

Report of: Executive Member for Finance, Resources and Community Safety

Policy & Performance Scrutiny Committee	Date: 19 September 2016	Ward(s):
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SUBJECT: Income Generation update 2016

1. Synopsis

- 1.1 This report provides an update on the work programme for Income Generation and Commercialisation activity within the Council over the last year. The report considers progress against the key recommendations made by the Scrutiny Committee in 2015 and provides a commentary on the challenges that have faced staff in delivering against this challenging agenda.
- 1.2 The Council's Medium Term Financial Strategy (MTFS) has always included income targets within its scope. In recent years, given the financial challenges that the Council has faced, and in company with many other councils, Islington has sought to develop a far more commercial approach. This approach is focussed on generating additional income to help protect vital frontline Council services. This has meant Income targets in the MTFS of up to £3m for the period 2017/18 to 2018/19.
- 1.3 The overall experience and key messages that are emerging from the work of the last 18 months or so are that generating additional income does not happen overnight. That there are many organisational and cultural issues that need to be addressed. There is a limited pool of people, with the right skills available. Income expectations have sometimes exceeded the organisations ability to deliver and the Councils overall risk appetite is limited. In addition to this the Councils present pay and reward structures do not specifically incentivise staff to come forward with ideas especially in the face of their existing challenging workload. Despite the above some reasonable progress has been made.

2. Recommendations

- a) To note the progress made following the initial Scrutiny Review of 2015.
- b) To consider the broader issues raised in this paper and consider how the council might best respond to them.
- c) To receive a further update in 12 months' time.

3. Background

- 3.1 The Council has income generation targets of £3m between 2017/18 and 2018/19 in addition to savings already built into the MTFS and through existing departmental activity.
- 3.2 Whilst this will be difficult it has increased its efforts to find new ways to generate income, either by expanding our existing commercial operations, or looking for new services that we can sell.
- 3.3 In 2015 the Policy and Performance Scrutiny Committee made a number of recommendations, attached as **Appendix A**, that were responded to as part of the Executive Response in January 2016. This report seeks to develop that narrative and cover what we have done since. A high level summary of progress against these is set out below:

- The governance arrangements through the Commercial Board are now fully embedded with a clear four stage assessment process. This includes a Business Planning Framework through which new ideas are assessed.
- We have an established training and development package on Business Development that includes a sales and marketing plan and have supplemented our support with an experienced Commercial Director on a part time basis.
- The Councils trading company iCo has now been fully established and is trading in a small number of sectors namely:
 1. Commercial Waste (185k to July 2016)
 2. Memorials (60k to July 2016)
 3. HR/Payroll/Pension services (33k projected for 2016/17) and;
 4. Trees (25k projected for this financial year)
- We have continued to work closely with our Planning department and secured a number of sites to move forward digital advertising in the borough and now have an adjusted MTFS target of 100k. This has been challenging and raised issues in terms of planning policy that we have not always been able to address; this type of conflict was raised in the initial scrutiny.
- Thematic areas recommended by the Committee continue to be or will be explored by the Commercial Board as part of its work programme. However, the council continues to prioritise those areas that are in a position to consider commercial options sooner rather than later and those that have the potential to deliver big returns.
- Staff Incentivisation options have been considered and reviewed by The Corporate Management Board (CMB). Subsequently a work stream has been added to develop a pay and reward strategy that is more inclusive across the council and not just for those that can access commercial opportunities.

