

Public Accounts Select Committee			
Report Title	Income Generation Update		
Key decision	No	Item No	7
Contributors	Strategic Procurement and Commercial Services Manager		
Class	Part 1	Date	20 December 2018

1. Purpose of paper

- 1.1. To provide an update on the development of a new Income Generation Strategy and the progress made on fees and charges more generally as per the Committee's work programme.

2. Recommendations

- 2.1. The Public Accounts Select Committee is recommended to:

- note the update on fees and charges provided by this report;
- note that the draft Income Generation Strategy be taken to Mayor and Cabinet in early 2019 for approval;
- note that the pilot is achieving against the workplan identified, and that resourcing is being addressed as part of the budget to ensure the successful implementation and ongoing delivery of the workstreams and governance required under the Income Generation Strategy.

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. The last report, of September 2018, addressed the first and second of these in relation to the work to develop a new Income Generation Strategy. Those lines of enquiry are set out below:

Understanding and benchmarking

- How much money does Lewisham currently generate through 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 progress since the last report in September 2018 and is focussed on two key strands: the Income Generation Strategy and fees and charges.

5. Income Generation Strategy

- 5.1. The existing Income Strategy and Guidance was published in February of 2015 but not fully or properly implemented and delivered. Nearly five years on, the national and local context has developed, as have examples of good practice from the sector, as well as an increasing need to balance commercial ambition with financial resilience and rigour. A new strategy has therefore been drafted, and is appended to this report.
- 5.2. The Income Generation Strategy is closely related to the Corporate Charging Policy and Fees and Charges Report. When ratified the Strategy will have these two documents located alongside it for ease of use by officers. The Charging Policy is appended to this document, and a template for the Fees and Charges Report is also

appended. The status of the Fees and Charges Report is addressed in the next section.

- 5.3. The draft Income Generation Strategy is formed around key objectives, with clear principles to support each objective and clarity around the process and governance surrounding new and revised income generating and commercial proposals. It is appended to this report and sets out the strategic approach in full.
- 5.4. The five objectives contained in the strategy aim to capture the ambition for financial resilience and commercial thinking underpinned by robust processes and corporate grip, balanced with the Council's enduring efforts to generate social value.
- 5.5. The principles are designed to translate these strategic aims into clear expectations to shape officer work across the council, and these are supported by templates for a new business case approach to income proposals based on the Treasury Green Book Five Case Model and guidance on legislation and terminology.
- 5.6. The strategy also sets out a new governance structure and protocol for evaluating these business cases, which is designed to feed into DMTs, EMT and complement all the usual good practice processes officers currently follow, including the requirement to engage early with both legal and financial services.
- 5.7. As part of this, the strategy introduces income stream owners, so each line of income generated has a named role responsible for it. This officer would be responsible for managing the income stream, as well as evaluating actual benefits realised against benefits proposed in the business case to ensure that outputs and outcomes are achieved and any lessons learnt logged for future projects. This creates an environment of continuous improvement and learning which assists in the reduction and management of risk.
- 5.8. A significant aspect of the strategy workstream will be the implementation and behaviour change associated with it. Work to design the implementation and culture piece will take place through January-March as part of Phase 2 of the workstream. This will then be programmed and rolled out after April 2019.
- 5.9. 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. Workshops will also be rolled out with certain teams to help them understand the new approach and maximise its benefits for their work.
- 5.10. It will also be important to acknowledge and accept the different risk profile that the Council will need to manage. The increasing constraint on finances mean that the Council is inherently taking on greater risk. Add to this a more ambitious and entrepreneurial approach, and further risks, of a new and different kind, will be taken

on. The strategy appreciates and mitigates these types of risk through the governance structures and appraisal approach set out therein.

