

## **Report to Cabinet**

**Subject:** Report and Recommendations of the Income Generation Scrutiny Working Group

**Date:** 12<sup>th</sup> October 2017

**Author:** Councillor Meredith Lawrence, Chair of the working group

### **Wards Affected**

Borough Wide.

### **Purpose**

To present the final report and recommendations of the Income Generation Scrutiny working group. Members are asked to consider the report and recommendations of the above review, previously approved by the Overview and Scrutiny Committee and refer the report to the appropriate Cabinet Member in order for a response to be made to the Overview and Scrutiny Committee at the next meeting on 20 November 2017.

### **Key Decision**

This is not a Key Decision.

### **Background**

- 1.1 The Overview and Scrutiny Committee established a working group to explore how the authority could develop a stronger commercial and entrepreneurial culture, and consider how new service delivery models, could generate income or reduce costs. Working Group members were Councillors Lawrence, Paling, Andrews, Miller and Scroggie.
- 1.2 This review is different to other working group reviews, in that it is not scrutinising existing services but looking to the future, seeking to make recommendations that will raise awareness of the authorities need to develop a trading culture and explore new areas of business.
- 1.3 A key priority of the authority is to provide high quality services, and value for money, and thus far, efficiency savings have been used to

maintain a level of service. However, because of reductions in government funding, it is necessary to consider how to increase income through commercial activity, identifying and investigating additional potential sources that could generate income. Raising awareness of the trading opportunities available to either produce efficiencies, surpluses and profits, or charging to recover costs for a service, are the two elements that make up income generation opportunities.

- 1.4 Members received briefings from senior Officers and information about ways in which Councils across the country are exploring a wide variety of commercial opportunities.

### **Why we need to generate additional sources of income**

- 1.5 It has become necessary to consider how to generate additional sources of income as, by 2020, the authority will no longer be able to rely on Revenue Support Grant funding from Central Government.
- 1.6 For services to be sustainable, a fundamental review of income streams will be necessary. Currently, the authority has various funding streams, including retained business rates, the New Homes bonus, withdrawal from reserves and fees and charges levied. The reduction in future funding available requires that the authority looks at innovative ways to save money and increase revenue.
- 1.7 Research shows that Council's income generation activity fall broadly into three areas:
  - Generating income through council assets, for example, buildings, parks and open spaces
  - Through service delivery by trading services with other councils, or winning new business to deliver services to other parts of the public sector
  - Through selling commodities<sup>1</sup>.

### **Legal powers to trade**

- 1.8 Local authorities have, for some time, had the option to trade. The Local Authorities (Good and Services) Act, allows local authorities to supply goods and services to other public bodies on a commercial basis. The 2003 Local Government Act introduced a general power to charge for the provision of discretionary services. The charging

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<sup>1</sup> Local Government Association. Enterprising Councils

powers do not apply to services which an authority is mandated, or has a duty, to provide. Councils can charge for discretionary services on a cost recovery basis. The general power of competence contained in the Localism Act 2011, allows a local authority to do anything that an individual can do, which is not prohibited by legislation. This can include charging on a cost recovery basis and the option to establish local authority trading companies. Under both the Local Government Act 2003 and Localism Act 2011, the power to trade must be through a trading company and profits generated are returned to the Council through dividends or service charges.

- 1.9 Trading allows local authorities to recover costs or make profits from 'selling' services to customers and external individuals and organisations through the development of local authority trading companies (LATCo), also known as Teckal companies. As a LATCo company, the local authority controls all the shares in the company and effectively exercises day to day control of the affairs. The company must be 'inwardly, not outwardly' focused, that is 80% of its turnover must be for its public service owners. 'Outside' refers to trading beyond the authority, with the voluntary sector for example, and is permitted up to 20% of turnover based on a three year average. LATCos offer benefits in that any profits can be reinvested back into the local authorities' services, circumventing traditional local authority decision making processes and can attract new financial arrangements. For example, charitable status can enable them to be business rate exempt and able to claim back VAT.

### **Current and potential future trading arrangements**

- 1.10 Members learnt about current work within the authority, how service managers have been consulted and other local authority initiatives reviewed. A commercial plan is being developed which will have four themes:
- Strengthening the Council's commercial culture and capacity;
  - Increasing income from Council Services through trading and charging;
  - Increasing external funding to the council; and
  - Increasing capital revenue income through housing development and economic/employment growth.
- 1.11 There are two distinct strategies to increasing income generation within the authority
1. Strengthening the Councils commercial culture and capability , including:

- a. Identifying a lead member;
  - b. Holding commercial workshops;
  - c. Holding money saving/income generation sessions with officers;
  - d. Adopting a project and programme management approach; and
  - e. Revising the business planning process to encourage income generation proposals in addition to efficiency proposals.
2. Increasing income from Council's services through trading and charging. Ideas currently under consideration include:
- a. Establishing a Parks and Street Care Teckal Company – tree services , grounds maintenance;
  - b. Establishing a Leisure Teckal Company;
  - c. Pet cremation and ashes burial service;
  - d. Increased trade waste market;
  - e. MOT services at the depot; and
  - f. Housing Development.
- 1.12 Members commended work undertaken by the authority's in house City and Guilds accredited training section, which has generated just under £20,000 through the delivery of training courses to other local authorities, taxi drivers and to local small businesses.
- 1.13 Collaboration with other local authorities is an approach that has been used as a mechanism to save money and protect service standards. A Collaboration Agreement between Rushcliffe, Gedling and Newark and Sherwood d was agreed in 2013. Collaboration allows for the sharing of Officer's time and shared service agreements; the feasibility of shared services for legal, elections and constitutional services and human resources has been investigated.

