

Joint Scrutiny Committee Review

Income Generation Task Group

September 2016

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1. Recommendations

The Task Group asks the Corporate Services Scrutiny Committee and Cabinet to endorse and action the recommendations below and to receive a progress update in 6 months' time.

Recommendation	How?
1 The Council should investigate, identify and take forward new and innovative opportunities for income generation.	a) Through the development of a Council wide framework for identifying, prioritising and pursuing viable income generation opportunities, focusing on developing specialist services and exploiting marginal capacity.
	b) By taking up the free initial advice available from the Local Government Association to support the development of the Council's income generation work.
	c) Through the promotion and development of a commercial culture amongst staff, encouraging staff to identify and put forward ideas for income generation activity in their service areas.
	d) By monitoring the progress and success of local authority controlled companies (such as that being taken forward by South Hams and West Devon Councils) and taking learning from this.
	e) By exploring opportunities for selling advertising space and attracting sponsorship through the County Council website, on roadsides and other land.
	f) Through investing capital receipts generated through asset disposal in income generation projects as part of the Council's transformation agenda.
	g) By urgently investigating opportunities to re-charge schools for the costs involved in transferring to academy status, and any potential for further income generation associated with this.
	h) By reporting progress and new opportunities for income generation to Corporate Services Scrutiny on an annual basis.
2 The Council should maximise the potential for capital receipts or income generation from assets identified for disposal or development, as soon as possible.	a) By progressing the 9 farm buildings already identified as being viable for permitted development to a point of planning and then to sale, as quickly as possible.
	b) By progressing the Council's current asset review to identify those assets which can be disposed of, and once identified, for assets to be disposed of as quickly as possible, taking into account market conditions to achieve best value..
	c) By ensuring a commercial approach is taken towards preparing assets for sale, to ensure that the maximum value for each asset is realised, and to consider, where applicable, a business case to fund this through borrowing.
3 The Council should maximise the potential of the council's corporate assets into the medium and long term future.	a) Through developing a future Estates Strategy which focuses on optimising the income potential of the Council's remaining assets, reviewing the use of all Council buildings to realise this.
	b) By actively seeking grant funding opportunities which will enable the Council's strategic centres to be retrofitted to improve energy efficiency, and to produce its own energy through solar PV.

	c) By ensuring that an up to date asset list by division is publicly available for County Councillors and community use, enabling Members to influence the future use of their local buildings.
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2. Background

2.1 Local Government has seen a 40% reduction in central government funding since 2010¹, forcing Councils to make severe budget cuts, review how services are provided, and reduce or cease delivering some services completely.

2.2 Members of the Council's Scrutiny Committees have seen the impact of these cuts on the services that are delivered to the people of Devon. At the January meeting of the Corporate Services Scrutiny Committee Members established a Task Group, to include Members from the People's, Place and Health & Wellbeing Scrutiny Committees, to investigate how the County Council can generate income, in order to safeguard council services.

3. Findings

How does the Council currently generate income?

3.1 The County Council generates income in a number of different ways. Local authorities have traditionally taken advantage of their ability to charge for non-statutory services and Devon County Council is no exception, expecting income from fees and charging to account for 7.1% of its total gross expenditure in 2016/17.

3.2 The Council is also utilising other approaches, including joint venture contracts with Virgin Care, Babcock Devon Norse and NPS SW Ltd to deliver Integrated Children's Services, Education Support and Facilities Management and Property Services respectively, providing the Council with both an income and security in service delivery.

3.3 The Council has also been successful in developing attractive in-house services, such as ICT and internal audit, trading with schools and other local authorities, which has brought the Council considerable savings., The Council's in-house IT provider ScoMIS is now self-funded in respect of its work with schools.

3.4 Considerable capital income is also being generated as a result of the Council's Estates Strategy and the sale of assets, and there are a number of other service areas across the Council which have reviewed their charging schemes and identified ways of generating capital and revenue income.

