

Monmouthshire Draft Income Optimisation Strategy

Foreword

In view of the scale and nature of the continuing financial challenge, it is unsurprising that we turn our attention to the income side of balance sheets in order to keep essential services going.

At a time of accelerating financial cuts, demand for services shows no sign of slowing down. Becoming ever-more efficient in this environment is clearly crucial. However efficiency or doing the same things better, can only take us some of the way. Effectiveness and doing better things, requires a different but complementary approach. Endowed with land, assets, buildings, social capital, opportunities and an array of willing partners, as well as a track-record in new revenue generation across many service areas, we turn our attention to building a more comprehensively commercial approach to our activities. Our People Strategy talks to promoting an enterprise culture, in which colleagues feel empowered to take calculated risks, test and pilot new ways of working, challenge the status quo and are supported to 'have a go'. We know that dependency on public subsidy cannot be sustained and that our own resourcefulness is really the only tool upon which we can rely. If we are to achieve our ambition of building sustainable and resilient communities – we too must practice what it means to be self-sustaining and truly resilient.

Income generation activity however cannot be a means to an end. It has to align clearly with the Council's four core priorities around supporting educational achievement, protecting the vulnerable, galvanising enterprise and keeping local services accessible and sustainable. Whilst not every income generation activity will attach explicitly to these four key aims, surpluses will need to be reinvested in line with these core priorities. In this way, we are enterprising on purpose for purpose. We must add value through income generation activities because we are focused on the top as much as the bottom line.

There are of course, barriers to income generation and it is important we continue to build confidence in the areas in which we have experience and a legitimate presence. Whilst alignment with economic development and growth is key – this strategy has to go much wider than that and drive social, place-based and environmental outcomes too. This means seeing income generation as an opportunity to regenerate parts of the county, reinvigorate and re-purpose tired buildings and assets; tackle development sites and address the potential the private sector has been slow to recognise and respond to.

This strategy sets out a framework for direction that brings together enterprise and resources in ways which enable us to make a significant contribution to core purpose. We have a future heavily invested in its success.

Cllr B Greenland, Cabinet Member for Innovation, Enterprise and Leisure

Cllr P Murphy, Cabinet Member for Resources

1. Introduction

- 1.1 This strategy provides an overview of opportunities to secure new and additional resources and to sustain current income flows, over and above the level of financial allocation or 'settlement' received by the Council.
- 1.2 As public funding becomes increasingly constrained and under more intense scrutiny, greater emphasis has to be placed upon self-generated income and developing and packaging products and services that will resonate with paying customers. We have opportunities to make more use of what we have – property, skills, ideas, assets, staff, knowledge and ways of working – and to think carefully about the kinds of new markets and opportunities we may be uniquely placed to enter, for social-commercial advantage.
- 1.3 This strategy aims to set out an ambitious and wide-ranging approach that will package-up services and products in a coherent and commercial way which ensures market appeal whilst addressing the needs and priorities of our county. Income generation requires entrepreneurial activity. In certain contexts this may require a shift in position, from partner or recipient of grant, to a supplier or contractor. It must enable us to more accurately reflect the assets we have in our organisation whether these are physical or involve Intellectual Property. As a local authority we have a number of skills and capabilities that are directly transferrable to business and through offering a more varied and flexible range of ways through which to offer our products and services – it widens the volume of potential relationships and commercial offerings and partners.

2. Context

- 2.1 In terms of our context, Monmouthshire has historically received the lowest funding settlement (per head of population) in Wales and this pattern shows no signs of changing. In addition, as the most economically competitive Unitary LA area in Wales (UKCI 2014), we do not qualify for EU structural funds, state aid and other regeneration grants. Whilst on face value, this dearth of financial capital is hardly advantageous; it ensures we focus on utilising and optimising the social capital, ideas, assets and skills that exists within our communities as a means of unlocking new resource solutions.
- 2.2 This way of working provides an opportunity to think about the investment-improvement equation in a different way. Funding programmes and grants, whilst clearly beneficial, have a shelf life and can perpetuate dependencies if not gradually phased to more self-sustaining formats. We favour hand-ups and not hand-outs and as a result, our approach has to be predicated on investing in building our own capacity and resilience. This means developing

a greater understanding of the importance of alignment, co-ordination and leverage potential.

