



**INCOME GENERATION STRATEGY
2018 – 2021**

DRAFT

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Introduction

Like all other Local Authorities in the UK, Worcester City Council's finances are in transition from a funding model based primarily on grants from central government to one based on locally-generated income. The withdrawal of central funding has significantly outstripped growth in other income over the last few years. Between 2010/11 and 2014/15 Central Government funding fell from £8.193m to £4.998m. The Revenue Support Grant element of this has continued to decline, from £1.856m in 2015/16 to zero by 2019/20 – the first year of this strategy.

From 2019/20 onwards, funding for services will be almost entirely from business rates, Council Tax and income that the Council can generate from its operations or lever in from investments and partnerships.

To offset the fall in grant income, the Council has set a target for achieving savings over the three years 2017/18 to 2019/20 of £2.8m. A Transformation Programme has been established to achieve this. Further net gains are built into the Medium Term Financial Plan (MTFP) beyond 2019/20. This includes elements of increased income of £200k per year to be achieved from income-generation activities and the Council has set aside a reserve of £500k to support this.

The Council has limited control over business rates and Council Tax income. These represent relatively stable income streams, although there are significant risks relating to business rates. In particular, business rates baselines are due to be re-set in 2020/21 and this will significantly affect the level of income that the Government allows the Council to retain from this source.

Council Tax is more stable but can only be uplifted annually within parameters set by Government, whilst the Council Tax base can only grow if sufficient sites can be made available for home building and developers are able – and willing – to bring projects forward. New Homes Bonus is a related element of funding which will continue to be paid until at least 2020/21 but this too is dependent on local circumstances and the Council's capacity to promote and support housing development within the Worcester City boundary. Moreover the Government has introduced a 'deadweight' threshold for growth, below which no New Homes Bonus will be payable. This is likely to mean that NHB remains, at best, at current levels for the foreseeable future.

Costs can be reduced to compensate for the loss of income. The Council has reduced budgeted net spend on services from £12.840m in 2010/11 to £9.785m in 2017/18. However, a base level of expenditure is needed to meet the cost of statutory services such as refuse collection, planning and development control and licensing while a core infrastructure is required to support services and the public through Revenues and Benefits management, legal, financial and democratic functions along with ICT, asset management and Human Resources management. The Council has also committed to the provision of non-statutory services in order to

meet the outcomes set out in the City Plan. These include income-generating services such as leisure and cultural events and garden waste and trade waste collection.

The Council – if it is to remain committed to providing the full range of services at the level of standards expected by local communities – will be increasingly reliant on income from these and other sources. To do this it needs to establish the working practices of a commercial organisation. This requires a change in thinking, whereby we view the delivery of services and functions in a business-like way and seek out new opportunities to generate income to support the services that our communities want to receive. A *Commercial Strategy*, approved by Council in February 2018, sets out the means by which this will be achieved and aligns income generation activities with the City Plan and the Council's wider strategic objectives.

This *Income Generation Strategy* is designed to complement the *Commercial Strategy*. It identifies proposed sources of income, sets targets for income recovery levels and proposes specific tasks to achieve those targets.

A set of strategic principles have been developed within this strategy. There are summarised in Box 1 overleaf.

Box 1: Strategic principles:

- 1: Income projections will be based on prior year data derived from at least three previous years, where this is available, and subsequent annual data will be added to support income estimates.
- 2: The Income Contingency Reserve will be set at £0.5m until the risk profile changes to indicate that it should be revised and the Business Rates Risk Reserve will be set at the loss of one year's growth on the business rates baseline, currently £0.8m.
- 3: Each of the proposals put forward at October 2018 for increasing income will be reviewed and implemented during the lifetime of the strategy with a view to generating an additional £200k by October 2021 compared to 2018/19 budgets.
- 4: For future income generating activities, costs of undertaking the activity will be identified and allocated against income budgets so that the extent of any recovery against overheads can be determined.
- 5: Establish a programme of property investment, including the CCLA Fund, to generate a return of £200k over the lifetime of the strategy.
- 6: As part of the utilisation of the Development Fund, use the Council's capacity to borrow to unlock development in return for an income over the borrowing costs to mitigate the Council's risk associated with third party lending.
- 7: The delivery of major schemes designed to delivery service improvements which will support future income generation activities will be carried forward through the next iteration of the Transformation Plan.
- 8: A marketing strategy for the Council's services will be developed to promote income generating functions alongside promotion of the City as a tourist destination and as a thriving location for residents and businesses.

