

Public Document Pack

Public Accounts Select Committee Supplementary Agenda

Wednesday, 30 November 2016

7.00 pm,
Civic Suite
Catford
SE6 4RU

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Part 1

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4. Income generation update	1 - 44

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PUBLIC ACCOUNTS SELECT COMMITTEE			
REPORT TITLE	Income Generation – Update		
KEY DECISION	No	Item No.	4
WARD	N/A		
CONTRIBUTORS	Head of Financial Services		
CLASS	Part 1	Date	30 November 2016

REASONS FOR LATENESS AND URGENCY

It has not been possible to give five clear working days between the despatch of this paper and date of the meeting.

Lateness: This report is late in order for officers to have taken full view of the recent discussions at the Income Generation Board and in considering the final report from the consultant.

Urgency: This report is it provides a timely update to this committee given its review into income generating activity for the Council. Further views of this committee are being sought to enable officers to continue to move forward with the implementation of proposals which have been set out in the body of this report.

1. **Summary and Purpose of the Report**

- 1.1 To update the Public Accounts Select Committee on the progress being made with the income generation strand since the conclusion of the income generation review in October 2015.

2. **Recommendations**

- 2.1 The Public Accounts Select Committee is recommended to:
- 2.1.1 Note the contents of this report, making reference to the elements of income generating activity which has contributed to enable this Council to set a balanced budget over recent years. The schedule of agreed and delivered income proposals has been attached at Appendix 1.
- 2.1.2 Note the content of the consultant’s report. This consultant being commissioned as a result of specific recommendation of this Committee to appoint a commercialisation specialist at a senior officer level. The outcome of this review on income generating opportunities for Lewisham is attached at Appendix 2.
- 2.1.3 Agree to officers’ developing a commercial strategy for the Council to be formally agreed by Mayor & Cabinet.

3. Background

- 3.1 On the 10th March 2015, the Public Accounts Select Committee received a scoping paper setting out the rationale for the in-depth review into income generation and providing some background information on the current situation within Lewisham and some proposed terms of reference for the review. At the time, the Committee stated that it wished to commence an in-depth review which would provide some focus on maximising income generation for the local authority.
- 3.2 The Committee requested that there be three evidence sessions: the first of which would highlight good practice from other councils or public bodies; the second would expand on this and hear from expert witnesses in other councils and public bodies and the third and final session would look at current proposals in Lewisham.
- 3.3 The purpose of this paper is update members of this Committee on the latest position with income generation for the local authority. This particular paper covers:
- An update on the recommendations for the committee to consider. This includes a summary of all areas and leads explored over the course of the last 18 months;
 - Outcomes of the consultants' review into income generating activities opportunities for Lewisham;
 - Policy context
 - Conclusion and the proposed next steps with the programme and how this will link with organisational and cultural change programme currently being developed by the Council.

4. Policy Context

- 4.1 Over the course of the last six years, the Council has undertaken a significant revenue budget reduction programme to manage the difficult financial challenge it has been faced with. In the period from 2010/11 to 2015/16 the Council has identified and delivered revenue budget savings of some £120m.
- 4.2 The Lewisham Future Programme Board (LFPB) was established to transform the way in which Council services are delivered by 2020. The LFPB manages delivery of these changes and has worked with Heads of Service and officers across the Council to develop options to be considered at Mayor & Cabinet and Council. The work to date has focused on developing a range of options via 18 service and cross-cutting based reviews, each led by a Head of Service.
- 4.3 The LFPB continues to assess, challenge and support work strand leads bringing forward a range of possible revenue budget savings options. The focus since the budget in February 2015 has been on targeting £45m of savings proposals (£30m for 2016/17 and £15m for 2017/18). Contained within this has been a focus on generating higher levels of sustainable income.
- 4.4 To this end, various proposals have been and continue to be pursued by council officers as part of the LFPB income generation strategy. Those

proposals previously agreed in earlier budget rounds and delivered as part of the programme include:

- Increasing the amount of Council tax collected
- Generating more income from School Service Level Agreements
- Maximising investment income
- Increasing income from advertising
- Reviewing fees and charges with *a view to increasing income*

4.5 In November 2015, Mayor and Cabinet considered the income generating recommendations developed by the Public Accounts Select Committee. To recap, these recommendations and proposals included:

- *To identify and appoint a partner to deliver income through a wireless concession*
- *That a commercialisation ethos be endorsed and embedded throughout the Council*
- *To appoint a commercialisation specialist at Senior Officer Level*
- *That the portfolio of one cabinet post be amended to include specific responsibility and accountability for commercialisation and income generation*
- *That support for staff be embedded in any process or culture change within the Council*
- *That all Heads of Service be engaged in the process of moving to an increasingly commercial culture and in identifying income streams*
- *That in addition to a “top down” approach to identifying commercial strategies and income streams, a “bottom up” approach be encouraged for front line staff to report areas where they feel fee levels are wrong and to identify new areas of potential income streams. A platform for staff to do this should be created with clear feedback provided.*
- *That the true costs of Council services be understood*
- *That any restructures within the Council ensure the right grade of staff for the work.*

4.6 Since these recommendations were agreed as a result of this Committee’s review, the Council’s Income Generation Board has worked actively to implement the recommendations set of above. Significant progress has been made on these and this report provides members with a few specific examples of the progress which has been made. Officers will be able to expand further on these during the discussion at the meeting.

5. Income Generating Activity

5.1 The following section is subdivided into three elements. Firstly, it provides evidence that increased income generating activity has already made a significant contribution to the revenue budget savings process in the Council over

recent years. Secondly, it provides an update on the current progress with the projects of income generating activity being explored. Thirdly, it provides a summary of those activities which have previously been explored by officers, but where for one reason or another has not been continued.

The contribution of increased income generation to agreed savings

- 5.2 Each of the LFPB savings has been designated to particular strands. To date, there has been a number of revenue savings achieved through increased levels of income generation and this has come as a result of the work developed by this Committee and the key message reverberating throughout the organisation in that our ability to generate higher levels of income will in turn alleviate the pressure of making cuts to services.
- 5.3 Members should note, that set out at Appendix 1 is a summary of these sustainable income generating activities which have supported the Council in being able to set a balanced budget over these years. In the 2015/16, there was a total £3.12m of income generation targets to be achieved over three years with an additional £4.8m agreed as part of the 2016/17 and 2017/18 budget setting process. Currently, there is a further £3.4m of income generation targets in development which are set to be included within the 2018/19 and 2019/20 budgets.
- 5.4 It is important to note that not all the income has yet been fully realised, but given that have been formally agreed and endorsed by full Council, it is essential that officers continue to actively progress their implementation.

Some current progress

5.5 Advertising Income (Large Format)

- 5.5.1 A sustainable income target of £300k per annum has been agreed through increased revenue advertising.
- 5.5.2 Members will recall that the Council previously commissioned Wildstone Media Consulting Ltd to undertake an advertising appraisal identifying 46 sites across the borough which could possibly generate £281k of increased revenue. After further assessment from the Council's estates management department, a large number of the sites were excluded. This was mainly due to sites being misidentified as Council owned within the initial advertising appraisal by the company.
- 5.5.3 The Council has now identified four key sites where large format digital advertising could raise significant revenue. The four sites listed in Table 1 could potentially generate between £155k and £230k per annum.
- 5.5.4 Of these four sites further due diligence will need to be undertaken for those in Catford to ensure that the granting of a minimum 10 year lease for these sites will not cut across the wider regeneration ambitions for the area and the South Circular. This may further reduce the number of sites available, and therefore the total income achieved.
- 5.5.5 Furthermore, the Council currently receives income of circa £30k for some existing large format advertising on the first two of the identified sites below. The contract for these structures has expired but this current income will need to be offset through any new income made. The table below reflects this requirement.

- 5.5.6 In addition to the appraisal undertaken by Wildstone Ltd, the Council liaised with the Commercial Director for Hammersmith and Fulham Council to discuss their experiences of the out-of-home advertising market. It was advised that given the specialist nature of the market, the Council should appoint a Media management company to help with the tendering process and management of the leases.
- 5.5.7 Officers are currently in the process of obtaining quotations for these services and will be looking to appoint a provider before the end of December 2016.
- 5.5.8 Furthermore, it was also advised that out-of-home rental deals were considered to be property leases and as such would not be subject to the Council constitution or EU procurement rules.
- 5.5.9 It should be noted that to deliver the savings target aligned to this element of income generating activity, planning permission will be required for all sites and will therefore require support from the Strategic Planning Committee with regards to the application of planning policy. Furthermore, this will all need to be considered in the context of re-development activity taking place within the borough.

