



London Borough of Lewisham
**Income Generation
Strategy**
2019-2022



Introduction

Background

Income generation has become the source of a renewed focus within local authorities but can seem separate and distinct from the main business of improving resident life chances. However, income generation is a way of improving the financial resilience and sustainability of the Council to enable us to continue to deliver for our residents and has been taking place across local authorities for some time.

Underpinned by a commercial mindset, income generation provides the framing for a way of working which seeks to maximise efficiency, improve our offer, target our services and provide best value in all we do. Considered in this way, income generation is at the heart of the Council's work. Since its inception the Council has sought to deliver the services residents need. The authority aspires to be a best value provider of choice in the borough and wider region.

Concurrently, 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.

While income generation alone cannot mitigate the financial burden the Council faces, it is becoming increasingly important to ensure that the organisation is financially robust, resilient and offering quality services that are competitive in the wider market.

This strategy is one of a number measures to improve the economic and social prosperity of Lewisham's residents, including social value generation from procurement activity across contracts and support of community wealth building through local partnership work. This document provides a rigorous approach and proven framework to enable commercial ideas across services to be considered, analysed, brought forward, implemented, monitored and evaluated.

This document

This strategy serves as an anchor for the wide variety of commercial and income generating activities already across the Council. It provides a common understanding and framework for considering fees, charges, traded services and other commercial activity.

This document is formed of the following parts:

- Introduction
- Income generating and commercial activity
- Strategic objectives
- Supporting principles
- Implementation
- Appendix 1: Definitions
- Appendix 2: Legislative framework
- Appendix 3: Appraisal templates

In addition, there are some complementary documents, such as the Strategic Asset Management Plan, Lettings Policy, Corporate Charging Policy and Annual Fees and Charges Report which should be considered in the context of this strategy. Other documents, provided they align with the principles, can be developed locally in individual services and divisions to support the Council's vision to become a financially resilient and best value provider of choice.

This strategy is for three years with a review built in after the first year. This is due to the changing economic environment on a macro level and to enable rapid responsiveness to any factors which impact the ability of this document to provide direction on income generation.

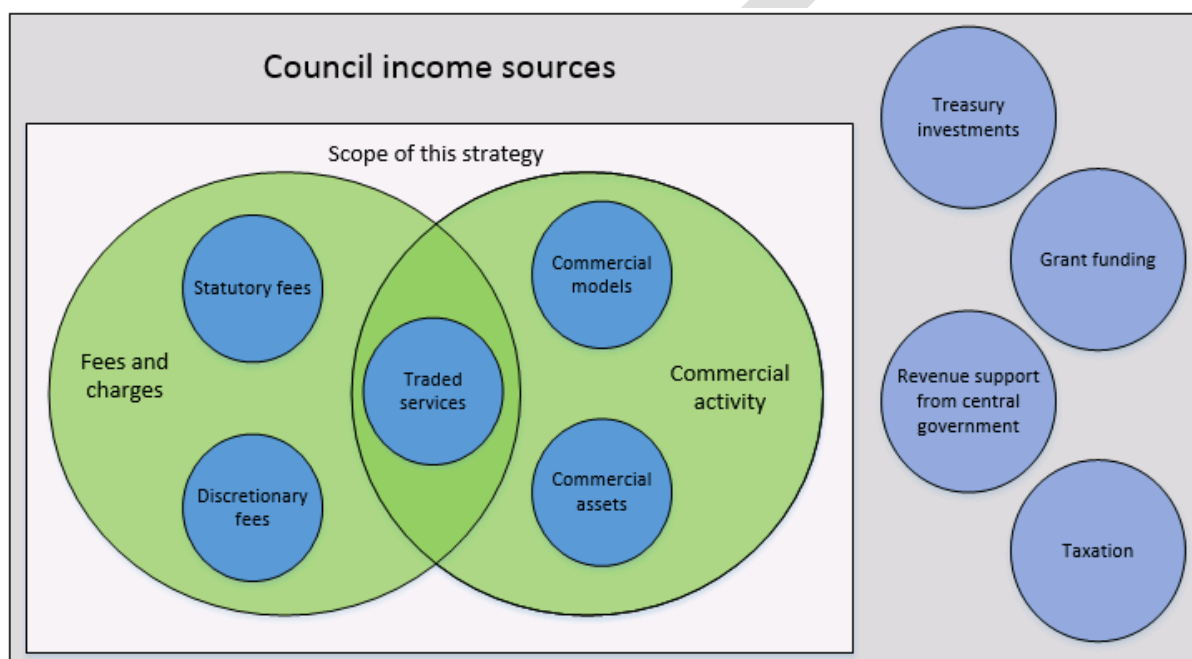
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Income generating and commercial activity

