
To: Finance and Corporate Services Scrutiny Board 1

Date: 12th December 2018

Subject: Income Generation

1 Purpose of the Note

- 1.1 It has become widely recognised within the local government sector that income generation has become an increasingly important part of the financial make-up of councils. Some relaxation of what councils are allowed to do over the past 15 years has provided greater opportunity in this area and the reducing level of Government funding more recently has provided an imperative for such activity.

The Council has been keen to support its own financial position through greater commercial approaches and members have affirmed this approach through the Medium Term Financial Strategy. In 2018/19 it has budgeted to receive £84m through fees, charges, fines, sales, rents, interest and dividends. Although much of this is the result of broadly historic income sources, an increasing amount of income is resulting from relatively new activities. The note provides members information on existing income budgets and commentary on some of the areas of development in relation to income and commercial activity.

2 Recommendations

Scrutiny Board 1 is recommended to:

- 1) Consider the content of the note and identify any specific information requests or recommendations arising for the consideration of the Cabinet Member for Strategic Finance and Resources and the Director of Finance and Corporate Services.

3 Information/Background

- 3.1 Scrutiny Board 1 has included income generation on its work programme for 2018/19. This has become an area of increasing interest for members and there has been strong direction for officers to find ways of increasing the level of income generated and identify new opportunities to undertake more commercial activity across Council services. At the same time there has been significant commentary and discussion across the sector about the extent of commercial activity and where the boundaries of acceptable risk lie.
- 3.2 The table in Appendix 1 shows the current 2018/19 income budgeted for by the Council broken down into broad areas of activity. The rest of the note provides an introduction to some of the key areas of growth or development of the Council's activity driven by the intention to generate income or act in a more commercial manner to improve the Council's financial position

4 Current 2018/19 Income

- 4.1 The income analysis in Appendix 1 includes a wide range of sources including:
- Property rents derived from the Council's Commercial Property portfolio

- Dividends from the Council's shareholdings (principally those in the Coventry and Warwickshire Waste Disposal Company and Birmingham International Airport)
- Fees and charges for Council services including those provided to public sector bodies including schools, private businesses and individuals
- Fines and regulatory fees

4.2 The figures quoted are the total (gross) level of income. Virtually all of the income sources will involve the incurring of expenditure such that the net level of income (surplus) will be significantly lower than the figures quoted. Many of these income sources will have been a feature of the Council's activity for many years. The next section describes some of the newer areas of activity that the Council has undertaken or where the level of activity has increased recently.

5 Current and Recent Income Generation Developments

The following section details a range of areas that have witnessed an increase in income earning potential across the Council.

5.1 Income Earning Property Assets

The Council has maintained a commercial property portfolio that provides a rental income stream for many years. This income stream is currently around £14m which, after costs, helps to support the Council's overall revenue budget. The Council has sought to ensure that this commercial property portfolio is fit for purpose – disposing of assets that provide a lower return and acquiring assets that come on to the market and provide some combination of greater diversification of the portfolio and a positive net return on investment. Additional income targets have been incorporated into the Council's overall budget in recent years and new proposals amounting to £0.8m have been included in the 2019/20 Pre-Budget Report driven by the identification of new income earning assets and reviewing existing ground leases. Although the Council can choose to borrow to make such investments, CIPFA and the Government have issued several new codes in 2017 and 2018 which seek to govern (and potentially restrict) local government's flexibility in this area of activity. The Council is continuing to explore opportunities to invest in the portfolio but will in future need to balance this as a use for the Council's capital receipts against other policy priorities such as investing in the local public realm or the City of Culture.

5.2 Coombe Abbey Park Limited

The Council has maintained a financial interest in the Coombe Hotel for a number of years, receiving a rental income from its leasehold ownership of £0.7m. This is in addition to the Council's running and ownership of the Coombe Country Park. In December 2017 the Council purchased a 100% shareholding in the Hotel which will enable the Council to receive 100% of future dividends generated by the Hotel. The latest proposals in the 2019/20 Pre-Budget Report include an assumed level of dividends rising to £1m over the medium term. This is in addition to £0.3m of loan interest expected from 2 separate tranches of loans to the hotel company approved previously by the Council. The Council's involvement in Coombe has been the subject of a recent presentation to the Audit and Procurement Committee.

