

<b>Public Accounts Select Committee</b>		
Title	Income Strategy Update	
Contributor	Strategic Procurement and Commercial Services Manager	Item 6
Class	Part 1 (open)	25 September 2018

## **1. Purpose of paper**

- 1.1. To provide an update on the development of a new Income Generation Strategy as per the Committee's work programme.

## **2. Recommendations**

- 2.1. The Public Accounts Select Committee is recommended to note the update provided by this report.

## **3. Policy context**

- 3.1. This work has been undertaken in line with the Sustainable Community Strategy policy objectives:

- 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.

- 3.2. In addition, this work supports the Mayor's priorities through:

- Directly supporting the objective to build an economy for the many; and
- Indirectly supporting the remaining six objectives through supporting a sustainable financial position which will fund activity in these areas.

## **4. Background**

- 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 arising from austerity. The Council has already made cuts of £160.6m to meet its revenue budget requirements since May 2010 and is seeking to find £30m in savings in the medium term, by 2020/21. In addition, the Council faced an unprecedented overspend of £16.5m in 2017/18 which has created additional pressures.
- 4.2. The Council has identified the need to develop a clear income generation strategy and culture and ethos to ensure that vital levels of service delivery can continue throughout a period of sustained austerity and funding cuts.

- 4.3. Further to the Committee’s work programme commitment to consider regularly the Council’s approach to income generation, as well as the work by Committee under the previous administration of income generation and commercialisation, three key lines of enquiry were established. This report addresses the first and second of these in relation to the work to develop a new Income Generation Strategy. These lines of enquiry are set out below:

Understanding and benchmarking

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

Progress

- What progress 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?

- 4.4. This report will consider each line of enquiry in turn, addressing the questions that comprise it, following the next section which sets out the programme of work.

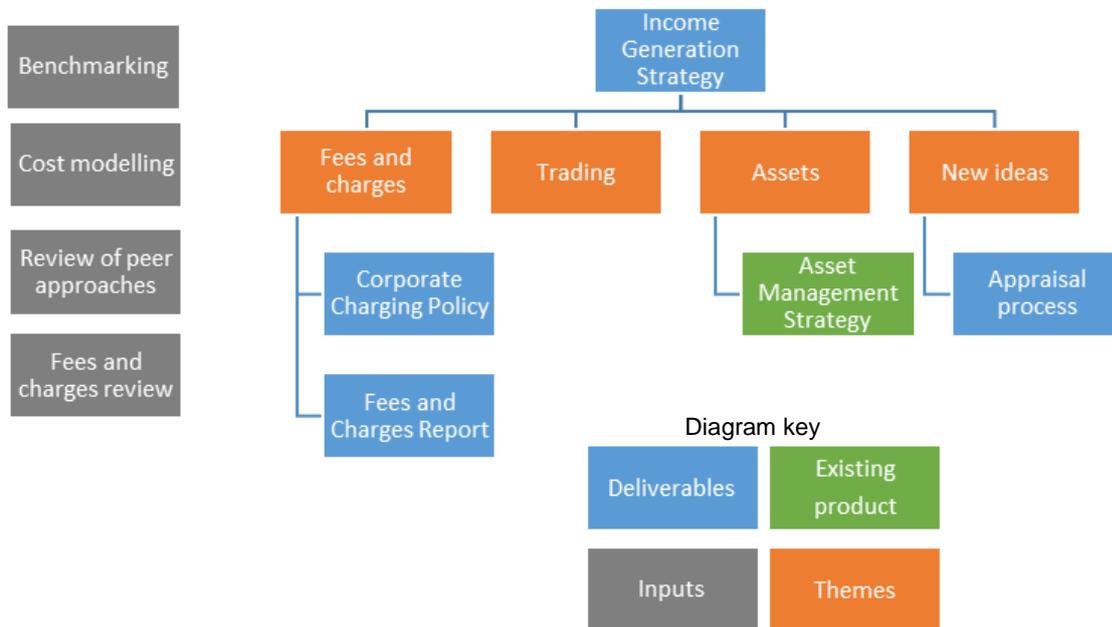
**5. Work programme**

- 5.1. A programme of work has been established which can be considered as two phases. The table below sets out the work programme overview:

Phase	Activity overview	Timeframe
1	Delivery of Income Generation Strategy to include an appraisal process and Corporate Charging Policy and a Fees and Charges Report inclusive of cost modelling.	June – December 2018
2	Implementation of strategy and culture change around a commercial mindset, alongside the continued focus on a community wealth building approach.	January – June 2019

- 5.2. The programme above has been broadly divided into two phases. As work develops further packages may be identified.