Income generating and commercial activities that are within the Council's control can be broadly divided into two main categories, with some overlap. These are:

- Fees and charges
- Commercial services

It is apparent that these are broad categories, and that there are many further subdivisions possible. However for the purposes of this strategy these titles are used to differentiate between the more standardised work of fees and charges and the wider scope and potential of other commercial services and activities. Charging for traded services is sat between the two.



Fees and charges

Statutory fees and charges are set by government and cannot be amended. Services with statutory charging are bound by the statute in terms of the maximum level of the charge. An example of a statutory charge would be a PCN (parking contravention notice) where a fine is applied to someone who breaks local traffic laws.

Discretionary fees and charges are where there is some freedom to set the rate of a charge provided it does not exceed costs of provision, taking one year with another. This means that the charge is limited to cost recovery and a higher charge is not necessarily better because the net position once the costs is deducted from the charge must always equal zero. In these cases, a lower charge can indicate higher efficiency. However, with discretionary fees and charges the most significant issue is how costs are defined and calculated. It is important, when cost recovery is the aim, to ensure that the Council achieves full cost recovery – taking into account all overheads and hidden costs of the delivery of service.

For some statutory services there is scope to introduce a supplementary charge for any discretionary service provided over and above the statutory requirement e.g. pre-application advice for building control or planning.

Commercial services

Commercial services include physical assets and non-physical assets like the web platform, which are used in a commercial way to generate income. It refers to items such as communication masts and towers, and small and large format advertising, as well as traded services. Examples include the sale of advertising space in Lewisham Life and on JCDecaux sites in the borough as well as commercial refuse collection.

Commercial services as a category also includes some large, flagship commercial models. The Besson Street Joint Venture is one example, where the Council has partnered with residential landlord Grainger to bring forward private rented homes on a site on Besson Street. Another example is the potential district heat network being considered with Veolia, which would generate low cost heat and power from waste incineration.

A large proportion of current commercial activity is accounted for by the Council's corporate and commercial property portfolio. This is covered primarily by the Strategic Asset Management Plan and the Lettings Policy, but remains under the umbrella of this strategy as a major commercial arm of the Council with a number of income streams through rents and leases with the potential for some of these assets to be brought forward as new schemes under different commercial models.

Other income

There are other forms of income for the Council, which services should be aware of. These are not governed by this strategy as they do not fall within the defined scope of commercial income generation. In the case of grant income and government revenue support, these do not offer the same stability and control by Council. As such, while they should be considered by services as part of their full income picture, they do not serve as the core levers identified and focussed on by this strategy. The following provides an outline of these additional income sources.

1. Treasury investments

The Council's Treasury Management Strategy accounts for investments. This is managed and maintained by the Head of Corporate Resources.

2. Grant funding

In addition to the categories above, income can be generated from bidding for grants – this is something services should consider as part of their full income picture but is not detailed in this strategy as grant funding does not provide a reliable or long-term income stream.

3. Revenue support from central government

Revenue support is not included in this strategy. An aim of this strategy is to reduce the Council's dependence upon revenue support from central government.

4. Taxation

Council tax and Business Rates are also excluded, as an aim of this strategy is to reduce dependence upon local, as well as national, taxation.

Strategic objectives

The aim of this Income Generation Strategy is to support the delivery of the Council's corporate and service priorities. The strategy achieves this through providing a framework for the scoping, development, implementation and management of a range of income generation and commercial opportunities, which will complement other sources of funding and enable to the Council to continue to deliver against its corporate objectives.

