

Review of SSDC Commercial Strategy

Executive Portfolio Holder:	Councillor John Clark, Portfolio Holder for Economy / Income generation and commercial services
SLT Lead:	Jill Byron, Solicitor and Monitoring Officer
Service Manager:	James Divall, Assistant Director (Strategy and Support Services) Robert Orrett, Commercial Property Land and Development Manager
Contact Details:	Robert.orratt@southsomerset.gov.uk or 01935 462075 James.divall@southsomerset.gov.uk or 01935 462261

Purpose of the Report

1. To provide members with a brief review of the Commercial Strategy 2017-2021 and recommend a course of action to cover the period to 31 March 2023, following which the new Somerset Council will take responsibility. The original Strategy was launched in August 2017 and was the subject of a mid-term review in late 2019.

Forward Plan

2. This report appeared on the District Executive Forward Plan with a revised anticipated Committee date of March 2022.

Public Interest

3. This report provides a summary of the history and targets of the Council's Commercial Strategy and makes recommendations for period to 31 March 2023. The general strategy of being more commercial across all council activities to support financial efficiency and value for money will continue, but new investment primarily for yield (e.g. commercial property investment) ceased in December 2021. The commercial property investment portfolio will be retained by the Council and proactively managed to optimise returns over the longer term and continue to provide revenue returns to fund core services.

Recommendations

4. That District Executive:
 - (i) recommends to Council that the report be noted and the Commercial Strategy continue to 31 March 2023 subject to the amendments set out in paragraphs 17 and 18 of this report; and
 - (ii) authorises the Monitoring Officer to take such steps as are necessary to dissolve two of the Council's subsidiary companies, SSDC Business Solutions Ltd and Elleston Services Ltd.

Background



South Somerset District Council

5. The Commercial Strategy 2017 – 2021, originally adopted in 2017, was updated as part of a mid-term review in 2019 (Appendix). A key intention behind the strategy was to deliver an income for the Council to cover a predicted revenue shortfall, to enable the Council to invest in its priorities (such as regeneration of the market towns) and avoid cutting services (paragraph 1.2.2).
6. Embedding commercial principles and a commercial mind set was key to the strategy (section 1.3), in particular through the application of commercial principles to the Council's operations. The plan was to continue to grow revenue through commercial investment and the development of a commercial services offering to third parties by adopting a commercial approach to income generation (section 2).

7. The objectives set out in the strategy were as follows:

Business Services Objective (3.1) - Each and every business service will look to enhance its yield by 5% p.a. commencing from 2017/8 by reviewing fees, charges, processes, the cost of delivering services and potential to deliver new added value services

Income Generation Objectives (3.2) - to progress investment property proposals that offer a target 7% return on investment across the investment term adopted, and/or provide a consistent balance to the overall investment portfolio in terms of security, liquidity and spread

Other Corporate Plan Objectives and Social Value (3.3) - projects that do not meet income generation criteria but provide some financial return and bring collective benefit to the community in accordance with Corporate Plan objectives will be considered under the appropriate strategy/policy. They will have a different form of assessment criteria and their primary objective may be to deliver a service of community benefit rather than income.

8. A team was put in place to lead delivery of these objectives. Delivery against the objectives was to be measured in the following manner (5.1):

- the level of additional income generated;
- successfully embedding a commercial culture across the organisation by developing and upskilling staff to be more commercially aware, enterprising and innovative;
- increasing commercial activity, demonstrated by the level of additional income achieved, for example by an increase in contribution to fixed costs and overheads or staff costs;
- reducing the net service budgets by reducing variable costs;
- measuring and monitoring additional investment income for increases in turnover, profit and return on investment, as appropriate;
- setting income targets teams that can/are charging for services;
- setting efficiency targets for all teams

9. Additional targets were set as follows (5.2):

- to maintain the Commercial Property, Land and Development Team and deliver new income from Housing, Energy, Property, Land and Development.



- to complete the first investment and commercial programmes delivering a minimum of £2.0m per annum of revenue from property investment and £500k per annum of revenue from commercial services and other service income by year end 2019/20.
- to deliver a minimum of £1.35m per annum of revenue by 2021/22 via the additional capital investment of £75m as outlined in the Financial Strategy and commercial activity and/or existing asset management, be that renewables, commercial or residential property investment, regeneration or development, with a target average of 7% return on investment across all new commercial investment proposals. This will equate to a lower net revenue of 2.5% to 3%, or more, available to the council after accounting and financing provisions.
Note: this additional amount increased the capital pot from £75m to £150m as part of the 2019 review
- to deliver an additional £150k per annum of revenue from commercial services and other service income by year end 2021/22.
- to deliver the Property Project review recommendations for existing assets including potential for disposal, for investment in change of use and retention or letting of existing assets by 2021.
- to review all fees and charges and look to increase them in line with inflation annually, or where more appropriate every four years, in order to maintain 'true value' and cost effective fees and charges.
- to deliver a 5% per annum improvement in yield collectively across all internal services.

Commercial Strategy Review

10. Pre-pandemic, the Council saw positive strides in working towards meeting the 5% yield with a 2018 calculator measuring a 4.6% yield across the organisation (Business Services Objective). Additionally, new strategic projects such as the Electric Vehicle charger network, the council building decarbonisation programmes and the council trading companies were established, in order to create income or provide efficiencies through better operating systems (Other Corporate Plan Objectives and Social Value).
11. The Covid-19 Pandemic had a significant impact on the Council's ability to operate and generate commercial income from services. Within six months of the 2019 Review, key commercial service officers were re-deployed to support pandemic response and recovery efforts leaving little capacity to focus on the strategy's initiatives to drive income generation and efficiencies within service review and design.
12. Some of the projects delayed by the pandemic are still live and in time will bring returns to support income generation targets.
13. The Council now owns a substantial commercial property investment portfolio and the specialist team employed to deliver acquisition and asset management is continuing to adjust their focus to concentrate on asset management as the scale of the portfolio has grown towards its target size.



