

Stevenage Co-operative Commercial and Insourcing Strategy

APSE Southern Commercialisation, Income Generation & Trading
Network

Tuesday 27th February 2024

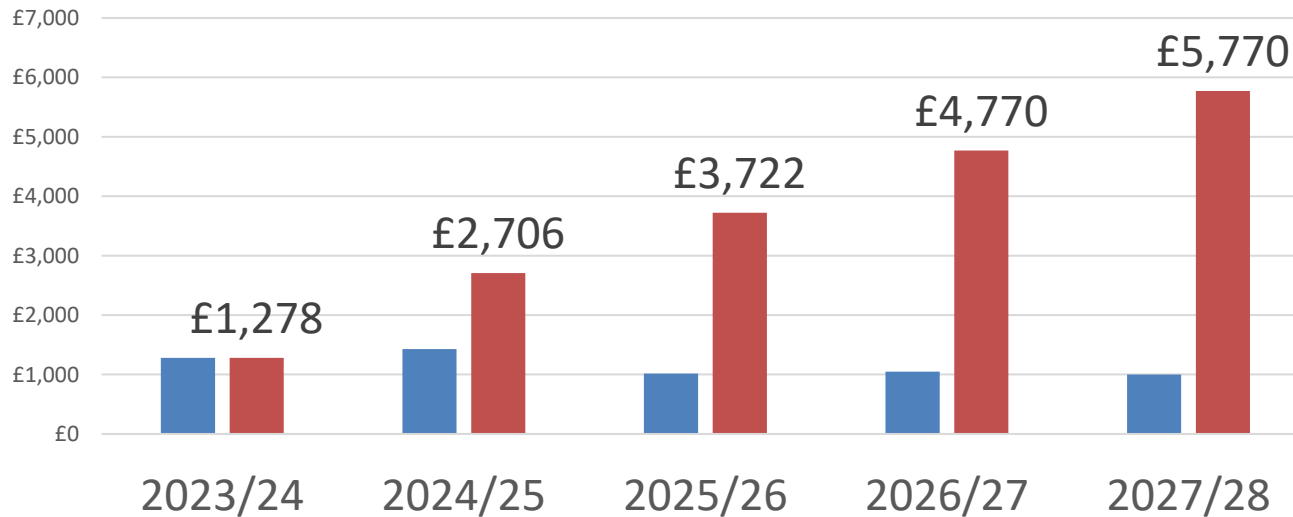
