



Grant Thornton

An instinct for growth™

# Investing to earn with a financial and social return

Local government commercial activities to create vibrant economies

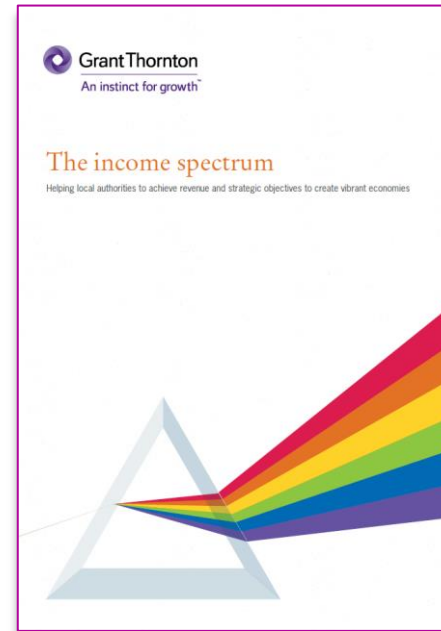
**Philip Monaghan**

London, 27<sup>th</sup> March 2018

Commissioning & Procurement for Growth



# The Income Spectrum series – an ongoing campaign



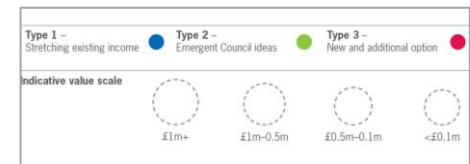
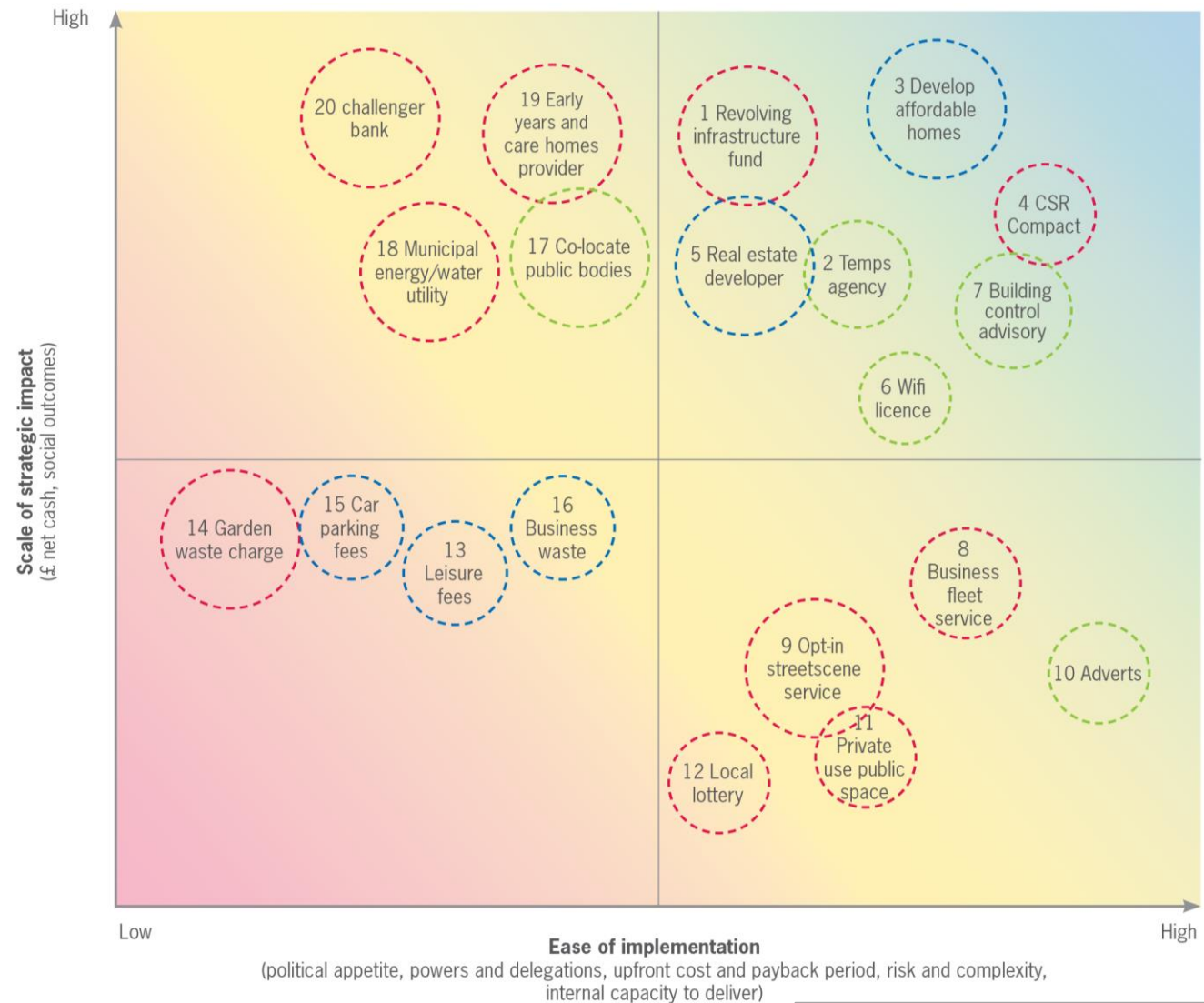
- Available **for free** reports share insights into why and how local authorities are developing their approach to commercial activities
- The work embodies our corporate vision for a **Vibrant Economy**



