



# **Stevenage Borough Council**

## **Co-operative Commercial and Insourcing Strategy 2020-2023**

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## 1.0 CO-OPERATIVE COMMERCIAL AND INSOURCING STRATEGY OVERVIEW

Stevenage Borough Council (“the council”) recognises that it is operating in a rapidly changing environment, with increasing financial challenges, which is expected to become more demanding in future years.

In the last decade, against the backdrop of austerity, £10m of cumulative savings have been made. In addition, the council have made investments via the FTFC (Future Town, Future Council) programme in regeneration, building new homes, improving council homes, supporting neighbourhoods and improving services for customers.

The future delivery of sustainable services will be predicated on the council’s ability to secure additional income streams and transform how services are structured and provided. There is the need to be prudent and efficient but also to use a commercial approach to generate income, manage costs and generate funding for vital services. The council wants to meet these challenges, exceed them, and thrive; to become a leading council that is financially self-sufficient, delivering high quality services with, and for, its customers and communities.

The council are therefore striving to secure a surplus out of necessity and for the greater good of the borough. An innovative approach is required in response to the loss of the RSG (Revenue Support Grant), increasing inflationary costs, the funding gap created by the impact of the Covid-19 crisis and the delivery of Members ambitions associated with the cooperative corporate plan; FTFC. The strategy forms a key part of the council’s Recovery Plan and supporting the revival of the local economy in Stevenage. There is significant risk in doing nothing and standing still.

As a co-operative council, the focus will be on co-operative solutions and where possible work will be undertaken through the Co-operative Council Innovation Network (CCIN).

The council accepts that it will need to adapt its culture, thinking, and ways of working. It will require greater innovation, financial flexibility, commercial awareness, prudent risk management and the effective use of new technologies. Commercialisation will need to be embraced and delivered throughout the organisation, with opportunities identified and realised universally wherever possible.

The council has been undertaking commercial activity in different forms for many years. Examples of this include the town centre regeneration partnership with MACE, Queensway redevelopment partnership with Reef and the Business and Technology Centre. This commercial and insourcing strategy has been developed to not only consolidate the council's existing commercial activity, but also provide a framework, with clearly defined aims and objectives, for new commercial projects and the delivery of future commercial activity. It seeks to outline how these will be achieved and define what success looks like.

Legislation provides the council with the power (subject to limitations) to charge for discretionary services; to trade with other public bodies and to trade with the private sector via a company. All proposals under this strategy will include a consideration of the legal implications and the most appropriate method of achieving the council's objectives within the legislative framework. Depending on the approach taken, the council may be able to trade with a view to generating surpluses, rather than simply recovering costs.

## 1.1 Strategic Aims

The Co-operative Commercial and Insourcing Strategy supports the overall council objectives and corporate aims by:

- Protecting services and jobs and supporting the delivery of the FTFC programme.
- Delivering efficient, effective in-house services that have the ability to be flexible and adapt, as has been demonstrated during the Covid-19 pandemic
- Moving towards becoming a financially self-sufficient council by operating in a more commercial, business-like manner.
- Generating income whilst remaining focussed on the core purpose of supporting and delivering with and for our communities.
- Developing and embedding a commercial culture and mind-set throughout the entire organisation at all levels.
- Improving commercial leadership, awareness and competency.
- Considering appropriate trading opportunities, utilising robust business plans and financial risk assessments to ensure effective and informed decisions.

The council recognises that by progressing with a Co-operative Commercial and Insourcing Strategy it will be able to offer greater protection and safeguarding around jobs, services and the broader offer to the community

## 1.2 Rationale

Local authorities and the public sector generally are operating in an increasingly challenging environment, with significant financial pressures, reducing resources, increasing customer demand and greater market competition for services.

