus space to partners, the ability to free up complete sites or buildings for alternative use such as housing and also the ability for staff from different parts of the public sector to work, share and learn together to improve front line services for residents and customers.

Heritage and Cultural Strategy

The heritage estate, owned and managed by Shropshire Council, can be defined as the buildings, monuments, sites or places that have historic significance sufficient to merit consideration in planning and other statutory decision-making processes.

Due to their condition, limitations and viability of potential and permissible uses, many heritage assets cannot be self-sustaining. However, where there are opportunities for us to innovate, to maximise their potential for income generation and manage them as effectively as possible to reduce subsidy and therefore financial pressure on the Council, this strategy enables that activity.

Workforce Digital Strategy

In 2019, Shropshire Council signed up to the Government's Digital Declaration. The council's corporate vision is to ensure those we serve benefit from digital technology in an ethical and inclusive way. There are six commitments being;

1. Use technology to improve our services for everyone, making digital the preferred way to operate, communicate and transact with our customers, colleagues and partners.
2. Digitise all our data, records and reports to enable agile working, transparency and slicker decision-making, whilst reducing our need for physical assets for work and storage.
3. We will greatly increase the use our data to promote better business efficiency and improved customer service.
4. Develop technology (as well as public spaces and workforce) that enable us to be agile, flexible, adaptable and responsive to change.
5. Instil a 'curious' culture that values, incentivises and expects continuous service improvement and digital ways of working from every member of staff.
6. Develop and train the next generation of technology users – both the general workforce and the staff that support and maintain digital services - reducing our reliance and cost on external consultants.

Commercial activity and thinking needs to be embedded in the organisation at all levels and this strategy sets out a number of examples of existing good practice and future opportunities. The strategy enables change and promotes agile and mobile and flexible working where appropriate and effective for the workforce, as well as leading on new models of service delivery and driving forward performance improvements and efficiencies.

The commercial services team will work closely with ICT and digital enablement team, and the HR and organisational development team to help deliver the objectives of the workforce digital strategy.

4. Background

The National Picture:

Amidst financial pressures and significant reductions in Government funding local authorities are increasingly turning to treasury investment in property and other commercial activities to generate income and the proportion of local authority income from income generating activities has increased in all but two regions.

HCLG financial statistics show that the proportion of capital kept in the bank has fallen and levels of investment increased. A third of Councils have increasingly invested in property since 2010, but also in bonds, commercial investment and inter-authority lending.

Whilst the ideal scenario is investing to earn, with a financial and social return, leading to Council’s striving to achieve multiple strategic outcomes, as well as income for the same spend, this generally results in lower returns.

Many councils are now turning to commercial investment funds to generate income at higher rates of return, in order that social outcomes can be gained indirectly from the financial gain when the income is reinvested in public services.



National Audit Office

Ministry of Housing, Communities & Local Government

Local authority governance

28.6%

real-terms reduction in local authorities’ spending power (government funding plus council tax), 2010-11 to 2017-18

£2.5bn

increase in local authority spending on acquiring land and existing buildings from 2015-16 to 2017-18, much of which is for commercial investment purposes

34.2%

real-terms decrease in spending on corporate and democratic support services by local authorities from 2010-11 to 2017-18



Most councils use trading powers to provide professional services to others in the public sector and also to the private sector. Councils must be more innovative and commercial in their approach.

What we have achieved:

The original Commercial Strategy was written in 2017 and covered the period from 2017-2021 and we recognise that some of the aspirations in it were not achievable and that progress has been slower than we would have hoped in some areas.

There are a variety of reasons for this including changes in the economic environment, changes to legislation, changes to statutory guidance, changes to borrowing rates and the appetite to risk from all parties in the commercial market.

However, we have achieved a number of successes, some examples of which are:

- Significantly increased awareness of our need to think and act more commercially, across the whole authority. This has been embedded in the officer Leadership and development programme, now in its third year.
- We have several projects in delivery. One example being The Tannery will deliver a durable income stream, whilst also working with partners to support the University Centre Shrewsbury, help to regenerate the West End and improve the health of residents in Shrewsbury, in a modern building with high environmental standards.
- A new standardised approval process for the appraisal of capital projects has been established and rolled out across the authority via the Strategic Project Officer Group.
- We have set up a wholly owned housing company, who are working towards bringing forward their first developments.
- Further investment opportunities are being generated via an established network of agents and advisors and triaged and appraised according to our robust processes.
- We have undertaken extensive research, reviewing good practice, networking and learning from other local authorities, other partners and specialist advisors.
- This new strategy has been prepared in response to everything that we have learnt.