- 2.3 The Local Government Association (LGA) has conducted recent research (2014) into income generation activities with the sector. The evidence base shows that activity generally falls into three areas: through council assets; by trading services with other councils or winning new business to deliver to other parts of the public sector and through selling commodities, such as recyclables. Allied to our People Strategy, our Income Generation Strategy must contribute to creating the conditions for entrepreneurial leadership in the public space.
- 2.4 Looking to the raft of good practice that exists, in 2014/15 Eastleigh BC has invested more than £100m to create a long-term income stream through acquisition of the Ageas Bowl, at £40m includes the home of Hampshire County Cricket Club, as well as a golf course and hotel that are currently being built. This will return an annual net income of around £2m – and create 500 local jobs. In Basingstoke and Deane, 30% of the total income comes from grant and tax, and 70% from other sources – the reverse of the normal proportions. The LGA case study shows £15m comes from their commercial property portfolio, the fifth largest in the country and £3.5m from investment income. The Council has also purchased the freehold of the Festival Place mall which yields a 5-6% annual return, compared with 1-2% reserves earned in the bank. Commercially trading services is also another approach with Guildford BC's strategy predicated on growing trade waste provision. Other Councils are also reporting income from commodities such as recyclables – rather than paying for them to be taken away. In 2013, Harrow LBC became one of the first local authorities to sell recyclables to a waste management firm in an on-line auction – generating £900,000 in income.
- 2.5 Some of our work to date has yielded some fairly significant prospects and results:
- Service-led activity: Leisure: memberships, MonAcademy, special events and MonTraining. Grounds Maintenance: external contracts and trading. Property Services: internal trading and public-public contract provision. Estates: capital receipts, rental revenue generation and energy efficiency/ renewables. Highways maintenance: SWTRA. Environmental Health: food safety licensing and Primary Authority provision. Community Meals: private offer. Building Control: DC and BC collaboration for planning and design packages. Development Management and Outdoor Education: regional collaboration.
 - Product-led activity: Careline, Talent Lab, Major Events & software solutions...
 - Spin-out related activity: Y-Prentis

- Market-interventionist activity: match funding raised for the Rural Development Plan

2.6 The areas above reflect approaches that explicitly aim to identify opportunities to expand market share and attract new customers. Leisure as one example, has invested in applying professional sales and marketing techniques – something which through the Invest to Redesign process, has been prioritised for wider roll-out. The approach overall however is fragmented and therefore our approach must be more than about simply identifying areas for new income generation and aligning approaches more effectively. It must equally become about transferring knowledge and expertise and providing the skills, expertise and tools to help support income generation proposals across the piece.

3. Vision and strategic aims

3.1 *To harness and optimise income generation activity in ways which make meaningful and measurable contributions to our purpose ('sustainable and resilient communities').*

3.2 The overarching aim of the Income Generation Strategy is to encourage activities and approaches aimed at achieving increased revenue income, in real cash terms, to the Council by the end of the Medium Term Financial Plan. Realistic targets will be established as part of the work on the MTFP and reviewed annually. Currently the income generating ideas being considered to meet the 2016/17 budget gap total circa £340k, this is separate to considering any increases on current fees and charges. This will make a contribution to the bottom line in real terms, but also to the top line in terms of simultaneously contributing to the Council's four core priorities of excellent education, protecting the vulnerable, promoting enterprise and keeping local services going.