Table 1 – Large Format Advertising Sites

Location	Type	Status	Min	Max
Lewisham Shopping Centre	2x D96	Existing	£70,000	£100,000
Molesworth Street Car Park	Digital 48	Existing	£25,000	£35,000
South Circular Road by Canadian Avenue	2x Digital 48	NEW	£35,000	£45,000
Land at South Circular Road by Rushey Green	P10	NEW	£25,000	£50,000
Total			£155,000	£230,000
<u>Existing income to be replaced</u>			-£30,000	-£30,000
<u>Risk of site loss due to Catford Regeneration</u>			-£25,000	-£45,000
<u>Potential Total</u>			£100,000	£155,000

- 5.5.10 With the risks identified above and uncertainty with regards to the achievement of planning, it may be prudent to consider whether the income target of £300k should be reduced and the balance of the income re-allocated. Whilst Council officers will continue to seek suitable sites for large format advertising, and with regeneration and development new opportunities may arise, but these will not be delivered within the timeframes required.

5.6 Business Intelligence

- 5.6.1 The Council has seen an increase in its tax base by 6.2% since 2014/15. The tax base increase has been driven by the additional 2,300 properties now on the valuation list. Furthermore, this will continue to rise with the Mayor's commitment to build 500 new homes by the end of 2018, as well as those new homes which will be built as part of the Council's Regeneration programme which includes

Catford and Ladywell. Developer led schemes such as Lewisham Gateway, Catford Green Convoys Wharf etc., will continue to increase this tax base.

5.6.2 To build upon the already increasing tax base, the Council has looked at acquiring a transactional based business intelligence system to increase their income. The Council has previously worked with DataTank, who use Experian data to identify cases where the Council may be granting single person discount where it is no longer applicable. Once these cases are identified, letters are sent out requesting the resident re-confirm their status. Then where applicable the discount is claimed back to the beginning of the current financial year. This process is undertaken every three years and in 2013, the annual recoverable amount increased by £750k.

5.6.3 The London Borough of Hammersmith & Fulham has recently developed a system that uses both external data and Council held data to identify income opportunities in particular areas. This system could help identify false single person discount claims, additional new homes bonus opportunities and additional properties which should be on the Council Tax register.

5.6.4 Based on data available, it is forecast that potential total revenues of between £1.4m and £2m could be achieved.

5.7 Schools' Traded Services

5.7.1 The Schools' Traded Services Review undertaken by Lisa Bibby Consultancy in May 2016 estimated that annual turnover is in the region of £4.9m, with around 30 to 40 services sold to schools encompassing a range of activities. Overall, services are traded from three directorates involving nine Heads of Service and twenty-six business units. The review concluded that information on service charges should be in one place, and discretionary services should recover costs, or provide a business case for any subsidies.

5.7.2 There is a contextual background to schools traded services which members will need to note. Schools' funding reforms are driving increased transparency in relation to the use of Dedicated Schools Grant (DSG). DSG funding previously retained by the authority is planned to be replaced by a reduced central schools block. In addition, the government has announced the ending of the Education Services Grant. This reduction in revenue to the council will put even greater pressure on already reducing resources and it may no longer be viable to provide what can be deemed as discretionary services to schools as interdependent statutory services reduce.

5.7.3 Initial modelling of the impact of a national funding formula for schools suggests that, even with transitional protection, Lewisham schools will face financial challenges.

5.8 Wireless Concession

5.8.1 A key recommendation from the Committee's in-depth review was to appoint a partner to develop a wireless concession and or small cell network across the borough, the benefit being to increase wifi coverage and speeds for residents and those visiting the borough.

5.8.2 The Council have since partnered with Shared Access (SA) Ltd, who is currently running a pilot scheme for the council to gain greater clarity of the market

appetite for a network within Lewisham. This pilot scheme gives the company no exclusivity across the Council's asset portfolio.

- 5.8.3 SA Limited has been set the target of identifying and delivering, as a minimum five sites across the borough within this financial year, where each of these sites will be host to two small cell antennae. The expected revenue from these five sites for this financial year would be in the region of £60k of sustainable income.
- 5.8.4 At this current time, the company is marketing the Council's sites to the mobile operators to stimulate the market and generate further interest. Both the Council's and company's legal team are also finalising the standard lease agreement that will be used for each site.
- 5.8.5 Officers have given the company until 31 March 2017 to achieve this target, after which the pilot scheme will be reviewed. The Council is currently provided with monthly progress reports by the company and this will continue throughout the duration of the pilot.
- 5.8.6 Subject to the performance of the pilot scheme, the Council could still undertake a concession procurement exercise. However, based on the information obtained during market testing, the revenue to be gained through this route is considerably reduced.

5.9 Fees and Charges

- 5.9.1 The review of fees and charges for some regeneration and customer services related activities to ensure that they fully recover costs resulted in a 5% increase in income. Based on the 2014/15 Revenue Account Outturn, figures of a similar level of increase across all income from fees and charges would amount to £2m. Officers now have a complete and up to date database of fees and charges activity across the Council. What is being developed now, is a consistent cost modelling approach. This is underway, therefore it is not yet possible to say how much additional income may be secured simply by ensuring full cost recovery.

Examples of previously explored proposals

5.10 Early Payment Programme

- 5.10.1 In 2014, the Council engaged with Oxygen Finance Limited. The objective of the Oxygen Finance Early Payment Programme (EPP) for Lewisham was to generate income through early payment rebates for suppliers in return for early payment of its invoices. This would be achieved whilst delivering efficiencies and improvements in the procure-to-pay processes and supplier relationship management activities.
- 5.10.2 The business case is predicated on an enrolment of existing suppliers to join EPP on a voluntary basis and future suppliers through embedding early payment into tenders. Once a supplier had signed up, their invoice would be subject to payment ahead of terms in exchange for a fee (rebate). The fee taken would be calculated dynamically based on the number of days ahead of term that payment had been achieved, i.e. if the invoice is delayed for payment for some reason – such as a dispute – no fee would be taken.
- 5.10.3 Officers spent the best part of a year on this engagement with Oxygen Finance undergoing a full feasibility assessment. Ultimately, it was decided not to proceed with this proposal for various reasons including what appeared to be

prohibitive contract terms and the extent to which exclusivity could have hampered the Council in its progression of other complementary solutions.

5.11 Advertising Income – Fleet Vehicles

5.11.1 Another aspect of potential advertising income arose when officers explored the viability of advertising commercially on the Council's fleet vehicles.

5.11.2 The Council's previous fleet advertising provider, Agripa Ltd, had been in discussions with the Council to actively sell the Council's fleet advertising space on their behalf. This was expected to generate revenue for both the Council and Agripa Ltd at an agreed percentage split.

5.11.3 Unfortunately, after many discussions and development of the project, in March 2016 Agripa Ltd informed the Council that they would no longer be looking to provide this service. Subsequently, in April 2016, the company went into administration.

5.11.4 Officers has made attempts to continue with this project and the Council undertook soft market testing, issuing surveys to local businesses and opening a dialogue with other boroughs. Following a relatively poor response, and given the limited returns which other boroughs had been experiencing in pursuing this, it was decided not to continue with this project.

5.12 In Summary

5.12.1 Since the original 2015/16 budget savings were agreed, there have been a range of income generation projects which officers have pursued, some of which have not been fully achievable, whilst others have come to fruition.

5.12.2 It is important to re-iterate that a significantly growing proportion of the 'savings' being delivered as part of the budget process each year, stem from income generating and commercial activity from across the authority.

6. Outcomes of the consultants' review into income generating activities opportunities for Lewisham

6.1 Plans to recruit a specialist in commercialisation were put in place. However, following initial recruitment activity in late spring 2016, the need to be clearer on the requirements of the role was identified. Interim plans were developed including the appointment of a consultant to work with officers to understand better the current internal context and readiness for change, and specifically to:

- 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

- to undertake an environmental scan to ensure that best practice from other local authorities and public bodies are considered in the context of developing the council's income generation and commercial strategies.
- 6.2 Officers commissioned Lisa Bibby Consulting to undertake this work. The short piece of work was planned to be delivered by July 2016 however, following an initial document review it was recognised that more detailed engagement with key officers was required to develop a clearer map of current income generation activities together with existing enablers that support income generation and barriers faced. A series of one to one interviews were planned with all but one Head of Service, Group Services Managers and key project leads for current income earning projects. Officer availability, reflective of the current capacity issues, meant that engagement was spread over a three month period, impacting on the initial project timeline.
- 6.3 Attached at Appendix 2 is a summary report of the consultant's review, which goes further in developing the recommendations established by this Committee in autumn 2015 and really provides a much firmer and clearer basis on which to build commercial and enterprising culture for the authority. Members should note that the full report together with a number of technical appendices have been submitted to the Income Generation Board to inform its work in detail.
- 6.4 Following a presentation to this Committee of the interim report in July 2016, this final report encapsulates those discussions into one complete document. By way of headlines, the full report sets recommendations into four main categories:
- *Vision and Strategy*
 - *Leadership and accountability*
 - *Modelling and best practice*
 - *Culture and communication*
- 6.5 The full summary of the consultant's report is attached at Appendix 2. As summary of the key themes are set out in the following paragraphs in Section 6, with a summary of the final recommendations set out in Section 7 of this report.