Some specific service area examples of effective commercial activity include the following:

- Shire Services have steadily increased their number of traded contracts and 2019/19 was the first year in which the number of traded contracts outnumbered the Shropshire Council ones. A number of schools' contracts, which had previously moved away from Shire Services are now starting to return, having found that the other models are not as good.

- The Finance function have offered a number of accountancy services to external organisations including provision of the Council's financial system and support services in relation to this, and the production of financial statement for a number of organisations. Recently the service has decided to invest further in developing the commercial offer and has recruited to a new role that will develop the commercial offer for Finance, develop a brand and lead on bidding for further commissions. As a result of this investment, they have now secured a new contract to deliver a full suite of accountancy and finance support services to an external company and the service is hoping to build on this further by providing the use of the Council's new ERP system which provides enhanced financial reporting specifically to the Academy market.
- Property Services Group continue to position themselves as a commercial trading entity providing services and delivering projects to a larger number of customers across different sectors in particular education, housing, health and care.
- The Highways Team have identified and initiated a programme of developments and innovations, including utilising all assets available from various partners and stakeholders to identify a more sustainable and efficient model of providing transport solutions for clients, such as moving people to healthcare sites from rural communities; smart ticketing and dynamic scheduling.
- Theatre Severn and the Old Market Hall enjoyed their best trading year in 2019/20 with income continuing to grow and profits increasing.
- The Human Resources and organisational development team has expanded the volume of contracts it has with public sector bodies and also private sector companies.
- The council's ICT and digital team is providing services to other public sector organisations and is spearheading digital enabling work within the health services Sustainability and Transformation Programme.
- Public protection officers are providing professional advisory services for public sector and private sector customers.

A key feature of the next phase of work for the Commercial Team, will be capturing this commercial activity across the organisation, establishing a baseline performance and monitoring improvements and interventions.

We will also be placing greater emphasis on sharing and disseminating good practice across service areas.

How the external landscape has changed:

Since the original strategy in was written in 2017 a number of external factors have impacted on our commercial activities and have brought both opportunities and constraints, for example:

- There is a much greater willingness for public sector partners to work together, which is opening up a significant number of new opportunities and markets.
- There has been a change in demand for some of our traded services from the education market as a result of academisation and greater competition from the private sector. Where a number of schools initially moved contracts to private providers, we are finding some returning as they find the other models cannot provide the same level of service.
- Borrowing through the Public Works Loan Board over longer periods, for example 35-50 years is increasingly common, in order to reduce the cost of borrowing and increase the viability of projects. Internal borrowing for commercial investments is also common to maximise the returns, along with different funding models such as investment bonds.
- 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.
- 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.
- 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.

What we have learnt:

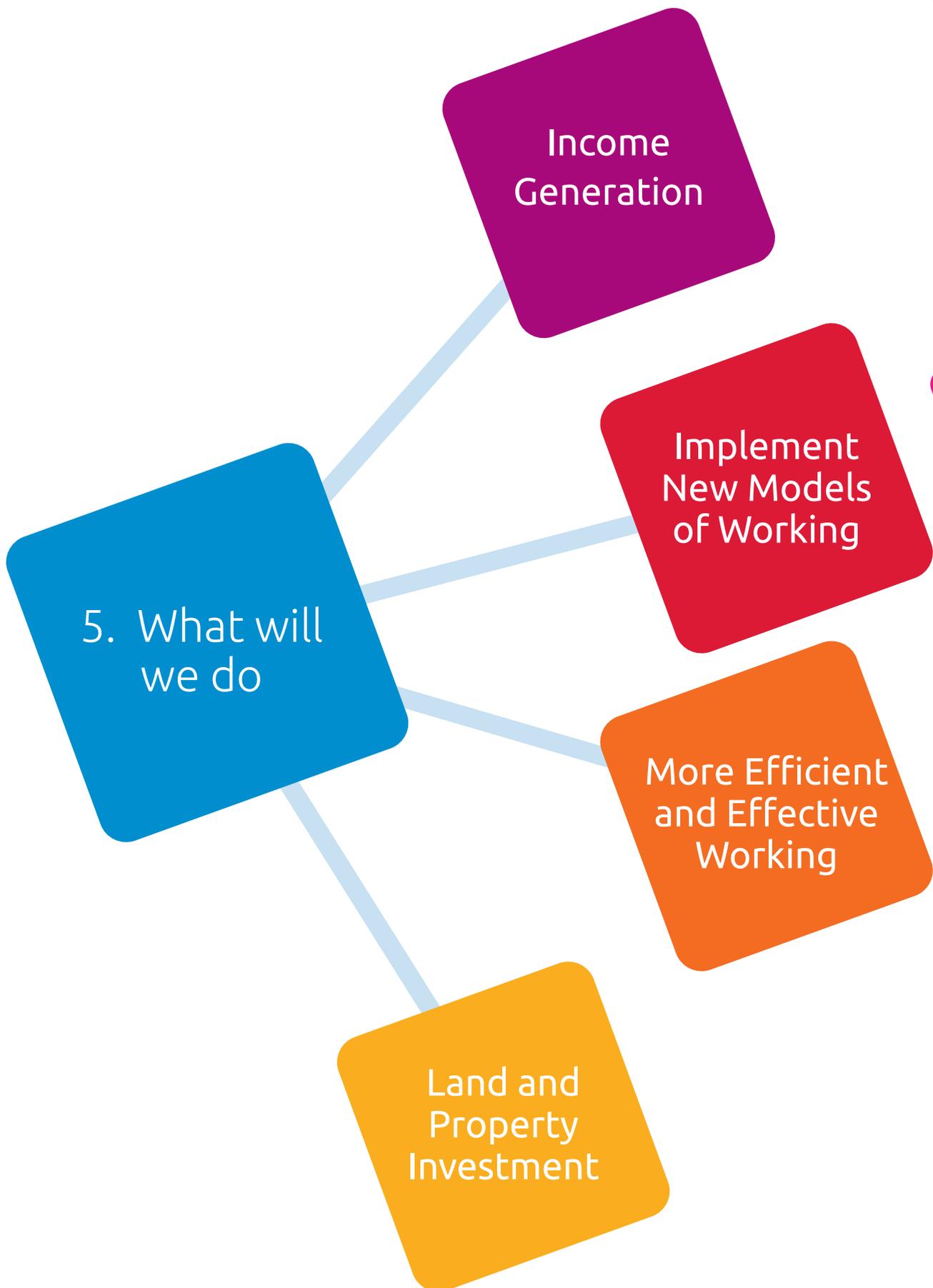
As we transform into a more innovative and enterprising organisation, we recognise that some of our business processes, procedures and delegations are not established with commercial activity at the fore. These may need to change.

- To date land and property investment decisions are made on a case by case basis through full council. Primarily this is to seek approval for capital budget for a project that has not been included in the capital programme at the start of a financial year.
- Many local authorities have established a set of pre agreed criteria for property investment decisions and with delegated approval to a steering group, which enables investment decisions to be turned around more quickly. This is something we aim to look at replicating.
- Many local authorities have established an investment fund within their capital budget and capital programme that sets out the level of funding it shall provide and for what purpose. This is something that we have done by establishing an £80m investment fund covering the period 2019/20 to 2022/23.
- Our current financial appraisal processes make investment projects difficult to measure, due to the borrowing thresholds. We need to consider how we reflect the true value of an investment, including things like the asset capital growth.
- We are limited by the natural, physical and brand assets in Shropshire and operating within our administrative boundary creates a small and competitive market, with commercial fund managers and property developers cherry picking the best investments.



- We will potentially be looking at a greater number of second tier and defensive investments, which link into our wider place shaping and strategic development aspirations.
- We have also learnt that pension funds view the council as having covenant strength as an entity in the investment market. We are researching further how this covenant strength can attract private sector investment into the county and create secure and long term revenue income for the council.
- We need dedicated resources to identify, appraise and scrutinise opportunities at pace, in order to take advantage of emerging opportunities.
- We need to extend the commercial awareness, training and development programme to a wider number of staff along with a greater understanding of what can be done legally and commercially by the council.
- Lower risk usually means lower yields, so we need to manage expectations accordingly, but also find ways to measure the wider value added by the investment. Chasing yield is not always a good measure of success.
- We need to ensure that we have robust asset management processes and resources required to avoid income leakage.
- We need to extend the commercial awareness, training and development programme to a wider number of staff along with a greater understanding of what can be done legally and commercially by the council.





