



- 2.2 To agree that the fundamental role of the new Committee will be to maximise existing and future commercial and business development opportunities in accordance with the contents of this report.
- 2.3 To note that the Commercial Committee will develop a Commercial Strategy and Action Plan that will be subject to Cabinet approval.
- 2.4 To agree that the Service Lead Governance be instructed to arrange for any necessary changes to the Constitution to be presented to Council for adoption, following approval by the Monitoring Officer, to enable the work of the Committee to begin as soon as possible.
- 2.5 To note that induction will be arranged for the members of the Committee in accordance with the contents of this report following their appointment, including training on commercialisation and business development.
- 2.6 To agree to the proposal to introduce a dedicated finance resource associated with the role of the Commercial Committee and emerging Commercial Strategy and delegate authority to the Director of Finance to resource this proposed new post.
- 2.7 To note that an update report be brought to Cabinet by September 2019 that will include the proposed Commercial Strategy and Action Plan. The report will also include the Terms of Reference which will, if approved, be reported to Council.

### **3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan**

The acquisition of property assets and commercial activities of functions such as SUR, the SAB and Housing Companies make a direct contribution to regeneration. The agreed streamline procedures have created the conditions to make a material contribution to the economic wellbeing of the Borough.

#### **3a. Slough Joint Wellbeing Strategy Priorities**

The activities reviewed by the Commercial Committee will be reviewed in line with the Slough Joint Wellbeing Strategy priorities.

#### **3b. Five Year Plan Outcomes**

The introduction of the Commercial Committee will deliver the following Five-Year Plan outcomes:

- **OUTCOME 3:** In addition to introducing high quality homes, we will introduce high quality public real and open space inside and outside the town centre that will contribute to Slough being the premier location in the south east for businesses of all sizes to locate, start, grow, and stay.
- **OUTCOME 4:** Incorporating new residential properties will contribute to realising the objective of increasing the supply of good quality housing and compliment the Housing Strategy.

- **OUTCOME 5:** Working in a more co-ordinated way will allow SBC to take advantage of commercial opportunities that will arise and/or create the conditions to attract and retain additional world class businesses to Slough.

#### 4 Other Implications

##### a) Financial

The Council already derives considerable annual income from the investments it has made over the last few years. For the current year, this includes over £3.9m from SAB acquisitions, £1.25m to £1.5m from JEH properties, £0.3m from DISH, plus SUR developments completing this year.

Over the next three to five years, through Council and institutional investment, this annual income will at least double with around £3m from JEH, £1.5m to £2m from the new hotel, other SUR developments e.g. Montem, an additional £1m to £1.5m from the new Teckal, £2m plus from new DISH ‘developments’, plus new investments through the SAB, Housing (HRA) Trading Partnership etc.

To fund the new dedicated finance resource, it is proposed to have a mixture of fixed annual charges (SLAs) to the companies (DISH, JEH etc.) plus a % recharge (envisaged at 0.1% of the development cost) to the new developments. This mixture of funding should provide sufficient annual income to cover the cost of this resource.

##### Risk Management

<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
<b>Legal</b> – competing priorities could create delays.	Where necessary, appoint external solicitors to undertake due diligence and provide comprehensive reports on title, deeds, leases etc, as required.	
<b>Human Rights</b>	No risks identified	
<b>Health and Safety</b>	No risks identified	
<b>Employment Issues</b>	No risks identified	
<b>Equalities Issues</b>	No risks identified	
<b>Community Support</b> – Local residents may not support the strategy – which places greater emphasis on income generation	If required, introduce a Communications Strategy.	
<b>Communications</b>	See above	
<b>Community Safely</b>	No risks identified	
<b>Finance</b> - Abortive costs including legal and survey fees, staff costs, initial feasibility costs	Whilst efforts will be made to reduce abortive costs associated with commercial activity, it is inevitable that the Council will on occasions incur costs on projects that do not proceed.	The Commercial Committee will only agree proposals with sound business cases that take account of risk and return and follow agreed processes

<b>Timetable for Delivery</b> – The existing approach is Strategic Acquisitions is working well – introducing the new Committee could slow down the process and undermine the role of the SAB.	It is proposed that the adopted/streamlined processes and procedures for the SAB are not changed.	
<b>Capacity</b> - the Council does not have the expertise to introduce and deliver the Commercial strategy	The Council already has a significant degree of in-house expertise to deliver commercial functions.	
<b>Governance</b> – Poor performance	Adhere to agreed procedures relating to Strategic Acquisitions, which set out objectives, criteria and delegated authority.	
<b>Performance</b>	No risks identified	

b) **Human Rights Act and Other Legal Implications**

Under paragraph 1.1 in Part 4.4 of the Council’s Constitution (Executive Procedure Rules) the Leader may provide for executive functions to be discharged by a committee of the executive.

