
Overview and Scrutiny

Income Generation Public Accounts Select Committee

October 2015



Membership of the Public Accounts Select Committee in 2015/16:

Councillor Jamie Milne (Chair)

Councillor Mark Ingleby (Vice-Chair)

Councillor Abdeslam Amrani

Councillor Chris Barnham

Councillor Maya Hilton

Councillor Ami Ibitson

Councillor Roy Kennedy

Councillor Helen Klier

Councillor Jim Mallory

Councillor Crada Onuegbu

Contents

	Page
Chair's introduction	2
1. Executive summary	3
2. Recommendations	4
3. Purpose and structure of review	6
4. Context and Legislative background	7
The Findings	
5. Income Generation Strategies – initiatives from Local Authorities	9
6. Wireless Concession – London Borough of Camden	12
7. Commercialisation Strategies – Hammersmith & Fulham	16
8. Trading Companies – LB Brent, Shropshire Council	22
Overview of London Borough of Lewisham	
9. Lewisham Future Programme	27
10. Future Income Proposals	31
11. Conclusion	38
12. Monitoring and on-going scrutiny	38

Chair's Introduction

With Local Government under unprecedented stress the need for new thinking has never been greater. Nowhere is this truer than in the stewardship of the ever-decreasing funding received from Central Government. With significant savings already achieved since 2010, the Medium Term Financial Strategy, reported to Mayor & Cabinet in July 2014, estimated that £85m of savings were still required over the period 2015/16 to 2017/18. This report looks towards income generation as a means of saving services and insulating Lewisham from the whims of an austerity government.



Identifying and realising new sources of income is not easy and is no silver bullet. It will require a change of culture across the Council to maximise income generating opportunities whilst maintaining our public service ethos. Nevertheless, our committee was firm in the view that enhancing our commercialisation methods and strategies would be highly beneficial.

This review hopes to remedy a problem rather than merely describe a problem and offers practical help on income generation. Our committee was delighted to have identified a potential source of income - a concession licensing the use of street furniture or other Council assets to install wireless networking equipment in exchange for income to the Council. The income that could be generated by the Council is substantial and could be in the region of £1 - £2 million over a 5 year period with a continuing revenue stream of up to £100,000 /annum over the duration of the contract. In identifying this income we hope this may be one of few reviews read by Mayor & Cabinet that brings in money rather than costing money.

Finally, we hold that while change must be embraced across the Council it should be led politically and administratively by people with an enthusiasm for income generation and a willingness to take tough decisions. Ideally, this would involve the creation of a new cabinet post with a sole focus on income generation and commercialisation, but with that option unavailable it should fall to the member with the most similar brief.

I hope this review can be the beginning of a process that sees Lewisham leading the way in Local Government in income generation and allows us to protect much-needed services that our residents rely on.

Councillor Jamie Milne
Chair of the Public Accounts Select Committee

1 Executive summary

- 1.1 Local Government is facing an increasingly challenging financial situation with funding significantly cut in recent years. London in particular has been hit hard partly due to demographic pressures, the high cost of accommodation and the disproportionate impact of the welfare cuts. Councils have already made substantial savings through efficiencies but the extent of the cuts now requires more fundamental shifts in how services are delivered and a much greater emphasis on income generation.
- 1.2 Changes introduced in the Localism Act 2011 such as the General Power of Competence have given councils greater powers but there are still substantial constraints on their ability to generate “profit”. Many Local Authorities are working in innovative ways to protect services to residents including setting up wholly owned companies and trading arms. Cultural shifts to more commercial methods are becoming increasingly common and strategies increasingly developed with an ideology of protecting services by cutting costs, promoting full cost recovery and changing behaviour within councils to be more focused on profit and quality of service delivery.
- 1.3 The review considers examples of good practice and evidence from a number of councils and research on methods of income generation used with the aim of finding strategies and techniques that could be successfully replicated or adapted to use in a Lewisham context to help protect services in Lewisham.
- 1.4 One of the major strategies identified is the potential income from the Council setting up a wireless concession where Council assets can be used to house “small cells” as a method of increasing network coverage and generating substantial income. The report highlights the evidence from the London borough of Camden and the research around this which has led to the Committee strongly recommending that work on this is continued as a matter of urgency to secure the potential income identified.
- 1.5 The review also focuses strongly on commercialisation strategies and the sections on evidence received from the London boroughs of Hammersmith and Fulham and Brent and from Shropshire Council all provide information on this. Becoming increasingly sales focused and considering the full costs of services as well as questioning assumptions and focusing on customer experience were all highlighted. The Committee’s recommendations on commercialisation emphasise the extent to which it feels this is an area of substantial importance.
- 1.6 The last section of the report highlights the Lewisham Future Programme and on-going work by the London Borough of Lewisham in this field. It highlights the fees and charges strategy and the focus on full cost recovery which the Committee strongly endorsed. It also highlights future areas of work that are being undertaken by Lewisham and strongly encourages the continual review of good practice to ensure that Lewisham maximises potential for income generation and protects services to residents.

Recommendations

The Committee would like to make the following recommendations:

1. That the work undertaken by this committee to identify an income stream and potential partner through a wireless concession be endorsed and secured as soon as possible to ensure that the high level of potential income identified by this review is realised.
2. That a commercialisation ethos be endorsed and embedded throughout the Council as a method of protecting services to residents whilst maintaining a public sector ethos. Generating income should be seen as a means of protecting services and reducing further cuts. The more self-funding a service can be, the greater the resilience it has to withstand further reductions in funding.
3. That a commercialisation specialist be appointed at senior officer level as soon as possible, to lead and develop the organisational changes needed to deliver this new commercial approach.
4. That the portfolio of one cabinet post be amended to include specific responsibility and accountability for commercialisation and income generation and all cabinet posts portfolios include considering income generation options.
5. That support for staff be embedded in any process or culture change within the Council. The Committee note that commercialisation can feel challenging and staff, managers and elected members need to be guided and supported through the process.
6. That all Heads of Service be engaged in the process of moving to an increasingly commercial culture and in identifying income streams.
7. That in addition to a “top down” approach to identifying commercial strategies and income streams, a “bottom up” approach be encouraged for front line staff to report areas where they feel fee levels are wrong and to identify new areas of potential income streams. A platform for staff to do this should be created with clear feedback provided.
8. That the true costs of Council services be understood to ensure that when full cost recovery is sought, it is based on accurate cost figures.
9. That any restructures within the Council ensure the right grade of staff for the work. It is costly to have the wrong grade of staff carrying out certain tasks and management structures should be studied closely with analysis based on

role breakdowns and not just title and grade. This is to ensure that services can be profitable or cost neutral by making as efficient use of all skills as possible.

10. That the Council's "Contributions" to non-statutory services be thoroughly analysed to help make difficult choices. Some services are routinely being subsidised at higher rates than others purely due to annual and historic price rises affecting costs differently across services. If there is subsidy from the Council it needs to be properly assessed and based on policy not applied randomly from historic price uplifts and ineffective cost analysis of inflationary increases.
11. That examples of best practice from other local authorities be continued to be studied as routine to ensure that the Council is considering all potential options to help protect services.

3 Purpose and structure of review

- 3.1 As a result of the severe financial pressures faced by Local Government, the Public Accounts Select Committee decided, as part of its work programme, to carry out an in-depth review into Income Generation. The Committee wished to consider ways of maximising income generation to help protect the services to residents in the borough.
- 3.2 At its meeting on 10th March 2015, the Committee received and agreed a scoping paper that set out the background and key lines of enquiry for the review. The key areas proposed to be considered were:

Fees and charges

- What is the role of the Fees and Charges Working Group?
- How regularly are regulated and non-regulated fees and charges (including parking fines and charges for road closures) reviewed?
- What steps is the Council taking to improve customer insight and use relevant information and data to understand demand and its drivers and set fees and charges accordingly?
- How is the non-payment of fines, fees and charges dealt with?
- What steps are being taken to improve the way services work with the central Debtors team?

Assets

- What methodology has been followed in relation to the rationalisation of the operational estate?
- Is the Council realising the full rental value of its commercial assets? What are the constraints?
- How is the non-payment of rent dealt with?

Investment income

- How successful have the changes made to the balance of investments been?
- Is the balance of investments right or is there any scope to change it further?

Other proposals and workforce development

- What other work is taking place across the Council, beyond the key work around fees and charges; assets and investments?
- Are any steps being taken to assess and develop the commercial expertise of Council staff?

Good practice

- What are other councils doing to maximise the generation of income and would any of these initiatives be suitable for implementation in Lewisham?

3.3 The Committee requested that there be an increased focus on good practice and innovative ideas from other Councils and there be three evidence sessions: the first of which would highlight good practice from other Councils; the second would expand on this and hear from expert witnesses in other Councils and the third would look at current proposals from Lewisham on maximising its income generation as well as looking at fees and charges and asset management strategies.

3.4 The timetable for the Review was as follows:

14 April 2015 – First evidence session to receive a report from officers highlighting good practice from other Councils in respect of maximising income generation and inviting discussion on the potential for replication in Lewisham.

5 June 2015 – Meeting with the London Borough of Camden to discuss Wireless Network Concessions in public spaces.

11 June 2015 – Meeting with the London Borough of Hammersmith & Fulham to discuss commercialisation and income generation strategies.

14 July 2015 – Second evidence session to hear evidence from Shropshire Council and IP and E Ltd on setting up a trading company wholly owned by Shropshire Council; and to hear evidence from the London Borough of Brent.

29 September 2015 – Third evidence session to receive a report and evidence from officers at the London Borough of Lewisham including details of the Council's fees and charges strategy. At this meeting the committee also received a paper tabled by the Vice-Chair of the Public Accounts Select Committee outlining further discussions he had undertaken around some of the ideas covered in the review...

28 October 2015 – Meeting of the Committee to consider its final report presenting all the evidence taken and to agree recommendations for submission to Mayor & Cabinet.