14. District Executive receives regular bi-monthly reports on the financial objectives set out in the Commercial Strategy so this report does not touch upon those aspects. Those reports will continue to 31 March 2023.

Commercial Strategy Update

15. The Commercial Strategy would be due a detailed review if it were not for local government reorganisation, with the Council becoming part of a new Somerset unitary authority on 1 April 2023. Commercial matters form an important part of many of the LGR Programme work-streams and the expertise from South Somerset District Council is supporting that work.
16. In addition, the publication by CIPFA of a revised Prudential Code has made it harder for local authorities to undertake certain types of commercial activity and, more specifically, invest for income yield by making commercial property investments and/or commercial loans to third parties). Authorities that continue to invest in these assets outside the parameters set out in the Prudential Code will be unable to borrow from the Public Works Loan Board.
17. South Somerset District Council has invested much in its Commercial Strategy and has consistently met its targets, producing net income to support front-line services. The external factors set out in paragraphs 15 and 16 above will constrain what can be achieved during the transition period to 31 March 2023, but it is important to refocus the Strategy to cover that time and prepare for an orderly transition to the new Somerset Council. It would therefore seem sensible to amend the Commercial Strategy as follows:

Objectives – amend the objectives (paragraph 7 above) as follows:

- **Business Services Objective** (3.1) – ~~if the opportunity arises either in the context of preparation for LGR or out of business as usual~~, each and every business service will look to enhance its yield by 5% p.a. ~~commencing from 2017/8~~ by reviewing fees, charges, processes ~~and the cost of delivering services and potential to deliver new added value services~~
- **Income Generation Objectives** (3.2) - ~~to progress~~ maintain the existing investment property ~~proposals~~ **portfolio**, ~~that offer a target a 7% gross return on investment across the investment term adopted~~ **portfolio** and/or ~~provide~~ **preserve** a consistent balance ~~to the overall investment portfolio~~ in terms of security, liquidity and spread
- ~~**Other Corporate Plan Objectives and Social Value** (3.3) - projects that do not meet income generation criteria but provide some financial return and bring collective benefit to the community in accordance with Corporate Plan objectives will be considered under the appropriate strategy/policy. They will have a different form of assessment criteria and their primary objective may be to deliver a service of community benefit rather than income~~

The final objective is recommended for deletion as there are unlikely to be any new projects coming forward under this objective before vesting day.



South Somerset District Council

Delivery – continue to measure delivery as before, but with a pragmatic and common-sense approach to any implications or constraints arising from the transition to a new authority (paragraph 8 above)

Targets – to amend the targets (paragraph 9 above) as follows, bearing in mind the likely impact of the LRG transition period on business as usual:

- to maintain the Commercial Property, Land and Development Team and deliver income from Housing, Energy, Property, Land and Development **in accordance with the budget and plans agreed by Council on 28 February 2022.**
- ~~to complete the first investment and commercial programmes delivering a minimum of £2.0m per annum of revenue from property investment and £500k per annum of revenue from commercial services and other service income by year end 2019/20.~~
- ~~to deliver a minimum of £1.35m per annum of revenue by 2021/22 via the additional capital investment of £75m as outlined in the Financial Strategy and commercial activity and/or existing asset management, be that renewables, commercial or residential property investment, regeneration or development, with a target average of 7% gross return on investment across all new commercial investment proposals. This will equate to a lower net revenue of 2.5% to 3%, or more, available to the council after accounting and financing provisions.~~
- **to update the Council's procedures for prudent commercial investment portfolio management**
- ~~to deliver an additional £150k per annum of revenue from commercial services and other service income by year end 2021/22.~~
- to deliver **update** the Property Project review recommendations for existing assets including potential for disposal, for investment in change of use and retention or letting of existing assets **as required for LGR Programme purposes by 2021.**
- to review all fees and charges and look to increase them in line with inflation annually, or where more appropriate every four years, in order to maintain 'true value' and cost effective fees and charges **as required for LGR Programme purposes.**
- ~~to deliver a 5% per annum improvement in yield collectively across all internal services.~~

18. In addition, it is recommended that two of the Council's subsidiary companies, SSDC Business Solutions Ltd and Elleston Services Ltd, are dissolved. SSDC Business Solutions Ltd was set up to support service commercialisation efforts and act as a vehicle for income generation by the supply of services to third parties and Elleston Services Ltd was set up to cover the commercialisation of grounds maintenance and similar services. The timing was unfortunate as they were incorporated in 2019 and were still in the early start-up phase when the pandemic struck in early 2020 and attentions were diverted to Covid support activities. With LGR imminent, officer capacity to progress these start-ups before the new Somerset Council becomes responsible is limited and the effort required would be wasted if they did not fit with the commercial ambitions of or inherited by the new authority.

