



NORWICH City Council

Committee Name: Cabinet

Committee Date: 09/02/2022

Report Title: Norwich City Services Ltd Business Plan 2022-25

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Executive director of corporate and commercial services

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

To consider the Norwich City Services Limited (NCSL) Business Plan for 2022-25, which the company is required to produce under its articles of association.

Recommendation:

To endorse:

- the NCLS business for 2022-25 on behalf of Norwich City Council as the shareholder;
- the two new shareholder's objectives for NCSL as detailed below:
 - the company to return a 4% or 5% net profit by year 4 of each of the main council contracts which equates to a potential revenue stream of approximately £0.300m in 2024/25 and a further £0.500m in 2025/26 which will be incorporated into the 2023/24 MTFS refresh and NCSL business plan during 2023-26 if approved.
 - NCSL to develop a financial strategy options paper for the Shareholder (Quarter 3 2022/23) which will consider how the company can become financially independent and not rely on the Council to provide investment through the Council's capital programme for replacement of existing equipment required to deliver contracted services.

Policy Framework

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing, and environment
- Inclusive economy

This report assists with delivering the great neighbourhoods, housing and environment priority and supports a healthy organisation.

Report Details

Background

1. Following the successful incorporation of the Council's new wholly owned company on 9 June 2020, in April 2021 cabinet approved the company's first business plan for the period 2021-24, primarily relating to the period after the completion of the transfer of environmental services on 1 April 2021.
2. The company has already concluded its first year of operation and is fully engaged with the council on implementing phase 2 of the joint venture transfers which sees building services transferring to NCSL on the 1 April 2022.
3. The company will have an approved establishment of 346 employees split down by:
 - Environmental Services – 197 employees
 - Building repairs – 140 employees
 - NCSL Leadership and support services – 9 employees
4. The environmental services include grounds maintenance, streets cleansing, parks and open spaces maintenance, arboriculture services, pest control, stray dog service, building cleansing, car park cleansing and other associated works.
5. The building maintenance services are mainly focused around the provision of a reactive maintenance service for Norwich City Council's housing stock. Services include routine repairs and maintenance, major and minor repairs, voids and heating repairs. A reactive and responsive service will also be provided for commercial properties owned by Norwich City Council.

Strategic Objectives

6. The key aim for NCSL in Year 2 is to repeat the success of the phase 1 transfer of services with Phase 2 building repairs achieving the same smooth transfer of services into the company with minimal possible disruption to services.
7. It is important to acknowledge that the company has an understandable ambition to improve performance and transform the service, which presents the potential for a much more challenging transition period.
8. The business plan provides more detail of NCSL's many company objectives for 2022 to 2025 which include:
 - Continue to deliver quality services efficiently and effectively, demonstrating continuous improvements in service delivery by embracing innovations, new ways of working and invest to save opportunities;
 - Identify potential synergies, opportunities, and efficiencies as a whole business;
 - Support and help the council to implement and achieve the overarching strategic priorities and outcomes which could include as identified within the Corporate plan, the C19 recovery plan, the Environmental strategy and the Norwich 2040 Vision;

- Remain focused on the positive contribution NCSL can make to Climate Change challenges.
9. NCSL will operate to the 3-year business development and marketing strategy for 2022-25; it is envisaged that this will move to a 5-year plan from 2022/23. The strategy sets out the way in which the company will develop over the short, medium, and longer term.

The strategy captures and details the following:

- Development Strategies
- Renewals – securing the customer base (Customer retention strategies)
- Expansion – selling more to additional clients
- New – generating new clients
- Bid protocol – Small – large scale bids plus margins
- Capability and resource (internal or external) for producing competitive tenders
- Competitor analysis / Market evaluation
- Tracking and managing opportunities
- Case Studies / Social Value (CSR)
- Business development resource requirements
- NCSL Rebranding and unique selling point (USP)
- Website and marketing collateral including social media
- Marketing processes and practices

Significant successes

10. Some of the key significant successes for NCSL during 2021/22 are detailed below:
- The smooth transfer of environmental services to the company
 - A solid performance against targets shown by the balance scorecard and extensive progress with the project plan
 - An improved financial position from what was budgeted for 2021/22
 - Establishment of a strong approach of employee engagement through the launch of the NCSL People and Organisational Development strategy – moving forward together which was based upon employee workshops
 - Implementation of management systems in readiness for ISO evaluation for accreditation in early 2022. This is for Quality Management (ISO9001), Environmental Management (ISO14001) and Health & Safety (ISO45001)
 - Van of excellence accreditation showcasing the vehicle compliance
 - The delivery of the first electric vehicles for the company
 - Overcoming the early industrial action and successfully negotiating an outcome for the company terms and conditions for 2021/22
 - Implementation of new company systems, processes and procedures, the foundations of the company
 - Board development and plans for an additional Board member with a Building Maintenance Housing specialism
 - Establishment of the support services operations for HR, Finance, Procurement, Communications and IT
 - Positive feedback from NCC as Shareholder, contract management board and customer compliments received exceeding targets for the year
 - Set up of Trade Union representative meetings with the NCSL Board