4. The Commercial Board approach

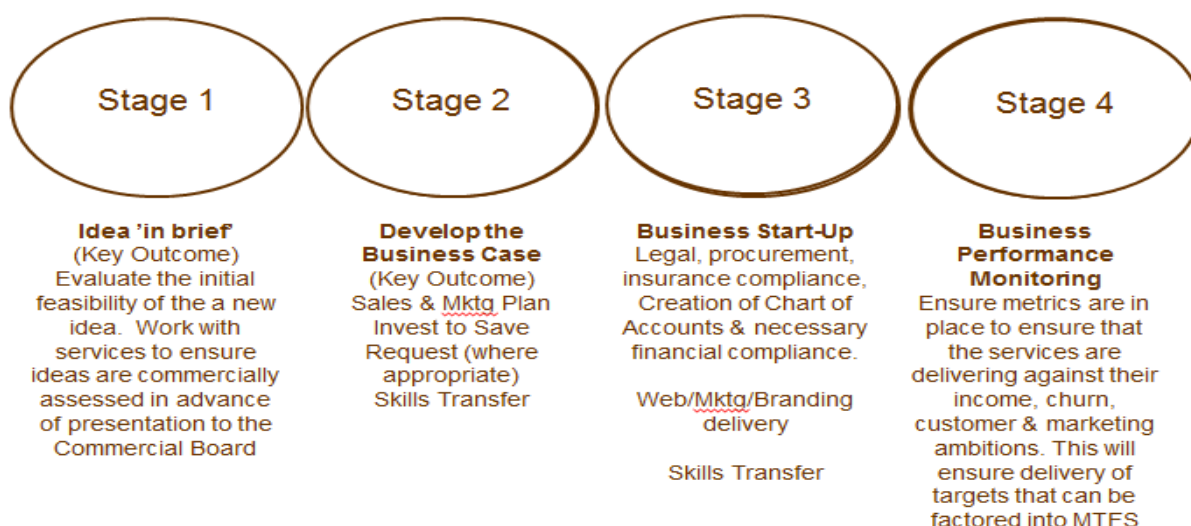
4.1 The Commercial Board is continuing to lead the council's efforts to become a more commercially focused organisation that looks to generate revenue wherever possible. Examples of this include: -

- Selling rooftop space to telecoms providers
- expanding our Pest Control Service to private residents and commercial properties
- Our Registrars Service selling advertising space for wedding venues through their Say I Do website and their new Joint Citizenship and Passport Application Checking Service.

4.2 Other proposals are being worked up into business cases that the Commercial Board will review. These are outlined in **Appendix B**

5. Governance

5.1 Commercial board has continued to provide governance and maintain central oversight of all commercial opportunities. Underpinning this is a four stage process aimed at providing support to develop ideas and provide a mechanism for continued monitoring.



5.2 Going through the process with managers has helped them gain a better understand of the issues they will face in terms of which customers they are targeting, understanding their costs and pricing model, comparing themselves to their competitors, and knowing what investment they will need to get their new venture they are trying to create up and running.

5.3 It also enables the council to control the risks, both financial and reputational that is involved in trading commercially, and makes sure that the venture has the support it needs to give it a good chance of success.

5.4 A copy of the business case template is attached at Appendix C

6. Engagement

6.1 Work has been done to proactively engage staff, using internal communication channels, in order to encourage new ideas that may have commercial potential. Appendix D is a Friday Feature sent in June. Examples of Ideas put forward included;

- Using our expertise in housing to offer management of private and housing association leasehold schemes.
- Marketing our Repairs service externally
- Making use of our centres around the borough as venues for hire outside of operational hours
- Selling training and consultancy across the range of services we provide to other LA's or private organisations.

6.2 In addition to the above we have piloted a Commercial Awareness Training programme with delegates across LB Islington, Sutton & Ealing aimed at developing skills around commercial and financial awareness. This has proved successful with delegates and we are now currently looking at offering this more widely to help develop a cultural shift in how we operate.

6.3 Whilst the above is an encouraging start, work is still required to embed the commercial mind-set we aspire to and the council recognises the need to revisit our approach in some areas to gain more buy in from across the organisations staff. Broadly over the coming months we will be:

- Working with Communications to revisit an engagement plan for Islington
- Revisit incentives model for ideas/delivery of ideas
- Revisit model for Commercial Champions
- Roll out the commercial awareness training to the next tranche of staff, focusing on those areas where this is little progress on emerging ideas.

7. How do we compare?

7.1 Most other councils are also making efforts to increase their commercial activity, and different approaches are being taken.

