

Stevenage Borough Council

Co-operative Commercial and Insourcing Strategy 2023-2026

Co-operative Commercial and Insourcing Strategy

Created: October 2023

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CO-OPERATIVE COMMERCIAL AND INSOURCING STRATEGY 2023-2026

1.1 Co-operative Commercial and Insourcing Strategy Overview

Stevenage Borough Council recognises that it is operating in a financially challenging environment for the public sector as well as the broader national economy.

During 2020/21-2021/22 the Council weathered the operational and financial impacts of COVID which resulted in a net cost to the Council of circa £4Million.

This cost was incurred whilst the Council continued to deliver most of its services, progress with a range of major regeneration and housing development projects, improve Council homes, support neighbourhoods, and improve services for customers.

More recently, the Council's financial position has been exacerbated by the significant financial challenge of the 'Cost of Living' crisis which has resulted in a dramatic increase in inflationary costs and utility costs as set out in the September 2023 Executive Medium Term Financial Strategy (MTFS) report.

The Council has a history of entrepreneurial activity and 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, creation of a Wholly Owned Company for Housing Development and the Business and Technology Centre.

The future delivery of sustainable services is predicated on the Council's continued 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 continue to use a commercial approach to generate income, manage costs and generate funding for vital services.

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

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Since the implementation of the Co-operative Commercial and Insourcing Strategy in August 2020, the Council has further adapted its culture, thinking, and ways of working.

Figure 1. Commercial activity 2020-23

| | | | |
|---|---|--|---|
| Garages | Advertising & Sponsorship | Filming | Parcel lockers |
| <ul style="list-style-type: none"> • Investment in garage works • Changes to garage processes • Transition to digital lettings | <ul style="list-style-type: none"> • Income from advertising on Council assets • Income from events sponsorship | <ul style="list-style-type: none"> • Income from filming in Stevenage | <ul style="list-style-type: none"> • Income from parcel locker provision |
| Solar | Fees and Charges | Income streams | Skips |
| <ul style="list-style-type: none"> • Inclusion of a solar panel in the Multi Storey Car Park at Railway North to reduce electricity usage | <ul style="list-style-type: none"> • Commercial lead on fees and charges • Review of concessions and agreements | <ul style="list-style-type: none"> • New income streams in cemeteries, planning, engineering and environmental services | <ul style="list-style-type: none"> • Launch of new skips offer - domestic and commercial |

This commercial activity has required greater innovation, financial flexibility, commercial awareness, prudent risk management and the effective use of new technologies.

Digitisation, the key cornerstone of the transformation programme, has been used to support garage services transition to more effective ways of working. Residents can now select a garage of their choice through the transparent digital lettings process, resulting in a vastly improved customer experience and decrease in garage voids.

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.

1.2 Strategic Aims

The Co-operative Commercial and Insourcing Strategy 2023-2026 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.
- Moving towards becoming a financially self-sufficient council by operating in a commercial, business-like manner.
- Generating income whilst remaining focused on the core purpose of supporting and delivering with and for our communities.
- Seeking opportunities for increased wealth into the local economy (for example through welcoming filming to Stevenage).
- 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.

1.3 Rationale

The ability to set a balanced budget and at the same time retain the same level of services has become harder due to the combined financial impacts of government grant reduction and absorbing inflation of over £12Million. As well as significant financial pressures, local authorities are operating in an environment of reducing resources, increasing customer demand for important services such as housing support and homelessness prevention and there is greater market competition for services.

The District Council's Network (DCN) commented that the 2022 finance policy statement contained good news that all councils will be guaranteed an increase of at least 3% in their spending power next year. This announcement on top of the previously announced flexibility for district councils to raise council tax by 3%, has helped a little, but still means that district councils face a real-term cuts

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in their spending power as inflation outstrips the new funding support. Income from fees and charges remains below pre-pandemic levels. District councils have warned that they faced a collective funding gap of at least £500Million in 2023-24, the equivalent to almost 15% of their net budget.

Commercialisation and the generation of sustainable new income streams need to continue at pace to address future budget gaps and pressures.

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.

