

Commercial Strategy 2017-2021 (Interim Update 2019)

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Purpose of the Report

1. This report is a mid-term review of the Commercial Strategy 2017-2021 which was originally approved by District Executive and Full Council in August 2017. This was a brand new strategy and area of business for the Council at that time. It is linked to the Transformation programme to achieve financial savings and income targets needed to ensure the Council's financial stability for the future. It also aims to implement the new ways of working that the Council wished to adopt including becoming a more ambitious and commercial organisation.
2. The strategy is now two years into its four year programme. A number of matters have evolved during this time, including corporate objectives, funding requirements, audit outcomes and experience of operationally implementing the governance.
3. This report seeks approval to update and strengthen the Commercial Strategy to ensure that it is fit for purpose until 2021, by taking into account:
 - a. approval of a new investment fund requirement to align with the council's Financial Strategy.
 - b. adoption and incorporation of the Commercial Strategy Audit recommendations
 - c. minor revisions and improvements to the Commercial Strategy by way of written clarifications and additional explanations; to aid understanding to the reader and those using and being guided by it.

Public Interest

4. The Commercial Strategy 2017-2021 (Interim Update 2019) at Appendix 1 of this report is of public interest because it sets out how the Council aims to become a more commercial organisation, and what it needs to achieve by way of annual net income, in order to ensure that services to our communities are not cut and can continue to be funded into the future. Additionally, how it will meet the Council's Vision and wider corporate objectives that link to commercial activity and support them.
5. It also explains how we will resource those aims to achieve the income targets and other commercial objectives. It outlines the governance arrangements for how we will invest money, categorise our assets and acquire and dispose of them.
6. The revised strategy, at Appendix 1, includes a number of changes to update and improve the strategy with the experience of the last two years and incorporate changes that have emerged during that time. It aims to give greater clarity in some areas which have been noted during the last two years, to incorporate the audit's minor recommendations and to strengthen the governance arrangements further. This report and updated strategy aims to ensure that the strategy is fit for purpose until 2021 and updates financial targets to align with the Council Financial Strategy and emerging needs for future annual net income.

Recommendations

7. That Full Council:
 - a. note that District Executive approved the Commercial Strategy 2017-2021 (Interim Update 2019) as per the attached revised Strategy at Appendix 1
 - b. note that District Executive approved that any capital received from the disposal of investment assets (only) are used as part of a revolving investment fund, unless specifically agreed otherwise by council.
 - c. approves an increased investment fund limit and borrowing limit to take the council through to 2021, as set out at Appendix 2 as a Confidential item.
 - d. agrees the increased level of delegation of individual investment / acquisition approvals to the CEO in consultation with the Leader as set out at Appendix 2 as a Confidential item.

Background

8. The Commercial Strategy 2017-2021 was approved by District Executive and Full Council in 2017. To date it has been very successful in its implementation. Having committed £73.44m of the existing fund into a range of investments to date in 2019, a portfolio wide running yield on commercial property interests of 6.61% improving to 7.25% in 2020 has been achieved. This is to be compared against the target of 7% set in the initial Commercial Strategy 2017-2021. This equates to £2.0m or 91% of our annual net income target of £2.2m set in 2017 and required by 2021 from commercial property investment, ahead of schedule. SSDC has also been awarded a national MJ Achievement of Highly Commended for Best Commercial Council.
9. During this time, we have gained experience in implementing the Commercial Strategy and working with it and noted some areas that could be improved upon. Additionally, the Council's funding requirements have grown due to further central government cuts and ambitions in the Council Plan have been formulated in more detail. A review of the experience of working with the new commercial governance arrangements has been undertaken and this year we were able to undertake the first Commercial Strategy audit. This had a very positive outcome and made some minor recommendations for the strategy, which are incorporated into this updated Commercial Strategy.
10. All of these factors have led to a number of minor recommended revisions, including more detailed explanations and clarifications being considered appropriate. Financially, an additional investment fund will be required to take the Strategy to 2021 and align with the council's Financial Strategy revised funding requirements of council services into the future. These updates and investment funds will ensure that the strategy has evolved with external market and funding changes and is even more relevant and robust, so that it remains fit for purpose for the remainder of its term until 2021.