Nadia Capuano, Head of Commercial



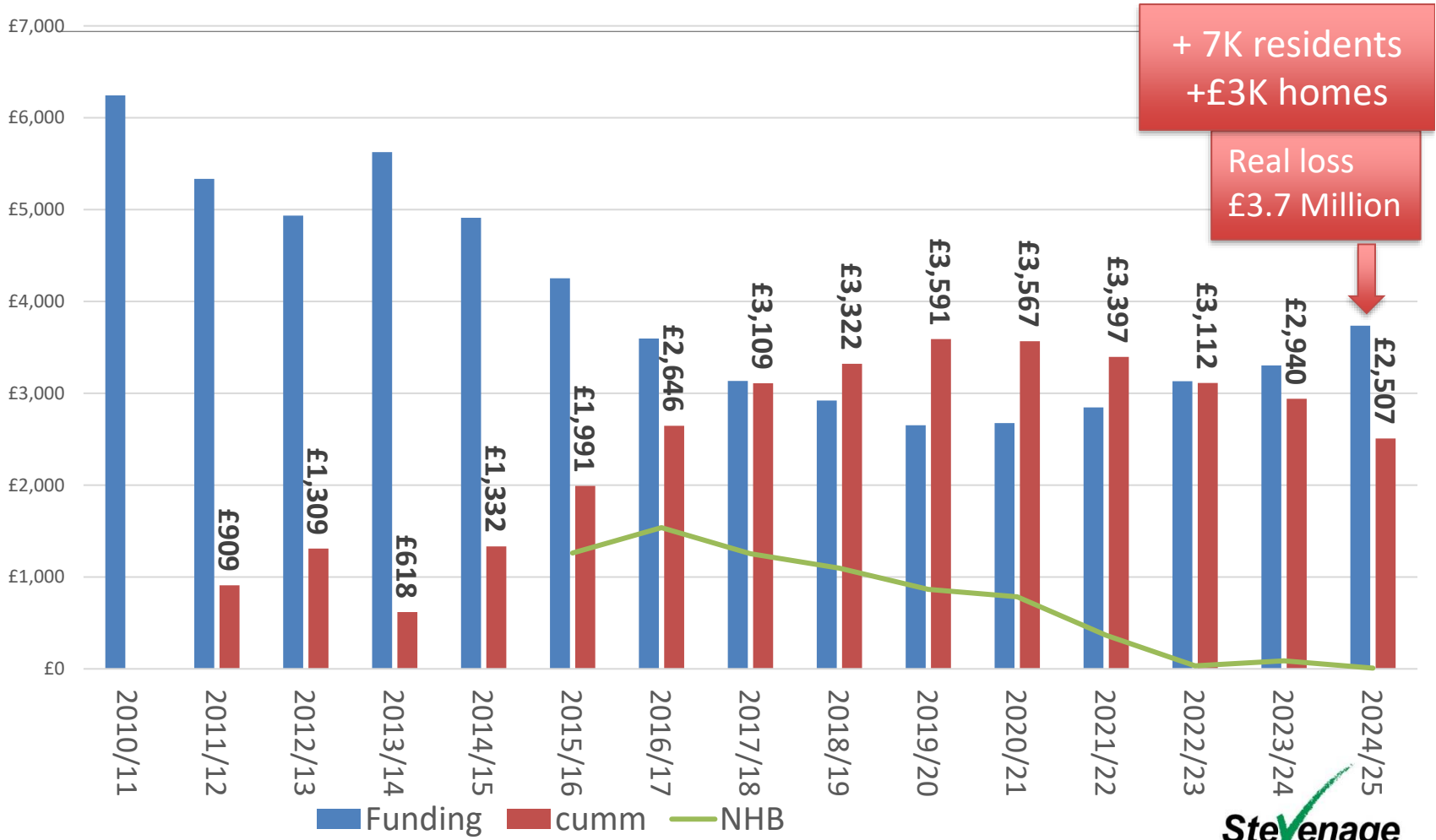
Financial Context

- Inflation added £2M of pressure to Council budgets 2023/24
- HRA also requires ongoing savings £500K per annum