5.3 The Coventry and Warwickshire Waste Disposal Company

The Council owns two thirds of the shares of Coventry and Solihull Waste Disposal Company, the other one third being owned by Solihull Metropolitan Borough Council (Warwickshire and Leicestershire councils both own a single share). The relationship guarantees Coventry's access to waste disposal facilities and provides an ability to influence the price that it pays for the disposal of waste generated by residents and businesses in the city. There is a level of future dividends built into the Council's plans amounting to £5.5m and this is subject to review each year by the company's board and shareholders' panel, both of which have City Council representation. Through this representation the Council is able to ensure that the activities of the Company are monitored closely and that the financial benefits

attributable to the Council can be maximised, cognisant of the need to ensure an appropriate level of capital investment in the Company.

5.4 Loans

The Council has the legal power to make loans to external organisations and this capacity has been exercised on a relatively small number of occasions over the years. This will generally be done in support of an existing service aim or to support key partners in achievement of their aims where they may not be in the financial position to complete a project without external support. The Council has a number of loan arrangements in place including to the Belgrade Theatre, Coombe Abbey Park Limited and the Historic Coventry Trust.

The Council is always clear that it must not contravene State Aid provisions with regard to distorting competition in the market so such loans are structured in order to minimise the risk of challenge. In addition, the Council will make judgements both about including a risk premium in the level of interest charged on such loans and providing for a commercial return. It is likely that any such return will be relatively modest on the basis that the primary purpose of loans is to enhance services and facilities in the city rather than providing a commercial income stream for the city. Nevertheless any surplus is a contribution that can help support the Council's bottom line.

5.5 Early Payments of Pension Contributions

The Council is now mid-way through a three year period in which it has paid, up-front, three years-worth of employer pension contributions to the West Midlands Pension Fund. Although in budgeting terms the Council is able to spread these payments across each year, the cash (amounting to over £90m) was paid to the Fund at the start of this period. This arrangement is advantageous to the Fund as it moves towards a position where it will pay out more each year in pensions than it receives in pension contributions and investment returns (a position referred to as being cash-flow negative). However, given that the Pension fund is able to invest in investment types and for durations not necessarily open to the Council, it will generally be able to secure far greater investment returns than the Council can. As a result the Pension Fund has in effect been able to provide the Council with a discount on its payments – a benefit that the Council has been able to build into its Budget.

5.6 Treasury Investments

As part of its treasury management activity the Council invests treasury cash balances in a variety of ways including: deposits with banks, building societies and other local authorities; bonds; money market funds; and collective investment funds. The Council's Investment Strategy clearly states that these investments are placed seeking to ensure security, liquidity and returns in that order of priority such that investment return is not the primary reason for placing investments. For the large part of the next 12 months the Council is projected to have investment balances of between £80m and £100m.

Notwithstanding the expectation that security and liquidity will be ranked above investment return, the Council nevertheless seeks to achieve the best returns it can within these parameters and ensure that it has a broad basket of investment types. As a result, the Council has maintained a significant (£12m) investment in the CCLA (Churches, Charities and Local Authorities) Property Fund which has achieved returns averaging c4.8% since inception and further asset gain in excess of 1%. It has also placed new investments in a series of collective investment funds relatively recently, for which returns are anticipated to surpass those achieved by many of the Council's other pre-existing investments. The total value of these investments stood at £27m in mid-October and although the first reported returns are very good, it is too early to give a reasonable and robust view of their performance. Officers will continue to seek to ensure that the Council's investments are placed in a way that maximises returns within the parameters of the Investment Strategy.

5.7 Ricoh Concerts

Early in 2017, the Council sought to sponsor a series of pop concerts at the Ricoh Arena with the intention of generating an operating profit from the venture. The resulting ticket sales were disappointing and a decision was taken to cancel the events, although each of the artists were subsequently signed to perform at the Godiva Festival. This initiative is included here both as an example of the Council seeking to become involved in new innovative types of venture and as a reminder that commercial activities do not provide a guarantee of financial return. It is important for members to be aware that almost any initiative put forward that provides a financial return or is on a commercial basis is likely to have a degree of risk attached to it and could result in a trading deficit, loss of investment value or some other form of loss. Any risk will be set out at the time that decisions are made including the financial limits of such risk, insofar as these can be quantified.