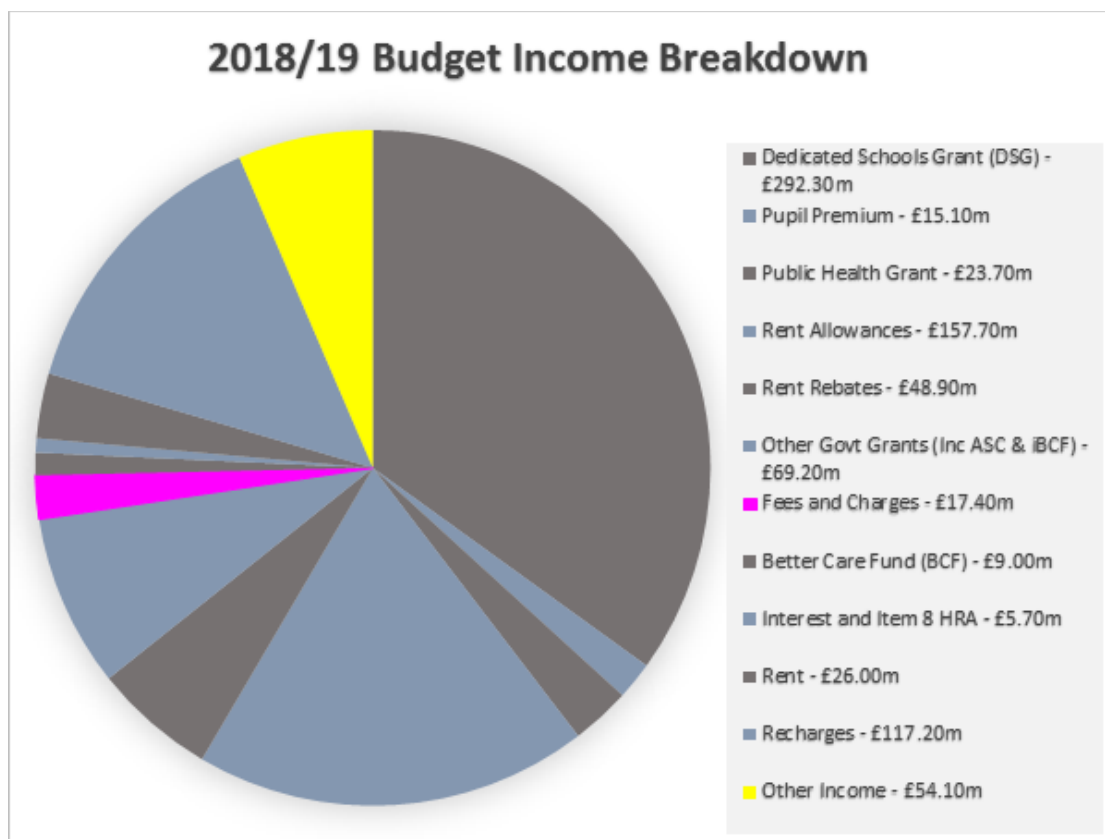
- 5.11. Part of the necessary entrepreneurial approach involves the testing of new ideas through the business case model. Resources will be required up front – both human and financial – to enable this investment, and to progress proposals. It should be recognised that some new ideas will not be successful and subsequently there will be a certain percentage abandoned. The business case process, through development and iteration, alongside the learning cycle aim to minimise this.
- 5.12. Work is underway already to look into specific areas of income potential, with a review of the commercial services in Environment taking place with the Association of Public Sector Excellence (APSE).
- 5.13. Lessons from this will be used to inform the organisational development piece, with workshops and support and training for services to take place once the strategy is implemented to develop a widespread commercial culture at the Council.
- 5.14. It is the intention that this strategy, proposed for three years, will be periodically evaluated with a review at the end of the first year and that lessons will be used to inform the next strategy. The organisation should be well positioned, at the point of renewal, for a strategy with a longer term and an evidenced approach borne of the work this strategy facilitates, enabling new and larger ambitions for entrepreneurial activity.

