

<b>Public Accounts Select Committee</b>			
<b>Title</b>	Income Generation Review - Evidence Session 2	<b>Item No</b>	3
<b>Contributors</b>	Scrutiny Manager		
<b>Class</b>	Part 1	<b>Date</b>	14 July 2015

## **1. Purpose of paper**

- 1.1. On 10<sup>th</sup> March 2015, the Public Accounts Select Committee received a scoping paper setting out the rationale for the in-depth review and providing some background information on the current situation within Lewisham and some proposed terms of reference for the review. The Committee stated that they wished to commence an in-depth review on the maximising of income generation.
- 1.2. The committee requested that there be three evidence sessions: the first of which would highlight good practice from other Councils; the second would expand on this and hear from expert witnesses in other Councils and the third would look at current proposals from Lewisham on maximising its income generation.
- 1.3. The purpose of this paper is to provide the committee with further information for consideration in its review. In particular, it addresses “expert witnesses from other councils” as set out in the key lines of enquiry listed in the scoping paper. It covers:
  - The policy context.
  - Details of the witnesses from London Borough of Brent and from Shropshire County Council in attendance at this meeting.
  - Summaries of the informal evidence gathering sessions with witnesses from the London Boroughs of Hammersmith & Fulham and Camden.
  - Additional information from Lewisham in respect of the evidence from Camden and Hammersmith & Fulham.
  - An Invitation to the committee to discuss the potential of these schemes, or similar, to be replicated in Lewisham.

## **2. Recommendations**

The Select Committee is asked to:

- Hear evidence from the witnesses from the London Borough of Brent and from Shropshire County Council.
- Note and review the information from the London Boroughs of Camden and Hammersmith and Fulham.

- Make comments and recommendations as necessary to progress the review.
- Note that there will be further evidence sessions on 29<sup>th</sup> September.

### 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% 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 2015/16<sup>1</sup>. 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 2013/14<sup>2</sup> with further cuts in funding expected until at 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.
- 3.3 Lewisham 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 charges<sup>3</sup>. 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.

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

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

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

#### **4. Evidence Session:**

- 4.1 The committee will hear evidence from **Aktar Chowdary**, Operations Director, Planning and Regeneration at the London Borough of Brent and **Tim Smith** and **Martin Key** from IP and E Ltd, a limited company owned wholly by Shropshire County Council.
- 4.2 LB Brent are undertaking a regulatory services review with the aims of increasing income and protecting services. Within Planning and Regeneration, a proposal has been made to set up an independent trading arm to deliver Building Control services. The aim is to maximise non-ring-fenced income to the local authority so that the planning & regeneration service is a net contributor to the general fund. IP&E are a limited company set up and owned by Shropshire County Council. IP&E were appointed by Brent Council to undertake phase 1 of the review in April 2015, through a competitive tender process. Appendices A and B provide full details of the work currently being undertaken.

#### **5. Wireless Concession - evidence from the London borough of Camden**

- 5.1 At an informal meeting, attended by Councillors Jamie Milne, Chris Barnham, Helen Klier and Jim Mallory, evidence was heard from Alec Hartopp, Programme Manager for Digital Connectivity and Ben Pass, ICT Programme Manager at LB Camden. They provided detailed information on the procurement and implementation of a wireless concession in public spaces in the borough. Appendix C shows the original report submitted to Cabinet in Camden on 18<sup>th</sup> July 2012.
- 5.2 The London Borough of Camden led and initiated a collaborative IT procurement project for wireless services, essentially a concession licensing use of street furniture to install Wireless networking equipment in exchange for income to the council. The aims included accelerating the take-up of wi-fi in areas where no coverage existed, stimulating the market, and generating income which was then ring-fenced for Economic Development and Social/Digital Inclusion projects.
- 5.3 The collaboration was initially with 16 London boroughs which helped to make the appeal very strong to the service providers. Sharing resources and expertise in legal services, ICT and procurement helped to save an estimated £30,000 per authority. The procurement model required no capital or revenue investment for the local authorities other than officer time. The maintenance, installation and removal costs were all taken on by the supplier. The fixed legal and consultancy costs for procurement were off-set by the income generated.
- 5.4 Some of the success criteria for local authorities collaborating included: better identification and ownership of risk; increased leverage through the collaborative competitive dialogue process; shared knowledge and expertise;

mitigation of risk through adoption of common approach to evaluation and management of the procurement process; and pooling of expertise. Although it would not be possible for a new authority to now participate in the existing scheme, the London borough of Camden would be able to share some of their expertise in the procurement and contract process as well as documentation.