3.5 The Task Group examined in detail three Council services which were currently generating income, to determine the reasons for their success and whether this success could be built on, either within that service or across other areas of the Council. Members also interviewed officers from the Council's Waste & Recycling Service, but concluded that

¹ <https://www.theguardian.com/society/2015/sep/01/local-government-association-cannot-cope-further-cuts>

due to the current financial climate and the low value of recyclable materials, the potential for further income generation in the near future was very limited in this area.

3.6 ScoMIS ICT Services

ScoMIS has been a traded service since it was first established 30 years ago to deliver ICT services to schools. With the introduction of academies around six years ago, the Council took the opportunity to revitalise the service, consulting with their current clients, to make the service more attractive to non DCC schools and develop their own brand and identity. Today they support over 700 schools across 19 local authority areas (reaching as far as the south east), and in 2014/15 generated £3,512,000 of income. Over the last 18 months they have also expanded to deliver the DCC corporate ICT service and management of the DCC Customer Service Centre. ScoMIS have recently been recognised at a national level, beating private sector ICT providers to win an award for ICT provision to schools.

3.7 The Council is keen to build on the success of ScoMIS and draw further on the schools and college market nationally, and is exploring ways of working in partnership with small private sector providers, who could act as brokers, to achieve this. There may also be opportunities in the future for ScoMIS to sell their services to the private sector, however this market is currently very competitive. Trading with the private sector in this way would also require ScoMIS to become a local authority owned company.

3.8 Trading Standards

Devon & Somerset Trading Standards is one of the largest trading standards services in the country and currently income generation activity makes up around 10% of their overall budget. As well as selling services such as weights & measures and financial investigation to other trading standards service, the nature of their business also allows them to charge businesses for weights & measures service and advice.

3.9 The service also runs an Approved Trader Scheme, which has considerable scope for expansion, and is already being provided to local authorities nationally. A business case was produced in the past for a potential commercial partnership, but was not taken forward. Consulting with a business or marketing analyst could help the service explore this further. The scope for expansion may be more limited in other areas of the service, such as business advice and financial investigation, as the demand for these services from businesses and other local authorities is limited.

3.10 Asset Management

The Council's Estates Strategy for 2012-2017 aims to rationalise the Council's estate, recognising the need to reduce the number of properties from which the County Council operates and to maximise the use and flexibility of buildings. Since its inception around £15,000,000 has been raised in capital receipts, with a further £10,000,000 having been generated since 2009/10.

3.11 There are currently 79 County Council properties which have been identified for review, the outcome of which will be either disposal, or retention with efficiency savings. When preparing a property for sale, the Council's Estates Team will endeavour to maximise sale returns through planning permission applications or renovation, however budgetary constraints and the Council's current Treasury Management Strategy (which does not allow for new borrowing in the context of the Council's current debt of c£500 million), could limit the potential investment in preparing assets for sale.

3.12 Capital receipts from the sale of assets are used to fund the Capital programme, and there is potential for capital receipts to be used to fund the Council's transformation programme and reduce revenue budget pressures.

3.13 The location, configuration and condition of Council offices and other buildings means that on the whole they are not desirable to businesses looking for office space and therefore, as well as being contradictory to the current Estates Strategy, retaining these buildings to yield a rental income is not financially viable. Similarly, to finance investment in more viable rental property would carry an inherent risk, particularly in the South West where commercial property values are not as stable as in other parts of the country.

3.14 However, while the current Estates Strategy focuses on asset disposal, the strategy post 2017 is likely to focus predominantly on reducing the costs of the Council's retained assets.

Other local authorities

3.15 A review of income generation activity by local authorities nationally reveals some quite innovative and radical approaches, some of which appear to have only tenuous connections to traditional local authority business. The Local Government Association has published a number of case studies which show a wide variety of income generation ventures², ranging from investment in property to the sale and distribution of energy. A study of local authorities in the South West also demonstrates a variety of income generation activity, with some interesting examples of wholly owned local authority companies being established, and other forms of trading.

3.16 Some of the most noteworthy examples of income generation activity considered by the Task Group, both in the South West and further afield are summarised in the Appendix.