6. How we will we do this

Income generation

- We will identify further opportunities for local authority trading, to provide new services that the market either does not currently supply or where a lack of competition detrimentally impacts on value and quality.
- We will understand how providing regulated services over and above statutory obligations can add social value or plug a gap where the market isn't working for residents, businesses or visitors.
- We will establish a baseline of income generating activity, against which interventions and projects can be measured.
- We will ensure full cost recovery, where possible, in respect of the provision of non-statutory discretionary services and those statutory services that permit the charging of a fee.
- We will ensure that fees and charges reflect market rates and are regularly benchmarked against other service providers and robustly reviewed each year through a systematic process that avoids simply making annual uplifts.
- We will fully understand our relative commercial position and bargaining power in the market place.

New models of working

- We will be bold in our thinking when considering alternative delivery models, including those in partnership with other public sector partners.
- We will use and share data intelligently and with greater insight to inform how we influence and manage the demand for public services in ways that deliver better outcomes for Shropshire people and Shropshire Council.
- We will enable communities to become more independent and channel shift away from high cost transactional services, recognising that through greater use of technologies we can create cashable and non-cashable efficiencies which enable investment elsewhere across the Council, to enhance the sustainability of service provision.
- We will explore opportunities to develop shared services and manage our assets, vehicles and equipment more collaboratively between Shropshire Council and other organisations. This will lead to a reduction in costs and carbon emissions.

- We will deliver innovative new housing and care models, which support focused service delivery for our most vulnerable residents and enable greater independence.
- We will explore opportunities for co-location and joint commissioning with other public sector partners.
- We shall work in a more flexible and agile way, reducing the council's carbon footprint and equipping staff with digital tools and more effective systems to be more effective and efficient in their work.

Efficient and effective working

- We will carry out service appraisals, including understanding costs and performance levels, benchmarked against similar organisations.
- We will ensure that commercially robust contract management processes are embedded within each service.
- We will exploit knowledge and expertise. Commit to the continuous personal development, training and investment in our staff through performance management systems.
- The Commercial Services team will work with colleagues to develop and support managers and staff to embed a commercial ethos across all services areas of the authority, supported by internal (and external, where appropriate) professional advice (legal, finance, marketing, ICT etc).
- We will modernise and transform service provision, reviewing the efficiency and effectiveness of services.

Land and property investment

First and fore most we shall invest in land and property in Shropshire.

This will involve land and property acquisition, development of existing assets and integration of staff and teams within the council and with partners to deliver more innovation and efficient ways of delivering public services.

In conjunction with the Asset Management Strategy and the Capital Strategy (which incorporates the Investment Strategy) the Commercial Strategy will drive asset led transformation, including investment in our existing estate and in new property projects which derive a return or saving.

This will result in a commercial portfolio, comprising of assets which are being held by Shropshire Council for the purposes of income generation and/or future development from which it may derive a return.

Investment/development will support the Council's capital investment programme to modernise / improve its service delivery.

Key objectives for property investment will be to:-

- Increase and optimise income for the council.
- Support economic growth and regeneration in the county to increase jobs and skills in sectors set out in the economic growth strategy.
- Support the delivery of education, public health and care services in Shropshire towns and communities.
- Support innovative and integrated ways of delivering public services in Shropshire's town and communities.
- Providing teaching and living accommodation for post 16 students.
- Mitigate holding cost in poorly utilised buildings.
- Enforce the terms of the tenancy arrangement in accordance with the lease.
- Maintain & improve overall property holding and value position.
- Balance a resilient income producing portfolio within an acceptable risk profile.
- Optimise capital value and development return within risk parameters.

These assets include commercially tenanted assets, operational assets where part is let out at market value, or operational assets which have been repurposed to support innovate service with secondary commercial drivers

7. Key areas for Investment:

Investment which facilitates economic growth and creates new jobs, skills and income for the council.

Investment in education, public health and care services in Shropshire towns and communities.

Investment which facilitates the right homes in the right place to support economic growth in key areas.

Re-design and re-configuration of assets or services that permits lower ongoing revenue costs.

New build or enhancement to existing assets to generate income.

Acquisition of land and property that facilitates economic and housing growth.

Assets that facilitate the release of other assets, where the net effect is an increase in value.



8. Key themes:

- **Corporate Landlord assets** – enhancing our commercial offer using our existing estate.
- **Innovation and development** – supporting economic growth and regeneration.
- **Housing, health and care** – designing and delivering hubs in local communities, new models of integrated housing, health and care service delivery.
- **Smart and sustainable** – supporting our agile operating model, maximising the use of digital technologies, investing in environmental technologies to reduce our carbon footprint.
- **Trading services** – expanding our trading services via public sector partners, the OPE and schools, as well as private sector clients.
- **Advertising, sponsorship and infrastructure** – using our physical and digital assets to generate income.