1.4 Definition of Commercialism

The Council defines commercialism as the ability to manage services well and efficiently and be innovative in generating 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
- Pursuing a strategy of 'commercial with a conscience' and actively seeking social value returns from commercial activity
- 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

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return, delivery of the Council’s priorities and added value to our communities

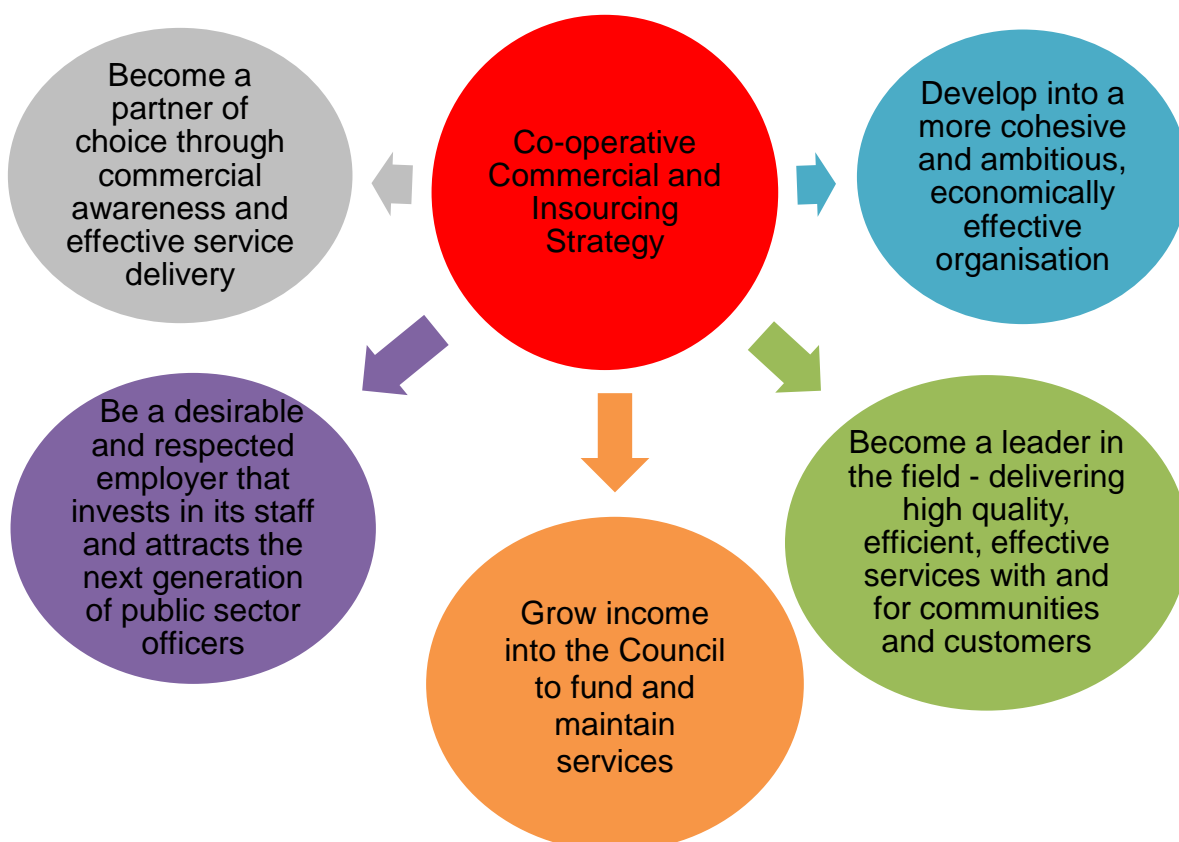
- Being honest about current performance and knowing whether services are market ready
- Being prepared to invest now for a return in the future
- Demonstrating that the Council is open for business and driving inward investment into the borough

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.

Commercial principles can be applied to most operations and must be considered when reviewing all policy objectives and direction.

1.5. Outcomes

Figure 2. Key outcomes from the delivery of the Strategy



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2.0 COMMERCIAL APPROACH TO INCOME GENERATION

2.1 Core Principles & Methodology

This strategy applies whenever we spend money with external suppliers, enter or manage our commercial arrangements, generate income, or make a commercial decision.

