Public Document Pack

Public Accounts Select Committee Supplementary Agenda

Thursday, 13 June 2019
7.00 pm, Committee room 3
Civic Suite
Lewisham Town Hall
London SE6 4RU

For more information contact: Timothy Andrew (timothy.andrew@lewisham.gov.uk)

This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed.

Part 1

This page is intentionally left blank

PUBLIC ACCOUNTS SELECT COMMITTEE			
REPORT TITLE	DRAFT Medium Term Financial Strategy 2020/21 to 2023/24		
KEY DECISION	No	**Item No.**	
WARD	All		
CONTRIBUTORS	Acting Chief Finance Officer		
CLASS	Part 1	**Date:**	13 June 2019

REASONS FOR URGENCY AND LATENESS

Lateness: This report was not available for the original dispatch to allow officer further time to assess the information from closing the accounts and to prepare the report.

Urgency: Given the significance of the financial constraints that the Council will face over the coming years, it is essential that the Committee are updated and keep under reviewthe plans and risks for the 2020/21 Budget and future years outlook.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b),(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. EXECUTIVE SUMMARY

1.1. The Medium Term Financial Strategy (MTFS) 2020/21 to 2023/24 sets out the Council's medium term financial plan for the next four years. It includes a review of the Council's overall financial position bringing together the outturn for 2018/19, the forecast for the current financial year 2019/20, and considers prospects for 2020/21 and future years. Council services that support all major policy objectives and priorities are delivered using a range of different resources. This document sets out the Council's strategy to ensure proper financial management and control of those resources to secure efficiency.

1.2. Central government has stated that it remains committed to long term reforms in the way councils are financed. The aim is to significantly reduce reliance on central grants and move local authorities to be self-financing. If the main Local government grant, the Revenue Support Grant (RSG), is to be phased out then Councils will need to rely more on income from council tax, local business rates, fees and charges, and trading income.

1.3. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore,

to legally balance the budget the Council must continue to make spending plans affordable by matching them to the estimated funding available over that time.

1.4. Reviewing the MTFS remains essential to ensuring the Council's medium term financial sustainability. Over the past five years, the Council has responded to the financial challenges in a planned way through the work of the Lewisham Future Programmes Board (LFPB). The LFP was stopped in 2018/19 given the change of administration in 2018. This was to enable a review of progress and ensure alignment to the new administration's priorities. The approach taken for cuts planned for 2019/20 and beyond recognised the need for a rigorous 'back to basics approach', focusing on the Directorates accountability for delivering services to budget.

1.5. The Acting Chief Executive conducted internal reviews of all services against their business plans to assess performance and progress with 'invest to save' initiatives. Officer STAR chamber sessions were then held. Targets were not set by service area or work strand. Executive Directors and Directors (formerly Heads of Service) were asked to set out the full range of cuts that could potentially be made (including any investment required) for 2019/20 and 2020/21, setting out the risks and possible mitigations, up to their boundaries with statutory responsibilities. These officer proposals were then subject to Member scrutiny before being taken to Mayor and Cabinet in November 2018. £9.0m cuts were identified for 2019/20 and £8.9m for £2020/21.

1.6. The Acting Chief Finance Officer has begun a similar process for 2020/21. Directors will once again be asked to make proposals for a forecast gap of £12.0m in 2020/21, as the funding estimated to be received from central government and from council tax and business rate payers over the next four years is not sufficient to cover current level of spend and meet new budget pressures.

1.7. The funding gap is a combination of the Council's best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action is required now to enable the Council to meet the legal requirement to balance the budget both next year and in future years.

1.8. The government currently distributes funds to local government based on proportionate need as expressed within its 'Settlement Funding Assessment' (SFA). The SFA represents a combination of monies receivable through Business Rates Retained and Business Rates Top-up/Tariff system (and previously Revenue Support Grant (RSG)). The SFA has suffered continued reductions ever since being introduced in 2013/14, with the reductions and eventual phasing out of the RSG every year since.

1.9. The Council cannot presume this is likely to change pending the delayed but needed Comprehensive Spending Review (CSR) for 2020 onwards and a number of other mooted and related budget changes.

1.10. The government's stated policy objective is to move to 75% devolved business rates from April 2020. This may require local authorities to assume additional responsibilities to match costs to the available business rates and enable the

Treasury to reduce other sources of funding. For example; by rolling in other specific grants, such as the Public Health Grant, from 2020.

1.11. As part of the preparation towards this move, the Secretary of State for Housing, Communities and Local Government, announced as part of the 2019/20 Settlement, that the London BR Pilot Pools will operate as a 75% Retention Pilot Pool from April 2019, as opposed to 100% the previous year. Lewisham entered the Pool on the 1st April 2018 along with the other 32 London Boroughs and the Greater London Authority (GLA).

1.12. The government, in 2016, committed to undertaking a Fair Funding review which would include a full review of the Needs Distribution system and possibly some 'normalisation' of council tax. Current funding levels are based on the needs assessments undertaken in 2013, increased annually by the Retail Price index, which are now outdated. Local authority's demographics and needs have changed over the years and a review of the system is essential to ensure funding remains fair.

1.13. The government set out its approach to the review. It set out six principles which represent the framework which the government will use in designing a new relative needs assessment methodology. They are simplicity, transparency, contemporary, sustainability, robustness, and stability.

1.14. The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. The first consultation exercise was undertaken from December 2017 to March 2018 and the second exercise was undertaken from December 2018 to February 2019.

1.15. There is general support across the local government sector for the review and for the objective of making local government funding more "objective and transparent". However, a serious criticism of the Fair Funding Review is that local authorities are still in the dark about what their funding is going to be in 2020-21, even after the two consultation exercises.

1.16. The political uncertainty created by Brexit is causing delay to many decisions throughout Whitehall. One casualty of the delay might be the Spending Review (SR). The Chancellor announced that the SR19 would be revealed later in the autumn and would cover the period 2020-21 to 2022-23. Brexit uncertainty could possibly cut this to a single year (2020-21).

1.17. A one-year spending review is an increasingly likely possibility. The Council, has therefore assumed the current trajectory continues in respect of SFA and the level of recurring grant income remains the same (i.e. maintaining the additional funding provided in recent years for Adult Social Care) for 2020/21 as in 2019/20.

1.18. The government has also announced a green paper, which was expected in 2018 but is now to be published 'at the earliest opportunity', to address Health and Social Care which will likely impact the funding and governance of these services, in particular Adult Social Care for the Council.

1.19. This MTFS forecasts a further reduction in the Council's main funding from £121.2m to £108.7m between 2019/20 and 2023/24. This is based on an

assumption that 'rolled-in' RSG will reduce by a further 20% between 2019/20 to 2023/24.

1.20. Alongside this, the Adult Social Care precept ends in 2019/20. This precept was introduced by the government in 2017/18 as an increase in Council tax of 6% over a three year period. In 2019/20, Lewisham increased its Council tax by 2% for this purpose (after precepts of 3% and 1% in 2017/18 and 2018/19 respectively). No allowance for this has been provided from 2020 onwards.

1.21. In 2019/20, the government extended the 2.99% Council Tax referendum trigger point for another year (normally 1.99%). It is assumed the trigger will revert to 1.99% for 2020/21 and future years.

1.22. At the same time spending projections - including pay and prices inflation, provision for budget pressures related to an increasing population and changing demographic needs, and changing responsibilities for local government - mean additional spending of at least £47m will be required to meet those needs.

1.23. The immediate target is now to deliver £12m of savings to bridge the gap for 2020/21. This is in addition to the £9m savings already approved by Mayor and Cabinet for 2020/21. The Council estimates the total level of savings required for the four year period 2020/21 to 2023/24 is approximately £50m.

1.24. The combination of these factors contributes to a lack of clarity regarding funding levels after 2019/20, the responsibilities local government will have, and the pressures and risks faced by the sector nationally and regionally. This MTFS is therefore more uncertain than in recent years. It is therefore anticipated that a revised and updated version may need to be brought forward as part of the budget build up process to include any additional information and the impact on the Council's financial plans as it becomes known.

2. PURPOSE

2.1. The main purpose of this report is to set out the medium term financial position for the Council over the next four years and the assumptions on which it is based. It also provides an overview of the current financial situation and provides an update on the delivery of the savings programme for 2020/21.

2.2. The MTFS covers the following areas:

- It sets out the expected resource envelope that the Council's General Fund must operate within in 2020/21, attempts to project funding in future years, and identifies the main factors that might affect this.
- It sets out service and other spending projections (e.g. Housing Revenue Account, Capital Programme, Dedicated Schools Grant, and other funding streams) and the main factors that may affect these.
- It projects the General Fund funding gap which is the difference between the resource envelope and spending projections. This includes some sensitivity analysis for an optimistic, main and pessimistic projection for each year, depending on the assumptions made, the main case representing the most likely outcome.

- It sets out the measures the Council needs to take to address the funding gap.

3. RECOMMENDATIONS

3.1. Public Accounts are recommended to:

3.1.1. Note the 2020/21 to 2023/24 Medium Term Financial Strategy;

3.1.2. Request that a further update is brought back as part of the cuts and budget setting process to reflect any changes arising from the Autumn Budget or Local Government Finance Settlement.

4. STRUCTURE OF THE REPORT

4.1. The Report is structured as follows:

1. Executive Summary
2. Purpose
3. Recommendations
4. Structure of the report

Strategic Review

5. Introduction
6. Local Policy Context
7. Economic Context
8. Budget Update

Medium Term Financial Strategy

9. Introduction
10. Resource Envelope
11. Revenue Expenditure Assumptions
12. General Fund Budget Gap
13. Addressing the Budget Gap
14. Housing Revenue Account
15. Dedicated Schools Grant
16. Capital Programme
17. Risk Management

Summary and Implications

18. Conclusion

19. Financial Implications
20. Legal Implications
21. Equalities Implications
22. Environmental Implications
23. Crime & Disorder Implications
24. Background Papers
25. Appendices

STRATEGIC REVIEW

5. INTRODUCTION

5.1. The MTFS represents the start of the Council's formal budget process, which concludes with the setting of the overall Budget each year. The Budget Report for 2020/21 will be presented to Mayor and Cabinet in January 2020 and full Council in February 2020.

5.2. This report sets out the scope of the Council's financial planning which includes: the General Fund; Housing Revenue Account; the Dedicated Schools Grant, other funding streams, and the Capital Programme.

5.3. The key objectives of the 2020/21 to 2023/24 Strategy are to:

- plan the Council's finances over a four year period to take account of local improvement priorities and national priorities;
- ensure that the Council's corporate priorities continue to drive its financial strategy and resource allocation;
- assist the alignment of business and financial planning processes;
- ensure that the plan takes account of: stakeholder and partner consultation; external drivers; capital investment; budget risk assessments; and expected developments in services;
- ensure that the MTFS is linked to other internal strategies and plans; and
- ensure that the final agreed budget reflects all these considerations.

5.4. Over the last ten years, the Council has undertaken a major budget reduction programme to manage the difficult financial challenge it has been faced with. In the period 2010/11 to 2019/20 the Council has implemented savings of £174m, identified cuts of £8m in 2020/21 and work is underway to identify and deliver further cuts of £12m by 2020/21.

5.5. The financial outlook for the Council and the public sector as a whole remains extremely challenging. The government has re-affirmed the need for significant reductions in public sector expenditure over the medium term into the 2020s.

5.6. This involves the main local government grant, the Revenue Support Grant (RSG), being phased out, 75% of business rates devolved, additional responsibilities transferred to local authorities, the rolling-in of some specific

grants, changes to school funding (formula and paid direct to schools), the continuing impact of the move to Universal Credit, and further health and social care integration.

5.7. At the start of 2018/19, a London Business Rates Pool was created, with the objective of trialling a 100% Business Rates Retention Scheme. All 32 London Boroughs and the City of London and the GLA agreed to setting up the pool and were given the assurance that none would be worse off in the pool than if they had been funded as usual with the RSG.

5.8. In 2019/20, the government changed the Pool from a 100% retention pilot pool to a 75% retention pilot pool. This means that from 1 April 2019 the London authorities will retain 75% of their non-domestic rating income. They will also receive section 31 grants in respect of government changes to the business rates system which reduce the level of business rates income. Section 31 grant will amount to 75% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality.

5.9. In moving to 75% business rates retention, the Ministry of Housing, Communities and local government will continue not to pay Revenue Support Grant to the London authorities in 2019/20. No “new burdens” have been transferred to London and participation in the pilot will not affect the development or implementation of the Fair Funding Review.

5.10. The main advantage for Lewisham being part of the pool is that the pool gets to keep 75% of any growth it generates, which is then distributed across all members of the pool. In 2019/20, (Lewisham is expected to receive approximately £3m of growth from the pool); and the system of top-ups and tariffs which redistributes revenues between local authorities will be retained.

5.11. The focus of the MTFS is the Council’s General Fund budget. Whilst it is very important, particularly at a time of financial constraint, to identify ways in which all services can be delivered more effectively across traditional organisational and financial boundaries, the nature of the current financial austerity regime is such that most of the budget reductions have to come from Council’s General Fund services. Having a sound General Fund MTFS and a strategy for responding to the challenges it presents is an essential pre-requisite to ensuring effective responses from all of the services the Council directs and influences.

6. LOCAL POLICY CONTEXT

6.1. The Council’s 2018 to 2022 Corporate Strategy identifies seven corporate priorities and four core values which are the driving force behind what we do as an organisation. It sets out a vision for Lewisham and the priority outcomes that organisations, communities and individuals can work towards to make this vision a reality.

6.2. In taking forward the Council’s Budget Strategy, in engaging our residents, service users and employees, and in deciding on the future shape, scale and quality of services, we will be driven by the Council’s four core values:

- We put service to the public first.
- We respect all people and all communities.

- We invest in employees.
- We are open, honest and fair in all we do.

6.3. These core values align with the Council's seven corporate priorities namely:

1. **Open Lewisham** - Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.
2. **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
3. **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.
4. **Building an inclusive local economy** - Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
5. **Delivering & defending: Health, Social Care and Support** - Ensuring everyone receives the health, mental health, social care and support services they need.
6. **Making Lewisham greener** - Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.
7. **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

7. THE ECONOMIC CONTEXT

National

7.1. In his spring 2019 statement, the Chancellor of Exchequer made a number of announcements in relation to the economic condition, forecasts and the government's policies. Some of his key announcements were as follows.

- GDP is forecast to increase by 1.2% in 2019, revised down from 1.6%. In 2020, growth is forecast to be 1.4% and 1.6% for the following three years. In the October 2018 budget, growth was forecast at 1.4% for both 2020 and 2021 and 1.6% for the two years after that.

- Forecast for borrowing in 2018/19 has been revised down from £25.5bn in October 2018 to £22.8bn in March 2019. This is equivalent to 1.1% of GDP. Borrowing is forecast to be 1.3% of GDP in 2019/20, 0.9% in 2020/21, 0.7% in 2021/22, 0.6% in 2022/23 and 0.5% in 2023/24. The trend, as it stands, is very much in line with the government's stated fiscal objective of balancing the budget by 2025/26.

- Debt as a percentage of GDP is expected to fall every year from 82.2% of GDP in 2019/20, 79.0% in 2020/21, 74.9% in 2021/22, 74.0% in 2022/23 and 73.0% in 2023/24.

- Inflation is forecast to fall from 2.1% in 2019 to 1.9% in 2020 before rising slightly to 2.0% a year from 2021 to 2023.

7.2. All of the above Office of Budget Responsibility (OBR) forecasts were made in the backdrop of the UK leaving the EU in an orderly fashion, including that of a transition period to 2020, both of which were government policy at one time. Furthermore, there was also the assumption that the subsequent terms of departure will be relatively pain-free. In reality though, with the continually changing political dynamics, its best to treat these figures with caution as no one really knows how the departure will actually pan out to be.

7.3. Further announcements include £100m towards funding for police to tackle violent crime in local authorities. The funding will be ring-fenced to allow for more police presence and police patrol in neighbourhoods. The funding will be available for seven police forces where serious violence levels are highest and make up 70% of knife crimes. These police forces include London, West Midlands, Merseyside, South Yorkshire, West Yorkshire, South Wales and Greater Manchester.

7.4. The chancellor also restarted a once-scrapped affordable homes guarantee scheme with the announcement of £3bn to support the delivery of around 30,000 affordable homes across the country. With housing associations being able to borrow at a cheaper rate, it is expected that this will help increase the number of affordable houses in the market. Of course, this is by no means a solution though to the housing crisis that grips cities such as London.