5.3. The items set out in Phase 1 are structured as below:



5.4. Phase 2 has been designed to complete in June 2019 in readiness for the next Fees and Charges Report and STAR chambers processes ahead of budget setting.

## 6. Key line of enquiry: understanding and benchmarking

- 6.1. Lewisham Council generated £17.3m in fees and charges and £54.5m in other income (£71.8m) in total as of the financial year 2017/18. Historic figures show that this amount has remained fairly stable when compared to previous years and that as a percentage of total funds available to the Council (including grants), fees and charges accounts for 2.4%.
- 6.2. To compare this amount with income generated by peers, there is a need to undertake some benchmarking across other Councils. There are numerous sources of benchmarking of this kind, but the two most recognised for income and fees and charges benchmarking are the Association of Public Service Excellence (APSE) or the Chartered Institute of Public Finance and Accountancy (CIPFA) – both of whom undertake this activity as part of their core business.
- 6.3. While benchmarking will be used in line with the Key Lines of Enquiry, benchmarking cannot be considered in isolation; comparative figures are not transparent in the sense that misalignment of budgets and spend from Council to Council make direct comparisons challenging. Furthermore when comparing discretionary charges limited to full cost recovery, a lower income level may be indicative of a more efficient service and better in line with best value.
- 6.4. As such, a realistic target for income generation is comprised of two parts – a fees and charges target and a trading/commercial income target. Regards the majority of fees and

charges, the aspiration can only be full cost recovery – this refers to recouping total costs, inclusive of overheads that are currently not assigned within individual budgets. The legislative framework which governs how fees and charges can be set dictates that the majority of chargeable services must not exceed full cost recovery and cannot generate any surplus. Therefore the focus to date has been to establish full cost modelling to understand true service costs and then challenge fees and charges on this basis to either ensure full cost recovery or where a discount is applied that this is a conscious choice that is being taken and that any concessions offered are publicly recognised. In line with the above, this will be determined by the cost of the service and should go down as efficiency improves, while still having a zero net cost to the organisation as it decreases.

- 6.5. For fees and charges where a surplus is allowable, work will need to be undertaken to understand the market. Mapping work by officers has found one such area that this applies to is parking charges – including controlled parking zones and car parks – for which a benchmarking exercise has been undertaken internally to guide the service.
- 6.6. For trading and commercialisation, targets can be more readily set. Officers will be beginning work to understand where services have increased scope for trading, beginning with a review of all environmental services. Once this work has been undertaken officers will be better able to advise members on the potential for income generation in order to set targets.
- 6.7. At present, as income generation is only responsible for 10% (fees and charges at 2.4%) of the Council's budget and work around income generation to date in Lewisham has been pocketed and fledgling, it is important to note that even with ambitious targets, income generation will not alone be able to provide a short or even medium-term solution to the financial pressures facing the Council. There is significant work being undertaken in other areas to ensure financial sustainability of the Council, this includes ensuring value for money and efficiency through procured services as well as an increased focus on broader community wealth building to improve the quality of life of residents more generally, and a report is being developed by officers to draw this activity together.

## **7. Key line of enquiry: progress**

- 7.1. The existing Income Strategy and Guidance was published in February of 2015. Nearly five years on, the national and local context has developed, as have examples of good practice from the sector.
- 7.2. The previous strategy sought to ensure that 'where the Council has in place fees, charges and sources of income they are guided by certain principles and managed in a thoughtful and consistent way.' While this remains true, the existing document assumes a level of expertise in the field which is not necessarily universal. There is frequent reference to economic theory as well as presumptive language that assumes a shared understanding.
- 7.3. The existing document also approaches 'income' as a single item, rather than addressing the core strands that it consists of for the purposes of income generation as a discipline. As such, the existing strategy provides no suggestion of or approach to appraisal, which would encourage innovation to help address the Council's funding gap and ensure business

justification for all projects that go forward, with the focus on cost recovery rather than income generation.

