

# Overview and Scrutiny

**Strategic income generation and commercialisation review**

**Public Accounts Select Committee**

**Spring 2019**

# Members of the Public Accounts Select Committee 2018-19



**Councillor Jim Mallory**  
Chair of the Public  
Accounts select  
Committee



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Vice-Chair of the Public  
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**Councillor Mark  
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**Councillor Paul  
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**Councillor Joan  
Millbank**

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# 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

- Purpose of this paper
  - 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.
  - 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 Lewestram in order to inform Committee discussions. It also provides some potential 'key lines of enquiry' for the year to help structure Committee discussions.
- Recommendations
  - 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.
- Policy context
  - 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 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).
  - Of the six overarching priorities in Lewestram's Sustainable Communities Strategy, the content of this report relates most closely to the ambition for Lewestram to be:

# Context: timeline (2010-2019)

2010

1

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.

2015

3

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

2016

5

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

2018-9

7

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

2013

2

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

2015-16

4

Public Accounts Select Committee carries out a review of the Council's approach to income generation.

2016-18

6

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

2019

8

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.

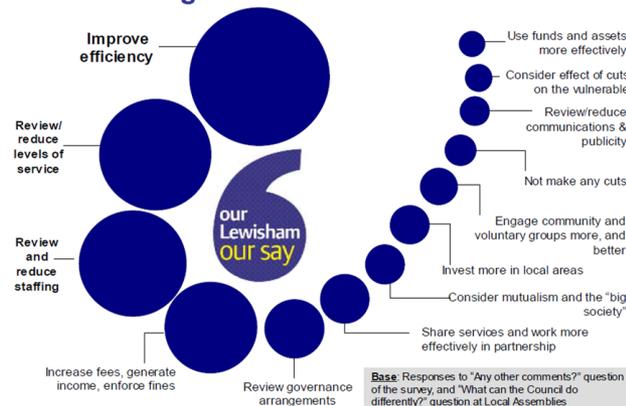
**Demand** is the quantity of your product or service that people are able and willing to purchase. **Supply** is the total amount of the product or service available to customers. It is important to understand supply and demand when proposing fees, charges or other commercial activity.

# 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.

## from local assemblies and from the survey: the things the Council should do....



## most frequently mentioned ideas from the public

### Do more of this...

- ✓ Partnership working and shared services
- ✓ Increase charges for non-essential provision for supporting children and families
- ✓ Recycle
- ✓ Look for income generation opportunities
- ✓ Encourage book donations and volunteer librarians
- ✓ Charge businesses for advice and encourage them to provide peer support
- ✓ Charge more for sport and leisure, libraries, activities for young people and parking

### Do less of this...

- ✗ Energy use, eg turn down heating by a degree or two, switch off lights
- ✗ Data collection and bureaucracy
- ✗ Use consultants
- ✗ Local climate change initiatives
- ✗ CCTV and Street Wardens (but involve local communities more in reducing crime and anti-social behaviour)

- ✗ Lewisham Life

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..'

## 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.

## 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.

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
<b>Total</b>	<b>37,704</b>	<b>63,502</b>	<b>24,371</b>	<b>30,847</b>	<b>7,013</b>	<b>163,437</b>

Source: Council savings and budget reports.

# Background: income strategy and guidance (2015)



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.

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.

*"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.

## Committee recommendations

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.

Overview and Scrutiny

**Income Generation**  
**Public Accounts Select Committee**

October 2015



# 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.

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.

### 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)



Income Generation Opportunities Review

Summary Report



October 2016

- Financial system problematic
- Variable compliance with expectations of Income Generation Strategy
- Few policies, procedures and systems that proactively 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.