6. Fees and charges

- 6.1. A key objective of the Income generation Strategy is the shared understanding and language of how the Council defines commercialism. Linked to this is a clear understanding of both what the Council is able to charge for, the basis and maximum value of these charges and the proportionality of this income in relation to the Council's overall financial position.
- 6.2. The annual Fees and Charges Report will set out clearly each year each fee or charge alongside the rate for the previous year and any proposed increase, as well as the legal basis for the charge. The business case process described in the Income Generation Strategy will ensure that these are robustly tested prior to introduction and then remain fit for purpose throughout the period that they are in existence.
- 6.3. It is intended that the Fees and Charges Report will allow for full transparency and clarity about each and every fee and charge, as well as the collective impact that these have towards underpinning the financial resilience of the Council, allowing for both grip and perspective by officers and members.
- 6.4. Fees and charges are an important role to play in the financial sustainability of the Council, and Lewisham Council generated £15.6m in fees and charges and £56.8m in other income (£72.4m) in total as published in the 2018/19 budget book. Historic figures show that this amount has remained fairly stable when compared to

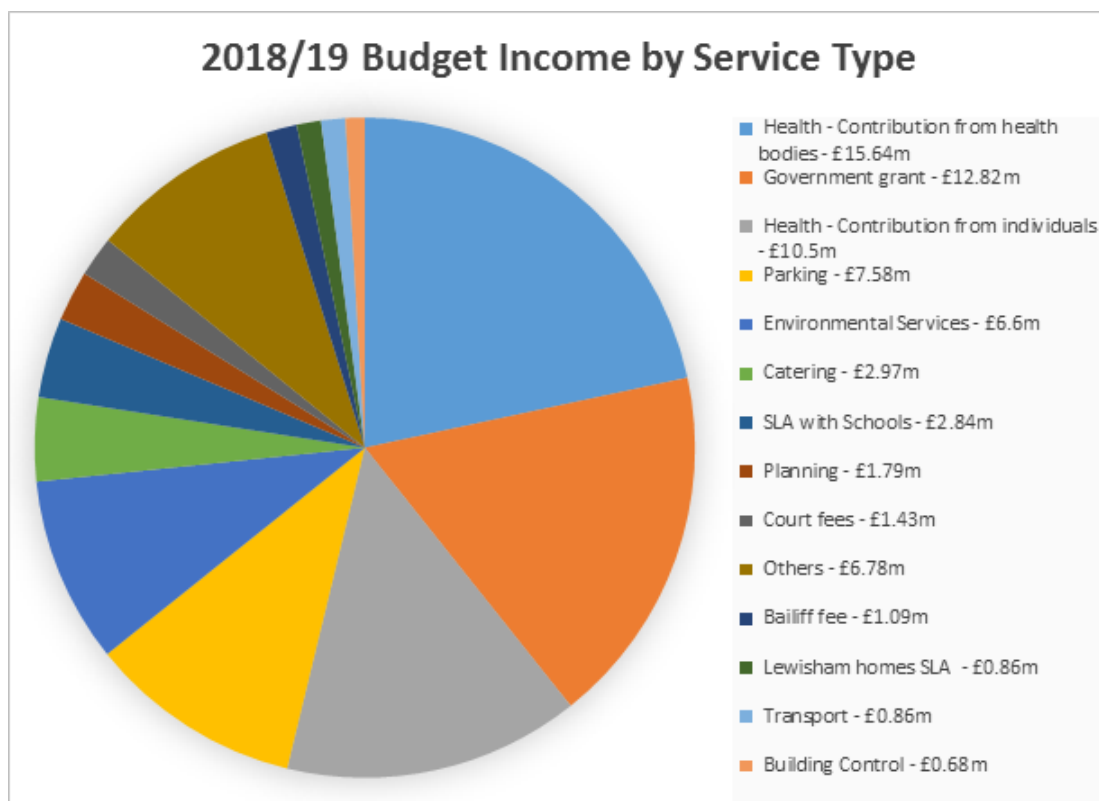
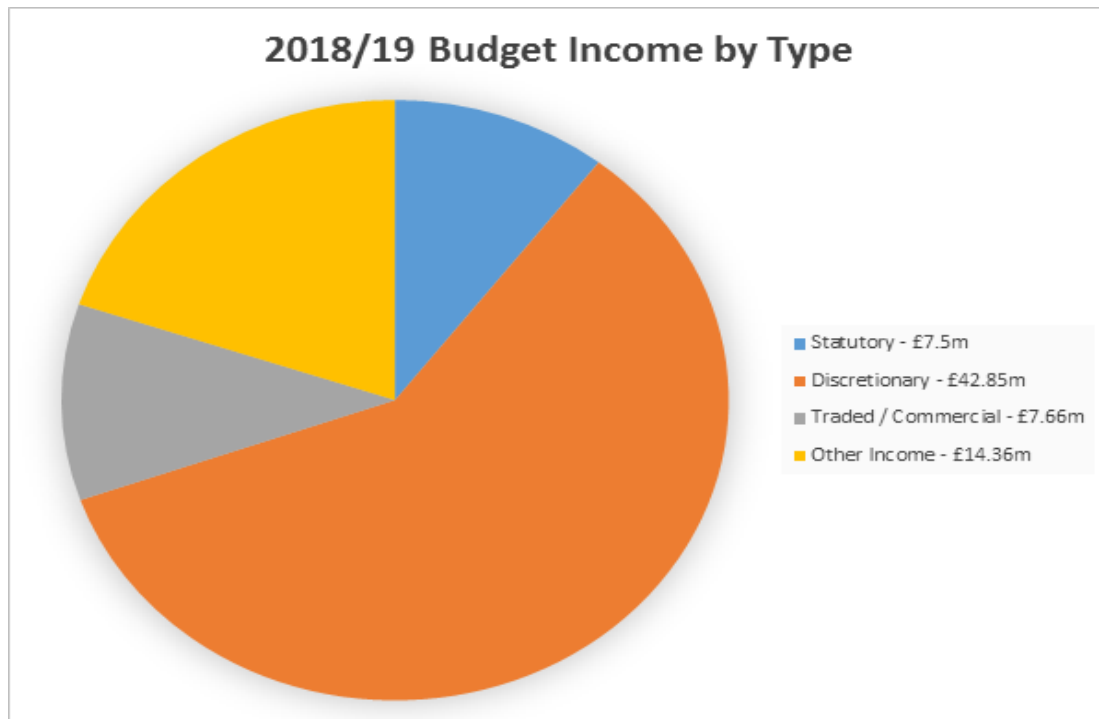
previous years but that as a percentage of total funds available to the Council (including grants), fees and charges accounts for circa 2%.