4 Policy Context and Legislative Background

4.1 The Council has an overarching vision, enshrined in the Sustainable Community Strategy, that "together we will make Lewisham the best place in London to live, work and learn". The Council's ten corporate priorities and the overarching Sustainable Community Strategy drive budgetary decisions. Lewisham's corporate priorities were agreed by full Council and they remain the principal mechanism through which the Council's performance is reported and through which the impact of saving and spending decisions are assessed.

4.2 The Council's current financial situation is exceptionally challenging. The funding available to local authorities has fallen sharply in recent years, with councils just over half way through a scheduled 40 per cent cut in funding from central government. Having delivered £10 billion of savings in the three

years from 2011/12, local authorities have to find the same savings again by the end of 2015/16¹. London, in particular, has been hit hard, taking a 33 per cent real terms cut in funding for service provision from central government between 2009/10 and 2013/14² with further cuts in funding expected until at least 2018. Although councils across the country have seen substantial cuts to their budgets, the situation is particularly acute in London due to the rapidly rising population, demographic complexity, rising housing costs and the disproportionate impact of welfare reforms. Boroughs have tried to make the large savings required without cutting front line services, focussing on achieving efficiencies; withdrawing or reducing discretionary services; paring back how statutory services are provided, targeting those most in need; and looking to maximise income.

4.3 Lewisham Council has made savings of £120m to meet its revenue budget requirements since May 2010 and the non-schools workforce has reduced from nearly 4,000 employees to 2,500 over the same period.³ The Medium Term Financial Strategy, reported to Mayor & Cabinet in July 2014, estimated that £85m of savings were still required over the period 2015/16 to 2017/18. As a result, very severe financial constraints will continue to be imposed on Council services, with cuts to be made year on year. The Lewisham Future Programme Board was established to progress cross-cutting and thematic reviews to deliver required savings and one of these reviews is focussed on income generation.

4.4 The recent Local Government Association (LGA) report *Under Pressure* suggests that one of the most common budget strategies being followed by local authorities for 2015/16 is maximising income from investments, fees and charges⁴. The report states that some of the strategies being adopted include:

- Ensuring investments generate the maximum possible income.
- Changing fee charging structures to ensure that, while remaining equitable, service charges move closer to recovering the full costs of providing those services.
- Maximising the income generated by assets.

4.5 Specific powers to charge for services are contained in a variety of local government statutes. 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 added further possibilities. It enables councils to trade in activities related to their functions on a commercial basis with a view to profit through a company. In addition, the 2003 Act empowers councils to charge for any discretionary services on a cost recovery basis. Originally, trading through a

¹ LGA (2014), *Under Pressure, how councils are planning for future cuts*, p3

² A Fitzgerald, R Lupton, R Smyth, P Vizard (2013), *Hard Times, New Directions? The Impact of the Local Government Spending Cuts in London*, P4

³ <http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/equality-and-diversity/Pages/Monitoring-equality-within-the-workforce.aspx> Lewisham Council Employment Profile 2009-2010 and 2014-15

⁴ LGA (2014), *Under Pressure, how councils are planning for future cuts*, p9

company was confined to certain categories of councils but a Trading Order, in force since October 2009, removed such restrictions.⁵.

- 4.6 The new General Power of Competence (GPC) contained in the Localism Act 2011 now sits alongside local government's existing powers to trade and charge. The General Power of Competency states that councils have the power to do anything an individual may do unless specifically prohibited.⁶ This has allowed councils additional flexibility but there are still substantial constraints as under the GPC they are only allowed to charge for discretionary services and fees must be limited to recovering costs and not to generate a profit or surplus. These limitations to the ability of councils to generate profit have meant that many have set up trading arms or limited companies in order to generate a profit that can affectively be fed back into a council's general fund.

The Findings

5 Overview of Other Local Authorities

- 5.1 At its meeting on the 14th April 2015, the Committee looked at examples of innovative practice from other councils with the aim of committee members being able to draw out examples where external witnesses and additional information would add value to the review. These examples focussed on the key lines of enquiry in particular: fees and charges, looking at the LB Croydon and the LB Westminster; the commercialisation of staff, looking at the example of Hammersmith and Fulham; mutuals, looking at Oldham Council; generating income through wireless concessions, looking at the example of the LB of Camden; and generating income through website advertising, considering Birmingham Council's activity in this area; and setting up trading arms looking at an example from the LB Brent. Following the meeting of the Committee, further evidence was sought on the wireless concession at LB Camden; commercialisation strategies at the LB Hammersmith and Fulham; and on trading arms, hearing from the LB Brent, so these have their own respective sections in this report.

Fees and Charges – Croydon

- 5.2 Like many councils, the London Borough of Croydon has changed its approach to setting fees and charges. It is now following a new income policy based on moving away from the use of historical prices to inform fees and charges, to understanding the true cost of providing or commissioning services and pricing accordingly, whilst recognising the service user's need for the services being charged for, and their ability to pay⁷. As part of this, Croydon is striving to develop a more commercial / entrepreneurial culture within the Council. Croydon's review of fees and charges has resulted in an increase in income generation in 2014/15 of £1.162m.

⁵ Enterprising Councils – Getting the most from trading and Charging, LGA, 2012

⁶ http://www.local.gov.uk/c/document_library/get_file?uuid=f8aaa25f-81d6-45c9-aa84-535793384085&groupId=10180

⁷ http://www.local.gov.uk/c/document_library/get_file?uuid=83fe251c-d96e-44e0-ab41-224bb0cdf0e

⁷ For further information see: <https://www.croydon.gov.uk/democracy/budgets/2014-15>

- 5.3 However, a major barrier regarding the setting of fees and charges remains regulation. Even if it was determined, that an increase in fees and charges above the costs of providing the service would not reduce demand, many fees and charges (such as those levied by Highways and Building Control) are heavily regulated and can only be charged on the basis of cost recovery, offering no scope for generating a profit. In their evidence to the 2013 London Finance Commission, London Councils encouraged that body ‘to press for deregulation’ and ‘the freedom to set in some cases market rate’ fees in areas such as ‘planning applications, building control, land searches and licensing.’ London Councils argued that, ‘there are many services that local government has a statutory duty to deliver, but is required to charge for at a level determined by central government. The result is that there are a number of services which leave councils with an overall net loss each year.’⁸ Westminster City Council also called for, in its evidence to the Commission, the ability ‘to offer price-differentiated levels of service in order to recoup costs and to offer innovative services.’⁹
- 5.4 Westminster Council recently faced a legal challenge against the fees it charged for licensing sex establishments. The Court of Appeal ruled that the fees set must not exceed the costs of administering the licensing regime. This meant that the council was no longer able to include the cost of enforcement against unlicensed sex establishment operators when setting the licence fee, although the cost of visits to licensed premises to monitor compliance could be recovered through fees. Westminster City Council has since appealed to the Supreme Court but a final determination is still to be made¹⁰.

Mutuals – Oldham Council

- 5.5 Oldham Council has developed a trading arm for adult social care that is building new business from self-funders and people with personal budgets¹¹. Adult Social Care provider services transferred from the Council into the new wholly-owned company – Oldham Care and Support Ltd. – on 1st October 2013 following the drawing up of a detailed Service Level Agreement between the Council and the Company, to ensure the Company will continue to deliver against Oldham’s key Adult Social Care outcomes and support the Council to achieve its priorities and Co-operative ambitions.
- 5.6 Around 450 staff were transferred over to the company, who were reassured that the new company would retain its public sector ethos whilst developing its commercial capacity to effectively compete in the adult social care market, thereby safeguarding both jobs and quality services. The Council owned company delivered its required efficiency savings of £1.2m for 2013/14 three months ahead of time, and financial forecasts indicate that it is on track to achieve further savings for 2014/15 amounting to £1.3m. The Council reports

⁸ For further information see: http://www.london.gov.uk/sites/default/files/London_per_cent20Councils.pdf

⁹ For further information see: http://www.london.gov.uk/sites/default/files/Summary_per_cent20of_per_cent20written_per_cent20evidence.pdf

¹⁰ For further information see: <https://www.supremecourt.uk/cases/uksc-2013-0146.html>

¹¹ For further information see: http://committees.oldham.gov.uk/documents/s42561/Trading_per_cent20Arm_per_cent20for_per_cent20Adult_per_cent20Social_per_cent20Care_per_cent20Services_per_cent20Jan_per_cent202014.pdf

that financial sustainability is looking very promising, with growth plans for a second wholly-owned “start-up” company, Oldham Care and Support at Home Ltd.

- 5.7 The Committee felt that the Oldham model of a trading arm for adult social care was interesting but there was concern as to whether it could be defined as a mutual and uncertainty about the potential benefits of such a proposal. In his paper tabled to the Committee – Councillor Ingleby highlighted issues with the transfer of staff via TUPE and changes to their terms and conditions. In addition to this there was scepticism as to the achievability of the predicted profit levels.

Advertising - Birmingham City Council

- 5.8 Birmingham City Council is generating income through advertising on the Council’s website. This is an interesting and potentially controversial method of income generation, but according to Birmingham Council, they are predicted to receive significant income through this stream. The Council is a member of “Capacity Grid” the Council Advertising Network¹² and it uses this economy of scale to sell to a wider network, generating increased income. The Council argues that it can generate significant income from its website without detracting from the user experience. Birmingham has set income targets based on the number of views per page but has stated that income can fluctuate from what was originally predicted.
- 5.9 There are two methods of generating income through advertising on a Council website: Councils can either sell direct to advertisers or agencies; or (as is the case in Birmingham), or can partner with an ad-network who put code into the Council website and automatically sell this on to advertisers and agencies who buy against the use of key words.
- 5.10 There are a lot of issues to consider here and two of the key factors are the appropriateness of any adverts and consumer protection. There would need to be sufficient controls in place to ensure that adverts appearing next to content are appropriate and the technologies and systems in place to ensure this would have to be developed. There would also have to be a balance between the actual predicted revenue and any detriment to the user experience of accessing content on the Council website. By allowing an ad-network to put code into the website, it can be very difficult to stop inappropriate juxtaposition of adverts and content. For example, an advert for a local restaurant may seem perfectly acceptable until for example, a picture of say a chocolate cake appears next to pages on obesity and healthy eating. It would be very difficult to ensure that content was always appropriate as individual adverts would be different based on user viewing habits. There could also be issues of competition with Council services. For example, an advert for a private gym next to details of the Council’s leisure centre activities or for a private fostering agency or charity next to the Council’s own pages on fostering.