Other options for Income Generation considered

3.17 Solar energy production

A number of local authorities, particularly those in the South West have taken advantage of government incentives to produce renewable energy, however more recently these incentives have been dramatically decreased making payback periods much longer. Devon County Council was able to install solar PV at Great Moor House and Exeter Library just before the incentives were cut, and is continuing to explore options for further installations at other sites, which do not require energy transfer via the National Grid.

3.18 Other than the price of solar PV, there are two issues with the grid which are currently restricting medium to large scale installations. Firstly, the grid from Bristol to Lands End is at capacity due to the substantial increase in distributed energy (i.e. renewables) and reservation for Hinkley Point C nuclear power station. Secondly, there are some very local constraints to distributed energy installations due to the need for expensive upgrades to cables/sub stations.

² http://www.local.gov.uk/web/guest/productivity/-/journal_content/56/10180/5785720/ARTICLE

3.19 The Council is however currently putting in the ground work to prepare medium-large scale installation sites which need to use the grid (including at landfill sites) so that it is ready to move forward when the market develops or when government offers a favourable price for solar PV. The Council is also working with Western Power & Distribution and others to try and develop solutions to grid capacity. In the short term however, the Council's potential to generate income from solar PV is very limited.

3.20 Residential Development on County Farms

The Council currently owns and lets 72 farm holdings, around 10,000 acres in total, which provide opportunities to farm to those starting out in agriculture. The County Farms Estate also has the potential for high value residential development which would not significantly impact on the current operational estate but enable land to be disposed of in alignment with the current Farms Estate Strategy. The Council is currently working with NPS to assess this potential and identify short, medium and long term opportunities linked to current and future development potential.

3.21 Through the planning process there is also the potential for Permitted Development, which could achieve residential conversion of redundant farm buildings. The guidance around permitted development is specific and requires buildings to have been used for agricultural purposes. These opportunities are being explored and to date nine sites have been identified as having the potential for permitted development, which if realised could provide the Council with an indicative receipt of around £1 million. Further work to produce feasibility studies and cost work is currently being undertaken, following which a business case for funding will be developed. This work is expected to be concluded by the end of the calendar year.

3.22 Charging to convert to academy status

When a local authority school converts to an academy there is a large cost to the Council (legal costs, TUPE etc.). During the review Members of the Task Group observed that some local authorities, including Staffordshire Country Council³ had begun to recover some of these costs from the school directly. The cost of a school converting to an academy is on average around £16,000. As of June 2016, there were 262 schools under local authority control in Devon which could convert to academy status in near future. Given the clear intent for schools to convert to academy status (whether compulsory or not) expressed in the Government's recent White Paper Education Excellence Everywhere⁴, if it moves quickly, the Council has the potential to claw back over £4 million in charges.

Challenges

3.23 When looking at potential income generation opportunities one of the first questions the Council has to ask itself is 'is it legal'? A whole ream of Acts of Parliament, going back to the early 70s instruct local government as to what it can and can not do in terms of fees, charging and making and investing income. The Localism Act 2011 lifted some restrictions and gave local authorities more freedom in this area. However, identifying the best mechanism for generating income inline with the legislation can still be a challenging task, and legal or QC advice may need to be sought.

³ <http://schoolsweek.co.uk/authorities-charge-for-academy-conversion/>

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508550/Educational_excellence_everywhere_print_ready_.pdf

3.24 Devon's geographical location on the South West peninsula also means that there is often a reduced market to sell services to other local authorities. Although, as illustrated by ScoMIS, it is possible to overcome this challenge and trade with more distant local authorities in services such as ICT, the Council will undoubtedly find this more difficult than councils located in large metropolitan or more central areas. The challenge is perhaps even greater for services such as social care, which would require a number of personnel to be physically present in each location.

3.25 Another consideration for the Council when exploring new income generation opportunities is the viability of current and future markets. Extensive market research is needed to ensure that there is a profitable market for the product. As more local authorities become more switched on to the idea of income generation, it is also possible that we could see a saturation of some markets. Equally, when selling assets such as property or recyclates, the Council is very much reliant on the market value of these assets.

