

Public Accounts Select Committee		
Title	Strategic income generation review	
Contributor	Scrutiny Manager	Item 6
Class	Part 1 (open)	25 September 2018

1. Purpose of this paper

- 1.1. At its meeting on 9 July 2018, the Committee decided to add a standing item on income generation and commercialisation to every agenda in the 2018-19 municipal year. This follows from work carried out by the Committee in the previous administration, including its review of income generation and commercialisation in the 2015-16 municipal year.
- 1.2. This paper sets out options for the scrutiny of Council's approach to income generation and commercialisation over the course of the 2018-19 year and it provides some background information on the current situation within Lewisham in order to inform Committee discussions. It also provides some potential 'key lines of enquiry' for the year to help structure Committee discussions.

2. Recommendations

- 2.1. The Select Committee is asked to:
 - note the content of the report
 - consider what outcomes it would like to achieve;
 - discuss and decide on key lines of enquiry;
 - agree a timetable for scrutiny of this issue.

3. Policy context

- 3.1. Government policy has consistently encouraged councils to generate their own resources. An essential part of this policy is the Government plan to enable councils to retain business rates raised locally. And, although progress on the 'fair funding review' for local government has stalled, it is expected that Government will legislate in future to encourage local self-sufficiency.
- 3.2. The legislative and political environment has also broadened in order to allow Councils to operate in more commercial and enterprising ways. In particular, the Local Government Act (2003) and Localism Act (2011) gave councils powers to charge for discretionary services as well as a general power of competence, under which they have the power to do anything that individuals generally may do (which is not expressly prohibited by other legislation).
- 3.3. Of the six overarching priorities in Lewisham's Sustainable Communities Strategy, the content of this report relates most closely to the ambition for Lewisham to be:

- Ambitious and achieving: where people are inspired to and supported to their potential.

-and-

- Dynamic and prosperous: where people can actively participate in maintaining and improving their health and well-being.

3.4. The Council has ten corporate priorities. The topic of income generation is most closely linked to the priority of:

- Inspiring efficiency, effectiveness and equity: ensuring efficiency and equity in the delivery of services to meet the demands of the community.

3.5. The Council's final 2017/18 directorate revenue outturn position was an overspend of £17.8m, this was reduced to £16.5m after applying a corporately held provision for pressures and risks of £1.3m but the Council's financial position remains highly precarious. A decade of declining resources, coupled with sustained increases in demand for services, has pushed the Council to the limit of its capacity to balance its budget.

3.6. Lewisham's corporate approach to making planned and strategic cuts to the Council's budget is called the 'Lewisham Future Programme'. Over the course of the previous two administrations the Lewisham Future Programme board has identified a series of thematic reviews and potential areas for business transformation. The process has been closely scrutinised through meetings of Lewisham's Overview and Scrutiny Committees and, in particular, it has been the Public Accounts Select Committee that has monitored performance and scrutinised areas of overspending.

3.7. There is a strand of the Lewisham Future Programme which is focused on income generation. Under this strand of work a number of initiatives have been pursued, including:

- 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. Meeting the criteria for a review

4.1. The Committee has not decided whether 'income generation' will be the subject of a review in the 2018-19 municipal year, however, a review into income generation and commercialisation does meet the criteria for carrying out a scrutiny review, because it is:

- it is a strategic and significant issue for the Council and its finances;
- It has the potential to affect a large number of people living, working or studying in Lewisham;
- The Council is reviewing and developing this area of work.

5. Background

- 5.1. Local government is nearing the end of a decade of unrelenting financial austerity. Cuts to council services across the country brought about by the Government's reduction in councils' core funding have been unprecedented. Councils have sought to innovate by: rationalising services; cutting provision; and working with partners in the private and community sectors. In addition, councils have been forced to consider how to make best use of their assets.
- 5.2. Generating income is an ambition for many councils. It is seen as one way to lessen the impact of the reduction in resources from Government whilst maintaining services that communities have come to rely on. This has also been the case in Lewisham. In 2015, officers produced an income generation strategy for Council officers, which included practical guidance and a corporate process for setting fees and charges. In the same year, as part of its 2015-16 work programme, the Public Accounts Committee reviewed the Council's approach to generating income from innovative sources. This included the potential for generating income from advertising and possible partnerships with mobile phone network providers, which had been successful in other London Boroughs.