This in turn will provide financial resilience for the Council, with a rigorous process underpinning all commercial work to mitigate risk and drive up value, both financial and social. Ultimately, this strategy's purpose is to develop a Council that is commercial and entrepreneurial whilst remaining an ethical best value provider of choice in Lewisham and the wider sub-region.

Strategic objectives

There are five strategic objectives which collectively guide this Income Generation Strategy. These objectives are based around a full understanding, supporting culture, robust governance, financial outputs and non-financial outcomes sought of income generation at the Council. These are:

1. A single understanding and a consistent approach to income generation across the Council.

This objective is about ensuring that we are all working to the same definition of income generation and using consistent frameworks. This will make it easier for officers moving across teams and new to the Council to contribute to income generating activity and will help with central analysis of our income generation portfolio.

2. A commercial culture with the necessary skillset fostered and supported organisationally.

This objective is about achieving a commercial culture where barriers to income generating activity are reduced and removed. By being more entrepreneurial, we expose ourselves to new and different risks which need to be understood and managed, we need to improve the way we talk about and understand costs and will have to develop skills to support work of this type across services.

3. Clear financial accountability with true oversight of the income generation landscape and effective governance and decision making.

This objective captures the enduring need for robust governance when dealing with public money. It is especially important when moving towards a more commercial organisation that the increased risk appetite be matched with improved grip to manage those risks.

4. Financial resilience through increased revenue streams, increased returns, reduced operating costs and full cost recovery as appropriate for the Council.

This objective is about effectively producing the outputs of commercial work – the financial returns based on either increased fees, reduced costs or some combination of both. It is the primary aim of this strategy to achieve financial resilience and the objectives ahead of this one are about achieving this in the right way.

5. Generation of social value, through work within an established framework of values and principles, to balance commercial ambitions with positive outcomes for the community.

This objective is about social returns – the outcomes of the income generating work. As a public sector organisation working primarily with public funds it is essential that this is at the forefront of all work, and that commercial activity supports this rather than detracting from it.

A series of supporting principles have been developed for each of the four objectives outlined above. The principles set out how the Council will go about achieving each objective and guide activity undertaken to deliver the overall aim of this strategy.

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Supporting principles

Strategic objective 1

1. A single understanding and a consistent approach to income generation across the Council.

Principles

- Core terminology around income generation will be defined.
- For fees and charges, justification for introducing, revising or not introducing a charge, will be provided linked to the Council's Charging Policy. It will ensure that the impact of charges on services, service (and non-service) users and other stakeholders is fully understood, in the immediate and longer terms, including an understanding of the risks associated with the proposal.
- For all other commercial projects, an enhanced business case process will be used for the development and appraisal of proposals.
- Officers will ensure that as part of the process mentioned above the legal and financial justification and implications of each income stream are fully understood with input from officers in each area.
- An annual planning and review cycle for fees and charges will take place, informed by a range of measures established during the development of business cases.
- Specific responsibilities for income generation are allocated to individuals at all levels, including named officers for each individual income stream.

Strategic objective 2

2. A commercial culture with the necessary skillset fostered and supported organisationally.

Principles

- Training will be offered corporately to develop appropriate commercial awareness and the skills needed to evaluate options as part of the business case appraisal process.
- Templates and guidance will be provided to support the business case appraisal process and any associated tasks.
- Signposting to external bodies of information and best-practice resources will be provided to all staff, as well as strategic use of external sources of commercial acumen as needed.
- Commercial awareness and understanding will be built into performance appraisal processes where appropriate.

Strategic objective 3

3. Clear financial accountability with true oversight of the income generation landscape and effective governance and decision making.

Principles

- All services will consider options for income generation fully when considering activity during service planning at the start of the year and throughout the year to ensure service resilience.
- Local risk registers will be expected to include risks around income generation, both specific to the market and impacts arising from other risks.
- The Income Board and associated governance processes will be followed for all income stream proposals, without exception.
- Services proposing an income stream will be held accountable for the proposal through budget adjustment, where the stream is proposed as a saving, or reporting through the Income Board and EMT where investment and/or service change are necessitated by the proposal.