## **Conclusions**

- 1.14 The working group started this review enthusiastically, and suggested a range of schemes that could be investigated as potential income generation proposals; some of these ideas are attached at **Appendix 1**.
- 1.15 After initial assessment many suggestions were deemed to be unviable, or beyond the legal remit of the Authority. Whilst the Authority is being encouraged to consider new and innovative ways to generate income, any service traded has to be within the legal and constitutional framework. The law in this area is extremely complex. The Council can only provide a service and make a surplus where it has a specific statutory duty, or it provides the services via a trading company. All commercial activity involves risk for potential losses, and

therefore diligent investigation as to a scheme's feasibility and long term viability is vital.

- 1.16 It was agreed that due to diminishing central government funding there is a need to move towards becoming a more commercially aware organisation and this will require a change in the culture of the Authority. This needs to start at Member level; Members felt that they should have an active role in reviewing and challenging income generation initiatives, and how these activities could impact on service users and, in particular, should the Authority start to trade locally, how it could affect the viability of established commercial enterprises in the Borough. Any new trading arrangement established should not have a detrimental effect on any existing private business.
- 1.17 It was acknowledged that failure to adopt a more commercial attitude to selling services and generating income could have a wide reaching effect. Service managers were recognised as having an important role in highlighting opportunities and will need to become more business and commercially aware. Members felt it was important to create a shift in the culture of the authority, and for Members and managers to disseminate the requirement to generate income and seek staff suggestions. This will need not only a 'top down' approach to identifying income streams, but also a 'bottom up' approach which encourages front line staff to relate cases where they consider fees to be wrong, and where they identify new income schemes. A mechanism for staff to do this should be created. Consultation with the public should also be considered, using the Gedling Conversation or Contact magazine, and development of an online system to accept suggestions should also be explored.
- 1.18 It was recognised that commercial competitiveness is important to the success of any service that the authority markets, this is particularly relevant to the leisure offer. How we treat and manage current customers, retain existing business and attract new customers is fundamental. People have a choice and do not have to use the Authority's leisure facilities or attend our events. It is therefore necessary to generate customer loyalty and ensure that the services that the authority offers are efficient and effective. A focus on improving customer experience rather than just supplying a service was discussed, to make sure that customers feel that they are getting an enjoyable experience, value for money and want to return and use our services. It is also important to consider the amount raised through fees and charges and that the real cost of Council services is clear, ensuring that when full cost recovery is required it is based on accurate information.

- 1.19 Members acknowledged that a rigorous programme of debt recovery by the Council is pursued, and that the percentage of Council Tax collected is above target, but considered that it is vital to continue to pursue a stringent policy for the collection of money owed. They also thought that there needed to be a maximisation of external funding streams, looking further afield to explore where pots of money are available. It was recognised that to do this successfully requires knowledge of funding available, and the skills to effectively complete applications. Members considered it essential that a funding specialist is available to assist all departments who would benefit from expert advice.
- 1.20 In conclusion, Members felt that although there are moves to become more commercially aware, the restriction of the legal and constitutional framework were impeding many of the initiatives that could make a real contribution to funding available for the future, and that it would be necessary to be creative and innovative if traded services are going to make a real contribution to future income.

## **Proposal**

2. The Working Group agreed a number of recommendations as follows:
- 2.1 That the Portfolio of one Cabinet Member is amended to include specific responsibilities and accountability for income generation.
  - 2.2 That there be meaningful, wider, Member involvement in any initiatives that affect the way in which services are delivered.
  - 2.3 That an online route for staff and members of the public to raise suggestions be established. This should include a mechanism to feed back on their viability.
  - 2.4 That the Council maintain a focus on customer experience; customer loyalty has to be maintained.
  - 2.5 That a comprehensive review of fees and charges across the Authority is undertaken.
  - 2.6 That the Authority must ensure that there is the available expertise to successfully seek out and bid for external funding.
  - 2.7 That examples of best practice from other Local Authorities continue to be studied to make sure that all potential opportunities are considered.

- 2.8 Members are asked to consider the report and recommendations of the Working Group.

### **Alternative Options**

3. Under Executive Governance arrangements, Cabinet is required to consider reports from the Overview and Scrutiny Committee. There are, therefore, no alternative options.

### **Financial Implications**

4. There are no financial implications arising from the report.

### **Appendices**

5. Appendix 1- Overview and Scrutiny Scoping Report  
Appendix 2- Income Generation suggestions considered by the Working Group.

### **Background Papers**

6. None identified.

### **Recommendation(s)**

- 1) That Cabinet consider the report of the working group and make appropriate comments; and
- 2) That Cabinet refer the report to the appropriate Cabinet Member in order for a response to be made to the Overview and Scrutiny Committee at the meeting scheduled to take place on 20 November 2017.

### **Reasons for Recommendations**

7. To comply with the Executive governance arrangements and fulfil the role of Overview and Scrutiny Committee.