Consultant's review – key themes

- 6.6 *Vision and Strategy*
- 6.6.1 A major hindrance to the Council embedding a commercial ethos, is lack of clearly defined commercial strategy.
- 6.6.2 Given the lack of a clear strategy, there is also a lack of understanding around 'commercialisation'. During the officer engagement, it was found that commercialisation is often seen purely as mirroring the private sector. Furthermore, there was concern in the investment currently being made in commercialisation where 80% of the Council's duties are statutory.
- 6.6.3 It would appear as though there is a conflict between the current vision of the Council and how income generation and commercialisation fits within this vision. Furthermore, there is a definite need to improve the general understanding of what it means to be commercial within the public sector.

- 6.6.4 The current focus of the income generation programme seems to be predominantly on cost reduction or income management. Similarly 'fees and charges' work is aimed at full cost recovery ensuring services are sustainable.
- 6.6.5 Where the Council wishes to make actual net profit to offset the level of savings required, there is need to set up separate trading companies. These although beneficial, come with a multitude of risks such as reputational and financial risk.
- 6.6.6 There is a focus on '*enterprise to reduce costs, developing better understanding of the market (i.e. customers/ residents) in terms of needs and expectations and delivering value, in the form of social and financial benefit*'. This intertwines the focus of income generation with the assurance of delivering social value.
- 6.6.7 The commercial strategy and vision should be developed and agreed at a political level so that there is a clear remit to officers when undertaking income generation and more commercial activity. This would then help develop officers understanding of what commercialisation means to the Council and how it should develop. Moreover, it would give a clear direction for both future income generation and procurement and commissioning activity.

6.7 Culture and Community

- 6.7.1 Currently, there is significant existing pressure on officer time and resources. Additionally, specialist skills needed to support service design are in short supply. This means that for large scale developments often external resources are commissioned. Critical to a cultural change programme is investment in people and as such there should be a consideration to developing a training programme for service managers. This would provide the skills necessary to help embed a more commercial ethos across the Council.
- 6.7.2 Currently, corporate financial and information management systems are not designed to easily or effectively inform or track income generation activities. Similarly, there are no standard processes or templates to fully facilitate officers in commercial ways of working. This can lead to difficulties in getting a good understanding of current service demand as well as an understanding of the market services operate within.
- 6.7.3 Over the past three years, the Council has begun to take a more commercial outlook across services. It is acknowledged by the consultant's review that there are excellent examples of service leadership resulting in increased income. It is crucial that these skills are being fully utilised and are directed into the areas with the highest need.
- 6.7.4 Many of the services currently provided by the Council cannot statutorily generate a profit and thus the Council can only fully recover their costs. This means that income generation cannot be used to reduce the level of saving necessary, unless a fee or charging based service is not fully covering its costs. There is a clear emphasis on ensuring services use a robust costing model and have a good understanding of full cost recovery.
- 6.7.5 Similar to many local authorities, the Council commissions out a large proportion of their services. Based on the 2016/17 budgets, it is estimated 75% of the Council's services and supplies are provided by external suppliers. There are some significant opportunities to how we propose to strengthen our clienting arrangements for such contracts.

- 6.7.6 Given the amount the Council spends on commissioning services, it is a fair assumption that a proportional amount of officer time is spent on both procurement and commissioning of contracts. This is likely to be the largest commercial element of officers' roles across the services. Currently, the Council has a devolved procurement and commissioning function with pockets of expertise across the Council.
- 6.7.7 The key drivers behind a more commercial culture can then be reduced down to four areas, these being: a clear commercial strategy; a solid understanding of full cost recovery; market intelligence and good and effective contract management.
- 6.8 Leadership and Accountability
- 6.8.1 Current strategic leadership arrangements are within the gift of the LFPB. Recently, there has also been a revitalisation of what was previously the 'fees and charges' working group. Furthermore, the Income Generation Board convenes each month. This consists of Heads of Service from across the Council.
- 6.8.2 Having redrafted the terms of reference, it is recommended that these should include a corporate gateway process for any new income generating developments, to ensure that council resources are being used as efficiently as possible to deliver best value for money.
- 6.8.3 During the review, a perceived lack of access to procurement and contract management capacity, skills and expertise was highlighted as challenging by a number of Heads of Service. Recent budget cuts have resulted in loss of capacity in these areas. As with effective income generation, commercial skills, knowledge and expertise are at the heart of effective procurement and contract management. A number of authorities have brought these functions together to maximise efficiencies and effectiveness.
- 6.9 Modelling and best Practice
- 6.9.1 Historically a number of best practice initiatives have been created by the Council to enhance officer's commercial awareness and acumen. In 2013, there was a creation of a full cost recovery calculator to help service managers think more about the full cost of their service. In 2015, the income generation strategy and guideline was agreed by Mayor & Cabinet. Due to lack of resource and a formal roll out, both initiatives unfortunately did not create the benefits originally anticipated.
- 6.9.2 Currently, there is a dispersed leadership and management of income generation activity. Furthermore, there are no actively used corporate costing or pricing policies. Research from other authorities has found that having these in place often provides greater assurance and helps manage risk. Officers equally identified that there is a need for a suite of documents, software packages and guidance, whilst being mindful processes are proportionate to risk and return.
- 6.9.3 A crucial tool in understanding markets is benchmarking. The level of benchmarking across council services varies. In some areas it can be problematic to attain suitable data, especially given the reduction in local government reporting requirements. However, services should where possible ensure there is active benchmarking being undertaken.
- 6.9.4 There is a significant opportunity to integrate a focus on income generation and commerciality within the digital transformation programme. Good systems are

key to facilitating commercial processes and talent within the Council. Investment into integrated data systems creates a firm foundation for the Council to build a more commercial infrastructure.

- 6.9.5 Where services are being commissioned, the only way costs can be reduced is through effective and diligent contract management. When the new Public Contract Regulation 2015 was published, the Council updated all standard templates and guidance for officers. Currently, there is no specialist expertise within the Council. Given the high level of external spend, reducing third party expenditure by a small margin could help realise large cost savings to the Council.
- 6.9.6 It is crucial that where services are competing with the private sector and or procuring their services, that they have a clear understanding of the market. This means that in depth market testing, planning and appraisal should be undertaken. There is also a need to understand how the service is performing currently. This requires good transactional data to facilitate useful analysis. Currently, the Council does not have systems in place to produce this kind of data.

7. Summary of Consultant's recommendations

7.1 These are in summary:

- 7.1.1 The Council to set-out an agreed definition of 'commercialisation' with the development of a commercialisation strategy aligning with the wider vision.
- 7.1.2 Investment in income generation activities should be prioritised to make best use of limited leadership and technical resource. It is recommended that the Council prioritise those need low levels of investment.
- 7.1.3 The Terms of Reference of the Income Generation Board to encompass a corporate 'gateway process' for business case developments related to income generation.
- 7.1.4 To bring together strategic leadership of procurement management, contract management and income generation into a Head of Commercial Services role.
- 7.1.5 Refresh the income generation strategy to be aligned with the development of the proposed commercial strategy. This should include consultation with Heads of Service.
- 7.1.6 The following Guidance and documents to be produced and used by service managers:
- *Guidance, templates and mandated costing methodology*
 - *Refreshing of pricing policies*
 - *Identification of benchmarking data*
- 7.1.7 Digitalisation programme to consider specific needs of income generation and commercialisation programme;

- 7.1.8 A programme of networking, knowledge exchange and partnership working on issues of income generation and commercialisation should be developed with Lewisham's CIPFA nearest neighbours;
- 7.1.9 A change programme should be developed to support the delivery of the Council's commercial strategy;
- 7.1.10 Investment should be made into both systems and people in the form of templates, models, guidance notes and digital solutions;
- 7.1.11 Wherever possible staff should be involved in both the development of strategy and procurement or piloting of resources;
- 7.1.12 Continue to use existing officer and staff forums to facilitate knowledge exchange and collective capacity building. Regular updates should be made through existing council communication channels.

8. Financial implications

- 8.1 There are no specific financial implications directly arising from agreeing the recommendations to this report. However, any 'buying-in' of additional resources to support officers in the drive to increase income generation and develop a more commercial focus for the authority, will come at a cost. These costs will be defined more clearly and reported to members in due course.

9. Legal Implications

- 9.1 There are no specific legal implications arising from the report. Any legal implications arising will be considered in full when individual proposals are progressed through the committee.