General Fund Cumulative Savings (£000) 2023/24 – 2027/28



GF 2010/11 Versus 2024/25 Funding

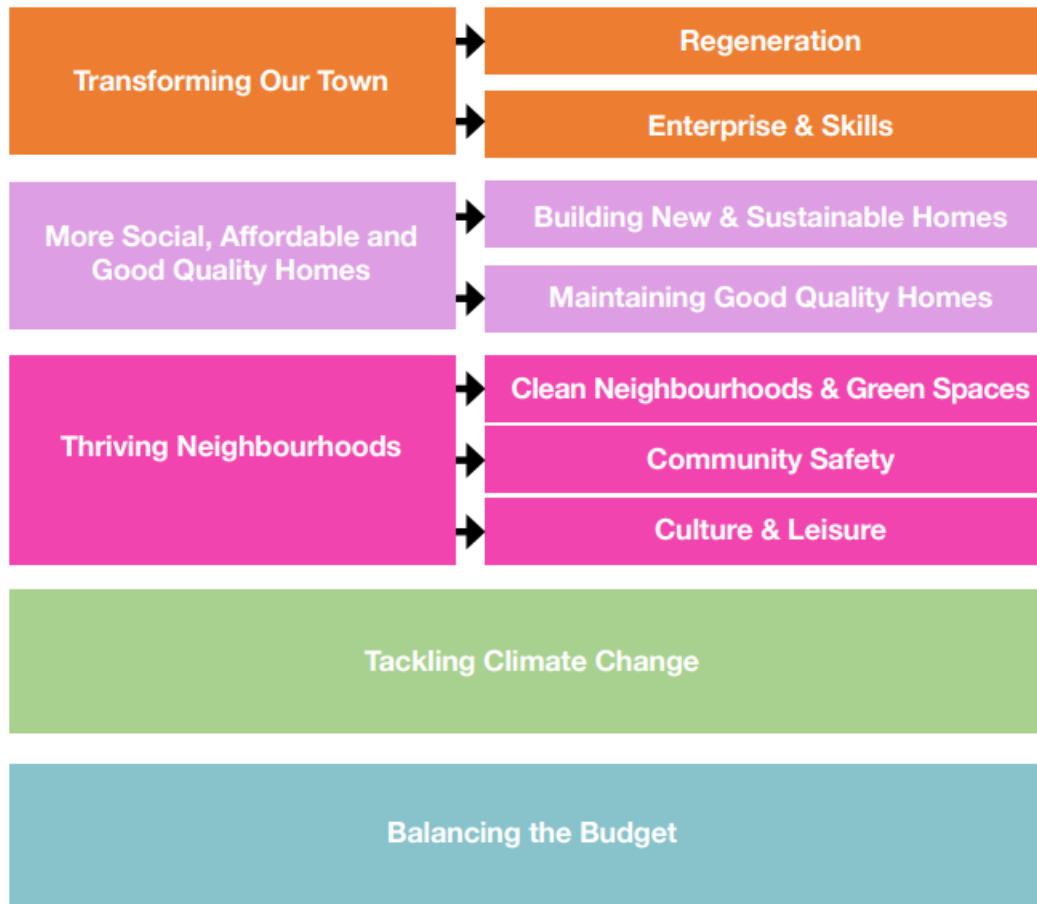


+ 7K residents
+£3K homes

Real loss
£3.7 Million

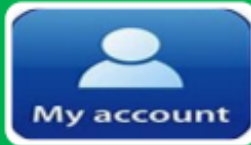
Funding cumm NHB

Making Stevenage Even Better



Balancing the Budget

Financial stability = prudent level of balances whilst delivering on priorities



Transformation by improving customer access to services through digital means and improving and streamlining processes



Co-operative Commercial and insourcing bringing services in-house if value for money and ensuring we charge appropriately for our services



Efficiencies through robust monitoring savings will be identified where they arise, to ensure that Council stays financially resilient



Prioritise services if there are not sufficient budget savings achieved from the other three work streams to ensure a balanced budget or new priorities emerge requiring funding.

History of Commercial Activity

- Town centre regeneration partnership with MACE
 - Queensway redevelopment partnership with Reef
 - Wholly Owned Company for Housing Development
 - Business and Technology Centre
-
- Commercial team 2020: First strategy 2020-2023



Reef Group

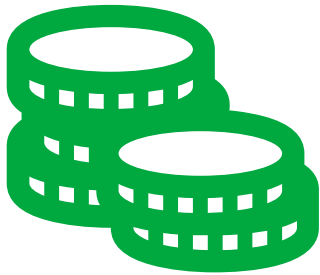


Aims:

- Consolidate existing commercial activity
- Framework for new commercial projects
- Clarity on the future delivery of commercial activity

Commercial Strategy

Financial security and ensuring value for money for taxpayer



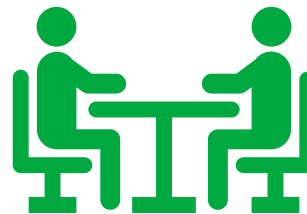
Income Generation



Business Process Improvements



Insourcing

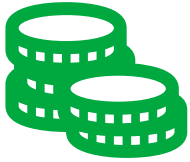


Commercial Culture

Commercial Activity

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

- Greater innovation
- Financial flexibility
- Commercial awareness
- Effective use of new technologies



Garages Case Study

- Extensive garage stock comprising of 6565 residential and commercial garages.
- One of 3 biggest income streams: excess of **£3.4M** income per year.
- Aim: protect this important income stream and reduce the void rate.