Strategic objective 4

4. Financial resilience through increased revenue streams, increased returns, reduced operating costs and full cost recovery as appropriate for the Council

Principles

- Cost analysis and management will be considered as important as income, and services will be expected to move towards a full understanding of costs and cost drivers in their area.
- Corporately agreed and evidence-based business case models for income generation proposals will be used and work progressed will be evaluated against these models.
- Full cost recovery will be the expectation in all appropriate areas of charging and will be supported by full cost modelling.
- All services will be expected to contribute to the annual review cycle and be able to provide information on income streams and related figures as needed.

Strategic objective 5

5. Generation of social value, through work within an established framework of values and principles, to balance commercial ambitions with positive outcomes for the community.

Principles

- Every business case will need to identify the proportion of social and financial value which the activity will generate, and the clear alignment to Council strategy which creates these parameters within which the activity must be delivered (in the strategic and economic cases of the five case model respectively).
- Primacy of focus will remain on delivery of services to residents and no income generation proposal that permanently threatens or diverts resources from business as usual will be approved.
- All income generation proposals should be supported by smart and measurable social value outcomes of appropriate proportions.

Implementation

Appraisal process: business case development

There are two similar business case development processes to be followed depending on whether the income proposal is a fees and charges proposal, or a commercial activity, asset or model proposal. In both cases the business case model is based on the Treasury Green Book's Five Case Model – a recognised and comprehensive approach to business case development. Further information on the original model is available at gov.uk.

The business case model has been locally adapted for use developing fees and charges and commercial services proposals and these scaled templates are appended to this strategy. The figure on the right provides an overview of the five cases that should be considered.

Under the following sections, a more tailored approach is outlined for the different categories of appraisal. For either type of business case, the governance structure is the same, it is the appraisal template which differs. The shared governance structure is shown at the end of this section.

Strategic case	This is about how the proposal meets the Council's strategic objectives, how it links to other work and services and defining objectives for the proposal
Economic case	This is about how the proposal provides best value: here is where alternative options will be considered and evaluated, and benefits and risks identified
Commercial case	The commercial case refers to an understanding of the market for the proposal, the charging mechanism and the service's requirements and outputs
Financial case	This is where the budget considerations come in, with any capital, revenue and whole-life costs identified and income modelled
Management case	This is where delivery, monitoring and evaluation mechanisms are identified and should clearly lay out responsibilities and governance

Fees and charges income generation proposals

For fees and charges the business case should be developed initially when proposing to introduce a new charge and annually thereafter when the charge is reviewed.

It is really important when considering fees and charges that you take the time to ensure you have full understanding of:

- The relevant legislation which gives you power to charge, and any restrictions it imposes
- Full cost modelling for both the activity and service
- The market you are operating within or proposing to enter
- Direct and indirect impacts the charge will have (on service users, other services, the community etc.)

As fees and charges are often clearly legislated for, well defined and closely linked to existing front line service delivery, the business case that needs to be produced is a slimmed down version. It seeks enough information for an informed decision to be taken without requiring disproportionate resource be dedicated to it.

Commercial services income generation proposals

For all other income proposals, which often relate to the introduction of new activities, services or ways of working, a fuller business case needs to be prepared. This is so that it is clear the officers have been thorough and taken a robust approach to development of new income generating activity, and so that the Income Board can be assured of the basis for their decision.

Some considerations specific to these larger projects include:

- Delivery vehicle – can the Council deliver this activity directly, or need a new or separate company, or are we looking to undertake a joint venture or shared service model?
- Seed money – does the proposal require initial investment, and if so is there a line of funding identified to enable this or a workstream this is dependent on?
- Links to other projects – does this project need to be considered in conjunction with other work or proposals?
- Red lines – what are the acceptable parameters for this proposal, e.g. options that we would disregard due to lack of strategic and social alignment or boundaries to what would be considered acceptable due to the organisational ethos?