3.3 The activity will involve:

- Optimising ideas, specialist skills and developing 'Intellectual Property' (IP)
- Optimising income generation opportunities from physical assets, land, property, IT
- Developing trading services – within and across the public sector
- Identifying new areas for development/market entry
- Developing commercial spin-out models and public-private joint ventures
- Sale of commodities
- Re-setting fees and charges
- Income generation in schools

3.4 This will have the impact of:

- Aligning activity with competitive advantage
- Maximizing and maintaining existing income sources
- Reducing reliance of public funding for key discretionary services
- Minimizing service cuts and/or reductions
- Managing behaviour and demand for services through charging
- Financing provision of premium services
- Increased transparency and governance of income generation
- Charging aligned with Council priorities
- Identifying new income and trading opportunities
- Maximising recovery of expenditure

3.5 This strategy will need to be aligned with the MTFP and positioned alongside the People and Organisational Development Strategy. All the options to achieve the strategy will need to be assessed for their impact on performance – Improvement Plan and the impact upon the public and communities of Monmouthshire through Monmouthshire Engages process.

4. Essential Infrastructure

4.1 Linked to other core strategies and plans, such as the Medium-term Financial Plan, the Improvement Plan, People Strategy, Whole Place and Business Growth and Enterprise Strategies, there are principles which must be adhered to:

- **Selecting right products and services.** These need to be well-defined and fit for purpose with clear outcomes stated. The best way to define competitive advantage will be to conduct a competency-based audit of the organisation. What are we good at? What makes us unique? Are these things saleable and scaleable?
- **Promoting an enterprise mindset.** Our People Strategy aims to connect people to purpose to improve outcomes. Translating ideas and creativity into delivery and a business context is key. Aligning the learning and development offer will be critical to ensure we're developing the requisite skill-sets and that leadership development focuses on promotion of enterprising mindsets.
- **Strategic buy-in.** Strategic support from the whole organisation and not just the parts with an obvious commercial offer is essential. A commercial focus on this scale represents a strategic shift that means active support and engagement.
- **Investment and Resources.** Income generation and especially, generating profit from new activity is not a 'quick win' solution as it takes time to build market demand and share. Careful resource planning is needed to identify investment needs on an Invest to Generate basis.

- **Data and evidence.** Understand subsidy of services across the council – what are our ‘Top 10’ subsidised services and how do we justify the subsidy they receive and to what extent is this linked to and supported by policy objectives.
- **Business cases.** Good practice for commercial ventures requires robust business cases that set out products and services, evidence, investment requirements, financial plans and plans for marketing and business development. A compelling business case for generating any new source of income will enable objectives to be clearly established and measured and set out the rationale for new charges or trading income
- **Marketing, Sales and Advertising.** Building demand for services is a pre-requisite to supplying them. Marketing is probably the most fundamental activity needed to successfully launch or create visibility for a product or service. Marketing is key to create the short and long-term conditions for success.
- **Developing investor networks.** This sits alongside marketing and promotions. Building relationships with contacts and key stakeholders is critical in terms of achieving support, identifying the skills mix needed to support activity and creating brand appeal.
- **Rationale for charging** – charging should be used to increase efficiency in allocating scarce resources to sustainable services, whilst also promoting fairness and influencing behaviour. Charging is possible where:
 - 1. There is a legal power (or lack of legal barrier)
 - 2. A charging scheme is cost effective to operate
 - 3. It is feasible to exclude non payers from using services

(Guidance on the practical issues to consider when charging is available for managers)
- **Fairness and equity.** Monmouthshire is a rural county and access to service deprivation is a feature. We need to ensure that considering the impact of rural community delivery is reflected in costs and charging to ensure equity is factored into implementation.
- **Measuring value generation** – social and economic. Financial value will be straightforward to calculate albeit this will mean a stronger P&L focus. Social returns on investment will be critical to measure and gauge too, particularly in demonstrating value added and showing alignment with Council’s four priorities.
- **Income Management** – cost effective and efficient income collection channels need to be put in place, involving payment in advance or at point of sale, wherever possible using electronic methods such as direct debit (refer to guidance for managers on charging for services)

- **Evaluation.** Commercial endeavors and ventures need to be robustly evaluated. This is vital in terms of demonstrating ROI but also in informing iterations, improvements, refinements and redevelopments.

