

Public Accounts Select Committee			
Title	Income Generation Review: Scoping Paper	Item No	7
Contributors	Scrutiny Manager		
Class	Part 1	Date	10 March 2015

1. Purpose of paper

- 1.1 As part of its work programme the Committee has agreed to undertake an in-depth review into income generation.
- 1.2 This paper sets out the rationale for the review, provides some background information on the work that has already been carried out in relation to this topic within Lewisham and sets out proposed terms of reference for discussion and agreement by the Committee.
- 1.3 The in-depth review process is outlined at Appendix A.

2. Recommendations

The Select Committee is asked to:

- note the content of the report
- consider and agree the proposed key lines of enquiry for the review, outlined in section 7 and the timetable, outlined in section 8.

3. Policy context

- 3.1 The Council's ten corporate priorities and the overarching Sustainable Community Strategy drive budgetary decisions. Lewisham's corporate priorities were agreed by full Council and they remain the principal mechanism through which the Council's performance is reported and through which the impact of saving and spending decisions are assessed.
- 3.2 The Council's current financial situation is exceptionally challenging. The funding available to local authorities has fallen sharply in recent years, with councils just over half way through a scheduled 40 per cent cut in funding from central government. Having delivered £10 billion of savings in the three years from 2011/12, local authorities have to find the same savings again by the end of 2015/16¹. London, in particular, has been hit hard, taking a 33 per cent real terms cut in funding for service provision from central government between 2009/10 and 2013/14² with further cuts in funding expected until at

¹ LGA (2014), *Under Pressure, how councils are planning for future cuts*, p3

² A Fitzgerald, R Lupton, R Smyth, P Vizard (2013), *Hard Times, New Directions? The Impact of the Local Government Spending Cuts in London*, P4

least 2018. Although councils across the country have seen substantial cuts to their budgets, the situation is particularly acute in London due to the rapidly rising population, demographic complexity, rising housing costs and the disproportionate impact of welfare reforms. Boroughs have tried to make the large savings required without cutting front line services, focussing on achieving efficiencies; withdrawing or reducing discretionary services; paring back how statutory services are provided, targeting those most in need; and looking to maximise income.

- 3.3 The Council has made savings of £93m to meet its revenue budget requirements since May 2010. The Medium Term Financial Strategy, reported to Mayor & Cabinet in July 2014, estimated that £85m of savings were still required over the period 2015/16 to 2017/18. As a result, very severe financial constraints will continue to be imposed on Council services, with cuts to be made year on year. The Lewisham Future Programme Board was established to progress cross-cutting and thematic reviews to deliver required savings and one of these reviews is focussed on income generation.
- 3.4 The recent Local Government Association (LGA) report *Under Pressure* suggests that one of the most common budget strategies being followed by local authorities for 2015/16 is maximising income from investments, fees and charges³. The report states that some of the strategies being adopted include:
 - Ensuring investments generate the maximum possible income.
 - Changing fee charging structures to ensure that, while remaining equitable, service charges move closer to recovering the full costs of providing those services.
 - Maximising the income generated by assets.

4. The Lewisham Future Programme and the Income Strategy

- 4.1 A number of proposals are being pursued by the Council as part of the Lewisham Future Programme income generation review. All proposals being taken forward are felt by officers to be realistic, deliverable and sustainable into the medium term. Current proposals include:
 - Increasing the amount of Council tax collected
 - Generating more income from School SLAs
 - Maximising investment income
 - Increasing income from advertising
 - Reviewing fees and charges with a view to increasing income.
- 4.2 In addition to working up specific proposals, the review has resulted in the development of a comprehensive draft income strategy that will be provided to the Committee for pre-decision scrutiny at the first evidence session, prior to consideration by Mayor and Cabinet. The strategy is intended to ensure that the management of the fees and charges levied by the Council, and other sources of income that the Council receives, is consistent and guided by

³ LGA (2014), *Under Pressure, how councils are planning for future cuts*, p9

agreed principles. If approved, the strategy will mean that the Council will adhere to the following principles when setting or introducing fees and charges:

- **Full Cost** – Any fees and charges should cover, at a minimum, the full costs of the service (including capital and revenue investment and overheads) unless there are contrary policies, strategy, legal or contractual reasons.
- **Market Rates** – Where fees and charges are in place they should reflect market rates subject to meeting full cost. Any charges that are significantly lower than the market rate must be agreed by the Fees and Charges Working Group.
- **Inflation Rise** – All fees and charges will rise in line with inflation in order to avoid sharp increases in prices.
- **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.
- **Agreeing Subsidy** – The Fees and Charges Working Group 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).
- **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.
- **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.
- **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.
- **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.