Summary of Key Changes in the Commercial Strategy 2017-2021 (Interim Update 2019)

11. Whilst the majority of the Commercial Strategy remains unchanged a summary of the headline updates are given here for ease of reference as to what has been changed:
 - The annual net revenue target has been increased from £2.2m p.a. to £3.35m p.a. by 2021/22 financial year – in line with financial strategy and new projections for revenue requirements. This will require an additional investment fund to be approved. Please see confidential item at Appendix 2.

- A more detailed explanation and definition for property portfolio target yields/returns of 7% and what the net revenue return of 3% + means in line with the Financial Strategy and to aid understanding of the differences between the property market perspective when acquiring assets and how the Council in house accountancy requirements deal with and present the net income, which also explains what happens to the margin between the 7% return on investment and 3% target net revenue.
 - Investment Fund purpose: Clarification on what the investment fund can be used for. This includes new and existing assets, where they are categorised as investments e.g. the asset is held purely for investment/income purposes. This would NOT include our operational buildings and land, community assets or strategically held regeneration assets.
 - Strengthening of Investment Assessment Group (IAG) and Disposal Assessment Group (DAG) governance: Whilst the audit was very satisfied with existing governance procedures, internally it was felt that this could be more robust. Therefore, official deputies for IAG /DAG members are now provided with delegated authority. Experience has shown that there are occasions where group members are conflicted or absent. Having official deputies for each member role on IAG and DAG ensures a full and broad debate, challenge and wider representation to the recommendation making process. For example: it is proposed that the Portfolio Holder for Income Generation will now have the Portfolio Holder covering Finance as their deputy on these groups.
 - Income & Opportunities Development role in Commercialisation: This was a brand new role approved in 2017 and further clarity and explanation of the extent of this role and how it will shape the commercialisation of the organisation internally and externally is now provided.
 - SWAP Audit Recommendation: The audit recommended removal of reference to the Income Generation Board in its previous guise, as members were not appointed with any formal delegated authority, it was considered to be a 'think tank' and therefore held no place in the Commercial Strategy. This has been replaced with an explanation of the WeShape forum which will take income generating ideas forward with the relevant Portfolio Holder oversight, or their nominated member deputy to work with the service the idea relates to and the Income and Opportunity Development Manager to drive forward. This increases councillor involvement in the commercialisation of the council services.
 - Capital Receipts: Capital receipts received from the disposal of assets needed further clarification as to what they will be used for. This is now more clearly defined in the strategy. In summary they will be used either as a revolving investment fund to invest into more income producing assets that meet the strategy requirements for all assets categorised as Commercial Investment, or otherwise as approved by capital decision making arrangements.
12. In terms of how the Commercial Strategy has been implemented and how the council is performing against its targets and objectives, formal reports on assets are provided to District Executive every 6 months, with the last update report in June 2019 and the next due in December. In summary, to date we are ahead of schedule towards achieving and identifying income to meet the 2017 known income shortfall by 2021; and achieving the target yields/returns across the portfolio investments to date. However, due to market conditions and uncertainty around financing costs the S151 Officer has prudently budgeted for income slightly below target from the current investment fund limit.
13. In recognition of the Council's successful progress in commercialisation and commercial achievements to date, the council were awarded the MJ Highly Commended Achievement Award, for Best Commercial Council, winning joint second place nationally. This also demonstrates that the Council is raising its reputation in the commercial sector and meeting its ambitions to thrive. All

commercial activity to date has been based around the Commercial Strategy and the Council's implementation of it has worked exceptionally well. This coupled with a very positive outcome of the first Commercial Strategy Audit is extremely positive news for South Somerset. Therefore the Interim Update of the Commercial Strategy is timely to take us forward for the next 2 years.

Financial Implications

14. Please refer to Appendix 2 for the Confidential Item detail in relation to a new investment fund to take the Council forward to meet its revised financial needs in line with the Financial Strategy of £3.35m per annum of net revenue.

Council Plan Implications

15. Council Plan Priority - Protecting Core Services – Commercial Strategy.

Carbon Emissions and Climate Change Implications

16. Commercial Investment has already enabled provision of new sustainable energy infrastructure in Somerset. Further opportunities will be considered. Otherwise, the interim update report on the Commercial Strategy does not have any carbon emission or climate change implications.

Equality and Diversity Implications

17. There are no equality or diversity implications associated with the interim update report on the Commercial Strategy.

Privacy Impact Assessment

18. There are no adverse personal data implications to this report.

Background Papers

- Commercial Strategy 2017 -2021 (non-confidential papers)
- Appendix 1 Commercial Strategy 2017-2021 (Interim Update 2019)