In June 2020, as the United Kingdom started to emerge from the Covid-19 global pandemic, economists have commented that the impact of the Covid-19 pandemic will likely endure beyond 2020/2021. The Bank of England reported this could lead to the 'sharpest recession' on record, reporting that the coronavirus impact could see the economy shrink by 14% in 2020. The financial impact of the crisis on the council has been significant, particularly in relation to reduced income from fees and charges and increased homeless costs, leading to a considerable funding gap.

The council is forecasting a budget target of an average of £440k per year between 2021/22 and 2024/5, amounting to an additional requirement to find £1.76m over this period, subject to additional Covid-19 funding support from the government. The challenges and pressures on the council's resources will continue into the future, with many influences being beyond the council's control.

The council's FTFC and Connected to Our Customer (COC) plans will change the way the council transacts with its customers, and will deliver more modern and efficient practices and procedures. These programmes are targeted to deliver cumulative savings of approximately £929k by 2022/23.

Commercialisation and the generation of sustainable new income streams need to be achieved in order to address future budget gaps and pressures. These need to be built into the council's Medium Term Financial Strategy (MTFS) moving forwards if it is to avoid the prospect of having to reduce or cut services.

The council recognises the need and requirement to take a more commercial approach to future proof its operation, and facilitate a culture that maximises opportunities to thrive.

Given the economic uncertainty moving forwards, the council accepts that there is the need to be flexible in approach and that some opportunities will be designed to be scalable and to grow or be expanded over a period of time in line with changing demands and markets.

### **1.3 Definition of Commercialism**

The council defines commercialism as the ability to manage services well and efficiently and be innovative in generating vital funds to be able to protect vital services and deliver the best value for our communities and customers.

Commercialism does not just mean making a surplus, but also includes:

- Understanding and considering the whole life cost of policy decisions, including market impact and benefits realisation
- Improving efficiency of service delivery; reducing costs, layers and streamlining processes
- Using insight data and technology to help modernise services; finding innovative ways to better support residents and service users and the town
- Maximising value for money from contractual relationships, including the consideration of insourcing services
- Making robust decisions on a consistent basis with evidence and a sound business case
- Considering new and innovative ways of generating income
- Accepting some risk, and accepting that some ideas may not succeed
- Being mindful of the need for the risks to be spread across the portfolio of opportunities and ensuring resilience when considering the exposure to costs against reward
- 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
- Being honest about current performance and knowing whether services are market ready
- Being prepared to invest now for a return in the future
- Demonstrating that the council is open for business and driving inward investment into the borough

This means making sound and clear decisions in using our resources, investing public funds to become more efficient and to generate income for the council to sustain services and deliver improved services where possible.

This will affect different parts of the council in different ways and to varying degrees, acknowledging that some services do not have as much scope for commercialisation as others.

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 throughout the organisation and links with the wider transformation agenda.

## 1.4 Outcomes

The commercial work stream will evolve over time and as commercial programmes of work and business cases are developed, the anticipated income will be fed into the MTFS. As we enter the recovery phase of Covid-19, future demand for services remains unclear. However, the council will continue to seek to grow its revenue through commercial, ambitious, and innovative investments, developments and cost reduction of its services through more efficient ways of working.

Delivery of this commercial strategy will support the council to:

- 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 and develops the next generation of public sector officers
- Become a leader in its field, delivering high quality, efficient and effective services with and for its communities and customers

## 2.0. COMMERCIAL APPROACH TO INCOME GENERATION

### Core Principles & 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.

The council has enterprising staff, partners and members - their skills need to be harnessed and developed to help achieve the commercial strategy. We will invest in staff training to enhance staff skills and raise the level of commercial expertise across the organisation.

The council accepts that it may need to take more risk than in recent times in order to achieve its ambitions and commercial success. This means accepting that not all commercial activity will deliver the anticipated returns, and that some of that risk will be mitigated by a robust approach to diversification. This risk also 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 commercial enterprises, contracts and partnerships. This approach will ensure that the council adheres to its statutory responsibilities and that public money continues to be appropriately invested and accounted for.