7.5. A number of key announcements were made in the autumn budget in October 2018. The chancellor boldly claimed that the “austerity is finally coming to an end”. Whether or not this is true will ultimately depend on who the winners and losers are and how much they are expected to gain or lose from the decisions. Some other key announcements were as follows:-

- From April 2019, Tax-free personal allowance, the amount people earn before they start paying income tax, increased to £12,500. This is an increase of £650 compared to 2018. Furthermore, there was also an increase in the national living wage from £7.83 per hour to £8.21, an increase of 4.9%. It is the government’s objective for the National Living Wage to reach 60% of median earnings by 2020.
- The government increased stamp duty exemption to first time buyers for properties up to £500,000 where the property is part of a shard ownership programme. This is an increase of £200,000 and the new allowance will be backdated for properties purchased up to 22nd November 2017. It was also announced that a new help to buy equity loan will run from April 2021 for two years. Furthermore, the government will invest £291m from the housing infrastructure fund to unlock some 18,000 new homes through improvements to the Docklands Light Railway.
- Businesses, in particular smaller businesses, also saw a number of helpful announcements. It was announced that business rates for firms with rateable value of £51,000 or less will be cut by a third over two years. This

is part of £900m rate relief for small businesses to help alleviate the pressures of having to compete with online shopping. Furthermore, there was also an announcement of £650m injection to redevelop the under-used high-street properties. The Future High Street Fund, as it's called, will be introduced over the next four years. Additionally, contributions from small businesses to the apprenticeship levy would be reduced from 10% to 5%. This is hoped to encourage small businesses to offer more apprenticeships at a reduced cost.

- The government made its largest ever investment in developing the strategic roads across the country. Called the National Roads Fund, the £28.8bn commitment will be largely funded from road tax and will be rolled out in the next few years. In addition, the government also announced releasing £420m to local authorities to fix potholes and repair damaged roads. Another £150m was also made available to local authorities for smaller improvement projects such as roundabouts.

Local Government

7.6. In February this year, the National Audit Office published an article on local government in 2019, shedding further light on the difficult times ahead. It said 2019 will be a pivotal year for local government in England. Numerous difficult and open-ended questions need rapid resolution, at a time when government focus and capacity is directed elsewhere.

7.7. Alongside central government funding cuts of nearly 50% since 2010-11, local authorities are facing strong demand and cost pressures, and no reduction in their statutory obligations to provide services. Local spending is becoming more narrowly focused on social care due to the statutory need to meet the growing demand and falling central government funding, alongside some council tax increases that are restricted to use only for adult social care. At the same time, income can be uncertain from other revenue sources, such as business rates, the New Homes Bonus, and fees and charges.

7.8. Pending the 2019 Spending Review, certainty about local authority funding disappears from 2020-21. The uncertain future is compounded by not knowing whether local authorities' retention of 75% of business rates will be the government's preferred long-term funding mechanism for the sector, nor the outcome of the Fair Funding Review, which will determine the distribution of money from the Spending Review across authorities.

7.9. The article concludes there are many major areas of need that will impact on local government finances in the coming year – including social care, health and social care integration, housing and homelessness, education, and transport. With MHCLG acting in a coordinating role, government departments need to collectively build a consensus about the role and significance of local government as a whole in the context of the current funding climate, rather than each engaging with authorities solely to deliver their individual service responsibilities.

8. BUDGET UPDATE

2018/19 Financial Accounts

8.1. The Council's draft final accounts for 2018/19 have been prepared and have been submitted to the Council's external auditor, Grant Thornton. The draft accounts will be reviewed by the Audit Panel on 11 July 2019. A separate report on the Council's final outturn position for revenue and capital budgets will be presented to Public Accounts Select Committee at the 10 July meeting.

8.2. The Council's final 2018/19 Directorate revenue outturn position was a Directorate overspend of approximately £10m.

8.3. The Housing Revenue Account (HRA) is projecting an additional surplus of £2.5m above the already budgeted surplus of £4.0m, making the total for the year £6.5m. This surplus is expected to be transferred to reserves at the end of the year which will ensure that there are sufficient resources available to fund the current housing programme over the medium term.

8.4. The Dedicated Schools Grant (DSG) of £258m was in balance at the end of the year. There were thirteen schools in deficit at the year-end. 9 Schools are supported with loans totalling £3m.

8.5. The Capital Programme spend as at 31 March 2019 was £71.1m. This represents 82% of the revised budget of £87.3m. The overall capital expenditure last financial year was £87m, which was 86% of the revised budget of £100.7m.

2019/20 Budget

8.6. The 2019/20 budget was approved by Council on the 27 February 2019. The overall budget position for the Council is a net General Fund Budget Requirement of £243.012m, as set out in Table1 below.

8.7. **Table 1 - Overall Budget Position for 2019/20**

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2019/20	(121.175)	
Council Tax 2019/20 at 4.99% increase	(111.739)	
Surplus on Collection Fund	(1.698)	
Business Rates Levy Surplus	(1.400)	
Business Rates S31 and Growth	(7.000)	
Assumed Budget Requirement for 2019/20		**(243.012)**
Total Resources available for 2019/20		
Base Budget for 2018/19	241.281	
Plus: Reversal of reserves drawn in 18/19 (once off)	8.570	
Plus: Additional Pay inflation	3.300	
Plus: Non-pay Inflation	2.463	
Plus: Single Persons Discount work	0.500	
Plus: Budget pressures to be funded from 19/20 fund	6.500	
Plus: Adult Social Care Precept	2.129	
Less: Reduction in Bad Debt Provision	(5.000)	
Less: November approved cuts for 2019/20	(9.270)	

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once-off use of reserves	(2.461)	
Total		**243.012**

2019/20 General Fund Revenue Budget Monitoring

8.8. Officers continue to undertake regular revenue budget monitoring in 2019/20. The first revenue budget monitoring is expected to report to Mayor & Cabinet on on the 10 July 2019. The report will be based on information to the end of May 2018 and estimates for June income and expenditure and include an update in progress with the implementation of the agreed £9m of cuts for 2019/20.

8.9. The process for monitoring is underway. It is anticipated that the main overspending areas will be environment services and transport. Work is already underway in the services to address these.

Housing Revenue Account Monitoring

8.10. The forecast position for the Housing Revenue Account is to spend to budget for 2019/20.

Dedicated Schools Grant

8.11. The forecast position for the Dedicated Schools Grant overall is to spend to budget for 2019/20. Schools Forum has supported a transfer of circa £1m from Schools to High Needs. The Department for Education has also noted the pressures and provided £704k. These are to support the forecasted pressures within Special Needs (High Needs Block).

8.12. The overall schools balances for 2018-19 out-turn at an £21m surplus but this is supported by £3m worth of loans drawn leaving a net position of £18m. It should be noted that overall Primary and special schools are in surplus and that secondary schools are in deficit. A further piece of work is currently taking place with Schools to determine the split between committed and non-committed spend. Recent discussions with schools have highlighted that overall many are cautious to spend knowing that the reserves will support them to balance budgets in future years. For many schools they had cautiously reserved funds for the teachers' pay award and pensions increase which is supported by DfE for 2019/20, this in part has contributed to the increase in balances.

8.13. There are thirteen schools in total with deficit balances totalling £3.5m at the end of the 2018-19 financial year. Three Primary, six Secondary one special, two all through and one nursery.

Capital Programme

8.14. The Capital Programme (General Fund and Housing Revenue Account) budget for 2019/20 to 2021/22 totals £344.7m, of which £142.2m is for 2019/20.

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

9. INTRODUCTION

9.1. The MTFS takes a forward view of the likely financial position of the Council over the next four years. This strategy does not seek to duplicate or replace any of the Council's other policies and strategies.

9.2. The financial strategy has produced a model with financial forecasts that aim to deliver the Council's priorities and identifies the constraints of the significant financial challenges it faces.

9.3. The MTFS projects:

a. the resource envelope the Council's General Fund must operate within in future years;

b. service and other spending pressures and the main factors that may affect these; and

c. the General Fund Funding gap which is the difference between the resource envelope and the spending projections.

9.4. As the level of uncertainty regarding funding is relatively high for years 2020/21 to 2023/24, the strategy has again modelled three indicative scenarios, the optimistic case, the **main** case, and the pessimistic case. The main case is assumed to be the most likely expected to happen. These scenarios are formulated on a number of local and national assumptions made based on the information available. These are discussed below for the main case and summarised in Appendix 1.

10. RESOURCE ENVELOPE

10.1. The resource envelope set out in this section of the report consists of the following elements:

- The 'Settlement Funding Assessment' (SFA) which is the total of retained business rate income and business rate top-up.
- Council Tax income.

Settlement Funding Assessment (SFA)

10.2. Local authorities receive funding from the government via the Settlement Funding Assessment (SFA). This previously consisted of a share of local Business Rates and a Revenue Support Grant (RSG).

10.3. This financial year, Lewisham is part of the London Business Rates pool, trialling the 75% Business Rates retention for at least one year. The 2019/20 SFA is entirely paid from Business Rates, the RSG having been 'rolled in'.

10.4. The government offered any Council that wished to take it up a four-year funding settlement to 2019-20 which provided funding certainty and stability.

10.5. The government is now carrying out a Fair Funding Review for 2020 onwards, which is basically a review of the way the government distributes financial resources to local authorities. A number of consultations have taken place but there is limited information on the outcome of the review, which means local authorities currently have no indication as to what their 2020/21 funding levels will be.

10.6. This makes forecasting future budget requirements wholly dependent on assumptions. These assumptions are discussed in section 11 of this report. The table below shows the forecast SFA over the next four years (assuming a 20% reduction in rolled in RSG).

Table 2: Make-up of Lewisham's 2019/20 and Estimated Settlement Funding Assessment, 2019/20 to 2020/21 to 2023/24

Settlement Funding Assessment	2019/20 Actual	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
	£m	£m	£m	£m	£m
Retained Business Rates	31.5				
Business Rate Top up	89.7				
Baseline Funding Level (BFL)		116.60	113.14	110.60	108.70
Total SFA	**121.2**	**116.60**	**113.14**	**110.60**	**108.70**

Business rates income

10.7. In 2018/19, the government devolved 100% of Business Rates to local authorities via the pilot pool. In 2019/20, the level of devolved Business Rates was changed to 75%. In London, this will be shared between Local Authorities and the GLA. This means LAs will retain 48% of Business Rates and the GLA 27%. The RSG has been 'rolled-in' at this stage thereby phasing it out.

10.8. Changes to Business Rates retention were intended to be fiscally neutral by allowing the main local government grant (e.g. Revenue Support Grant) to be phased out and additional responsibilities devolved to local authorities or regions, matching the additional funding from business rates.

10.9. It is not certain if existing pilots will continue in 2020/21. The local share of Business Rates could continue as 75%. The government is expected to complete the next Comprehensive Spending Review in 2019 to replace the four-year funding settlement which ends in 2019/20. For this reason, any assumption beyond 2020 at this stage are officer assumptions, pending confirmation from government on funding allocations to authorities.

The Fair Funding Review

10.10. Central government funding for local authorities is based on an assessment of relative needs and resources. The overarching methodology that determines how much funding each authority receives annually was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14.

10.11. The government is therefore undertaking the Fair Funding Review to update the needs formula and set new funding baselines for the start of the new 75% business rates retention scheme, from April 2020.

10.12. The government is proposing to simplify the funding formula based on a small number of key cost drivers such as population, deprivation, rurality/density, and area costs. The government has so far undertaken two consultation exercises. The consultation identified key areas that require a more detailed assessment of needs such as adult social care, children's services, highways and public transport, waste collection and disposal. It was anticipated that the government would move to finalise the structure for needs and resource assessments by summer 2019 to support the CSR. No indication of this has been made, therefore it can also be assumed that the government will issue a one year funding settlement and move the Fair Funding Review start to April 2021. This is because of the effect of the Brexit negotiations are having on most of the government's major business decisions.

Council Tax income

10.13. In considering savings proposals and the level of Council Tax, Members make political judgements balancing these with their specific legal responsibilities to set a balanced budget and their general responsibilities to stewardship of the Council's finances over the medium term.

10.14. For 2019/20, the government extended the 2.99% referendum trigger for another year. The Social Care Precept is in addition to this. The Social Care precept introduced by the government from 2016/17 to 2019/20 ends this year. Local authorities had the flexibility to raise council tax in their area by up to 6% over the three year period 2017/18 to 2019/20, above the existing referendum threshold for council tax of 1.99% (2.99% in 2018/19 to 2019/20). The government's assumptions for allocating resources in the provisional local government financial settlement to 2019/20 included the raising of both Council Tax and the Social Care Precept (SCP) in each and every year to meet the recognised funding pressures faced by the sector.

10.15. As these measures ended in 2019/20, the assumptions for increase in Council Tax are focused on the local decisions to be made by the Council, limiting any increase to 1.99% (the referendum threshold).

10.16. Council Tax income is also affected by growth in the number of properties in the borough, the rate of Council Tax collection, as well as decisions about the level of Council Tax.

10.17. In 2019/20, Council Tax was raised by 4.99% in total, i.e. a 2.99% core increase and the 2% social care precept increase as set out above. This generated additional funding of £4m.

10.18. For 2020/21, the MTFS main case assumes a 1.99% increase in core Council Tax and 1.99% in each year thereafter. This reflects the assumption that the Council will apply the maximum increase allowed without a referendum in 2020/21 and beyond. In addition, the MTFS assumes a 1.08% increase in the Council Tax base, based on Planning Service's housing trajectory. In total over

the period this will add approximately £12m to the Council Tax income base over the four year period to 2023/24.

10.19. Forecast Council Tax income from 2020/21 to 2023/24 is set out in Table 4 using the assumptions in Appendix 2. The amounts collected here are after allowing for the cost of the Council Tax Reduction Scheme and any uncollected debts.

Table 4: Council Tax Income Future Year Projections

	2020/21 projection	2021/22 projection	2022/23 projection	2023/24 projection
	£m	**£m**	**£m**	**£m**
Optimistic	117.38	123.31	129.54	136.08
Main	**115.40**	**118.97**	**123.64**	**127.70**
Pessimistic	113.94	116.79	119.71	122.70

11. REVENUE EXPENDITURE ASSUMPTIONS

11.1. In addition to the reduction in the level of resources available over the next four years, the Council faces a number of budget pressures which will add to the overall revenue expenditure. This section of the report considers the effect such pressures will have on the future years' revenue expenditure.

Pay

11.2. A pay award of 2% was agreed by the Greater London Provincial Council for 2019/20, with a better than 2% increase for lower paid staff also agreed. The main model has assumed a similar 2% pay award for 2020/21 and assumed that pay awards will remain at 2% in future years.

General price inflation assumptions

11.3. General price inflation is calculated on non-pay expenditure on General Fund services (excluding internal recharges and housing benefit payments). A proportion of this expenditure is contractual with indices linked to inflation but in many cases the Council is in a position to re-negotiate increases. For the purposes of these projections, it is assumed that all prices go up by inflation, which in 2020/21 has been estimated at 2.5%.

General fees and charges assumptions

11.4. The Council's approach in the past has been to expect fees and charges it makes to rise in line with inflation unless there is a specific decision to increase them by more or less. In some cases, this will be outside the control of the Council (for example, where charge rates are set by statute). However, for the purposes of these projections of spending, it is assumed that on average fees and charges in aggregate will increase by inflation.

Further budget pressures and risks

11.5. Forecasting the impact of demand changes is the most difficult aspect of the MTFS. But the MTFS needs to make allowance for the potential impact of these. The key challenges that impact on the demand for Council services are as follows:

- **Population growth** – this particularly affects people based services such as adult and children's social care. But it also affects general demand for universal services such as leisure and cultural services and school places;
- **Ageing population** – this affects care for the very elderly but also impacts on care for younger adults and children with disabilities who are living longer as a result of improvements in medical care. It also has a direct impact on the funding the Council needs to provide for the London-wide concessionary fares scheme;
- **Household growth** – this impacts on General Fund property based services such as refuse collection and waste disposal; highways, footpaths and street lighting; and more school places and additional health and care needs.
- **Impact of government policy** – improvements in economic well-being and reduction in crime should potentially mean less demand for Council services. However, the shortage of housing, the impact of welfare changes, and policy toward people with No Recourse to Public Funds are all having a major impact on social needs within the borough.
- **Impact of reducing preventative services** – reductions in budgets for preventative services such as early years, the youth service and aspects of adult social care provision are likely to affect demand for more acute services including children at risk, children involved in crime, adults with drug and alcohol problems, adults in residential accommodation and so on; and
- **Regulations and standards** – as the national negotiations progress to withdraw the UK from the European Union institutions, with new responsibilities for local government through anticipated funding changes, and as councils respond to recent community incidents standards and ways of working are expected to change.

11.6. The Council is pro-actively trying to address these demand pressures and seeks to ensure, wherever possible, that the changes it has to make to services reduce rather than increase demand

11.7. Other pressures, such as the cost of transition of children with disabilities into adult services or when specific grants are reduced or withdrawn, are assumed to be managed within service budgets.

11.8. Recognising these pressures and risks in flexible way as they come to bear the Council annually provides £6.5m corporately for growth from demand and other unavoidable pressures in the budget. The model assumes this will continue for future years.

Specific grant assumptions

11.9. The following assumptions have been made in the projections on specific grants which fund services. The general point is that within the Council's devolved budget management arrangements the funding position is noted and it is for the service to ensure that their spending is managed within the available grant. The main specific grants include:

- **Public Health** – this grant is £23.69 in 2019/20, a reduction of £624k. Proposals for this reduction were agreed by M&C, except for £196k in respect of Health Visitors which was deferred for reconsideration of the impact on staffing resources for this service. The Lewisham and Greenwich Trust have agreed that at present the cut will be taken from the overall health visitor budget but not put against health visitor establishment. The Trust however are planning a discussion with the Save Lewisham Hospital campaign to give further consideration to health visitor ratios and the role of the health visitor assistant. This reduction, and any future year changes to the public health budgets once announced, will need to be the subject of further officer proposals to ensure expenditure on services matches the available grant. The Trust also welcome an opportunity to contribute to the planned strategic early help review during the coming year.