Changes since 2021:

- Charging for 52 weeks of the year (from 50 weeks)
- Fully differentiated pricing model
- Means testing for concessions
- Increased notice period for terminations
- Proactive marketing and lettings plan





Digital Lettings for Garages


Alignment transformation and commercial: revolutionised the lettings process.

Garages Currently Available

V.A.T. will be applicable to the weekly rent if you are not a Stevenage Borough Council Housing Tenant. You must be renting your property from Stevenage Borough Council to qualify for the Council Tenant rates.

Show entries

Search:

| Available | Property Type | Description | Address | Weekly Licence Fee | Image | Action |
|-----------|---------------|--|--|--------------------|---|--------------------------------|
| 10-AUG-23 | HARDSTAND | Hardstanding space for commercial vehicles | H001 Westgate, Stevenage, Herts, SG1 1BP | £39.50 |  | Bid For Garage |

Void rate
September
2021: **17.49%**

January 2024:
10.82%

Residents can:

- View available garages online
- Make online bids to rent garages
- Have a choice in where they would like a garage
- Arrange key collection online
- Be notified that a garage in their preferred area is available



Insourcing

- Commitment to use in-house services to deliver council operations
- Insourcing = **default position**

Insourced services 2020-23:

- ✓ Meadow grass cutting
- ✓ Window cleaning
- ✓ Compliance contract (65 corporate buildings)



- Insourcing Roadmap
- In-house services: **basis from which to commercialise**



Commercial Culture

Commercial culture activity 2020-2023

- * Skills and culture audit
- * Communications campaign on commercial ideas generation
- * Fees and charges workshops
- * Commercial team support and guidance
- * Commercial resource centre: tools/guidance/case studies

Focus of commercial culture 2023-2026

- * Commercial communications plan
- * Mainstreaming commercial acumen into job descriptions and person specifications
- * Targeted commercial training to increase commercial awareness and skillsets

Key Learns

- Member **engagement** at every stage: Commercial and Investment Working Group (change from Committee to Working Group)
- Embed prudent **risk management** into strategy and culture
- Adequate **resourcing** commercial services; longer term vision for service not short-term savings
- Culture of performance: **data driven**, accountable, empowered
- Commercial **marketing** of services
- **Collaborate**, collaborate, collaborate



Any Questions?



Profit for a Purpose

Andy Mudd, Head of APSE Solutions



Key questions

- What do we mean by profit?
- What is the purpose?
- Does the end justify the means?
- How do we avoid undesirable consequences?



What is profit

- Surplus of revenue over cost
- But actually more complicated than you might think?
 - Accounting profit – uses explicit costs
 - Cash profit – actual cash flow
 - Economic profit – includes implicit costs, including opportunity cost
 - Normal profit
 - Social profit
- And who actually makes the profit?
 - Shareholders
 - Investors
 - Banks



Where does profit come from?

- Cost control
 - In competition companies avoid raising prices to make profit
- Highest profit = Lowest cost
 - Bearing down on cost is therefore an essential element of profit maximisation
- Impact of profit maximising behaviour
 - Staff costs in a service environment
 - Other input costs
 - Social and environmental costs

How do companies really behave



- Competition theory
 - Profit falls to zero
- Real world tax optimisation
 - UK taxes profit Cayman Islands doesn't
- Impact of globalisation and geographical separation of ultimate ownership and operational ownership
- Directors v shareholders v investors
- Long term survival v short term profit
- Is cost minimising behaviour inevitable

Do we actually need to make a profit to profit?



- Filling market gaps
- Raising market standards
- Providing high quality employment
- Supply side investment
- Maintaining income streams rather than profit per se

What is the purpose anyway?



- Helping with the budget for the service being traded
- Generating usable income for other services?
- Directly contributing to social policy objectives?
- Wider economic benefits – social profit ?