Financial Implications

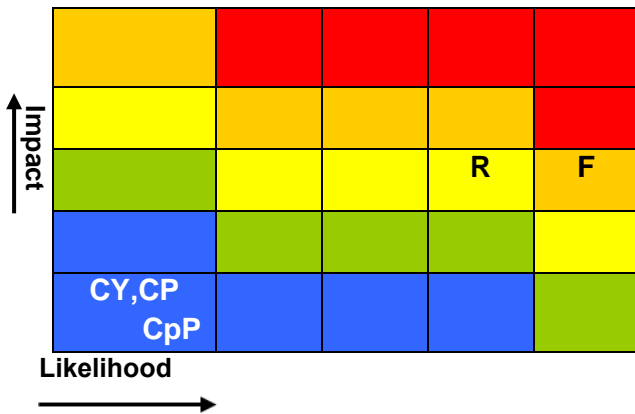
There are no financial implications arising from this report.

Legal implications (if any) and details of Statutory Powers

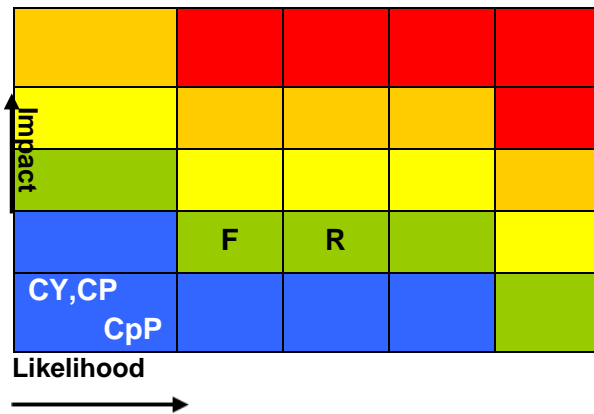
There are no legal implications arising from this report.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R - Reputation	High impact and high probability
CpP - Corporate Plan Priorities	Major impact and major probability
CP - Community Priorities	Moderate impact and moderate probability
CY - Capacity	Minor impact and minor probability
F - Financial	Insignificant impact and insignificant probability

Council Plan Implications

These changes are intended to ensure the achievements under the previous Council Plan are maintained.

Carbon Emissions and Climate Change Implications

There are no carbon emissions and climate change implications arising from this report, but the positive impact of many of the projects carried out under the Other Corporate Plan Objectives and Social Value objective, such as the Electric Vehicle charger network and the council building decarbonisation programmes has had a positive impact (see paragraph 10).

Equality and Diversity Implications

There are no equality and diversity implications arising from this report.

Privacy Impact Assessment

There are no privacy implications arising from this report.

Background Papers

The Commercial Services and Income Generation Commercial Strategy: 2017-2021 August 2019 Update (see Appendix)

**Commercial Services and Income Generation
Commercial Strategy: 2017-2021**

Version Details	
Programme:	SSDC Commercialism
Version:	Final – August 2019 Interim Update
Author:	Clare Pestell Review
Date:	October 2020

Contents

- 1 Commercial Strategy Overview**
 - 1.1 Commercial Strategic Aims
 - 1.2 Rationale – Why do we need a Commercial Strategy
 - 1.3 How do we achieve Council objectives through our Commercial Strategy?
 - 1.4 What is the outcome?

- 2 Commercial Approach to Income Generation**
 - 2.1 Commercial Approach - Our Core Principles and Methodology

- 3 Organisation Wide Objectives for 2017 – 2021**
 - 3.1 Business Services Objective
 - 3.2 Income Generation Objective
 - 3.3 Other Corporate Plan Objectives and Social Value

- 4 Specific Property, Land and Development Objectives**
 - 4.1 Overview
 - 4.2 Commercial Services and Income Generation Directorate
 - 4.3 Defined Areas of Commercial Investment & Income Generation
 - 4.3.1 New Investment in Commercial Property and Assets
 - 4.3.3 Existing Commercial and Operational Asset Management
 - 4.3.7 Renewable Energy Schemes
 - 4.3.8 Housing Development, Sale and Retention
 - 4.3.12 Regeneration
 - 4.3.17 Liquid Assets
 - 4.4 Summary

- 5 How will we know that we have been successful?**
 - 5.1 Commercial objectives will be measured in a number of ways

5.2 Ongoing refinement of individual commercial objectives

1 Commercial Strategy Overview

SSDC recognises that we exist in a rapidly changing world and are working in a challenging financial environment, which is forecast to become even more demanding in the coming years. We want to meet these challenges and exceed them, survive and thrive in this environment, become a leading Council that is financially self-sufficient. This is with the aim of delivering high quality services to our customers and communities, being able to deal with the challenges the district faces and invest in improving quality of life for residents.

To do this, it is accepted that we need to change our culture, thinking, and ways of working, and embrace and deliver commercialism throughout the Council at every level. Over the next pages, the Commercial Strategy will focus on outlining our aims and objectives, how we will achieve them and know that we have been successful. This will be presented as follows:

- The commercial strategic aims describe what we are going to do to support the overall Council objectives and strategy as set out in the Council plan and related documents.
- The rationale explains why this is important and the current context.
- The objectives explain what we will need to do or put in place to achieve our strategic aims
- The measures describe how we will evaluate our success

1.1 Commercial Strategic Aims

	Updating and improving systems and governance	
Embedding commercial thinking throughout the whole organisation and each project cycle	Being more commercial, business like and generating income whilst remaining focussed on our core purpose - to support and deliver for our communities	Build strong partnerships & collaborative ways of working
Developing innovation, income generation, growth and trading opportunities		Improving commercial leadership, awareness and competency at all levels
	Inspiring a commercial culture across the Council, the wider public sector and partnerships	

1.2 Rationale - Why do we need a Commercial Strategy?

1.2.1 All public sector organisations currently find themselves in an extremely challenging environment, with mounting financial pressure, reduced resources, growing demand and greater market competition for services.