¹² For further information see: <http://capacitygrid.com/services-2/council-advertising-network/>

- 5.11 In Birmingham's case the partner ad-network have put code directly into the website. This allows a third party to place cookies on the Council browser which track the user. Adverts are sold on the basis of either amounts of views or can be targeted "i.e. female; aged 20-30; lives in Birmingham". The amount of income generated would very much depend on the amount of traffic and number of pages of the website as targets would be set by impressions.
- 5.12 If generating income in this way was pursued there are factors that needed to be considered, namely:
- privacy for website users
 - procurement – ensuring that there was significant expertise in digital advertising and IT to ensure the process was to the greatest advantage to the Council
 - Cost-benefit analysis – a clear understanding of the amounts of views the website generates and the amount of income this would be likely to generate versus the potential conflicts of interest and possible reduced quality of the user experience.
- 5.14 There are real concerns that advertising on the Council website could be highly detrimental to the user experience. It is also likely to only generate income if website usage was sufficiently high. Other sources of advertising income including identifying potential sites for place advertising is also being investigated and are likely to be more profitable. This is explored in more detail later in this report.

6 Wireless Concession

- 6.1 Alec Hartopp, Programme Manager for Digital Connectivity and Ben Pass, ICT Programme Manager at the LB Camden gave evidence to members of the Committee on Friday 5th June 2015 on Collaborative Procurement for Wireless Networks in Public Spaces.
- 6.2 The LB of Camden led and initiated a collaborative IT procurement project for wireless services, essentially a concession licensing the use of street furniture to install wireless networking equipment in exchange for income to the council. The aims of this included accelerating the take-up of Wi-Fi in areas where no coverage existed, stimulating the market, and generating income which was then ring-fenced for Economic Development and Social/Digital Inclusion projects.
- 6.3 The collaboration initially took place with 16 other London boroughs which helped to make the appeal very strong to the service providers. Sharing resources and expertise in legal services, ICT and procurement helped to save an estimated £30,000 per authority. The procurement model used required no capital or revenue investment for the local authorities other than officer time and the maintenance, installation and removal costs were all taken on by the supplier. In addition to this the fixed legal and consultancy costs for procurement were off-set by the income generated.

- 6.4 Success criteria for local authorities collaborating in the procurement process included: better identification and ownership of risk; increased leverage through the collaborative competitive dialogue process; shared knowledge and expertise; mitigation of risk through adoption of common approach to evaluation and management of the procurement process; and pooling of expertise.
- 6.5 The procurement process¹³ resulted in a concession contract that is currently providing a minimum of 30 minutes free internet access per day to Camden residents and businesses and 24 hour free access to the Camden Council website and related online services via a council branded Wi-Fi network deployed in areas of highest footfall in the borough. Currently the concessionaire in Camden (Arqiva) has installed 112 access points on council owned assets (lampposts and CCTV columns) as part of the contract. They have approximately 40 additional access points of their own across the borough.
- 6.6 In Camden, areas of high footfall were targeted by the suppliers but different suppliers can have different need for coverage in particular areas. This means that it can be very challenging to assess value on a site by site case. Generally speaking areas with high footfall or tourist destinations are often the most sought after. The suppliers can use different models to generate their own income and any individual Council's assets and procurement process can favour one model over another.
- 6.7 There are different income models for suppliers but one is that they can sell on targeted (and non-targeted) advertising and anonymised data of users or it can lease the mobile bases on to another supplier. They can also generate income by selling additional Wi-Fi to residents and businesses after the free allocation has been used. In Camden it was not possible to base the contract on a price per column so it used a model based on a concession fee for exclusive rights to specified assets with additional percentage shares of gross revenue year on year. The prediction is for £3.5 million income over ten years.
- 6.8 The "small cells"¹⁴ can be useful to the big mobile phone networks who are having coverage and capacity issues with 3G and 4G networks. It is estimated that an Operator (e.g. Vodafone) can rent the small cells for up to £4-7000 per annum from the concessionaire.
- 6.9 In addition to the increased revenue directly from the contract, Camden is anticipating some reductions in costs from increased use of online services by residents and businesses and reduction in costs for staff who could use the network whilst working away from the office. Currently the statistics in

¹³ LB Camden did not specifically procure a Wi-Fi service. As it was a concession, they were not able to procure services. Instead they expressed their aspirations which included the desire to provide free Wi-Fi. The bidders chose to include a Wi-Fi offer in their bid. This was not evaluated under procurement criteria so did not affect the outcome but was a benefit of the approach taken.

¹⁴ "Small cells" is an umbrella term for operator-controlled, low-powered radio access nodes, including those that operate in licensed spectrum and unlicensed carrier-grade Wi-Fi. Small cells typically have a range from 10 meters to several hundred meters. With mobile operators struggling to support the growth of mobile data traffic, some are increasingly using small cells to maintain capacity.

Camden show approximately 600 users per week on the network but it is believed that there is higher usage than this and that this will be captured by the analysis as it gets more detailed.

- 6.10 The contract and procurement process was technical and mitigating risks of State Aid¹⁵, Telecom Code Powers¹⁶ and liability for Business Rates was essential. The contract is for 10 years and Camden included an exclusivity clause in order to safeguard its assets. The contract also ensured that Business Rates were paid by the concessionaire. This was particularly pertinent as there were changes in legislation around business rates for internet providers.
- 6.11 There are other models available for installing small cells and generating income in this way. Alternative assets can be identified such as buildings or some providers will install stealth designed equipment and then pay a one off capital sum and recurring revenue for the duration of the contract.
- 6.12 In addition to generating income through small cells, Camden is pursuing the possibility of income generation through installing mobile phone masts on suitable tall buildings in the borough. Clauses are being drafted for potential contracts to ensure that the risk from the Telecom Code Powers were mitigated such as adding wording to ensure that “at the end of the term of lease apparatus remaining on our assets transfer to us.” There was a need for specialists to ensure that the terms and conditions provided adequate protection for the council and residents to ensure the return of assets to the borough. Contracts also ensured that Business Rates were paid by the concessionaire. This was particularly pertinent as there were changes in legislation around business rates for internet providers as mentioned above.
- 6.13 Statistics from the company “Point Topic” can be used to assess broadband coverage and connectivity in a locality helping to highlight areas to focus on in order to increase connectivity. In Camden there is a correlation between areas with low connectivity and high footfall meaning that there is demand from providers for rooftop masts in those areas.
- 6.14 Housing estates are a controversial choice for phone masts and residents’ concerns over matters such as health always need to be addressed. The LB Camden proposes to ring-fence any income for social and digital inclusion projects and put the positives outcomes in place upfront (such as free / subsidised Wi-Fi for the estate/free Wi-Fi for Tenants and Resident Association halls/ training for those who currently do not use the internet etc).

¹⁵ Using taxpayer-funded resources to provide assistance to one or more organizations in a way that gives an advantage over others may be state aid. <https://www.gov.uk/state-aid>

¹⁶ The Electronic Communications Code (‘the Code’) enables electronic communications network providers to construct electronic communications networks. The Code enables these providers to construct infrastructure on public land (streets), to take rights over private land, either with the agreement with the landowner or applying to the County Court or the Sheriff in Scotland. It also conveys certain immunities from the Town and Country Planning legislation in the form of Permitted Development. <http://www.ofcom.org.uk/>

These could also have the added effect of increasing channel shift to online Council services helping to further reduce council costs.

- 6.15 This scrutiny review has identified that the potential for income generation in Lewisham from wireless concessions is substantial. However, the Camden model has caveats from a Lewisham context, in particular due to existing PFI contracts on much of the street furniture which would limit the negotiation options and also add a far greater complexity to them which could substantially reduce any potential income. The review did identify other Councils who had worked through PFI contracts such as the London Borough of Islington so acknowledges that it is still possible for this to be an income stream but still feels the evidence shows the increased complexity and reduction in profits makes it a less appealing model.
- 6.16 However, further investigations as part of the scrutiny review process and research has now highlighted a different model for installing small cells and generating income. The review discovered a different approach with companies who were interested in working with Lewisham but using existing buildings and stealth designed equipment for the purpose of housing small cells and macros. This review has now identified that the potential income that could be generated by the Council is substantial and that it could be in the region of £1 - £2 million over a 5 year period with a continuing revenue stream of up to £100,000 /annum over the duration of the contract.
- 6.17 Another recent development to this is that National Government in a recent letter from The Department for Communities and Local Government, the Cabinet Office and the Department for Culture, Media and Sport to all Council Leaders, has also noted the benefits of income through wireless concessions and endorsed the approach both as a service to residents in improving digital connectivity and in a substantial income stream to Councils.¹⁷
- 6.18 As part of the review, additional information was sought on any potential health risks as a result of exposure to small cells and macros. The government research indicates that the most substantial health risk from mobile phones remains their use whilst driving. Following this, it is usage of individual handsets and there is currently no research that has identified a risk from proximity to small cells¹⁸
- 6.19 Picture 1 below shows an example of small cells and shows the potential for them to be blended with a building and have minimal impact on the appearance of buildings.