10. Crime and Disorder Implications

- 10.1 There are no crime and disorder implications relevant to this report. Any specific crime and disorder implications will be considered when individual proposals are progressed through the committee.

11. Environmental Implications

- 11.1 There are no environmental or health implications from the matters arising within the report. Any specific environmental implications will be considered when individual proposals are progressed through the committee.

12. Equalities Implications

- 12.1 There are no specific equalities implications arising from the report. Any specific equalities implications will be considered when individual proposals are progressed through the committee.

BACKGROUND PAPERS AND APPENDICES

Short Title of Report	Date	Location	Contact
Income Generation Review (Scope and Sessions 1, 2 & 3)	10 th March 2015, 14 th April 2015, 14 th July 2015, 29 th September 2015 (Public Accounts Committee)	5 th Floor Laurence House	Selwyn Thompson

For further information on this report, please contact:

Selwyn Thompson, Head of Financial Services on 020 8314 6932

APPENDIX 1

2015/16 – 2017/18 Income Generation Savings

LFP Work Strand		Total Savings	Income Category (£000'S)				
			Assets	Regen'	Debt	Fees	SLAs
2015/16 Budget							
Savings for 2015/16, 2016/17 and 2017/18							
E3	Income from property assets	200	200				
E4	Up to date market rents and improved collection	595	595				
G1	Changes to fees and charges structures	974				974	
J1	Schools service level agreement income	751					751
O3	Establish internal enforcement (bailiff) agency	600				600	
	Income generating proposals – agreed	3,120					
	Total savings agreed in budget	39,000					
	Proportion of savings from Income	8%					
2016/17 Budget							
Savings for 2016/17 and 2017/18							
G2a	Advertising space on Council assets	300	300				
G2b	Wireless concessions on Council assets	200	200				
G2d	Debt collection improvements	250			250		
G2e	Parking income from more regulated zones	250				250	
J2a	Schools service level agreement income	100					100
J2b	Attendance to welfare charge schools for non-statutory services	150				150	
J2e	Schools estate management charges	220	220				
N3a	Garden waste income	500				500	
N3b	Recharge bulky waste costs to Lewisham Homes	500				500	
N6	Trade waste and parks income	500				500	
P2c	Increase in planning and economic development income	305		305			
	Income generating proposals – agreed	3,275					
	Total savings agreed in budget	23,158					
	Proportion of savings from Income	14%					

APPENDIX 1

2017/18 Budget							
Savings for 2017/18 budget							
A18	Charging for some adult social care services	500			500		
E6	Property investment acquisition	150	150				
E7	Develop private rented schemes	150	150				
M4	PLACE Ladywell leases	85	85				
M5	Hostel acquisition rental income	150	150				
M6	Charging for the handy person service	150			150		
M7	Claiming housing benefit due promptly	36			36		
Q6d	Claiming housing benefit due promptly	270			270		
	Savings to come from Income	1,491					
	Total Savings agreed in budget	6,949					
	Proportion of Savings from Income	21%					
Future budgets 2018/19 and 2019/20 (to be defined)							
E	Private rented schemes	875	875				
I	Commercialise ICT services	1,000			1,000		
N	Parks income	500			500		
O	Improved debt collection	1,000			1,000		
P	Planning fees	40			40		
	Savings to come from Income	3,415					
	Total Savings agreed in budget	13,405					
	Proportion of Savings from Income	25%					
Total Income 'Savings' (Delivered and Considered) via LFPB		11,301	1,515	1,715	1,556	5,664	851
			13%	15%	14%	50%	8%
Total Savings (Delivered and Considered) to date		82,512					
% of Savings considered from Income		14%					

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Income Generation Opportunities Review

Summary Report



October 2016

1. INTRODUCTION

As with many Councils, Lewisham Members are keen that the authority explores all the options for raising income to supplement resources available. Over the period 2010-2014 the Council made savings of over £120m. The Council faces further budget pressures with an £85m budget gap over the three years to 2017/18. Income generation has been a focus of the work of the Lewisham Futures Board for the past two years and has resulted in the identification of a number of specific service development projects and improvement activities with a view to increasing levels of income generated.

In March 2016, the Mayor of Lewisham agreed that the Cabinet Member for Resources should have the express responsibility and accountability for pursuing income generation, including commercialisation and that all Cabinet members need to be involved in identifying appropriate opportunities.

Plans to recruit a specialist in commercialisation were put in place. However, following initial recruitment activity in late spring 2016 the need to be clearer on the requirements of the role was identified. Interim plans were developed including the appointment of a consultant to work with officers to understand better the current internal context and readiness for change, and specifically to:

- 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
- to undertake an environmental scan to ensure that best practice from other local authorities and public bodies are considered in the context developing the council's income generation and commercial strategies.

The short piece of work was planned to be delivered by July 2016 however, following an initial document review it was recognised that more detailed engagement with key officers was required to develop a clearer map of current income generation activities together with existing enablers that support income generation and barriers faced. A series of one to one interviews were planned with all but one Head of Service, Group Services Managers and key project leads for current income earning projects. Officer availability, reflective of the current capacity issues, meant that engagement was spread over a three month period, impacting on the initial project timeline.

This is the summary report of the review. The full report together with a number of technical appendices have been submitted to the Income Board to inform its work in detail.

2: LEGAL FRAMEWORK

In its guidance document, 'Enterprising Councils – getting the most from trading and charging. 2012' the LGA highlights:

'The Localism Act 2011 introduces a new General Power of Competence (GPC), which explicitly gives councils the power to do anything that an individual can do which is not expressly prohibited by other legislation. This activity can include charging or it can be undertaken for a commercial purpose, and could be aimed at benefiting the authority, the area or its local communities.

By giving councils the flexibility to act in their own financial interests, the GPC will allow councils to do more than was previously sanctioned under wellbeing powers'

The LGA differentiates between 'Trading (i.e. to generate efficiencies, surpluses and profits) and charging (i.e. to recover the costs of providing a discretionary service)'.

Although the GPC does provide Councils will increased flexibility existing legislation remains in place and Councils must still comply with the provisions of the following:

Under the **Local Authorities (Goods and Services) Act 1970** councils were given powers to enter into agreements with each other and with a long list of other designated public bodies including to provide services. Payment terms are not limited to cost recovery.

The Local Government Act 2003 empowers councils to charge for any discretionary service on a cost recovery basis and enables councils to trade in activities related to their functions on a commercial basis with a view to profit through a company. Several service specific regulations also exist and primary legislation is not superseded by the 2003 Act.

3. MAPPING OF CURRENT POSITION

Work commenced with a desk top review of centrally held data, information and policy documentation relating to income generation and commercial ways of working. The review faced a number of challenges:

- as with most local authorities, current corporate financial and information management systems are not designed to easily or effectively inform or track income generation activities
- detailed information on service level income generation activity is not held centrally
- an earlier fees and charges data collection exercise commenced in 2015 to inform the review of fees and charges, has proved to be equally problematic due to the lack of

common systems, processes and reporting arrangements and therefore gaps exist in the information

- Lack of access to benchmarking data.

3.1 Scale, value and volume

The Income Generation Strategy published in 2015 states that 'in 2013/14 Lewisham generated £118.3 million of income from fees, charges and other service income'. At the beginning of the review the authority was requested to provide a financial report that documented all income generated from sales, fees and charges excluding revenue from Council Tax, business rates and grants which are out of scope for the purposes of the review. The initial financial report indicated some £71.3 million of income had been secured by the Council in 2014/15 however, once revenue sources such as Dedicated Schools Budget were removed, the figure reduced to approximately £40 million, which reconciles with the General Fund Revenue Account Outturn return submitted by the Council to Government for the same period. This indicated that total income for sales, fees, and charges was £40.5 million.

It is worth noting at this stage that the figures above are 'turnover' and not 'net profit', the latter being calculated by subtracting total expenses from total revenue. During the timescales of the review it was not possible to identify which services if any were generating a net profit.

A subsequent review of external CIPFA benchmarking information, which draws on Revenue Outturn returns indicates that Lewisham operates in the lower quartile for income generation when compared to its benchmark group.

Taking a strategic and coordinated approach to improving performance in traditional revenue account activities, both in terms of income generation and income management could therefore pay significant dividends in the form of increased revenue for the Council.

As part of the review, further work has been undertaken by officers to complete the original mapping work on fees and charges. This now provides a detailed map of all income generation activity related to fees and charges. The evidence gathered suggests that several services/charges have not been reviewed for some time including areas with high levels of income generation potential such as parking. The lack of use of a standard costing methodology across services means that full cost recovery, as required by the Council's Income Generation Strategy and by legislation for some services, cannot be guaranteed. Lack of evidence of the use of benchmarking data and initial market assessment also suggests that some charges could be at less than market rate.