- **Better Care Fund** (BCF) – this funding increased to £22.6m in 2019/20. The Council receives approximately £9m of this funding to support Council led services.

- **Improved Better Care Fund (iBCF)** – In 2019/20, the iBCF increases to £13.1m. This is intended to fund adult social care activity. Plans for its use, which have not yet been finalised, will also require the agreement of local CCG. The grant is likely to be spent in substantially the same way as in 2018/19 with the increase being used to fund the balance in fee increases plus transition and other demographic pressures.

- **Other grants** – the Council receives a number of other grants but most are relatively small or directly related to specific projects. A number of these come from the Greater London Authority; for example, funding we receive from the London Mayor's Office for Policing and Crime (MOPAC) to support crime reduction work. As the Mayor for London sets his priorities, any changes to these other grants will have to be met with an equivalent reduction in service spend to ensure it will have a neutral impact on the Council's overall budget gap.

Other Income and Expenditure Items

11.10. There are other income and expenditure items in the Council's budget which are mainly non-service specific. These consist of the following elements:

<u>Capital financing charges</u>

11.11. Capital financing costs include all revenue costs relating to the Council's outstanding borrowing which comprises repayment of principal and interest

charges. It also includes provision for capital spending which is charged directly to revenue and repayment of historic debt in respect of the former Inner London Education Authority. These costs are offset by principal and interest repayments from the Catford Regeneration Partnership Limited, Lewisham Homes, and interest on the Council's investment balances.

11.12. The main factors that affect the forecasting of capital financing costs are the level of borrowing for capital purposes, the level of the Council's cash balances, and interest rates. The MTFS assumes that capital spending will be funded either from grant, capital receipts, capital reserves, be charged direct to revenue or borrowing.

11.13. Changes to interest rates should not affect borrowing costs as the Council borrows long term (typically 30 plus years) at fixed rates. It also assumes that cash balances remain at their current level in the immediate future. If interest rates rise the Council receives more interest on balances invested. However, the projections have not built in any assumptions about changes to interest rates as their scale is likely to be limited and the timing remains uncertain.

Levies

11.14. These cover the London Pension Fund Authority, the Environment Agency and Lee Valley. It is assumed these will stay at similar levels for future years.

Added years pension costs

11.15. In the past, staff who retired early were awarded additional assumed years in the Pension Fund with the additional cost being charged to the General Fund. Although added years stopped being awarded some years ago, the Council has an on-going commitment for those staff who were awarded added years in the past.

Other known future years' budget adjustments

11.16. There are two further adjustments that are included within the budget projections for future years, funded from the £6.5m provision stated in para 11.8 above:

- **Concessionary fares** – the cost of concessionary fares to the Council changes each year to reflect increases in population entitled to concessionary fares, increases in fares themselves, and changes to the basis for allocation of costs between boroughs. The projections assume an increase of £0.5m each year.
- **Highways and footways maintenance** – the 2014/15 budget report included a proposal to switch highways and footways maintenance funding from capital to revenue in order to avoid the build-up of prudential borrowing charges. To fund this, it was agreed that £0.35m growth would be provided each year in the revenue budget together with funding that would be released within the capital financing charges budget as a result of prudential borrowing no longer being required.
- **Budget Growth** – the 2019/20 budget approval included four areas of growth totalling £1m identified in the financial monitoring report to M&C in October

2018. It was agreed to funds these through once-off reserves in 2019/20, and then include in the base budget from 2020/21.

- **Vehicle Replacement Programme** – There is currently a programme in place for replacing all the Council's refuse and fleet vehicles from 2018/19 to 2019/20. It is anticipated that these vehicles will again require replacement in 10 years time and it is therefore prudent to set aside an annual provision to fund this future purchase. The 2020/21 budget report will recommended that a budget of £800k be set aside for a period of 10 years from 2020/21 to build this reserve.

New Homes Bonus

11.17. The New Homes Bonus (NHB) is a grant paid by central government to local councils for increasing the number of homes in use. Growth in the number of properties in Lewisham in line with the London Housing plan has funded the New Homes Bonus although this has been offset from 2017/18 onwards as funding for properties for which New Homes Bonus was allocated in earlier years of the system dropped out of the calculation.

11.18. The government has indicated that 2019/20 is the last year of the NHB in its current format. A new incentive for growth in homes in use is yet to be announced.

11.19. Over the past few years part of the NHB has been used to bridge the budget gap as a temporary measure. This has only moved the gap forward, not eliminated it. The ceasing of this funding stream will mean the Council will need to address the previous year's unachieved savings in the very near future to avoid the depletion of the historical build-up of this funding pot.

GENERAL FUND BUDGET GAP

11.20. Using the medium term resource envelope and revenue expenditure projections stated above the resulting overall forecast position for the authority is shown in Table 5 below:

Table 5: Summary of Projected Financial Position

	Optimistic Case				Main Case				Pessimistic Case			
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Business Rates Baseline Funding Level	118.915	117.313	116.276	115.726	**116.602**	**113.140**	**110.569**	**108.713**	**114.756**	**110.062**	**106.661**	**104.231**
BR S31 Grant and Pool Growth	7.500	4.000	1.000	1.000	**7.500**	**4.000**	**1.000**	**1.000**	7.500	4.000	1.000	1.000
Ctax	117.380	123.31	129.54	136.08	**115.40**	**118.97**	**123.64**	**127.70**	113.94	116.79	119.71	122.70
Ctax Collection Fund	2.884	2.200	2.200	2.200	**1.684**	**1.200**	**1.200**	**1.200**	1.684	1.200	1.200	1.200
Total Resources	246.681	246.822	249.011	255.002	**241.184**	**237.306**	**236.408**	**238.613**	237.882	232.052	228.571	229.133
Total Revenue Expenditure	263.044	258.161	258..577	261.071	**261.844**	**253.865**	**249.061**	**248.467**	263.044	250.563	243.807	240.630
Budget Gap	16.364	11.340	9.566	6.069	**20.660**	**16.559**	**12.653**	**9.854**	23.692	18.511	15.236	11.497
Approved Savings	8.934	0.00	0.00	0.00	**8.934**	**0.000**	**0.000**	**0.000**	8.934	0.00	0.00	0.00
Additional Annual Savings Required	7.430	11.340	9.566	6.069	**11.726**	**16.559**	**12.653**	**9.854**	16.228	18.511	15.236	11.497
Cumulative Savings Required	7.430	18.770	28.335	34.404	**11.726**	**28.286**	**40.939**	**50.793**	16.228	34.739	49.975	61.472

11.21. Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2020/21 to 2023/24 as £11.7m, £16.6m, £12.6m, £9.8m, respectively in each year. A total of £51m over the four years to 2023/24. This is a substantial budget gap for the Council, especially as savings agreed to date have totalled £183m and the financial monitoring in 2018/19 identified difficulty and delay in implementing agreed savings as a contributory cause to the reported overspend position.

11.22. The optimistic case scenario has been modelled to show the effect that positive changes in the assumptions will have on the overall budget gap. Here the cumulative budget gap to 203/24 reduces by approximately £16m to £34.4m. This is based on lower predicted cuts to baseline funding and higher increase in the Council Tax base.

11.23. The pessimistic case scenario is the most unlikely scenario projected. The cumulative budget gap to 2023/24 increases by approximately £11m to £61m. This scenario demonstrates the difficulty the Council could potentially face if the very worst happens and the funding cuts are higher and Council Tax base and collection rates are lower than expected.

11.24. The next section of this report looks at how the Council continues to address the gap in order to produce a balance budget.

12. ADDRESSING THE BUDGET GAP

12.1. In the meantime officers are reviewing and challenging in-year on the existing pressures carried over from 2018/19. These are identified and discussed more fully in the financial outturn and financial monitoring reported to Mayor & Cabinet separately.

12.2. For the future budget gap, officers have started work on identifying possible cuts proposals to meet the 2020/21 budget gap forecast in this MTFS of £12m. Star Chamber review sessions have taken place with the Acting Chief Finance Officer, the Executive Directors and the Directors with the aim of scrutinising the budget and determining possible areas for further cuts.

12.3. Detailed proposals for those cuts identified to be progressed will then be completed over the summer for scrutiny by Members in the autumn. All services are part of this process.

12.4. In addition, officers with the support of Cabinet are running sessions for all members on the Council's financial arrangements, budget pressures, and cuts gap in July 2019. The intention being to ensure: 1) that a full set of proposals to meet the budget gap are presented to members; and 2) that members have had inpuit to and are equipped and confident to scrutinise these cuts proposals ahead of them being put to Mayor & Cabinet for decision.

Table 6: Budget Timetable – Key Dates

Month	Key Stage
September / October 2019	Scrutiny of Revenue Budget Savings / Autumn Budget statement

November 2019	Chancellor's Autumn Budget
December 2019	Provisional Local Government Finance Settlement
	Savings report to M&C
January 2020	Final Local Government Finance Settlement
	PASC - the 2020/21 Budget Report
	Council Tax Base agreed by M&C and then Council
	National Non Domestic Rates consultation session
February 2020	Greater London Authority sets their Precept for 2020/21
	Notification of Precepts and Levies
	Mayor & Cabinet agrees the Budget & Council Tax 2020
	Council approves Budget & Council Tax for 2020/21

13. HOUSING REVENUE ACCOUNT

13.1. The Housing Revenue Account (HRA) is a statutory account which sets the Landlord costs and income for the housing stock.

13.2. The HRA now operates with a 30 year business plan which allows the housing strategy to be updated and implements long term planning on resources and asset maintenance. The plan contains a long-term assessment of the need for investment in assets, such as Decent Homes and other cyclical maintenance requirements, as well as forecasts on income streams such as rents, in line with rent restructuring, and future developments.

13.3. The plan also recognises certain risks. For example; the impact of government policy changes in respect of types of tenancy, rent levels, right to buy, and treatment of voids. Recently the main challenge for the HRA has been to bring forward development of new homes given the pressure on available social housing stock. There may now also be costs for the refurbishment of buildings depending on the lessons learnt from the Grenfell tower fire in June 2017.

14. DEDICATED SCHOOLS GRANT

14.1. The Dedicated Schools Grants 2019/20 for Lewisham was set by the Department for Education (DfE) at £290.880m (£258.638m after Academy Recoupment), although this could change during the year to reflect updated pupil numbers (and the finalisation of the Early Years Block).

Redundancy and cost pressures

14.2. Under the current Lewisham Schools Scheme of Delegation redundancy costs are met by the school. There has been a judicial review of this instigated. Ministers are also reviewing the position. It is uncertain whether in the future any costs will fall on Local Authorities or any decision will be retrospective.

14.3. Presently, there is a potential liability around redundancy costs of circa £500k (based on 2018/19 figures). The liability could be significantly higher if it is

backdated to include previous years. These costs arise from schools implementing management action to reduce staffing in order to balance their budgets.

14.4. Across London, authorities are reporting pressure on their DSG high needs block spending which, if not managed, adds to DSG pressures or, worse, becomes a further pressure for the General Fund for services that it is not intended to meet.

Deficit Recovery Plans

14.5. Historically like most Local Authorities Lewisham operated a system to provide schools with a loan to cover budget deficits. Regulations supporting this process have now changed. This means that in addition potential redundancy costs, the Local Authority could incur liabilities arising from School Deficits.

15. CAPITAL PROGRAMME

Capital Programme Schemes and Resources 2019/20 to 2021/22

15.1. The estimated resources available and the budgeted expenditure within the 2019/20 to 2021/22 Committed Capital Programme are set out in Table 9 below:

Table 9: Capital Programme Resources and Forecast Expenditure 2019/20 to 2021/22 (as at May 2019)

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
SCHEMES				
General Fund	47.0	16.2	9.5	72.7
HRA	95.2	113.4	63.4	272.0
	142.2	**129.6**	**72.9**	**344.7**
RESOURCES				
Prudential Borrowing	16.4	19.7	26.1	62.2
Grants & Contributions	38.2	18.9	7.8	64.9
General (capital receipt, reserves, revenue)	87.6	91	39	217.6
	142.2	**129.6**	**72.9**	**344.7**

15.2. The 2019/20 to 2021/22 Capital Programme totals £344.7m and brings together all capital projects across the Council. It sets out the key priorities for the Council over the next three years and is the subject of regular review.

15.3. Over the next three years the Council faces a period of financial uncertainty as revenue funding is cut and government grants are reduced or terminated. This places increased reliance on the Council's capacity to generate capital receipts from asset sales to fund infrastructure development or can be afforded through

long term borrowing. For this reason, any new projects or programmes will need to clearly demonstrate a sound business case for investment.

SUMMMARY AND IMPLICATIONS

16. CONCLUSION

16.1. The Medium Term Financial Strategy sets out initial estimates of the scale of financial challenge the Council will face over the medium term to 2023/24. It presents the outturn for 2018/19, summarises the current financial position for 2019/20, and looks forward to 2020/21 and later years.

16.2. The next stages in the development of the financial strategy will be further refinement of the Council's longer term forecasting in light of the next Spending Round, Local Government Finance Settlement, and clarity on the government's policy agenda as it impacts local government. This, in turn, will inform the Council's development of the saving proposals required to balance the Council's budget.

16.3. The Council will have to make further difficult decisions to prepare for future shortfalls. Local authorities have largely acknowledged that deep changes are required if they are to continue to deliver positive outcomes for their citizens. What is not yet clear is how authorities can continue to make this happen in practice and what local government will be responsible for and look like in future.

17. FINANCIAL IMPLICATIONS

17.1. This report is concerned with the Council's medium term financial strategy and as such, the financial implications are contained within the body of the report.

18. LEGAL IMPLICATIONS

18.1. The purpose of this report is to develop a medium term approach in support of better service and financial planning. Members are reminded that the legal requirements are centred on annual budget production, and that indicative decisions made for future years are not binding.

18.2. The Local Government Act 2000 and subsequent regulations and guidance says that it is the responsibility of the full Council to set Lewisham's budget, including all of its components and any plan or strategy for the control of the Council's capital expenditure. Regulations provide that it is for the Executive to have overall responsibility for preparing the draft budget for submission to the full Council to consider. Once the budget has been set, it is for the Mayor & Cabinet to make decisions in accordance with the statutory policy framework and the budgetary framework set by the Council.

18.3. Where there are proposals for a reduction to a service which the Council is either under a statutory duty to provide, or which it is providing in the exercise of its discretionary powers and there is a legitimate expectation that it will consult, then consultation with all service users will be required before any decision to

implement the proposed saving is taken. The outcome of such consultation must be reported to the Mayor. Where the proposed savings will have an impact upon staff, then the Council will have to consult the staff affected and their representatives in compliance with all employment legislative requirements and the Council's own employment policies.

19. EQUALITIES IMPLICATIONS

19.1. The Council's budget is of primary importance as a means of delivering Lewisham's objectives. When the budget savings and resources allocation proposals are considered during the latter part of this year, they will be assessed in terms of their impact on service delivery and equalities implications.

20. ENVIRONMENTAL IMPLICATIONS

20.1. There are no environmental implications directly arising from the report.

21. CRIME & DISORDER IMPLICATIONS

21.1. There are no crime and disorder implications directly arising from this report.

22. BACKGROUND PAPERS

Title of Document	Date	File Location	Contact Officer
Budget Report 2019/20	27 February 2019 (Full Council)	1st Floor Laurence House, Corporate Resources	David Austin
Final Revenue and Capital Outturn 2018/19		1st Floor Laurence House, Financial Services	Selwyn Thompson
2019/20 Budget Monitoring Report		5th Floor Laurence House, Financial Services	Selwyn Thompson

APPENDICES

Appendix 1 – Summary of MTFS Assumptions

Appendix 2 – Glossary of Terms

For further information on this report please contact

David Austin, Acting Chief Finance Officer, 1st Floor Laurence House. 020 8314 9114

Shola Ojo, Principal Accountant, Ground Floor Eros House. 020 8314 7778

APPENDIX 2 - SUMMARY OF ASSUMPTIONS

	Optimistic Case	Main case	Pessimistic case
RESOURCE ENVELOPE			
Notional Revenue Support Grant	• 2020 to 2024 15% reduction assumed each year	• 2020 to 23/24 20% reduction assumed per year	• 2020 to 2024 25% reduction assumed each year
Business Rates	• 2% real terms increase each year from 2020/21 from growth in rateable value base and top-up • £1m S31 grant from 2020/21 onwards	• 1% real terms increase each year from 2020/21 from growth in rateable value base and top-up • £1m S31 grant from 2020/21 onwards	• 0.5% real terms increase each year from 2020/21 from growth in rateable value base and top-up • £1m S31 grant from 2020/21 onwards
Council Tax income	• From 2020/21 1.99% change in Council Tax level (No Social Care precept) • 3% increase each year in Council Tax base from 2020/21 onwards • CT collection rate of 97% each year from 2020/21 onwards • CTRS remains the same at 25%	• From 2020/21 1.99% change in Council Tax level (No Social Care precept) • Increase in base aligned with Planning's New Housing trajectory increases approx. 1.3% in 20/21 • CT collection rate of 97% each year from 2020/21 onwards • CTRS remains at 25%	• From 2020/21 1.99% change in Council Tax level (No Social Care precept) • 0.5 % increase each year in Council Tax base from 2020/21 onwards • CT collection rate of 96.5% each year from 2020/21 onwards • CTRS reduces to 20% in 2020/21 and for future years
Surpluses/deficits on Collection Fund	• £2.8m estimated in 2020/21, £1.2m in each year after.	• £1.7 estimated in 2020/21, £1.2m in each year after.	£1.7m estimated in 2020/21, £1.2m in each year after.