- 5.5 The procurement process<sup>4</sup> resulted in a concession contract that is providing a minimum of 30 minutes free internet access per day to residents and businesses and 24 hour free access to the Camden Council website and related online services via a council branded Wi-Fi network deployed in areas of highest footfall in the borough. Currently the concessionaire in Camden (Arqiva) has installed 112 access points on council owned assets (lampposts and cctv columns) as part of the contract. They have approximately 40 additional access points of their own across the borough.
- 5.6 In Camden, areas of high footfall have been targeted by the suppliers but different suppliers can have different need for coverage in particular areas. This means that it can be very challenging to assess value on a site by site case. Generally speaking areas with high footfall or tourist destinations are often the most sought after.
- 5.7 The suppliers can use different models to generate their own income and the individual Council's assets and procurement process can favour one model over another. For example, The supplier can sell on targeted (and non-targeted) advertising and anonymised data of users or it can lease the mobile bases on to another supplier. They can also generate income by selling additional wi-fi to residents and businesses after the free allocation has been used.
- 5.8 As the model for basing the contract on price per column was not possible, Camden's model was based on a concession fee for exclusive rights to specified assets with additional percentage shares of gross revenue year on year. The prediction is for £3.5 million income over ten years.
- 5.9 The "small cells"<sup>5</sup> can be useful to the big mobile phone networks as they have coverage and capacity issues with 3G and 4G networks. It is estimated that an Operator (e.g. Vodafone) can rent the small cells for up to £4-7000 per annum from the concessionaire.

---

<sup>4</sup> LB Camden did not specifically procure a wi-fi service. As it was a concession, they were not able to procure services. Instead they expressed their aspirations which included the desire to provide free wi-fi. The bidders chose to include a wi-fi offer in their bid. This was not evaluated under procurement criteria so did not affect the outcome but was a benefit of the approach taken.

<sup>5</sup> "Small cells" is an umbrella term for operator-controlled, low-powered radio access nodes, including those that operate in licensed spectrum and unlicensed carrier-grade Wi-Fi. Small cells typically have a range from 10 meters to several hundred meters. With mobile operators struggling to support the growth of mobile data traffic, some are increasingly using small cells to maintain capacity.

- 5.10 In addition to the increased revenue directly from the contract, Camden is anticipating some reductions in costs from increased use of online services by residents and businesses and reduction in costs for staff who could use the network whilst working away from the office.
- 5.11 Currently the statistics in Camden show approximately 600 users per week on the network but it is believed that there is higher usage than this and that this will be captured by the analysis as it gets more detailed.
- 5.12 The contract and procurement process was technical and mitigating risks of State Aid<sup>6</sup>, Telecom Code Powers<sup>7</sup> and liability for Business Rates was essential. The contract is for 10 years and Camden included an exclusivity clause in order to safeguard its assets. The contract also ensured that Business Rates were paid by the concessionaire. This was particularly pertinent as there were changes in legislation around business rates for internet providers.
- 5.13 Statistics from the company “Point Topic” can be used to assess broadband coverage and connectivity in a locality helping to highlight areas to focus on in order to increase connectivity. In Camden there is a correlation between areas with low connectivity and high footfall meaning that there is demand from providers for rooftop masts in those areas.
- 5.14 Camden obtained metrics on network usage such as: number of active clients; data usage; user experience rating; top client usage; top applications. The information on cost savings through channel shifting had not yet been obtained in Camden but they hoped to have more information on this soon.
- 5.15 In addition to this, Camden is now looking at pursuing the possibility of income generation through installing mobile phone masts on suitable tall buildings in the borough. Clauses are currently being drafted for potential contracts to ensure that the risk from the Telecom Code Powers were mitigated such as adding wording to ensure that at the end of the term of lease apparatus remaining on a local authorities’ assets transfer back to them. There was a need for specialists to ensure that the terms and conditions provided adequate protection for the council and residents to ensure the return of assets to the borough.

---

<sup>6</sup> Using taxpayer-funded resources to provide assistance to one or more organizations in a way that gives an advantage over others may be state aid. <https://www.gov.uk/state-aid>

<sup>7</sup> The Electronic Communications Code (‘the Code’) enables electronic communications network providers to construct electronic communications networks. The Code enables these providers to construct infrastructure on public land (streets), to take rights over private land, either with the agreement with the landowner or applying to the County Court or the Sheriff in Scotland. It also conveys certain immunities from the Town and Country Planning legislation in the form of Permitted Development. <http://www.ofcom.org.uk/>

- 5.16 Housing estates are a controversial choice for phone masts and residents' concerns over matters such as health always need to be addressed. LB Camden have proposed to ring-fence any income for social and digital inclusion projects and put the positive outcomes in place upfront (such as free / subsidised wi-fi for the estate/free wi-fi for Tenants and Residents Association halls/ training for those he currently do not use the internet). These could also have the added effect of increasing channel shift to online Council services helping to further reduce council costs. Value could be maximised by having more than one operators' phone masts on a rooftop.