- 6.5. The paragraphs and charts below are based on work to date to both analyse and interrogate the current budgets, and to work with services to undertake full cost modelling of all fees and charges activity to ensure that these are optimised. This work is ongoing and whilst not complete the diagrams show the income accounted for by both the nature of the fees and charges, and also then divided into broad service subcategories to give an indication of high value and relatively lower value areas.
- 6.6. The intention is to continue to work to a more granular picture, looking into each of these slices to better understand their constituent fees and to review each to ensure that we are being cost-efficient and commercial in our approach to each area.
- 6.7. Work is ongoing to enable robust oversight of the charging landscape. A best practice example fees and charges report (from Harrow) is being replicated, with lines for every charge in the Council as well as information on current and proposed levels of fees and the legal basis for each income stream. Legal services have carried out an initial review of the powers for charging and work is ongoing to better understand our fees and charges ahead of populating the appended spreadsheet.

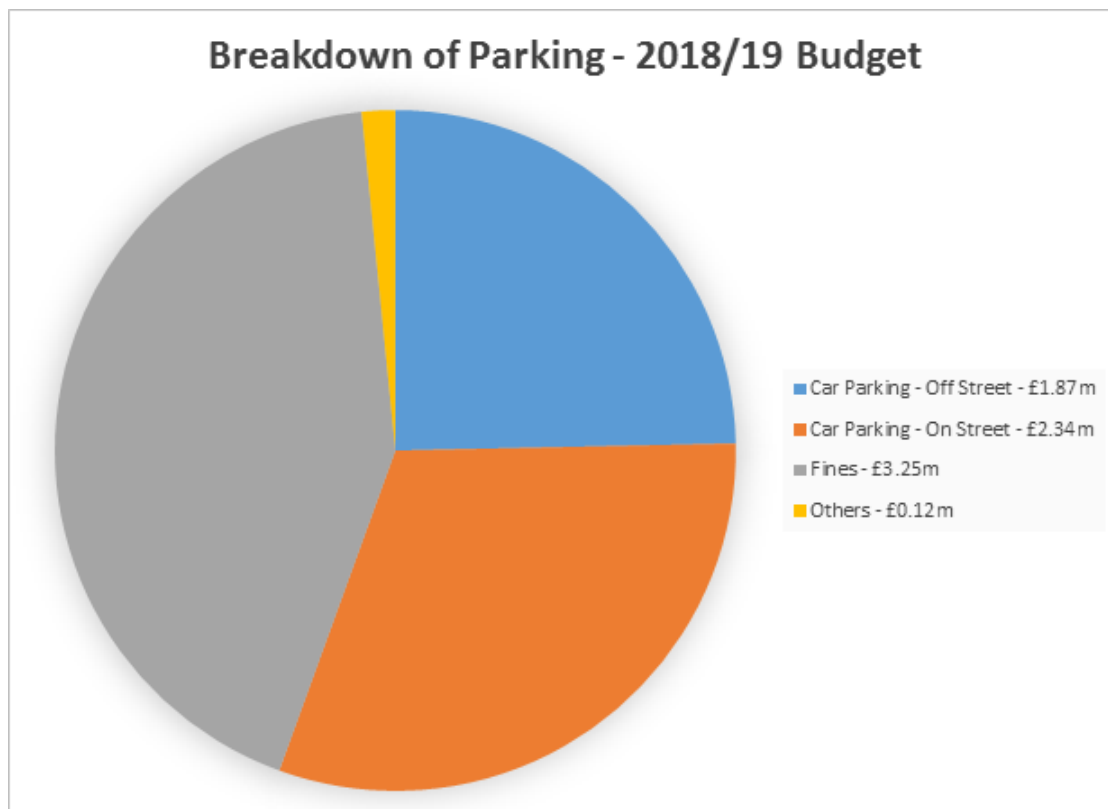


- 6.8. The charts below provide an estimation of how the £72.4m of fees and charges and other income are defined as either statutory, discretionary, traded or other income types, as well as an overall categorisation of these by service type. Further work following the initial review carried out by Legal Services may result in changes.