Links to the legislation

- Trading for a commercial purpose
 - Making a profit (surplus of income over expenditure)?
 - Just making the overall sums balance at 'type of service' level
 - Making money to be added to the general pot
 - Just operating in a 'commercial environment'
- Is trading in a commercial way the same as trading for a commercial purpose?
- The clue is in the conditions for using the charging power
 - (3)The power under subsection (1) is subject to a duty to secure that, taking one financial year with another, the income from charges under that subsection does not exceed the costs of provision.
 - (4)The duty under subsection (3) shall apply separately in relation to *each kind of service*



Trading through a company

- Necessary when trading for a commercial purpose
 - or when the charging power condition isn't met?
- So, the purpose is wider than offsetting the cost of the service being traded
- Making profit
 - To be used by the company's owners to further their own purpose
- But is that in the best interest of the company?
 - Bearing in mind that Company Directors have a legal duty to act in the interest of the company which could be different than the interest of shareholders

Does the end justify the means?



- Profit maximising behaviour = Cost minimising behaviour
- Staff costs
 - Pay and pensions
- Other input costs
 - E.G ingredient costs for school meals

How do we steer a way through this?



- Clarity over what the purpose is
 - Social, policy, social policy and social policy
 - In a harsh public service funding environment
- Avoiding conflicting purposes
 - Trade for the purpose of making the books balance at service type level if possible
- Writing the purpose into the DNA if a company is needed
 - Constitution
 - Objectives aligned to those of the council
 - Appointment of Directors
 - Awareness of optimum way to extract revenue
 - Consistency with wider economic objectives



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National Audit Office

APSE (Southern Region) Commercialisation, Income Generation & Trading Network advisory group

Abdool Kara, Executive Director, NAO

27 February 2024

What I intend to cover today

- What is commercialisation
- Government's response to increased commercial risk
- Forward look for local authority finances
- Local government oversight and risk management

Context | What is commercialisation?

Being commercial is not just about investment or chasing the shiny and new

It is (or should be) an organisational mindset and philosophy

Commercial decisions should be:

- underpinned by a commercial policy, financial plans and risk strategies
- subject to appropriate internal and external scrutiny and challenge
- subject to periodic review