The Council has enterprising staff, partners, and members - their skills need to continue to be harnessed and developed to help achieve the commercial strategy.

The Council accepts that on occasion it may need to take some measured and considered risk 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 is also 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 ensures that the Council adheres to its statutory responsibilities and that public money continues to be appropriately invested and accounted for.

2.2 Organisation Wide Commercialisation Objectives

Improving Processes and Efficiency

The financial performance of individual service areas will continue to be reviewed to identify the level of subsidy or surplus generated, and the appropriate policy approach. The taxpayer should not be asked to pay for certain discretionary services through council subsidisation. This may result in the Council being more commercially astute, i.e., removing council subsidy and charging what it truly costs to provide a service.

Each business unit will continue to 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.

Fees and charges will continue to be reviewed thoroughly on an annual basis. Fees and charges support the provision of highly regarded council services and

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support the 'commercial with a conscience' agenda. Future considerations around fees and charges include the introduction of new premium pricing options.

The focus on fees and charges will extend to continued correspondence with the government around granting greater freedoms for local councils in setting fees and charges. Giving councils the power to set certain fees and charges at a local level and not be restricted by limits determined by the Government in areas such as parking fines and fixed penalty notice fees and fees that fall under the Licensing Act 2003 and Gambling Act 2005 would mean that councils would be better able to align fees and charges with the cost of running services for their communities and achieve greater financial sustainability.

Attention will also 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 to mitigate against non-delivery and under-performance and contracts will be monitored, maintained, and adapted accordingly.

Internally, work will continue on the creation of the grant funding tracker, which will allow strategic oversight of the grant funding pipeline.

2.3 Income Generation Objectives

A key focus for 2023-26 will be on the opportunity to sell commercial services externally. This will include both growing the income from current offers (such as skips, trade waste, cemeteries) and taking new commercial offers to the market. The Council will look to enhance existing income generating services by providing commercial support in areas such as sales, marketing, and business development to ensure that the Council are able to maximise market share in that particular service area.

Where investment is required, proposals will continue to be measured against agreed investment criteria, 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.

The expansion of commercial services means that the effective collection of income will be increasingly important; attention will be given to debt management and recovery processes across the Council.

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

2.4 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.

During 2020-2023 services that were insourced included:

- Meadow grass cutting
- Window cleaning
- Compliance contract (compliance and maintenance of 65 corporate buildings)

All services provided to, or on behalf of the Council by external suppliers or third parties will continue to 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 continue to be given as to whether opportunities exist to join up work streams across the council and break down silo approaches when procuring services and managing contracts. The quarterly meeting of the Contracts and Procurement Group creates an environment where the alignment of procurement needs can be explored.

During 2020-23 examples of joined up working include:

- Stevenage Direct Services (SDS) contract managing uniforms and cleaning products for all teams where possible
- Repairs and Voids building materials contract being made available to contractors of the council
- Regeneration framework for building consultancy being open to other teams

The Insourcing Road Map 2023-2026 lists known contracts and potential insourcing opportunities and details timescales for their consideration and is regularly reviewed by the Commercial and Investment Working Group.

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2.5 Social Value Objectives

All commercial projects and opportunities seek to identify social value, which includes 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 supports 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.