Pitfalls, Risk and Core Business

3.26 Not all local authority income generation ventures have been successful. There are examples quite locally of joint venture partnerships which have very publically and expensively failed. The reasons for failed ventures are complex and multi-faceted, but 'cultural misalignment' between private and public sector partners is often cited as being a factor.

3.27 Devon County Council has too, learnt from its mistakes. One example is HR One, which set out to sell the Council's marginal capacity in HR and support services to other local authorities. However, further resourcing was required to deliver the service externally, and despite the service at first appearing to be in a good financial position, full forensic financial analysis revealed that the fees charged were not recovering the full costs, and therefore the service was operating at a loss. This example illustrates the need for a robust business case before taking an income generation venture forward.

3.28 Local authorities have traditionally taken a risk adverse approach to service delivery. Continuing reductions in government funding means that the Council has to see generating its own income as a priority, and it clear that any new venture the Council undertakes will contain some element of risk. However, the Council must also guard against ignoring its core business. Risks that are taken must be proportionate, and new ventures should not adversely affect the Council's core business of delivering services to the people of Devon. One could argue a moral misalignment if Devon was to become landlord to a local franchise of a national chain of pubs renowned for selling cheap alcohol. This could be seen to be contrary to the Council's public health responsibilities and role in supporting local businesses.

4. Conclusion

4.1 It is clear that there is a wide range of income generation activity being conducted by local authorities across the country and in the South West, and the Task Group has identified some good examples of innovative income generation in different service areas across the Council. In particular the Task Group commends the commercially conscious

approach taken by the ScoMIS Team, and acknowledges the work of the Corporate Estates Team in proactively pursuing a number of options to generate capital receipts. The Task Group would like to offer their thanks to the officers involved for their efforts in both these service areas.

4.2 However, the Task Group has also identified that the Council does not currently have an overall strategic approach to income generation, and consequently could be missing out on a number of opportunities.

4.3 With government funding reductions set to continue, the next few years will be challenging times for Devon County Council, but there will also be opportunities for innovation and the development of commercial activity. The Council has already proved its ability to develop, market and successfully trade in a specialist service through its achievements with ScoMIS, and now needs to build on this success in other areas.

4.4 The Council needs to develop a strategic approach to income generation, taking measured risks, maximising capital receipts and in the long term, fully realising the potential of its assets, while remaining conscious of and staying true to its core business and purpose.

4.5 It is not within the remit of this Task Group to conduct a full review of all potential opportunities for income generation across the County Council, however, the Members of this Task Group consider that the recommendations set out at the beginning of this report will set the Council on the right track towards generating the income it needs to safeguard future services and remain resilient in the face of continuing government funding cuts.

5. Membership

Councillor Rufus Gilbert (Chairman), Councillor Caroline Chugg, Councillor Polly Colthorpe, Councillor Brian Greenslade, Councillor Richard Hosking and Councillor Robin Julian.

6. Sources of Evidence

The task group heard testimony from a number of witnesses and would like to express sincere thanks to the following people for their contribution and information shared.

Chris Phillips	Deputy County Treasurer
Roland Pyle	Strategy, Policy & Organisational Change
Andrew Yendole	Assistant County Solicitor
Carl Hedger	Senior Solicitor
Debbie Foweraker	ScoMIS
Nicky England	ScoMIS
Paul Thomas	Head of Devon & Somerset Trading Standards
Councillor John Clatworthy	Cabinet Member for Resources & Asset Management
Matthew Jones	Strategic Property Manager
Phil Norrey	Chief Executive

Rob Parkhouse	Head of Business Strategy & Support
Wendy Barratt	County Waste Manager
Melanie Sealey	Senior Economic Development Officer

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Torbay Council
<http://www.torbay.gov.uk/index/yourbusiness/servicestoschools.htm>

<http://www.torbay.gov.uk/index/websiteinformation/advertising.htm>

7. Contact

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