1.2.2 South Somerset District Council (SSDC) financial strategy recognises the growing gap between core funding and costs of service. The Financial Strategy in 2017 projected a Budget Gap rising to £5.2m by 2022/23, and set a savings target rising to £6m per year by 2022/23 building in a



contingency for new financial pressures and opportunity to support new priorities. There is significant uncertainty beyond 2020 due to factors beyond our control, and we need to plan to be more self-sufficient and much less reliant on Government grants. The Transformation programme will make us more modern and efficient and is due to be fully implemented before the end of 2019, delivering £2.5m of the £6m needed. The remainder of the revenue shortfall must be found through commercialism and income generation if we are to avoid cutting services and if we are going to be able to invest in council priorities such as the regeneration of our towns and the development of our economy.

- 1.2.3 There will inevitably be uncertainties in future Government funding through the Spending Review 2019, Fair Funding Review, Business Rate Retention reform, and review of New Homes Bonus. We also face increasing demands on costs of services, including housing. These are some of the reasons for the financial shortfall which is anticipated to increase in the future.
- 1.2.4 The Financial Strategy and MTFP have been reviewed in August 2019, with £5.5m of the £6m savings target built into the Medium Term Financial Plan. The £5.5m includes £2m net income per year from commercial property investment. Despite strong progress towards the savings target set in 2017, reductions in expected funding through business rates and new homes bonus has hardened the residual Budget Gap with a new savings target of £2m (on top of the £5.5m built into base budget) required by 2022/23.
- 1.2.5 SSDC recognises this ongoing need and the requirement to take a more commercial approach to be self-sufficient financially and ensure that services are not adversely affected, so that we are 'future-proofed' and thriving into the future.

1.3 How do we achieve Council objectives through our Commercial Strategy?

- 1.3.1 For SSDC commercialism means the ability to think and act more business-like when considering the ways we manage, operate, deliver and resource our services and products in order to deliver best value for communities and customers. Commercialism does not mean just making a profit for profit sake. It includes:
- Considering the whole life cost of policy decisions, including market impact and benefits realisation.
 - Improving efficiency of service delivery – reducing costs and streamlining processes
 - Maximising value for money from contractual relationships
 - Making robust decisions on a consistent basis with evidence and a sound business case
 - Considering new and innovative ways of generating income
 - Taking an investment based approach to the use of financial resources including assessing the return from the investment in terms of financial return, delivery of the council's priorities and added value to our communities
- 1.3.2 This means making sound and clear decisions in using our resources, investing public funds to become more efficient and generate income for the Council to deliver better services whilst retaining a clear focus on our communities. This will affect different parts of the Council in different ways and to varying degrees, as some services will never be fully commercial.

- 1.3.3 However, commercial principles can be applied to most operations and must be considered when reviewing all policy objectives and direction. It will involve physical, technical and cultural change with strong and effective leadership and management at all levels and throughout the organisation.
- 1.3.4 To achieve these requirements we will need to work to a clear Commercial Strategy and deliver its objectives on time and on target.
- 1.3.5 We need to understand that embracing a more commercial culture, in both our thinking and actions will be of paramount importance to help us deliver revenue and high quality services, effectively and efficiently.
- 1.3.6 We will need to be ambitious and innovative in our thinking to invest to earn and save additional, secure and long term revenue streams in order to support the Council priorities and service delivery objectives. By adopting this mind-set and achieving in all of these areas we will ultimately be in a better position to meet the wider Council objectives.

1.4 What is the outcome?

- 1.4.1 Revenue shortfalls will be met, with the contribution from the commercial investment portfolio net income target of £3.35m per annum income by the end of 2021/22 (compared to the £2.25m target in 2017/18). The Council's overall savings target is increased to £7.5m per year by 2023/24 (compared to the £6m target in 2017/18). With £5.5m already built in as 'delivered' the Council needs to ensure these savings are sustained and now deliver a further £2m to meet the overall updated forecast Budget Gap of £7.5m. The Financial Strategy Report (September 2019) provides further detail on the savings delivered and still required.
- 1.4.2 The latest Financial Strategy also recognises that market prices and returns have changed since the Commercial Strategy was first prepared in Q2 2017. The combined impact of the expectation of additional savings being needed and changed market conditions leads to the Financial Strategy proposing an increase in the investment fund.
- 1.4.3 However, commercialism work will evolve and continue into the future to meet or exceed ongoing revenue targets wherever possible.
- 1.4.4 In summary SSDC will continue to grow its revenue through commercial, ambitious and innovative investment, development, trading of its more commercial services as viable business plans are developed and cost reduction of its services.
- 1.4.5 By delivering the Commercial Strategy which aligns with and supports the Council Plan and complements other corporate strategies such as Finance and Information Technology SSDC will:
- develop into a more cohesive and ambitious, economically efficient organisation
 - become a partner of choice for the community and commercial sectors by demonstrating its commercial awareness and effective delivery of services, partially through commercially traded services

- be a desirable and respected employer that invests in its staff and attracts the next generation
- become a leader in its field, delivering high quality, efficient, effective and timely services to its communities and customers.