# Key messages from the previous research phase

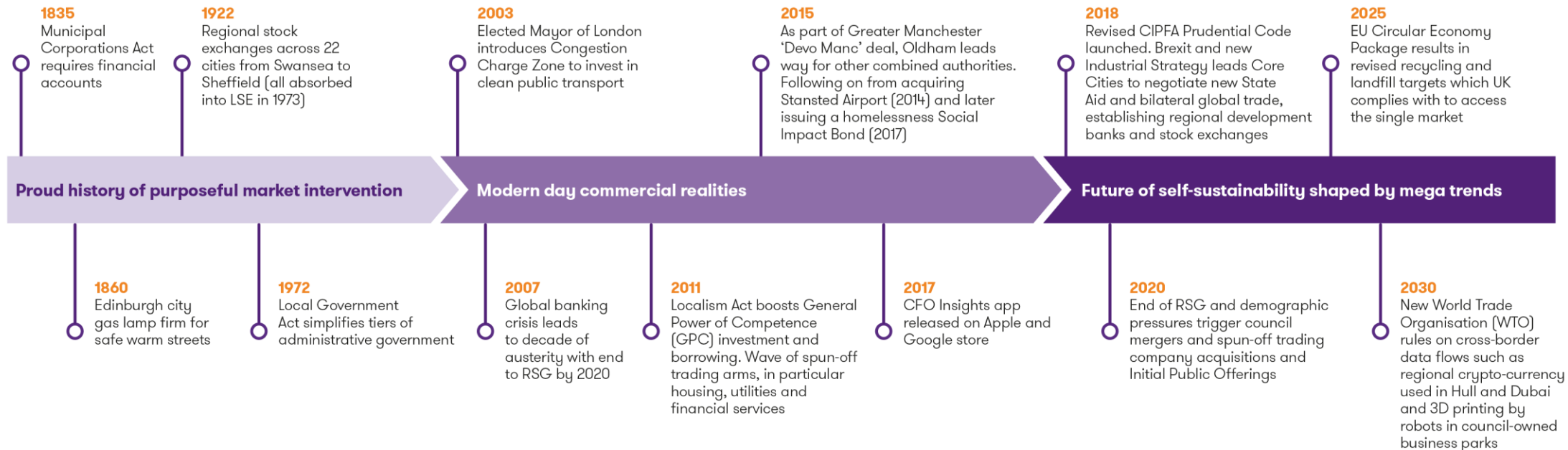
- Councils using commercialisation to **diversify funding base** (fees, assets, company spin-offs, treasury)
- Stronger commercialisation offers potential to meet **revenue and strategic challenges** for 2020 onwards
- The opportunity is **not fully exploited** across the sector due to an absence of a holistic and integrated approach
- Ideal scenario is investing to earn with a financial and **social return** (better Value for Money, aligned to strategic commissioning outcomes)