**Lewisham context – response to evidence from officers:**

- 5.17 The prospect of using street furniture in this way is definitely an interesting one with the potential of offering an enhanced service to residents (free wifi) with an additional income stream for the Council. There would definitely be a benefit into looking into this further and we welcome this having been drawn to our attention. The proposals around phone mast installations are also interesting and we would be happy to look into this further if Members wish to pursue this matter.
- 5.18 There are however some caveats, namely the PFI contracts that much of our street furniture are subject to. Careful legal discussions with our partners and contractors would be necessary. Also there is a possibility that it may be harder to secure the levels of income in a borough without so many areas of high footfall and further investigation into the predicted costs and potential revenue would be needed. This is a very specialised area which could also pose challenges in terms of the specialist knowledge and expertise which may be needed during the procurement/competitive dialogue process. In terms of the phone-mast options, as mentioned in the evidence, this can be a controversial area and a detailed cost benefit analysis would need to take place.
- 5.19 Further investigations and discussions with other boroughs who were part of the joint procurement process for the wireless concession, in particular ones with similar constraints due to PFI contracts would be beneficial. Also further discussions with other boroughs that took part in the process, that have a more similar profile to Lewisham in terms of number of areas with high footfall and tourists would be useful.

**6. Commercialisation of staff – evidence from the London Borough of Hammersmith and Fulham**

- 6.1 At an informal meeting, attended by Councillors Jamie Milne and Jim Mallory, evidence was heard from Lyn Carpenter, Executive Director, Environment, Leisure and Residents Services Department, Hammersmith and Fulham on commercialisation and income generation strategies at an informal meeting on 11<sup>th</sup> June 2015. The key points of her presentation are summarised in this section.

- 6.2 Commercialisation can be defined as developing an organisation that is customer oriented and keen to enhance the customer experience each and every time. Ensuring that service interactions are easy for the customer and enhance the customer experience as well as being responsive to their needs. Developing a commercial culture helped to maximise income generating opportunities whilst developing innovative service delivery models.
- 6.3 At Hammersmith and Fulham (H&F), commercialisation is seen as a positive way of generating income to protect services. It could feel challenging at times and staff and managers needed to be supported through the process but the benefits to the organisation were substantial in terms of cross funding back into the general fund.
- 6.4 In order to develop a successful commercial strategy it had been essential to identify and examine income generating services, ensuring a thorough understanding of costs and service levels as well as competition and value. It had also been important to properly assess “contributions” of non-statutory services and use thorough analysis to help make difficult choices. Some services had routinely been subsidised at higher rates than others purely due to annual price rises effecting costs across services differently. If there was subsidy from the Council it needed to be properly assessed and be based on policy rather than being applied randomly from historic price uplifts and ineffective cost analysis of inflationary increases.
- 6.5 In addition, better segmentation of the Council’s customer base was required to move away from the assumption that “one sized fitted all” to a comprehensive understanding of different customers and service areas needing different arrangements and staff needing different skills. An example of this is increasing income from Registrars verses income from Trade Waste. These two services would need very different skills-sets amongst staff and approaches. There also needed to be an effective understanding of debt and debt recovery to ensure cost efficiencies and sensible service provision decisions. There had needed to be a shift across the whole organisation ensuring an entrepreneurial and commercially minded staff. Proactively cross-selling of services by staff was key.
- 6.7 Key features of the Hammersmith and Fulham approach included a simple, effective and robust approach to sales and marketing. Namely:
1. Identifying and maximising external income opportunities across all areas. This involved a mix of retention, acquisition and win-back strategies to increase then maintain customers. It also involved effective debt management strategies.
  2. Creating a sales service ethic amongst officers. Engaging and motivating as well as incentivising via performance related pay and sales targets.
  3. Ensuring that this was all underpinned with an appropriate and fit for purpose commercial infrastructure.