However, it appears that almost 60% of the fees and charges income could be charged on a full cost recovery basis, with statutory and traded services income each at approximately 10%, and 20% of other income, mainly made up of grants (£12.82m see below).



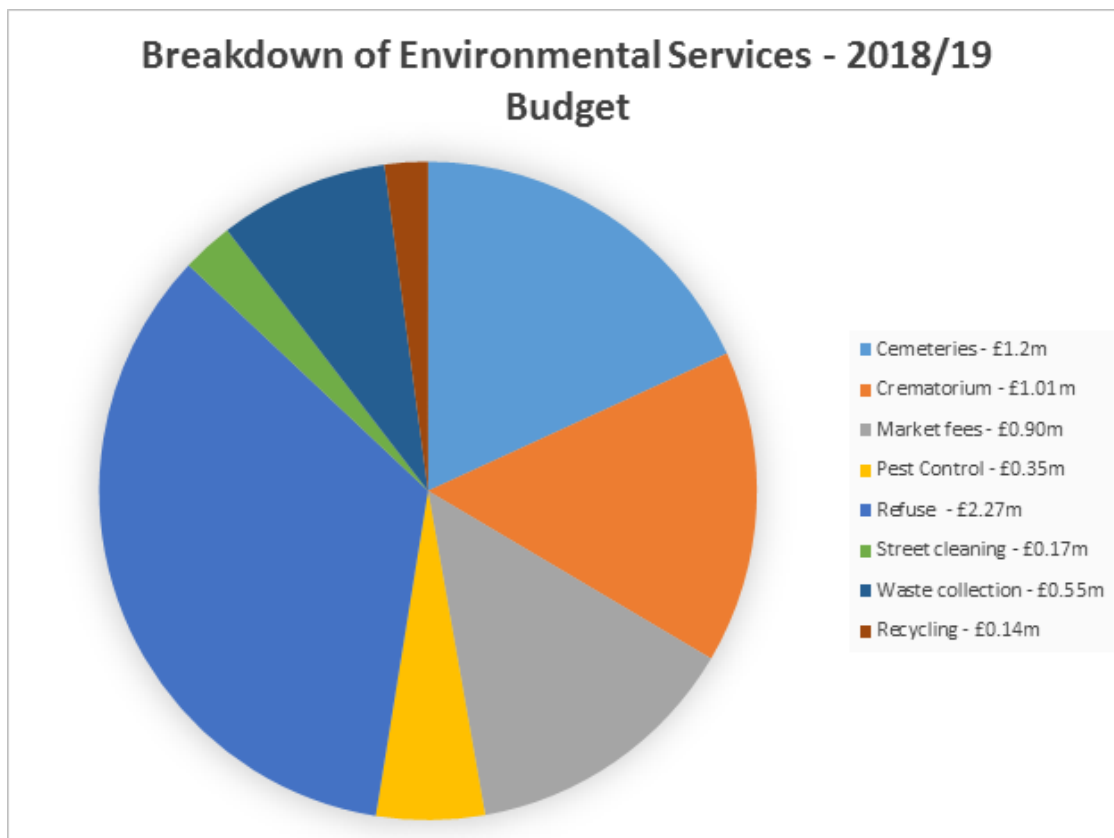
- 6.9. The chart above is being refined and tested on a service by service basis and there is the caveat that this is based on budget as opposed to actuals, but is useful as it highlights that 36% of the total income generated is for contributions towards health and care costs, recovered either from health partners or individuals themselves. There are a number of key workstrands being undertaken by the community services directorate and therefore the recovery of these costs will be picked up as part of that wider project and reported back in due course.
- 6.10. Another significant area of income is parking with a budgeted income of £7.58m per annum, circa 10% of total annual Council income. The bulk of this is generated reasonably evenly from on street parking, off street parking and enforcement activity. However, officers and members are aware that a parking policy update has commenced and is ongoing, reporting to Mayor and Cabinet in the new year. As such, this income stream is not being reported on in this paper but officers working on income generation will need to be sighted on the cost model and work associated with this.



