



## Public Accounts Select Committee

### Income Generation / Fees & Charges Update

**Date:** 18 March 2020

**Key decision:** No.

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Strategic Procurement and Commercial Services Manager

### Outline and recommendations

To note the progress to date and the work programme proposed for 2020/21 (Section 6) to deliver the Income Generation strategy.

### Timeline of engagement and decision-making

The Income Generation Strategy 2019-22 was approved by M&C on 6 February 2019.

At its meeting on 13 June 2019, PASC agreed that it would continue to investigate the issues of income generation and commercialisation throughout the 2019-20 municipal year.

## 1. Summary

- 1.1. This paper summarises all the measures currently in place and sets out the ambition for the next year. The proposed work programme for 2020/21 builds upon the progress to date to both (a) deliver the Income Generation strategy and (b) support the creation of a more commercially minded Council and exploring opportunities for new commercial delivery models.

## 2. Recommendations

- 2.1. To note the progress to date and the work programme proposed for 2020/21 (Section 6) to deliver the Income Generation strategy.

### **3. Policy Context**

- 3.1. This work has been undertaken in line with the Corporate Strategy 2019-2022
  - 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.
- 3.2 Furthermore it aligns with the Organisational Priorities for 2020 as set out by the Council's Chief Executive:
  - Financial Management: spend our money in the most efficient and effective way for greatest impact
  - Organisational Culture: develop and embed a culture that encourages collaboration, creativity and leadership at all levels.
  - Evidence Based Decision Making: ensure that our decisions are evidence based.

### **4. Background**

- 4.1. Local government has endured 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.
- 4.2. Over the last ten years, Lewisham Council has undertaken a major budget reduction programme to manage the difficult financial challenge it has been faced with. In the period 2010/11 to 2019/20 the Council has implemented savings of £173m and are making an additional £16.6m in 2020/21.
- 4.3. Discretionary and traded services offer opportunities for unlocking further value, as well as the wider, but potentially riskier area, of new forms and models for commercial income generation. The Public Accounts Select Committee (PASC), therefore, continue to have a keen and focused interest in this area.
- 4.4. It was through PASC recommendations that the interim post of Strategic Procurement and Commercial Services Manager was created and then filled in January 2018 (Katharine Nidd), and that further budget growth was agreed in late 2018. This role brought forward the Income Generation Strategy 2019-2022 in February 2019, and using the increase in base budget has created and filled the role of Income and Commercial Services Manager (Sunil Shahaney) in July 2019.
- 4.5. The two current post holders have a blend of professional experience, Katharine Nidd leads on the Council's complex procurements (PFIs) and alternative structures such as the Besson Street JV and has extensive experience in procurement, contract management and commercial investment. She also developed the options appraisal mechanism for the consideration of in-sourcing.
- 4.6. Sunil was previously head of central government commercialisation at PUK (now HM Treasury) and a Deputy Director at Cabinet Office for cross-Whitehall debt management policy and efficiency.
- 4.7. These two roles do not operate in isolation, and continue to provide regular updates to both the Executive Management Team (EMT) and PASC about the Council's progress. It is intended that the proposed governance arrangements will ensure that the commercial expertise that already exists across services is harnessed.

### **5. Income generation strategy 2019-22**

- 5.1. There are five strategic objectives which collectively guide the Income Generation Strategy, approved by the Mayor and Council in February 2019. These are:

- A single understanding and a consistent approach to income generation across the Council.
  - A commercial culture with the necessary skillset fostered and supported organisationally.
  - Clear financial accountability with true oversight of the income generation landscape and effective governance and decision making.
  - Financial resilience through increased revenue streams, increased returns, reduced operating costs and full cost recovery as appropriate for the Council.
  - Generation of social value, through work within an established framework of values and principles, to balance commercial ambitions with positive outcomes for the community.
- 5.2. Whilst we are now one year into the three year period of the strategy it has been reviewed and remains very much fit for purpose and so the proposed work programme will continue to deliver against this.

## **6. Progress to date since November 2019**

- 6.1. Commercial culture: We committed at the 6 November 2019 PASC meeting to deliver a commercial training programme before the end of the financial year. A pilot one day training course was co-designed with CIPFA between December 2019 and February 2020. This drew on their significant understanding of, and close relationships with, Local Authorities and was supported by the input from the Council to ensure that it properly reflected the aims and ambitions of our i) corporate strategy, ii) income generation strategy, and iii) corporate priorities. It also drew on learning from our “pathfinders” and others such as the London Borough of Waltham Forest.
- 6.2. The first pilot programme was delivered by CIPFA on 4 March 2020 and introduced by the Chief Executive. The training was one strand of a wider and ambitious work programme to improve value-for-money, create a commercial culture and identify new opportunities for generating income within the Council.
- 6.3. Targeted at service managers and finance business partners, the objective of the pilot programme was to:
  - encourage collaboration between finance and services;
  - clearly set out the parameters for fees and charges and expectations for how these will be set; and
  - spark commercial thinking, create awareness of what good looks like and challenge services to seek new forms of income generation and more efficient service delivery.

