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## PAC Briefing Paper 13 December 2018 – Income Generation and “Municipal Entrepreneurship”

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### **Introduction**

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

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

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

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

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

I have included the notes on the APSE paper first as this seeks to explain the main idea and I have found their advice to councils on how to implement this to be excellent and balanced. I have followed this by notes taken at events and give examples of lessons learned by other councils and

successful projects. It is worth noting that all officers from other councils mentioned are happy to converse with Lewisham going forward.

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

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

Note: The contents of this briefing paper will form part of a report to be produced by PAC later next year.

## **Apse - “New Municipalism” - notes taken from their paper**

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

### Municipal Entrepreneurialism

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

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

### Intervening in Local markets

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

### Understand and manage risk

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

### Up-skilling the officers

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

## Style Change

This will involve examining the following:

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

### **Key questions:**

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

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

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

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

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

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

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

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

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

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

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

### Upskilling workforce

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

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

### Summary of key steps

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

Some examples of good practice or ideas from other councils:

### **Oxford City Council**

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

### **Dumfries and Galloway**

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

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

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

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

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

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

### **City and County of Swansea Council**

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

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

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

## Labour Session on Procurement - 21 July

### **Paul O'Brien - Chief Executive of APSE**

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

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

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

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

[www.cles.org.uk](http://www.cles.org.uk)

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

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

### **Preston Model**

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

### APSE event - Bristol 13 November 2018

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

#### **Andy Shelby - Strategic Manager-Services West Lindsey District Council**

The council bought up a local recruitment company

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

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

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

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

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

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

#### **Chris Harper of Bevan Brittany**

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

Before setting up a company scrutinise:

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

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

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

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

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

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

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

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

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

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

the results of the Surestaff project:

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

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

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

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

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

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

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

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

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

Approach born out of necessity due to cuts.

Key Points:

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

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