

## **CORPORATE AND COMMUNITIES OVERVIEW AND SCRUTINY PANEL 22 JANUARY 2019**

### **UPDATE ON MAXIMISING INCOME GENERATION**

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#### **Summary**

1. Councils across the Country have been developing commercial approaches to generating income for many years and Worcestershire County Council is no exception. There is a continuing ambition to further develop the Council's commercial capability to better support the wider sustainability of the Council.
2. There is risk involved in generating income and a considered strategy is being developed which will build on existing activities, learn from other authorities and establish a framework for managing the risk and opportunities associated with these ambitions.

#### **Background**

3. At the Corporate and Communities Overview and Scrutiny Panel on the 22 May 2018, a presentation was given to set out the current position relating to income generation at the Council. Members of the Panel, whilst noting the Council was at an early stage of its journey, made a number of suggestions including looking at best practice at other councils and had asked for an update in January 2019.
4. This Report provides an update on the activity that has been undertaken in relation to maximising income generation and the strategy and plan for 2018/19 and 2019/20.
5. The Strategy will be developed within the wider context of the organisational redesign and existing plans to refine the Council's procurement strategy.

#### **Current Income Generation**

6. As discussed at the previous Panel meeting in May 2018, the Council generates income in a number of ways including:
  - Taxation and Levies: e.g. council tax
  - Grants: e.g. Public Health
  - Investment: e.g. interest earned on money
  - Capital receipts: e.g. sale of land or buildings
  - Traded surplus / dividends: e.g. from partly or wholly owned company
  - Fees and Charges, statutory & obligatory: e.g. libraries, Registrars

## **Fees and Charges**

7. The Council collects a wide range of fees and charges from many of its services. Some are discretionary and others are either specified or restricted by legislation or central government policy e.g., registration services, etc. These fees and charges are currently being reviewed and this will be completed in May 2019 with the production of a fees and charges book.

## **Current Trading Activity**

8. The Council has a number of existing trading operations with external customers for example:

- Scientific Services - food technology and agricultural analysis laboratory that offers advice and consultancy for food related issues
- Archaeology Services - undertaking a wide range of commercial, research and community projects
- Utilities - 25% ownership of West Mercia Energy.

9. There are also a range of income generation activities such as marriages and civil ceremonies, room hire, training and services provided to other public sector organisations.

10. The Council is strengthening its commercial capability to support services current trading activity, to identify the financial position and potential opportunities.

## **Legal Powers to Trade**

11. The Council is legally allowed to trade commercially in accordance with various legislation.

12. The Localism Act 2011 granted local authorities a general power of competence which allows it do things which any individual including private sector organisations can do and:

- to do it anywhere in the United Kingdom or elsewhere
- to do it for a commercial purpose or otherwise for a charge, or without charge
- to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area
- this power is limited however where there is existing legislation relating to the particular activity.

13. Where the Council trades commercially for a profit using the Localism Act power then it has to do this by establishing a company. This is to ensure that the Council is trading on an equitable basis to commercial providers in relation to taxation i.e. profits are subject to Corporation Tax.

14. There are various other acts that provide the Council with powers to trade specific services directly (i.e. without the need to set up a company):

- Local Authorities (Goods and Services) Act 1970 the power to trade with other Public Sector organisations for the: provision of goods and materials; administrative professional or technical services; vehicles plant & apparatus

(including staff), works of maintenance and supplies to other public bodies. This is on terms as the parties consider appropriate. A separate 'trading' account must be kept for this activity.

- Local Government Act 2003 general powers to charge and trade. The power to charge is unrestricted and applies in all cases where there is no specific power to charge for the provision of a service. All charging is on a cost recovery only basis.
- Local Government (Miscellaneous Provisions) Act 1976 empowers (by virtue of the Sale of Electricity by Local Authorities, England and Wales, Regulations 2010) local authorities to sell electricity derived from renewable sources.

15. When trading the Council also needs to take into account the rules relating to State Aid. The Council cannot use its public sector position and powers to provide any organisation, including companies it owns, with an advantage that could potentially distort competition. This is a complex area of law that needs to be considered for each initiative.

### **Programme of Work**

16. A programme has been developed to take forward the income generation activities with the following workstreams:

- Trading and income generation strategy
- Governance
- Risk
- Commercial skills and expertise
- Support of existing trading activity
- New opportunities including the engagement of staff and Members in generating new ideas.

### **Trading and Income Generation Strategy**

17. As the Council seeks to expand its trading activities a documented and agreed strategy will help it identify, assess, implement and deliver sustainable income and profits. This will be part of the overall commercial strategy alongside procurement and contract management.