	Optimistic Case	Main case	Pessimistic case
EXPENDITURE			
Pay awards	• 2% in 2020/21 and 2% each year afterwards	• 2% in 2020/21 and 2% each year afterwards	• 2% in 2020/21 and 2% each year afterwards
General price inflation (incl. fees and charges)	• 2.5% increase each year in non-pay budgets	• 2.5% increase each year in non-pay budgets	• 2.5% increase each year in non-pay budgets
Pressures and risks	• £6.5m growth each year	• £6.5m growth each year	• £6.5m growth each year
New legislation	• Nothing allowed	• Nothing allowed	• Nothing allowed
2018/19 budget pressures and risks	• All used and allocated to service spend	• All used and allocated to service spend	• All used and allocated to service spend
NB the MTFS assumes that any overspending is addressed in-year or met from reserves			

APPENDIX 2 – GLOSSARY OF TERMS

Actuarial Valuation

An independent report of the financial position of the Pension Fund carried out by an actuary every three years. The actuary reviews the Pension Fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the Council.

Baseline Funding Level

The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the government. It forms the baseline against which tariffs and top-ups are calculated.

Budget Requirement

The Council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding Council Tax, RSG and Business Rates)

Business Rates Baseline

The business rates baseline is equal to the amount of business rates generated locally in a specific year.

Capital Expenditure

Spend on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.

Capital Programme

The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts

These are proceeds from the disposal of land or other assets and can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.

Capping

This is the power under which the government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the government to restrain increases in Council Tax. The Council Tax cap, currently 2%, means that any local authority in England wanting to raise Council Tax by more than 2% in 2015/16 must consult the public in a referendum, Councils losing a referendum would have to revert to a lower increase in their bills.

CIPFA

The Chartered Institute of Public Finance and Accountancy are one of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.

Collection fund

A statutory account maintained by the Council recording the amounts collected from Council Tax and Business Rates and from which it pays the precept to the Greater London Authority.

Collection Fund surplus (or deficit)

If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authority, in Lewisham's case this is the GLA, in proportion to the respective Council Taxes. These surpluses or deficits have to be returned to the Council taxpayer in the following year through lower or higher Council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the Council Tax base, a surplus or deficit will arise. The Council generally achieves a surplus, which is shared with the GLA.

Contingency

This is money set-aside centrally in the Council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.

Council Tax Base

The Council Tax base for a Council is used in the calculation of Council Tax and is equal to the number of Band D equivalent properties. To work this out, the Council counts the number of properties in each band and works out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

CPI and RPI

The main inflation rate used in the UK is the CPI (Consumer Price Index), the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs. Also used is RPIX, which is a variation on RPI, one that removes mortgage interest payments.

Dedicated schools grant (DSG)

This is the ring-fenced specific grant that provides most of the government's funding for schools. This is distributed to schools by the Council using a formula agreed by the schools forum.

Financial Regulations

These are a written code of procedures set by a local authority, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.

Financial Year

The local authority financial year commences on 1st April and finishes on the following

General Fund

This is the main revenue fund of the local authority, day-to-day spending on services is met from the fund. Spending on the provision of housing however, must be charged to the separate Housing Revenue Account (HRA).

Gross Domestic Product (GDP)

GDP is defined as the value of all goods and services produced within the overall economy.

Gross Expenditure

The total cost of providing the Council's services, before deducting income from government grants, or fees and charges for services.

Housing Revenue Account (HRA)

A separate account of expenditure and income on housing that Lewisham must keep. The account is kept ring-fenced from other Council activities. The government introduced a new funding regime for social housing within the HRA from April 2012.

Individual authority business rates baseline

This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

Levies

A levy is an amount of money a local authority is compelled to collect (and include in its budget) on behalf of another organisation. Lewisham is required to pay levies to a number of bodies such as the London Pensions Fund Authority.

Local share

This is the percentage share of locally collected business rates that will be retained by local government, currently 50%.

Net Expenditure

This is gross expenditure less services income, but before deduction of government grant.

New Homes Bonus

Under this scheme Councils receive a new homes bonus (NHB) per each new property built in the borough for the first six years following completion. Payments are based on match funding the Council Tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ringfenced grant.

Prudential Borrowing

Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure the Council’s capital investment plans are affordable, prudent and sustainable.

Revenue Expenditure

The day-to-day running expenses on services provided by Council.

Revenue Support Grant (RSG)

All authorities receive Revenue Support Grant from central government in addition to its baseline funding level under the local government finance system. An authority's Revenue Support Grant amount plus its baseline funding level together comprises its Settlement Funding Assessment.

Section 151 officer

Legally Councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, in Lewisham's case this is the post of the Executive Director for Resources and Regeneration.

Settlement Funding Assessment (SFA)

A Local Authority's share of the local government spending control total which comprises its Revenue Support Grant for the year in question and its baseline funding level.

Specific Grants

As the name suggests funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. The Dedicated Schools Grant (DSG) for schools.

Overview and Scrutiny

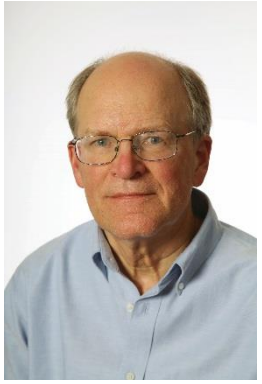
Strategic income generation and commercialisation review

Public Accounts Select Committee

Spring 2019

Agenda Item 7

Members of the Public Accounts Select Committee 2018-19



Councillor Jim Mallory
Chair of the Public Accounts select Committee

Councillor Louise Krupski
Vice-Chair of the Public Accounts Select Committee

Councillor Patrick Codd

Councillor Abdeslam Amrani

Councillor Alan Hall

Councillor Mark Ingleby

Councillor Paul Maslin

Councillor Joan Millbank

Contents

Introduction

Lewisham Council has been forced to continue to cut vital services due to the reduction of the Government Support Grant. There is every indication that, under the current government, the value of the grant will continue to be slashed. It is very possible that the council, as many others have, will have no choice but to raise all its budget from council tax and business rates, only receiving money when services reach crisis point. In this landscape it is not only essential for Lewisham to find ways to generate income, but also strengthen the local economy; helping its residents become more resilient, and less dependent on shrinking services.

The “new municipalism” seeks to address this. These ideas seek to bring more control of the council’s future back into the hands of those who run it both politically and organisationally. It also aims to be a force for good within the community, encouraging best employment practice, quality building strategies and ensuring the maximum number of truly local people are employed. These local people are then able to spend more money where they live, allowing less money to “leak” out of the economy. As the local economy thrives the council also benefits from higher business rate yield, and lessened dependency on council services, creating a virtuous cycle. Lewisham has, to a certain extent, been at the forefront of this kind of thinking with some of the actions it has taken as part of the “Lewisham Way”.

Faced with the huge task ahead to become financially self-sufficient this model on its own will not suffice. It is imperative that we change our culture to become more commercial in our outlook and successfully create income wherever possible without breaking our covenant with the residents of Lewisham. The recent work APSE (Association for Public Service Excellence) have done on this area aims to bring the new municipalism together with commercialisation and encourages councils to be bold and truly entrepreneurial in order to take back control. This does involve significant risk, and for it to work there needs to be an acceptance that some projects may fail as well as succeed. This work may also need significant up-front investment, particularly in staff, and this should be part of detailed business planning for each project. There also needs to be an understanding that all officers and members of the council should be part of this process and be encouraged to come up with ideas that will be treated with respect.

Councillor Louise Krupski
Vice Chair of the Public Accounts Select Committee and rapporteur

Introduction

While we advocate for change, we must be aware of the risks and political “red lines” involved. We must recognise that the changes we need to look at will necessitate an evaluation of the financial risks and political challenges entailed to ensure we take decisions in the best overall interests of the council and the borough’s citizens.

Each council I have heard from has pursued this agenda in a different way, dependent on the varying needs of their communities, geography, political standpoint and attitude to risk. Lewisham needs to find it’s own way of committing to this urgent task and change its culture accordingly whilst preserving the positive change we have worked hard to bring about in our local communities for the good of all.

To this end, it is important that we recognise the excellent work that Lewisham is already doing in this area. APSE recommend that councils “start from where you are” and in our case we have already got way off the starting blocks. Examples (this is not exhaustive) of work we are already doing:

- London Living Wage as part of procurement process
- Scheme to encourage local businesses to pay the Living Wage with business rate reduction
- Anti-slavery policy
- Unison Ethical Care Charter
- Besson Street Project
- Place Ladywell
- Lewisham Credit Union (local bank not run by Lewisham council but open to Lewisham residents and all council staff including Lewisham Homes)
- “Meet the buyer” event in Lewisham to help SMEs bid for council contracts.
- New income generation schemes to off-set some of the budget cuts in the current round
- Detailed examination of our costs and charging strategy

Councillor Louise Krupski
Vice Chair of the Public Accounts Select Committee and rapporteur

Introduction

It is important to stress at this point that although we absolutely do not want the imposed cuts on our council, becoming more commercial does not have to be a negative development. It is vital to remember that there is a significant risk in doing nothing and standing still. Some of the ideas I have learned about from other councils have been positive and inspiring. Highlights are included in the sections below.

This paper sets out to bring together the work done this year to understand the best practice of other councils within the context of work done previously by Public Accounts Select Committee and the ongoing work of our new team of officers led by Katharine Nidd. It also sets out some recommendations for the next steps to prepare the council to invest in its future and grow.

More information about the projects listed in the report can be found in the note I presented to the Committee at its meeting in December 2018 at appendix 1 (and online here)

Councillor Louise Krupski
Vice Chair of the Public Accounts Select Committee and rapporteur

Summary

When deciding on its annual work programme in July 2018, the **Public Accounts Select Committee** agreed to add a standing item on income generation and commercialisation to every meeting agenda in the 2018-19 municipal year. This followed from work carried out by the Committee in the previous administration, including its review of income generation and commercialisation in 2015-16.

Cuts to the Council budget imposed by government have drained the Council of resources and resulted in cuts to services being made year on year for an extended period (see section 4.2 onward of the 2018-19 Budget Report). Responding to the cuts, the Council embarked on an extended programme of reorganisation of its services and re-thinking of its priorities and purposes. Desire to protect the most vulnerable residents from the worst of government austerity has been a guiding principle. And with more than half of the Council's budget dedicated to supporting children's and adult social care, significant changes have been required across the entire organisation.

Embracing austerity, some other councils have reduced services to a minimum. Some have attempted risky reorganisations and acquisitions with varied results or as yet unknown outcomes. Entering deals with private providers has maintained services for some councils but in others it has led to unintended and costly consequences.

Lewisham has taken a path of balancing risks, being mindful of the absolute requirement to ensure that the most vulnerable must continue to receive the support they need. Councillors' determination to protect services and to ensure that Lewisham continues to thrive has fuelled the Committee's interest in income generation.

Officers have responded to the Committee's support for income generation by dedicating time and resources to developing a new 'income generation strategy'. Throughout the development of the strategy, the Committee has sought to act as a critical friend, challenging officers to innovate and to learn from best practice in other authorities.

Members recognise that political leadership is vital to encouraging entrepreneurialism and commercial thinking at the Council. For this reason, the Committee has made consistent representations to the Executive to provide leadership and resources to develop this area of work.

The three parts to 'income generation and commercialisation' include: the setting of fair and sustainable **fees and charges**; the **trading of services** with other organisations and; the creation of **commercial projects for profit**. These three strands are often interrelated but represent different challenges and opportunities.

Summary

In 2018-19 the Committee has benefitted from the endeavours of a rapporteur. Councillor Louise Krupski has attended a number of events and has taken up training opportunities in order to establish a scrutiny specialism in this field. Her investigations have broadened the investigation of the issues beyond those of best practice and principles for effective commercialisation and into the purpose, culture and structures of public services. The renewed interest in the efforts of public bodies to use their spending power and influence to achieve wider social aims has been described as a 'new municipalism'.

It is apparent that the issues of **income generation**, **commercialisation** and **municipalism** are complex and sometimes divergent, relying as they do partly on ideas about culture and practice and partly on assessments of risk and consistency of accounting. It is through this complexity that the Committee has sought to find its way. Over the years it has considered novel ideas and entertained options for many new opportunities. It has looked both at the Council's own ways of working and it has looked outwards to ensure that it makes the most of the expertise and knowledge available.

Common understandings of these issues are the starting place for future plans. It is for that reason that this report begins with context and background. It includes a **timeline** of key issues of the past five years to give a sense of how the Committee's actions have influenced Council policy. This section also summarises the key pieces of work carried out, including: the previous income generation strategy guidance as well as the Committee's in-depth review (2015-16) and the results of consultancy work commissioned by the Council. It also outlines the performance monitoring scrutiny carried out by the Committee as it sought to maintain impetus for this area of work since 2016.

Members of the Committee have been instrumental in the development of the Council's new **income generation strategy**. There is a section in the report on the key elements of the new strategy.

Finally, the report summarises the wide-ranging and enterprising findings of the Committee's rapporteur before setting out: key lessons that have been learnt by the Committee; proposals for next steps and **recommendations** for consideration by the Council's Mayor and Cabinet.

Context

The legislative and political environment has broadened in order to allow Councils to operate in more commercial and enterprising ways. In particular, the Local Government Act (2003) and Localism Act (2011) gave councils powers to charge for discretionary services as well as a general power of competence, under which they have the power to do anything that individuals generally may do (which is not expressly prohibited by other legislation).

Government policy has consistently encouraged councils to generate their own resources. An essential part of this policy is the Government plan to enable councils to retain business rates raised locally. And, although progress on the 'fair funding review' for local government has stalled, it is expected that Government will legislate in future to encourage local self-sufficiency.

The Council's 2017-18 directorate revenue outturn position was an overspend of £17.8m and financial forecast reports to the Public Accounts Select Committee throughout 2018-19 indicated that the Council's financial position remains precarious. A decade of declining resources, coupled with sustained increases in demand for services, has pushed the Council to the limit of its capacity to balance its budget.

Lewisham's corporate approach to making planned and strategic cuts to the Council's budget was called the 'Lewisham Future Programme'. Over the course of the previous two administrations the programme board identified a series of thematic reviews and potential areas for business transformation. The process was closely scrutinised through meetings of Lewisham's Overview and Scrutiny Committees and, in particular, it was the Public Accounts Select Committee that monitored performance and scrutinised areas of overspending. As part of the programme, initiatives were pursued to:

- Increase the amount of Council tax collected
- Generate more income from school service level agreements
- Maximise investment income
- Increase income from advertising
- Review fees and charges with a view to increasing income.

The election of a new administration in 2018 – under a new manifesto for Lewisham - led to the development of a new corporate strategy and a review of the process of making cuts to Council services. Nonetheless, the requirement to control costs and to make cuts to the Council's budget remains. In 2018, the Public Accounts Select Committee oversaw the scrutiny of a further round of cuts proposals for 2019-20 and beyond.

Context: review purpose and structure

The Public Accounts Select Committee decided on its priorities for the 2018-19 municipal year at its meeting in July 2018. Members of the Committee agreed that it should continue with its scrutiny of the Council's approach to income generation and commercialisation.

In the previous two administrations (2010-2014 and 2014-2018) the Committee (with different membership composition) devoted considerable time and effort to scrutiny of this issue – which resulted in a review report (2015) and five referrals to Mayor and Cabinet with recommendations for action.

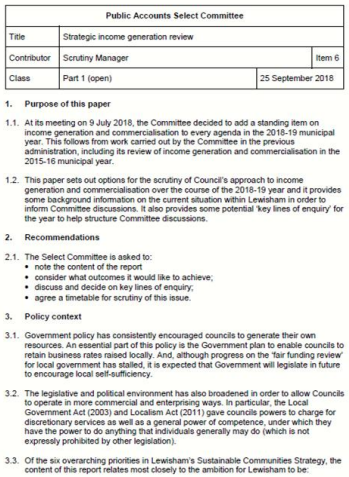
For the **2018-19 work programme**, it was proposed the Committee should carry out scrutiny of this issue as an in-depth review. This involved the development of a scope for the review, which set out a proposed knowledge base as well as key lines of enquiry and suggested a structure for gathering additional evidence. The scoping report was considered by Committee in at its meeting September 2018.