9. Responding to the Climate Crisis - Potential Investment Projects / Themes:

Potential Investment Projects / Themes:

1 Energy Efficiency (EE)

Capital investment will be required to simultaneously reduce revenue costs and improve carbon emissions performance to deliver the savings required by the Council's annual carbon budget. Estates and the Climate Change Task Force (CCTF) are expanding on the existing SEPUBu (Sustainable Energy in Public Buildings) programme to prepare a prioritised list of investment opportunities for our building assets. Funding may be required for individual buildings / projects or for a wider programme of energy efficiency measures for multiple buildings. Low cost borrowing (e.g. Salix) and grant funding may be available to offset / supplement direct investment by Shropshire Council. Early projects are likely to prioritise opportunities to make revenue savings as well as improving carbon performance. We also have the ability to provide leadership for commercial housing developers by example through the work we are doing with Cornovii.

2 Renewable Energy (RE)

Capital investment (and zero interest borrowing / grant funding potentially available) to generate a potentially significant revenue stream from under-utilised land assets and buildings.

Potential projects could include:

- a. Continuing our existing programme of building or ground-mounted Solar PV arrays;
- b. Investment in one or more wind turbines (to help meet the need for power at night or in winter months when the output from solar PV is reduced);
- c. Investment in hydro power (e.g. Shrewsbury weir or as part of North West Relief Road);
- d. Investment in battery or thermal storage to help counter daily and seasonal variations in energy demand and the need for resilience to meet peaks;

Co-benefits could include:

- a. **Community leadership** – leading by example and working in partnership, for example through West Mercia Energy to support investment and encourage other stakeholders to make similar investments;
- b. **Community resilience** – additional local renewable energy will help counter the risk that the energy needs of rural communities in Shropshire might not be met in future or might be more costly as the result of supply limitations which could arise from a significant increase in both local and national demand for renewable energy;
- c. **'Clean' growth** – Using our indirect influence, including our regulatory roles to support growth in the Shropshire economy which helps local businesses to adapt and become more resilient, as well as supporting expansion in both existing and new market sectors which will derive from the transition to a low carbon economy;

3 Carbon Offsetting

Whilst we must start by reducing our carbon emissions, it will get increasingly difficult to rely on this to sustain our trajectory towards net zero and we will therefore need to work with other landowners and managers to invest in carbon capture and storage projects and programmes.

Potential projects could include:

- a. Developing carbon capture projects using our own land assets (e.g. country parks);
- b. Acting as, or working with others to establish, a brokerage issuing validated carbon credits to businesses (e.g. airlines) and other organisations wishing to offset their emissions and using this revenue to invest in carbon capture and storage projects in Shropshire;
- c. Early progress towards these projects may derive from the work which the council is already doing promote the establishment of a county-wide tree planting initiative which may seek sponsorship from business and provide an opportunity for individuals to sponsor tree planting as a gift or as a memorial for loved ones, together with a potential project to apply 'biochar' as a carbon-based soil enhancer;

Co-benefits could include:

- a. **Community leadership** – leading by example and working in partnership, for example with Shropshire Wildlife Trust, Environment Agency, the Country Landowners Association or large estate owners, to foster land management projects and programmes;
- b. **Agricultural resilience** – projects are likely to help farmers make the transition to a low carbon economy by providing alternative sources of income;
- c. **Biodiversity** – carbon capture and storage projects will supplement land management changes which will be required to meet changes to agricultural subsidies post Brexit and national policies supporting ‘Biodiversity Net Gain’. The combination is likely to significantly improve biodiversity and environmental networks;
- d. **Community resilience** – projects are likely to also benefit ‘ecosystem services’ such as flood risk management and urban cooling which will enhance the ability of local communities to withstand the effects of more extreme weather events.



10. Managing Opportunities and Risk

When operating commercially there is both opportunity and risk. We have looked at what we have learned and spotted opportunities in both the property and the non-property areas of work, which have led to the recognition of the need for this refreshed commercial strategy, which is more aligned with our Asset Management Strategy and our Capital Strategy, enabling us to maximise opportunities whilst managing risks.

All commercial activity requires an element of risk and successful commercial activity is dependent on a supportive corporate culture and the availability of resources. Traditional public sector organisations are often considered to be slow moving and bureaucratic, with top down decision making and onerous permission regimes creating blockages to agility and innovation. Commercialisation, on the other hand, is characterised by swift decision making and a willingness to manage rather than simply avoid or minimise risk.