5. Activity Proposals

5.1 Building upon the infrastructure and some of the precursor requirements set out in the section above, our Income Generation Strategy will focus upon exploring activity and opportunity in the broad areas set out below. The aspirations and ambitions around this potential activity however, must be read in conjunction with the People and Organisational Strategy. Income generation and asset and ideas optimisation will not be achieved through programmes, projects and initiatives – they will be achieved through our people. There are no real barriers to income generation and legal authority exists to support Councils in this regard (unless strict prohibitions restrict charging) and LG Act 2000 provides general powers to provide services or develop activity to invest in wellbeing and LG Act 2003 the power to trade. The freedoms and flexibilities exist and we want to help our people be risk-aware and not risk-averse.

5.2 The activity set out in Appendix 1 is comprehensive – and yet it doesn't aim to prescribe a path or mean we have to try or do it all. It is simply about provoking thought and ensuring we have a robust and systematic approach to considering all options and opportunities open to us for income generation. Local government can be a space where business and social mission converge with success measured in terms of social impact. The activity outlined below is therefore not about prescribing everything we will try and have a go at. It is about a considered approach to options assessment that will help us understand what will best work to serve our purpose. In other words, the means by which we have to achieve additional income – has to be in keeping with the ends. Understanding context and demands trends will also be important in determining entry to new markets and access to new opportunities. Allied to this will be an appreciation of the mechanisms, models and incentives capable of optimising delivery.

- Optimising ideas, specialist skills and developing 'Intellectual Property' (IP) – this is about creating the conditions for income generation ideas and options to be identified and robustly considered
- Optimising income generation opportunities from physical assets, land, property, IT – this is about maximising the opportunities for making the most of what we have got
- Developing trading services within and across the public sector – consideration to be given to trading services we are good at to achieve a surplus
- Identifying new areas for development/market entry – assessing the return on investing in new areas to achieve a surplus

- Developing commercial spin-out models and public-private joint ventures – consideration of different models for trading to establish the most effective means for this activity
- Sale of commodities
- Re-setting fees and charges – consider the potential for increasing existing discretionary charges by more than the 2.5% assumed each year
- Income generation in schools – as for 2 above but specifically related to our school estate

The long list of potential ideas under these headings is contained in Appendix 1

6. Evaluating Impact

- 6.1 Much of the monitoring of impact will be undertaken through the Medium Term Financial Plan process and assessment tools and metrics for gauging effective budget delivery. This means a close ‘business partnership’ between Finance and service departments in order to share the responsibility and accountability for successful and sustainable income generation activity.
- 6.2 More than this, evaluation has to clearly focus upon how income generation activities impact customers and residents and impact analysis should identify how the level of service income improves service quality or activity, directly and indirectly. This is beyond simply measuring the additional income obtained, the increase or decrease in customer-base and monitoring a suitable measure of quality for the service or function.
- 6.3 Evaluation of our progress with income generation – the successes and failures – has to be a long-term endeavour in order to identify what’s proven; potential and possible. This means adopting a business-like discipline to becoming more adept at income generation and investing in the processes, skills and mindset needed to support and promote it. We have to invest in developing new ways of working, new mechanisms, incentives and potentially, rewards and this will require better structures, skills and methods. In addition it may mean faster learning – and that means paying greater attention to what’s proven; promising and possible.
- 6.4 For our Council to become more adept at income generating activity and new ways of working, we need to treat it with the same seriousness with which we deal with handling risk, financial controls and regulatory enforcement. This means better structures, skills, methods and incentives so that it becomes natural for us to grow our collective awareness of potential.

7. Risks and mitigation

- 7.1 The background to this strategy is that along with the wider UK public sector, we face acute pressures to adapt: from fiscal pressures to changing public expectations and challenges such as ageing, climate change and the need to

demonstrate 'continuous improvement'. Risk however is often seen as the reason why working differently, 'innovating' and generating income are so hard in the public sector. We know from our People Strategy work that people don't so much fear failure, but fear the reaction if things go wrong – being blamed and vilified. Experiments that don't work can be denounced as a waste of scarce public money. It's easy thus, to take the easier route and cut services and salami-slice them to nothing because even though it means services will likely be extinguished – it's safer than taking the risk of what the alternative might mean.