¹⁷ <https://www.gov.uk/government/publications/the-digital-communications-infrastructure-strategy/the-digital-communications-infrastructure-strategy>

¹⁸ <http://www.nhs.uk/Conditions/Mobile-phone-safety/Pages/QA.aspx#research-on-health-risks>



Examples of Ericsson small cells

6.20 The Committee felt strongly that the potential for a substantial revenue and capital income stream to the Council was very important and the momentum on investigations needed to be maintained to ensure this potential was realised. This was a substantial capital and revenue income stream discovered and developed through this review and a company had now been identified as a potential partner to achieve this income.

RECOMMENDATION: That the work undertaken by this committee to identify an income stream and potential partner through a wireless concession be endorsed and secured as soon as possible to ensure that the high level of potential income identified by this review is realised.

7 Commercialisation Strategies

7.1 Members of the Public Accounts Select Committee felt strongly that additional evidence on commercialisation methods and strategies would be highly beneficial to the review. The Committee heard evidence from Lyn Carpenter, Executive Director Environment, Leisure and Residents Services Department, Hammersmith and Fulham on commercialisation and income generation strategies at an informal meeting on 11th June 2015.

- 7.2 Commercialisation could be defined as developing an organisation that was customer oriented and keen to enhance the customer experience each and every time. Ensuring that service interactions were easy for the customer and enhanced the customer experience and were responsive to their needs. LB Hammersmith and Fulham felt strongly that developing a commercial culture helped to maximise income generating opportunities whilst developing innovative service delivery models.
- 7.3 At Hammersmith and Fulham, commercialisation was seen as a positive way of generating income to protect services. It could feel challenging at times and staff and managers needed to be supported through the process but the benefits to the organisation were substantial in terms of cross funding back into the general fund.

RECOMMENDATION: That a commercialisation ethos be endorsed and embedded throughout the Council as a method of protecting services to residents whilst maintaining a public sector ethos. Generating income should be seen as a means of protecting services and reducing further cuts. The more self-funding a service can be, the greater the resilience it has to withstand further reductions in funding.

- 7.4 In order to develop a successful commercial strategy it was important to identify and examine income generating services, ensuring a thorough understanding of costs and service levels as well as competition and value. Proactively cross-selling of services by staff was key.
- 7.5 It was essential to properly assess “contributions” of non-statutory services and use thorough analysis to help make difficult choices. For example some services were routinely being subsidised at higher rates than others purely due to annual price rises effecting costs across services differently. If there was subsidy from the Council it needed to be properly assessed and be based on policy rather than being applied randomly from historic price uplifts and ineffective cost analysis of inflationary increases.

RECOMMENDATION: That the Council’s “Contributions” to non-statutory services be thoroughly analysed to help make difficult choices. Some services are routinely being subsidised at higher rates than others purely due to annual and historic price rises affecting costs differently across services. If there is subsidy from the Council it needs to be properly assessed and based on policy not applied randomly from historic price uplifts and ineffective cost analysis of inflationary increases.

- 7.6 The evidence from Hammersmith and Fulham stressed that better segmentation of the Council’s customer base was required to move away from the assumption that “one sized fitted all” to a comprehensive understanding of different customers and service areas needing different arrangements and staff needing different skills. For example – increasing

income from Registrars verses income from Trade Waste would need very different skills-sets amongst staff and different approaches. There also needed to be an effective understanding of debt and debt recovery to ensure cost efficiencies and sensible service provision decisions.

7.7 There needed to be a shift across the whole organisation ensuring an entrepreneurial and commercially minded staff. Key features of the changes at Hammersmith and Fulham included introducing a simple approach to sales and marketing. Namely:

1. Identifying and maximising external income opportunities across all areas. This involved a mix of retention, acquisition and win-back strategies to increase then maintain customers. It also involved effective debt management strategies.
2. Creating a sales service ethic amongst officers. Engaging and motivating as well as incentivising via performance related pay and sales targets.
3. Ensuring that this was all underpinned with an appropriate and fit for purpose commercial infrastructure.
4. Ensuring there was a focus on customer experience. Customer Loyalty and lifetime customers were valued highly.

7.8 An example of the success of the Hammersmith and Fulham strategy was Commercial Waste - income from this has now grown by 30 per cent in 4 years and their market share had increased by 20 per cent in this time to over 40 per cent. Profits were returned to the corporate budget and £0.5 million has been returned to the general fund over this time. Kensington and Chelsea were also pursuing a similar approach and had secured around 70 per cent of the market share in Commercial Waste. Targeting high value customers had been one of the changes that had helped to secure this increase. Staff needed to understand the balance between focussing on high value customers verses overall customer numbers and be flexible to adapt to changing markets as they happened.

7.9 Another example listed was a change of mind-set in the events and lettings team, which had meant that over the last four years they became entirely self-funded by the income they generated and in addition to this had made a contribution of £0.4 million to the central fund. This represented a 25 per cent growth in external income over the period.

7.10 A change of mind-set beyond covering costs to generating profit to feed back into the general fund was encouraged.

RECOMMENDATION: That a commercialisation specialist be appointed at senior officer level as soon as possible, to lead and develop the organisational changes needed to deliver this new commercial approach.

RECOMMENDATION: That the portfolio of one cabinet post be amended to include specific responsibility and accountability for commercialisation and income generation and all cabinet posts portfolios include considering income generation options.

- 7.11 Hammersmith and Fulham reported that traditionally there had been problems understanding markets and fully understanding the strengths of services. A top down analysis helped to identify key income generating activities for the Council including high level income and expenditure comparisons with other London boroughs and comparisons with private sector providers. Managers needed to engage services to carry out diagnostics of skills and capabilities – including understanding: current and potential customer base; the true costs of generating income (i.e. is there a real surplus after all costs met); understanding the market and customer requirements; understanding churn including rates of acquisition, retention, win-back, and conversion of customers.
- 7.12 It was recognised that commercial skills were not necessarily inherent in public sector workforce and it was important to teach staff selling techniques and maintain engagement to help with the transition. Staff needed to have high energy, work hard have qualitative and quantitative focus, be results orientated, work to targets and be focussed on the needs of the customer. They also needed to be credible, have a thorough understanding of the product and be able to sell and close on a sale.
- 7.13 In order for this to be successful, sales targets were introduced and new performance indicators were created and monitored such as the conversion rates for new customers. Staff were rewarded through performance related pay; there was an increased focus on ensuring performance of any sub-contractors. There was training for officers to understand the importance of customer loyalty and how this linked into increasing the market share of a service. Net Promoter Scores¹⁹ were compiled to measure customer loyalty and benchmarked against the private sector. Staff were encouraged to think about levels of service (Gold, Silver, Bronze) and matching the requirements of the customer with the level of service. Thinking about branding was important and exploiting the power of the brand of a good council – increased levels of trust and confidence from customers. Managers had to ensure they recognised success and rewarded and praised excellence to keep staff positive and motivated.
- 7.14 There was also an increased focus on customer interfaces. For example, the first point of contact for many customers is the reception staff and they needed to have the right skillset to match the customer focussed culture change. Hammersmith & Fulham introduced a strong ethos of focusing on the customer and customer experience across the whole Council. Phones had to be answered within three rings and messages followed up on promptly. In addition to this a “Customer and Business Development Officer” with a private

¹⁹ The Net Promoter Score is based on the fundamental perspective that every company/business’s customers can be divided into three categories: Promoters, Passives, and Detractors. By asking the question — *How likely is it that you would recommend [this service] to a friend or colleague?* — you can track these groups and get a clear measure of your company’s performance through the customers’ eyes. Customers respond on a 0-to-10 point rating scale and are categorized as follows:

- **Promoters** (score 9-10) are loyal enthusiasts who will keep buying and refer others, fuelling growth.
- **Passives** (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings.
- **Detractors** (score 0-6) are unhappy customers who can damage your brand and impede growth through negative word-of-mouth.

To calculate your company’s NPS, take the percentage of customers who are Promoters and subtract the percentage who are Detractors. Work can then be targeted to increase number of promoters and reduce number of detractors.

sector background was employed to help with the transition. No consultants were used during the process; all expertise was built up in-house.

- 7.15 There were challenges experienced and in addition to those already listed these included: understanding the true costs of services as the information could be very difficult to obtain in some circumstances; helping and supporting staff to understand the technical concepts and the shift to a more commercial outlook; and the time and energy needed to make the changes. The need for the right people, right skills and right approach.
- 7.16 Hammersmith and Fulham believe that their change in focus to a more commercial strategy has been able to protect service provision across the Council by covering costs in non-statutory areas and bringing in profit to the general fund to protect other services.
- 7.17 In analysing the evidence, the committee highlighted that Cross-selling services and a commercial culture within the Council needed to be looked at carefully as there could be negative aspects if staff were not fully engaged with the changes or if the customer experience was negatively affected. How the change was managed was of vital importance and helping to create a cultural shift to accept that commercialisation was a way in which essential services could be protected for residents.

RECOMMENDATION: That support for staff be embedded in any process or culture change within the Council. The Committee note that commercialisation can feel challenging and staff, managers and elected members need to be guided and supported through the process.

- 7.18 The table below lists other ideas that had been considered by Hammersmith & Fulham as having the potential to increase income generation and shows questions raised to ensure a thorough understanding the market place and to balance service level, quality and price.