7.2 Councils with a higher risk tolerance are for, example,

- Buying property, both residential and commercial, to rent out, sometimes through joint ventures with the private sector - effectively becoming a buy to let landlord
- Running lotteries
- Buying up other companies wholesale where there is a strategic alignment with one of their existing trading services

7.3 One council, for example has a stated aim of generating sufficient funding from commercial ventures so as to be able to cease charging council tax to residents by 2023.

8. Barriers and Challenges:

Understanding and accepting the trade-offs.

8.1 There are some significant trade-offs that need to be considered and agreed as part of our approach. These are;

- **Giving support and services to other organisations free of charge.** There are several services we provide to other organisations in Islington that we do for free, where some other councils charge for the services.
- **Conflicts with other council policies.** For example, we could secure some significant income in the borough through advertising, either on our website, our vans or on our highways. However this can conflict with other council policies, such as our planning policy.
- **Our cost base.** Very often we cannot compete on price, and therefore need a strong unique selling point to convince potential buyers that we are worth paying the extra for. This means trading on reputation and quality.
- **Flexibility and ability to scale up quickly.** Our governance structures are not best suited to a commercial environment where at times we may need to move rapidly to win work. While we need to keep some control to make sure we are managing the risk, we need to be able to move quickly to secure resources that are needed to operate.
- **Being clear about risk appetite.** Just as some businesses fail in the private sector, some of the ventures we launch may not be as successful as we would like them to be. Most of the services we offer will have an upfront investment cost that we may not recover. The business case process will help us to manage that risk, but not eliminate it. Even successful business may lose money in the first years of trading until the customer base increases and the venture starts to make a profit.

9. Staff Implications

9.1 Operating commercially puts many of our staff into a completely different position where we want them to actively think of ways to sell their service and develop new skills, e.g. sales and marketing, using profit and loss accounting and meeting financial targets

9.2 At the moment we have no way of incentivising these staff financially for this new way of working, which in some cases will mean more work and increased pressure for some individuals. Many private sector companies will have a bonus scheme for their workers.

9.3 Whilst we recognise that there are other non-financial incentives we could offer, these would need to be strong enough to motivate staff to embrace this new role and give the business the best chance of success as possible.

9.4 At the moment some staff are being charged with making savings from their services at the same time as reducing costs. We will need to give some consideration to how we balance this going forward, and whether we can help incentivise commercial activity by protecting the service from savings targets for a period to allow the commercial operation to become embedded.

10. Conclusion

- 10.1 We have made reasonable progress in terms of developing an approach to Income Generation and Commercialism. We have established good governance arrangements through the Commercial Board have agreed a number of business cases and have a long list of potential future opportunities to investigate.
- 10.2 The report sets out the challenges and barriers that we face in both developing ideas and making them happen. This has meant slower delivery than originally anticipated but we have learnt important lessons along the way.
- 10.3 The support of a Commercial Director albeit on a part time basis has been an important component in getting us to where we are particularly with the business planning process.

11. Implications

11.1 Financial implications:

Detailed financial implications will be included as part of the report for any approved project taken forward.

11.2 Legal Implications:

Any legal implications will be included within the relevant reports.

11.3 Environmental Implications:

There are no environmental issues.

11.4 Resident Impact Assessment:

A Resident Impact Assessment will be completed and included within the relevant reports for approved projects where applicable.

Signed by: Kevin O'Leary
Corporate Director Environment & Regeneration



Date: 7 September 2016

Appendix A

Recommendations

1. Current Income Generation Proposals

1.1 The Committee supports the following projects identified by the newly established Commercial Board:

- Advertising (advertising boards, fleet vehicles and green space locations)
- Commercial rent (refurbished property in Old Street)
- Wireless Radio Network
- Commercial Waste Service
- Film
- Energy Consultancy
- Planning – Duty Planning service

1.2 The Committee noted that there are many dimensions to the generation of income and that the example of increasing advertising income and that the example of increasing advertising income whether this be on street or using our green spaces or encouraging more commercial activity in the Borough brought with it dilemmas for the Council. It is therefore recommended that some guiding principles be adopted to allow the Council to maximise income in these areas but not at the expense of general amenity.