Under paragraph 1.2 of the Executive Procedure Rules the Leader must present to the Council at the annual meeting the terms of reference and constitution of such cabinet committees as the Leader appoints and the names of the Lead Members appointed to them.

Under paragraph 1.3(i) of the Executive Procedure Rules where the Committee of the Cabinet is responsible for an executive function, it may delegate further to joint arrangements or an officer.

Under paragraph 1.3(ii) of the Executive Procedure Rules even where executive functions have been delegated, that fact does not prevent the discharge of delegated functions by the person or body who delegated.

The provisions above set out in the Executive Procedure Rules are derived from statutory powers contained in Section 9E of the Local Government Act 2000.

c) **Equalities Impact Assessment**

There are no equalities issues associated with this report.

d) **Property Issues**

See Section 5 below

## **5. Supporting Information**

### **Background**

- 5.1 Whilst the financial wellbeing of SBC is on a solid foundation, the Council must continually re-examine its approaches to income generation and business development. Although reduced funding from central government, uncertainty about the future allocation of business rates and the indecision associated with Brexit are key drivers, this is only part of the rationale. As a major owner of land and other assets, it is incumbent on the Council to maximise the financial and/or social value of its assets and to do so in a way that deliver the outputs and outcomes set out in the 5 Year Plan.
- 5.2 SBC has an enviable track record of using innovation and commerciality to make positive change. Through the introduction of Council-led initiatives, SBC has generated substantial annual income streams, made savings, accelerated regeneration and growth, protected frontline services and realised corporate objectives against a background of austerity.
- 5.3 The Council operates a myriad of Boards, Strategies, Joint Ventures and commercial companies that mainly sit within the Regeneration Directorate. However, with the exception of the 5 Year Plan, there is no overarching Strategy that guides their aims and objectives. At the same time, the existing governance structure does not include a specialist Committee that oversees performance to make sure that we capitalise on the opportunities we are creating. This report is therefore recommending the introduction of a Commercial Committee that will implement a Commercial Strategy and guide commercial activity.

### **What activities will be in scope for the new Committee?**

- 5.4 SBC is already a business minded organisation that is commercially aware and astute. Whilst not exhaustive, the existing commercial activities that will fall within the remit of the proposed Committee would include:

### **Slough Urban Renewal**

- 5.5 Slough Urban Renewal ("SUR") was introduced in 2013. It is a Local Asset Backed Vehicle ("LABV") formed on a 50:50 limited liability partnership between SBC and Morgan Sindall Investments Limited ("MSIL"), itself a subsidiary of Morgan Sindall Group PLC. The JV has an initial 15 year lifespan and the capacity to undertake works up to the value £1b (based on the procurement arrangements). The over-riding objective of SUR is to assist the Council to meet its objectives in regenerating the residential, educational, leisure, social and commercial infrastructure of Slough.
- 5.6 To date, SUR has completed works to the value of £260m and has a pipeline of circa £220m. Based on the Partnership Business Plan approved by Cabinet in April 2019, the Council will receive capital receipts (land value and share of development profits) that will exceed £27.4m over the next five years through commercial sites developed via this Joint Venture.

- 5.7 The new Committee would consider Site Development Plans (masterplans and feasibility studies) that are received for sites that are already optioned to SUR and take a view on proposals provide options on additional sites.

### **Strategic Acquisition Board**

- 5.8 The Strategic Acquisition Board (“SAB”) and associated strategy was established in 2015. In doing so, Cabinet created a vehicle for SBC to undertake asset investment and simultaneously introduced robust governance arrangements that have allowed the SAB to compete in the commercial market. The over-riding aims of the SAB are to purchase land and/or property that:

- 5.8.1 Generate an immediate income stream, enhancing the Council’s financial robustness; and/or
- 5.8.2 Enable regeneration and growth through the acquisition and redevelopment of key sites.