Income generation opportunities review

- 5.3. In 2016, Lisa Bibby Consulting was appointed to carry out a comprehensive review of income generation opportunities at the Council in consultation with Lewisham's Heads of Services. Plans for the review took some time to organise and approve, however, it was agreed that the consultant's review would:
 - map and analyse detailed information on the range and effectiveness of current income generation activity together with associated structures and behaviours
 - identify relevant local and national policy relating to income generation and commercialisation and any other strategic developments and initiatives that may impact on future activity
 - work with officers to identify opportunities for income generation together with the enablers and barriers that might exist to realise the potential benefits
 - undertake an environmental scan to ensure that best practice from other local authorities and public bodies is considered in the context of developing the council's income generation and commercial strategies.
- 5.4. Findings from the consultant's review¹ indicated that there were some areas of good practice in Lewisham but that the overall approach to income generating opportunities was inconsistent and lacking in direction. The report noted that an income generation strategy had been agreed in 2015 but that its anticipated benefits had not been delivered: 'The strategy proposes a number of principles to be adopted by officers including the expectation of full cost recovery, use of market rates and annual review. Implementation of these recommendations has yet to be realised' Lisa Bibby (2016)
- 5.5. Sustained cuts to support services at the Council were reported by managers to have limited the capacity of the Council to pursue income generating proposals:

¹ Lisa Bibby Consulting (2016) Lewisham Income Generation Opportunities review:
http://councilmeetings.lewisham.gov.uk/documents/s46850/04_Appendix_2_income_generation_update_-_301116.pdf

‘...significant concerns were voiced about the lack of service capacity to develop ideas further, the lack of access to specialist commercial skills and knowledge and the inability of central support services such as business intelligence, IT and legal to support in a timely fashion due to other pressures.’ Lisa Bibby (2016).

- 5.6. Scrutiny of the Council’s financial position at the Committee’s meeting on 9 July 2018 reinforced this assessment. The Committee heard from the Chief Executive that: ‘...in order to protect frontline services, decisions had been made to reduce support services in the back office (and) that strategic corporate support from human resources, finance and organisational development needed to identify cost drivers in directorates and help deliver savings initiatives had not been available.’ Minutes of the Public Accounts Select Committee meeting 9 July 2018
- 5.7. Recommendations in the consultant’s report highlighted the changes required in the organisation in order to enable services to make the most of income generating opportunities. In summary, it was recommended that:
- The Council set-out an agreed definition of ‘commercialisation’ with the development of a commercialisation strategy aligning with the wider vision.
 - 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 that need low levels of investment.
 - The Terms of Reference of the Income Generation Board to encompass a corporate ‘gateway process’ for business case developments related to income generation.
 - To bring together the strategic leadership of procurement management, contract management and income generation into a Procurement and Commercial Services role.
 - Refresh the income generation strategy to be aligned with the development of the proposed commercial strategy. This should include consultation with Heads of Service.
 - 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
 - Digitalisation programme to consider specific needs of income generation and commercialisation programme;
 - 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;
 - A change programme should be developed to support the delivery of the Council’s commercial strategy;
 - Investment should be made into both systems and people in the form of templates, models, guidance notes and digital solutions;
 - Wherever possible staff should be involved in both the development of strategy and procurement or piloting of resources;
 - 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.

5.8. Not all of these recommendations have been implemented, however, it has been recognised by the Council that income generation and commercialisation requires leadership at a senior level. Previous and existing cabinet members have expressed their support for increasing efforts to commercialise and generate income from Council services.

Procurement and commercial services

5.9. Income generation has remained an area of interest to the Public Accounts Select Committee and it has received regular updates about the Council's progress (a full list of the meetings at which updates were considered is provided at the end of this report). In 2017, it commented on the plans for the development of a corporate procurement team, which was proposed to replace the team lost during an earlier round of cuts. The role of 'Corporate Procurement and Commercial Services Manager' was established in established in November 2017, for an initial period of 18 months to re-establish this corporate function and to lead on the development of income generating projects.

5.10. The new role will oversee the systems the Council has in place for spending money through contracts and procurement - as well as the money the Council generates from fees, charges and its revenue generating activities. In terms of income generation, work is taking place in three broad areas:

- Fees and charges
- Review and development of shared and traded services
- New developments/areas for growth and income generation.

5.11. Work is also taking place to develop an updated income generation strategy. The Committee has agreed that it will closely follow the development of this work as it progresses. The Committee should consider how the work it is carrying out as part of this scrutiny review could feed into the development of the new strategy.

5.12. Following the recommendation of the Public Accounts Select Committee, the Council has also engaged with the Association for Public Service Excellence (APSE). The Association is at the forefront of supporting councils to become more enterprising. Officers have met a number of times with representatives of APSE to explore options.