Governance and decision making

The governance structure for income generation is provided primarily through the Income Board and ultimately through decisions by members or under delegated authority by senior officers.

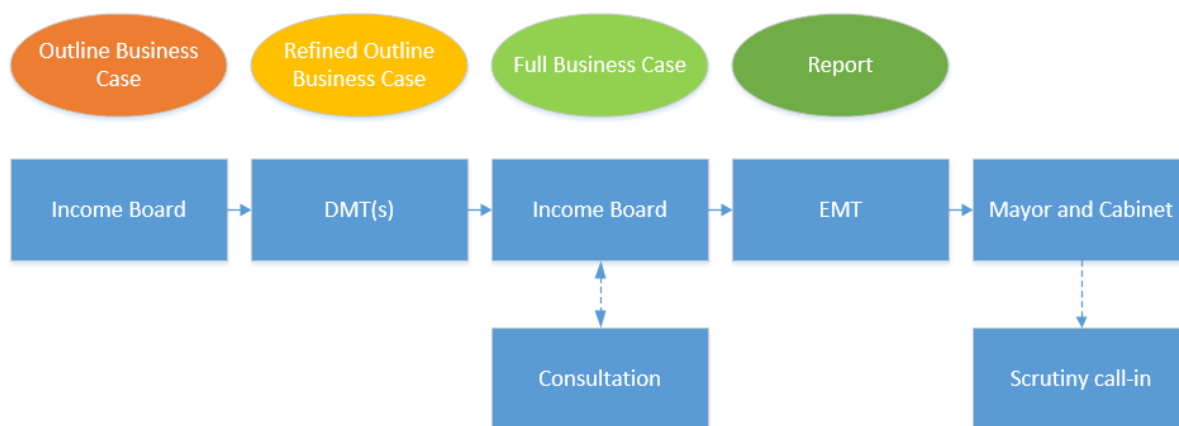
The Income Board is comprised of the income leads for each directorate as well as the Head of HR and Organisational Development, Head of Law and Head of Finance. Additional membership will be required on an ad hoc basis from specific services. The Board will meet on an eight-weekly basis.

All officers should ensure that all standard good practice and current procedures are followed which supplement the Board. This may include consulting with line managers, cabinet members, committees, service managers and heads of service.

The diagram below provides a visualisation of the process. Boxes in blue represent milestones in the governance process, and the ovals depict the progress of the written document throughout.

The arrows show the process, with dotted arrows representing steps that may not be necessary for every proposal. For example, it may be that a decision can be made under delegated authority to an Executive Director and so that process would end at that step, or that consultation is needed which would necessitate the inclusion of the consultation step. You must ensure that proposals are legally robust and must involve Legal Services.

The business case described in the process above is a single document which is developed and refined throughout the process. At the earliest stage, when it is first brought to the Board, it is likely to be an outline of the proposal with as much available information included to give the Board an initial understanding of what is being suggested.



The first milestone is the first Board. This is where the members of the Board will decide whether the proposal can be progressed and will provide feedback to help with the development of the proposal if so. This feedback should then be incorporated and the second draft of the business case taken to DMT (or more than one DMT if the proposal cuts across directorates).

Following feedback from DMT, and agreement to proceed, the business case can be updated to a final draft. This will go before the Board a second time for any final feedback and their recommendations will go to EMT for a decision on whether to proceed.

At this point, it may be necessary to consult on the proposal, and with the full draft business case there should be enough information to understand whether this is necessary – if so, the results of the consultation will need to be taken back to the Board before their decision to proceed can be delivered.

At this stage, the draft business case becomes a completed document, and will be used as the basis for a decision report to go to Mayor and Cabinet (please note: the fixing of fees and charges is always a key decision and must be formally reported accordingly).

Ongoing oversight

After a decision has been made to implement or amend an income generation proposal, there must be ongoing oversight to manage the Council’s income streams, ensure ongoing suitability of any charges and evaluate progressed proposals against the original business case and modelling.