Key activity

Fees and charges

- 4.3 In accordance with the principle of ensuring that all fees and charges cover, *at a minimum*, the full costs of providing the service; officers are being encouraged to review their fees and charges regularly to ensure that they are (a) accurately capturing the full costs associated with the delivery of the service being provided; and (b) reflecting these costs in the fees and charges being levied. However, it is important that any increase in fees and charges takes into consideration the ability of service users to pay. Increases to fees and charges might eventually reduce, rather than increase, the income generated, if the maximum amount affordable by residents is surpassed and increases lead to a reduction in demand. A further difficulty with increasing fees and charges is regulation. Even if it is determined, for example, that an increase in fees and charges above the costs of providing the service would not reduce demand, many fees and charges (such as those levied by Highways and Building Control) are heavily regulated and can only be charged on the basis of cost recovery, offering no scope for generating a profit.

Assets

- 4.4 Over the last few years significant work has been undertaken to review the use of assets across the corporate estate and a new Asset Management System has been created. The operational estate has been undergoing a rationalisation programme for the last four years to reduce the number of sites from which the Council operates. This will continue for a further four years, although the focus will shift from simply reducing the number of sites to targeting the least efficient. This may lead to some inefficient sites being converted from operational to commercial sites to generate income.
- 4.5 In parallel to the review of the operational estate, the commercial estate is also being reviewed to ensure that income is maximised. A key element of this is the establishment of truly commercial leases with appropriate safeguards for the Council, with rents set at market levels and with regular reviews and increases.

Debt collection

- 4.6 The Council operates a centralised Debtors function. Whilst this produces savings due to economies of scale, it also means that individual services do not oversee the collection of their fees and charges or control how debts are pursued. Services therefore work closely with the Debtors service to ensure that debt is collected in an appropriate manner and crucially, to ensure that the information passed to the Debtors function is accurate. A number of services, including the Asset Management Service, provide debt information to the Debtors function electronically and the use of mandatory field

completion helps ensures accuracy. In addition, more services are introducing direct debit options (e.g. for rental incomes on new/renewed leases) which reduces the level of non-payment.

Investments

- 4.7 A change to the Council's balance of investments has recently been agreed in order to achieve a projected additional annual investment income of £250,000 above current performance. The change will maximise the return from investing the Council's financial assets but within the security and liquidity risk constraints set by the Council in its Treasury Strategy. The balance of investments will be shifted towards longer (but still less than one year) investments and care will be taken to ensure that at least £50m is available or returning in any one month to meet ongoing commitments. The increase in income of £250,000 is based on the following assumptions:
- 25% of funds are held on call or due to mature within the month to ensure cash flow is sufficient to meet ongoing resource demands
 - Annualised returns are assumed to remain the same (from the current historically low base) as this proposal is not dependent on interest rate rises
 - The average level of available investment income falls by £15m as the Council draws on reserves to meet current funding pressures
 - Suitable counter parties can be identified to spread the longer term investments in a prudent manner in line with the Council's investment strategy.

5. Strategies being followed by other councils

- 5.1 The following paragraphs offer some brief information on a selection of the strategies being pursued by other Councils to generate more income:

London Boroughs

- 5.2 **Croydon** – The Council is following a new income policy based on moving away from the use of historical prices to inform fees and charges, to understanding the true cost of providing or commissioning services and pricing accordingly, whilst recognising the service user's need for the services being charged for and their ability to pay⁴. As part of this, Croydon is striving to develop a more commercial / entrepreneurial culture within the Council. The review of fees and charges is projected to result in an increase in income generation in 2014/15 of £1.162m.
- 5.3 **Camden** – Camden is generating income from providing a Wi-Fi network in areas of high footfall⁵. Residents, businesses and visitors get 30 minutes of free internet access every day, but once users have taken advantage of the

⁴ For further information see: <https://www.croydon.gov.uk/democracy/budgets/2014-15>

⁵ For further information see: <http://www.camden.gov.uk/ccm/content/council-and-democracy/plans-and-policies/camden-strategies-&partnerships/free-public-wi-fi-service/>

30 minutes of free time, they are invited to purchase extra time at a rate of £5 per day, £10 per week or £30 per month. The Council is anticipating receiving a multi-million income over the 10 year term of the contract they have signed with Arqiva.

- 5.4 **Brent** – The Council is looking to gain “Approved Inspection” status for its Building Regulation team to enable them to undertake work throughout England without needing to obtain the host local authority’s agreement to work within their area⁶. This ability will allow Brent to market their building regulation services in the same way as private sector companies.
- 5.5 **Hammersmith and Fulham** – The Council is taking a strategic approach to commercialisation, developing a greater understanding of the profit and loss made by each service and encouraging staff to be more commercially minded. A number of services now have a comprehensive sales and marketing plan and an external income target. The importance of engaging with heads of services rather than just the finance team, as traditionally the case with income generation work, has been a key lesson learnt by the Council⁷.