3.2 Leadership and Governance

In terms of governance there is now leadership and oversight of income generation and commercialisation at member and chief officer level:

- **Cabinet Member for Resources:** responsible and accountable for income generation and commercialisation
- **Lewisham Futures Board:** provides corporate oversight of transformational programmes including Income Generation Programme
- **Income Board:** a senior officer group tasked with operational oversight, development and delivery of an income generation and commercialisation programme.

Management and operational leadership of income generation activities is currently distributed across services. Council functions that are heavily dependent on commercial skills, understanding and behaviour, including procurement and contract management, are similarly dispersed across services. Key support services that inform and enable effective income generation/commercial activity such as data analysis, marketing and financial business planning expertise is on the whole embedded within services.

3.3 Strategy

In 2015 the Mayor and Cabinet approved an Income Generation Strategy, a document that provides guidance to officers on income generation activity. 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.

‘Commercialisation’ is seen as a priority by members to ensure that the authority can maximise income generation going forward. However, a Commercialisation Strategy has yet to be developed and engagement with officers suggests that there is a lack of clarity on the definition of commercialisation in the context of a public sector organisation. This lack of clarity is leading to confusion and in some cases a loss of confidence.

3.4 Developments to date

The document review completed as part of this review, identified a range of specific enterprising income generation projects already underway including raising advertising revenue, the hosting of mobile telecommunications cells on council assets, exploration of the partnership working linked to the development of private rented accommodation and a detailed review of schools traded services review. These initiatives have been previously reported to members and therefore are not covered in detail in this report.

Significant environmental scanning has already taken place to identify good practice and potential opportunities for income generation that have been adopted by other local authorities and beyond. This includes work done by the Public Accounts Select Committee.

One to one engagement sessions with a wide range of officers, including all but one Head of Service, looked to add detail to the outcome of the document review. The engagement clearly showed that officers have a sound understanding of the specific legislation and statutory

guidance relating to income generation in their particular service area. Most officers considered that they were already exploiting as many opportunities as possible. There is evidence of three main approaches to increasing revenue income being employed:

- Review of fees and charges for existing services
- Growth strategies (e.g. existing services to new customers/markets)
- Development of new services/products.

3.4.1 Review of Fees and Charges: A recent review of existing fees and charges for some regeneration related services to ensure they fully recover costs resulted in a 5% increase in income. Based on 14/15 Revenue Account Outturn figures a similar level of increase across all income from fees and charges would amount to £2 million.

Similarly, the review of schools traded services estimated that 50% of a sample of traded services with schools were not fully recovering costs. A review of all fees and charged for schools traded services, using a consistent cost modelling approach, is still underway and therefore it is not yet possible to say how much additional income maybe secured simply by ensuring full cost recovery, however, it could be significant as the turnover of schools traded services in 2014/15 was circa £4.9m.

Thereafter, consideration needs to be given to whether services traded with schools can be charged at a level sufficient to generate a net profit. Under the terms of the Local Government (Goods and Services) Act 2003, payment terms for services provided to public authorities including schools are not limited to cost recovery.

However, national and local policy changes, together with the financial challenges facing the schools sector as a result of Schools Funding Reform, may severely limit the potential for the generation of income both in the form of full cost recovery and net profit, and therefore it will be important to manage expectations accordingly.

3.4.2 Growth strategies: A number of examples of services that have looked to/are looking to increase income through growth in volume of sales have been identified during the review. These include:

- extending in house Telecare services to non-social care clients
- planned roll out of IT shared service with Brent to other local authorities when service is established
- selling of enforcement agency services to other Boroughs.

At the time of the engagement no detailed assessment had been made on the likely value to the authority of extending these services to new customers or authorities.

3.4.3 New developments: the review has identified several examples of new income generation streams having been developed or in development. These include:

- income from advertising
- hosting of micro cell mobile signal transmitters on council assets
- development of a private rented accommodation model
- pre-planning application advice
- licencing pre-application support/training
- using powers relating to issuing of fixed penalty notices, for example, smoking in public
- pre-event advice services for private events on council land.

Some of these developments, such as the development of private rental properties with the Council retaining some or all ownership and therefore the opportunity to generate income, if successful, are likely to generate significant levels of income. The potential of pre-planning advice services to generate new income streams is equally significant, especially in light of emerging plans for significant regeneration linked to transportation links. Others may only bring in marginal increases in income but could ensure individual services remain sustainable and make a contribution to corporate and democratic core (CDC) costs and non-distributed costs (NDC) as well as overheads so reducing the burden on statutory services.

3.4.4 Skills, knowledge and behaviours: a number of notable examples of officers with strong commercial knowledge, skills and behaviours were identified during the course of the review, including in regeneration, corporate resources, education, environmental services and planning. The membership of the Income Board has subsequently been extended to capitalise on these skills for wider benefit of the authority.

However, the majority of officers articulated that they lacked the relevant skills and knowledge required to be commercial and indeed some were unclear about what the benefits would be for their services by adopting more commercial ways of working as, although this would increase council revenue generally, it may not necessarily benefit their service.

To date there has been limited training and development for staff to support the development of commercial understanding and skills. As recommended by the Schools Traded Services Review completed earlier in 2016, a number of workshops have been run for service managers responsible for relevant services to develop their understanding of costing methodologies and development of high quality service level agreements.

Officer engagement during the review highlighted:

- a lack of visibility of Council's Income Generation Strategy
- a lack of a consistent understanding of or a shared language relating to income generation and commercialisation

- variable knowledge and understanding the wider legal framework that enables /constrains income generation and commercial activity
- existing guidance and procedures are not applied consistently and failure to undertake annual reviews of fees and charges, together with lack of effective cost modelling to ensure full cost recovery, would suggest that there is still some avoidable leakage of income associated with existing services.

3.5 Local policy and strategic developments

There are a number of Council specific strategic and business developments that may impact on future income generation activity. Those highlighted during the course of the review include:

3.5.1 Organisational development and cultural change programmes: To support the significant transformation of the council, investment in an organisational development and cultural change programme is being made. Building on the authority's existing competency framework, the organisational development (OD) programme will look to support the development of commercial skills and knowledge.

The outcomes of this review will look to inform the development of future programme activities.

3.5.2 Digitalisation programme: the authority has embarked on a significant digital transformation programme. This includes investing £2.5m in modern, reliable and flexible IT infrastructure. Currently increasing income generation is not seen as a key objective of the IT transformation programme however existing investment plans will provide a strong platform on which to build. This review has however identified the need for specific investment in financial and other systems that can better support commercial activity including digital sales solutions or on-line shops for specific services and client groups such as schools.

3.5.3 Education Transformation: CIPFA identify income from fees and charges for services provided to schools as the second highest source of income from discretionary services nationally for local authorities. The turnover of council services sold to Lewisham schools in 2015/16 was approximately £4.9 million. In November 2015, a review of schools traded services was commissioned as part of the work of the Lewisham Futures Board programme with a view to increasing the amount of revenue generated.

The review identified a number of issues in terms of the leadership, coordination and management of services traded with schools and an action plan has subsequently been delivered to address these. However, as part of that review, a number of national and local strategic developments were identified that impact on both the existing and future traded

services offer including the new ***Lewisham School Improvement Strategy and Framework 2015*** that recognises the move nationally towards a school's led system of school improvement and the role that Teaching Schools play in the delivery of teacher training and continuing professional development and potentially other support services.

In summer 2016 the ***Lewisham Education Commission*** recommended that the Council needs to help Lewisham schools take on collective responsibility for supporting improvement and standards and support the establishment of borough wide, school-led, improvement partnership. Informal and formal collaboration should be encouraged and the Council should support schools who wish to set up Multi-Academy Trusts and are ready to do so.

The future of LA traded services to schools is heavily dependent on the nature of the borough wide school improvement partnership established and of the range and nature of other collaboratives that emerge. At time of writing, although work has commenced on implementing the recommendations there is not yet clarity on the nature of the partnership nor of the timescales for its establishment.

3.5.4 Schools Funding Reforms are driving increased transparency in relation to the use of Dedicated Schools Grant(DSG). DSG funding previously retained by the authority is planned to be replace by a reduced central schools block. In addition, the government has announced the ending of the Education Services Grant. This reduction in revenue to the council will put even greater pressure on already reducing resources and it may no longer be viable to provide what can be deemed as discretionary services to schools as interdependent statutory services reduce.

Initial modelling of the impact of a national funding formula for schools suggests that, even with transitional protection, Lewisham schools will face financial challenges. The ability of Lewisham schools to purchase services is heavily dependent on their budget situation and the current context would suggest that the potential for trading of services with schools is diminishing.

This schools income stream is therefore considered at high risk. More importantly is recognising the impact of this loss of income on core council services such as HR and payroll. The potential loss of scale efficiencies may require further specific investigation to inform further strategic planning.

