

Committee(s):	Date(s):
Efficiency and Performance sub-Committee	18 May 2012
Subject: Income Generation Initiatives	Public
Report of: The Chamberlain	For Information

## **Summary**

The City of London Corporation is facing significant funding constraints as a result of the Government austerity measures and the overall reductions in funding of public sector bodies. With pressure on current resources to deliver existing services, measures are required to seek additional alternative sources of funding.

In the financial year 2010/11 City departments generated £264 million income from fees and charges over a wide range of services; this is indicative of current good practices in terms of collecting income, but the potential still exists for increasing charges and widening the charging base.

At the Efficiency Board meeting on 12<sup>th</sup> January 2012 a view emerged that whilst the City is operating within current regulations, and that fee levels were regularly reviewed and revised, adopting a more commercial approach to income generation at a departmental level should be encouraged. Opportunities for not only increasing charges but also using fees and charges to manage demand, and exploring new income streams should be considered.

This report provides you with information concerning the recent work undertaken by the Internal Audit Section which examined the level of income being collected from fees and charges and the action being taken by departments to consider new income streams and review charges in an effort to maximise income. A guidance note has been developed to support Departments in adopting a more corporate and commercial approach to income generation.

## **Recommendations**

### **It is recommended that Members note that:**

- A Corporate Project is to be initiated to work with Chief Officers to identify new income streams and identify priority areas to increase the level and scope of charges made for existing services; and
- Within this, consideration will be given to identifying services which, in accordance with the Local Government Act 2003, might require the establishment of trading accounts in order to exploit income generation opportunities.

## **Main Report**

### **Background**

1. Following a report to the Estimates Working Party in February 2011 the Chamberlain commissioned an income generation review to be undertaken by the Internal Audit Section during the financial year 2011/12.
2. The key findings of the review are that the City of London's departments are proactive in generating income and identifying new income streams. It has been established that departments are collecting income for services in accordance with legislation. Furthermore 90% of all charges levied are discretionary in nature which means that the City of London Corporation can recover the full cost of the activity covered by the charges. The calculation of charges is complicated by the need to achieve overall income targets.
3. Where statutory services are provided at a charge that does not cover costs of provision, charges for discretionary charges are relied on to ensure that the departments budgeted net expenditure target is achieved. The City is performing well against budgeted income targets and collected additional fees and charges income of £11.3 million for the year ending 31<sup>st</sup> March 2011 (£265 million compared to a total corporate budget of £254 million – including investment property income).

### **Current Position**

4. Benchmarking against London boroughs has revealed that the City is levying charges in common with similar local authorities. It is, however, difficult to make direct comparisons because not all services are identical due to resources available, strategic and political decisions. In addition, there are some areas where the City subsidises the provision of services, which results in lower charges than made by similar organisations which rely solely on income to fund the actual cost of service delivery.
5. Whilst marketing is undertaken by individual departments to increase the uptake of current service, no corporate approach is being followed. Good practice exists within departments and there are some current initiatives for collaboration so that marketing skills and ideas can be shared and services better promoted. Good examples of this include the Barbican Centre working with the Guildhall School and Remembrancer's Department, and Tower Bridge Exhibition sharing marketing staff with the Cemetery and Crematorium. Information on services is available to the public via departmental websites; however these might be difficult to locate for those unfamiliar with the organisation of the City's services.

6. A Forum was held in November 2011 at which departmental representatives were invited to consider the results of the income generation review and discuss opportunities to generate new income streams, as well as improve collaboration on income matters. A number of issues and ideas emerged resulting in the following actions being planned for the first half of the financial year 2012/13;
  - a. Chief Officers consulted on the best way to create new income streams and foster greater corporate collaboration (completed April 2012).
  - b. A working party will be created which will explore at least the following areas:
    - application of trading opportunities available from the 2003 Local Government Act and the 2011 Localism Act;
    - the feasibility and means of re-organising services into distinct business units; and the possibility of accounting for all fees and charges income as a corporate rather than a local risk resource.
  - c. Ideas discussed at the Forum to research and develop included:
    - Advertising services on a corporate basis, for example, the Guildhall Art Gallery and Barbican Centre jointly promoting exhibitions;
    - The use of assets such as the Guildhall Yard for trading; and
    - Provision of catering to the public when the Guildhall Club is in recess.

It was recognised that not all the ideas would find support from Chief Officers or Members.

## **The Way Forward**

7. The Local Government Act 2003 includes provision for local authorities to trade in competition with other service providers and generate a surplus. This freedom has been reinforced by the Localism Act 2011, giving local authorities the ability to act in a manner “similar to any other UK citizen”. As an example, the City Solicitor’s department could provide legal advice to other public sector bodies or the third sector and calculate fees to make a profit. The 2003 Act does require that this type of trading is kept separate from the authority’s usual activities and trading companies might need to be created.
8. This is an area of income generation that has not been explored by the City. If it were to be considered as a serious option there would be considerable work involved in creating the appropriate accounting

structure, considering the business case and appropriate governance structures. More detailed research is required before any decision on this matter can be considered.

9. Given the general agreement that a more commercial approach is required, a guidance note has been prepared to assist Departments in taking a more strategic approach to the review and assessment of income generation activities. This guidance sets out the strategic options that departments need to consider and their implications in terms of risk and income levels. Account has been taken of the Efficiency Board's view that a more commercial approach should be taken with regard to identifying income streams and setting fees and charges. It includes details of the aspects that departments need to consider when reviewing the prices charged for existing services and potential new income streams from existing activities. It also includes instructions for the calculation of charges so that a corporate approach can be introduced. The guidance also considers the importance of marketing, competition analysis and demand management, and provides a checklist for all the elements of a departmental income generation review. Following Chief Officer Group consideration of this income generation initiative at their meeting on the 25<sup>th</sup> April 2012, this guidance will be circulated to Service Managers for comments before being finalised.
10. The recent income generation review identified that there is no central information concerning the income generating services, whether these are statutory or discretionary in nature, and how fees and charges are calculated. The guidance notes reflect this and it is envisaged that departments will provide this information so that a central database can be established which will be invaluable when making decisions on income generation strategies at both Corporate and Department levels.

## **Conclusions**

11. The City's departments have a strong income generation base and can demonstrate that the potential for increasing fees and identifying new income streams is being considered in most areas. There is a need for a more commercial approach to income generation for which a guidance note has been prepared for this purpose. There is scope for the City to embrace the provisions of the Local Government Act 2003, reinforced by the Localism Act 2011. This could result in the creation of trading accounts or even separate trading companies for the purpose of selling professional services to other organisations. Such a venture, would require the re-engineering of current accounting practices so that discrete business units operating outside of routine departmental activities can be created. This will cause additional work and the cost of that would need to be

factored into the cost of the services. A corporate project is to be established to progress these income generation initiatives.

**Contact:**

*Suzanne Jones, Business Support Director*

*e-mail: [suzanne.jones@cityoflondon.gov.uk](mailto:suzanne.jones@cityoflondon.gov.uk) telephone: 020 7332 1280*