6. Taking account of the challenges

6.1. Almost all local authorities are interested in generating income in order to protect frontline services. In addition, councils have vested interests in: bolstering their local economies, building skills in the local workforce and using their commissioning power to support local businesses. Bringing all of these elements together can be difficult and there are a number of instances in which councils face challenges. The following sections set out some of the issues the Committee needs to be mindful of when scrutinising this issue.

Being realistic about the potential

- 6.2. Assessments about the potential benefits of income generation in local government² are encouraging. Councils have significant spending power in their local areas, they understand the dynamics of their local economy, they have wide ranging partnerships and they are often key employers. A report by Localis in 2015 indicated that an average of 6% of council income was generated by commercial activity across local government. It was also predicted in the report that this amount would increase to 18% by 2020. APSE has defined the combination of income generation and pursuit social purpose as a type of ‘new municipalism’³ in which councils make best use of their assets and income generating plans to deliver social benefits.
- 6.3. Various figures have been provided to the Committee regarding the income generated through sales of Council services. It was noted by Lisa Bibby Consultants that the systems and processes in place in local government do not lend themselves easily to identifying income generating activity. Even more difficult is defining the ‘profits’ derived from income generation. That is, how much money a council has made after all of its costs have been accounted for. In previous reports, the Committee has received updates about a number of income generation options that required officer time, the support of consultants and other expenditure to develop (see for example the proposals to generate income by using the Council’s assets to support a small cell network or Wi-Fi infrastructure). Even if projects go on to deliver income, these costs have to be weighed against the time that officers have spent on managing these initiatives rather than on their core responsibilities.
- 6.4. Legislation governing council charges for discretionary services determines that councils can only charge on the basis of full cost recovery and cannot generate a surplus or profits. It is only on those services which under the Localism Act are of a commercial or traded nature that an actual profit can be generated. Thus, a distinction is usually made⁴ between charging (for cost recovery) and trading for ‘commercial purposes’ (in order to generate surpluses/profits).
- 6.5. The outturn to report to government⁵ for 2016-17 indicated that amount of revenue produced by Lewisham Council from trading with external sources was zero - as was the case with a number of other London Authorities. It should be noted that these returns are no longer audited so they are often completed in very different ways by different councils. Nonetheless, the most recent data indicates that the best performing authorities in London produce £5m a year in income from external trading. A significant number of councils receive no income from external trading and the average in 2016-17 was less than £1m. This is not to say that this is not an important area for the Council to explore, however, it should be noted that the anticipated target for cuts to the Council’s budget for the years 2018-20 remains at £35m.

² See for example, Localis (2015) Commercial Councils, the rise of entrepreneurialism in local government- online at: <http://www.localis.org.uk/wp-content/uploads/2016/02/Localis-Commercial-Councils-FINAL.pdf>

³ APSE: reclaiming entrepreneurship: <http://www.apse.org.uk/apse/index.cfm/research/apse-direct/2018/junejuly/ad-junejuly/>

⁴ See for example, LGA: enterprising councils (2012): <https://www.local.gov.uk/sites/default/files/documents/getting-most-trading-and--263.pdf>

⁵ Local authority revenue expenditure and financing: <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing#2016-to-2017>

Balancing priorities and expectations

- 6.6. A number of London authorities are undertaking projects to raise income from public parks. Such initiatives might include small scale commercialisation, such as charging users that deliver professional services from parks (such as dog walking or fitness classes) and rents for park buildings. Some boroughs have begun to use their parks for private ceremonies and celebrations, such as weddings. However, others have begun to host large scale events such as festivals and concerts over a number of days or weeks. It is worth noting that a number of community campaigns against the commercialisation of local parks have been started in boroughs that are using their parks for large scale events, with some community groups concerned about the damage to park infrastructure and the limiting of access to public space⁶. The point to note is that income generating projects might result in unintended costs and consequences – such as the loss of public amenity – and the more immediate expense of legal challenges and officer time dealing with complaints, concerns and requests for information.
- 6.7. The introduction of charges for services that were previously paid for from general resources might also lead to concerns from residents. Parking, the collection of garden waste, bulky waste collection, activities in libraries and public buildings as well as the provision of professional advice from officers are all areas in which councils might seek to recover costs but that have previously been free or heavily subsidised.