- 7.2 This approach cannot be supported by a Council with an ambition to promote an enterprise culture. A better approach is to see risk as something to be managed and this is why income generation and new revenue raising is better organised on a small-scale and fast, so that the costs of things going wrong can be managed and mitigated against ahead of full-scale implementation. Risk can then be adjusted according to various factors and where choice is involved it may be legitimate to take bigger chances. Establishing skills in developing clear and thorough business cases will go a long way to identify and mitigate risk and provide clear options for decision makers. Clearly with income generation, different approaches will need to be taken dependent on how serious the threats might be if something goes wrong and investment as well as potential income, is lost. There are many ways through which risk can be intelligently managed and mitigated. In areas where we are potentially entering new markets, it might be beneficial to establish joint ventures where parties collaborate and share the risks and rewards associated with the venture. Additionally, we also need to weigh up the risks of inaction. Where these are high we may need to be prepared to take greater risks.
- 7.3 In working through this process of managing risk as an inherent feature of any income generation work, the process of robust options appraisal, rapid iteration, business case development and piloting risk-reward sharing arrangements will all be crucial.

8. Future Generations and Equality Impact

- 8.1 Working towards building sustainable and resilient communities and in particular, maintaining locally accessible services, means ensuring equality of access to all, for all of our services. Buckinghamshire County Council is committed to ensuring equality of access to all, for all of our functions. Completion of an Equality Impact Assessment (EIA) should be completed for income generation opportunities so that the equality or diversity impacts are clearly understood before decisions are made. In addition as income generation proposals would form part of the agreed business process around the Medium Term Financial Plan, supplementary safeguards are built in around the 'mandate' procedure to ensure considered views and outcomes are arrived at.

- 8.2 The wider impact on potentially affected groups must also be considered to ensure other local service changes or national policy changes are considered alongside income generation proposals in order to mitigate 'double effects'.

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Appendix 1 – Potential income generation ideas to explore

1. Optimising ideas, specialist skills and developing ‘Intellectual Property’(IP)

- Training on IP creation and building knowledge on how IP generation can work in public space – is there a model we could introduce to incentivise?
- Developing and embedding an expert marketing and sales function that demonstrates measurable returns
- Delivering a ‘commercial skills’ package focused on developing ideas to action, rapid prototyping and iteration models, business case production, sales pitch techniques, testing delivery & measuring results
- Developing and ingraining an expert approach to identifying external and commercial potential and potential partnerships and collaborations
- Learning how to frame the challenge/ problem in ways that can be understood by community, in order that solutions and resource opportunities can be unlocked
- Implementing ‘Innovation Partnerships’ – new procurement legislation enables competitive dialogue so public bodies can work with potential providers to develop and secure ‘innovative solutions’
- Developing a process for knowledge transfer and sharing/ scaling good practice

2. Optimising and monetising buildings, assets and physical resources

- Undertaking a comprehensive audit of assets to understand potential for advertising and sponsorship income in a methodical way
- Carrying out a comprehensive assessment of all buildings and assets for application of renewable energy features, new energy saving measures (i.e. sustainable water solutions) and income generation opportunities through fixed tariffs, paybacks and other energy-related revenue generation incentives
- Acquiring a high yield commercial property portfolio in and outside the county – identifying assets and buildings in potential high-growth, high-value areas. Options to include: office accommodation, hotel and visitor accommodation, residential development sites, leisure and recreation opportunities and other defined opportunities
- Undertaking commercial property development. Retaining disposal sites and investing to provide serviced plots for sale; barn conversions and/ or development of niche market products for which there is high demand i.e. holiday accommodation
- Hosting and enabling special and major events: using our own resources and assets to create destination attractions for Council-led

and facilitated events such as concerts, festivals, special events and occasions

- Diversifying use of assets for revenue generation – community, solar farms
- Promoting economic development through equity share schemes and risk-reward partnerships
- Exploring equity release on capital assets
- Facilitating community ownership through strategic deployment of Community Infrastructure Levy