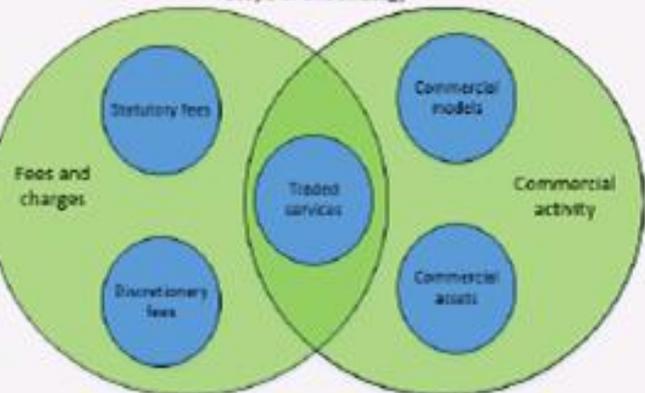


London Borough of Lewisham  
**Income Generation  
Strategy**  
2019-2022



## Council income sources

Scope of this strategy



## 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.

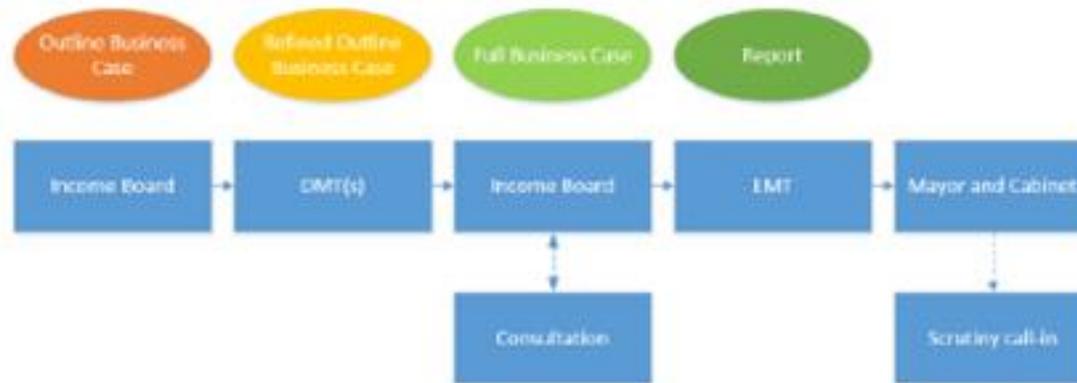
Officers have developed the process on the right based on the Treasury Green Book's five case model. It is intended that comprehensive consideration be given to the opportunities and challenges of all new proposals. The process can be used to analyse new commercial proposals as well as proposals to introduce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



