



Commercial Services and Income Generation

Commercial Strategy: 2017-2021

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Author:	Clare Pestell
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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 and delivers high quality services to its customers and communities.

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.

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



1.2 Rationale - Why do we need a Commercial Strategy?

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

South Somerset District Council (SSDC) faces a revenue budget gap which is currently estimated to be £4.7m (MTFP 2017-18). However, we know this is likely to grow over the coming years due to factors beyond our control. The Transformation programme will make us more modern and efficient and is due to be fully implemented by the end of 2018. Transformation will deliver £2.5m of savings. The remainder of the revenue shortfall must be found through commercialism and income generation if we are to avoid cutting services.

There will inevitably be, uncertainties in future Government funding, business rate retention and 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.

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?

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. 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

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.

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.

To achieve these requirements we will need to work to a clear Commercial Strategy and deliver its objectives on time and on target.

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.

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 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?

Revenue shortfalls will be met, with the organisation wide income target of £3m per annum income by the end of 2021. Whilst the current target is £4.7m (this includes the forecast savings from the Transformation Programme of £2.5m) the savings gap will grow in the coming years. Therefore, we are forecasting to deliver an estimated £2m from property rationalisation and investment, an additional £0.75m from improved management of our reserves and a further £0.25m from renewable energy and other internal business service improvements. If this target is reached, total combined savings of £5.5m will be made across Transformation and all other areas above.

However, commercialism work will evolve and continue into the future to meet or exceed ongoing revenue targets wherever possible.

In summary SSDC will continue to grow its revenue through commercial, ambitious and innovative investment, development, and cost reduction of its services.

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
- 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:

One team Ambitious for South Somerset

**Great to
work for**

**Excellent to
work with**

**Leading
the way**

**Delivering
for our
communities**

Section 2 Commercial Approach to Income Generation

2.1 Commercial Approach - Our Core Principles and Methodology

This strategy applies whenever we spend money with external suppliers, enter into or manage our commercial arrangements, generate income or make a commercial decision. Whilst the Commercial Services teams will lead on delivery, they will also work in partnership with all service teams across the organisation and externally with partners and customers.

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; whereas we believe that other services can be more innovative but have never been encouraged or enabled to do so in a commercial manner until now.

- 2.1.1 SSDC will adopt a commercial approach across the organisation, which allows everybody to share their ideas through the Income Generation Board and by working with the Service Income Team. 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.
- 2.1.2 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 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.
- 2.1.3 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.
- 2.1.4 We accept that the Council will need to take more 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 overtime 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

Each and every business service will look to enhance its yield by 5% per annum commencing in 2017/8 by reviewing fees, charges, processes, the cost of delivering its services and the potential to deliver new added value services.

This will be done in conjunction with the Commercial Service Income Team, which will comprise a group of like-minded skilled and experienced officers, 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, with a comprehensive proposal and business plan for approval and implementation.

3.2 Income Generation Objective

The proposed Investment Assessment Team and Income Generation Board comprising members and senior officer representatives will provide a ‘think tank’ to consider and debate broader income generation ideas, including external investment proposals and partnership working. These proposals will be measured against agreed assessment criteria, in order to ensure it meets the required returns/objectives and so that investment of public money is applied with proportionate and efficient regard to procurement and governance procedures. Wherever appropriate this will be undertaken fully prior to the formal decision making processes to ensure that only valid projects with real merit are taken forward.

The headline financial objective is to progress proposals that offer a target 7% net return across the first five years, are income producing within the first 12 months and provide a consistent balance to the overall investment portfolio in terms of security, liquidity and yield. In order to manage risk, 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.

3.3 Other Corporate Plan Objectives and Social Value

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 with a different form of assessment criteria but similar decision making process; albeit their primary objective may not be to generate income but to deliver a service of community benefit i.e. economic development, jobs, health, welfare, leisure, housing need etc.

Section 4 Specific Property, Land and Development Objectives

4.1 Overview

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.

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

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 will oversee an additional investment in a Property, Land and Development Manager and team comprising both in-house and specialist external resource where required.

The in house team will be appointed over the coming year and should be partly in place by end of 2017, with external elements being recruited as and when required. The remainder of this Directorate aligns with the Transformation programme and comprises existing commercial services.