The Agenda for the day can be found at ANNEX 1, and further discussion of how this will be taken forward is set out in section 7.3 below.

- 6.4. Fees and charges report: We committed to publishing the annual fees and charges report for inclusion in the budget report by January 2020. This exercise has been done and was presented to PASC on the 4 February 2020.
- 6.5. The exercise of undertaking a Council wide review of fees and charges greatly increased the transparency of these, and has enabled critical challenge and therefore incremental revenue increases. For instance, the private housing agency have agreed to levy new fees for several services, planning and green scene have increased fees for discretionary services above inflation and licensing have agreed to review fees and charges for the next budget year. The work programme for 2020/21 is as set out in section 7 below.
- 6.6. Piloting cost / revenue pathfinders to establish full costs: This is on-track and we have

reviewed several services to better understand issues and challenges. We discussed three “pathfinder” models in our 6 November 2019 progress report and signposted the potential risks of misinformed decisions arising out of either limited visibility of full costs or costs of statutory services combined with traded services. The 2020/21 work programme has established the potential order in which services will be reviewed and cost modelling undertaken and this is set out in section 7 below.

## 7. 2020/21 work programme

- 7.1. Fees and charges and innovative commercial services and models offer scope for the Council to improve its financial position and build resilience. The Council can also use charging structures, where discretionary, to both control service demand (e.g. differential pricing for cremation vs burial) and to best deliver policy objectives (e.g. emission-based parking charges). We therefore propose to commit to an ambitious work plan for 2020/21 which expands significantly on 2019/20.
- 7.2. Our proposed work plan has three strands and these complement the organisational priorities. There is ongoing discussion and thinking about the various mechanisms that can be employed to ensure that the initiatives fully bed in to Council custom and practice and therefore commercial thinking and action become ‘business as usual’ for all staff. Below for each strand there is consideration of how this will be bedded in and delivered.
- 7.3. Efficiency:
  - Broaden service level cost / revenue models to establish full costs: This will include “deeper dives” of services prioritised by income generation potential and lessons learned from the pathfinders. (see section 6 above). The work plan has identified the services which will initially be focused on but it is intended that once all income generating services have been cost modelled (to ensure appropriate charging) that all services within the Council will eventually undertake a form of cost or activity modelling, this will allow better informed decision making by both service managers and Members.
  - Establish overhead costs: Corporate overheads are an important consideration in determining full costs and therefore the setting of Fees and Charges, and we are working closely with the Finance team to work up a representative cost and a shadow apportionment model. We intend completing this exercise by March 2020. There is no intention that the Council move to overhead apportionment within the accounts, but rather that there is a clear understanding amongst budget holders of how to calculate and understand full service costs and therefore to consider these when setting fees and charges or designing service delivery models. It is important to note that any approach agreed for the overhead apportionment will only ever provide a proxy and that when cost modelling services the central overheads will need to be considered alongside possible further indirect service costs which may be specific to that service itself, for example, capital costs.
  - Benchmark fees and charges across neighbouring boroughs: We propose to use a mixture of publicly available information and sources such as websites, LGA, CIPFA, APSE etc. as well as informal networks. There is a strong dependency on service leads engaging actively in this process. Brent Council and Lincolnshire County Council have evinced interest in working with us and we hope to expand on this network over the coming months. As it has been suggested previously, benchmarking can only ever be used as a proxy and must be read with caution due to the differing way that Councils both deliver and cost/charge for services.
  - Cost model traded services: For those services trading commercially it is vital that full cost modelling be as robust as possible and therefore shadow trading

accounts for Trade Waste will be implemented within 2020/21.

7.4. For the activities identified under the banner of ‘efficiency’ it is considered that the most effective way of embedding this into services is to ensure that this forms part of the annual service planning process. If services are aware of and understand what the full cost of each service line or activity is, then they can make the most informed decisions as to how to efficiently allocate resources within the annual service plan to deliver the service and corporate objectives and strategy. Furthermore, this will support and link into the annual savings and cuts process and ensure that when cuts are put forward they have been considered on the basis of an understanding of the full cost of service delivery.