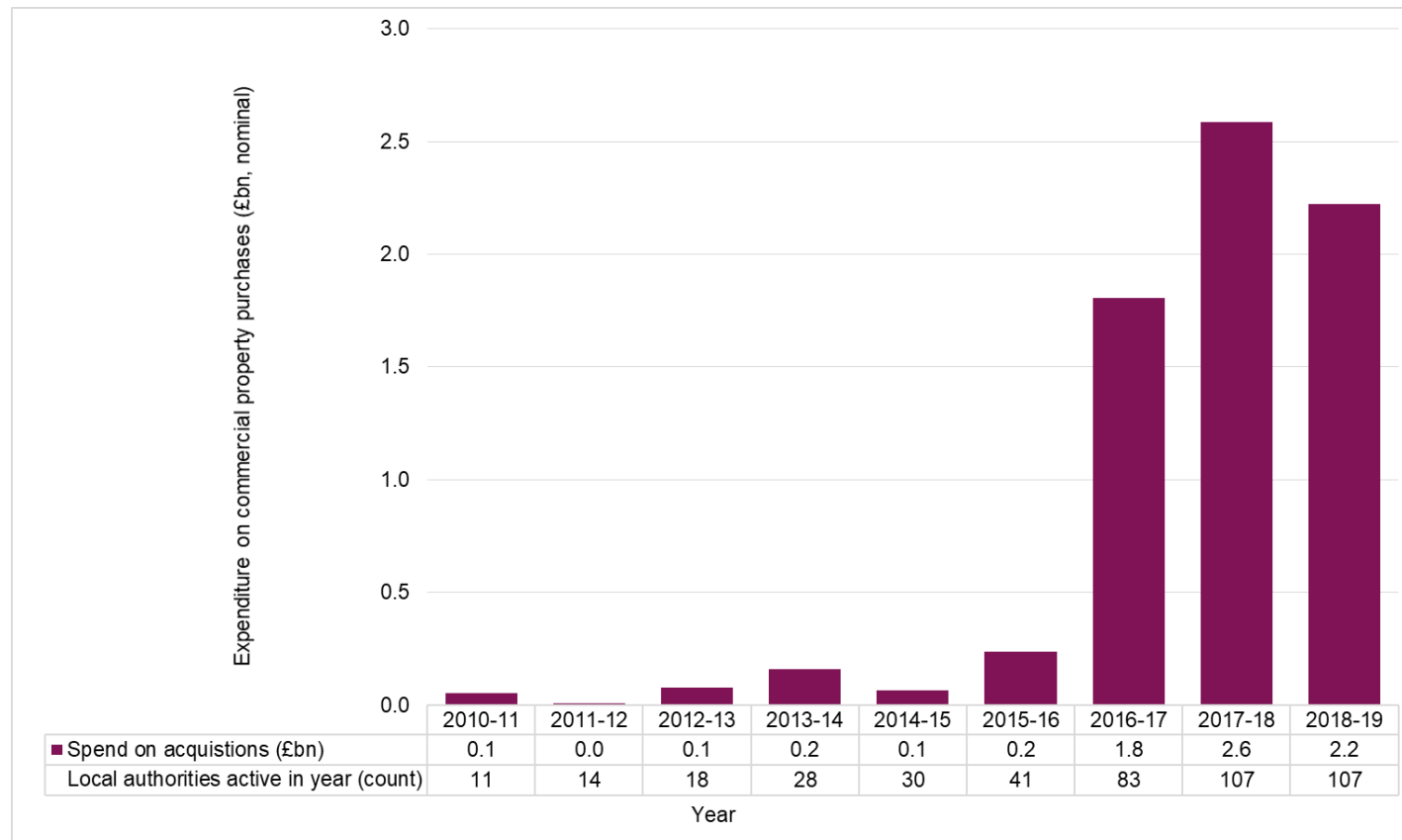
See also ***Local Partnerships' commercial guidance and toolkit*** designed to support councils undertaking commercial activity [Commercial guidance and toolkit - Local Partnerships](#)



Context | Commercial property

NAO past reports on capital, property, and financial sustainability highlighted emerging risks of some authorities' commercial approaches

Commercial property purchases by English local authorities, 2010/11 to 2018/19



- LAs spent £6.6bn in three years - **14.4 times more than the previous three years**
 - Bulk of activity by a relatively small group of LAs, but proportion growing
 - **District councils** spent more than other types of authority
 - Regionally, authorities in the **south east** accounted for over half of all acquisitions
- Herd effect

Context | When commercialisation goes wrong

“authorities need to ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability are clear when entering into shared service or outsourced arrangements in order to deliver savings”

NAO report on Local authority governance (2019)

“the accumulated debt associated with these investments remains a risk as commercial property prices typically experience large falls during economic downturns, and recent interest rate rises have added further pressure to debt-servicing cost”

OBR, fiscal risks and sustainability report, July 2023

Some recent high profile and cautionary tales...

- Between 2016-2022 Thurrock borrowed large amounts (c.£1.5bn of which £0.9bn was from other LAs) to fund investments, but failed to understand and control the risks of this strategy – leading to a £452m deficit in 2022/23 and £184m in 2023/24
- Woking Borough Council’s investment and borrowing decisions were disproportionate to its ability to manage complex commercial activity, and to its size and scale as an organisation - their current debt is around £2bn vs core annual revenue budget of c£15m

Capital framework | **Government's response**

“The Department must be more active in its oversight of the prudential framework and strike a better balance between supporting localism and ensuring that local authorities act within the frameworks that underpin local freedoms...[it] needs to develop, and rapidly deploy, interventions that target extreme risk taking”