- 6.11. The next largest service for income generation in the Council is Environmental Services, at £6.6m of income across a number of services, both statutory, discretionary and traded. The chart below indicate what this is comprised of and as a key commercial service officers have chosen to commission the Association of Public Sector Excellence (APSE) to undertake a full review of commercial services in the Environment Division. Environment, host to a number of income streams including the significant area of commercial waste, was identified as the service to look at for this reason with a view to improving the Council's understanding of income in this area, as well as any further commercial potential. As part of this year's budget cuts,

Environment have also put up a number of savings to be achieved through increasing their income and given the significance of the financial challenge it was felt that review such as this would provide assurance of deliverability and lessons for other areas of the Council going forward around how to review income, develop a commercial culture and drive value for residents through income generation.

6.12. It is also important to consider that services have been asked to put forward cuts for the next two years to manage within smaller budgets due to ongoing reductions in central government funding. In lieu of cuts, some services have proposed income generation as a way to mitigate the impact of budget reductions while maintaining service delivery. In the Environmental Services there are 4 such proposals relating to the figures below, with three relating to refuse (lumber, green waste and trade waste) and one to bereavement services. Over the next two years, 2019/20-2020/21 the total proposed saving to be achieved from income is £1,377,000. Given the fees and charges income for Environment in 18/19 is £6.6m, this equates to proposed growth of 21% over two years.