1.3 The Director of Finance and Property Services will prepare detailed costing for the savings proposals for consideration to the Executive.

1.4 That it be noted that this scrutiny has already recommended an amendment to the Budget proposals for 2015/16 in relation to income generation from photovoltaic solar panels, which has been agreed by Executive and which was included in the Budget proposals agreed by Council on 27 February 2015.

2. Future Income Generation opportunities

2.1 The Committee considered a number of potential areas where further income growth may be possible. The Committee suggests that the Executive consider a risk based approach to considering these options based on the challenges in terms of delivery weighed up against the potential income opportunity. This should be considered through the Commercial Board and/or Islington Company Ltd. (iCO) if this is the optimal route.

2.2 The Committee identified a number of thematic areas for further investigation, subject to assessment of an acceptable business case – these include:

- Selling of a range of existing services as set out in the Executive summary e.g. caretaking, grounds maintenance, building maintenance services to schools, pest control and Telecare. (This is not an exhaustive list and the Committee request that officers undertake wide ranging review of all opportunities) and that there may be opportunities to package a range of services to make them more competitive
- Investigate whether Local Housing Management Services could be offered to RSL's
- Receiving and securing courier deliveries and allowing access to utility companies for residents for a fee
- Working with other Councils

- Encouraging commercial events in the Borough e.g. markets, ice rinks etc.
- Wider use of sponsorship and advertising
- Sharing of services with other boroughs/organisations
- Alternative models e.g. the consideration of Co-operatives or Mutuals
- Extension of heat and power schemes and consideration of additional heat and power schemes throughout the borough
- Further use of remote working and 'hot-desking' for staff to free up office accommodation and to consider whether additional savings can be made in this regard
- Introducing the concept of Local Development Orders to shorten the planning process
- Review all services that have or come back 'in house' to ascertain whether there are any additional income generation opportunities that can be pursued
- Call out services/other services that could be offered to leaseholders
- Out of hours service to landlords – this could be marketed through the 'in house' lettings agency
- The selling of services provided by the 'in house' repairs team to Partners, RSL's and private residents and, if the scaffolding scrutiny review, currently being undertaken by the Housing Scrutiny Committee recommends an 'in house' scaffolding team, assess whether there is a business case for marketing this service. It should be noted that there will be 'peaks and troughs' in demand for work, which will necessitate some use of agency staff, however we feel that in the longer term this could be managed effectively, both in resource and financial terms, when the 'in house' employment agency is established.

2.3 The Committee request that the Executive consider the other issues raised above and consider a plan to implement those ideas that offer the best return.

3. **Becoming more commercial**

3.1 The Committee was pleased to hear of the creation of the Commercial Board and progress made so far on commercialism and income maximisation. The Committee believes that the following, set out below, will enhance the progress made to date.

- Invest in staff training to develop commercial awareness and skills within the organisation
- Complete a skills/expertise audit across the Council to determine what other services could compete in the market place
- Develop a means of incentivising staff to generate commercial ideas for the Council, for example, through a competition
- Develop clear policy and guidelines for the use of parks and public spaces for events, such as ice rinks and farmers/Christmas markets
- Develop a financial accounting process that assesses the business case for

trading a particular service and subsequently that reports profit and loss for services participating in commercial activity

- Develop a performance framework, governed by the Commercial Board to measure progress of the Council becoming more commercial
- Effectively publicise and market the services that the Council offers in order to maximise income generation opportunities
- Utilise the trading company and recognise what other services could be placed in the trading company to enable greater flexibility for services to generate profit

3.2 The Committee recommend that all Directorates set an income generation target in percentage terms in relation to their budget and progress be assessed regularly to ensure they are meeting these targets, and if not, the reasons therefore.