Opportunities assessment matrix



# Recent media criticism of commercial property deals ignores the long history of wider sector activity

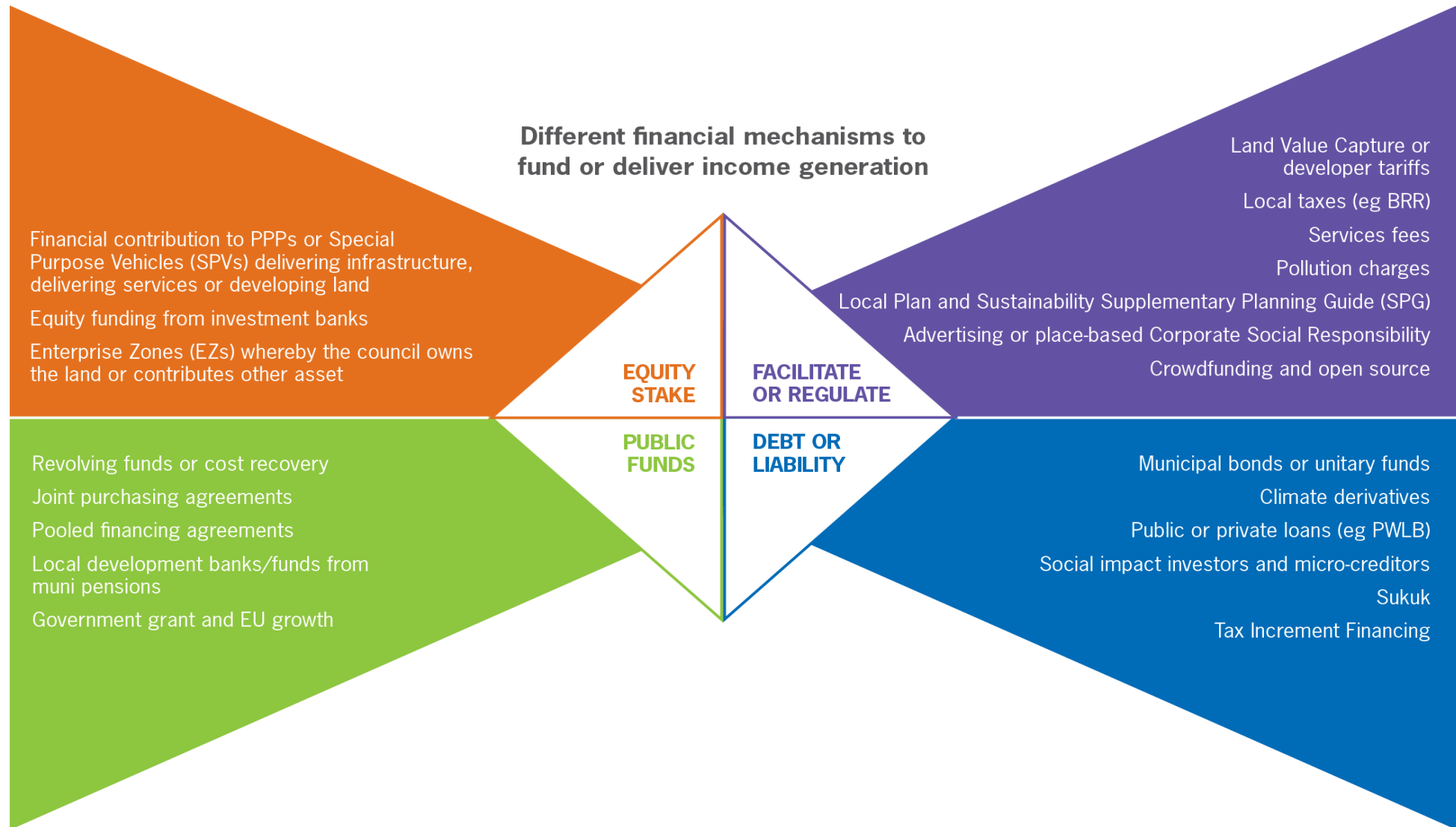
## Timeline of local government commercial considerations



# Powers and obligations to trade with social purpose

England	Wales	Scotland
<p>The <b>Localism Act 2011</b>, building on the Local Government Act 2003, gives councils a greater General Power of Competence to trade and charge, to borrow and invest prudently.</p> <p>The Public Services (Social Value) Act 2012 also provides councils in England and Wales with commissioning obligations and powers to benefit from responsible procurement.</p>	<p>The <b>Well-being of Future Generations (Wales) Act 2015</b> places a new and additional duty on Welsh councils to consider the long-term sustainability of policy-making for different stakeholders over time.</p>	<p>In Scotland, the Local Government (Scotland) Act 1975 and the Scottish First Minister's Finance Circular 5/2010 sets out the statutory basis on which councils can prudentially borrow, lend and invest.</p> <p>The <b>Social Impact Pledge 2016</b> is a part of the Scottish Government's drive for a Fairer Scotland, which encourages councils to commit to changes within their policies and operations that will directly benefit communities.</p>