7.5. New income generation and alternate models

- Develop mechanisms for generating / sourcing ideas e.g. Dragon’s Den etc. An outcome from the pilot Commercialisation training day was to ask staff how they would like to see new ideas elicited and then supported and taken forward. It is vital that staff are clear that; i) we recognise that they will have excellent and fresh ideas, ii) and that they are confident in putting these forward in an accessible way, and that iii) a practical framework exists that will be used to develop, test and then accept or reject these.
- Explore new commercial operating models: We propose to identify a discretionary service (e.g. pest control) and newly/planned insourced services (e.g. management of parks and open spaces) to pilot options for income generation. The commercial training programme covers a module focused on Business Case development using HM Treasury 5 case model. At the same time that a mechanism and process is developed to draw out and test ideas from staff, there will be the targeted identification of services/projects so as to ensure that we are balancing the natural generation of ideas with focused exploration within services.

7.6. Developing commercial capability

- Develop cross-fertilisation opportunities for knowledge sharing. We have started developing a dedicated web page on the intranet to share guidance and as a networking platform. Other Councils (e.g. Brent) have evinced interest in service level networks. These will be pursued in addition to the regular attendance at national and regional income generation networks such as APSE, CIPFA and LGA network events.
- Launch follow-up training programmes. The pilot session on the 4 March 2020 was well attended and generally enthusiastically received by staff. There is a lot of learning and actions arising which will be fed back to CIPFA and form the basis of the revision to the training content and delivery. This learning will also be fed back to EMT in the March Income Generation session so as to ensure the continued support corporately. The introduction of the session by the Chief Executive has ensured that staff are aware of the importance of this and there is an excellent opportunity to ensure that this is refined and rolled out with maximum impact across the year. The current intention is that the session may be split into modules delivered in half day sessions with a single session made mandatory for all service and budget holders and other sessions targeted more specifically to a smaller cohort. We will consult HR to ensure we are aligned with broader corporate training and development priorities. More detail on this will be brought forward once this work is complete.

7.7. The three work strands are not mutually exclusive, and in fact are complementary and designed to collectively amplify the impact of each as a stand-alone. “Efficiency” develops the financial rigour of baselining cost, providing evidence and ensuring transparency for critical challenge, while “Developing commercial capability” creates the behaviours, knowledge and skills to drive a more ambitious “Income generation”

strategy. It provides staff with the tools and techniques and confidence to support the Council to be ambitious and bring forward new ideas. This is consistent with the organic, and reasonably low-risk commercial journey followed by Councils such as Waltham Forest. ANNEX 2 disaggregates the separate tasks under the work programme.

## **8. Governance**

- 8.1. As the proposed 2020/21 work programme significantly expands on its ambition, we propose to seek a steer from EMT to align with the broader Council approach to project management. It is clear that for income generation and commercialisation in its broadest sense to be truly embedded into the Council and form part of staffs approach to service delivery, that it must be at the core of the Council's ethos. Therefore it is vital that the management and governance of the workstrands must be carefully thought through so as to ensure that this does not become a 'silo' workstrand.

## **9. Financial implications**

- 9.1. None except as set out in the body of the report. A dedicated resource sits in the Procurement and Commercial Services team who will oversee the delivery of this work programme. Finance have committed their support, both in collaboration of issues such as overhead apportionment, but also crucially in service cost modelling.

## **10. Legal implications**

- 10.1. Any decisions by services on how and whether they undertake and deliver commercially traded services would have to be made in line with relevant legal obligations. The proposals in this report would provide support for any such decisions. Otherwise there are no legal implications except as set out in the body of the report.

## **11. Equalities implications**

- 11.1. The Equality Act 2010 (the Act) introduced a public sector equality duty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 11.2. In summary, the Council must, in the exercise of its functions, have due regard to the need to: eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
  - o advance equality of opportunity between people who share a protected characteristic and those who do not.
  - o foster good relations between people who share a protected characteristic and those who do not.
- 11.3. It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not.
- 11.4. It is a duty to have due regard to the need to achieve the goals listed in the paragraph above.
- 11.5. The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. The Mayor must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.

- 11.6. The Equality and Human Rights Commission has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled “Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice”. The Council must have regard to the Statutory Code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at:

<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-codes-practice>

- 11.7. Any future changes proposed to the setting of fees and charges by services will necessitate full consideration of the possible equalities implications at that point. Similarly the design and delivery of any communications or training materials this will be undertaken in accordance with our obligations under the public sector equalities duty.

## **12. Climate change and environmental implications**

- 12.1. There are no specific environmental implications arising from this report.

## **13. Crime and disorder implications**

- 13.1. There are no specific crime and disorder implications arising from this report.

## **14. Health and wellbeing implications**

- 14.1. There are no specific health and wellbeing implications arising from this report.