3.5.6 Regeneration Strategy: A 'refresh' of the Regeneration Strategy 2008-2020 has commenced to reflect the different national and local economic circumstances since 2008 and respond to demographic changes forecast in the 2011 census. It will also be an opportunity to reframe the focus across the borough based on the evolving picture of housing, regeneration and development.

The refresh of the Regeneration Strategy may provide wider council services with further income generation opportunities for example provision of enhanced planning and development control services and potential increased income from leasing of high value advertising sites created as part of transport infrastructure developments. New development will also result attract new business that will contribute revenues through business rates as well as housing which will increase council tax receipts.

3.5.7 Strategic Asset Management Plan: The Regeneration Board has oversight of the delivery of the Council's new Strategic Asset Management Plan 2015-20 which includes plans for:

- asset optimisation and a reshaped operational estate
- delivery of the Accommodation Strategy
- greater partner engagement,

all of which have potential for supporting the Council's aspiration to increase levels of income generation. The Plan outlines the aspiration to identify new income opportunities from the operational estate.

Going forward the Council plans to take a longer-term view of the value of sites in determining their future role and is now actively investigating ways that assets can be used to generate a sustainable long term revenue income including the development of a property investment and development portfolio that might achieve both increased revenue income for the authority as well as social benefits. An example of this is the development of private rental properties with the Council retaining some or all ownership and therefore the opportunity to generate income.

3.5.8 South East London Sustainability and Transformation Plan: In December 2015, NHS England outlined a new approach to help ensure that health and care services are built around the needs of local populations. To do this, every health and care system in England has had to produce a multi-year Sustainability and Transformation Plan (STP), showing how local services will evolve and become sustainable over the next five years – ultimately delivering the Five Year Forward View (NHS, 2015) of better health, better patient care and sustainability of the NHS.

In South East London, the STP footprint comprises the Clinical Commissioning Groups and Local Authorities in the boroughs of Bexley, Bromley, Greenwich, Lambeth, Lewisham, and Southwark together with the providers located within it.

Although STPs are clearly driven by a need to deliver savings as well as deliver better health and better patient care, some local authorities are exploring the opportunities that they bring to secure income through investment in the prevention services provided by cultural, leisure and library services, through health and care estate rationalisation and the releasing of assets

for investment and development securing long term income for the council. Integration may also provide opportunities for co-location of health and care services with Council services bringing with it rental income.

4. OPPORTUNITIES, ENABLERS AND BARRIERS

One to one engagement sessions with Heads of Service responsible for service delivery explored their knowledge and understanding of Council vision, strategy and policy with regards to income generation and commercialisation. These sessions also provided an opportunity to share experiences, develop their thinking on possible new areas of income generation and to identify perceived barriers faced.

Sessions also took place with those Heads of Service responsible for corporate support services that enable and facilitate effective income generation/commercial activity including Heads of Law, Financial Services, Policy and Performance and Strategy. Senior officers responsible for service areas that help create the right environment in which other services might maximise income generation were also interviewed, such as colleagues from Regeneration.

Similarly, Group Finance Managers were asked to share their observations on current activity, opportunities to increase revenue, current levels of financial support available and any barriers faced.

The key learning includes:

- There is a perceived conflict between the Council's current vision for the borough with expectations around income generation and commercialisation
- The lack of a clear corporate definition of commercialisation causes confusion, with officers feeling unable to use the phrase as it is not language universally accepted at member and chief officer levels
- Political leadership in the area of income generation is inconsistent across portfolios resulting in some services feeling constrained in their ability to maximise income generation or behave commercially
- This conflict undermines confidence and leads to inertia in some areas.
- Performance management of targets is not currently a realistic prospect.
- Despite there being some excellent examples of effective income generation activity across the authority learning is not disseminated effectively.
- Strong commercial skills and knowledge present in specific service areas are not shared to the benefit of the Council as a whole
- Support for services from key corporate teams such as finance, legal, communication and marketing and data analysis is limited, is not always timely and can, by being risk averse, constrain rather than enable.

A small number of opportunities for new income generation were identified by officers during the course of the discussions including the potential for commercialisation of registrar services, development of a commercial events and festivals programme that attracts sponsorship and advertising revenues and the extension of the proposed private rented accommodation model to other sectors.

However, 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.

5. ENVIRONMENTAL SCANNING

5.1 income generation activities and opportunities

Previous investigation of income generation activity has informed the development of a number of income generation projects to date. Additional research has been undertaken as part of the review into the work of other authorities in this arena. The CIPFA nearest neighbour (NN) grouping was used as starting point as by default this group shares a number of similarities in terms of size, social economics characteristics, geography and political make up. All 13 CIPFA statistical nearest neighbours are London Boroughs and so are responsible for the same range of services.

The research looked at CIPFA income generation benchmarking data to identify areas of strength or higher performance when compared to Lewisham. This information can help prioritise more detailed research, potential joint working and knowledge sharing opportunities.

The London Borough of Haringey for example secures £458 of income per head from income generation activities (CIPFA Proactive Benchmarking Data 2014/15) compared to £139 per head by Lewisham. The data would suggest that they perform significantly better than Lewisham in terms of revenue income generation across education, highways and transportation, children's social care, housing services, cultural and related services.

There are however, very few examples of specific income generation developments underway in the NN group that are not already being actively pursued by Lewisham. Those identified include:

- energy related services (installation of renewable technologies to secure feed in tariffs and energy agency services),
- provision of memorials as part of an enhanced crematoria offer
- commercial tree services and pest control
- large scale commercial events in council parks and open spaces.

In its Practical Guide for Local Authorities on Income Generation (2015), CIPFA identified a number of new areas of discretionary charging being reported by councils, including:

- joinery
- vehicle maintenance (including for voluntary groups)
- MOT testing
- print services
- tree inspections for insurance companies
- gritting school playgrounds
- street lighting work for private developers
- property maintenance work for vulnerable people
- production of ID badges and security passes for other organisations
- council catering services for those hiring council accommodation
- transcription or translation services
- taking on – for appropriate remuneration – areas of work as a subcontractor that the main contractor for a council service does not find it cost effective to deliver.

Building on work undertaken by the Public Accounts Select Committee, more detailed research has also been undertaken into the current commercial and income generation activities of authorities such as the London Borough of Hammersmith and Fulham (LBHF). Subsequent discussions with the LBHF have identified potential opportunities for Lewisham to increase income through better use of business intelligence.

Over the past 5 years LBHF has made an estimated seven figure investment in the development of business intelligence capacity and capability to maximise the effectiveness of services in terms of delivering outcomes. Across the authority better use of business intelligence has generated some £5 million of increased income and cost savings by using forensic analysis of data.

LBHF have modelled the potential financial benefits for Lewisham of using LBHF's transactional services business intelligence solutions relating to council tax and new homes bonus (i.e. reducing false claims for single person discount, reducing properties declared as empty and identifying unregistered properties). Their modelling estimates potential additional income of **£1.38 - £2.1 million per annum** in the form of additional council tax and new homes bonus. The business intelligence products are offered on the basis of a gain share arrangement with LBHF being paid 5% per year for 3 years of the annual value of the financial benefits received by Lewisham Council.

Lewisham's current investment in digitalisation provides a timely opportunity to explore this approach further as integrated data systems are to be upgraded. Further discussion is already underway with LBHF to assess the relative value of entering into a partnership agreement with their Business Intelligence Service or to invest in an in-house solution.

5.2 Environmental scanning – structure and resource to maximise income generation

The scanning work gathered information on commercial/income generation strategies in place, leadership and staffing arrangements and specific income generation projects or

programmes. Research also looked to identify any alternative trading models adopted together with the rationale.

Analysis of the information highlights a number of similarities across the highest performing CIFFA NN authorities in terms of having in-house dedicated leadership for commercialisation, often encompassing income generation, procurement and contract management, recognising the similar and complementary skills set required in these roles. This is the approach that Hammersmith and Fulham has adopted although specific financial, legal, business development and intelligence support services currently remain embedded in relevant services areas.

Islington has recently established a trading company which will initially offer a small basket of services on a commercial basis to a range of potential customers both and outside the borough boundary. Waltham Forrest are looking at the benefits of establishing a trading company for its Building Control services. Following a five-year investment in commercialisation, Hammersmith and Fulham is in the process of setting up a trading company through which services ready for commoditising can be sold.

In terms of other alternative trading models Camden has established a mutual with its schools that delivers a range of support services for schools both within the borough and outside.

5.3 Alternative Delivery Models

As outlined in section 2 above the council can charge individuals and non-public authorities for discretionary services but only on the basis of cost recovery. The Council can trade with other councils and public authorities, including schools, and payment terms are not limited to cost recovery. A council can only trade (for the purpose of generating a profit) with individuals or the private sector, through a trading company. The General Power of Competence (GPC) gave councils freedom and flexibility to deliver a wider range of services, however, services/products provided to customers other than a public authority, on a commercial basis, must be traded through a trading company.