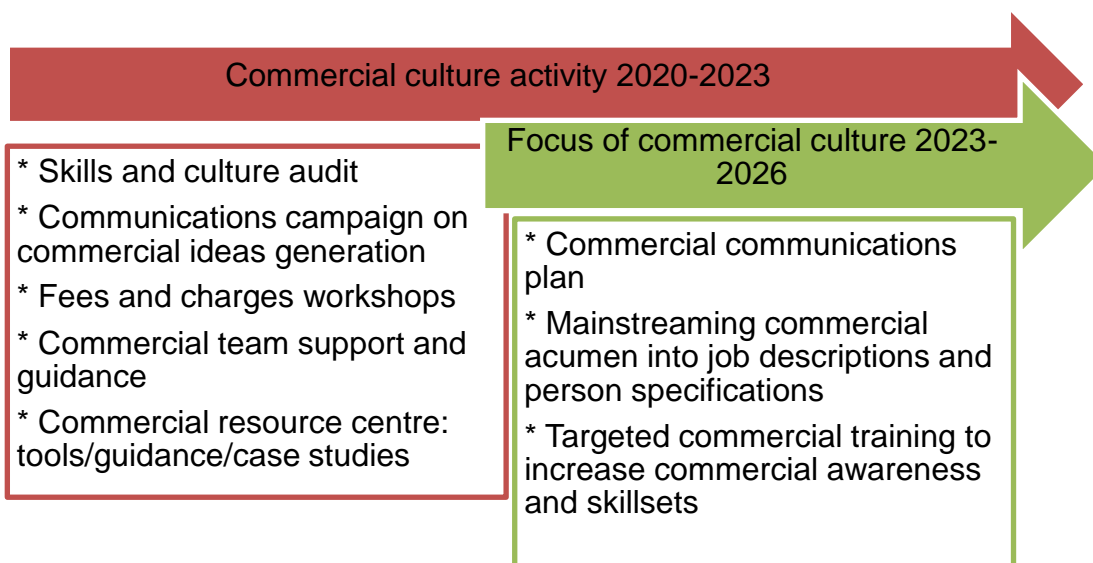
As part of the annual accounts process the Council submits a statement outlining the social value that has been delivered.

2.6 Commercial Culture Objectives

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

Careful consideration has been given to creating the right environment within the organisation to nurture innovative ideas and develop them into robust project proposals.

Figure 3. Commercial culture 2020-2026



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3.0 BUSINESS UNIT SPECIFIC OBJECTIVES

3.1 Key Performance Indicators

Key Performance Indicators (KPIs) are set for business units and are reported back on a regular basis to the Commercial and Investment Working Group.

3.2 Commercial Services

Commercial activity will focus upon:

- A reduction in garage voids
- An increase in revenue from traded services such as trade waste and skip hire
- An increase in revenue from advertising and sponsorship and filming
- The launch of new commercial services into the marketplace
- A review of the impact of EPR (Extended Producer Responsibility) on the Council's income streams
- Opportunities to cross sell commercial services and increase market share
- A review of current contractual arrangements
- Fees and charges
- The reduction of debt and increased income collection across the Council in order to reduce the annual provision of bad debt

3.3 Commercial Property Portfolio

The Commercial Strategy 2020-23 referenced the delivery of investment in commercial property primarily to deliver economic sustainability in Stevenage. However, changes to the guidance for borrowing from the Public Works Loans Board (PWLB) mean that local authorities can no longer borrow from the PWLB if the primary objective is to purchase commercial property for yield. This change, coupled with the current cost of debt, means that the Council's approach to the commercial property portfolio has changed.

For 2023-26 the focus for the Council's commercial property portfolio, which includes 176 shops and 72 other commercial buildings (such as workshops and warehouses), is on maximising income and returns. This will take the form of good tenant selection, regular rent reviews and identification of opportunities for redevelopment, including refurbishment of and investment in existing assets

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where there is a compelling business case to do so. This also includes investing in buildings to ensure they comply with current energy efficiency standards.

The ongoing Locality Review identifies land that can be sold/disposed of to generate capital receipts and supports the sustainability of the General Fund. The Council will continue to move towards the Corporate Landlord model approach in managing its commercial assets.

3.4 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.

3.5 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. As part of the Housing Development's core remit of providing new affordable accommodation in the town, opportunities to develop private sale accommodation alongside that have been realised, with £16Million in capital receipts being achieved over the last four years. As part of its wider regeneration schemes such as at Kenilworth Close, the Housing Development team have worked to enhance the retail offer as part of the scheme proposals. Work is currently underway to market the soon to be completed new retail at the site, and the current forecasts based on feedback from the marketing agent is a potential 400% increase in rental yield in comparison to the previous units available at the site.

Alongside this, the Council has advanced the formation of a Wholly Owned Housing Company (WOC) which was established in 2021 and since then has secured the purchase of ten properties which also benefited from Central Government funding. A development opportunity for seventeen private sale houses was secured within the WOC at the Courtlands site, with building work currently underway. The aspiration is that this will provide a revenue income of over £1Million to the Council. The WOC has also established a Service Level

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Agreement with the Council which helps to maximise insourcing opportunities as they arise through development.