There is also an additional new Commercial Directorate role proposed to assist with the Income Generation objective. This role will be recruited on a 'self funding' basis for new business and income generation. A budget for this new role will need to be approved. The Income & Opportunity Development Manager will be tasked with overseeing and managing existing business units and developing them into self-contained and independent profit centres (such as the Yeovil Innovation Centre) and investigating new business and income opportunities and taking these projects forward to fruition on a similar basis of funding and development.

Both Transformation and Commercial Services & Income Generation will be pivotal in delivering the overall initial income target of £4.7m by 2021 and look to exceed this if possible to reach the target of £5.5m if possible, in order to 'future-proof' itself against additional revenue requirements not yet known. (See proposed estimated breakdown at 1.4).

4.3 Defined Areas of Commercial Investment & Income Generation

4.3.1 New Investment in Commercial Property and Land Assets - Invest to Earn

In order to reach our annual income targets, immediate investment in income producing assets achieving a target of 7% net income (or more) across our land, commercial and housing investment portfolio, has been proposed as part of this strategy, to be formally agreed. In considering such opportunities a predetermined set of assessment criteria for each proposed investment project will be used and a business case for proceeding completed in each case to ensure transparency, due diligence, governance and consistency to aid achievement of our objectives.

The decision making process will reflect the specific circumstances of each case. Where the criteria are met, it is intended that there will be a schedule of delegation agreed that enables positive decisions to be made that respect market requirements for swift action and confidentiality.

Proposals can be brought forward by the relevant Managers and/or Officers. It is proposed that the Income Generation Board will consider non confidential and non time sensitive opportunities. Ideas that are to be taken forward, confidential and time sensitive will have early due diligence undertaken by a small and dedicated Investment Assessment Group (IAG). If a unanimous recommendation to proceed is made by the IAG (comprising the Property, Land and Development Manager, Director of Commercial Services & Income Generation, S151 Officer, Monitoring Officer, and Portfolio Holder) it will be recommended to the CEO for a final decision in consultation with the Council Leader. They will have agreed delegated authority limits for individual transactions and be empowered to make decisions to proceed, where the circumstances require, and to report these to the Income Generation Board, DX and Council in due course.

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.

4.3.2 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.

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.

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.

The overall aim is to move to a balanced, more financially beneficial, well managed estate that includes a well-performing investment portfolio.

4.3.3 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.

4.3.4 Housing Development, Sale and Retention - Invest to Earn and Corporate Objective

By the end of 2017 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.

In developing Housing the initial objective is to provide Market Housing to help deliver the local market needs and sell the completed units to recover development costs and make a set income target 10% Profit on Cost. Once this has been achieved any remaining units still available will be considered for Market and Affordable Rent dependent on both local housing need and achieving the overall net target return of 7% across the investment portfolio. These units will be retained by the Council for long term income production and capital value growth.

A further potential benefit that will be sought is to partner with developers on local 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.

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.

4.3.5 Regeneration

Major Regeneration Schemes –SSDC already has a number of major regeneration schemes planned, such as the Chard Regeneration Scheme and the Yeovil Refresh, 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.

Other Strategic Regeneration - there are also a number of smaller and more local schemes targeted at specific needs such as the Yeovil Innovation Centre Phase 2 and Delivering Employment Land across the District, which are both current projects and ongoing longer term projects.

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.

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.

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 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 can not apply only until 2021 but must look to continually generate income for the future.

4.3.6 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.

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

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

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

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

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
- The refined and detailed commercial objectives within each business service are yet to be agreed and finalised, but these will be linked to and complement our corporate, financial and treasury management strategies. In the meantime, the following overarching targets are proposed and may be defined further during 2017.
- To make £2.5m savings through the Transformation programme by the end of 2018.
 - To set up a Commercial Property, Land and Development Team, in place for 2018 – (new roles outside of Transformation Programme) delivering New Income Housing, Energy, Property, Land and Development.
 - To deliver a minimum of £2.2m per annum of revenue by 2021 (with a target of £3m) through commercial activity and/or existing asset management, be that renewables, commercial or residential investment, regeneration or development, with a target net return of 7% across all new commercial proposals.
 - 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 three years, in order to maintain ‘true value’ and cost effective fees and charges.
 - To deliver a 5% per annum improvement in yield across all internal services by the end of 2018 and ongoing.