- 5.9 To date, the SAB has expended circa £69m to acquire a combination of investment and regeneration assets inside and outside of Slough. This total excludes BHS in the High Street which was sold and generated a profit of £1m. Excluding assets purchased for future regeneration, the investment asset portfolio generates an income stream of £3.9m per annum (a net yield of 6.4%). The SAB has also purchased 3 regeneration sites at a combined value of £7,340,000, all of which are tied into future housing and/or regeneration-led projects. The Travis Perkins site alone (which was acquired to assemble land to deliver a planning compliant scheme at Stoke Wharf) will generate a land value of £4,520,000 and profit share of £3,740,000 against an outlay of £2,100,000.
- 5.10 In approving the SAB, Cabinet noted the associated processes would place the Council in a position to operate within commercial timescales, enhance its ability to complete strategic acquisitions and/or investments and alleviate the risk of losing opportunities as a consequence of delays in process.
- 5.11 The SAB has proven to be highly successful. The flexibility and agreed governance arrangements have allowed the Council to compete in a competitive environment. However, there has been a constant tension between the need to generate immediate income and the desire to assemble land and property that will provide medium to long-term regenerative benefits. To alleviate this issue, the new Committee would take responsibility for regeneration-led acquisitions, allowing the SAB to focus on acquiring and disposing of Investment Assets.

### **Housing Companies**

- 5.12 James Elliman Homes (“JEH”) and Herschel Homes (“HH”) are wholly owned subsidiary housing companies that were incorporate and individual Boards introduced in January 2017. This followed the approval of the respective business plans in December 2016. It was agreed that HH would focus exclusively on providing properties at full market rent, whilst JEH would provide a blend of full market and sub-market rented properties and would be more closely tied to assisting SBC discharge its Homelessness responsibilities.

- 5.13 In approving the report, Cabinet noted that the over-riding objectives were to improve choice, increase quality, drive up standards and meet varying forms of need and demand. At the same time, the companies were envisaged to generate an independent income stream that would improve the financial resilience of the Council by maximising the long-term value of assets beyond the financial benefits already being realised via disposal of assets to Slough Urban Renewal (capital appreciation, long-term rental income).
- 5.14 It was anticipated that JEH would acquire 225 over a 5 year period, with HH purchasing 365 in the same timeframe. The HH acquisitions were tied into the projected SUR programme. However, due to competing budget pressures, HH has not been initiated. Including funding for 2019/20, JEH has been allocated a budget of £77.5m up to 2021/22 and has already purchased 88 (including hostel properties) units in Slough, with a further 38 properties under offer.

We have addressed the constraints of investment through formal dialogue with the market which has resulted in 'L&G offer of 'Institutional Finance' at 2.8% RPI or 3.2% CPI. In context at sub market rents set at £840pcm this will enable an investment of £330million for 1400 units targeted to affordable housing,

The potential exists to combine this institutional finance with the innovations intended for the Council's outdated DISH Company. This was setup on a 30 years lease which is drawing to a close and presents the ability to become the next generation of innovation. The DISH is to transform to become the Councils own 'Registered Provider' offering a status for funding, but also opportunities for a spectrum of housing and social commercial initiatives. The aspirations are to not only take on the social housing arising from developers planning responsibilities in offering social housing, but also generate income through creation and sale of starter homes; shared ownership initiatives through remodelling with the councils own housing stock and land. The potential top hatting schemes have estimated 250 units that would be suitable for shared ownership or starter homes. Such initiatives will compliment a program of specialist affordable and social rent projects for adult social care and youth provision that are intended to reduce costly private placements with our own provision of homes. This is intended to complement the DISH focus on being an innovative council sponsored tenant led/cooperative principled body

### **DSO/Teckal**

- 5.15 The Council is exploring opportunities that have arisen through the introduction of the new Teckal company that will undertake planned major infrastructure projects funded by SBC. This will include, but will not be limited to Phase two of the Mass Rapid Transit, Park & Ride and major junction schemes that will be undertaken within the next 5 years that have a budget allocation of £27m. To maximise income generation, the expectation is that most or all of the Council's future landscaping, highways & transport projects will be passed through the DSO/Teckal to support this venture.
- 5.16 The Commercial Committee would have an interest in exploring opportunities for the Teckal Company to undertake infrastructure works associated with the wider regeneration projects being undertaken by SBC and its strategic partners to

capture as much value as possible for Slough and reinvest this in improved services.

### **Housing (HRA) Trading Partnership**

- 5.17 As a service innovation, the Osborne property Services Limited (“OPSL”) has developed proposals to establish a special purpose vehicle (“the Trading Partnership” or “TP”) to deliver additional services to leaseholders, homeowners and to private sector landlords - known as the ‘Extended RMI’.
- 5.18 The establishment of the Trading Partnership with SBC is proposed to enable the Council to generate income to be invested in its communities and potentially roll out a series of service innovations in the future. The proposals also include the possibility to undertake potential small scale new-build delivery, and to provide modular housing. At this stage it is difficult to accurately assess values; however once well established the trading value is potentially between £1m and £6m per annum, producing total surpluses of say £100k to £600k per annum.
- 5.19 Whilst yet to be implemented, It is proposed that the Trading Partnership would be established as a corporate entity with 51% of the shares owned by OPSL and the Council being "gifted" the remaining 49% of the shares. A profit sharing protocol has been proposed to the Council by OPSL, which identifies profits after management costs to be shared 50/50 in the form of dividends.
- 5.20 Similar to SUR, the Trading Partnership will have a Board of Directors with representatives from OPSL and SBC.