Hammersmith & Fulham Presentation

Service Area	Ideas/opportunities/queries
Adult Social Care	<ul style="list-style-type: none"> • Could a pricing structure be created that would mean that self-funders subsidise those with less ability to pay to reduce costs overall? • Should we continue to provide a meals service- does it achieve cost recovery? • Should we providing a removals service? • Should we be charging for other services that are currently free at the point of access and have we considered the links and implications of Personal Budgets? • What do we take into account when financially assessing for home/residential care- how do we interpret FACS and what are the implications for income?
Adult Education	<ul style="list-style-type: none"> • All fees have been inflated by 5 per cent- why? Need more customer intelligence including take up to inform future strategy and associated pricing points.
Housing	<ul style="list-style-type: none"> • Do we have a Landlord accreditation scheme? • Do we charge Housing Associations/estate agents to publicise via Choice Based Lettings?
Play Service	<ul style="list-style-type: none"> • Which groups attract a concessionary rate? • How do prices compare with the external market and what is our cost recovery level for the service?
Traded services to schools	<ul style="list-style-type: none"> • Do we have visibility of the range of services provided to schools under SLA arrangements, who buys back which services, how much income they generate etc? • How do we price and do we know whether we cost recover?
Street trading	<ul style="list-style-type: none"> • Should we consider differential rates for different areas of the borough e.g. a higher price for prime sites of footfall? • Should we introduce a more comprehensive pricing structure that reflects different trading activities e.g. do we charge shops for trading fruit and veg on the highway? Burger vans? Newspaper stands?
Cemeteries	<ul style="list-style-type: none"> • Is pricing consistent? • Could the Council introduce memorial schemes which have proved very lucrative in other authorities Pet cemetery? Multi faith burial site?
Pest control	<ul style="list-style-type: none"> • Does the service achieve cost recovery? • Could the commercial offer be packaged with other services such as trade waste and offer contracts to ensure guaranteed income?
Licensing	<ul style="list-style-type: none"> • Does table and chair licensing achieve cost recovery levels? • Income seems very low for tables and chairs- have we got the right pricing point? • Do we charge for A boards on the highway?
Highways	<ul style="list-style-type: none"> • Do we enforce against unauthorised crossings? • Do we charge for street naming and numbering?
Planning	<ul style="list-style-type: none"> • Do we charge for a dedicated officer for large new developments? Croydon have previously done this to provide a single point of contact.

8 Trading Companies

- 8.1 As cited in paragraph 4.6 above, the Localism Act 2011 still places restraints on local authorities' abilities to generate profit for non-statutory services. Many councils are working in innovative ways to create limited companies or trading arms in order to get round these constraints and help to create income for the authorities.
- 8.2 At their meeting of 14 July 2015 the Committee heard from Aktar Choudhury, LB Brent, Tim Smith, Finance and Commercial Director, IP & E Ltd, and Martin Key, Operations Manager, IP & E Ltd/Shropshire Council. The following paragraphs summarise the evidence provided to the Committee.

London Borough of Brent

- 8.3 The LB Brent is looking at a proposal to create an independent trading arm for building control. The aim is to maximise non-ring-fenced income to the local authority so that the planning & regeneration service is a net contributor to the general fund. The same trading arm could be used to generate net income in other regulatory functions, so it is important that the articles of association are set up in such a way as to allow the flexibility to achieve this. As part of this they are looking to gain "Approved Inspection" status for their Building Regulation team to enable them to undertake work throughout England without needing to obtain the host local authority's agreement to work within their area. This ability will allow Brent to market their building regulation services in the same way as private sector companies and compete with private sector Approved Inspectors. In taking forward this model, Brent is reviewing its charges to reflect market rates, whilst ensuring that they remain competitive; and developing mechanisms whereby inspection of works can be effectively resourced and undertaken.
- 8.4 The LB Brent commissioned a thorough review of regulatory services looking at the full range of services, what was being done and why and how efficient they were. This was with the aim of creating a savings target to make the service self-funding and with the aspiration of becoming a net contributor to the general fund. The Council needs to make budget savings of £54m over the next two years whilst meeting its statutory requirements and continuing to provide quality services. They are hoping to achieve savings, or generate increased income of minimum £300,000 from the net operating cost of the Regulatory Services functions that have historically sat within Environment & Neighbourhoods Division. An aim is to identify a realistic way that this group of services can become a net contributor to the council, whilst improving the quality of service provided to residents and businesses within the borough.
- 8.5 There are already some areas where the council has chosen to provide regulation over and above their statutory obligations, such as in private housing regulation. From 1 January 2015, all houses in multiple occupation (HMOs) within the borough, and all privately rented properties in Willesden, Harlesden and Wembley Central became obliged to hold a licence, regardless of whether they met the Government's national mandatory licensing criteria.

Whilst the Council is prohibited from generating income through this activity to cross-subsidise statutory activities, they are able to recover their costs. LB Brent believe that implementing this additional and selective licensing should have a number of wider benefits to the council, such as improving the standard of privately rented stock throughout the borough, whilst also building stronger relationships with over 6,000 landlords, who own a significant proportion of the private privately rented properties in Brent.

- 8.6 IP&E were appointed by Brent Council to undertake phase 1 of the review in April 2015, through a competitive tender process. They provided a frank analysis, looking at customer experiences. The focus was on generating more income; staff and the organisation becoming increasingly commercially aware; and focussing on areas where there was most commercial potential. The IP & E Ltd contract was to do a thorough audit and review of regulatory services but they were not employed as contractors to actually deliver the review's suggestions, as this was undertaken by LB Brent itself.
- 8.7 Within the review process all methods of streamlining costs including reanalysing management structures and the level of skills needed across work areas were considered. An example given was the planning department: It was much more cost effective for administration staff and junior planners to be doing the lower-level and more routine work with the higher paid senior planners working on the larger and potentially more profitable projects. Management structures needed to be studied very closely with analysis based on role breakdowns rather than just the title and grade of a post. Highly qualified professionals were effectively doing low skilled tasks and there needed to be process redesign to improve capacity and resilience and increase cost effectiveness.

RECOMMENDATION: That any restructures within the Council ensure the right grade of staff for the work. It is costly to have the wrong grade of staff carrying out certain tasks and management structures should be studied closely with analysis based on role breakdowns and not just title and grade. This is to ensure that services can be profitable or cost neutral by making as efficient use of all skills as possible.

IP & E Ltd and Shropshire Council

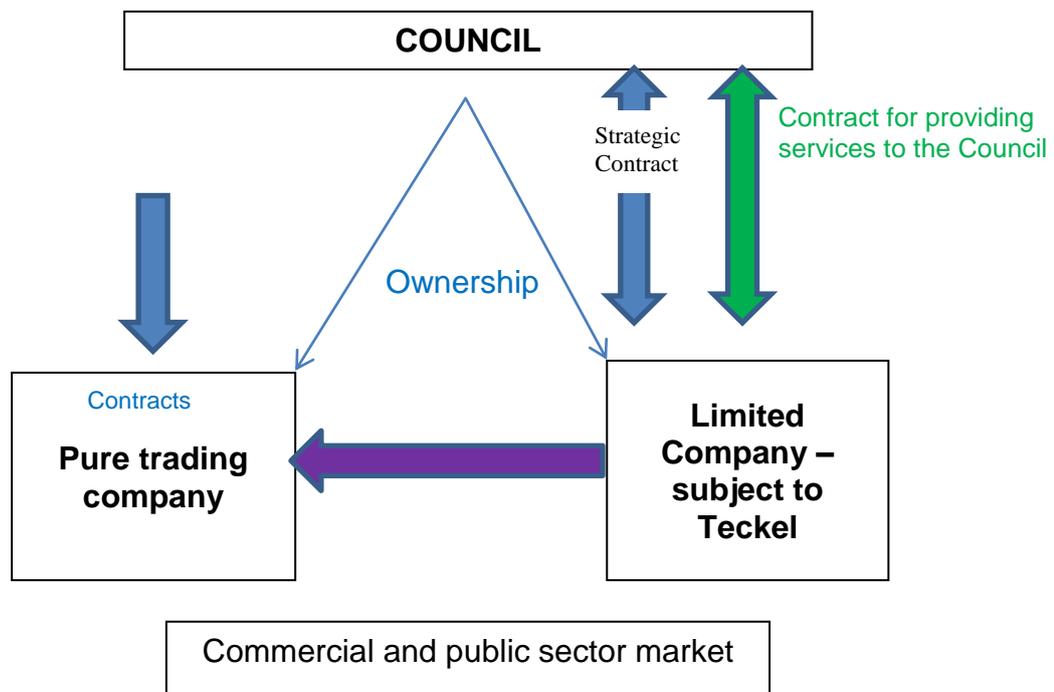
- 8.8 IP & E Ltd is a limited company wholly owned by Shropshire Council. It was set up as an alternative structure to outsourcing with all profit invested back into public services. They do not pay dividends to private individuals and this was a key feature that appealed to public sector and third sector clients. The Grant Thornton Report "Spreading their wings – Building a successful local authority trading company"²⁰ had cited this as a good practice case study.
- 8.9 The company was set-up using statutory powers in the Localism Act 2011 to enable profit to be generated by trading with a view to creating "public profit."

²⁰ See: <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

Commercialisation was at the heart of the company but whilst maintaining a public sector ethos and focus on customer experience. There were limitations within the contract to ensure that IP & E Ltd was only able to work in a way that was felt by Shropshire Council to be compatible with their own aims and objectives. The company did not work in isolation and worked closely with Shropshire Council, sharing policy aims, objectives and priorities. There was a public sector ethos within the company which was combined with a very strong customer focus based on fully evaluating needs and objectives.

- 8.10 Shropshire Council set up two styles of companies within the IP & E branding – a trading company and a limited “Teckal” company. Currently the trading company was dormant and all work was being conducted through the Teckal Company. Set up costs for IP & E Ltd had included the option of a loan from Shropshire Council of £500,000 and an agreement with the local authority to use some of the IT infrastructure and office accommodation on a charged basis.

Overview of company structure of IP and E Ltd



- 8.11 The Teckal exemption enabled Shropshire Council to contract with the company in a way which enabled any contract award to be treated as “in house” and therefore not subject to the standard procurement processes. To qualify for Teckal exemption, a company must be wholly owned by public bodies including by the public body contracting with the company and the “essential part” of the company’s activities being undertaken for the members of the company. This “essential part” has been reduced from 90 per cent to 80 per cent following a European Directive.²¹

²¹ EU Directive 2014/24 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32014L0024>

Teckal exemption criteria:

1. The company is wholly controlled by public bodies (without any private ownership) including by the public body contracting with the company (the 'control test'); and
2. The "essential part" of the company's activities must be undertaken for the member(s) of the company (the "function test").