Significant pressure on the budgets of the Council's children's and adult social care services required Committee time and attention to focus on these issues during the course of the year. Nonetheless, two parallel programmes of work have ensured that impetus for the issues of income generation and commercialisation has been maintained.

Firstly, the development of the Council's new income generation strategy – and associated pieces of work (the fees and charges policy; procurement social value policy; contract review and consideration of resourcing for the strategic procurement and commercial services function) has formed a solid foundation for future work at the Council.

Secondly, the efforts of the Committee's rapporteur have gone beyond the terms set out by the original scope to draw from rich sources of information and inspiration.

This report builds on the ideas set out in the scoping report but it also reflects the ongoing scrutiny of this issue and attempts to draw together the information, discussions and ideas touched upon by the Committee.



Public Accounts Select Committee		
Title	Strategic income generation review	
Contributor	Scrutiny Manager	Item 6
Class	Part 1 (open)	25 September 2018

1. **Purpose of this paper**

1.1. At its meeting on 9 July 2018, the Committee decided to add a standing item on income generation and commercialisation to every agenda in the 2018-19 municipal year. This follows from work carried out by the Committee in the previous administration, including its review of income generation and commercialisation in the 2015-16 municipal year.

1.2. This paper sets out options for the scrutiny of Council's approach to income generation and commercialisation over the course of the 2018-19 year and it provides some background information on the current situation within Lewisham in order to inform Committee discussions. It also provides some potential 'key lines of enquiry' for the year to help structure Committee discussions.

2. **Recommendations**

2.1. The Select Committee is asked to:
- note the content of the report
- consider what outcomes it would like to achieve;
- discuss and decide on key lines of enquiry;
- agree a timetable for scrutiny of this issue.

3. **Policy context**

3.1. Government policy has consistently encouraged councils to generate their own resources. An essential part of this policy is the Government plan to enable councils to retain business rates raised locally. And, although progress on the 'fair funding review' for local government has stalled, it is expected that Government will legislate in future to encourage local self-sufficiency.

3.2. The legislative and political environment has also broadened in order to allow Councils to operate in more commercial and enterprising ways. In particular, the Local Government Act (2003) and Localism Act (2011) gave councils powers to charge for discretionary services as well as a general power of competence, under which they have the power to do anything that individuals generally may do (which is not expressly prohibited by other legislation).

3.3. Of the six overarching priorities in Lewisham's Sustainable Communities Strategy, the content of this report relates most closely to the ambition for Lewisham to be:

Context: timeline (2010-2019)

1 — 2010
Our Lewisham Our Say consults 2500 people in Lewisham about the impending period of budget cuts. Income generation, sharing services and charging for non-essential services are all mentioned in the consultation responses.

2 — 2013
The Council's strategic financial review identifies 'income generation' as a thematic strand of the Lewisham Future Programme.

3 — 2015
Officers develop a new income generation strategy and established an income generation board.

4 — 2015-16
Public Accounts Select Committee carries out a review of the Council's approach to income generation.

5 — 2016
Lisa Bibby Consultants are appointed to carry out a strategic review of income generation opportunities.

6 — 2016-18
The Committee receives regular updates about income generation and commercialisation opportunities. It oversees the appointment of a new Strategic Procurement and Commercial Services Manager.

7 — 2018-9
Public Accounts Select Committee resolves to push the issue of income generation and commercialisation to the fore. Councillor Krupski serves as Committee rapporteur.

8 — 2019
Mayor and Cabinet agrees a new income generation strategy and associated procurement social value policy.

Context: defining the terms

For the purposes of clarity and consistency, Lewisham's recently agreed income generation strategy defines key terms for use in discussion and reports. These are reproduced here and are used with these meanings throughout this report:

Income is all money received by the Council and includes grant funding as well as money raised by fees and charges etc. **Income generation** refers to specific activity to produce money for the Council, where we actively seek to produce income by applying a charge or designing a commercial service.

Surplus is the difference between the amount of money received and the total amount spent in delivering the service or activity (the opposite of overspending).

Cost refers to the amount that has to be paid or spent to deliver a service or obtain necessary resources. **Overheads** are all ongoing business costs not including or related to the direct labour and/or resources used to deliver a service e.g. HR costs, costs of office space etc. **Full cost** includes hidden costs like overheads.

Commercial refers to making or intending to make a profit or surplus. **Commercial mind-set** or **commercial awareness** refers to having an understanding of income and costs, how they fit into your work and how to drive up income and drive down costs as appropriate in your area of work.

Cost recovery refers to ensuring that any fees or charges for a service account for and cover the cost of delivering said service. **Full cost recovery** is the aim at the Council, and refers to cost recovery which includes all hidden and indirect costs e.g. overheads.

Fees and charges are a tool for income generation. They are the price levied for a service or product, and a range of legislation governs when we can charge and at what level. **Statutory fees** are those where the maximum charge is set by central government. **Discretionary charges** allow discretion to set the level provided it doesn't exceed the full costs of delivering the service taking one year with the next.

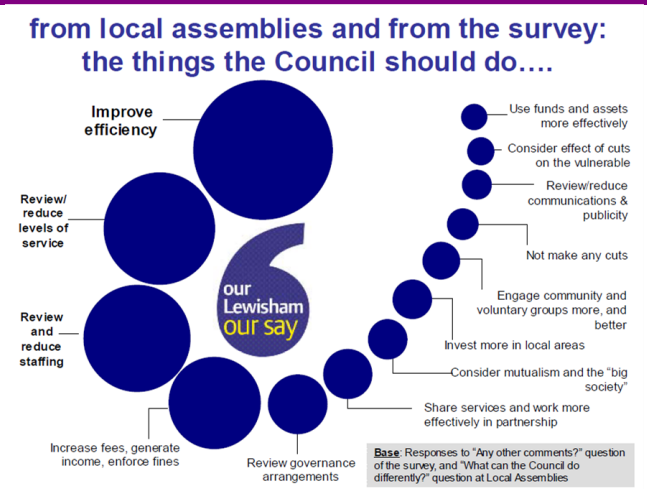
Traded services are a step further towards more commercial activity. These are where we are able to charge a market rate for a service or product, usually aiming to achieve a surplus rather than just recover cost.

Demand is the quantity of your product or service that people are able and willing to purchase. **Supply** is the total amount of the product or service available to customers. It is important to understand supply and demand when proposing fees, charges or other commercial activity.

Background: the challenge (2010-2013)

The beginning of the decade of austerity

In 2010, responding to the Government's programme of austerity and impending cuts, the Council carried out a major consultation with residents about their priorities. The 'Our Lewisham, Our Say' consultation was one of the largest and most comprehensive consultations ever carried out by the Council and it informed decision making at the outset of the decade of budget cuts and reorganisation of Council services.



Responses to the consultation included suggestions from residents that, as well as improving efficiency, the Council should consider '…increasing fees, generating income and enforcing fines..' as well as 'sharing services' and 'using funds and assets more effectively…'

most frequently mentioned ideas from the public

Do more of this…	*Do less of this…*
✓ Partnership working and shared services	✗ Energy use, eg turn down heating by a degree or two, switch off lights
✓ Increase charges for non-essential provision for supporting children and families	✗ Data collection and bureaucracy
✓ Recycle	✗ Use consultants
✓ Look for income generation opportunities	✗ Local climate change initiatives
✓ Encourage book donations and volunteer librarians	✗ CCTV and Street Wardens (but involve local communities more in reducing crime and anti-social behaviour)
✓ Charge businesses for advice and encourage them to provide peer support	✗ Lewisham Life
✓ Charge more for sport and leisure, libraries, activities for young people and parking	

The Lewisham Future Programme

As the impact of government austerity deepened, Lewisham's Mayor tasked officers with fundamentally reviewing the Council's services. Officers proposed a Council wide approach to meeting the challenge called the 'Lewisham Future Programme'. The Programme was overseen by a board of senior managers, who also oversaw implementation of the cuts that had been identified. 'A review of income generation' which focused on fees and charges was an early theme of the board's work.

Background: scrutiny of the cuts programme (2010-2019)

The role of the Public Accounts Select Committee

Public Accounts Select Committee takes the lead role in scrutinising the strategic cuts programme that is being implemented by the Council. Since 2010, committees have regularly been asked to scrutinise office proposals for cuts to the Council's budget and each autumn, the Public Accounts Select Committee has invited decision makers to attend its meeting for overall consideration of the impending cuts. Following consideration of the cuts proposals – the Committee has referred its views (along with those of the other select committees) to Mayor and Cabinet.

The current medium term financial strategy indicates that that £30m of cuts need to be found in the two years to 2020 – with an additional £25m required in the two following years.

From 2010 to 2020 the total amount of cuts required to Council services will amount to £194m – of which more than £163m has already been delivered. The table below sets out the cuts made by each of the Council's four directorates – as well as those made corporately.

"Government austerity continues to impact on the budgets of local authorities nationally but inner London councils have been particularly hard hit." Mayor of Lewisham to the Public Accounts Select Committee meeting on scrutiny of the cuts programme, November 2018.

Year	CYP	COM Services	CUS Services	Res. & Regen.	In-year / Corp.	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2010/11	1,494	801	759	1,135	3,300	7,489
2011/12	6,386	5,744	3,591	4,614	113	20,448
2012/13	4,395	4,611	3,529	4,020		16,555
2013/14	6,469	6,930	2,453	5,082		20,934
2014/15	6,123	11,255	2,843	4,273		24,494
2015/16	4,240	16,118	3,381	3,771	700	28,210
2016/17	3,476	6,892	3,339	3,108	1,400	18,215
2017/18	4,297	10,000	4,182	3,756		22,236
2018/19	824	1,151	294	1,087	1,500	4,856
Total	**37,704**	**63,502**	**24,371**	**30,847**	**7,013**	**163,437**

Source: Council savings and budget reports.

Opportunities for income generation

From the beginning of the cuts programme, officers have sought to identify means for generating income and commercialising services and - in the most recent round of cuts proposals (Autumn 2018) - 25 percent of proposals were for income generation initiatives. For the following year (2020-21) this figure is increased to 35 percent of the proposals.

Background:
income strategy and guidance (2015)

Lewisham

Lewisham Council

Income Strategy and Guidance

The Council's 2015 income strategy and guidance set out a foundation for officers to follow when considering the setting of fees and charges. However, it did not address the potential for commercialisation of Council services nor the culture change that would be required to maximise the Council's sources of income.

Subsequent interventions by the Committee indicate that the strategy was inconsistent in its implementation and that the absence of initiatives to address Council culture may have undermined its principles.

The guidance set out these principles for officers to consider when setting fees and charges:

a. **Full Cost** – Any fees and charges at a minimum should cover full costs of the service (including capital and revenue investment and overheads) unless there are contrary policies, strategy, legal or contractual reasons.

b. **Market Rates** – Where fees and charges are in place they should reflect market rates subject to meeting full cost. Any variation or charges that are significantly lower than the market must be agreed by the Fees and Charges Working Group.

c. **Inflation Rise** – All fees and charges will rise in line with inflation in order to avoid sharp increases in prices.

d. **Benchmarking** – All fees and charges should be benchmarked with neighbouring local authorities and the voluntary and private sector delivering similar services. Charges should not be significantly below comparator councils.

e. **Agreeing Subsidy** – The Fees and Charges Working Group / Mayor and Cabinet must agree any decision to subsidise a service through lower fees. A business case must be presented setting out the rationale behind the subsidy and the full costs of the subsidy (including annual and whole life revenue, overheads and capital costs).

f. **Understanding Demand** – Demand analysis must be undertaken to understand the impact of fees and charges on service and non-service users. This should include the elasticity of demand.

g. **Concessions** – Any concessionary scheme should be based on ability to pay or promote a strategic objective and be applied in a consistent and transparent way across all council services.

h. **Collection** – All fees and charges should be collected in the most efficient form. All fees and charges should be collected through automated electronic means and prior to the service being delivered.

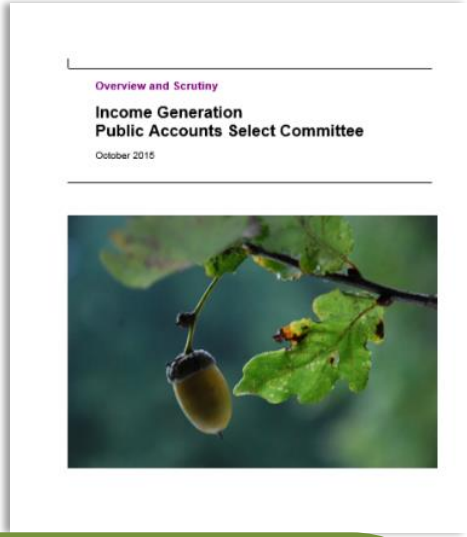
i. **Targeting Charges** – Managers should actively consider the use of alternative pricing structures to take advantage of opportunities to segment markets, and to target and promote take-up of services to specific target groups as appropriate to strategy objectives.

Background:
income generation review (2015)

The Public Accounts Select Committee decided to carry out an in-depth review into Income Generation in 2016. A wide range of evidence was gathered on models used to generate income across the public sector within the parameters of relevant legislation, including commercialisation strategies being followed successfully by other local authorities.

"Identifying and realising new sources of income is not easy and there is no silver bullet. It will require a change of culture across the Council to maximise income generating opportunities whilst maintaining our public service ethos".

Councillor Jamie Milne, Chair of the Public Accounts Select Committee, 2014-17.


Overview and Scrutiny

Income Generation
Public Accounts Select Committee

October 2015

The review was wide ranging in its ambitions and considered areas such as: the potential for mobile phone network infrastructure in the borough, advertising, fees from controlled parking zones, changes to finance and accounting policies – as well as the use of the Council's assets and proposals for selling services to other councils and organisations.

<u>Committee recommendations</u>

Following from the Committee's recommendations, the Council invested officer time and resources in exploring the options for a wireless concession in the borough. Officers also worked to increase the level of advertising income obtainable from Council owned sites.

There were positive indications from consultants engaged to provide specialist advice on both of these pieces of work and each of the schemes provided significant learning opportunities for those involved. However, ultimately the targets associated with them had to be written out of the 2018/19 budget.

The Committee also encouraged the Council to provide resourcing for officers to continue working on this issue.

Background: income generation opportunities review (2016)

In 2016, Lisa Bibby Consulting was appointed to carry out a comprehensive review of income generation opportunities at the Council in consultation with Lewisham's Heads of Services. Plans for the review took some time to organise and approve, however, it was agreed that the consultant's review would:

- **map and analyse detailed information on the range and effectiveness of current income generation activity together with associated structures and behaviours**
- **identify relevant local and national policy relating to income generation and commercialisation and any other strategic developments and initiatives that may impact on future activity**
- **work with officers to identify opportunities for income generation together with the enablers and barriers that might exist to realise the potential benefits**
- **undertake a review to ensure that best practice from other local authorities and public bodies is considered in the context of developing the council's income generation and commercial strategies.**

Early Findings

- Some real creativity evidenced
- Some areas generating good levels of income
- Some good foundations to build on
- Openness to new ways of working

'…significant concerns were voiced about the lack of service capacity to develop ideas further, the lack of access to specialist commercial skills and knowledge and the inability of central support services such as business intelligence, IT and legal to support in a timely fashion due to other pressures.' Lisa Bibby (2016)

Findings from the consultant's review indicated that there were some areas of good practice in Lewisham but that the overall approach to income generating opportunities was inconsistent and lacking in direction. The report noted that an income generation strategy had been agreed in 2015 but that its anticipated benefits had not been delivered.


Income Generation Opportunities Review

Summary Report

lisabibbyconsulting

October 2016

- Financial system problematic
- Variable compliance with expectations of Income Generation Strategy
- Few policies, procedures and systems that pro-actively support effective and efficient income generation
- Perceived lack of clarity in vision, values and policy direction (to be commercial or not?)
- 'laissez faire' culture

'The strategy proposes a number of principles to be adopted by officers including the expectation of full cost recovery, use of market rates and annual review. Implementation of these recommendations has yet to be realised' Lisa Bibby (2016)

Background: performance monitoring scrutiny (2016-18)

Over the course of 2016, 2017 and 2018 the Public Accounts Select Committee received regular updates about income generation at its meetings:

- **March 2016** – response from Mayor and Cabinet on the Committee's 2015 income generation review
- **July 2016** - Income generation 6 month update
- **November 2016** - Income generation update (including the results of the income generation review report)
- **June 2017** - Income generation and commercialisation update
- **September 2017** - Income generation and commercialisation update
- **March 2018 -** Income generation and commercialisation update
- **September 2018** - Income strategy update
- **December 2018** - Income strategy update
- **March 2019** – Income generation and commercialisation update

Committee comments to Mayor and Cabinet in November 2016

The Committee welcomed the 'Income generation opportunities review' report by the commercialisation specialist appointed by the Council. Mayor and Cabinet was asked to closely consider the contents of the report.

In particular, the Committee recognised the requirement for a clear commercial strategy and it endorsed the specialists comments about the need for cultural change.

The Committee also welcomed the input of the Cabinet Member for Resources on this issue – and – it urged the Council to ensure that there was an ongoing focus on accountability and leadership.