## **Organisation Wide Commercialisation Objectives**

### **2.1 Improving Processes and Efficiency**

The financial performance of individual service areas (such as the indoor market, cemetery services, allotments) will be reviewed to identify the level of subsidy or surplus generated, and the appropriate policy approach (e.g. to target a loss making service to achieve a break-even position).

Each business unit will seek to enhance productivity and yield by reviewing where appropriate; fees & charges, processes, the cost of delivering services and the potential to deliver new added value services. Teams will be given tools and approaches to help them put in place efficiency measures and improve productivity.

Business unit reviews of fees and charges will feed into a wider review of fees and charges. It is anticipated that for some business units, this may lead to the creation of premium pricing options. In this model, such as garages, the higher payments received for premium products / services will be used to maintain the standard offer for those that pay at the lower price points.

Attention will be given to tightening contract management processes across the council. This will involve establishing robust terms and conditions during the tendering phase and ensuring that appropriate management provisions are included to plan for contract management from the outset. Clear performance frameworks will be implemented in order to mitigate against non-delivery and under-performance and contracts will be monitored, maintained and adapted accordingly. The Commercial and Investment Executive Committee will monitor the performance of contracts and capture lessons learnt to feed into an enhanced approach to contract management across the organisation.



This work will be done in conjunction with a commercialisation task force, which will comprise of a group of like-minded skilled and experienced officers, working with each service as a critical friend to help generate ideas, review contracts and maximise commercialisation and income generating opportunities. It is anticipated that the commercialisation task force will grow over time.

## **2.2 Income Generation Objectives**

The Commercial and Investment Executive Committee, comprising of members of the Executive, will provide a forum to consider and debate broader income generation ideas, including external investment proposals.

Opportunities to generate increased income for the council and sell commercial services externally will be considered across the whole council and in a variety of service areas.

Proposals will be measured against agreed investment criteria, in order to ensure they meet the required returns and objectives and so that public money is invested proportionately and with due regard to procurement and governance procedures.

All projects will be undertaken in accordance with approved procurement and governance procedures in order to manage risk and ensure compliance.

## **2.3 Insourcing Objectives**

The council will continue with its commitment to use in-house services to deliver council operations, and insourcing will be the council's default position, other than when there is sufficient evidence that this is not an option.

All services provided to, or on behalf of the council by external suppliers or third parties will be reviewed to establish if an opportunity exists to enhance service delivery or achieve better value by delivering services directly. Where possible, business units will be developed to deliver work that is currently contracted out to others.

Attention will be given to whether opportunities exist to join up work streams across the council and break down silo approaches when procuring services and managing contracts.

An insourcing road map lists known contracts and potential insourcing opportunities and details timescales for their consideration.

The council's Repairs and Voids Service has an insourcing roadmap, outlining the status and progress of the services due to be considered for insourcing. In 2019/2020, the spend on contractors for Decent Homes works was £237,596. By the first quarter of 2020/21 the external expenditure in this area was under £10,000 (all of which was for gas works), due to the undertaking of works in-house. Similarly, the compliance contract which has a budget of £315k per annum has recently been bought back in-house. This approach will be expanded into other areas of the council and the road map will be subject to further iterations, with insourcing opportunities being reviewed on a case by case basis in line with the strength of the business case.

Each opportunity will be detailed within an updated commercialisation action plan with progress reported and monitored by SLT and the Commercial and Investment Executive Committee.

## **2.4 Social Value Objectives**

Projects and opportunities will also seek to identify social value, which could include aspects such as meeting housing needs, cultural and wellbeing benefits and enhancing local training and employment opportunities.

By embedding social value considerations into commercial activity, the council will support community wealth building in Stevenage, to ensure that there is a positive impact on the local economy.

On occasion, this may mean that upfront costs may be higher but that the outcomes for residents and the community will be greater.

As part of the annual accounts process the council will submit a statement outlining the social value that has been delivered.