## **15. Social Value implications**

- 15.1. There are no specific social value implications arising from this report as no contract has been awarded

## **16. Background papers**

- 16.1. ANNEX 1: COMMERCIALISATION TRAINING PROGRAMME

- 16.2. ANNEX 2: PROPOSE 2020/21 INCOME GENERATION WORK STRANDS

## **17. Report author and contact**

Katharine Nidd, Strategic Procurement and Commercial Services Manager

[Katharine.nidd@lewisham.gov.uk](mailto:Katharine.nidd@lewisham.gov.uk)

## **ANNEX 1: COMMERCIALISATION TRAINING PROGRAMME**

1. CEO Introduction and scene setting
2. Where does the money come from i.e. put in context the “big picture” challenges the council faces – funding squeeze, population growth and demographic challenges.
3. Introduce the concept of mandatory and discretionary services and powers to charge.
4. Discuss why we need to get a grip on costs and introduce the concept of value.
5. Discuss the role of the finance function i.e not bean counters but business partners
6. Introduce alternative models of delivery with illustrative examples.
7. Wrap up and next steps

## ANNEX 2: PROPOSED 2020/21 INCOME GENERATION WORK STRANDS

|   | <u>RESPONSIBILITY</u> |
|---|-----------------------|
| <b>1. EFFICIENCY</b>  |                       |
| PUBLISH FEES & CHARGES FOR 20/21  | INCOME GEN.           |
| COLLATE FEES AND CHARGES FOR THOSE SERVICES NOT PART OF 20/21 BUDGET DOCUMENT | INCOME GEN.           |
| UPDATE FEES & CHARGES POLICY & ALIGN TO CONSTITUTION                          | INCOME GEN.           |
| RAISE AWARENESS OF FEES & CHARGES POLICY ACROSS SERVICES                      | INCOME GEN.           |
| DEVELOP AND AGREE APPORTIONMENT OF OVERHEADS                                  | FINANCE               |
| COST MODEL DISCRETIONARY / STATUTORY SERVICES                                 | FINANCE               |
| BENCHMARK SERVICES WITH NEIGHBOURING COUNCILS                                 | SERVICE TEAM          |
| MAP LEGISLATION GIVING POWERS TO CHARGE                                       | LEGAL                 |
| PUBLISH DRAFT FEES & CHARGES FOR 21/22 AND ESTIMATE BUDGETARY IMPACT          | SERVICE TEAM          |
| SEEK APPROVALS ON DRAFT FEES AND CHARGES AS AGREED IN POLICY DOCUMENT         | SERVICE TEAM          |
| PUBLISH FEES & CHARGES FOR 21/22 ALONGSIDE BUDGET                             | SERVICE TEAM          |
| <b>2. INCOME GENERATION</b>   |                       |
| COST MODEL TRADED SERVICES  | FINANCE               |
| PRODUCE TRADED ACCOUNTS FOR TRADE WASTE 19/20                                 | FINANCE               |
| ALIGN WITH BOROUGH OF CULTURE LEAD ON INCOME GENERATION OPPORTUNITIES         | INCOME GEN.           |
| GENERATE INNOVATIVE IDEAS FOR INCOME GENERATION                               |                       |
| PILOT AN IDEA AND PRODUCE OBC   | INCOME GEN.           |
| RESEARCH MECHANISMS USED BY OTHER COUNCILS                                    | INCOME GEN.           |
| SEEK CROSS- COUNCIL INPUT - SURVEY  | INCOME GEN.           |
| SUMMARISE MECHANISMS / APPROACHES   | INCOME GEN.           |
| SEEK INCOME BOARD AND EMT APPROVAL FOR PROCESS                                | INCOME GEN.           |
| <b>3. CULTURE CHANGE</b>  |                       |
| DELIVER COMMERCIAL TRAINING PILOT   | INCOME GEN.           |
| DEVELOP WEBSITE   | INCOME GEN.           |

LAUNCH FOLLOW-UP PROGRAMMES TO DEVELOP COMMERCIAL CAPABILITY AND CROSS- FERTILISE IDEAS INCOME GEN.

# GOVERNANCE

EMT PAPER SEEKING STEER FOR 20/21 WORK PROGRAMME INCOME GEN.

PASC UPDATE ON INCOME GENERATION INCOME GEN.

## INCOME GENERATION AND COMMERCIAL SERVICES BOARD

**CONSULT EMT TO AGREE MEMBERSHIP**      **INCOME GEN.**

## ARRANGE FIRST MEETING AND AGREE 20/21 WORK PROGRAMME, MEETING AND REPORTING SCHEDULE INCOME GEN.