As a result, the Cabinet Member for Resources developed an action plan for the delivery of the Council's income generation work programme. The endorsement of the Committee at this crucial stage helped to ensure that issues of income generation and commercialisation remained on the Council's agenda.

The Committee also continued to monitor the outcomes of its 2015 review. In particular, it sought additional clarification about the income targeted from advertising and proposals for a wireless concession.

Background: performance monitoring scrutiny (2016-18)

Committee comments to Mayor and Cabinet in June 2017

The Committee referred its views to Mayor and Cabinet, welcoming the creation of new posts to support the Council's ambitions for income generation. The Committee proposed that the new lead post (Procurement and Commercial Services Lead) be filled as soon as possible.

The Committee also recommended to Mayor and Cabinet that the appointees to these posts should have the relevant experience of commercial strategy, innovative business models and procurement to maximise the opportunities available.

As a result, a new Strategic Procurement and Commercial Service Manager was appointed in the second part of 2017, in line with the Committee's recommendation to Mayor and Cabinet.

Committee comments to Mayor and Cabinet in September 2017

The Committee considered a further update on progress. Members recommended that officers meet representatives of the Association for Public Service Excellence to consider how best the Council could generate income through the use of its existing assets and resources.

The Committee also recommended that officers be challenged on their decision making regarding the creation of the new Strategic Procurement and Commercial Services function, which would be supported by consultants.

As a result, officers met with representatives of the Association for Public Services to determine how best Lewisham might make use of its knowledge and expertise. The initial results of this meeting were reported to the Committee.

It was agreed that the new Strategic Procurement and Commercial Services Manager would be best placed to determine what kind of support would be required to push the agenda forward.

Background: performance monitoring scrutiny (2016-18)

Committee comments to Mayor and Cabinet in December 2018

- The Committee welcomed officers' report on income generation and was pleased with the comprehensiveness of the new income generation strategy. The Committee endorsed the new strategy and recommend that it was agreed by Mayor and Cabinet.
- The Committee was consistent in its support for further progress on cultural change initiatives at the Council. The Committee supported the move to commercial thinking and efforts to bolster entrepreneurial activity. It was eager that this change permeates throughout all of the Councils directorates, divisions and services.
- The Committee reiterated its support for the strategic procurement and commercial services function and it recommended that the Council should continue to provide corporate funding for this work.
- The Committee also reiterated its intent to follow the implementation of the new income generation strategy – as well as the work proposed to implement consistent processes and approvals for fees and charges.

Following the Committee's referral, Mayor and Cabinet agreed the Council's new income generation strategy.

A further update on officers' progress with the strategy was included in the agenda for the Committee's meeting in March 2019.

Further resources have been made available to support the strategic procurement and commercial services manager in their role.

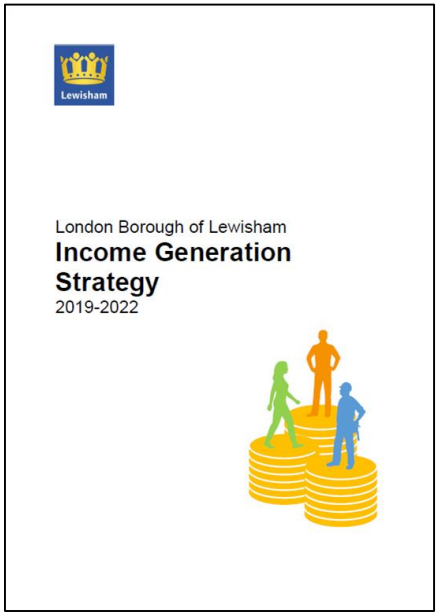
The Committee will continue to scrutinise the Council's approach to changing its culture as part of its 2019-20 work programme.

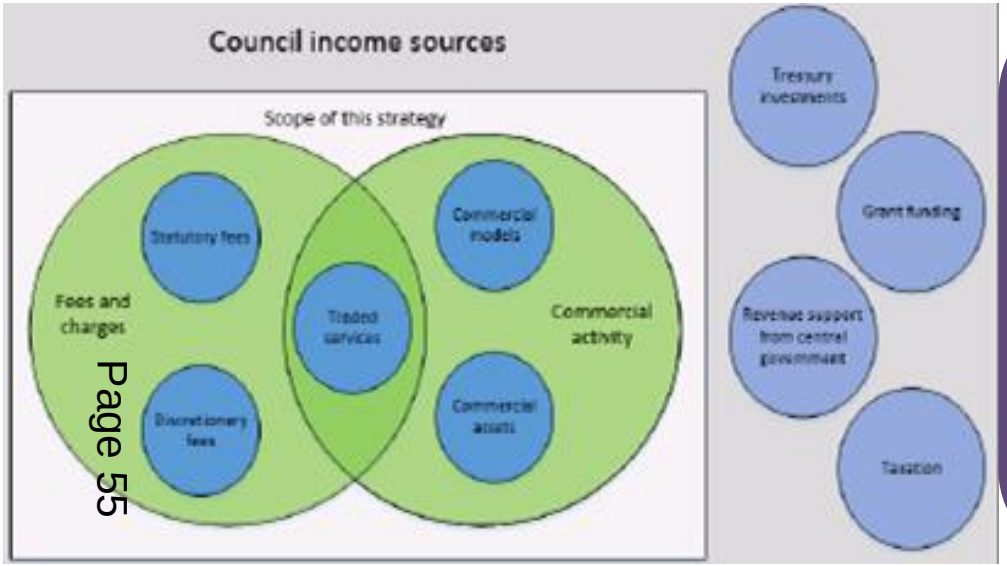
Committee findings: development of the Council's Income Generation Strategy (2019)

The Income Generation Strategy

In December 2018, the Committee considered the draft of a new income generation strategy. Whilst the draft was well received, the Committee encouraged Council officers (and the Cabinet Member) to sustain the impetus that had been generated through the development and production of the strategy. The design of the new strategy represented a significant step forward in ensuring that the Council fulfilled its ambitions. Nonetheless, the Committee remained of the opinion that further work needed to take place to ensure that the benefits of the strategy be realised.

The Committee recognised that, in future, proposals for balancing the Council's budget would depend more on income generation and commercialisation. Moreover, as a precursor to future income generation initiatives, services would be required to better understand their costs and the factors that drive those costs. In itself, this approach has the potential to improve the way in which the Council understands its spending and the potential opportunities for managing spending pressures.





Approval of the new strategy

The new strategy was agreed by Mayor and Cabinet at its meeting in February 2019. The Committee agreed that it would continue to receive regular updates on progress on delivering the ambitions of the strategy. It also encouraged Mayor and Cabinet to ensure that there was continued political leadership and direction for officers to establish new projects and to push forward this area of work. The Committee recommended that support for strategic procurement and commercial services continue. A recommendation that was agreed by Mayor and Cabinet – with additional budget for new roles made available from corporate sources.

Committee findings: development of the Council's Income Generation Strategy (2019)

The Committee heard that an important ambition of the new strategy was to establish a series of **principles** from which the Council could develop its future approach to income generation:

1. A **single understanding** and a consistent approach to income generation across the Council.
This objective is about ensuring that we are all working to the same definition of income generation and using consistent frameworks. This will make it easier for officers moving across teams and new to the Council to contribute to income generating activity and will help with central analysis of our income generation portfolio.

2. A **commercial culture** with the necessary skillset fostered and supported organisationally.
This objective is about achieving a commercial culture where barriers to income generating activity are reduced and removed. By being more entrepreneurial, we expose ourselves to new and different risks which need to be understood and managed, we need to improve the way we talk about and understand costs and will have to develop skills to support work of this type across services.

3. **Clear financial accountability** with true oversight of the income generation landscape and effective governance and decision making.
This objective captures the enduring need for robust governance when dealing with public money. It is especially important when moving towards a more commercial organisation that the increased risk appetite be matched with improved grip to manage those risks.

4. **Financial resilience** through increased revenue streams, increased returns, reduced operating costs and full cost recovery as appropriate for the Council.
This objective is about effectively producing the outputs of commercial work – the financial returns based on either increased fees, reduced costs or some combination of both. It is the primary aim of this strategy to achieve financial resilience and the objectives ahead of this one are about achieving this in the right way.

5. Generation of **social value**, through work within an established framework of values and principles, to balance commercial ambitions with positive outcomes for the community.
This objective is about social returns – the outcomes of the income generating work. As a public sector organisation working primarily with public funds it is essential that this is at the forefront of all work, and that commercial activity supports this rather than detracting from it.

Committee findings: development of the Council's Income Generation Strategy (2019)

Developing a robust business case

In Committee discussions, it was agreed that the development and review of robust business cases for new proposals should be of primary importance in the Council's future work on income generation and commercialisation. Accordingly, a sound business case process is integral to the Council's new strategy.

Officers have developed the process on the right based on the Treasury Green Book's five case model. It is intended that comprehensive consideration be given to the opportunities and challenges of all new proposals. The process can be used to analyse new commercial proposals as well as proposals to introduce discretionary fees and charges.

Strategic case	This is about how the proposal meets the Council's strategic objectives, how it links to other work and services and defining objectives for the proposal
Economic case	This is about how the proposal provides best value: here is where alternative options will be considered and evaluated, and benefits and risks identified
Commercial case	The commercial case refers to an understanding of the market for the proposal, the charging mechanism and the service's requirements and outputs
Financial case	This is where the budget considerations come in, with any capital, revenue and whole-life costs identified and income modelled
Management case	This is where delivery, monitoring and evaluation mechanisms are identified and should clearly lay out responsibilities and governance

Committee findings: development of the Council's Income Generation Strategy (2019)

The Income Board

The Committee heard that the Council's Income Board is the first place that business cases for new proposals will be considered. At present, the board meets every two months to consider proposals and consider ongoing issues within its remit. The Board is comprised of directorate income leads as well as senior managers from organisational development, finance and legal services. The process below (replicated from the income generation strategy) is designed to guide officers through the process of developing and implementing a new idea for income generation. The oval shapes represent consideration of written documents and the rectangles represent key steps in the governance process. Officers reported that not every proposal would go through every step in the process – but that the guide would support officers in transferring good ideas into practice.

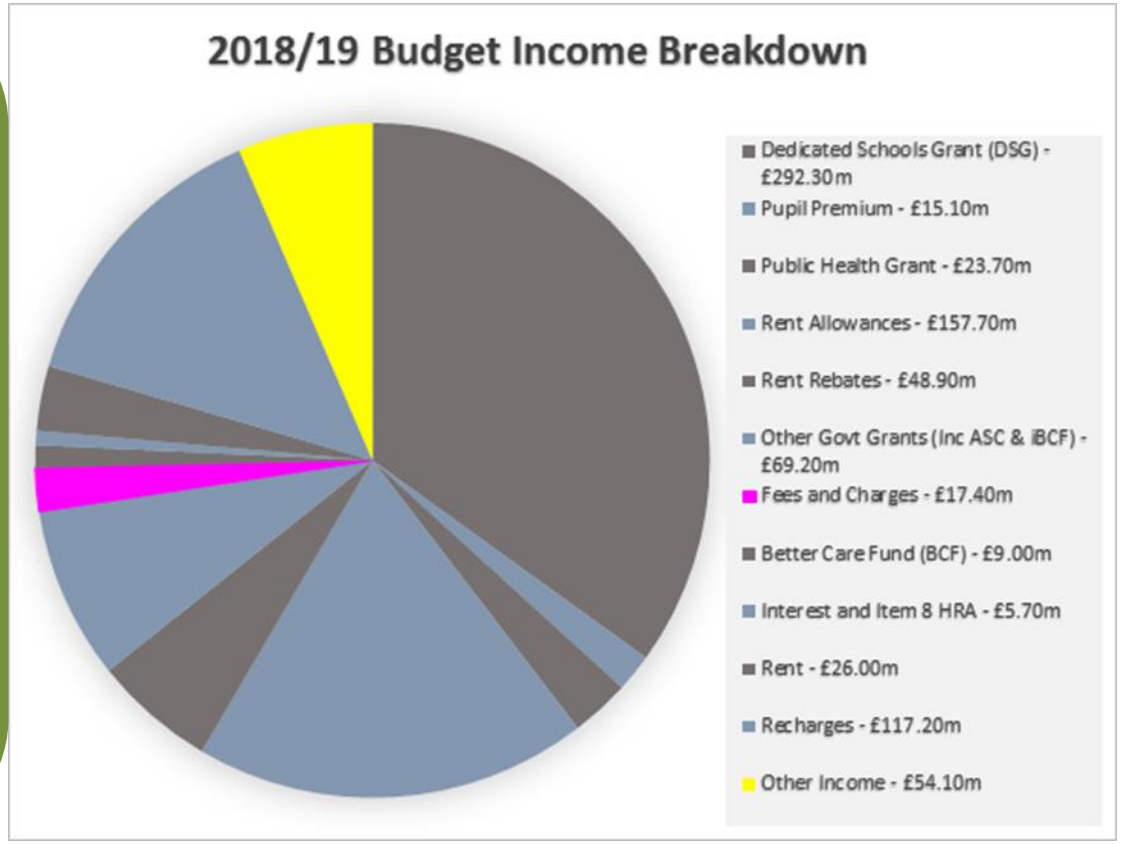
Income stream owners

The new strategy also established the principle of 'income stream owners'. The strategy requires that a named officer be responsible for managing their income stream. This person becomes accountable for managing the risks associated with the delivery of the proposal as well as ensuring that any benefits identified are properly realised and accounted for.

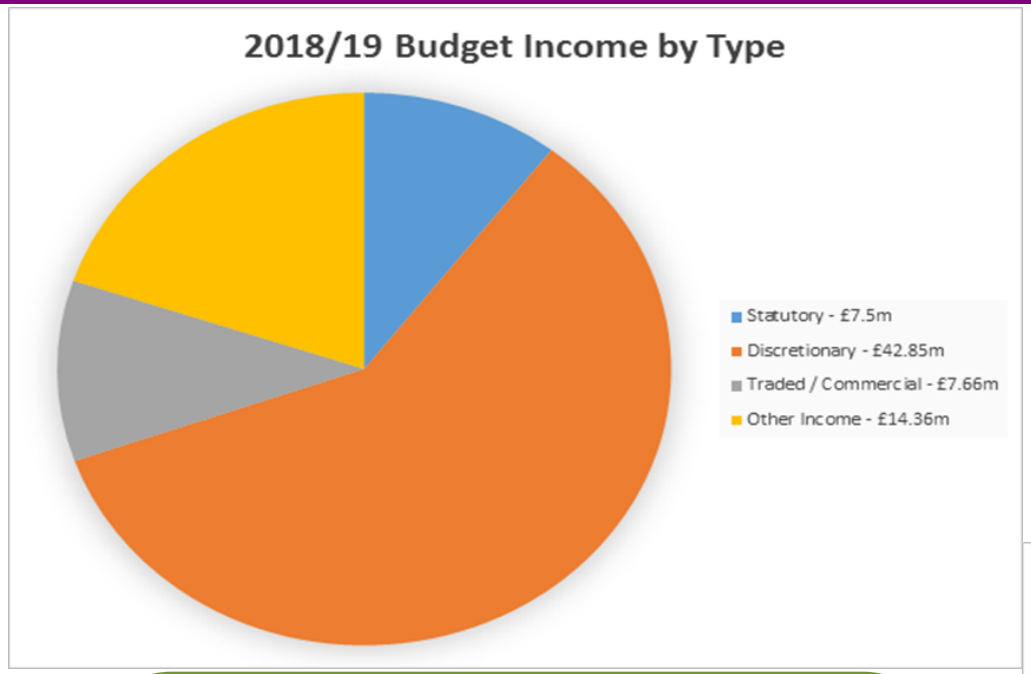
Committee findings: development of the Council's Income Generation Strategy (2019) figures

The Council's sources of income

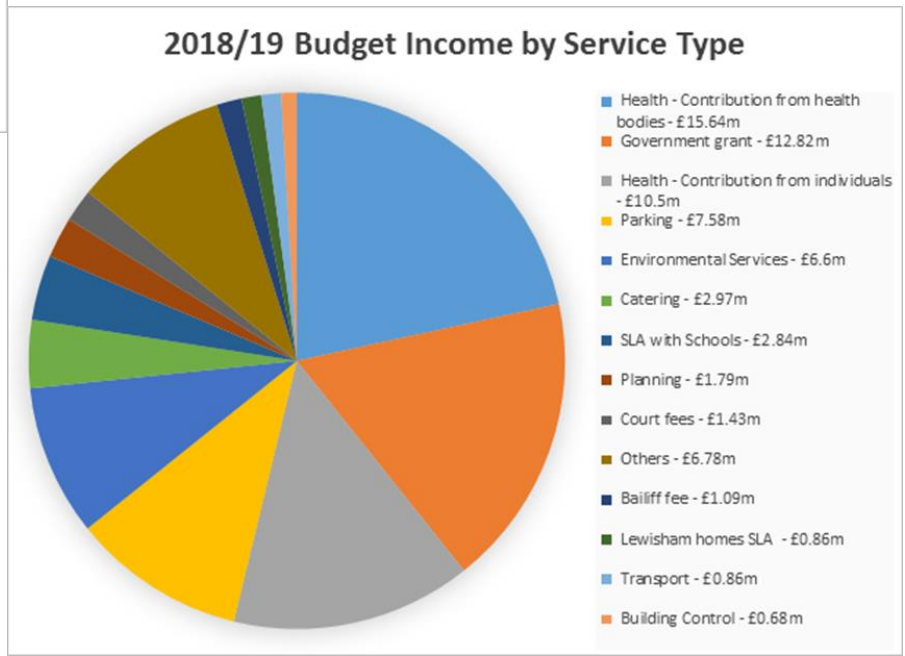
As part of its investigations, the Committee wanted to better understanding the Council's levels of income – and the sources of that income. As a result, officers provided this budget income breakdown (opposite). Significant sources of income come from government funds and formal agreements with other public sector partners. It is 'fees and charges' and 'other income' that are of most relevance to the Committee's discussions.



