Income Generation
A horizon-scan of trends and innovation in local government

CIPFA SE Thames Valley Hub
04 November 2019
Questions to frame our discussion

1) What problem(s) are you trying to solve by becoming more commercial to generate additional income?

2) Whether starting fresh or revising a current approach, are there new ideas on income generation for you to consider?

3) Given your unique context, what is the best you can do to mitigate risk, minimise cost and optimise benefits?
Facing a tipping point

Financial foresight
Current insights on local government financial sustainability

At risk authorities by type in next 5 Years (2019/20-2023/24)

- Baseline - revised applying 2018/19 MHCLG revenue outturn (RO)
- Additional funding for 2020/21 from the latest Spending Review – £1bn Adult Social Care, £700m Special Education Needs, £54m homelessness, £241m Towns Fund
- Scenario 1 - Spending Review one off single year funding
- Scenario 2 - Spending Review funding carried forward year on year
- “At Risk” - defined as reserve levels ≤ 5% of total expenditure
Rethinking remedies for financial sustainability

• Framing the approach to income generation within financial foresight to achieve resilience (targeted recovery, good growth model, traced service line trajectories, reshaped transformation plans)

• Identifying the most advantageous new income opportunities based on strategic fit and reward, compared to ease of implementation and risk. Focus on six ‘big ticket’ areas other than grant, to secure full cost recovery and/or profit:

| i) Fees and charges | ii) Tax | iii) Asset management |
| iv) Treasury investments | v) Trading commercially | vi) Contract assurance to protect income |

• Factoring in cost of governance and specialist skills required to comply with new finance rules to act prudently whilst delivering commercialisation, along with reputational risk from intense scrutiny

• Aligning to a desire to pursue a more socially responsible form of development which shares wealth locally and shapes place
Maturation of income generation as core activity?

Understanding the problem: foresight on gap between income and reserve with demand and expenditure (£/pa)

Identifying the solution: quantum of net saving potential of untapped 'big ticket' income opportunities (£m contributions to MTFS)

High

Reward/Strategic fit

Risk/ease of implementation

Low

- Treasury £1.15m
- Fees £1.76m
- Tax £1.80m
- Trading £0.74m
- Contract £0.40m
## Case studies

<table>
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<tr>
<th>Assets</th>
<th>Fees</th>
<th>Contract assurance</th>
<th>Treasury</th>
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<td>Counties and districts</td>
<td>London borough</td>
<td>The Council selected major contracts for review in Waste Management &amp; Recycling, ICT, and Building Maintenance of 20,000 properties, with annual spend of £40m. The review captured opportunities with potential in-year value of £2m plus £1.2m of future-year savings.</td>
<td>Developing policy criteria for a new Property Portfolio Fund. It included an opportunities and risk analysis of a £1m revolving scheme to invest in assets which would pay back via business rates, council tax, sale and rent. The criteria included ‘local first’ and climate emergency considerations.</td>
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<td>Leveraging a £1m MHCLG grant to invest in a joint venture of county and district neighbours. To build 43,000 homes aligned to ‘garden community’ sustainability principles (affordable, local jobs, energy positive). Modelling, funding and structural advice identified revenue for reinvestment from land value capture.</td>
<td>Review of income strategy from fees and charges resulted in key lines of enquiry to develop business cases for new revenue. With additional income worth up to £6.8m. This included hypothecated levies on a Visitor Donation Scheme, and a Car Park Workplace Levy on Employers.</td>
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New challenges and new opportunities

- PWLB borrowing rate hike after perceived ‘maxing out on government credit card’
  - Ongoing NNDR % retention uncertainty
  - Inflation risk from a potential economic slowdown

- Greater scrutiny (NAO Inquiry/ CIPFA Prudential Code, MHCLG MRP Guide)

- Offering diversity (eg inter-authority loan, Muni Bonds Agency, impact investing, income strip* overage gainshare)

- Resurgence of debt-free solutions (eg land value capture, hypothecated levy**)

(* development funded by institutional UK Fund whereby council enters into an operational lease with the fund for the completed assets, which is indexed linked, and has option to purchase revisionary property interested for £1 sum at end of lease

(**a levy where revenue raised is earmarked for an approved purpose)
### Example - evolving use of a hypothecated levy

<table>
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<tr>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
<th>2020s?</th>
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</table>
| ● Section 106 developer contribution | ● Congestion, carbon, and air quality  
● Garden green waste recycling | ● Tourism  
● Council tax precept for adult social care  
● Business rate supplement for rail  
● Workplace car parking on employers | ● E-commerce  
● Biodiversity offset  
● Vacant land/houses  
● Disposable plastics  
● Junk food eateries |

<table>
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<tr>
<th>Pros?</th>
<th>Cons?</th>
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| Debt-free  
Ongoing revenue stream  
Simple digital administration  
Restorative (social, climate) | Power to act (mandated, voluntary)  
No general use (approved purpose)  
Public consultation (additionality, price)  
Destination of choice for investors |
## Whole life path to success – kickstart or reboot

<table>
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<tr>
<th>Engage</th>
<th>Insight</th>
<th>Diagnosis</th>
<th>Implement</th>
<th>Report</th>
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<td>Bringing stakeholders along on a journey of change. Based on unique requirements for income (vision, culture, capacity, risk appetite, powers)</td>
<td>Use of digital platforms to baseline, benchmark, forecast performance, shape place; and transfer learning of sector best practice</td>
<td>Identification of prioritised 'big ticket' options to generate income (fees, tax, assets, treasury, trading, contract); in consultation with stakeholders</td>
<td>Requisite skills to develop and deliver business cases (modelling, structuring procurement, fundraising, project management)</td>
<td>Monitor impact to enhance scrutiny, improve performance, accelerate transformation; and retain stakeholder buy-in</td>
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About us

Grant Thornton has a well-established market in the public sector, and has been working with local authorities for over 30 years.

We are the largest employer of CIPFA members and students in the UK and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

By unlocking the potential for growth in our people, clients and our communities we believe we can help shape a vibrant economy where no-one gets left behind.
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