Exposure to risk

- 6.8. Some councils have used finance available through the Public Work Loans Board to invest in commercial property. In 2017, Spelthorne Council became one of the largest investors in commercial property in the country with its acquisition of a £360m business park. Whilst there is no indication that the council has acted improperly, it is exposed to a level of risk not normally faced by councils⁷. Its commercial acquisitions now far outweigh the remainder of its total assets. In determining income generating opportunities, Lewisham has to decide what level of risk it believes is acceptable. It should also be noted that the recent CIPFA consultation on the prudential code and the consequent revision has recognised this and that now councils are all required to have a capital strategy which is signed off by members to ensure that these risks are explicitly spelled out and that once the strategy is agreed it is adhered to (subject to formal amendment).
- 6.9. There have been previous instances in which the Council's more cautious approach has prevented it from being exposed to risks that were detrimental to other authorities. The extensive use of complex long term LOBO (Lender Option Borrower Option) loans and investments in Icelandic banks are two recent examples.

Building solid foundations

- 6.10. The problems being experienced by Northamptonshire County Council are well documented⁸. Whilst funding fell at the Council over a number of years (like all parts of

⁶ Crowd Justice: <https://www.crowdjustice.com/case/brockwelltranquillity/>

⁷ Local Councils set to lose at the property game: <https://www.ft.com/content/a1d92484-2a91-11e7-bc4b-5528796fe35c>

⁸ Northamptonshire County Council cuts will devastate lives, warns UNISON: <https://www.unison.org.uk/news/2018/08/northamptonshire-county-council-cuts-will-devastate-lives-warns-unison/> - Northamptonshire forced to pay the price of a reckless half decade:

local government) demand for services continued to rise. The Council responded to this challenge by embarking on a novel, but inherently risky, transformation programme. This, combined with the continued failure of the Council to rigorously manage overspends in its budget, resulted in the use of reserves to balance budgets over a number of years. The Best Value Inspection⁹ of Council services commissioned by the Government into the failures at Northamptonshire Council found that the Authority had overreached itself: 'In Local Government there is no substitute for doing boring really well. Only when you have a solid foundation can you innovate' (Northamptonshire best Value Inspection (2018) p2)¹⁰.

- 6.11. One of the key issues with the model used by the Council was that it relied on assumptions about the efficacy of the new service models it was putting in place rather than carrying out robust analysis of expectations, risks and performance. Without sustained rigor and proper management oversight a culture of overspending became prevalent at the Authority, which has led to its now well publicised problems.
- 6.12. The Committee should note the assessment made for the income generation opportunities review in 2016, which reported that there was not adequate capacity in support services at the Council to enable the development of commercial activities. The Committee might consider whether the current structure of the organisation is sufficiently robust to sustain a major programme of income generation, and if it is not, what changes need to occur to ensure that it is.

7. Key lines of enquiry (KLOE)

- 7.1. The Committee is keen to progress this work. Members recognise that without significant changes in the Council's finances, Lewisham will find itself in severe difficulties in the years ahead. Further to the commentary above, it is recommended that the Committee should first assure itself that there is a solid foundation in place for the delivery of future income generating projects. It might also consider how best to make certain that future plans for commercialisation are rigorously reviewed and that performance against the Council's priorities is central to decision making. As outlined by the Chief Executive at the Committee's meeting in July 2018, the organisation is entering into a period of transformational change. This work is taking place in that context. The systems, processes and structures that are required to support the delivery of new initiatives and ways of working are all subject to review, redevelopment and change:

KLOE1: Understanding and benchmarking – the three income generation strands

A) Cost recovery fees and charges

- How much money does Lewisham currently generate through fees and charges?
- Where does Lewisham sit in relation to its peers?
- What is a realistic target in terms of income generation?

<https://www.theguardian.com/society/2018/aug/01/northamptonshire-council-forced-pay-price-reckless-half-decade> - BBC - Northamptonshire County Council bans spending again: <https://www.bbc.co.uk/news/uk-england-northamptonshire-44937892>

⁹ Northamptonshire Best Value Inspection (2018):

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690731/Best_Value_Inspection_NCC.pdf

B) Traded services

- How much money does Lewisham currently generate through trading services?
- Where does Lewisham sit in relation to its peers?
- What is a realistic target in terms of income generation?

C) Commercial income

- How much money does Lewisham currently generate through its commercial income generating activities?
- Where does Lewisham sit in relation to its peers?
- What is a realistic target in terms of income generation?

KLOE2: Progress

- What progress (or amendments, developments and improvements) has been made on implementing the recommendations of the income generation opportunities review?
- How is the development of a new income generation strategy progressing?
- How well do the fees and charges and the income board operate?

KLOE3: Transformation and growth

- What progress has been made in developing a shared skills approach to income generation?
- Are there remaining business intelligence and systems changes that are needed in the organisation in order to enable the Council to maximise its income generating opportunities?
- How should income generation priorities be organised, taking account of: political priorities; the ambition to create social value as well as the requirements for sustainability and minimisation of risk.