In delivering the Commercial Strategy SSDC will also contribute to achieving its Vision:

Copy of “One Team” vision with four themes: Great to work for
Leading the way
Excellent to work with
Delivering for our communities

Section 2 Commercial Approach to Income Generation

2.1 Commercial Approach - Our Core Principles and Methodology

- 2.1.1 This strategy applies whenever we spend money with external suppliers, enter into or manage our commercial arrangements, invest in assets or services that generate income or we make a commercial decision. Whilst the Commercial Services teams will lead on delivery, they will also work in partnership, forming relevant communities of practice for each project or service area across the organisation and externally with partners and customers.
- 2.1.2 However, we recognise that not all services can ‘trade’ or charge for what they do for customers to generate a direct income, but to some degree commercial strategy principles could still apply; we can demonstrate that other services can be more innovative but believe that in the past they have never been encouraged or enabled to do so in a commercial manner prior to this strategy implementation.
- 2.1.3 SSDC will adopt a commercial approach across the organisation, which allows everybody to share their ideas through the WeShape Programme encouraging staff and members to put forward their ideas and by working with the Income and Opportunities Development Manager who will drive relevant Communities of Practice (CoP)¹ appropriate to the service involved to help develop viable ideas and deliver commercial outcomes. This will allow avenues for all ideas within internal business services and with external partners and customers to the Council to be evaluated swiftly, using a robust early assessment criteria model and fully costed business case approach. In this way we can take forward the right projects, measure efficiencies, deadlines and income, through to delivering the final project. Any project taken forward will involve member input and oversight, through the relevant portfolio holder to the service it involves; or their nominated deputy for a particular project.
- 2.1.4 We have enterprising staff, partners and members, their skills and ideas need to be clearly and effectively communicated and harnessed to help achieve our commercial strategy. We

¹ CoP – a group of people with the relevant skill or experience brought together to drive and deliver a specific piece of work or project

will invest in our staff training to enhance staff skills and raise the level of commercial expertise across the Council; which we see as an investment and of value to our organisation not a cost. Commercialisation training has commenced and will continue to be rolled out across the organisation, as well as to members and our partner councils that request it; supporting their development, shared working practices and services wherever possible.

- 2.1.5 Stakeholders, staff and customers will feel engaged and valued in our new commercial and innovative approach, realistic targets and projects will be agreed having engaged with them to obtain views, inputs and buy-in. Regular headline summary updates on commercial investments, achievements and service yield improvements will be reported back to Full Council quarterly, as part of the Corporate Performance Report, as baseline data becomes available to develop and add to performance monitoring.
- 2.1.6 We accept that the Council will need to take more and different risk than in recent times in order to achieve its ambitions and commercial success. This risk should be balanced with an efficient and proportional regard to governance, policy, management, processes and systems to ensure robust decision-making, performance and success of new commercial enterprises, contracts and partnerships. All of which will continue to evolve and be refined over time to ensure that the Council adheres to its statutory responsibilities and that public money continues to be appropriately invested, used and accounted for.

Section 3 Organisation Wide Objectives for 2017 – 2021

3.1 Business Services Objective

- 3.1.1 Each and every business service will look to enhance its yield by 5% p.a. commencing from 2017/8 by reviewing fees, charges, processes, the cost of delivering services and potential to deliver new added value services.
- 3.1.2 This will be done in conjunction with the Commercial Services, Income & Opportunities Development Manager and relevant CoP, working with each service as a ‘critical friend’ to achieve a common goal. They will assist the internal business services and offer advice and specialist experience to draw upon in order take the best innovative ideas forward to improve service yields by 5% per annum across the organisation, with a comprehensive proposal and business plan for approval and implementation

3.2 Income Generation Objectives, Process and Governance

- 3.2.1 Commercial Investments in property and renewable energy need to be dealt with swiftly and confidentially if local authorities are to compete within the commercial marketplace. Therefore, a schedule of delegation has been approved to enable positive decisions to be made that respect market requirements for swift action and confidentiality.
- 3.2.2 Stage 1 of our process, with any proposed investment, is for an early analysis and assessment to be completed by property and finance specialists, with external advice as necessary, to develop the business case for the **Investment Assessment Group (IAG)** to consider at stage



2. Most opportunities will not pass Stage 1; if not in accordance with the basic requirements of this strategy they will not proceed to stage 2.

- 3.2.3 The IAG, comprising the relevant Portfolio Holder for Income Generation (currently Economic Development and Commercial Strategy), S151 Officer, Monitoring Officer, Director for Commercial Services and Income Generation and the Commercial Property Land and Development Manager provide a Stage 2 governance panel to consider and debate new investment proposals, including external investment proposals and partnership working. Each opportunity is assessed against a range of investment and risk criteria and requires unanimous support of all IAG members before a recommendation is made to the Chief Executive in consultation with the Council Leader to approve, Stage 3. In turn they will have the option to approve, refuse or refer the investment proposal to District Executive for a final decision. The recommendation to approve may contain a bidding range that officers can work within, accepting that non material matters may need to be addressed during negotiations. This is accepted normal commercial activity to complete a transaction.
- 3.2.4 However, any material changes to the original recommendation during due diligence and negotiations post approval will be referred back to the IAG if necessary and a further recommendation made to Chief Executive in consultation with Council Leader. Examples of a material change could include matters such as discovering a heavily contaminated site devaluing the investment or restricting its future development; or the financial status of the tenant in situ suddenly diminishing prior to completion of the transaction.
- 3.2.5 Each member of the IAG will have a nominated deputy, in case of absence or conflict of interest arising for any specific investment proposal. The deputies will comprise Portfolio Holder for Finance, Deputy S151 Officer, Deputy Monitoring Officer, Director for either Strategy & Commissioning or Service Delivery, and a Commercial Property Investment Project Manager.
- 3.2.6 These investment proposals will be measured against agreed assessment criteria, in order to ensure they meet the required returns/objectives and so that investment of public money is applied with proportionate and efficient regard to procurement and governance procedures. The IAG and Chief Executive have agreed delegated authority limits for individual transactions and are empowered to make decisions to proceed within these parameters and to report these to DX and Council in due course. This includes the setting up of an appropriate vehicle, such as a company Special Purpose Vehicle (SPV) or Joint Venture if the investment proposal involves the trading of services in order to generate income. Wherever appropriate, this will be undertaken fully prior to the final decision making processes or approval given subject to named conditions to be met, to ensure that only valid projects with real merit are taken forward. Where potential investments exceed delegated limits they will be considered through District Executive and if appropriate, Full Council.
- 3.2.7 The headline financial objective is to progress investment property proposals that offer a target 7% return on investment across the investment term adopted, and/or provide a consistent balance to the overall investment portfolio in terms of security, liquidity and spread. In some cases investments will achieve a higher return on investment and in others less, in order that balance within the portfolio and spread of risk is achieved and an average