A role must be identified for each proposal – this person will be responsible for managing the income stream. A role, rather than name, should be provided to manage any changes in staff and the service is responsible for keeping this up to date. In addition, a directorate lead will coordinate income streams in each area. The leads are currently:

Directorate	Lead
Resources and Regeneration	Head of Corporate Resources
Customer Services	Head of Environmental Services
Community Services	Head of Crime Reduction and Supporting People
Children and Young People	Assistant Director of Education Services

The Income Board can, at its discretion, call in officers for information on income streams. Additionally, income stream owners will be required to provide information on request through their directorate lead for the purposes of annual reporting, review and benchmarking. Quarterly, income generation will report into the Executive Management Team. Annually, Mayor and Cabinet will receive a fees and charges report which will provide political oversight of all fees and charges income.

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Appendix 1: Definitions

There are some core concepts that this strategy centres around which need to have a common meaning across the Council. These are defined for the purpose of this strategy as set out below:

- **Income** is all money received by the Council and includes grant funding as well as money raised by fees and charges etc. **Income generation** refers to specific activity to produce money for the Council, where we actively seek to produce income by applying a charge or designing a commercial service.
- **Surplus** is the difference between the amount of money received and the total amount spent in delivering the service or activity.
- **Cost** refers to the amount that has to be paid or spent to deliver a service or obtain necessary resources. **Overheads** are all ongoing business costs not including or related to the direct labour and/or resources used to deliver a service e.g. HR costs, costs of office space etc. **Full cost** includes hidden costs like overheads.
- **Commercial** refers to making or intending to make a profit or surplus. **Commercial mindset** or **commercial awareness** refers to having an understanding of income and costs, how they fit into your work and how drive up income and drive down costs as appropriate in your area of work.
- **Cost recovery** refers to ensuring that any fees or charges for a service account for and cover the cost of delivering said service. **Full cost recovery** is the aim at the Council, and refers to cost recovery which includes all hidden and indirect costs e.g. overheads.
- **Fees and charges** are a tool for income generation. They are the price levied for a service or product, and a range of legislation governs when we can charge and at what level. **Statutory fees** are those where the maximum charge is set by central government. **Discretionary charges** allow discretion to set the level provided it doesn't exceed the full costs of delivering the service taking one year with the next. **Traded services** are a step further towards more commercial activity. These are where we are able to charge a market rate for a service or product, usually aiming to achieve a surplus rather than just recover cost.
- **Demand** is the quantity of your product or service that people are able and willing to purchase. **Supply** is the total amount of the product or service available to customers. It is important to understand supply and demand when proposing fees, charges or other commercial activity.

Appendix 2: Legislative framework

Income generation, including fees and charges, is dependent on a range of legislation as opposed to any one specific power. While the Localism Act 2011 introduced a General Power of Competence (GPC), which explicitly gives councils the power to do anything that an individual can do which is not expressly prohibited by other legislation, in many cases there is specific legislation which governs certain areas or activities within the Council and makes its own overriding provisions which may limit or prohibit income generating activity.

Other general provisions are outlined below. This is a non-exhaustive list and is not sufficient information for the purposes of making a proposal or taking a decision:

- Under the Local Authorities (Goods and Services) Act 1970 councils were given powers to enter into agreements with each other and with a long list of other designated public bodies.
- The Local Government Act 2003 enables councils to trade in activities related to their functions on a commercial basis with a view to profit through a company. Originally, trading through a company was confined to certain categories of councils but a Trading Order, in force since October 2009, removed such restrictions.
- The Localism Act 2011, in addition to introducing the GPC, provides the ability to charge for discretionary services on a cost recovery basis. This power was introduced in the Local Government Act 2003 and is retained there alongside this later statute.

Legal services within the Council should be consulted for each income proposal to ensure that the relevant basis for charging or trading can be identified and properly understood. No business case should be brought forward without a full understanding of the legal powers and implications relating to the proposal.

Appendix 3: Business Case templates

For fees and charges, including traded services, the summary and business case below are the appropriate template to use.