### **Governance Arrangements**

- 5.21 The Committee will be a sub-group of Cabinet. It will meet on a monthly basis and will be chaired by the Leader of the Council / Lead Member for Regeneration & Strategy. The standing members of the Commercial Committee will be Cabinet members with specific responsibility for governance, property and finance. The potential will exist to invite non-executive elected members to participate in the Commercial Committee where these members sit on the board of a commercial activity.
- 5.22 The Guiding Principles of the Commercial Committee are to:
- Promote ambition and innovation so that SBC captures as much income and wealth as possible from the future regeneration of Slough.
  - Foster a Commercial Savvy environment where individuals and commercial activities are empowered to challenge perceived ways of working, develop new ideas to increase efficiency, generate income streams and reduce operating costs for SBC.
  - Set out clear and achievable strategic objectives for each of Council’s commercial functions to make sure they operate in an integrated way which supports the delivery of the Council’s wider goals and objectives.
  - Provide leadership and oversight of strategy and operational delivery to maximise effectiveness and ensure that the activities of commercial



function complement the Asset & Estate Management Strategy and Housing Strategy.

- Promote the delivery of regeneration, innovation and growth across all commercial functions.
- Ensure that 5 Year Plan outputs and Outcomes are delivered to maximise the benefits for residents in Slough.

5.23 A formal Terms of Reference for the committee will be required. However, in broad terms the Commercial Committee will have a remit to:

- Implement a Commercial Strategy and develop an Action Plan that brings together the all existing commercial activities including (but not limited to) SUR, the SAB, the Council's Housing Companies (including DISH), the proposed Trading Company, the DSO and other new commercial activities that arise.
- Consider business plans and business cases linked to new commercial activities and make recommendations.
- Monitor and review agreed performance targets from each commercial function and recommend action as required.
- Review proposed land acquisition and/or property investment proposals, taking into account the extent to which the proposition fulfils the Council's policy objectives against a set of agreed criteria.
- Make strategic land acquisition decisions on behalf of the Council in line with processes agreed via the SAB.
- Report acquisitions to Cabinet.
- Look at ways to use commercial activity to build the Council's reserves.

5.24 Whilst not fettering the role of the Board of Directors of any of the existing or new companies and/or joint ventures, the new committee would take a strategic overview to ensure that their Acquisition Strategy and Business Plans sit within the overall corporate vision.

5.25 The Commercial Committee will be supported by suitably experienced Directors and Officers. The expectation is that this will include officer and Directors that have an interest in commercial activities through carrying out the existing Shareholder Role (i.e. s151 Officer or delegate) or have a strategic, operational or fiduciary responsibility. This is likely to include (but not be limited to) the:

- Director of Finance & Resources
- Director of Regeneration
- Service Lead Regeneration Development
- Service Lead Major Infrastructure Projects
- Service Lead Housing Development & Contracts
- Service Lead Finance
- Head of Asset Management (or equivalent)

## **Staffing Resources**

- 5.26 Given the growing emphasis on business planning, management accounting, income generation and general finance input across the range of companies and JV's, this report recommends that Cabinet approves the principle of introducing a dedicated finance resource, with sole responsibility for managing the financial activities associated with the Commercial Committee and the emerging Commercial Strategy.

## **6 Comments of Other Committees**

- 6.1 This report has not been considered by any other committee.

## **7. Conclusion**

- 7.1 Subject to approval, the proposed Commercial Committee will provide a new vehicle and an enhanced layer of governance from elected members to ensure that the various strands of existing and new commercial activity are considered in co-ordinated manner. However, this will not be done at the expense of existing business-like processes that have led to the success of initiatives like the SAB.
- 7.2 The expectation is that the new committee will promote innovation and ambition. It will develop and (subject to Cabinet approval) deliver a Commercial Strategy and Action Plan and take high level regeneration decisions that will allow the Council to generate long-term sustainable income streams that will make a major contribution to delivering the best possible services to its residents and service users.

## **8. Appendices**

None

## **9. Background Papers**

None