return is maintained at the target rate of 7%. All projects will be in accordance with reviewed and updated procurement and governance procedures. These will be regularly reviewed, updated and refined in order to ensure flexibility with operational needs, so that a proportionate and efficient reliance can be applied in their use. In any event individual transactions should not be accepted below a 6% return on investment or minimum net revenue returns will not be able to be achieved across the portfolio.

There is no 3.2.8

- 3.2.9 An exception to this may be where there is an opportunity to purchase an investment in order to then sell part off to release capital receipts and raise remaining returns to 6%+. For example, a long leasehold industrial estate let for 125 years with multiple units may provide a very secure, long term income to the portfolio helping to balance risk, but initially may only achieve say 4% yield. However, an opportunity to achieve break-up value and recover some initial capital may then increase the remaining returns to an acceptable level of over 6% return on investment enabling IAG to recommend approval. This would be acceptable as considered an estate management opportunity. This strategy for the purchase would need to be made clear in the IAG report prior to a recommendation.
- 3.2.10 Since the preparation of the first Commercial Strategy in Q2 2017 the commercial property market has seen significant increases in typical prices with consequent reduction in the levels of return on investment that properties deliver. As an example, the industrial property investment sector has seen prices rise over this period to produce a fall in the rate return greater than 0.5%. Thus a property that would have delivered a rate of return of 7% if sold at Q2 2017 would now command a higher price delivering a rate of return below 6.5% as at Q2 2019.
- 3.2.11 Our first Commercial Strategy identified a target yield of 7%, which we have been able to achieve. However, because of the demand for income much of the stock that we have been able to afford has shorter unexpired lease terms than we might have expected at the outset. Consequently, assuming a worst case scenario wherein all tenants vacate at the earliest possible opportunity, the annual yield until 2028 at present averages 6.46% due to the allowance for periods of reduced income whilst properties are re-let.
- 3.2.12 As a Local Authority investor, we need to recognise that we meet a number of other financial commitments from the rental income of our property investments, prior to reporting the net revenue return of that income to the council. These include interest costs on borrowing, MRP which is provision for repaying borrowing, sinking fund for future costs and income volatility risk arising and management costs. The net revenue position subsequently reported gives the residual amount of available revenue to the council each year, after all of the required monetary provisions have been made and are retained within the council for their required purpose. This net position is reflected in the financial strategy savings targets.
- 3.2.13 Not all investments and assets remain fit for purpose indefinitely. Therefore, it is also prudent to consider the disposal of assets, as part of normal estate management practice. Disposal follows a similar governance procedure to the IAG, through the **Disposals Assessment Group (DAG)** comprising the same members as above. However, DAG has different limited delegated

authority to consider assets up to varying values for investments and operational assets. The DAG needs to have consulted in advance with relevant members, as well as considered relevant assessment criteria, prior to making a recommendation with a majority group agreement. Full details are available under the Disposals and Community Asset Transfers policy.

3.2.14 The fund invested in new property and renewable energy assets together with the capital invested in existing commercial investment property assets will generally be managed as a revolving fund enabling capital released via asset disposals to be retained within the fund for reinvestment. This is expected to ultimately contribute to growth in the capital within the fund.

3.3 Other Corporate Plan Objectives and Social Value

3.3.1 Other projects that do not meet income generation criteria, but do provide some financial return and also bring collective benefit to the community in accordance with our wider Corporate Plan objectives, will be considered under other appropriate strategy and policy. They will have a different form of assessment criteria and their primary objective may be to deliver a service of community benefit, over income i.e. regeneration, economic development, housing need etc. Each project will set its own terms of reference and objectives. E.g. a leisure project may meet a wider corporate objective, cover its costs by generating a return to repay the funding for its development, but will not meet the primary objectives of the Commercial Strategy

Section 4 Specific Property, Land and Development Objectives

4.1 Overview

4.1.1 In order to become an enterprising and commercially focused Council which achieves its vision, SSDC will need to make effective use and invest in its skills, existing land and property assets, as well as look to invest in development and regeneration of infrastructure, land, housing, commercial property and renewable energy sources.