- 7.4. It is clear from early work by officers that some of these are barriers to a successful approach to income generation across the Council. A new strategy will seek to define a common language and methodology for how the Council approaches income and support a more comprehensive and universal approach to income generation within the organisation. In addition, a comprehensive annual fees and charges report is being prepared which will consolidate all charging activity across the Council. This will provide a foundation on which to undertake analysis and will support the development of cost modelling to underpin the strategic position. This report will come to Mayor and Cabinet annually as part of the budget setting process and will be supported by a Corporate Charging Policy which will form part of the Income Generation Strategy.
- 7.5. It is also important to note that the constitution already governs the sign off of concessions, subsidies, fees and charges, so any strategy document subsequently adopted will need to reflect this. The existing Income Strategy and Guidance does not do so, and this provides further business justification for the workstream to renew it.
- 7.6. As part of the review and redevelopment of the Income Generation Strategy, the governance structure will be considered. This will include reviewing the Income Generation Board in relation to its role, structure and performance.
- 7.7. Work was commissioned by Lisa Bibby Consulting in 2016 to review Income Generation in the Council. This work will feed into the development of the new strategy, and made a number of recommendations which officers have acted to implement, and these are summarised below with comments on progress.

### **Strategy**

- 7.8. Recommendations which can be broadly grouped to strategy are described below, and fall into Phase 1 of the work programme:
  - 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.
  - To agree a definition of 'commercialisation' and develop a commercialisation strategy that aligns with the Council's wider vision for its future role and should then inform the design of wider organisational development and cultural change programmes
- 7.9. Work on the new strategy is underway, and focussed on developing a shared organisational language around commercialisation and income generation. This will involve co-production with officers and members to ensure that the definitions are universally accepted and applied. There is also a clear need to clearly define the differences between income generation and wider community wealth building, both of which deliver tangible benefits for Lewisham

residents but are achieved in different ways and should not be conflated due to the different legislative frameworks which govern these.

- Investment in different income generation activities should be prioritised to make best use of limited leadership capacity and technical resource with priority 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 e.g. annual review of fees and charges and growth of and enhancement of existing services ahead of new ventures.
- Consideration of alternative delivery models should also systematically form part of the proposed business case 'gateway' process (see next section) to ensure the most appropriate model is identified.

7.10. Part of the work on the new strategy will look at an appraisal process and set out prioritisation criteria. This will consider such elements as described in the points above and a fuller update will be provided as this is progressed. It is currently intended that any appraisal process will be based on generally accepted models for business case appraisals and draw on best practice in the market place, whilst ensuring that this is appropriately adapted to be Lewisham specific.

### **Policies and tools**

7.11. Recommendations which broadly group to policies and tools are described below, and fall into Phase 1 of the work programme:

- 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.
- 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.

7.12. Work is underway to explore costing models for full cost recovery. Both APSE and CIPFA will be consulted for existing modelling and work undertaken to establish whether the current models utilised in Lewisham require refinement. Benchmarking is similarly being explored, with APSE and CIPFA the most appropriate bodies to work with and Section 5 of this report outlines this in more detail.

- 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.
- Pricing policies should be refreshed or developed where required.
- Specific guidance, templates and a mandated costing methodology should be developed and issued to service managers to help ensure consistency of approach.

7.13. A core part of work which will arise from the new income strategy is the development of standardised theories and templates as well as work to embed these corporately. Further updates on this element of work will follow, and will be dependent on the strategy phase of the income generation work programme. The key outcome of the this strand will be the re-introduction of the annual Fees and Charges report to Mayor and Cabinet to accompany the budget report, including the Corporate Charging Policy.