'Essential part' is currently interpreted by case law to mean 80 per cent of the turnover of the company.

- 8.12 In the case of IP and E Ltd, should the external demand for services start to impact on the minimum 80 per cent council trading income, these services could be transferred to the 'trading' business arm thus preserving the Teckal exemption. This was the reason for setting up the two companies.
- 8.13 The company is also able to trade successfully with private and public sector clients across Shropshire and beyond, including schools and other public bodies. IP & E Ltd.'s not for profit nature appealed to other public sector companies as well as private individuals and companies as all profits return to the public sector for further investment in the services provided.
- 8.14 Examples of services traded included: communications; business design; public health initiatives; business support and regulatory services; and schools traded services. For example, communications and media support was provided back to Shropshire Council but also to external customers and partner organisations such as the Police and the Fire Brigade.
- 8.15 Within Adult Social Care the model allowed staff to reassess care packages in partnership with clients and carers to prioritise actual needs and eliminate unnecessary expenditure. Eligibility criteria had not been raised, but costs had been reduced by having a different focus on what the customer actually needed. In terms of reducing costs in Adult Social Care, analysis of call centre patterns and behaviours were undertaken. Previously all related calls to the call centre had been put through to adult social care. This was costly and inefficient and through better understanding of the nature of calls a triage process was now being done. Call centre staff were being trained to answer additional queries and now 73 per cent of calls were dealt with at first point of call or by being transferred to a relevant third sector organisation meaning significant cost reductions were being made.
- 8.16 In terms of the reassessments of service users for adult social care, there had been a different focus asking about the full details of existing care paths to ensure that every element added value and if it didn't then changing the path to better reflect needs and abilities of the client. Users and Carers were central to the discussion and this enable improved care packages whilst reducing overall expenditure.

- 8.17 Shropshire Council became a unitary authority in 2009. Planning and Regulatory Services faced significant savings pressures including £4 million taken out of front line services. Different models were assessed for continuing to provide these services to residents in the most cost-effective way. These included: staff mutuals; shared services; outsourcing; and a stand-alone trading company.
- 8.18 There were challenges with a staff mutual in terms of staff motivation and relevant skill sets. Outsourcing was less appealing as there was often no cost saving involved and profits were going to private companies rather than being reinvested in the service and community.
- 8.19 Setting up a trading company meant that there would be freedom to trade and generate a profit to be reinvested back into services. In 2014/15, business support and regulatory services functions within IP & E Ltd had £400,000 external trading income which was predicted to double by the end of 2015/16.
- 8.20 The primary aims were to sell locally to the private sector or individual consumers but selling to other public sector organisations was also successful. For example a pest control contract had been won with a large public sector organisation. IP & E Ltd had been able to significantly undercut the previous contract with a private provider saving the client money, whilst still generating profit on the contract.
- 8.21 Part of the model for success was about changing the culture and leadership strategy within the organisation and amongst staff. Placing an additional focus on customer experience, quality and performance, in addition to this, commercialisation of staff and delivering a marketing plan with income targets. In this respect the culture shift very much mirrored that of the evidence provided by Hammersmith and Fulham.
- 8.22 There had also been a reduction in tiers of management and a focus on front line delivery staff. Staff were focussed on partnership working and client liaison face to face, online and on the telephone.

RECOMMENDATION: That in addition to a “top down” approach to identifying commercial strategies and income streams, a “bottom up” approach be encouraged for front line staff to report areas where they feel fee levels are wrong and to identify new areas of potential income streams. A platform for staff to do this should be created with clear feedback provided.

- 8.23 The State Aid rules were an important consideration in setting up a publicly funded body. There needed to be a transparent funding arrangement and a “true” profit in the trading of services or there could be potential for this to be considered as “State Aid” thus unfairly distorting the commercial market.
- 8.24 Governance was also an important issue and IP & E Ltd had an “open book” approach to ensure that Shropshire County Council were able to monitor all

aspects of trading and accounts. In the running of IP & E Ltd, there were times when tensions had arisen with the partnership with Shropshire Council but these generally had positive outcomes and ensured shared priorities. The contract output specifications and performance framework had been important when setting up the company but both partners felt that it was important not to make the performance framework so comprehensive and onerous that it created a substantial additional workload as this would make the company less competitive and divert resources away from frontline services.

- 8.25 Currently the company was generating a modest profit but it was seen as much more important that setting it up had protected services.
- 8.26 It is important to note that the risks associated with councils setting up trading arms are also considerable. The Grant Thornton Report cited above²² notes that a number of adult social care service Local Authority Trading Companies (LATC) have slipped into deficit or have been brought back in-house following concerns over service delivery and value for money. Examples of LATCs that have failed include a trading company entering into a large catering contract resulting in a substantial loss that required funding by the council. A supplier of council house windows did not have a business plan outside of the 'decent homes' standards requirements. When this ended, the company required significant levels of interim financial support and restructure. Another example cited a company set up to tender for a large contract which did not win the work. With no other strands to its business plan, it eventually became dormant and never managed to repay the initial capital investment.²³
- 8.27 When considering a LATC option, Grant Thornton recommends the following:
- Consider the strategic fit – undertake a strategic review at the start of the process.
 - Appraise options thoroughly – look at all alternative service delivery models
 - Develop an outline business case – including commercial strategies and business, financial and marketing plans.²⁴

9 Overview from the London Borough of Lewisham

The Lewisham Future Programme

- 9.1 The Lewisham Future Programme is the Council's organisational approach to meeting the financial pressures placed on it by central government. The Council is now in the sixth year of an expected ten year long period of resource reduction. In the period 2010 to 2015, the Council made savings of over £120m. A number of proposals are being pursued by Lewisham Council as part of the Lewisham Future Programme income generation strategy. Current proposals include:

²² <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

²³ *ibid*

²⁴ *ibid*

- Increasing the amount of Council tax collected
 - Generating more income from School Service Level Agreements
 - Maximising investment income
 - Increasing income from advertising
 - Reviewing fees and charges with a view to increasing income.
- 9.2 At the meeting of the Public Accounts Select Committee on 29th September the Committee received information prepared by the Lewisham Future Board. This board drives the Lewisham Future programme forward, is officer led and has the aim of highlighting work being currently undertaken by Lewisham Council in the field of income generation and future strategies.
- 9.3 Theoretically the Council can generate income where it is able to sell a service at a cost greater than that spent on delivering it. The main areas the Council can look to do this are through:
- Fees and charges.
 - Identifying areas where the council excels in performance and cost effectiveness and sell our core services to other councils through the use of trading companies for instance.
 - Selling the use of our assets particularly street assets (some will be covered by the fees and charges policy, but the council could explore other commercial areas).
 - Using our assets to generate income, particularly revenue income.
 - Improving treasury management to ensure that we generate as much income as possible (within prudential risk criteria).
- 9.4 In 2013/14 Lewisham generated £118.3m of income, from fees, charges and other service income. This was from a variety of sources from Adult Social Care to Leisure Centres. This revenue is increasingly important with Government budget reductions meaning that the Council is required to save £85m between 2015/16 and 2017/18 to balance its budget. While income will play a critical role in meeting this challenge, it must be undertaken in a clear, transparent and consistent way.
- 9.5 Income can be a means by which to ensure a service is sustainable in the longer term but if not implemented in a fair and transparent way it can lead to a lack of engagement and distrust in the service and Council as a whole. The Lewisham Income Strategy is intended 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.
- 9.6 In addition to working up specific proposals, the analysis has resulted in the development of a comprehensive income strategy. The strategy is intended to ensure that the management of the fees and charges levied by the Council, and other sources of income that the Council receives, is consistent and guided by agreed principles. The adoption of the new strategy in May 2015 means that the Council will adhere to the following principles when setting or introducing fees and charges:

- **Full Cost** – Any fees and charges should cover, at a minimum, the full costs of the service (including capital and revenue investment and overheads) unless there are contrary policies, strategy, legal or contractual reasons.
- **Market Rates** – Where fees and charges are in place they should reflect market rates subject to meeting full cost. Any charges that are significantly lower than the market rate must be agreed by the Fees and Charges Working Group.
- **Inflation Rise** – All fees and charges will rise in line with inflation in order to avoid sharp increases in prices.
- **Benchmarking** – All fees and charges should be benchmarked with neighbouring local authorities and the voluntary and private sector delivering similar services. Charges should not be significantly below comparator councils.
- **Agreeing Subsidy** – The Fees and Charges Working Group must agree any decision to subsidise a service through lower fees. A business case must be presented setting out the rationale behind the subsidy and the full costs of the subsidy (including annual and whole life revenue, overheads and capital costs).
- **Understanding Demand** – Demand analysis must be undertaken to understand the impact of fees and charges on service and non-service users. This should include the elasticity of demand.
- **Concessions** – Any concessionary scheme should be based on ability to pay or promote a strategic objective and be applied in a consistent and transparent way across all council services.
- **Collection** – All fees and charges should be collected in the most efficient form. All fees and charges should be collected through automated electronic means and prior to the service being delivered.
- **Targeting Charges** – Managers should actively consider the use of alternative pricing structures to take advantage of opportunities to segment markets, and to target and promote take-up of services to specific target groups as appropriate to strategy objectives.

9.7 The strategy provides a guide for service managers and helps ensure that fees, charges and other income sources are guided by specific principles and managed in a consistent way. A fees and charges working group has also been established which includes the Head of Finance, three additional Heads of Service and the Cabinet Member for Resources.

RECOMMENDATION: That all Heads of Service be engaged in the process of moving to an increasingly commercial culture and in identifying income streams.