4.1.2 By investing in schemes and projects that improve productivity and reduce costs the Council will generate extra revenue. Generating significant levels of new income for the Council will help it to become financially sustainable for the future. Delivering these objectives will help to shape and improve public services and enable economic growth across the District. These assets and attributes will be applied to redefine and redesign how we work, where we work, who we work with and influence how we take investment decisions forward.

4.2 Commercial Services and Income Generation Directorate

4.2.1 Investment in resource and skills to deliver - In redefining and redesigning how we work and who we work with, investment in a new role for Director of Commercial Services and Income Generation has already been appointed. This Director oversees additional resource of a

Commercial Property, Land and Development Manager and associated team comprising both in-house and specialist external resource where required.

- 4.2.2 The in house team was appointed over 2018, with external elements being recruited as and when required. The remainder of this Directorate aligns with the Transformation programme and comprises existing commercial services.
- 4.2.3 There is also a Commercial Directorate role recruited to assist with the Income Generation objective. This role has been recruited on a 'self-funding' basis for new business and income generation. The Income & Opportunities Development Manager is tasked with overseeing and managing existing business units and developing them into more efficient, commercially minded services and where appropriate independent profit centres (such as the Yeovil Innovation Centre or arms-length trading companies); investigating new business and income opportunities, partly through leading on the new proposed WeShape programme; and taking these projects forward to fruition.
- 4.2.4 Both Transformation and Commercial Services & Income Generation will be pivotal in delivering the overall initial income targets. (See proposed estimated breakdown at 1.4).

4.3 Defined Areas of Commercial Investment & Income Generation

- 4.3.1 Investment in New and Existing Commercial Property and Land Assets - Invest to Earn – Process and Performance Reporting In order to reach our annual income targets, immediate investment in income producing assets achieving a target return on investment of 7% (or more) across our land, commercial and housing investment portfolio, forms part of this strategy. In considering such opportunities, a predetermined set of assessment criteria and summary business case report for each proposed investment project will be used, supported by additional due diligence or business planning where appropriate prior to completing each case to ensure transparency, due diligence, governance and consistency to aid achievement of our objectives.
- 4.3.2 The governance and decision making process is outlined at 3.2 above and will reflect the specific circumstances of each case. There will also be regular performance monitoring to demonstrate how the investments are performing over time, and to enable portfolio review to take place to maximise benefit over time. Detailed reporting to the District Executive every 6 months specifically on our assets and new investments will be undertaken to ensure transparency and information is provided to demonstrate how well the Commercial Strategy is performing. Further general financial reporting will be provided through usual budget monitoring and budget setting processes.
- 4.3.3 Existing Commercial and Operational Asset Management - Invest to Save The Council already owns a significant number of valuable property and land assets from which commercial value can be derived. The Property Project Review June 2017 by David Lock Associates (confidential report) makes a number of recommendations which will inform the agreed way forward and objectives for the coming years to contribute towards income generation.

- 4.3.4 The headline recommendations are to retain, invest in, regenerate and consider disposal of a number of these assets. Action will be taken in line with these recommendations when approved.
- 4.3.5 The overarching principle for existing assets will be that unless they either contribute positively to a policy objective, and represent value for money compared to other ways in which the same benefit could be achieved, or provide an adequate financial return on investment, they should be considered for disposal.
- 4.3.6 The overall aim is to move to a balanced, more financially beneficial, well managed estate that includes a performing investment portfolio in line with agreed criteria.
- 4.3.7 Renewable Energy Schemes - Invest to Save and Invest to Earn A number of renewable energy measures and projects will be investigated to manage our existing and future energy costs and requirements on our own operational property, as well as opportunities for investment purely for income generation. A valid business case in line with assessment criteria will need to be met and also considered within the overall asset portfolio in order to ensure correct governance and a balanced investment and income portfolio is maintained, having regard to investment risk in new technology, in terms of security, liquidity and yield in financial terms.
- 4.3.8 Housing Development, Sale and Retention - Invest to Earn and Corporate Objective By the end of financial year 2019/20 the Council will investigate the benefits of the best vehicle or vehicles to take forward investing in housing land and mixed use development projects including Wholly Owned Companies, Joint Venture and Commercial Partnerships. It will source expert advice in Company set up, trading ventures and VAT implications to ensure that it then creates the most commercially appropriate vehicle for the range of projects it progresses. It will develop in house skills and partnership working to ensure that projects taken forward are suitably resourced to deliver the project objectives.
- 4.3.9 In developing Housing the initial objective is to provide Market Housing to help deliver the market needs and sell the completed units to recover development costs and make a set capital receipt benchmark of no less than 10% Profit on Cost. Once this has been achieved any remaining units still available may be considered for Market and Affordable Rent dependent on both housing need in that location and achieving the running target yield of 7% across the investment portfolio. These units will be retained by the Council for long-term income production and capital value growth. Each housing development case will need to be assessed on its own merits and need in terms of the split required between sale and/or whether to hold any units for rental.
- 4.3.10 A further potential benefit that will be sought is to partner with developers on schemes with the intention that any direct investment made by SSDC is matched by the developer, thus using SSDC's involvement and cash flow to kick start the delivery of more units to the market in a shorter timescale. When possible these developments will be within the district and given priority, but it is recognised that this is market opportunity and viability driven and will not always be possible. However, the benefit will ultimately return to the Council through additional financial resources to invest in service delivery and other local priorities e.g. Regeneration schemes.