Committee findings: development of the Council's Income Generation Strategy (2019) figures



This chart sets out the types of income received by the Council. As noted previously by the Committee, some of the income received by the Council is based on formal arrangements or statutory underpinning. However, this information provided by officers indicates that there are significant sources of discretionary and traded/commercial income.



The Committee has encouraged officers to focus on Council services that have the greatest potential to provide commercial returns. The chart on the left provides a break down of income by service type. The Committee heard that focused work had been carried out on the agreement with schools. The Association for Public Service Excellence also carried out a consultancy in environmental services to explore options for commercialisation and income generation.

Committee findings: development of the Council's Income Generation Strategy (2019)

Fees and charges

The Committee heard that fees and charges have an important role to play in the financial sustainability of the Council, and Lewisham Council generated £15.6m in fees and charges and £56.8m in other income (£72.4m) in total as published in the 2018/19 budget book. Historic figures show that this amount has remained fairly stable when compared to previous years but that as a percentage of total funds available to the Council (including grants), fees and charges accounts for circa 2%.

Standards for setting fees and charges

The Committee heard that, whenever possible, Lewisham will charge for discretionary services with the aim of recovering the cost of providing the service from the service user rather than the general council tax payer. The Main exceptions being:

- Where the user of the service cannot practicably be separately identified and charges. E.g. use of parks and open spaces.
- Where it would not be cost effective to administer and collect.
- Where charging would be counterproductive
- Where there is no legal basis to charge for the service
- Where an alternative charging policy e.g. concessionary fees aimed at social inclusion has been expressly approved.

Rapporteur's findings

Councillor Louise Krupski

At the beginning of the 2018-19 municipal year, the Chair of the Public Accounts Select Committee asked Councillor Krupski to serve as committee rapporteur on income generation and commercialisation. Her initial brief was to build on the Council's previous work in this area and to report back to the Committee on the latest developments. She attended a number events and training opportunities including events in July 2018 (London); November 2018 (Bristol) and March 2019 (London). Key findings are summarised in the sections below.

Defining Municipal Entrepreneurialism

Cllr Krupski advised the Committee that this relates to the 'generating of solutions' and meeting the needs of local communities not just generating income.

The intention should be to align financial strategies of councils with innovative policy initiatives which advance community wealth and well-being.

The focus is not always on making income – the primary reason for making a decision in this context might not be profit but the well-being of the community, which in turn may reduce demand for council services.

Rapporteur's key findings

If the Council is overly risk-adverse or constrained by process this can stifle innovative practices and developments.

No policy intervention or innovation is without risk - municipal entrepreneurialism is no exception.

Commercial risks are also political risks.

There needs to be a balance of entrepreneurial culture against effective mitigation of risk and assessments and analysis of likely outcomes.

Rapporteur's findings

Intervening in local markets

Councillor Krupski reported on initiatives from other councils – that were working with local suppliers - particularly small and medium sized businesses - to meet the community's needs.

In particular – it was reported that if intervention in local markets was well managed, it could stop leakage of the 'local pound' and improve the local economy. Furthermore, through good management of procurement and contracts, the Council could support uptake of the living wage and other beneficial practices.

An added benefit of Council intervention might be that public investment in failing markets might give private companies the confidence to invest.

Rapporteur's key findings

Through its corporate strategy and the new social value in procurement policy, the Council is supporting the payment of the living wage.

Work is also taking place through the procurement social value policy to join up Lewisham's 'anchor institutions' in order to ensure that Lewisham's public sector spending is having the maximum benefit for Lewisham's community.

Intervention in local markets is not without risk. The Council's involvement in a market may lead to challenge from existing businesses or create a commercial market for services where there previously was none.

Creating and maintaining change

It was reported that a major barrier to innovation is entrenched existing practice - some of which is prescribed by regulation but much of which has built up over time.

The Committee heard that at the most effective Councils, the move to a more commercially minded approach was championed at every level of the organisation – and bolstered by effective, high level leadership.

Key findings

The Council has to be open to change. 'Quick wins' can demonstrate that ideas can be developed into practice. The business case assessment model in the new income generation strategy is adaptable enough to ensure that small scale ideas can move quickly through the system, whilst more complicated and proposals require additional consideration and development.

Rapporteur's findings

Developing skills

Councils don't typically have officers who are commercially minded – or likely to be apt at competing with organisations in the private sector.

Services delivered by the Council may already have significant influence in local markets. Successful councils play to their strengths.

Public services are changing and innovative councils can be at the forefront of this change. Furthermore, innovation and enterprise encourage new thinking and built the momentum required to create change.

Key findings

Lewisham should not be afraid to buy in specialist skills, where necessary. The Council may need to invest in staff to make sure it has the right people to identify opportunities and be able to network and build commercial relationships effectively. There is a cost involved in this but it can be offset against the income generated. Procurement of additional services must be included as part of the business plan for each initiative.

Income should be reinvested in areas that are most productive. Delivering tangible benefits to a service can encourage officers working in that service to pursue excellence and develop new ideas. It might also inspire other services to review their own practices and pursue novel approaches.

The need for councillors to behave commercially

- Councillors have a key role to play in ensuring that commercial projects are successful. In particular, it was reported that they can do this by:
- Being a political champion
- Taking decisions in a business-like manner
- Providing influence across all councillors
- Understanding the shareholder verses councillor role (the responsibility of board members for any arms length company needs to be clearly defined)
- Empowering officers - without second guessing - and giving space to let officers move projects forward
- Deciding on a role and doing it consistently.

Key findings

Councillors have to decide on their approach collectively and ensure that, as far as possible, a consistent approach is maintained.

Change needs to be led from the top of the organisation. There should be a 'culture of challenge' whereby officers are encouraged to consider alternative solutions to problems, as opposed to 'grant and spend' approaches.

Rapporteur's findings

Governance

Strong governance is essential to the effective operation of commercial enterprises in the public sector. However, in some cases, the speed of decision making in local government can hinder the agility needed to make commercial decisions.

Key findings

There is a potential for existing corporate structures to hinder new ideas.

The creation of arm-length enterprises should be carefully considered. ‘Red lines’ need to be drawn around the types of activity the Council will and will not support. The essence of ‘new municipalism’ is in achieving social – as well as commercial aims. The limits of any autonomy for arms length initiatives should be clearly defined.

Communicating

The Council needs to be clear about why it is making decisions. If communities and service users are engaged from an early stage then opportunities can be built into proposals for communication and consultation.

Key findings

Communications with staff and with public sector partners need to emphasise the scale of the ambitious change sought by the Council.

Rapporteur's findings

Teckal

In order to carry out commercial activities, a number of local authorities have set up companies. The rules around procurement and state aid for private enterprise mean that there is a legal framework governing the interaction between these bodies and their host councils. Simply put - a Teckal arrangement exempts a local authority owned business from the rules around procurement - whilst allowing it to innovate – as long at the principal service it delivers is the council that controls it.

Key findings

Lewisham should explore potential options for the creation of different commercial vehicles for the delivery of its ambitions for income generation.

New ideas

Many councils have taken on new ways of working. A list of some good practice is included on the following sections of the report. Austerity has forced councils to innovate more than this, however, most have been able to ensure that their commercial activity also meets a social purpose. Birmingham Council, in articular, has developed a strong record of commercial activity.

Key findings

Lewisham should look to examples of best practice from other councils in order to inform its approach to income generation and commercialisation. Where a council has been particularly successful, Lewisham officers should take opportunities to visit, learn from and emulate that success.

Rapporteur's findings: examples of good practice

- Oxford City Council found local opportunities to take council services to the market rather than large national companies. Also set up successful Teckal company and trading company for street cleansing and parks maintenance. Trading company trades commercially.
- Dumfries and Galloway – broke up large contracts and sub-contracted to local firms and micro-employers
- City and County of Swansea – housing project built by own corporate building and property services using apprenticeships
- Preston – set up Co-operative Development Network to support and employ co-operatives and employee owned businesses from local area
- West Lindsey District Council – bought up and now run the staff agency they were using.
- Birmingham City Council
    - Enhanced parks and open spaces and raised income from cafes and gift shops etc.
    - Sell high quality bereavement services.
    - CityServe – social catering business.
    - Shelforce – disability employer running profitable manufacturing workshop making doors and windows.
    - Successful advertising revenue without compromising public messages.

Rapporteur's findings: examples of good practice

- Warrington Council – Built solar farms – providing energy for the council and also selling off excess.
- West Sussex – Built solar farms and utilised battery storage to increase profits from sites. Delivered a successful schools Solar PV programme – shared profits with schools.
- Cheshire East Council – Understood that there was a skills shortage and set up a company to provide training in specific areas needed in locality – helped local people stay in the area and supported local businesses as well as turning a profit.
- Bromsgrove District and Redditch Borough Councils – set up Teckal company to run Leisure services. Brought back Waste management in-house and may now become Teckal company as starting to attract commercial contracts. Both sectors generating income.
- Eastleigh Borough Council – delivers a commercial property investment strategy to deliver a targeted rate of return. Examples – pub, hotel, cricket ground – now looking at housing. All done in-house.
- St Albans City and District Council – created a successful commercial and development department in commercial property. Department given opportunity to re-invest some profits to make a steady growing return.
- Kent joint venture with Hampshire County Council to supply recruitment of staff across two boroughs. Ltd liability partnership as Teckal. Aim is to convert free-lance staff to full-time staff and improve service and retention of staff as well as bring in an operating profit.

Committee findings: Risk

The risk of failure

The Committee accepts that there are risks involved in the Council's attempt to develop an increasingly commercial approach. On a number of occasions, members discussed the potential impact of failure on Council finances. Members with experience of running businesses have highlighted examples of commercial failures in the private sector and cautioned that this would not be a viable option for the Council. This is significant because - as a custodian of public money – the Council is duty bound to act with probity. And, as a provider of services to vulnerable people the Council is duty bound to act in accordance with its principles.

The risk of overstretching

At the beginning of the year, the Committee received some examples of councils that had overstretched their resources in pursuit of new streams of income. Notable examples include authorities that have taken out significant sums to finance commercial investments as well as those that have embarked on wholesale reorganisations of their services without due consideration to the delivery of the anticipated benefits. The Committee also heard that there are risks from lack of oversight of arms-length companies as well as conflicts and pitfalls that can arise from the creation of private markets for public services that did not previously exist.

The risks of doing nothing

The Committee's ongoing oversight of the pressures facing Council budgets gives it a unique perspective amongst Lewisham's scrutiny committees. The Committee's rapporteur, in particular, has highlighted the potential risks of the Council continuing to carry out its business as usual, without comprehensive changes to its culture and to the way it manages its spending. The Committee is alert to the fact that the use of reserves to balance the Council's budget is not sustainable.

Conclusion

The **Public Accounts Select Committee** has a long-term interest in income generation and commercialisation. The impetus for exploring new ways of working was created by the onset of the decade of austerity in local government. The restriction in resources coupled with increasing (and increasingly complex) demands required the Council to consider how best to manage and mitigate the worst impacts of government cuts.

Consultation with local people has indicated the willingness to see the Council innovate and to change its long held practices - particularly where this would protect services for the most vulnerable. It is in this context that Lewisham's Mayor tasked officers with reviewing Council services, structures and ways of working.

Early income generation guidance developed by officers established a basic set of principles to follow for setting new fees and charges. However, without sustained focus on improvement and culture change, the Council focused its efforts on delivering services and managing pressures on budgets – rather than considering radical options for redevelopment and commercialisation.

Scrutiny committees can add valuable insight to decision making. Committees may also challenge entrenched thinking and explore alternative options for doing things. The Public Accounts Select Committee's 2015 income generation review explored a broad range of ideas and options for potential changes at the Council. The Council followed this work by commissioning an independent expert to consider the barriers to income generation and commercialisation at the Council and thoroughly explore options for improvement.

Updates to the Public Accounts Select Committee over a number of years have appraised members of progress and allowed scrutiny councillors to intervene at key moments with their ideas for change. This included the appointment of a new Strategic Procurement and commercial services lead as well as the Council's engagement with the Association for Public Service Excellence. In 2018-19, following a number of years in which the Council was required to draw on its reserves to balance its budget, the Committee decided to reiterate its focus on options for income generation. The Committee also appointed a rapporteur to lead on this issue.

Under the guidance of the Committee, officers continued with the development of the income generation strategy and the associated fees and charges and social value frameworks. These have been well received by the Committee. It is apparent to the Committee, however, that there is still work to be done. A number of proposals for income generation projects put forward by officers are due to be delivered and the widespread acceptance and championing of the Council's new strategy for income generation will require a fundamental shift in the Council's culture.

Draft recommendations

To be discussed and agreed:

1. The role of the Committee's rapporteur should continue.

2. The cuts programme should be carefully monitored to ensure that the benefits from income generating proposals are realised and that the risks minimised.

3. Consideration should be given to new ideas for income generation, including: the potential options for a new social care staffing agency; and implementing a school solar project as per the work done by West Sussex - in line with our Emergency Climate Change commitment.

4. Members should have the option to attend a member focused session of the new commercialisation and culture change training that is being developed for staff.

5. The Council should be bold and consider prototyping different approaches to creating new markets.

6. Corporate support should continue for the strategic procurement and commercial services function.

7. A mechanism should be created within the council - whereby officers and members can make suggestions and work up ideas.

8. The detailed review by PAC, agreed for 2019-2020 should examine income generation and commercialisation, under the following headings:

Draft recommendations

How the council will:

1. Create a workable, vibrant and positive commercial culture.
2. Shape internal governance - develop the structure and accountability needed, including the role of PAC.
3. Develop training and staff development both of officers and members
4. Determine the council's "red-lines" and ethical dimensions
5. Deal with risks and conflicts of interest
6. Shape external governance eg Teckal businesses or other arms-length organisations.

Sources

Our Lewisham Our Say (2010) summary findings:
https://lewisham.gov.uk/getinvolved/influence/Documents/OLOSResultsupdatedspend.pdf

Income generation opportunities review:
http://councilmeetings.lewisham.gov.uk/documents/s46850/04%20Appendix%202%20income%20generation%20update%20-%20301116.pdf

Commercialisation at Birmingham City Council presentation: http://apse.org.uk/apse/assets/File/Ken%20Lyon%20-%20presentation.pdf

Risk and commercialisation guide for councillors:
http://www.apse.org.uk/apse/assets/File/Risk%20and%20commercialisation%20pdf.pdf

Income generation update for public accounts select committee: 25 September 2018:
http://councilmeetings.lewisham.gov.uk/documents/s59431/06%20Strategic%20income%20generation%20review%20250918.pdf

Strategic financial review update 2015:
http://councilmeetings.lewisham.gov.uk/documents/s25508/Strategic%20Financial%20Review%20Update.pdf

Income Strategy and guidance 2015:
http://councilmeetings.lewisham.gov.uk/documents/s35464/05IncomeGenerationAppendixA140415.pdf

25 September strategic income generation update scoping report:
http://councilmeetings.lewisham.gov.uk/documents/s59431/06%20Strategic%20income%20generation%20review%20250918.pdf

Councillor Krupski's briefing note to the select committee (December 2019) – Appendix 1
http://councilmeetings.lewisham.gov.uk/documents/b17685/Councillor%20Krupskis%20income%20generation%20and%20new%20municipalism%20briefing%20paper%2020th-Dec-2018%2019.00%20Pub.pdf?T=9

Appendix 1:

PAC Briefing Paper 13 December 2018 – Income Generation and "Municipal Entrepreneurship"

Cllr Louise Krupski, Vice-Chair of PAC

Introduction

This paper is written to help the Committee understand some of the issues and new thinking around Income Generation which has emerged over recent years. It is designed to sit alongside the work Katharine Nidd (Strategic Procurement and Commercial Services Manager) has been doing on Income generation and her paper, which PAC will be scrutinising on Thursday 20 December 2018.

Lewisham Council is facing unprecedented cuts to its central grant funding which is leading to many of its vital services being cut. There is no indication that these cuts will not continue and if the current government policy remains in place the council could envisage having to raise all its budget from council tax and business rates, only receiving money when services reach crisis point. In this landscape it is not only essential for Lewisham to find ways to generate income but also strengthen the local economy; helping its residents become more resilient, and less dependent on shrinking services.