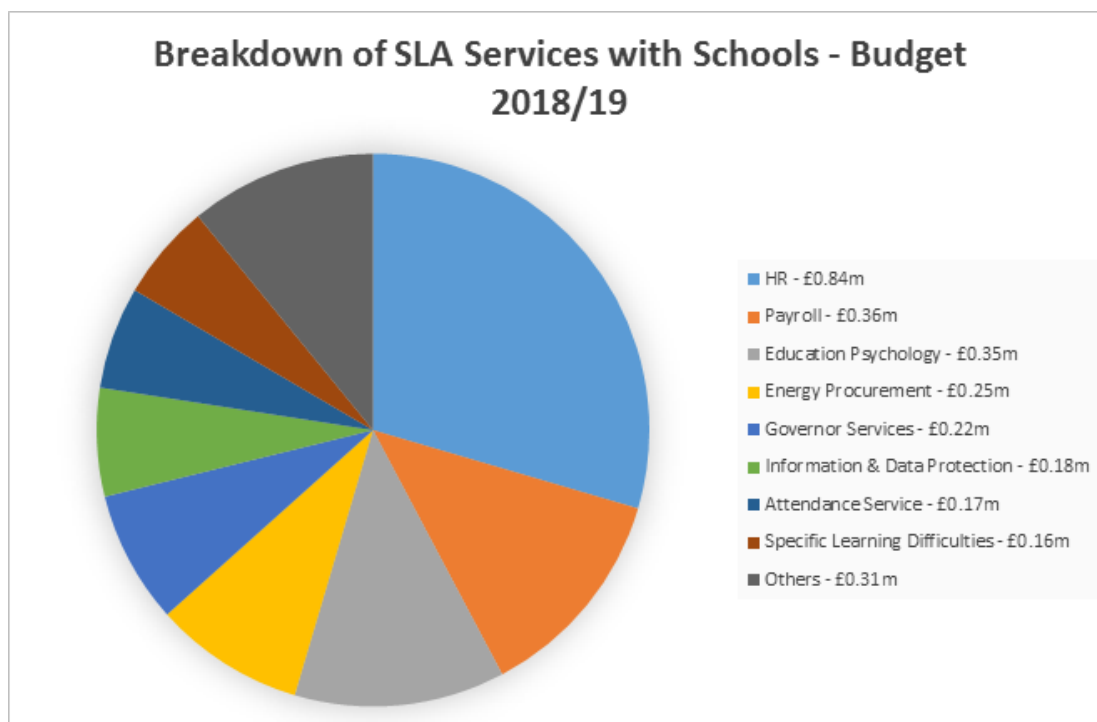


6.13. APSE have so far been on-site at Wearside and Laurence House to meet with the relevant managers across the division and in related areas such as Finance and Revenues. They are currently preparing the baseline report, to be followed in the early New Year with workshops for operational staff around developing their commercial acumen and developing ideas for future income.

6.14. The final output will be a report which sets out the current state of play alongside recommendations for going forward as a commercially minded service, with

transferable learning from the workshops and process to be applied more widely in the organisation.

6.15. Charges for health and care services, parking and environmental services together account for 67% of income (excluding grants), and all of these are currently under some form of review. The next largest area of income is from schools. This is primarily from the £2.97m recharged for school meals from the centrally provided and managed contract with Chartwells, and £2.84m in schools service level agreements (SLA). The SLA is formed on numerous offerings across the Council, with the most significant being human resources and payroll support into schools at circa 42% of total sales. There is an annual process whereby all services offering an SLA undertake a self-evaluation exercise to ensure that their offering is attractive to schools and appropriately priced as schools have the option of purchasing these services from the open market. All SLA providers have been offered assistance in developing a costing model to ensure that they have properly costed their service. This will ensure that not only are the services covering their cost of provision, but it will also ensure that they are charging in line with the legislation which, in most cases is cost recovery only. To date, service areas including HR, Energy Procurement, Education Psychology, Information and Data Protection, Attendance Service and Specific Learning Difficulty have been costed for and the aim it complete the other areas before the beginning of the next financial year when the SLA online is published.



6.16. In addition to full and robust cost modelling being undertaken for each income stream, services are also expected to be more broadly aware of the Council's position within the London marketplace and to assist this the council has recently joined the CIPFA fees and charges benchmarking club. The club provides access to all previous reports with anonymised data with the aim of providing an opportunity to compare, review and improve. As part of the club access the Council also therefore needs to complete an

annual questionnaire which was completed in November and which covers a range of charged for services, such as leisure centre membership and trade waste collection among others.