## **2.5 Commercial Culture Objectives**

To enable the council to operate in a more business-like way, there is a need to ensure that staff are equipped with the right skills to deliver.

Careful consideration will be given to creating the right environment within the organisation to nurture innovative ideas and develop them into robust project proposals. This will involve the following activities:

- Undertaking a skills and culture audit
- Delivering targeted training to increase commercial awareness and skill sets

- Designing a communications campaign to draw in ideas from staff and generate new ideas
- Producing a framework for the development of new propositions
- Creating a commercial resource centre containing tools, guidance and case studies
- Capturing lessons learned as and when encountered
- Adopting a project management approach for the implementation of the programme
- Ensuring new proposals have the right level of support
- Starting at the very beginning of the journey – recruiting the right people with the right attitudes/ acumen where possible, and mainstreaming this into job descriptions and person specifications where appropriate.

### **3.0 BUSINESS UNIT SPECIFIC OBJECTIVES**

Commercial activity will take place across the council, with Key Performance Indicators (KPIs) being set for business units and reporting back on a regular basis to the Commercial and Investment Executive Committee.

#### **3.1 Commercial Property Portfolio**

In 2017 the council approved a Commercial Property Investment Strategy which was targeted to make a contribution to the General Fund of an estimated £200,000 per year (1.6% of total General Fund rental income), in order to help create renewed confidence and send positive message to other investors. To date one property has been purchased and properties being investigated are currently on hold during the pandemic, with the losses included the shortfall for 2020/21. It is also anticipated that there will be changes for borrowing legislation which will need to be understood and taken account of in due course.

Therefore, in the short term the delivery of investment in commercial property primarily to deliver economic sustainability in Stevenage will be refocused. Work will be undertaken to review the existing commercial portfolio and explore opportunities within the existing estate, taking the form of a commercial asset audit. The wider regeneration benefits from such opportunities will be a key consideration.

#### **3.2 Finance & Treasury Management**

The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded by taking loans out with the Public Works Loan Board

(PWLB). Instead the council's reserves, balances and cash flow have been used. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Caution will therefore continue to be adopted with treasury operations moving forwards.

The council does not borrow in advance of need and borrowing decisions will be based on robust business cases. All transactions will be accounted for in accordance with proper practice.

### **3.3 Housing Development**

The council recognises the importance of affordable council housing and is mindful of the wider housing crisis which requires more private housing to be built. It recognises that the development of private housing stock can generate returns that could allow more council houses to be built. The creation of a Wholly Owned Housing Company (WOC) will be progressed and there will be a corresponding review of spin off opportunities and insourcing opportunities that sit within the WOC structure. It is anticipated that the WOC will be used as a best practise example of an insourcing model within the council. Other housing development activity will involve investigating the optimisation of planning opportunities and identifying and progressing low risk and high return private sale schemes.