8. Timetable

- 8.1. The Committee agreed that it would add an item on income generation to the agenda of all of its meetings in 2017-18. The Committee is asked to consider the outline timetable below:

25 September 2018

Update from officers on the development of the income generation strategy (to answer questions under KLOE1 and KLOE2)

7 November 2018 (Lewisham Future Programme/cuts also on the agenda)

Invitation to the Association of Public Service Excellence – to provide examples of best practice (to answer the questions posed under KLOE3); questions to the relevant Cabinet Member about the development of the income generation strategy and the hierarchy of priorities (to answer the questions posed under KLOE3).

20 December 2018

Scrutiny of the approach to asset strategy in Lewisham, including an update on plans to produce income from commercial property and estates (to answer the questions posed under KLOE 3); an invitation to the Council's head of Organisational Development and Human to outline current staff development and training which

supports the development of a more entrepreneurial council and what future plans might be put in place to deliver this once the Council's new income generation strategy is agreed (to answer the questions posed under KLOE 3).

5 February 2019

The budget for 2019-20 is on the agenda. It is likely to take up all of the time available at this meeting.

20 March 2019

Final report and recommendations for submission to Mayor and Cabinet

- 8.2. Given the complexity of this issue, and the considerable level of interest that there has been in it over a number of years, the Committee might want to consider how this issue should be scrutinised beyond this review.

9. Further implications

- 9.1. At this stage there are no specific financial, legal, environmental or equalities implications to consider arising from the implementation of the recommendations in this report. However, there will be implications arising from the issues considered over the course of the year, these will need to be considered in due course.

10. Background papers

- 10.1. This is a comprehensive list of the reports considered by Public Accounts Select Committee on income generation and commercialisation since the beginning of the 2015-16 municipal year.

Title:	Date:	Online at:
Income generation review scoping report	10 March 2015	https://tinyurl.com/y89nd2b9
Income generation review evidence session 1	14 April 2015	https://tinyurl.com/ycl327ux
Income generation review evidence session 2 (and appendices)	14 July 2015	https://tinyurl.com/y6wjmzsj
Income generation review evidence session 3	29 September 2015	https://tinyurl.com/ybur4wt6
Income generation review final report and recommendations	28 October 2015	https://tinyurl.com/y88mof06
Response from Mayor and Cabinet to the recommendations of PASC on income generation	16 March 2016	https://tinyurl.com/y83ubp4g
Income generation 6 month update	5 July 2016	https://tinyurl.com/y8fdetry
Income generation update (and appendices)	20 November 2016	https://tinyurl.com/ycob932e
Income generation and commercialisation update	27 September 2017	https://tinyurl.com/y9d3o2vp
Income generation and commercialisation update (and appendices)	21 March 2018	https://tinyurl.com/y7vghfnu

10.2. Minutes of the meetings of Public Accounts Select Committee on these dates:

- 10 March 2015: <https://tinyurl.com/y8xny2sd>
- 14 April 2015: <https://tinyurl.com/ybad29ff>
- 14 July 2015: <https://tinyurl.com/y9oalgp2>
- 29 September 2015: <https://tinyurl.com/yblmot8o>
- 28 October 2015: <https://tinyurl.com/yabzsu37>
- 16 March 2016: <https://tinyurl.com/yae2wlq2>
- 5 July 2016: <https://tinyurl.com/y9m8bg9w>
- 30 November 2016: <https://tinyurl.com/ya7t9u4z>
- 27 September 2017: <https://tinyurl.com/y9wxkuvh>
- 21 March 2018: <https://tinyurl.com/ybszq8o2>

Sources

Local Government Association - *supporting enterprising councils*:

<https://www.local.gov.uk/enterprising-councils-supporting-councils-income-generation-activity>

Lisa Bibby consulting (2016) - *Lewisham Income Generation Opportunities review*:

<http://councilmeetings.lewisham.gov.uk/documents/s46850/04 Appendix 2 income generation update - 301116.pdf>

Lewisham Council Budget 2018-19:

<http://councilmeetings.lewisham.gov.uk/documents/s55304/2018%2019%20Budget.pdf>

Lewisham's income generation guidance (2015)

<http://councilmeetings.lewisham.gov.uk/documents/s35464/05IncomeGenerationAppendixA140415.pdf>

For further information about this report please contact Timothy Andrew, Scrutiny Manager (timothy.andrew@lewisham.gov.uk)