- 6.17. Only those councils participating are included in the reporting, and our data will be shared with them on an anonymised basis. We have joined this year but have two prior years of reports available to us covering the 33 local authorities who took part, including six London boroughs, namely: Bexley, Camden, Hammersmith and Fulham, Havering, Kingston upon Thames, Newham and Sutton. The 2017/18 report is appended for information which shows the level of detail provided but which obviously excludes Lewisham as we were not previously a member.
- 6.18. While benchmarking provides opportunities to review relative pricing, have comparable year-on-year data and consider the relative efficiency of the service, there are limits to this exercise and risk if overly relied upon.
- 6.19. The sample size when benchmarking is a significant factor, the CIPFA 2017/18 exercise for example contains data from 33 local authorities which is not overlay large and therefore the averages can be skewed significantly by any one single outlying borough. Furthermore, where certain boroughs do not offer all services, then this sample size shrinks further which both reduces the confidence in the results and increases the margin of error.
- 6.20. The exercise is a national one across local government and therefore ignores geographical impact such as the increased costs experienced within London and other large cities and also constraints on natural resources within large urban environments.
- 6.21. A lack of detailed guidance was a significant problem when completing the questionnaire. Questions were subject to interpretation which was confusing for services – with questions such as “average cost of collection of miscellaneous bulk rubbish” and “average cost of bulk rubbish collection” not being apparent in their distinction to services.
- 6.22. For officers submitting data it was also unclear if the information should have been actuals or budget, average cost or average fee and how to complete where the questions did not correspond to services as we offer them. As well as creating difficulties for the Council in identifying the correct data to provide, there is also a high likelihood that the data is subject to various interpretations across authorities completing it, making it incomparable and the data therefore misleading.
- 6.23. Ultimately, while benchmarking of this nature is a useful tool it comes with caveats. Officers will maintain the benchmarking activity and engage with the results, but additional work will be needed to fully understand these findings. It will also be important to be mindful that for the majority of fees and charges, full cost recovery is the cap and so a higher rate than neighbours implies possible inefficiencies rather than beneficial surplus.

7. Income function

- 7.1. Members will be aware that the pilot to create a central function for the oversight of income, procurement and contract management was agreed in 28 June 2017 and as a result an interim internal appointment made in December 2017 and taking effect in January 2018.
- 7.2. A work programme for this function has been designed, published and is being delivered against, with Committee kept regularly apprised of the work being undertaken.
- 7.3. Alongside the income generation work programme set out in the update in July, this function is wide ranging in its scope and has been serving as the commercial link across services in the Council and has been involved in the following activity, either delivering directly or serving in an advisory capacity:
 - Work to exit the Kier contract and bring facilities management in-house;
 - Design and testing of an in-sourcing model;
 - Leading and strengthening the procurement function across the Council;
 - Work to support Adult Social Care in contracts and business case development;
 - Publication of the procurement measures within the first modern slavery statement for the Council;
 - Delivery of a new procurement social value policy and metrics for measurement of social value and publication in an annual report;
 - Chairing the procurement sub-group of the Lewisham Deal for wider community wealth building; and
 - Besson Street joint venture procurement, initiation and governance.
- 7.4. Further to the value this function drives and acknowledgment of progress against the income work plan and the range of other duties, there has been recognition of additional resources required. This is being addressed in the budget and was initially raised in Financial Forecasts 2018/19 tabled to PASC on 25 September this year. This will be required to ensure that the strategy is properly embedded and the benefits realised.

8. Next steps

- 8.1. Officers will continue work in line with Committee's programme as outlined in the previous sections.
- 8.2. Further to feedback from Committee, the Income Generation Strategy will be taken to Mayor and Cabinet in February next year. Implementation work will be progressed, with particular regard towards developing a commercial culture to support the strategy's objectives.
- 8.3. For the coming financial year it is the intention to make provision in the Budget Report for all services to uplift their fees and charges in line with CPI or for full cost recovery if

this is higher to allow for stability in real terms while further work to review current levels is undertaken.

- 8.4. A work programme is being developed for review of fees and charges in specific areas to ensure appropriate charging. This will see batches of areas reviewed across the next six months and allow a full Fees and Charges report to be published ahead of the 2020/21 financial year with the outcomes of those reviews.

9. Financial implications

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

10. Legal implications

- 10.1. 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.

11. Further implications

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

12. Background documents

- 12.1. 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:

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

- 12.2. The table below outlines the appendices to this report:

Appendix A	Income Generation Strategy 2019-2022
Appendix B	Corporate Charging Policy
Appendix C	2017 CIPFA Benchmarking Report
Appendix D	Template for Fees and Charges Report