The Housing Development service has also worked to deliver new bespoke supported accommodation units across the town helping to reduce the Council's reliance on Bed and Breakfast (B&B) accommodation to meet this demand. By delivering this type of home, not only does it provide accommodation from which residents are better able to access support, it also reduces the Council's cost burden, with rental income from these new units being retained by the Council. To date, the Council has delivered in excess of seventy new units of this type of accommodation and has been successful in drawing down over £1.3Million in grant funding to support this.

During 2023-26, the Council will continue to deliver low risk, high return private sale opportunities to continue to cross subsidise affordable accommodation within the town. Capital funding remains available to the WOC under the existing approved Business Plan, and opportunities for development within the WOC will be assessed as and when they arise.

3.6 Commercial and Net Zero Targets

Since September 2020, the Council has had a Climate Change Strategy and has committed to achieving net zero by 2030.

The Council has already combined the commercial and green agendas through:

- The installation of a solar panel in the Railway North Multi-Storey Car Park which reduces electricity usage
- The current trialling of new solar lighting in streetlamps with a view to generating efficiencies
- The current energy audits which aim to reduce carbon emissions and improve cost effectiveness

Work will continue to align these approaches, with particular focus upon the climate change element of commercial investments. This may include:

- The creation of an investment strategy that targets low carbon areas and equally restricts investment in high carbon areas
- Investments that facilitate energy generation on council assets
- Carbon offsetting on council land
- Carbon assessments for all investments in commercial property from 2024 onwards to ensure an understanding of the carbon impact

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- An understanding of the carbon footprint of the Council's traded services

4.0 GOVERNANCE

All officers and Members are encouraged to share their ideas through the Commercial and Investment Executive Working Group (CIWG). This forum is made up of Executive member representatives and provides a forum to consider and debate broader income generation ideas.

The CIWG provides a mechanism for ideas within internal services and those with external partners and customers to be discussed before progressing down the formal route for approval (such as through the Executive). Quarterly commercial Key Performance Indicators (KPIs) on commercial activity are also brought to the group for review. The CIWG's terms of reference define the extent of its remit.

One of the guiding principles of the Co-operative Commercial and Insourcing Strategy is risk management. Risks are 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 are identified on business unit or project risk registers as appropriate.

5.0 INVESTMENT CRITERIA

5.1 Investments

In the longer term, when appropriate, investments will ideally meet the target of a six (6%) per cent gross rate of return (yield). However, there is some flexibility and target returns lower than 6% will be considered on a case-by-case basis depending on borrowing and investment rates and the calculated level of associated risk.

Figure 4. Factors influencing the viability of investment

| Factors | Considerations |
|--|---|
| Known costs | |
| Interest on the loan | This is based on the available loan options available at the point of investment/purchase |
| 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* |
| Other associated costs | |
| Repair costs | Cost of materials, inflationary impact, the robustness of supply chains |
| Energy efficiency improvements | Compliance with new regulations approved by government to ensure all premises are energy efficient |
| Bad debt provision for non-payment of rent | The Council will need to provide a provision for potential bad debts as part of the closure of the account each year, based on the outstanding debts |
| Void property charges | Inclusive of 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 |

* 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 Risk Profile

The Council will focus on resilience and where possible will conduct commercial activity that has minimal upfront cost (such as for example through the procurement of concessions contracts). When seeking investment, consideration will need to be given to whether exposure to further debt will outweigh potential reward.

Figure 5. Commercial risk mitigations

| Risk Area | Risk Mitigation | Likelihood | Impact |
|--|---|------------|--------|
| Commercial activity does not perform against the business case | <ul style="list-style-type: none"> • Thorough research, • Understanding the market/demand • Horizon scanning • Scrutiny by CIWG • Review options, • Diversify the portfolio • Lessons learnt | Medium | Medium |
| A contract under-performs | <ul style="list-style-type: none"> • Robust terms and conditions • Appropriate contract management provision • Performance management frameworks • Lessons learnt | Medium | Medium |
| Insufficient knowledge held in-house | <ul style="list-style-type: none"> • Targeted learning and development • Buy-in specialist resource | Medium | Low |