4. Ensuring there was a focus on customer experience. Customer Loyalty and lifetime customers were valued highly.

- 6.8 An example of the success was Commercial Waste. Income from this has grown by 30% in 4 years and H&F market share has increased by 20% in this time to over 40%. Profits are returned to the corporate budget and £0.5 million has been returned to the central fund over this time. Kensington and Chelsea are also pursuing a similar approach and have secured around 70% of the market share in Commercial Waste. Targeting high value customers was one of the changes that helped to secure this increase. Staff are encouraged to understand the balance between focussing on high value customers vs overall customer numbers and to be flexible to adapt to changing markets as they happened.
- 6.9 Another example is cited by H&F as being a change of mind-set in the events and lettings team meaning that over the last four years they have become entirely self-funded by the income they generate and in addition to this they made a contribution of £0.4 million to the central fund over this time. This represented a 25% growth in external income over the period. This was effectively a change of mind-set beyond covering costs to generating profit to feed back into the general fund.
- 6.10 Traditionally there had been problems understanding markets and fully understanding the strengths of services. A top down analysis helped to identify key income generating activities for the Council including high level income and expenditure comparisons with other London boroughs and comparisons with private sector providers. Managers engaged staff to carry out diagnostics of skills and capabilities across service areas. This included: understanding current and potential customer bases; the true costs of generating income (i.e. is there a real surplus after all costs met); understanding the market and customer requirements; and understanding churn including rates of acquisition, retention, win-back, and conversion of customers.
- 6.10 Commercial skills are not necessarily inherent in the public sector workforce and it had been important to teach staff selling techniques and maintain engagement to help with the transition. Staff needed to have high energy, work hard have qualitative and quantitative focus, be results orientated, work to targets and be focussed on the needs of the customer. They also needed to be credible, have a thorough understanding of the product and be able to sell and close on a sale.
- 6.11 In order for this to be successful, sales targets were introduced and new performance indicators were created and monitored such as the conversion



rates for new customers. Staff were rewarded through performance related pay; there was an increased focus on ensuring performance of any sub-contractors. There was training for officers to understand the importance of customer loyalty and how this linked into increasing the market share of a service. Net Promoter Scores<sup>8</sup> were compiled to measure customer loyalty and benchmarked against the private sector. Staff were encouraged to think about levels of service (Gold, Silver, Bronze) and matching the requirements of the customer with the level of service. Thinking about branding was important and exploiting the power of the brand of a good council – increased levels of trust and confidence from customers. Managers had to ensure they recognised success and rewarded and praised excellence to keep staff positive and motivated.

- 6.12 There was also an increased focus on customer interfaces. For example, the first point of contact for many customers is the reception staff and they needed to have the right skillset to match the customer focussed culture change. H&F introduced a strong ethos of focusing on the customer and customer experience across the whole Council. Phones had to be answered within three rings and messages followed up on promptly. In addition to this a “Customer and Business Development Officer” with a private sector background to help with the transition. No consultants were used during the process; all expertise was built up in-house.
- 6.13 Appendix D lists other ideas that had been considered by H&F as income generating ideas and shows questions raised to ensure a thorough understanding the market place and to balance service level, quality and price.
- 6.14 There were challenges experienced and in addition to those already listed these included: understanding the true costs of services as the information could be very difficult to obtain in some circumstances; helping and supporting staff to understand the technical concepts and the shift to a more commercial

---

<sup>8</sup> The Net Promoter Score, is based on the fundamental perspective that every company/businesses's customers can be divided into three categories: Promoters, Passives, and Detractors.

By asking the question — *How likely is it that you would recommend [this service] to a friend or colleague?* — you can track these groups and get a clear measure of your company's performance through the customers' eyes. Customers respond on a 0-to-10 point rating scale and are categorized as follows:

- **Promoters** (score 9-10) are loyal enthusiasts who will keep buying and refer others, fueling growth.
- **Passives** (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings.
- **Detractors** (score 0-6) are unhappy customers who can damage your brand and impede growth through negative word-of-mouth.

To calculate your company's NPS, take the percentage of customers who are Promoters and subtract the percentage who are Detractors. Work can then be targeted to increase number of promoters and reduce number of detractors.

outlook; and the time and energy needed to make the changes. The need for the right people, right skills and right approach.

- 6.15 Hammersmith and Fulham believe that their change in focus to a more commercial strategy has been able to protect service provision across the Council by covering costs in non-statutory areas and bringing in profit to the general fund to protect other services.

### **Lewisham Context - response to evidence from officers**

- 6.16 The presentation from Hammersmith & Fulham provided a different view of local authority income generation with a strong emphasis on commercialisation. It is fair to say that much of what was described in the presentation is what officers in Lewisham have been doing for some time, albeit in a less comprehensive way. In particular, there are examples of good practice in environmental services which have proved successful in terms of providing sufficient levels of income to enable services to be delivered effectively.
- 6.17 Members will be aware that central to the Lewisham Future Programme income generation strand, is a thorough review of the Council's fees and charges. The Council does have all the necessary frameworks in place to help support the more enterprising approach which it needs to take to maximise income generating opportunities. Once the fees and charges work is fully underway, officers will continue to look outwards and learn from organisations such as Hammersmith and Fulham in employing best practice wherever it is considered appropriate.

## **7. Further implications**

- 7.1 At this stage there are no specific financial, legal, environmental or equalities implications as a direct result of this report. However, each will be addressed as part of the review and as part of the implementation of any agreed recommendations arising from this review.