Outside London

- 5.6 **Birmingham** – Birmingham is one of the founding members of the Council Advertising Network⁸ and is generating significant digital advertising income⁹. With channel shift driving more people to access council services online, Birmingham is using advertising to effectively generate income, without detracting from the user experience and whilst ensuring that every advert is appropriate for a public service website. As part of a consortium of councils, the network can command the attention of big advertisers and gain access to advertising campaigns offering premium rates because the advertisers are willing to pay for large but relevant and segmented audiences.
- 5.7 **Powys County Council** – The Council took over the regulation of Britain's estate agents from the Office of Fair Trading (OFT) in April 2014¹⁰. Powys won the competitive bidding process to deliver the service in place of the Office for Fair Trading and will receive £170,000 a year for three years for providing the National Trading Standards Estate Agency Team. Three new jobs have been created as a result and Powys aims to become a centre of excellence for the UK on estate agency enforcement matters and generate further income by doing so.

6. Meeting the criteria for a review

- 6.1 A review into income generation meets the criteria for carrying out a scrutiny review, because:

⁶ For further information see: <http://brent.gov.uk/media/12103610/5-APPENDIX-1-Budget-Savings.pdf>

⁷ For further information see: <http://www.local.gov.uk/documents/10180/5785771/Income+Generation+Case+Study+-+Hammersmith+and+Fulham.pdf/cae580eb-0fa6-461a-a4cf-191fb0ff2aa3>

⁸ For further information see: <http://capacitygrid.com/services-2/council-advertising-network/>

⁹ For further information see: <http://birmingham.gov.uk/advertising>

¹⁰ For further information see: <http://www.powys.gov.uk/index.php?id=17020&L=0>

- it is a strategic and significant issue
- scrutiny can add value in this area
- a scrutiny review would be timely as it could link into the current Lewisham Future Programme work.

7. Key lines of enquiry (KLOE)

7.1 It is suggested that the review covers the following key lines of enquiry:

7.2 Fees and charges

- What is the role of the Fees and Charges Working Group?
- How regularly are regulated and non-regulated fees and charges (including parking fines and charges for road closures) reviewed?
- What steps is the Council taking to improve customer insight and use relevant information and data to understand demand and its drivers and set fees and charges accordingly?
- How is the non-payment of fines, fees and charges dealt with?
- What steps are being taken to improve the way services work with the central Debtors team?

7.3 Assets

- What methodology has been followed in relation to the rationalisation of the operational estate?
- Is the Council realising the full rental value of its commercial assets? What are the constraints?
- How is the non-payment of rent dealt with?

7.4 Investment income

- How successful have the changes made to the balance of investments been?
- Is the balance of investments right or is there any scope to change it further?

7.5 Other proposals and workforce development

- What other work is taking place across the Council, beyond the key work around fees and charges; assets and investments?
- Are any steps being taken to assess and develop the commercial expertise of Council staff?

7.6 Good practice

- What are other councils doing to maximise the generation of income and would any of these initiatives be suitable for implementation in Lewisham?

8. Timetable

8.1 The Committee is asked to consider the outline timetable for the review set out below. It is suggested that two evidence sessions are held, one focussing on the work already being carried out in Lewisham and how this might be

improved; and one focussing on good practice elsewhere and the feasibility of doing similar things in Lewisham.

First evidence-taking session (April 2015)

What is Lewisham doing?

- Receiving a written report addressing the KLOE outlined at paragraph 7.2, 7.3, 7.4 and 7.5 and appending the draft income strategy.
- Questioning officers on the written report.

Second evidence-taking session (May 2015)

What are other councils doing?

To address the KLOE outlined at paragraph 7.6 above by:

- Receiving a written report providing information on the approaches being taken by other councils to maximising the generation of income.
- Questioning external witnesses on the written report.

Recommendations and final report (July 2015)

- Considering a final report presenting all the evidence taken and agreeing recommendations for submission to Mayor & Cabinet.

9. Further implications

At this stage there are no specific financial, legal, environmental or equalities implications to consider. However, each will be addressed as part of the review.

Background Papers

- [Medium Term Financial Strategy](#), Report to Mayor and Cabinet (July 2014)
- [Hard Times, New Directions? The Impact of the Local Government Spending Cuts in London](#) produced by [the Centre for Analysis of Social Exclusion](#) at the London School of Economics, A Fitzgerald, R Lupton, R Smyth, P Vizard (2013)
- [Coping with the cuts? Local government and poorer communities](#) commissioned by the Joseph Rowntree Foundation, A Hastings, N Bailey, K Besemer, G Bramley, M Gannon and D Watkins (2013)
- The Local State We're In: PWC's Annual Local Government Survey [2013](#) and [2014](#)
- [Doing more with less: how London boroughs are using new powers to navigate budget straits and deliver local service](#), a Future of London report, J Wilson (2013)
- [Under Pressure, how councils are planning for future cuts](#), commissioned by the LGA, (2014)

For further information please contact Charlotte Dale, Interim Overview and Scrutiny Manager on 020-8314-9534

Appendix A

How to carry out an in-depth review