Fees and Charges Summary Table

Proposed activity to charge for	Please provide the name of the product, asset or service activity that the charge is proposed for
Proposed charge	£
Is this a new charge?	This fee is new <input type="checkbox"/> This is a revision of an existing fee <input type="checkbox"/>
For existing charges only: please provide the current level of charge	£
Cost of service	Please provide the full cost of the service
Type of charge	Statutory <input type="checkbox"/> Discretionary <input type="checkbox"/> Commercial <input type="checkbox"/>
Legal power and basis to charge	Please provide the name of the legislation which provides power to charge
Directorate	Customer Services <input type="checkbox"/> Resources and Regeneration <input type="checkbox"/> Community Services <input type="checkbox"/> Children's and Young People <input type="checkbox"/>
Division	
Service	
Income owner	Please provide the job title and name of the officer who will be responsible for managing the fee and providing annual review thereof
Cost code	Please provide the cost code for the receipt of fee income
Head of Law signature	
Head of Finance signature	
Executive Director signature	

Fees and Charges Business case

Strategic case
Please provide the policy/strategy that supports this proposal.
Economic case
Please provide any other options and why this option is the preferred proposal. Please also note any non-financial benefits (e.g. demand management, quality of service) and any risks.
Commercial case
Please identify the market for the service, product or activity being charged for. Please identify the charging mechanism and how income will be collected.
Financial case

Please provide the projected costs of implementing this fee (and whether this is allocated or unallocated) and the projected income.
 Please set out how the rate of this charge was determined.
 Please set out the full costs of delivery, including overheads, and show how this fee provides full cost recovery – or, where this is not appropriate or possible, justification for this – you must also attach a cost model (i.e. your workings for how you established the rate of this fee/charge).

Management case

Please provide an overview of how this will be implemented and any implications on the Council's wider operations.

For other commercial proposals not included above an expanded business case should be provided. This follows the same premise as above and will need to be tailored to the individual proposal.

Commercial activity, asset or model summary

Proposal summary	Please provide an overview of the product, asset or service activity that the charge is proposed for
Financial headline	Please provide the fee/charge proposed for a traded service, or the headline figures for any other kind of commercial activity e.g. income and profit forecast over 3 years
Is this a new activity or a proposed change to existing business	This is a new activity <input type="checkbox"/> This is a change to existing business <input type="checkbox"/>
Directorate	Customer Services <input type="checkbox"/> Resources and Regeneration <input type="checkbox"/> Community Services <input type="checkbox"/> Children's and Young People <input type="checkbox"/>
Division	
Service	
Income owner	Please provide the job title and name of the officer who will be responsible for managing this project and ongoing income stream
Cost code	Please the cost code for the receipt of this income
Head of Law signature	
Head of Finance signature	
Executive Director signature	

Commercial activity, asset or model business case

Strategic case
Please provide an overview of the current business as usual landscape in the proposal area. Please outline the case for change that supports the introduction of this work. Please outline the objectives of this proposal. Please provide the policy/strategy that supports this proposal.
Economic case

Please append an options appraisal and outline here the preferred option and why. Please also note any non-financial benefits (e.g. demand management, quality of service) and a plan that sets out when each benefit will be realized and who is responsible for ensuring delivery of these outcomes.
Please set out the identified social value this proposal will deliver, with metrics for evaluating this.
Please append a risk register for the proposal, with named risk owners and mitigation outlined.

Commercial case

Please identify the market for the service, product or activity being charged for. Please identify the charging mechanism and how income will be collected. Please provide any soft market testing and procurement plans if this service is going to be delivered with any purchased products or services.

Financial case

Please provide the projected costs of implementing this fee and the projected income, and append any modelling. Please identify existing budget that will be drawn on to deliver this, or any dependencies to release cash for this project. Please provide the cost code for any budget that will be contributing to the delivery of this project. Please set out all costs in terms of capital and revenue, and any ongoing revenue costs that this project requires.

Management case

Please provide an overview of how this will be implemented and any implications on the Council's wider operations. Please provide any service structure charts, programme team structures and governance arrangements for this project and any ongoing work. Please provide a project plan which sets out realistic timeframes for delivery. Please provide any further information relating to the delivery of this proposal.