The full version of this report considers in more detail the options for trading vehicles that might increase income generation opportunities for the council including the characteristics of each together with advantages and disadvantages. Regardless of the preferred trading vehicle, it is crucial that the council has fully explored the benefits and potential risks of establishing such a vehicle. Each will bring additional governance arrangements and potential for dilution of existing council governance and capacity.

A detailed delivery model assessment should be undertaken for any existing business operation or products that are proposed to be delivered through the trading vehicle. This assessment needs to include a structured business analysis to understand how the operation currently works and key issues such as strategic direction, business process definition, financial control, performance and current resource requirements including staffing and technology.

In tandem to this business analysis, assessment of current and future business objectives including the income generation objectives (i.e. cost recovery or net profit) needs to be undertaken. Thereafter an option appraisal should be undertaken exploring all delivery models available for their suitability.

There are a number of examples of successful local authority trading companies such as Norse Group (Norfolk County Council) and public private partnerships such as Babcock 4S, a joint venture between Babcock and Surrey County Council, delivering education services included traded service. However, there are also a number of trading companies that have failed to deliver real benefits in terms of profit and in some case, companies have to have been wound up or bailed out by councils to ensure services are maintained.

6. KEY ISSUES AND RECOMMENDATIONS FOR ACTION

The review has identified a number of key issues that need to be addressed to ensure the authority can achieve its aspirations to generate significant additional income to supplement reducing financial resources, namely:

6.1 Vision and Strategy

Officer engagement highlighted a perceived lack of clarity and understanding of the vision for the role of Lewisham Council in the future and how this aligns with income generation and commercialisation.

Similarly, there is a lack of understanding of what ‘commercialisation’ means within the context of the public sector. Some officers perceived that commercialisation related only to developing services similar to the private sector where profit is the main driver. Concerns were raised about how much time and money should be invested in ‘commercialisation’ of the whole council when approximately 80% of a council’s business remains statutory. Others recognised that commercialisation of services is just ‘good business’.

It is proposed, that in the current council context, commercialisation should focus on *‘enterprise to reduce costs, developing a better understanding of the market (i.e. customers/residents) in terms of needs and expectations and delivering value, in the form of social and financial benefit’*. Financial benefit can and does include generating income that will help the Council in turn deliver social value. This focus on social value is fundamental to the concept of commercialisation within the public sector and needs to inform all associated culture and practice.

The current income generation programme includes several developments that on closer inspection are focused on cost reduction or improved income management to reduce debtors rather than generating new income. Review of fees and charges will likely only result in increased turnover through improved levels of full costs recovery as the vast majority of services are discretionary or are subject to legal restrictions. However, securing full cost recovery will help ensure such services are sustainable and continue to benefit the residents

of the borough (subject to sufficient levels of activity), In addition, appropriate use of a standard costing methodology and relevant charging policies will ensure these services provide a financial contribution to corporate overheads, so reducing the burden on statutory services.

If, however, the express priority for the authority is to increase revenues in the form of net profit, then trading structures will need to be established. Such ventures, whilst offering the potential for significant income opportunities can be time consuming in terms of effective governance and can expose local authorities to additional financial and reputational risks. Significant investment is required in the development of robust business cases for the establishment of such ventures and business plans for individual services/products to be traded.

Recommendations

- An agreed definition of ‘commercialisation’ is required together with the development of a commercialisation strategy that aligns with the Council’s wider vision for its future role. It is proposed that in the current council context, commercialisation should focus on ***‘enterprise to reduce costs, developing a better understanding of the market (i.e. customers/residents) in terms of needs and expectations and delivering value, in the form of social and financial benefit’***
- The new strategy should then inform the design of wider organisational development and cultural change programmes
- Investment in different income generation activities should be prioritised to make best use of limited leadership capacity and technical resource
- In terms of order of priority, it is recommended that in light of the pressing budget challenges faced, priority should be given to those income generation activities that need low levels of investment in terms of both money and time (people and elapsed) and are more likely to deliver additional income in the short to medium term. On this basis, the recommended order of prioritisation is:
 - annual review of fees and charges
 - growth of and enhancement of existing services (e.g. provision of enforcement agency services to another council, pre-planning advice)
 - new developments (subject to approval of a detailed business case).
- The nature and scale of income generation activities at the present time, combined with the proposed priorities in the short to medium term, would suggest that there is little value in investing resources in further consideration of a local authority trading vehicle. However, this position should be kept under review by the Income Board.

Consideration of alternative delivery models should also systematically form part of the proposed business case 'gateway' process to ensure the most appropriate model is identified.

6.2 Leadership and accountability

Strategic leadership arrangements for income generation and commercialisation are now in place at member and chief officer level with governance arrangements in place at chief officer level in the form of the Lewisham Futures Board and at senior management level in the form of the Income Board.

The terms of reference for the Income Board have recently been redrafted, informed by the outcomes of the early findings of the income generation review, and subject to approval, will include: strategic co-ordination of income generating activity, oversight of the annual review of fees and charges, exploration of new innovative ways of generating income, facilitation of income generation projects and activity and provision of expert advice where necessary, monitoring , evaluation and dissemination of good practice.

Currently, there is no corporate business case 'gateway' process for new income generation developments. Some officers have expressed frustration with the lack of transparency in how developments are prioritised in terms of accessing support from limited specialist central support services. A 'gateway' process could address these concerns, support the development of stronger proposals through a rigorous cross council quality assurance process and ensuring a consistent approach to risk assessment.

During the review a perceived lack of access to procurement and contract management capacity, skills and expertise was highlighted as challenging by a number of heads of service. Recent budget cuts have resulted in loss of capacity in these areas. As with effective income generation, commercial skills, knowledge and expertise are at the heart of effective procurement and contract management. A number of authorities have brought these functions together to maximise efficiencies and effectiveness.

There are some excellent examples of service leadership across the authority which have resulted in increased income and identification of income generation opportunities. Strong commercial leadership is in evidence at senior manager and head of service levels across a number of services including regeneration, environment, education, housing and corporate finance.

However, the need for additional and dedicated leadership capacity is recognised and agreement is already in place to appoint a senior manager to lead on income generation and commercialisation. To date there has been a lack of clarity about what will be required of the role and therefore the skills, knowledge and experience required. This review aims to better inform the recruitment process by recommending actions that will form the basis of a work programme for the successful candidate.

It is worth noting that a number of the authorities researched as part of this review have maximised the benefits of investing in additional leadership capacity by appointing a Head of Commercial Services/Commercial Director some of which leads on income generation, procurement and contract management.

Recommendations:

- The terms of reference for the Income Board be extended to encompass the role of corporate 'gateway' for business case developments related to income generation
- Consideration is given to bringing together strategic leadership and management of procurement, contract management and income generation and look to appoint a Head of Commercial Services to lead on these related areas, all of which require strong commercial skills, knowledge and expertise. Further consideration will need to be given to the staffing structure, if any, that might report to the new head of service
- The main responsibilities of the new commercial lead relating to income generation should be informed by the recommendations outlined in this report
- Recognising the existing commercial strengths found within discrete service areas the new role could provide a career development opportunity for internal candidates.

6.3 Modelling and best practice

The Income Generation Strategy, approved by Mayor and Cabinet in 2015, provides guidance on the principles that should underpin income generation activities including; full cost recovery, understanding demand, market rates, inflation, benchmarking and agreeing subsidies and concessions. Unfortunately, there is currently little visibility of this strategy at service manager level and the benefits of the policy have yet to be realised.

In 2013 a standard full cost recovery modelling tool was developed for service managers to help them set appropriate fees and charges. As found during the Schools Traded Services review undertaken earlier this year, this wider income generation review has confirmed that few service managers are aware of this modelling tool and of those aware, few use it. Application of the standard costing model to a small sample of schools traded services showed that approximately 50% of charges were not sufficient to fully recover costs. The recent review of fees and charges undertaken in regeneration saw an average of 5% increase in charges. Extrapolated across all services, such an increase theoretically could generate £2m without any additional investment.

In its *Practical Guidance for Local Authorities on Income Generation (2015)*, CIPFA provides a definition of total cost for a discretionary service (in line with SeRCO definition) and how this may be modified to include an appropriate share of corporate and democratic core (CDC) costs and non-distributed costs (NDC), overheads and capital costs. Detailed guidance is also provided on calculating total costs. CIPFA recommend that a costing model should be developed on this costing basis and that it should be mandated that all services use this to ensure that any statutory requirements are being met and to legitimately recover full costs.

The current income generation strategy outlines principles and some elements relevant to pricing and charging policies however research in to the work of other authorities suggests that having a corporate pricing policy that is mandated across services provides assurance and helps manage risk.