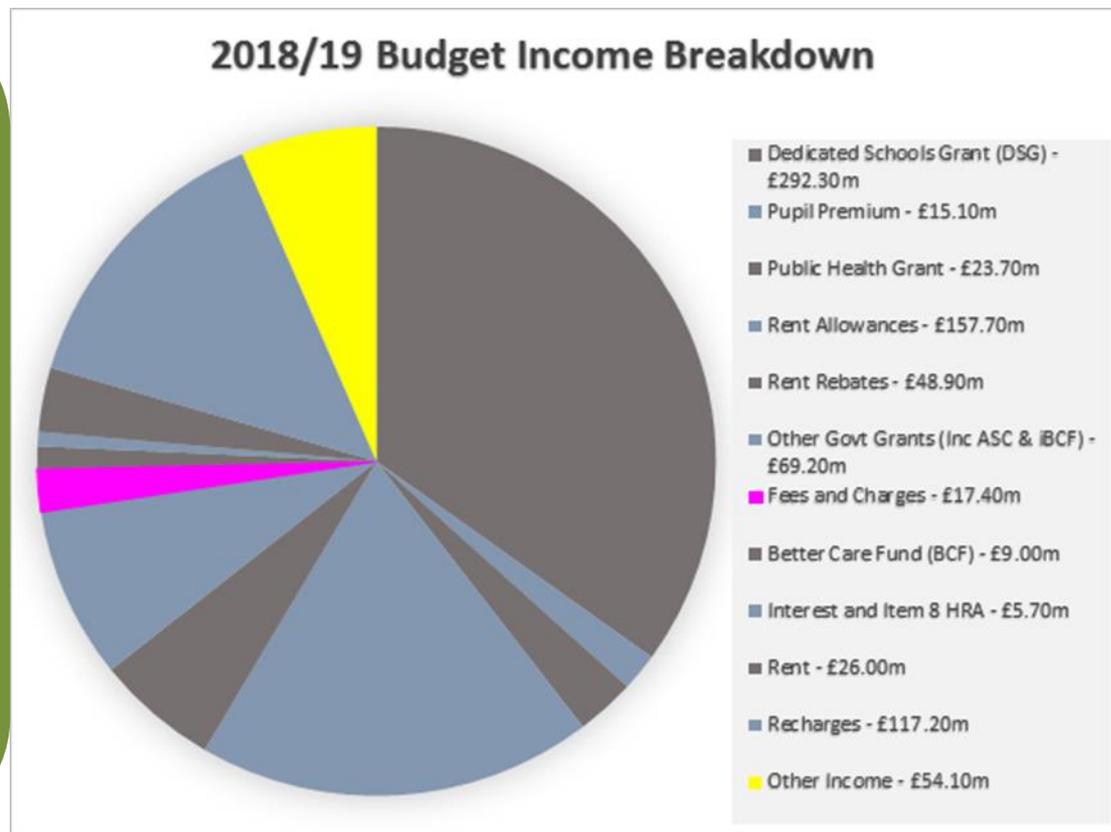
## Income stream owners

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

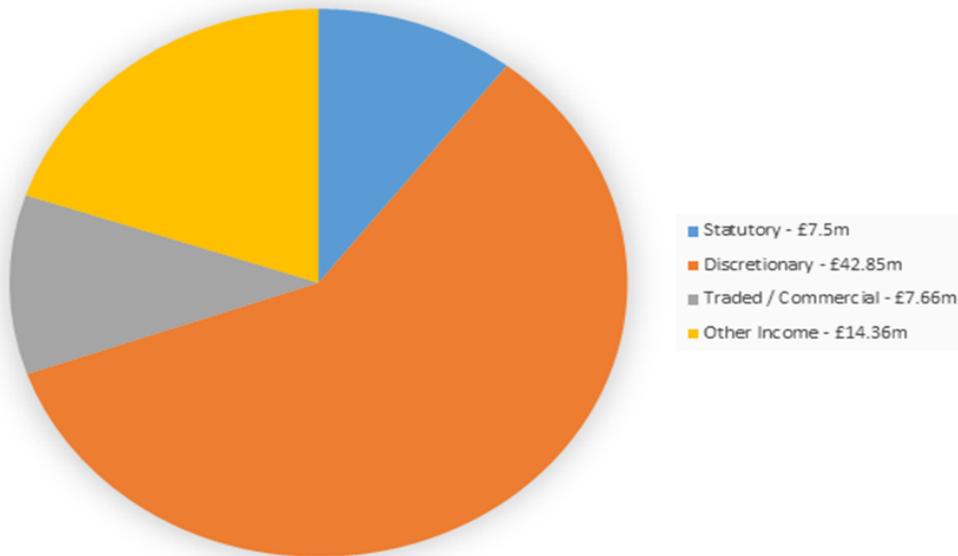
## The Council's sources of income

As part of its investigations, the Committee wanted to better understand 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

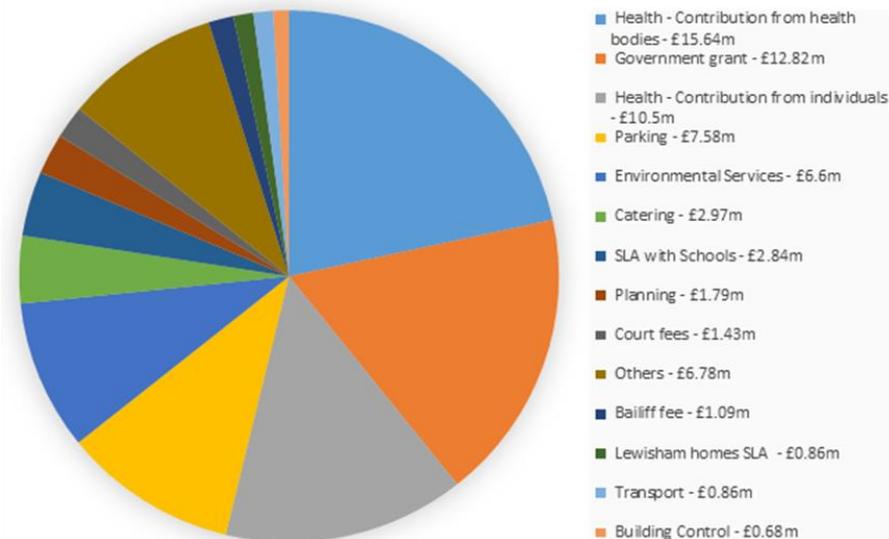
2018/19 Budget Income by Type



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.

2018/19 Budget Income by Service Type



# 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 of 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-averse 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 as 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 particular, 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%20%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%200municipalism%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-averse 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 Lollipop 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.

### Upskilling workforce

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-swanea-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.

**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](http://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 organised 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 Adherence 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 "big 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