If commercialism is to be successful, it is necessary to ensure that managers are in position to pursue opportunities as they arise and to make commercial decisions, based on business need, whilst ensuring that robust and transparent procedures are in place to ensure accountability, compliance and consistency with corporate policy and values.

Certain things have already been put in place and we recognise the need for other processes to change and adapt.

Like an increasing number of other Council's, Shropshire Council have decided to appoint a specialist Commercial Investment team, with a cross directorate brief to provide expertise and impetus to investment projects and decisions. The team will be supported by specialist advice on legal and financial issues, as required.

This team will actively seek opportunities via a network of agents and contacts, as well as providing a 'one stop shop' resource able to carry out options and development appraisals for opportunities arising from within the authority, to score against pre-agreed criteria and put together business cases.

- Provision has been made in the financial strategy to cover the borrowing costs for a rolling investment fund of £20m each year for commercial investment projects.
- We have recognised the need to invest wisely and manage risk. We will develop a robust and pre-approved scoring matrix, which sets out and measures the spread of risk.
- We aim to put in place delegated powers to a steering group of no more than four to review business cases and to approve capital, subject to the business case being acceptable, from the commercial investment pot rather than having each project go to full council.
- We will put in place robust performance management processes to enable clear reporting on commercial yields, income generation and capital.
- We will put in place the right resources to deliver the processes and outcomes set out in this strategy.
- We will train people who understand commercial activity and good marketing and develop a network in the organisation to disseminate good practice.
- We will explore opportunities for alternative investment models, to reduce the pressure on Public Works Loan Board (PWLB), where the business case for doing so stacks up and the level of risk is acceptable.
- We will look to maximise opportunities to work public sector partners, in particular health as part of the Sustainability and Transformation Programme (STP) Five Year Plan in order to meet shared benefits.

11. Legal Considerations

As a public sector organisation governed by local government legislation, the Council has to operate within a complex framework of legislation which provides the Council with the legal power to generate income and undertake commercial and investment activities. This can cover income from charging for statutory and discretionary services, carrying out activities such as providing traded services to third parties (whether to make a surplus or recovery of costs), or acting purely for commercial purposes, undertaking financial investments and the various pieces of legislation set out any restrictions applicable to their use.

Before undertaking any commercial activity, the Council will need to make sure that its commercial activities are legally compliant, consider any increased risk to the Council, are compliant with relevant Council strategies (e.g. a financial investment will need to link to the Capital Strategy containing the Council’s investment strategy), have considered the Public Sector Duty within the Equality Act 2010, and are compliant with ‘state aid’ rules i.e. to ensure public funding is not used to subsidise commercial entities operating in a market economy.

Legal advice will be an early aspect of any development of commercial activities to ensure the Council will be acting within the legislative framework in undertaking the activity and to inform good decision making. Specialist external advice will be sought as appropriate.

Consideration will also need to be given to the statutory codes that comprise the CIPFA prudential framework, including the Prudential Code for Capital Finance in Local Authorities, in addition to the CIPFA Guidance on Prudential Property Investment.



12. Financial Considerations

The council is using capital to invest in property to provide a positive surplus / financial return. This takes into account financial savings resulting from investment. The council may fund the purchase of the property by prudential borrowing, via internal borrowing or external borrowing from sources such as the Public Works Loan Board as part of HM Treasury. The return or rental income paid by a tenant(s) should exceed the cost of repaying the borrowing with interest each year. The annual surplus would support the council's budget position and enables the council to deliver intended outcomes such as provision of services for local people.

The principal reasons for Shropshire Council to buy and own property investments are to secure a continuing service objective, to directly deliver service benefits and to promote economic development and regeneration activity in the Council's area: not primarily to take advantage of market and economic opportunities. Generation of financial returns from a property investment will normally be secondary to these principal reasons and the monies generated utilised to fund services to residents. However, there may be occasions where the Council decides to acquire a commercial investment to purely generate a financial gain.

The capital strategy makes it clear that the Council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process and assessment of risk.

The council has committed £80m of capital funds over the period 2019/20 to 2022/23 to capital projects which deliver a commercial return.

The council shall raise income from investment in assets in accordance with the targets set out in the financial strategy.

Shropshire Council
Commercial Strategy

Updated 2020-2023

Innovate to Thrive



Shropshire
Council