### **3.4 Commercial Services**

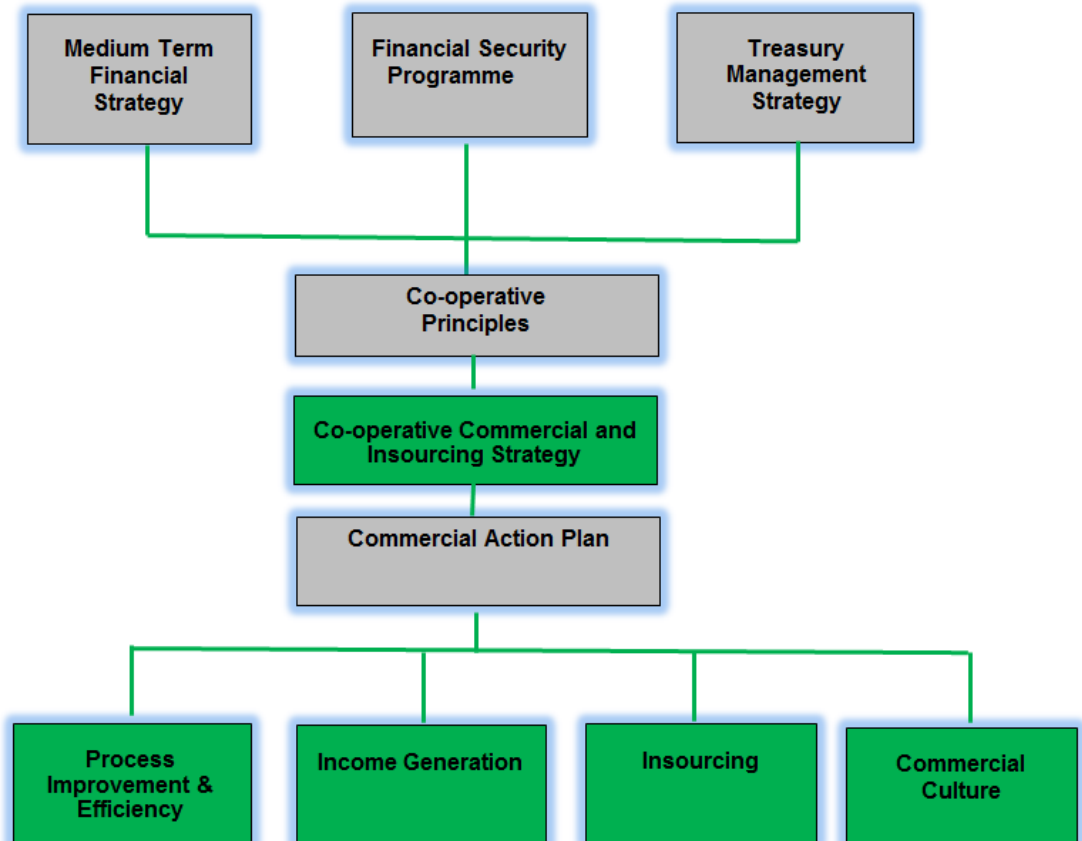
Commercial activity will include:

- A reduction of garage voids to increase income and the Garage Improvement Programme (GIP).
- The opportunity to sell a 'Total Waste Solutions' service to potential key accounts will be explored. This would involve the expansion of the current skips and RoRos (Roll-on, Roll-off) offer provided by SDS and would allow the council to offer additional services that could be managed through an approved supply chain.
- In the Repairs and Voids service, work around insourcing opportunities will continue at pace.
- Investigation will be undertaken into the feasibility of creating a WOC to serve the community's needs and provide commercial services where capable.
- The example of Oxford Direct Services and others will be explored. This model seeks to expand the services that the council provides and combines elements of commercialism with public sector heritage. It centres around the development of a business that balances purpose and profit, whilst delivering positive social, environment and economic impacts for the community.

## 4.0 GOVERNANCE

The linkage and relationship of the Co-operative Commercial and Insourcing Strategy and Commercial Delivery Plan with the council's overall strategic objectives and financial security effort is shown in Figure 1:

**Figure 1. Commercialisation Hierarchy**

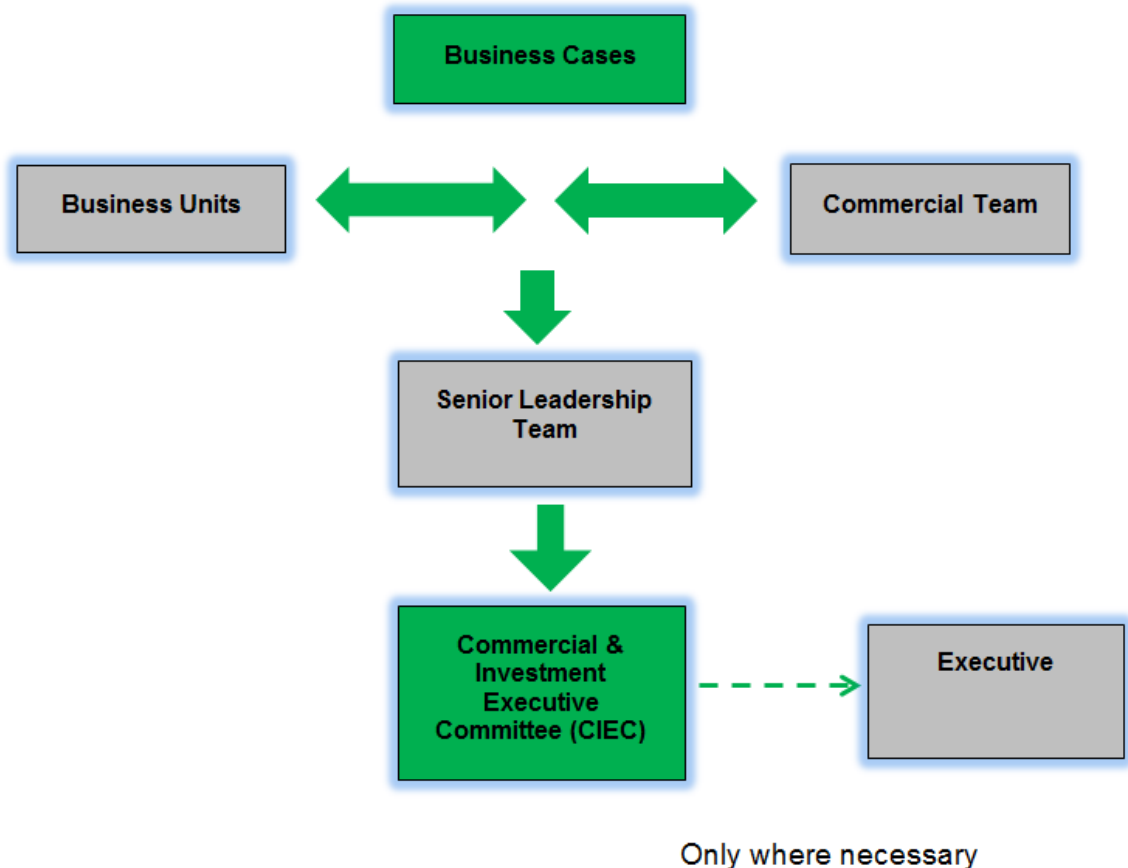


The objectives of the Co-operative Commercial and Insourcing Strategy will be delivered through a high level delivery plan. The success of the delivery of the plan will be measured by a series of key deliverables and performance indicators as part of the Performance Management Framework.

One of the guiding principles of the Co-operative Commercial and Insourcing Strategy is risk management. Risks will be managed in line with the principles of the council's risk management procedures, commercialisation is identified on the Strategic Risk Register and all key risks associated with the commercialisation and insourcing agenda across the organisation will be identified on business unit or project risk registers as appropriate.

The council will adopt a commercial approach across the organisation. All officers and members will be encouraged to share their ideas through the Commercial and Investment Executive Committee (CIEC). This forum will be made up of Executive member representatives akin to the Housing Regeneration & Development Executive Committee.

**Figure 2. Approval of Commercial Business Cases**



The CIEC will provide a mechanism for ideas within internal services and those with external partners and customers to be evaluated swiftly, using a robust early assessment criteria model and fully costed business case approach. This will allow the council to identify and take forward the right projects, measure efficiencies, deadlines and income.

Generally, investment decisions and approvals will be made by the CIEC under delegated authority from the Executive. All decisions and approvals will be conditional on the council’s agreed investment criteria being satisfied and will be subject to existing scrutiny procedures. The CIEC’s terms of reference define the extent of its remit. All decisions exceeding this remit will be considered by CIEC which will then make recommendations to the Executive.