The "new municipalism" or "municipal entrepreneurship" seeks to address this. This is not an easy solution, it requires a big shift in cultural organisation, risk taking, and thorough business planning. However, it seeks to bring more control of the council's future back into the hands of those who run it both politically and organisationally. It also aims to be a force for good within the community, encouraging best employment practice, quality building strategies and ensuring the maximum number of truly local people are employed. These local people are then able to spend more money where they live, allowing less money to "leak" out of the economy. As the local economy thrives the council also benefits from higher business rate yield, and lessened dependency on council services, creating a virtuous cycle.

The distinction between this kind of model and straightforward Income Generation is a difficult one as one informs the other. The work APSE (Association for Public Service Excellence) have done on this aims to bring the two things together and encourages councils to be bold and truly entrepreneurial to take back control. This does involve significant risk, and for it to work there needs to be an acceptance by Lewisham that some projects may fail as well as succeed, but in the round, we should expect to see a net gain. This work may also need significant up-front investment, particularly in staff, as this work may not be possible within the boundaries of someone's existing portfolio of work and this should be part of the business plan for each project. There also needs to be an understanding that all staff on the council should be part of this process and encouraged to come up with ideas.

There are several models for this and the notes from the various meetings and publications I have read seek to explain it further. Some of the notes are repetitive in their nature but each speaker/organisation has a slightly different take on the central idea.

I have included the notes on the APSE paper first as this seeks to explain the main idea and I have found their advice to councils on how to implement this to be excellent and balanced. I have followed this by notes taken at events and give examples of lessons learned by other councils and successful projects. It is worth noting that all officers from other councils mentioned are happy to converse with Lewisham going forward.

It is important that we recognise the excellent work that Lewisham is already doing in this area. One of the pieces of advice from APSE is that councils "start from where you are" and in our case we have already got way off the starting blocks. Examples (this is not exhaustive) of work we are already doing:

- London Living Wage as part of procurement process
- Scheme to encourage local businesses to pay the Living Wage with business rate reduction
- Anti-slavery policy
- Unison Ethical Care Charter
- Besson Street Project
- Place Ladywell

Lewisham Credit Union (local bank not run by Lewisham council but open to Lewisham residents and all council staff including Lewisham Homes)
"Meet the buyer" event in Lewisham to help SMEs bid for council contracts.
New income generation schemes to off-set some of the budget cuts in the current round.

Apse - "New Municipalism" - notes taken from their paper

Councils and communities can take back ownership of the agenda of municipal entrepreneurship and embrace income-generation for the public purpose.

Municipal Entrepreneurialism

Generating solutions - meeting needs of local communities not just income generation. Aligns financial strategies of councils with innovative policy initiatives which advance community wealth and well-being.

Sometimes it's not about making profit but about the well-being of the community which in turn reduces demand on the council's services.

Intervening in Local markets

Work with local suppliers particularly SMEs (Small and Medium sized businesses) to meet the community's needs. Giving them access to contracts that their business would normally be too small to fulfil.
This stops leakage of the "local pound" and improves the local economy.
Councils can invest in failing markets to give private companies the confidence to invest.
Councils can insert clauses to support Living Wage etc to promote the local economy - we are already doing this.

Understand and manage risk

No policy intervention or innovation is without risk - Municipal entrepreneurialism is no exception. Commercial risks are also political risks. There needs to be a balance of entrepreneurial culture against effective mitigation of risk and assessments and analysis of likely outcomes. If the council is overly risk-adverse or constrained by process this can stifle innovative practices and developments.

Up-skilling the officers

We may need to invest in our staff to make sure we have the right people to identify opportunities and be able to network and build commercial relationships effectively. There is a cost involved in this but it can be offset against the income generated. Must be included as part of the business plan for each initiative.

Style Change

This will involve examining the following:

- Need for new risk management mechanisms
- Concerns over possible clashes with the "day-job" – officers being over-stretched and not given sufficient time to do their new role properly.
- Stretching of in-house services through bidding for large contracts that the authority might not win
- Linking of income-generation to community needs and demands

Key questions:

- How will the authority manage expectations among staff of increased organizational flexibility that comes with a culture of entrepreneurialism?
- How will the authority adapt budgetary logics to fit with demands of municipal entrepreneurship?

Need for a much lighter touch from cabinet to allow managers to get on with the work in hand and hand over trust to run projects - this could include not intervening in property acquisition deals up to a certain value and/or not interfering in work contracts with a value up to £450K

Also set up more Teckal companies (company set up by a local authority as a trading vehicle which must provide 80% of all its services to the authority it is attached to) so that there is an institutional framework in place that the council does not have to interfere in - just monitor the overall success or failure of the company.

Whatever the model it is important to establish on a case by case basis what will happen to any surplus money raised. Will it:

1. Be re-invested in the service area that raised the money - creates good wealth generating incentives
2. Be put back into a central fund for further projects
3. Used as money to help with overall budget cuts
4. Mixture of the above with agreed percentages.

There needs to be "culture of challenge" at all levels - asking how difficult problems can be looked at in new ways rather than the traditional model of grant and spend. For example, in Lewisham the idea of rebuilding the Lewisham Library to make it part income generation to ensure the future success of the facility. Or instigating the Healthy Streets initiative outside schools to cut down on the need for Lolipop staff at some of our schools. Whether these ideas are implemented or not they come from a new need from necessity for Lewisham to be thinking along these lines.

There should be no ideas off the table and the more momentum and culture change happens the more likely ideas will surface.

The culture should encourage "catalysts" to come forward to identify current organisational practices or styles which conflict with declared purposes of the council. This means we must listen more to our staff and our communities and be prepared to be open to their suggestions for change, especially when organisational practices get in the way of moving forward.

It is vital that all staff are "not afraid to come up with a duff idea" - there must be "permission to fail" and "no handcuffs policy" (see Dumfries and Galloway examples below)

Innovation best occurs within collaborative networks of people - bringing different ideas and local knowledge together. Also there must be the facility to "harvest" ideas from outside the organisation. It is essential to have pro-active cultivation of external networks and generation of internal mechanisms for information exchange to discuss these ideas - then these must be delivered out to partners to continue the cycle.

It should become the responsibility of everyone in the organisation to constantly look for solutions and ideas however big or small.

<u>Upskilling workforce</u>

It is vital that where a gap opens up in the workforce that is needed for the successful implementation of change that the workforce is sufficiently skilled to do this work. The cost of this needs to be built into the business case for the project in hand and not ignored – it is not enough just to expect staff to be stretched to the limit without sufficient training - this will set the project up to fail.

Taking on new staff with new skills can also act as a catalyst for change as it affects the nature of the organisation from the bottom/middle up.

Summary of key steps

- Manage expectations of increased flexibility
- Re-evaluate budgetary logics, consider in advance the use of surpluses
- Keep public value at the forefront of your thinking
- Facilitate an organisational culture of challenge
- Start from where you are
- Nurture your networks with communities and stakeholders
- Understand and manage risk - risk aware not risk averse

Upskill the workforce and build core capacities

Some examples of good practice or ideas from other councils:

Oxford City Council

Highways and engineering works – Oxford found local opportunities to take council services to the market. These opportunities were where smaller firms were usually unable to compete effectively or where larger firms were seen as too remote or too large for medium-term projects. Oxford Council helped create a barrier to stop smaller firms being crowded out of the market.

Dumfries and Galloway

Looked at catering, logistics, roads maintenance, facilities management, building and construction, fleet and vehicle maintenance, waste collection and print unit

£17m of work subcontracted to 456 firms and micro-employers.

Agnew Park Stranraer redevelopment - 75% construction works and business procured locally

Lorenburn Hall development - 84% construction works and business procured locally

Set up a Tuesday Club - team members come together to pitch ideas and new initiatives

Established centre of excellence - two-way learning space - set up to engage with other council services as well as to transfer good practice lessons across the authority and facilitate culture change.

City and County of Swansea Council

Interesting scheme for building social housing "Milford Way Scheme" https://www.architype.co.uk/blog/new-passivhaus-social-housing-completes-for-swansea-residents/

This was built by the council's own corporate building and property services team using apprenticeships

Also enhanced the use of a grant available to build energy efficient homes.

Labour Session on Procurement - 21 July

Paul O'Brien - Chief Executive of APSE

Only 5.7% of GDP will be spent by local government by 2020.

Therefore, money must be raised locally by business rates and council tax. At the moment 51% of budget raised by council tax and business rates but by 2020 this will be 95%

We need less of this money to "leak" out of our local areas.

Neil McInroy - Chief Executive of CLES (Centre for Local Economic Strategies)

www.cles.org.uk

- Local economies should not be seen as detached from local people but an intimate part of their lives and communities.
- Local economies can be drivers of social justice providing good public services which benefit everyone.
- We need local economies to fill the gap that has opened up between growth and the wealth of its inhabitants which has widened exponentially.
- We need to look at where the wealth disappears to
- Local wealth needs to be more generative.
- Local anchor institutions important to keeping wealth in a community. These need to be identified as having a huge effect on the local economy. Councils need to find ways to resource their needs locally. For example, universities, colleges, hospitals, schools etc
- Keep ownership of economy local by supporting Coops and SMES - small local firms generate 58% more income for local areas
- Better to take higher tenders if these will be wealth generating for the local community - the drive to cut costs can have unforeseen negative consequences.
- Encourage local competition on a smaller scale rather than allowing huge monopolies dominate the market place.
- This is hard work and takes time and people to work with local businesses and build up the relationships needed.
- Local banks popular around the world - there are some good examples - Bank of N Dakota, Spakasse in Germany, Lancashire Community Finance http://www.lancashirecommunityfinance.co.uk/about-us/about-us/

- Good example of city-wide approach - Barceloana http://ajuntament.barcelona.cat/economiatreball/en/local-economic-development
- Energy generation has also been done successfully locally - eg Robin Hood Energy in Nottingham https://robinhoodenergy.co.uk/

Preston Model

- Based on the Cleveland Model
- Anchor strategy - identified ways of working with anchor institutions to use local suppliers in the community (examples of anchor institutions are universities, hospitals, schools, council offices etc)
- £100m used from the local government pension fund to invest in flats, hotel and office space through "City Deal"
- Expansion of co-operative and employee owned businesses through Preston's Cooperative Development Network Presco http://www.councils.coop/case-studies/preston-co-operative-development-network/
- Established Lancashire Community bank and continues to support Credit Union and Lancashire Moneyline.
- Energy supplier - in partnership with neighbouring authority - Fairerpower Red Rose https://fairerpower.co.uk/red-rose/ - this is a partnership deal with OVO Energy who provide the energy and back office functions - Cheshire East set the tariffs and promote the scheme. **It is NOT an energy company owned by Preston.**
- Set up new company to become local housing development company.

APSE event - Bristol 13 November 2018

This event was orgainsed by APSE to share best practice by councils.

Andy Shelby - Strategic Manager-Services West Lindsey District Council

The council bought up a local recruitment company

They were reliant on one agency - Surestaff for garden waste and temp staff costing £240K per year.

They had several options - to completely take on all the staff in house, just take on Surestaff and run without a commercial side, or do a combination.

They chose to do both and they have set up a Teckal company with a separate commercial company under the same group.

This was the council's first commercial venture. There was a lot of member opposition to commercialisation, but as this was going to help local people into work it bought a lot of goodwill. Conditions were set by the councillors for good contracts of employment and the provision of the living wage.

They focused on non-cashable savings and social benefits rather than a huge delivery of income generation.

The business cost £75,000 - no physical assets just the database and reputation of the company which some councillors found difficult to understand!

Chris Harper of Bevan Brittany

Did presentation on how the above was legally implemented. His firm has worked with several councils to help with commercial projects and setting up Teckal companies.

Before setting up a company scrutinise:

- What your objectives are?
- What are your politics around this issue, what are you comfortable with as a council and what are you not prepared to compromise on?
- What are the outcomes you want to achieve?
- Where's the money going to come from to cover the costs?

It is not a failure to determine that you can let go of assets especially if the competition is offering much lower rates and the business you either have or are considering creating cannot compete.

Teckal company must have over 80% of business done for the council. It allows you to trade in the open market but can't be "the tail that wags the dog"

Better to have a pure Teckal company and a pure trading company held in the same group by a holding company. Accountant can then make sure that tax only paid by the trading company. Once this is in place it acts as a template that the council can use over and over again for multiple commercial ventures. Need a Deed of Adherance which binds the council to existing structures and means the focus of the council can be on the viability of the business itself not the practical steps to set it up.

Scale is not an issue - small and large deals are equally as complicated to implement, but the risk is obviously not the same. Due diligence is extremely important - think of buying a company or asset as if you were buying a house or car for yourself - check the engine!

If buying an existing business, it may need forensic investigation but don't do diligence for its own sake, only where it is needed.

Make sure you understand what is happening with all resources and particularly departments and management. If a company is part of a bigger group a department might not automatically be transferred as part of the sale - such as pay-roll.

Ask how the company is going to be run and if there are gaps in staffing who is going to do this and put a plan in place for this.

Make sure you have full contractual warranties in place so nothing is left to chance if you discover after the sale that something is missing.

All of this should be done in a comprehensive project management plan.

the results of the Surestaff project:

- Year on year savings of £120,000
- Commercial element currently breaks even but expected to start making a profit when new avenues of income generation are found.
- Has given members huge confidence boost in commercial projects.
- Commercialisation now looked at as an option in all business cases
- Council now has £15m rental portfolio - own hotel, 2xfactories, gym and shop
- Council also building a crematorium from scratch and despite difficulties getting this implemented they are starting the build soon - council do not feel they would have done this before, but new confidence has kept up the momentum and will to do this.
- Now charging for garden waste
- Commercial waste - improved service and increased profit.

Most proud of how this company is serving a social need - council investing to help people back into work and saving money at the same time.

Winning Tenders and Securing New Business - Julia Richardson - Head of business Development and Interim Head of Catering Operations, GS Plus Royal Borough of Greenwich.

(Copies of the slides of this presentation are available on request – it was extremely thorough and technical but would be very helpful to officers in the future if Lewisham was to set up a similar Teckal company)

Presentation about how to prepare for tender, in terms of what information to provide, tone, and professionalism and how to personalise the presentation. Then also how to present the tender and assess the outcomes.

GS Plus is a Teckal company as per the previous presentation.

Very important to make sure you have a dedicated team of officers to do this work properly.

Cost is the main driver, not quality which is difficult when you are a London Living Wage company. They sell the fact that they are Top of the Good Food for London list - but this only goes so far. They find themselves locked out of many bids due to their higher price, but they are making it work.

Commercialisation at Birmingham City Council - Ken Lyon - Head of commercialism, Birmingham City Council

Approach born out of necessity due to cuts.

Key Points:

- Get the messaging right to drive things forward - work with the political leadership and any Councillors who are pro this activity to build a strong base of support within the council. In Birmingham they have a cabinet member who specifically champions Income Generation and commercialisation providing political leadership and ambition. They have established a commercialism board which sets the tone and creates momentum within the council. They have also established what is "off the table".
- Make sure the council "bigs up" what they are already successfully doing in this area.
- There is a social and financial outcome "sweet spot". If you get it right then there are financial gains to be had while maximizing the social gains too. Careful not to create money for money's sake.
- The council must move out of a comfort zone to maximize returns.

Get value quickly - spend time on big quick wins.

- Once the ball starts rolling don't let up as this will drive the essential cultural shift within the council.
- Play to your strengths as a council - don't commercialise something the council is not good at or does not understand fully.
- Threat to this working is choosing to be too bureaucratic about processes - needs to be a degree of trust in officers to get on with the work in hand.
- If a project is only just breaking even or making a loss - get out and use the resources better in another area.
- Realise the unique assets we have - we have clout as the council and people and businesses do want to talk to us.
- Property - must develop a strategy around the portfolio - develop a disposal focus as well as procurement - applying a "commercial lens" to every property
- Advertising - take a joined up approach with policy and delivery. Birmingham has worked up a contract that means that they are not advertising politically sensitive messages that work against their policies. It means that they do not necessarily get as much income as they would if they took a more relaxed approach, but the income is still considerable and well worth putting the contract in place. They are happy to share this information.
- Other Successful projects include
  - Parks and Open Spaces - enhancing assets and getting more income from cafes and gift shops etc
  - Bereavement Services - provide a high quality service with premium products and add on packages.
  - CityServe - https://www.birmingham.gov.uk/cityserve/site/index.php social catering business. Won APSE award. Had to take a firm hand in controlling spend on food budgets whilst maintaining quality of product. Delivered £2.6m
  - Shelforce - https://www.shelforce.com/ Council's disability employer - factory creating windows and doors and supplying them for private contracts and council buildings was in trouble but has been turned around and is now a sustainable business which continues to grow. Has huge social value.
- Income generation and commercialisation also means keeping a keen eye on all council spending - important to understand that there can be higher yield after looking at what's going out rather than what's coming in - make every pound count!
- Really vital to use expertise from other councils and network. Birmingham very open to visits and consultation in a sharing capacity.
- Birmingham, as a labour council, has very positive terms and conditions for its workforce which they take pride in and this helps the local economy
- Tipping point has come with success of various projects and political enthusiasm that has followed - now council expects that all areas will think in commercial terms.
- Most of the projects embarked on by Birmingham have been delivered in-house

This page is intentionally left blank