5.8 Expanding Trading Base

In a small number of service areas the Council has expanded its operations on a trading basis providing services to other councils, public organisations, schools and individuals. This approach can help to ensure the sustainability of some traded services by spreading their overheads over a larger cost base. It also enables the Council to generate some modest additional income to help support the bottom line. Examples include

- The Council's Employment Services section has attracted and provided a payroll service for organisations including North Warwickshire Council, the Institute of Safety and Occupational Health, Legal Services Ombudsman and various Warwickshire Academy schools. In this instance the income generated has helped to part-replace income lost from Coventry's academy schools for payroll and other HR services.
- A more recent initiative has seen the Council agree a collaborative arrangement with Nuneaton & Bedworth Council to deliver their domestic recycling service. A net income stream of £250k has been built into the 2019/20 Pre-Budget Report to reflect this.

This type of model is clearly an attractive one, offering as it does the potential for additional income with little or no negative impact on services. However, there are limits to the extent that the model can be rolled out and it should not be seen as a solution to the Council's wider financial problems. The ability to sell services to other organisations will be reliant on the Council providing a service that is of a sufficient quality and at a price that customers are willing to pay, one which is relatively easy to deliver across organisational or geographical boundaries, does not expose the Council to significant additional reputational risk and does not divert managerial time extensively from the Council's core business.

5.9 Covering Costs Through Income

Local authorities have long-held the legal authority to charge for services which they have a power but not a duty to provide, with the level of income earned being restricted to the amount it costs to provide the services. In addition, the Localism Act 2011 contains the 'general power of competence' essentially allowing local authorities to do anything that is not expressly prohibited, offering scope for the Council to identify innovative ways in which it can generate income including, for instance, the use of charging to support local policies and priorities and be responsive to local circumstances.

It is reasonable for the Council to include the full cost of all aspects of service provision which, for instance, might mean that it could take the opportunity to invest in the infrastructure for services and recover the costs through charging. This means that services generate income which is used to support policy and service objectives that are wider than those defined solely by the charging service.

It is important that services review their pricing structures on a regular basis to ensure that where these are undertaken on a trading basis they fully recover their costs through the level of prices charged.

A number of the services set out in appendix 1 reflect the Council's use of these powers.

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Appendix 1 - 2018/19 Income Budgets

	2018-19 Budget
Fees - Adult Social Care	(15.7)
Rents	(14.9)
Income from Schools	(7.8)
Waste - Fees & Sales	(5.9)
Interest and Dividends	(5.8)
Transportation & Highways Fees	(5.2)
Car Park Charges	(4.5)
Bereavement Services Fees	(4.0)
Education Fees	(2.7)
Parking Enforcement and Other traffic Enforcement Income	(2.7)
Planning & Regulatory Services Fees	(1.4)
Caludon PFI	(1.3)
Corporate Services Fees & Charges	(1.1)
Facilities & Property Services Fees & Charges	(1.0)
Revenues and Benefits	(0.9)
Customer Services & Transformation Service Level Agreements (incl HR and ICT)	(0.8)
Register Office Fees	(0.7)
Streetpride & Parks Fees	(0.6)
Children & Young People Income	(0.6)
Fleet Services Fees	(0.5)
St Mary's Income	(0.4)
Project Management Fees	(0.4)
Taxi Licensing Fees	(0.4)
Outdoor Education Centre income (non schools)	(0.4)
Godiva Festival Income	(0.4)
Land Searches Fees	(0.4)
Pest Control & Animal Welfare Fees	(0.3)
Libraries, Advice, Health & Information Services Fees	(0.3)
Employee Salary Deductions	(0.3)
Building Sustainable Communities Fees	(0.2)
Environmental Services Fees	(0.2)
Procurement Rebates	(0.2)
Fees - Commercial Property Fees	(0.1)
Major Projects Development & Transformation Fees	(0.1)
	(82.3)