## 5.0 INVESTMENT CRITERIA

In the longer term, when appropriate, investments will ideally meet the target of a six (6%) per cent gross rate of return (yield). However, target returns lower than 6% will be considered depending on borrowing and investment rates and the calculated level of associated risk. The targeted rate of returns are in place to meet the £200k annual contribution to the General Fund identified in the Property Investment Strategy, following the approval of the capital budget of £15m.

When calculating viability, the investment criteria will take into account the following factors:

### 5.1 Known costs

- Interest on the loan. This is based on the available loan options available at the point of investment/purchase. Normally, this will be via the PWLB (Public Works Loan Board). Currently (June 2020), the interest rate that SBC can borrow over 25 years is around 2.25%. However, this rate does vary on a daily basis, so may be higher or lower at the actual time of investment.
- Minimum Revenue Provision (the minimum amount that must be charged to an authority's revenue account each year for the financing of capital expenditure). This calculation is based on the life of the asset and will vary accordingly. On an investment with a 50 year life (which sits at the upper limit of investment life), MRP would equate to an additional 2% per year.

The method of calculating the MRP can be changed by the Council which may reduce MRP costs in the early years of investment, whilst increasing in the latter years. This could be done with long leases with guaranteed rent increases at fixed points during the lease. However, overall, the total MRP payable over the length of the loan will still average 2% per annum.

### 5.2 Other associated costs

- Repair costs
- Energy efficiency improvements
- Bad debt provision for non-payment of rent
- Void property charges (including empty property business rates)
- The cost of rent reviews (where rent free periods may be given to attract tenants, or the time taken searching for a new tenant if a property becomes vacant)

### 5.3 Risk Profile

The council will focus on resilience and consideration will need to be given to whether exposure to further debt will outweigh potential reward.

Risk mitigation will be essential for protecting council income streams from property investments, both from rent defaults and more systematic risks such as movements in markets. Property risks will be managed by undertaking due diligence for each acquisition and assessing the long-term viability of the type of investment through horizon scanning. In the longer term, property risks may be managed by diversifying the portfolio, in terms of property length, location, lease length or yield.

The table below outlines the risk mitigation measures that will take place in relation to commercial investments and contract management:

Risk Area	Risk Mitigation	Likelihood	Impact
An investment fails	Approval and monitoring through CIEC, Regular review, Horizon scanning, Diversifying the portfolio (type, location, lease length, yield) Increase savings targets in MTFS, Lessons learnt	Medium	Medium
An investment does not perform against the business case	Thorough research, Understanding the market/demand, Horizon scanning, Scrutiny by CIEC, Review options, Diversify the portfolio, Lessons learnt	Medium	Medium
A contract under-performs	Robust terms and conditions, Appropriate contract management provision, Performance management frameworks, Lessons learnt	Medium	Medium



Risk Area	Risk Mitigation	Likelihood	Impact
Insufficient knowledge held in-house	Internal culture and skills audit leading to targeted learning and development plans, Buy-in specialist resource	Medium	Low

## APPENDIX 1: Strategy on a Page

### Our Vision: (ambition)

To meet current challenges by becoming a co-operative, leading, financially self-sufficient council delivering sustainable, high quality services with and for its customers and communities.

### Our Mission: (what we aim to do)

To develop into a more co-operative, cohesive and ambitious, economically efficient organisation, become a partner of choice for the community and commercial sectors, develop the next generation of public sector officers and become a leader in its field delivering high quality, efficient, effective and timely services.

### Our Values: (how we will work)

Excellent

Caring

Responsive

Innovative

One  
Team

Straight  
forward

### Our Principles: (what will guide us)

Commercial  
Awareness

Innovation

Financial  
Flexibility

Risk  
Management

Use of new  
technology

### Our Priorities (what is our focus)

Business  
Process  
Improvement

Income  
Generation

Insourcing

Commercial  
Culture

### Priorities informed by:

Medium Term Financial Strategy  
 Financial Security Programme  
 Treasury Management Strategy