# Variety of instruments to commission or procure





# New changes to governance of commercial activities

- The **CIPFA Prudential Code for Capital Finance in Local Authorities** is the sector's primary rule book for treasury management. A newly revised version of code was published in early 2018. The changes to the Code places a stronger emphasis on how councils will in balance security-liquidity-return, with more stringent requirements on:
  - recognition of changing sector collaborative governance (elected Mayors, City Region Deals, Combined Authorities and LEPs)
  - alignment to long-term strategic objectives (eg use of Public Works Loan Board (PWLB) for regeneration rather than short-term hedging)
  - options appraisal (quality of business case development)
  - quantifying and mitigating risk (eg scrutiny of out-of-boundary transactions).
- Simultaneously, the Ministry of Housing, Communities and Local Government (MHCLG) has also recently issued its proposed update to the **Local Authorities Investment Code and the Minimum Revenue Provision (MRP) Guide** to cover non-financial yield bearing investments. The Guide's new proposals call for local authorities to be more transparent and explain 'why' and not just 'what' they are doing with their investment activity.

# Other non-financial codes may also be material

Figure 4: Maturity grid of financial and social codes impacting councils' commercial commissioning

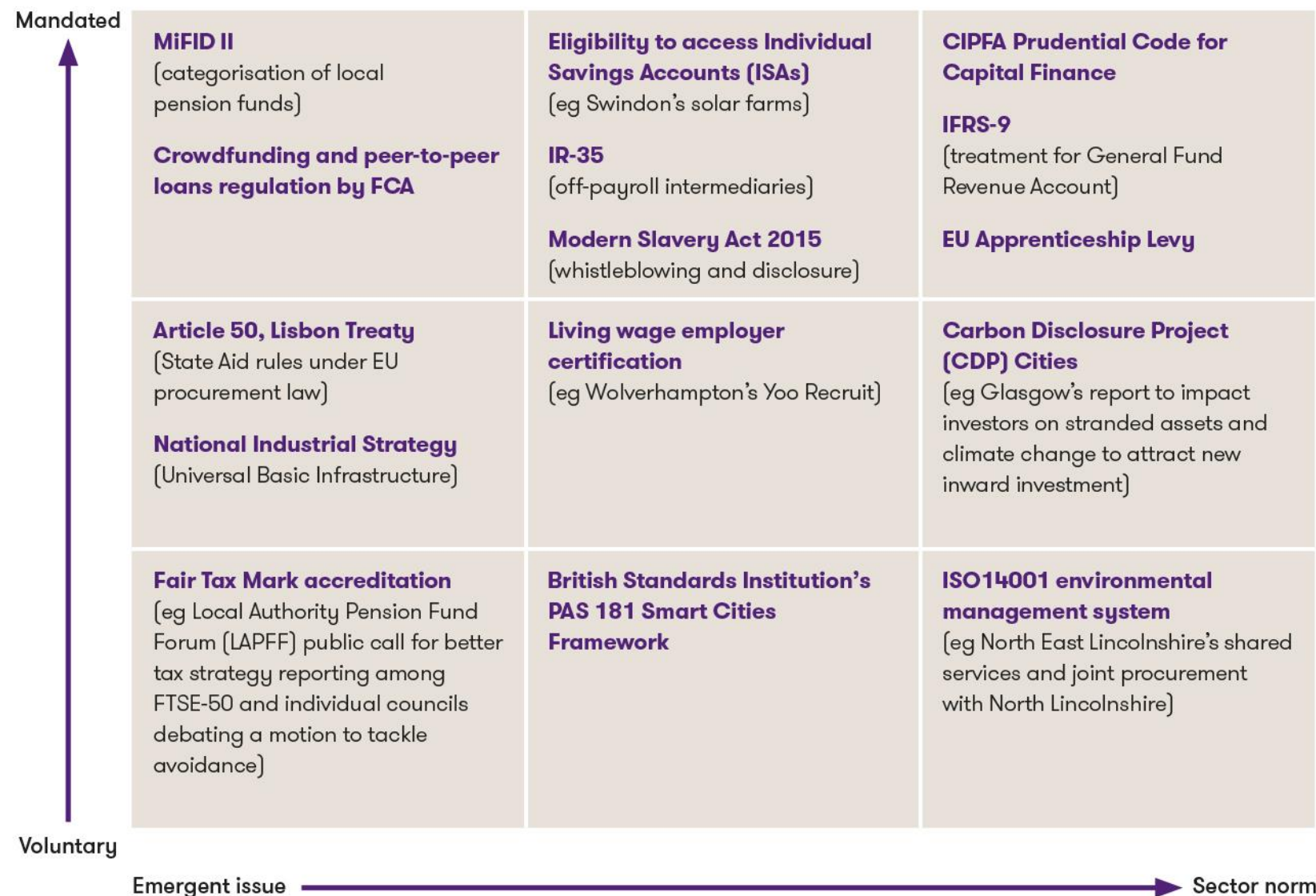
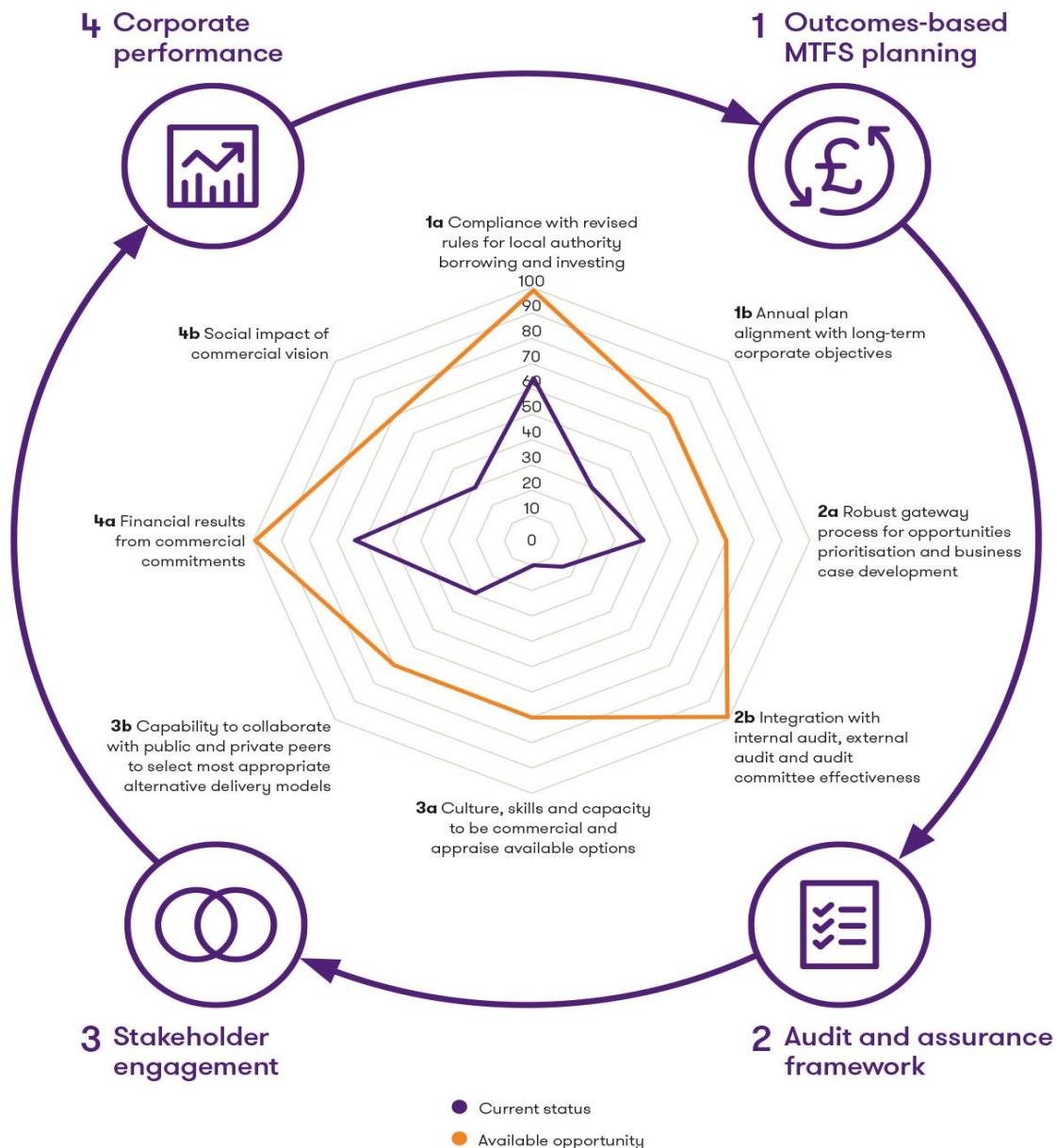




Figure 5: Grant Thornton's diagnostic tool for beyond compliance commercial healthcheck



## Summary of key messages in adopting a balanced approach

– diagnostic for extra comfort and confidence beyond compliance

# Contacts



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Philip is an accredited Member of the Institute of Economic Development (MIED) and a Practitioner of the Institute of Environmental Management and Assessment (PIEMA).

His 20 year career has involved working to deliver service transformation and improvement in economic regeneration, environmental restoration, and corporate governance.

He is the team lead Commerciality, leading assignments for Stirling Council, Sheffield City Council, and London Borough of Newham.



# Thank you

## - any comments or questions?





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