Fees and charges to our residents

- 9.8 The Council has undertaken significant work in this area as listed in the paragraphs above. It is therefore important to assess whether existing policies have been implemented, or whether the Council needs to explore wholly new approaches.
- 9.9 Being a public body there are of course limitations on where money can be generated and in many of administrative functions such as licensing, planning, some areas of regulation, a nationally determined fee is prescribed or a local fee can be set at a level that recovers cost (but does not make the council a profit).
- 9.10 Fees and charges are important because the council does not want to have to subsidise from the General Fund administrative functions for which the Government determines the fee. The Council therefore needs to attempt to reduce administrative costs to match the fee structure - otherwise the council tax payer is subsidising an activity that is supposedly paid for by the applicant.
- 9.11 Income generation through fees and charges to residents delivers relatively low levels of income. As a council it is only possible to charge the competitive rate. To overcharge will have the potential to reduce demand. High charges can cause perverse consequences. It may drive people to avoid the charge and thereby reduce the council's scope to raise additional income. It may also generate behaviours that are not wanted, and stop people using services that would benefit them. Therefore, increases in fees and charges are likely to be marginal.
- 9.12 The fees and charges policy has a principle of full cost recovery. This is not achieved in all services and so these areas should be reviewed again. If it is not possible to increase the fee, consideration should be given to the alternative approach of reducing costs to bring them in line with the fee. If this was achieved in the Planning service for instance, the Council could achieve notable savings. In planning, there are also additional fees that can be charged for pre-application advice and Planning Performance Agreements. These are set locally and give more flexibility in income generation.

RECOMMENDATION: That the true costs of Council services be understood to ensure that when full cost recovery is sought, it is based on accurate cost figures.

- 9.13 Individual Services and Departments are also considering where they can go beyond their current offer to offer additional services. This would not be to make a profit from residents but to be able to contribute to the fixed costs of services. Examples include: Selling green waste services which is currently out to consultation.

10 Future Proposals

- 10.1 Proposals currently identified by the Lewisham Future Programme have identified potential proposals to generate sustainable income of £1.050m for 2016/17 and a further £0.250m in 2017/18. This is excluding the ongoing review of fees and charges which officers are continuing to progress and excluding the evidence and findings from this scrutiny review highlighting the income potential from the wireless concession.

Advertising Income

- 10.2 This proposal seeks to exploit advertisement opportunities in the borough. A piece of work from advertising specialists was commissioned to undertake an audit of the borough. This work sought to identify key locations in the borough where it is felt that increases in advertising activity would work well. It provided some reasoned indications that sustainable income of some £0.300m per annum could be achieved by a mixture of large format digital and non-digital advertising at various sites in the borough. This level of income is based on the likely guaranteed fixed rents payable to the Council and reflects assumptions regarding commissions, discounts, voids and capital amortisation.
- 10.3 The Council is currently examining design option for the advertising scheme which involves the final identification of the sites on which to focus and how the advertising offer will be marketed.

Finance and Accounting Policies

- 10.4 This proposal is centred on the review of regulatory restrictions for the Housing Revenue Account (HRA), Dedicated Schools Grant (DSG) and the Capital Programme and review of treasury management. In the latter half of the current financial year, the regulation restrictions pertaining to these areas of business will be further examined. This is to ascertain what is charged to these accounts thereby providing the potential to release general fund resources.
- 10.5 This detailed desktop exercise has begun and a target for this element of £0.200m on going would appear realistic for 2016/17. For treasury management, the first year proposal focused on achieving greater gains from investments on treasury management activity. This proposal looks at a comprehensive review of the long term debts the Council has to assess options for debt rescheduling and debt redemption. This will be dependent upon market conditions and the willingness of counterparties to enter negotiations on revising their loan books. An annualised equivalent saving target of approximately £0.100m is being estimated.

Review of sundry debtor collection

- 10.6 A review of sundry debtor collection is being carried out with a target to improve collection by at least 1 per cent which is equivalent to £0.250m. The

review, led by the Head of Public Services, will look at the end to end process for sundry debtor collection and review the use of technology and the staffing arrangements. The current arrangements are that services raise invoices and where these remain unpaid they are followed up by the central sundry debt collection team using the new Oracle system. These arrangements will be comprehensively reviewed using external expertise to ensure we have the best structure in place and are following an effective process making the most of the technology available.

Review of the impact of the Controlled Parking Zones Programme £0.250m 2017/18

- 10.7 The Council reviewed its parking policy in 2012/13. On the 10th April 2013, Mayor and Cabinet agreed 37 recommendations which led to a revised parking policy. Recommendation 10 set out that the Council would freeze parking charges at the current levels until 2015/16 and review annually thereafter. Recommendation 11 set out that the Council would consult on any future charge increases that exceeded inflation.
- 10.8 The Council's parking policy has to balance the needs of those living, working, visiting and trading in the borough as well as ensuring that the cost of parking controls is met. The increase in car ownership and demand for parking spaces need to be balanced against the need to reduce the harmful effects of car use on the environment. The Council's parking charges reflect the need to not only cover the costs of delivering parking controls but also managing these issues.
- 10.9 The parking charges are fixed in accordance with the requirements of the Road Traffic Regulation Act 1984. Section 122 of the Act imposes a duty on the Council to use them to 'secure the expeditious, convenient and safe movement of vehicular and other traffic including pedestrians and the provision of suitable and adequate parking facilities on and off the highway'.
- 10.10 Charges were set at a level which was in line with the median level in London. Setting charges at that level ensured that the borough did not become a 'car park' for those travelling into London. It also ensured the Council continued to meet the objectives set out above and comply with the requirements of Section 122 Road Traffic Regulations Act 1984.
- 10.11 The Council's fear of becoming a 'car park' for commuters is very real. The introduction of the congestion charge in 2003 saw the number of commuters driving into central London reduce, but the risk was and remains that they park in the surrounding areas. The Council has multiple transport links into central London which makes this a risk. This is especially the case as Lewisham is just inside zone 2 and at the end of the Docklands Light Railway. Added to this is the fact that access to Lewisham is relatively easy for commuters driving into London, but becomes more difficult the further into London they travel as travel times' increase.

Lewisham's potential Youth Service mutual

Investigations into the potential creation of an Employee Led Mutual (ELM) for the Youth Service are taking place.

The potential for income generation will be a key element of the planning process as it is envisaged that, should a mutual be created, it would be self-sustaining within three years.

The service is already generating income by renting space to private and community sector users and bidding for relevant available grants. Based on current projections the Service is projected to generate £100k by the end of 2015/16

However, by spinning out of Council control, it is felt that greater commercial and entrepreneurial activity could be engendered, as well as the ability to access funding streams unavailable to local authorities, such as Children In Need funding.

10.12 The charges were last increased in 2011. The parking policy review also led to a controlled parking zone programme of reviews of existing arrangements and the implementation of new zones. Whilst the review of existing zones is likely in some cases to lead to a loss of income and there is a cost of reviewing and implementing zones overall, there is likely to be an increase in income overall.

10.13 It is estimated that increased charges and the controlled parking zone programme will lead to an additional income of £0.25m.

Selling services to other councils and organisations

10.14 The evidence the Committee received from the Lewisham Income Board stated that very few councils successfully sold services and made a 'profit' that could be returned to the General Fund and cited the largest and arguably most successful traded service as being the Norse Group, a trading company set up by Norfolk county council. The Norse Group is a holding company providing services to a number of local authorities across the UK. It was established in April 2006. The holding company contains:

- NPS Property Consultants Group
- Norse Commercial Services Limited (facility management)
- NorseCare (a care provider)

10.15 Norse Group is wholly owned by Norfolk County Council. In 2014, the group's turnover amounted to £248m with pre-tax profit of £6.8m. However, the Norse Group is a business, with all the attendant risk, and so much of the profit is needed to be reinvested into the business or used for pension liabilities (from the TUPE and Joint Venture (JV) arrangements entered into with local authorities), This means that monies returning to the General Fund are less than £1m.

10.16 Although such levels of profit returning to the Council may not be a significant driver to sell services (considering it has taken Norse nine years to generate profit), one of the major benefits of doing so is the ability to 'subsidise' the overhead costs within the Council. As the Council gets smaller the relative contribution of overheads (governance, HR, policy, finance etc.) gets bigger as there are significant fixed costs.

10.17 The Council is already selling its services to partner organisations. The main area is the services provided to schools that are above the statutory service and which schools are not obliged to purchase through the local authority. As long as the local authority is charging enough to cover both the direct costs and the overheads, then it makes sense to do so. In financial terms, it is the subsidisation of the central overheads that is the

gain from selling such services rather than direct revenue. There is a market and schools would go elsewhere if costs were disproportionate to market costs. The Council also provide services to the ALMO and have further proposals on services such as lumber collection.

10.18 Lewisham has explored other areas where there is potential to sell a service. There are two examples of where this may happen. One is an energy consultancy (with limited income potential circa £50k to £100k) and the other is the potential from the shared IT service with Brent, but this is still in development and as yet unknown potential.

Potential Sustainability Consultancy at the London Borough of Lewisham.

An initial proposal for a sustainability consultancy was put forward by members of staff as a way to use the expertise within the Council to maintain a service, generate income and return additional funds to the Council's general fund. The annual turnover of this proposed consultancy was anticipated as being £100,000.

Whilst investigating methodology it became clear that, as there is no overarching Council trading arm established, setting up one purely for the purpose of running the Sustainability Consultancy, would not be profitable.

The common legal and financial issues for any trading / income generation activity on a commercial basis and seeking clients beyond the remit/mandate of the local authority are that:

- Costs of overheads such as HR, finance and accounting, banking charges, payroll, legal, governance and contract support, insurances, property/asset services, technology support etc need to be recharged.
- Cost of business development activities such as staff time for market making, relationship management and selling, product development, branding and communication etc need to be costed in.
- Staff would need to transfer across (usually under TUPE) to new body. Terms and conditions, including pension arrangements, and ability to ride out peaks and troughs in workload depending on scale of business activities need to be considered and budgeted for.
- Tax affairs need to be managed to include VAT, corporation tax, capital gains, treatment of dividends etc.