Committee of Public Accounts, 2020

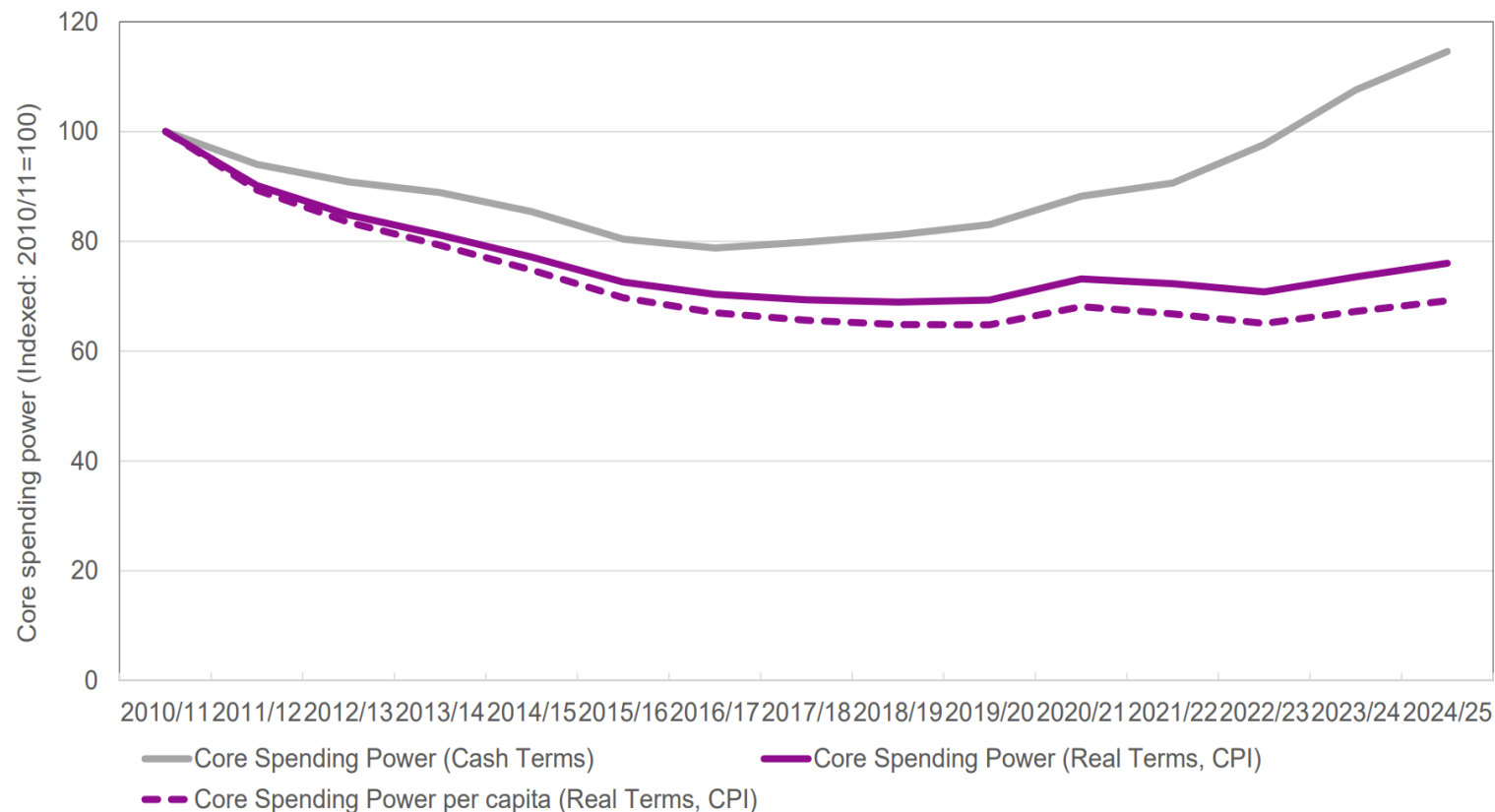
- HMT introduced restrictions to accessing PWLB (three-year capital plans, S151 assurances that the LA is not borrowing for yield, DLUHC review of compliance with lending terms)
- DLUHC introduced statutory guidance on **local government investments** and **minimum revenue provision** (note further consultation on MRP launched in December 2023)
- CIPFA launched updated Treasury Management and Prudential Codes in 2021-22, with full compliance required from 2023-24
- New powers through the Levelling Up and Regeneration Act for DLUHC/SoS to intervene if there is evidence of significant investment and borrowing risks (including debt to spending power, proportion of commercial investments, novel loans, and under-provision of MRP)
- DLUHC is developing its analytical capabilities to spot risks and support earlier engagement with local authorities