- Norwich City Services Limited has become an accredited Real Living Wage employer in its own right
- Establishment and engagement on work placement opportunities

Implications

Financial and Resources

11. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Corporate Plan 2019-22 and Budget.
12. The combined contract with NCSL is estimated at £18.9m for 2022/23.
13. The council has invested a total of £2.8m revenue and £1.3m capital investment for project management, specialist resources, IT, tools and equipment to support the company and council transition the three joint ventures to the company or council equating to less than 20% of the annual turnover for the company. A further £0.330m has been incorporated into the 2022/23 capital programme although is subject to a further business case review by the corporate leadership team if approved.
14. As part of the drive for continuous improvement and value for money in the delivery of the services a potential revenue saving of £195k has been identified for 2022/23 environmental services contract and built into the Council's budget.
15. The original target operating model anticipated a return of investment of just over 5 years and the Shareholder is working with the company to both deliver direct savings on contracts to the council as well as developing a strategy for the company to deliver a net profit on the contracts thereby supporting the medium term financial strategy.
16. Two new Shareholder objectives for NCSL have been discussed in principle with the company accepting both as additional objectives during 2022/23, and are shown below:
 - the company to return a 4% or 5% net profit by year 4 on each of the main council contracts which equates to a potential revenue stream of approximately £0.300m in 2024/25 and a further £0.500m in 2025/26 which will be incorporated into the 2023/24 MTFS refresh and NCSL business plan during 2023-26 if approved.
 - NCSL to develop a financial strategy options paper for the Shareholder (Quarter 3 2022/23) which will consider how the company can become financially independent and not rely on the Council to provide investment through the Council's capital programme for replacement of existing equipment required to deliver contracted services.
17. The current position is that the council has an equity investment of £0.370m in NCSL and the company has an outstanding loan balance of £1.140m with the council. This means the current debt to equity ratio equates to 75:25.

18. The council has also provided the company with working capital to the value of £0.700m.
19. The company has an improved forecast outturn position for 2021/22 with external contracts exceeding the assumptions in year 1 of the existing business plan. The company continues to forecast increases in external income working with the council's other wholly owned company as well as companies outside of the Norwich City Council group. It is important to note that delivering council services remains the priority for NCSL as a teckal company throughout the business plan.

Legal

20. The company's Articles of Association require that any action it takes in respect of its activities must be undertaken within the parameters of the business plan agreed by the Council. The setting up and operation of the Council's companies is an executive function, however in line with the recommendations, the Council's funding for the business plan will need to be considered as part of the Council's budget for 2022/23.

Statutory considerations

| Consideration | Details of any implications and proposed measures to address: |
|------------------------------------|--|
| Equality and Diversity | There are no direct equality impacts arising from this report. |
| Health, Social and Economic Impact | There are no direct impacts arising from this report |
| Crime and Disorder | There are no direct impacts arising from this report |
| Children and Adults Safeguarding | There are no direct impacts arising from this report |
| Environmental Impact | There are no direct impacts arising from this report |

Risk Management

The business plan sets out the company's principal risk and their mitigations in Section 8 of the exempt appendix.

| Risk | Consequence | Controls Required |
|-----------------|---|--|
| Financial risks | NCSL not being able to repay or provide return on the investment. | The key contracts that NCSL deliver are for the council and the business plan assumes a repayment profile in accordance with the loan agreements |

| | | |
|--------------------------|--|---|
| | Changes to the Minimum Revenue Provision guidance increases revenue costs associated with providing loan financing to NRL. | Continue to monitor the outcome of the government consultation. |
| Service performance risk | NCS fails to provide the services to the expected standards resulting in a poor service for residents | The expected service performance and delivery against the business plan will be set out in the contract management arrangements agreed by Cabinet and through the shareholder panel |

Other Options Considered

21. To not adopt the business plan: if the Council does not adopt the business plan, then NCSL will not be able to continue to deliver the approved council contracts.

Reason for the decision/recommendation

It is recommended that Cabinet support the Business Plan for NCSL 2022-25

Background Papers: None

Appendices: Business Plan is attached as an exempt appendix

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