18. The Strategy will address the governance, appraisal process and risk assessment factors.

19. An appraisal process is being developed that will assess opportunities to ensure that there are sustainable business plans.

20. The appraisal will also take into account, in addition to generating a profit, how the trading activity will contribute to the Council's priorities.

### **Governance**

21. A governance process is being developed by the Director of Commercial and Commissioning based on the following:

- Commercial and Commissioning Board for assessing new income generating ideas
- Addition of income generation metrics to the existing Performance Board for monitoring of trading performance.

22. The membership, roles and responsibilities of these Boards will be considered as part of the development of this process and overall organisational redesign.

## **Risk**

23. Income generation and commercial trading has become a fundamental part of local authorities' responses to the current budget challenges. Concern has been expressed by the Chartered Institute for Public Finance and Accountancy (CIPFA) and central government that Council's must assess, understand and manage the risks inherent in commercial activity and this should be proportionate to the resources of the Council.

24. The Council's risk appetite with regard to its trading activities will be considered as part of the strategy. The approach to risk appetite will set out how the risk and return will be considered and balanced. The principle on which it will be based is that in return for accepting a risk is that it is understood, can be mitigated and will realise an appropriate commercial gain.

25. There are a number of different types of risks that need to be considered in addition to financial risk including macroeconomic, operational, reputational, environmental and social risks.

## **Commercial skills and expertise**

26. Successful, sustainable and profitable trading requires the development of skills which local authorities have not historically employed to a significant extent. These skills are in business management, development, sales and marketing.

27. A new Commercial Team structure will be implemented in 2019/20 with capacity and capability in these areas that will provide a consistent approach. This restructure will be undertaken to fit with the Council's overall organisation redesign.

## **Review of current trading activity**

28. A programme to review the Council's current trading activity has commenced to understand the financial sustainability and any opportunities for growth.

## **New opportunities**

29. The Commercial Team have engaged with a number of local government sector organisations to assist with identifying and developing new opportunities including:

- Local Government Association Advanced Commercial Group members
- Chartered Institute for Public Finance and Accountancy (CIPFA)
- Local Authorities with current trading activity including Wolverhampton, Essex and Norfolk
- Public sector trading organisations including Norse Group and Yoo Recruit

- Sector experts including Finance Birmingham and Frontier Development Capital
- A number of opportunities have been identified and feasibility assessments are being commenced, for example in relation to Advertising and sponsorship.

30. Examples of the typical income generation activities that are being undertaken by other local authorities has been produced and is included in Appendix 1. The next stage is to assess whether these or similar opportunities would be suitable for the Council to progress. Going forward Members will note that the Medium Term Financial Strategy has set a target that for 2020/21 these commercial and trading activities, along with procurement activities, will be generating an additional £1.750 million per annum. Further updates on progress will be brought to this Committee.

### **Purpose of the Meeting**

The Panel is asked to:

- Note the findings from this Report and provide any other steer in preparation for delivery of the next phase of work.

### **Supporting Information**

Appendix 1 - Examples of trading activity by Councils

### **Contact Points**

Specific Contact Points for this Report

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### **Background Papers**

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

- Agenda and Minutes of Corporate and Communities Overview and Scrutiny Panel on 22 May 2018 – available on the Council website [here](#)

## Appendix 1 – Examples of trading activity by Councils

Activity	Council
Advertising	Birmingham – digital signs East Sussex – highways Manchester – digital signs Portsmouth – film location Wolverhampton – digital signs
Care Services	Cheshire East, Cheshire West and Chester, Essex and Norfolk
Commercial Property Development	Eastleigh, Portsmouth, Spelthorne, Wolverhampton
Crowd funding to support voluntary sector organisations	Lewisham, Liverpool, Mayor of London, York, Wolverhampton
Energy	Cheshire East – white label provider Preston – white label provider Warrington – solar farm
Financial	Warrington – part owner of new bank, loans to social housing providers
Housing	Camden – affordable housing for rent Newham – affordable housing for rent Norfolk and Suffolk – supported housing Thurrock – affordable housing for rent Wolverhampton – new build housing for sale and rent It is estimated that a third of council's are in the process of establishing housing companies
Lottery to support voluntary sector organisations	Aylesbury, Charnwood, Essex, Portsmouth,
Professional Services	East Midlands Authorities – construction and property services Essex – legal services, social care Norfolk – property services South Staffordshire – professional services for SMEs Staffordshire – procurement Wolverhampton – procurement, agency staff
Services for Schools	Cheshire West and Chester, Wirral – joint company Staffordshire – joint venture with private sector