Capital framework | Codes and Guidance

| Document | Purpose/recent changes |
|---|---|
| Statutory Guidance on Local Government Investments (DLUHC) | <p>Authorities must not borrow more than or in advance of their needs purely in order generate profit – and must explain their decisions and approach to managing the risks.</p> <p>Requirement to prepare an Annual Investment Strategy, including measures of risk exposure from investment decisions. Where an LA is or plans to become dependent on profit generating investment activity, risks and contingency plans must be disclosed.</p> |
| Statutory Guidance on Minimum Revenue Provision (DLUHC) | <p>Authorities have a duty to make ‘prudent’ MRP in respect of capital financing. Change in definition to include capital spending without direct service benefits, ie commercial investments.</p> <p>Statement that authorities cannot use depreciation method to calculate MRP on borrowing to fund commercial investments.</p> <p>Government continues to consult on MRP, with the latest consultation relating to flexibility regarding capital loans and balancing the need for MRP with the risk of non-repayment (e.g. on loans to finance housing). Changes expected to be in place from April 2024.</p> |
| The Prudential Code for Capital Finance in Local Authorities (CIPFA) | <p>To ensure LA capital expenditure plans are “affordable, prudent and sustainable”. Includes commercial investments in the LA’s capital strategy, and risk appetite and proportionality with respect to overall resources. A clear statement that an authority must not borrow to invest primarily for financial return</p> |
| Treasury Management in the Public Services: Code of Practice (CIPFA) | <p>To ensure good TM practice. The principle of control of risk/optimising returns to be applied across all investment activities, including commercial investments.</p> <p>New section covers non-traditional TM - such investment decisions should be explicit, the additional risks set out clearly, and the impact on financial sustainability identified and reported.</p> |

Future | Ongoing financial pressure

Spending power will not keep pace with inflation and demand pressures ~ reliance on local revenue raising powers



Source: Local Government Association

- 6.5% cash terms increase in core spending power in 2024/25
- Recent increases in spending power – but extra funding for social care and assumes full use of council tax (3%+2%)
- Higher than CPI inflation affecting commercial contracts due to time lag
- NLW set to increase by 9.8% in April 2024
- Funding not keeping pace with demand for local services
- LGA estimates a £4bn funding gap per year

Future | Commercialisation and devolution

- If government's funding simplification aspirations are achieved, we could see a less complex funding landscape and greater certainty
- Levelling up White Paper - *By 2030, every part of England that wants one will have a devolution deal with powers at or approaching the highest level of devolution and a simplified, long-term funding settlement.*
- Single funding settlements for West Midlands and Greater Manchester (Level 4 trailblazer deals) are now in place, with commitments to rolling these out further – relevant accountability arrangements are being strengthened
- Labour has said it would look to provide longer-term financial certainty to local government and more capacity for it to generate its own revenue with new fiscal powers (cf Gordon Brown's [A New Britain](#) report for the Labour Party)

Future | Increasing scrutiny

- Enhanced statutory guidance on Best Value Standards and Intervention – includes the expectation that the Department’s stewardship function reviews councils’ commercial operations
- Introduction of OfLog and its role in the local government accountability framework
 - Reported financial metrics currently include reserves, core spending power, council tax levels and revenue, debt servicing and total debt
 - Proposed metrics include debt vs financial resources, proportion of capital assets held primarily for a return, proportion of debt owed to non-government body, and amount of MRP set aside
- CIPFA is expanding its Resilience Index to include balance sheet metrics
- The return of a functioning (not least, timely) external audit regime for local government – we await the consultation on the system reset





National Audit Office

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