3. Trading-out services

- Assessing potential to charge for differentiated or premium services – conservation, specialist planning advice, business support/ inward investment, expert biodiversity and ecology assistance and so on
- Promoting a business to business trading or a 'barter and exchange' system to share knowledge and resources in exchange for something we need from a partner
- Developing a consultancy offer in areas of specialism and market legitimacy –training/ Talent Lab, agile working, programme management, public protection
- Marketing specialist knowledge offer overseas – through diaspora and commonwealth networks which place a high value on specialist knowledge and experience
- Offering unique environments and spaces up to LAs across the UK for respite care
- Developing a trading policy to ensure we codify our approach and promote a shared 'house style'
- Exploring the advantages of 'trading in' – i.e. an in-house internal consultancy approach

4. New areas for development/ market entry:

- Understanding opportunity to design into demand – tourism accommodation/ optimising cultural and recreation assets
- Exploring new and novel opportunities the market has not yet responded to in the county: professional photography service, air-drones, hydrotherapy, cemetery provision, alpine rollercoasters, spa and solarium provision
- Understanding future 'brokerage' role of SRS in supplying cloud services
- Exploring energy services provision
- Using our expertise in different contexts – e.g. bidding for commercial contracts
- Investigating social impact bonds and payments by results

- In-sourcing provision of vending and coffee machines in public buildings – Council HQs, TICs, Hubs and leisure and recreation centres
- Investigating potential for growth and development on Usk site – horticultural nursery, aquaponics and childcare provision
- Developing a commercial offer around outdoor pursuits, supported cycling tours, walking festivals, food trails and expert commentary tours

5. Developing commercial spin-out models and public-private joint ventures

- Understanding the potential to scale the 'Special Purpose Vehicle' approach in manner of Y-Prentis
- Exploring potential to spin-out commercial and trading enterprises
- Investigating opportunities around Public-Private Partnerships and Joint Ventures for development, asset optimisation and risk-reward sharing
- Testing the feasibility of Local Asset Backed Vehicles to optimise output of energy, housing and regeneration projects
- Localising services through trust models and consideration of arms-length management organisations
- Understanding potential for time-limited ventures through Limited Liability Partnerships

6. Sale of commodities and derivatives

- Exploring and exploiting the innate gifts and offer the county has to make in relation to potential around:
 - a. Water and rivers – sport, recreation, tourism and health/wellbeing
 - b. Natural gas extraction
 - c. National park development on par with North American model
 - d. Sale of recyclates, recyclables and energy for waste
 - e. National burial sites
 - f. Monmouthshire seeds/ Monmouthshire honey
 - g. Algae
 - h. Cultural artefacts
 - i. Wind
 - j. Dairy

7. Re-setting fees and charges

- Assess current fees and charges and the opportunities to increase discretionary charges by more than 2.5% assumed each year
- Discretionary charges are currently circa £8 million, so for illustration a 10% increase in charges could generate circa £600k additional income

to meet the MTFP gap assuming the increase would not result in a reduction in users/customers.

8. Income generation in schools

- Understanding potential for 'business manager' roles
- Assisting development of schools' lottery schemes
- Exploring gift aid and sponsorship
- Maximising energy efficiency
- Optimising use of assets, spare classroom capacity, sports facilities etc.
- Building staff enterprise skills and community relations
- Trading out specific areas of expertise – digital enterprise
- Exploring non term-time use and rentals
- Providing flexible space for professional development
- Up-skilling to staff to deliver other work that may otherwise be bought in
- Renting car park space
- Seeking sponsorship of watercoolers
- Providing and delivering community meals
- Buying in bulk selling at a profit