- 4.3.11 The Council's exposure to the housing market will be monitored over time as part of its overall investment portfolio, so that the impact of changes in market conditions can be considered.
- 4.3.12 Regeneration Major Regeneration Schemes –SSDC already has a number of major regeneration schemes planned, such as the Chard Regeneration Scheme, Yeovil Refresh and the Wincanton Town Centre Regeneration, and these are projects with their own strategies and plans for delivery, but they link to the Commercial Strategy objectives in the longer term and the same principles apply in executing these projects.
- 4.3.13 Other Strategic Regeneration - there are also a number of smaller and more local schemes targeted at specific needs such as the Yeovil Crematorium Refurbishment and Extension and Delivering Employment Land across the District, which are both current projects and ongoing longer term projects.
- 4.3.14 Regeneration usually takes a longer time until it is income producing than direct income generation investment. It often requires more resource, capital or grant funding in the early stages and usually relies on partnership working with third parties. However, regeneration schemes and projects do also meet other SSDC Corporate Objectives, such as economic development, housing, jobs and infrastructure.
- 4.3.15 Regeneration delivers both tangible commercial and community objectives resulting in income generation for the wider district in the medium to long-term, as well as directly to the Council through business rates or council tax, for example.
- 4.3.16 Therefore our Commercial Strategy is just as applicable to regeneration proposals, as it is for income generation. The main variance is the timescale for income delivery. Therefore, the council has set up a Strategic Regeneration Board which oversees the approved specific regeneration projects and will continue to progress, consider and assess Regeneration proposals over the life of this Commercial Strategy, using an investment based approach that seeks to create viable regeneration schemes that not only pay for themselves but generate a return on the investment over the longer term. As a result, these will become the income generation deliverables for the future SSDC Commercial Strategies. If SSDC is to adopt commercialism in its thinking and actions the Commercial Strategy cannot apply only until 2021 but must look to continually generate income for the future.
- 4.3.17 Liquid Assets - Invest to Earn SSDC have cash reserves that will be reviewed continually under Finance and Treasury Management policies, to ensure that the best yields and returns are achieved whilst maintaining, suitable levels of security and liquidity to ensure a balanced portfolio for the organisation both ensuring the smooth running and maximising returns wherever possible.
- 4.3.18 The Council also has access to low cost borrowing. As part of the commercial strategy the Finance department will review each proposal for investment and income generation prospects to ensure that proposals which meet our investment criteria are progressed. This will be undertaken through keen commercial management and consideration of all financial vehicles available to us. These may include short term low cost borrowing from other

organisations, borrowing from the Public Works Loan Board, or investing cash reserves into income generating financial products for the best returns over the short and longer term.

4.4 Summary

4.4.1 Directors will oversee all commercial business activities ensuring that they are appropriately governed, scrutinised, managed and monitored. Managers and officers throughout the organisation will also be empowered and responsible to consider and progress proposals such as:

- Capital receipts generated from asset sales
- Asset retention and enhancement
- Borrowing proposals, internal and external
- Capital spending decisions
- External lending decisions
- Income generation proposals and trading opportunities

4.4.2 Ultimately, all investment decisions will be made having applied a robust business case or evaluated against agreed key assessment criteria prior to progressing.

4.4.3 A set of financial and non-financial criteria will be used to assess which schemes and projects progress.

4.4.4 Final decisions for larger investments and income generating proposals will be taken by the appropriate officers and members under the reviewed and pre-agreed governance and procurement procedures.

5 How will we know that we have been successful?

5.1 Commercial Objectives will be measured overall by the level of additional income generated, but also in a number of other ways, for example;

- Embed a commercial culture across the organisation through developing and upskilling our staff to empower them to be more commercially aware, enterprising and innovative.
- An increase in commercial activity demonstrated by the level of additional income being achieved, such as an increase in total contribution to fixed costs and overheads (by %) and contribution to staff costs (by %).
- Reducing the net budget of a service by reducing variable costs of that service.
- Additional investment income will be measured and monitored in terms of increase in turnover, profit and return on investment, as appropriate
- Income targets will be agreed with and set for teams that can/are charging for services and efficiency targets agreed with and set for all teams.

5.2 Ongoing refinement of individual commercial objectives

5.2.1 The refined and detailed commercial objectives within each commercial business service are agreed and will be reviewed and updated annually to reflect projects implemented and new



objectives to be achieved over the next years. Other services will adopt a similar approach as and when business plans can be developed with commercial objectives. These will be linked to and complement our corporate, financial, capital and treasury management strategies. In the meantime, the following overarching targets are proposed and may be defined further during the life of this strategy.

- To maintain the Commercial Property, Land and Development Team, delivering new income from Housing, Energy, Property, Land and Development.
- To complete the first investment and commercial programmes delivering a minimum of £2.0m per annum of revenue from property investment and £500k per annum of revenue from commercial services and other service income by year end 2019/20.
- To deliver a minimum of £1.35m per annum of revenue by 2021/22 via the additional capital investment of £75m as outlined in the Financial Strategy and commercial activity and/or existing asset management, be that renewables, commercial or residential property investment, regeneration or development, with a target average of 7% return on investment across all new commercial investment proposals. This will equate to a lower net revenue of 2.5% to 3%, or more, available to the council after accounting and financing provisions.
- To deliver an additional £150k per annum of revenue from commercial services and other service income by year end 2021/22.
- To deliver the Property Project review recommendations for existing assets including potential for disposal, for investment in change of use and retention or letting of existing assets by 2021.
- To review all fees and charges and look to increase them in line with inflation annually, or where more appropriate every four years, in order to maintain 'true value' and cost effective fees and charges.
- To deliver a 5% per annum improvement in yield collectively across all internal services.