The exact scale and impact for each of these is considered on an individual business case.

The end additional income generated is only the net profit after tax - in any mature business this will typically be in the region of 5 per cent on average so one needs a turnover of £2m to generate a profit of £100k.

On this basis, there was felt to be more scope to trade from within the Council within the constraints of current legislation. Increasing the revenue generated by the service to cover all overheads would be permitted under current legislation and services could therefore be protected.

10.19 In order to be worth developing options in this area it would need to be identified that:

- A service is high performing
- Other organisations/individuals would wish to purchase these services
- Services can be provided at a competitive cost and make a net and cashable profit after paying direct and indirect overheads and costs,
- The management of the service has the capability and mind-set to operate commercially
- The council is willing to bear the risks involved of delivering other council's services.

Using Council assets to generate income

10.20 The Regeneration and Asset Management Division has undertaken considerable work over the last few years on improving the performance of the operation of Council assets and estate (including the commercial performance). Out of all the income generating areas that could be focused on, managing, developing and maximising the use of our assets has the greatest potential to generate significant income.

10.21 Income generation opportunities have been identified and developed within the council's Strategic Asset Management Plan 2015-2020. They focus on better operating and increasing the efficiency of existing Council functions and include:

- Classifying Council assets into the operational, third sector assets and commercial assets
- Ensuring that rents and lease arrangements are clear and up to date, and that rents are collected and voids reduced in the commercial estate
- More efficient use of the operational estate
- Better use of community facilities and schools estates
- Transfer of the non-housing stock (garages and commercial estate) from the HRA to the General Fund.

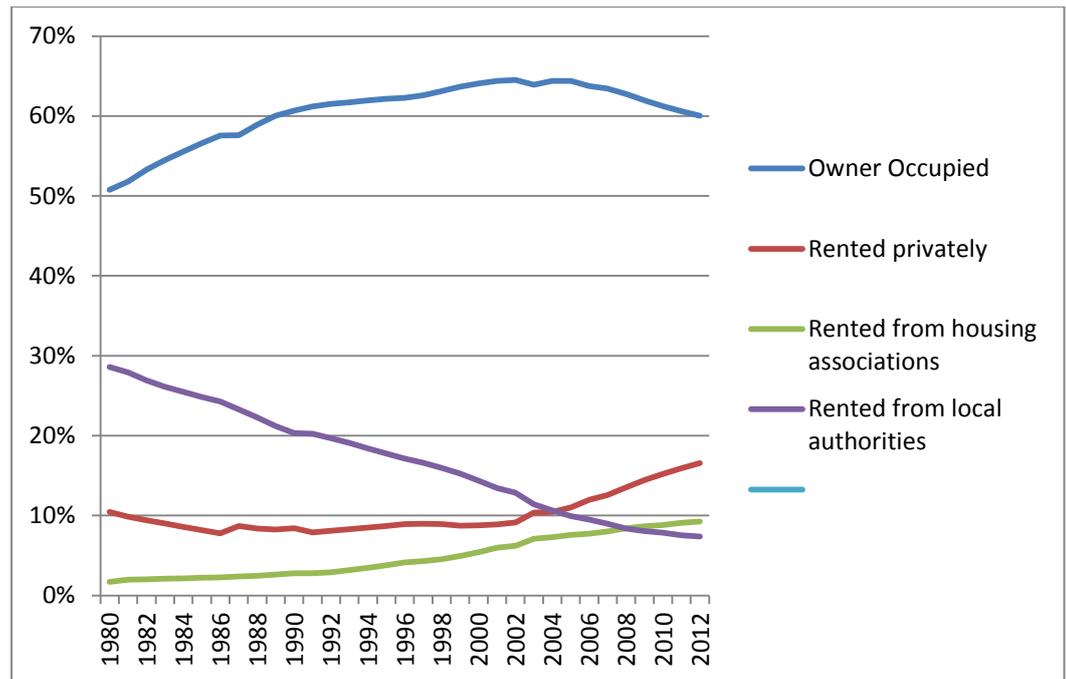
10.22 The area with the greatest potential to create additional revenue is by being creative with the Council asset base. With this potential for increased profit, there are, however, associated risks. Proposals will need to be fully developed and tested. The risk includes legal, financial and governance issues.

10.23 The Council's Strategic Housing Team and Regeneration and Asset Management Division are developing a property investment and development strand within the council's asset portfolio which has the potential to generate both economic and social benefits. The main opportunities relate to the private rented sector (PRS) with the Council retaining some or all ownership and therefore the opportunity to generate income. The graph below shows UK dwelling stock by tenure from ONS statistics. The current predictions estimate that going forward to 2020 the trends will continue with the private rental sector increasing on the same trajectory.

Red Door Ventures – LB Newham

LB Newham have set up a wholly owned Council trading company - Red Door Ventures. Over the next 13 years, Red Door Ventures aims to build at least 3,000 new homes in Newham and will also acquire a further 500 existing properties. All the homes will be available for residents at market rent or below with a third of the homes set at affordable rent subsidised by the council with plans to increase this. The current business model proposes 69% available at market value and 31% for affordable homes.

This company will make Newham Council the first local authority to deliver a large programme of private rented homes for residents. To finance the early stages of the programme of development, the council will provide loans to the company as a commercial investment.



Data from ONS – UK dwelling stock by tenure²⁵

10.24 Work is on-going to identify suitable sites for high quality well managed private sector rented housing, and to research options for how these programmes will be delivered. Soft market testing amongst potential partners is also currently being carried out. Options for delivery include:

- Lewisham Homes, the Arms-Length Management Organisation (ALMO) (not recommended as a route to income generating PRS, but might work for some mixed sites)
- Setting up a commercial Special Purpose Vehicle (SPV) or limited company – similar to Catford Regeneration Partnership Ltd, but with dedicated purpose
- Entering a joint venture with a development or investment partner (likely that the council would be the investor so more likely to be a development partner)
- Procuring a development partner.

A Special Purpose Vehicle is normally created as a wholly owned subsidiary of a council with a separate asset/liability structure and legal status. SPVs allow a council, for example, to build through the General Fund (rather than the capped Housing Revenue Account). An SPV can borrow money from a council and use it to pay a developer to build properties. The SPV therefore serves as a mechanism that can enable a council to intervene in the market to deliver new homes.

²⁵ <http://visual.ons.gov.uk/uk-perspectives-housing-and-home-ownership-in-the-uk/>

- 10.25 Each of these routes (apart from the ALMO route that looks more problematic) are viable options for moving forward but it is likely that different sites, with different requirements will require different delivery routes. Apart from building the stock, there is also the issue of the best option for the commercial operation of running PRS stock. Further analysis of the market needs to take place. Managing large scale PRS is a specialist operation and may be best done by the private sector. The Regeneration Team are working on a site by site basis to explore possibilities. Across the wider programme there are opportunities for us to establish SPVs to support income generation through PRS, student / hotel bed spaces and other commercial investments.
- 10.26 Considerable work is needed including site by site feasibility studies, and on planning commercial operations. Developing the site is part of the issue but one that the Council has considerable experience in managing: developing and potentially running profit-making businesses is a crucial part of the equation and one where the Council is less likely to have all the skills needed.
- 10.27 This new investment has the potential to deliver significantly to the Council's new net revenue position, as well as contributing to delivery of the Regeneration Strategy's aspirations for regeneration and growth and the Housing Strategy's ambitions for affordable and high quality housing.
- 10.28 Initial modelling conducted for the council identifies yields of about 4.5 per cent on any development. Significant development would be required to generate significant income, and would take time and resources to deliver.
- 10.29 This new income project is designed to achieve savings required by the Council through the Lewisham Future Programme and is seeking to deliver increased income of £200k by 2017/18. This milestone reflects the lengthy lead in time for construction projects of this nature. Given continued growth predictions for London beyond this it is estimated that this could be a significant source of income beyond 2017/18, with potentially £5m+ a year income potential by 2021 through development aligned to the borough's regeneration. This income can be used to reduce overall costs as well as support the continue delivery of wider Council services.
- 10.30 Further work may need to be undertaken to ensure consensus on the Nature of the commercial development, i.e. are the PRSs being built to use instead of temporary accommodation (which will mean a social housing delivery/ management may be sufficient to deliver) or is it aiming to maximise income with commercial PRS management (which would lead to commercial delivery and management). If the above is decided on a case by case basis in relation to sites, then that site specific business case is needed now in order to set up delivery structures.

Improving treasury management

- 10.31 This area is one of generating the maximum income from the Council's considerable balance sheets. Proposals for 2016/17 include reviewing finance strategies for debt management. Other opportunities include more

aggressively managing the balance sheet. However this will expose the council to higher levels of risk, and the risk appetite within the council would need to be fully understood, and considered decisions taken on financial management going forward.

11 Conclusion

- 11.1 The financial landscape of local government has changed and with the extensive financial cuts from central government funding, councils are having to adapt to a new norm and work in different ways in order to protect services to residents.
- 11.2 The review has assessed the information and evidence received from evidence sessions and meetings and proposes recommendations to the Mayor as listed in section 2 of the report. The review has collated a substantial amount of evidence on looking at good practice from other Councils and a large part of its recommendations have been shaped by this evidence. For continuous improvement to, and protection of, service delivery it is important to continue monitoring good practice from within the Council and externally in order to emulate success and reduce the risks associated with poor decision-making.

RECOMMENDATION: That examples of best practice from other local authorities be continued to be studied as routine to ensure that the Council is considering all potential options to help protect services.

12 Monitoring and on-going scrutiny

- 12.1 The recommendations from the review will be referred for consideration by the Mayor and Cabinet at their meeting on 11th November 2015 and their response reported back to the Public Accounts Select Committee within two months of that meeting. In order to monitor the implementation of the review recommendations, the Committee will receive a progress update in six months' time.