Pricing is not the same as costing. Pricing will be dependent on what the market will be prepared to pay. As statutory guidance provides for some flexibility in the costing of discretionary services depending on the type of service, a pricing policy can be developed that allows for a combination of over-recovering and under-recovering of service costs. However, this is complex and requires detailed monitoring to ensure charging overall meets statutory expectations.

For services provided to other public authorities, payment terms are not limited to cost recovery. Charges for other services are directed by statute. Pricing policies need to be developed that allow for different limitations and flexibilities.

The dispersed nature of leadership and management of income generation activity means that there are a range of other tools and techniques being used when planning and delivering income generation activities. As with costing methodologies, there is no one approach to a range of relevant tools and techniques including for business planning, service level agreements, market assessment, customer information management, performance management, sales data collection and monitoring, trend analysis, marketing or sales.

For some services this has not proved problematic and the autonomy that this affords is welcomed. However, feedback from several officers highlighted that culture change (i.e. focused on beliefs, behaviours and practice) is not sufficient to embed commercial ways of working. Investment is required in systems as well as people. These officers identified the need for the development of a suite of template documents, standard software packages and guidance notes. Concerns were raised about imposition of unnecessary and unwieldy bureaucracy. Such concerns can be addressed by ensuring processes are proportionate to the likely risk and return.

Benchmarking is a crucial commercial tool. Currently the use of benchmarking by services is variable and access to benchmarking data is problematic for some. Reductions in government reporting for local government requirements over the last decade has reduced access to some benchmarking data. Alternative sources in other sectors maybe available.

The current digitalisation programme provides a significant opportunity to create an infrastructure that better supports income generation and enables commercialisation. Currently, the IT transformation and change programme does not prioritise these areas (although improvements to the digital interface with residents will indirectly support these) however, investments into infrastructure and into integrated data systems should provide a firm foundation on which to build. In the London Borough of Hammersmith and Fulham, investments into business data systems and into analytical capability, has enabled the council to generate some £5m per year in additional revenue. Such business intelligence is critical to commercialisation.

The review has gathered information on income generation and commercialisation activity in other London Boroughs. This information does highlight where there appears to be areas of particular strong performance compared to Lewisham and helps inform future investment of time and effort in terms of networking, knowledge sharing and joint working on income generation opportunities.

Recommendations:

- The current Income Generation Strategy should be refreshed, aligned with the development of the proposed Commercial Strategy, in consultation with heads of service and service managers. Engagement will ensure ownership of the strategy and its adoption by services
- Specific guidance, templates and a mandated costing methodology should be developed and issued to service managers to help ensure consistency of approach
- Good practice guidance such as that produced by CIPFA should be used to inform the development of an effective costing model, ideally based on a modified total cost approach
- Pricing policies should be refreshed or developed where required
- Relevant benchmarking data sets should be identified for use by service managers and where necessary consideration given to how benchmarking data sets might be developed where there are gaps currently, for example working in partnerships with nearest neighbour groups
- The digitalisation programme needs to consider the specific needs of the income generation and commercialisation programmes
- A programme of networking, knowledge exchange and partnership working on the issues of income generation and commercialisation should be developed informed by

the research undertaken as part of this review into Lewisham's CIPFA nearest neighbour grouping. Linkages with those authorities operating in the top quartile of performance should be prioritised.

6.4 Culture and communication

Culture change is dependent on clear direction, strong and distributed leadership, investment in both systems and people and meaningful engagement of staff that empowers.

Officer engagement has highlighted a perceived lack of clarity and understanding of the vision for the role of Lewisham Council in the future and how this aligns with income generation and commercialisation. Similarly, there is a lack of understanding of what 'commercialisation' means within the context of the public sector. These issues have been considered above at sections 6.1 and 6.2. Similarly, section 6.3 considers systems and resources that can help improve levels of income generation and support commercialisation.

Investment in people is critical to the successful delivery of any culture change programme. In terms of commercialisation, it is proposed above, that in the current council context, commercialisation should focus on *'enterprise to reduce costs, developing a better understanding of the market (i.e. customers/residents) in terms of needs and expectations and delivering value, in the form of social and financial benefit'*. Financial benefit can and does include generating income that will help the Council in turn deliver social value. This focus on social value is fundamental to the concept of commercialisation within the public sector and needs to inform all associated culture and practice.

Clarity on the principles and values that underpin this type of commercial strategy is needed. The development of these will provide an ideal opportunity have meaningful engagement with and empower staff.

Beyond the lack of knowledge and understanding of the council's strategy regarding commercialisation and income generation, most evident from discussions with officers is the existing pressure on time and resource. Specialist skills, that help service managers effectively design, assess the viability of and deliver services, are in short supply including:

- business intelligence (data collection and analysis)
- financial modelling
- marketing
- business planning and appraisal
- legal advice
- procurement
- contract management.

At a time of significant budget pressure addressing such capacity issues will not be easy if it can be achieved at all. For large scale developments specialist, external resources can be

commissioned, however for smaller scale developments and for regular reviews of fees and charges internal resources will need to be sufficient. Consideration should be given to the development of training programmes for service managers that will provide them with the basic skills needed. A more detailed skills audit and training needs analysis will inform the development of a programme.

The programme needs to be designed to ensure it aligns with the proposed commercial strategy i.e. to empower staff to focus on *'enterprise to reduce costs, developing a better understanding of the market (i.e. customers/residents) in terms of needs and expectations and delivering value, in the form of social and financial benefit'*.

As outlined above the provision of standard templates, models and guidance would be welcomed by officers together with investments in appropriate digital systems and packages. Involving staff in the development, procurement and piloting of these resources is again a form of meaningful engagement and subsequent training in their use will build capacity, confidence and empower. The piloting of the use of PayPal by officers in Environmental Services has resulted in front line staff feeling more empowered in turn resulting in increased productivity as well as allowing managers to monitor sales in real time.

It is acknowledged that there is a lack of capacity, skills and knowledge in some service areas and that these are barriers to increasing income across the Council. However, there are some excellent examples of service leadership which have resulted in increased income and identification of income generation opportunities. The membership of the Income Board has been extended to include some of these officers to ensure that their collective knowledge and experience can benefit the council as a whole. Further collaborative working at Head of Service and service management level will facilitate sharing of knowledge and build collective system leadership capacity around income generation and commercialisation. The use of existing forums and groups, such as the Head of Service group to facilitate this knowledge sharing, will avoid added time pressure for already pressurised staff.

Recommendations:

- a change programme should be developed to support the delivery of the council's commercial strategy. The change programme needs to provide clear direction to staff on the objectives of the commercial strategy and on the income generation programme. Corporate leadership should be provided by the Income Board, led by the proposed Head of Commercial Services, with Heads of Service providing distributed leadership
- Staff should be involved in meaningful engagement including in the development of the strategy and in particular the development of principles and values as these will determine practice and behaviours

- Investment should be made into both systems and people in the form of templates, models, guidance notes and digital solutions together with training and development
- Wherever possible staff should be involved in the development, procurement or piloting of resources
- Existing officer and staff forums should be used to facilitate knowledge exchange and collective capacity building and regular updates on progress be provided through existing council communication channels.

6.4 Income Generation Opportunities

The review has looked to work with officers to identify opportunities for increased income generation. Environmental scanning has been undertaken of the borough's statistical nearest neighbours as identified CIPFA. Implementation of the fees and charges review using revised costing methodologies and pricing policies should deliver increased income for little additional investment. Experience from some services suggests that 5% charge increasing in addition to inflation have been achieved. If applied across all sources of fees and charges (as per the councils Revenue Account Outturn report this could amount to £2m.

Significant work has already been done by officers and services to identify new sources of income generation. Previous environmental scanning has informed these developments. A small number of new opportunities for income generation have been identified during this review, including commercialisation of registrar services, development of a commercial approach to events and festivals attracting high value sponsorship and advertising revenue and further investment in rented accommodation models. However, more work is needed to assess the potential value of these. The full report contains more detail.

A significant opportunity has been identified to capitalise on the current investment in digitalisation, building on the experiences of the London Borough of Hammersmith and Fulham, in the more effective use of business intelligence. The potential for an estimated additional income of **£1.38 - £2.1 million per annum** has been identified in the form of council tax and new homes bonus by reducing false claims for single person discounts, reducing properties declared as empty and identifying unregistered properties. This development is at an early stage and needs further investigation to test some of the assumptions underpinning the estimate of predicted income and to understand the impact on services in terms of increased work load.

Throughout this review officer commitment to innovation and service improvement has been evident. However, many officers expressed their concern that expectations of increased income generation maybe unrealistic in the current climate where staff resources are already under huge pressure and continue to reduce. Prioritisation of income generation activity is

therefore required to maximise value to the organisation whilst avoiding distracting from and destabilising core business.

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