4. **Considerations**

4.1 **The Committee request the Executive to endorse that –**

- Commercial activity should not come at the expense of local businesses or the London Living Wage
- A progress report is submitted to the Policy and Performance Scrutiny Committee for the consideration of the Committee in 12 months

Appendix B – list of current ideas being explored

- Architects Service
- Education Library Service
- Trading Standards - Selling advice to Business
- CCTV monitoring services
- Further Leisure Centre improvements – (requires Capital)
- Graffiti Removal Service
- Reworks textile recycling service – possible partnership opportunity
- Housing Property Company
- Increase income from s106 and unilateral undertakings work.
- Generate additional income from non-Islington schools.
- Increase income across the Chief Executive's Department e.g. NHS, Print, NRPF, grants, s106.
- Pre-application Income.
- Design Review Panel Income.
- Special Planning and Transport Income.
- Consultancy Services.
- Review of Adult Social Care Fees & Charges.
- Reviewing Telecare provision and charges.
- Energy Advice
- Print Services
- Communications
- Wireless Concession - Roof Tops/Radio Network
- Advertising – Website, Parking tickets, Vehicles
- Intellectual Property assets
- Advertising on Parking Tickets
- Islington Branding - T-Shirts, Pillows etc.
- Service Donations
- HR Services
- ICT Recruitment
- Sell our employees' skills to other organisations
- Islington Lottery

Appendix C – Business Case template

Outline of any invest to save or iCo/trading venture elements

Overview of anticipated growth (income/expenditure -> surplus) including payback point

Outline of sales and marketing approach

[Example table]

	16/17	17/18	18/19	19/20	20/21
Income					
Expenditure					
Net Surplus					
Cumulative					

1. Background

1.1 Islington Context

1.2 Wider Business Context

1.3 Business Objectives

2. Market Analysis

2.1 Overview of Existing Service

2.2 Current Income and Customer Mix

Internal Customers	Annual Income 14/15	Annual Income 15/16	Target Income 16/17
Total			
External Customers	Annual Income 14/15	Annual Income 15/16	Target Income 16/17
Total			
TOTAL INCOME			

2.3 Existing Financial Performance

[Example table]

	Internal	External	Total
Total Income 15/16			
Direct Employee Costs			
Indirect Employee Costs			
Premises Costs			
Transport Costs			
Supplies & Services			
Contractor payments			
Gross Direct Expenditure 15/16			
Surplus/Deficit before CO			
Corporate Overheads			
NET SURPLUS/DEFICIT			

Comment on existing or future debt management

2.4 Current Routes to Market

2.5 Existing and Proposed Team Structure

Organisational chart

Outline of any new posts (including recruitment, incentivisation, I&d etc.)

2.6 SWOT Analysis of Existing Operation

Strengths	Weaknesses
Opportunities	Threats

2.7 Competitor Analysis

Accompanying 'Competitor Analysis'

Our offer compared to competitors

Advantages	Disadvantages

Comment on market impact

3. Income Projections

3.1 Costs

Type	Set up/delivery	Cost (expected)

3.2 Investment Appraisal

Accompanying 'Invest to Save' document

Sales forecasts

Profit and Loss Profile/Income Projections – year on year payback analysis with costs and benefits incorporating net present values

3.3 Net Present Value Table

Year	Cash Out	Cash In	Increase In resource costs	Net Cash Flow	Discount*	NPV
16/17						
17/18						
18/19						
19/20						
20/21						
Total						

*Assuming 3.5% discount factor

Return on Investment (ROI)

3.4 Budget Integration

Budget integration and monitoring

4. Sales Approach

4.1 Customer Segmentation

Accompanying 'Customer Analysis'

Outline summary of analysis

4.2 Increasing the Range of Services

[Example table]

Service	Description	Status

4.3 Increasing income

(Through any other means)

4.4 Sales Strategy through iCo

(If relevant)

5. Marketing Approach

Customers	Sales and Marketing Approach	Potential Tools

Marketing Approach principles

Describe full marketing approaches with steps necessary to achieve

6. Other Issues

6.1 Key Risks

Impact		
	Likelihood	

Describe top 3 risks and mitigation efforts

6.2 Additional Considerations

Scope/proposed timescales; assumptions; other department (HR, ICT, Legal etc.)