### **Governance and staffing**

7.14. Recommendations which broadly group to governance and staffing are described below, and will be considered further in Phase 2 of the work programme:

- 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

7.15. The work programme around the new strategy will also seek to design an appraisal process and template. Part of this process will include a governance structure which assesses business cases for progression.

- Consideration be 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 and enact the report's recommendations, as well as the staffing structure, if any, that might report to the new head of service.

7.16. A new role of Strategic Procurement and Commercial Services Manager has been developed which combines the areas described above. There is, as yet, no permanent establishment assigned to this role with regard to contract management or income generation and work is currently supported by officers from elsewhere in the organisation on a basis of limited availability. As such, the new strategy and engagement around it, will need to reflect that there is not a centralised corporate resource for income generation to supplement service input, more of a central steer. Alternatively a business case for increased resource in this area will be brought forward to support the creation of a permanent service which combines procurement, contract management and income generation, this would not seek to centralise current Council resources but would be able to have sufficient scale and expertise to ensure successful delivery of the adopted Income Generation and Commercialisation strategy.

### **Supporting activity**

7.17. Recommendations which broadly group to supporting activity are described below, and will be considered further in Phase 2 of the work programme:

- The digitalisation programme needs to consider the specific needs of the income generation and commercialisation programmes.

7.18. The digital transformation programme is currently under review. Officers will be considering, as part of the strategy development, what specific needs the organisation will have around digital tools and software with specific consideration given to the impact of newly

commissioned solutions such as Oracle Cloud. In addition, some of the horizon scanning work around income generation has highlighted digital opportunities for income generation and appropriate cross-functional activity will be required to realise these opportunities.

- 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.
- 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 and 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.

7.19. A significant aspect of the strategy workstream will be the implementation and behaviour change associated with it. Select officers will be engaged throughout in line with the principles of co-design for the strategy development. It will also be an ongoing task for officers directly involved in income generation to maintain a collaborative network with peers and to keep up to date with best practice. There will need to be, as part of the closing phases of this project, an engagement plan for officers more widely with appropriate communications to support uptake and ongoing compliance. Channels such as management meetings, team meetings, the intranet and others will be looked at with the communications team to understand how best this can be done. Council officers are actively engaged with the Income Generation sub-group within APSE as well as the National Cross Council Revenue Group which provides excellent opportunities for networking and cross council working and collaboration.

## **8. Next steps**

- 8.1. Officers will continue work in line with Committee's programme as outlined in the previous sections. Additionally, a report is being prepared for Cabinet setting out the interactions between income generation and broader community wealth building and how this is currently delivered in Lewisham.
- 8.2. Work will continue to deliver an updated Income Generation Strategy for Lewisham Council, and further updates provided to Committee as this progresses.

## **9. Financial implications**

- 9.1. There are no specific financial implications directly arising from agreeing the recommendations to this report.

## 10. Legal implications

11. There are no specific legal implications arising from the report. Any legal issues arising from the implementation of the deliverables referred to in the report will be considered in relation to that deliverable.

## 12. Further implications

- 12.1. There are no further implications, environmental, public safety or equalities related, arising from this report. These will be considered again as the work progresses.

## 13. Background documents

- 13.1. The table below contains background reports to Committee which informed this work as well as the existing Income Generation Strategy and Guidance published in 2015:

<b>Title:</b>	<b>Date:</b>
<a href="#">Lewisham Council Income Strategy and Guidance</a>	February 2015
<a href="#">Income generation review scoping report</a>	March 2015
<a href="#">Income generation review evidence session 1</a>	April 2015
<a href="#">Income generation review evidence session 2</a>	July 2015
<a href="#">Income generation review evidence session 3</a>	September 2015
<a href="#">Income generation review final report and recommendations</a>	October 2015
<a href="#">Response from Mayor and Cabinet to the recommendations of PASC on income generation</a>	March 2016
<a href="#">Income generation 6 month update</a>	July 2016
<a href="#">Income generation opportunities review</a>	October 2016
<a href="#">Income generation update</a>	November 2016
<a href="#">Income generation and commercialisation update</a>	September 2017
<a href="#">Income generation and commercialisation update</a>	March 2018