Appendix D

Fancy yourself as the next Richard Branson? The council needs you!

Early last year we published a *Friday Feature on Thinking Commercially*, introducing how we as a council are taking a different response to budget cuts, turning to income generation to help protect essential services. Almost 18 months on, we look at how this has evolved and the role of the Commercial Board in supporting services to bring their ideas to life and drive us to become more commercial. Plus, how you can contribute your ideas!



So what has happened in the last year?

The Commercial Board was set up to explore new ways of generating income for the council. It has supported a number of commercial ventures to get off the ground, helping generate an extra £700k income a year. Our trading arm, iCo, was also set up to provide more flexibility in selling new and existing services to different markets.

Of course, some services were commercial well before the inception of the board - Children's Services, Legal Services, and Highways and Energy Services have been offering paid for services outside of the council for years. However having a council wide board helps us to pull these ideas into one place and think differently about what we have to offer and how we can sell it.



Several services have already brought forward great ideas to the board and are now in the process of growing their business and generating income. Some examples include:

Commercial Waste

The [Commercial Waste](#) service offers competitively priced waste and recycling collection services to businesses in Islington. After taking their business case to the Commercial Board, investment was given to allow the service to expand to operate outside of Islington, which is expected to generate a £500k growth in income. In addition, a suite of new products and services will be launched in 2016/17, incorporating clinical waste, confidential waste and a commercial graffiti removal service to generate further income.

Trees Service

The Trees Service is currently working with the board to develop a bespoke consultancy service that will bring in an additional £150k in income. Manager Jake Tibbetts says:

“The Tree Service has been generating income by providing bespoke services for external clients such as the City of London, the London Wildlife Trust and Epping Forrest. The Commercial Board process has helped me clarify what the next stages are in growing the business. It has been both an interesting and challenging experience developing a service that competes with the private sector.”

There are many more commercial ventures underway. The **Cemeteries Service** now trade through iCo offering a range of products and services, which include memorial sales, beyond their usual burial services; **Print Services** is another department looking at opportunities and is currently bidding to handle print for other organisations; and the **Pest Control Service** is expanding their service to include private residents and commercial contracts to local businesses.

In addition to expanding services there are also ventures looking at how we maximise our assets, **Property Services** are looking at ways to rent out buildings in areas such as Old Street, where demand and market rent is high; and **Wi-Fi and wireless initiatives** are also underway to assess the commercial use of our street

furniture, council owned rooftops and radio networks that all have value to companies, such as mobile operators.

Kevin O’Leary, Corporate Director of Environment and Regeneration and Commercial Board Chair:

“We are really starting to think creatively about how we can generate extra income and I am sure there are more opportunities. We have many assets – including our buildings, our equipment, and most importantly our staff – and I’m sure if we put our minds to it we can develop many more new ideas.”

I have an idea – what do I do?

Firstly, speak to Wayne Woodrup in the Corporate Transformation team on **020 7527 1913** or email wayne.woodrup@islington.gov.uk. You don’t need to worry too much about the detail at this stage – just tell Wayne how you think we can generate extra income! He will talk you through the process and tell you what you need to consider. There are also some top tips on our [izzi](#) pages.

If we think your idea has legs we will help you to develop a business case, bringing in skills and expertise from across the council. This will include a financial assessment and help you think about how you can sell your product and who your customers would be.

The business case will then be considered by the Commercial Board who will make sure that the case stacks up – you may be able to get a small investment to get it off the ground. And it’s not like Dragon’s Den – it’s much friendlier!

We want to give you the best chance of succeeding, so the commercial team will help you along the way to avoid any legal or financial pitfalls and help you with marketing and sales.

How else can I get involved?

There will be a ‘commercial awareness’ training programme and we will also be running workshops where you can bring your ideas and discuss them with your colleagues – you may even have complementary services that you can sell together.

We will be publicising more opportunities to get involved and bring forward your ideas in the upcoming months, so keep an eye out in ICbulletin or check our [izzi](#) pages for more information.