Income sources

The Council has recognised the need to support service delivery by generating income for a number of years and has stated its intention to increase income in the 2017/18 budget papers published in November 2016:

“The proposed approach to generating additional income will be on a project basis with three key areas of activity:

i. Updating our income budgets to ensure they reflect the current levels of activity and the actual income generated. It is anticipated that this could deliver an extra £100k of income budget p.a.

ii. Increasing income on our existing income activities through a review of compliance, enforcement and a targeted business case approach to review the potential for income growth. The business case approach will also be applied to smaller scale new income opportunities, associated with or complementary to our existing activities. It is anticipated that this could deliver an extra £200k-£300k of income p.a.

iii. In the medium term, the development of two-three ‘big ticket’ income items that generate more significant levels of income through, for example: better utilisation of our asset base either as a stand alone or through partnership working; the development of sites for housing, business opportunities or leisure activities to encourage economic growth and a healthy and more active population; and the further development of the tourism offer through our heritage assets and partnership approach.”

Current income streams are shown in **Appendix A**. These amount to £8.2m in 2018/19, or 39% of budgeted service costs. This represents an increase of £274k over 2017/18, which is an above-inflation increase of 3.47%. Clearly, income from bereavement services and car parking are dominant strands but opportunities exist to strengthen income from other existing sources, such as trade and garden waste collection, where the Council is able to influence demand through targeted approaches.

Other income includes £429k in respect of the Freedom Leisure contract and £483k for property rentals, including markets. The latter need to be considered as part of an Asset Management Strategy which identifies the rationale for holding assets – whether for commercial or social purposes or for a mixture of both – and target rates of return according to asset category.

Updating income budgets

As indicated above, there has been a growth in budgeted income between 2016/17 and 2017/18. There was further growth between 2017/18 and 2018/19. Hence the process of aligning budgets more closely to expected income levels is already in

place and will continue into future years. There are two issues to consider within this strategy:

- What is the right level of budget to set?
- What actions can be taken to mitigate risks to demand led budgets, where short-term income reductions cannot be controlled?

The answer to these questions lies partly in reviewing past income trends and partly in improving forecasting techniques.

In February 2018 the Income Generation Sub-committee received a report regarding income baselines. This showed that a number of sources of income had grown or declined over time but the budget had not changed to reflect this. Table 1 shows those lines with the largest areas of variance.

Table 1: Income streams where budgets need revision

Income Stream	Annual Budget 2015/16	Actuals 2015/16	Variance %	Base Budget 2016/17	Actuals 2016/17	Variance %
Over recovering						
Permitted Development Fee	(1,600)	(4,639)	190%	(1,600)	(3,292)	106%
Other Funeral F & Cs	(32,510)	(44,824)	38%	(32,510)	(55,987)	72%
Street Trading Fees	(23,720)	(26,723)	13%	(23,720)	(35,116)	48%
Residents Parking Fees	(12,100)	(15,855)	31%	(12,100)	(14,796)	22%
Interments	(110,440)	(125,740)	14%	(110,440)	(111,729)	1%
General Sales Income	(15,930)	(24,709)	55%	(15,930)	(38,972)	145%
Release s106 Comm. Sums	(31,000)	(34,170)	10%	(31,000)	(56,000)	81%
Under recovering						
Allotment Fees	(33,000)	(30,581)	-7%	(33,000)	(30,326)	-8%
Room Letting Fees	(57,970)	(50,001)	-14%	(63,970)	(58,016)	-9%
Burial Fees	(73,770)	(63,705)	-14%	(73,770)	(62,754)	-15%
Hire of Pitches	(22,500)	(17,992)	-20%	(23,500)	(15,613)	-34%
Pollution Control Fees	(13,570)	(10,608)	-22%	(13,570)	(8,762)	-35%
Pre-Application Fees	(36,390)	(24,175)	-34%	(39,390)	(22,380)	-43%
Public Convenience Income	(14,310)	(14,022)	-2%	(14,310)	(13,871)	-3%
Built for Sale Income	(20,000)	(19,710)	-1%	(20,000)	(19,100)	-4%
Credit Card Fees	(4,000)	(3,541)	-11%	(4,000)	(3,601)	-10%
Sponsorship Income	(36,510)	(22,436)	-39%	(36,510)	(26,814)	-27%

It is evident from this exercise that this is not a one-way process: a number of income budget lines need to be revised downwards to bring them more in line with

actual income expected, rather than revised upwards to improve the overall position. The movements in actual income between 2017/18 and 2018/19 have confirmed this pattern and the need for some resetting of budgets to reflect actual income. In simple terms, if the budgets for 2019/20 were set to the 2018/19 actual income levels the total expected income for 2019/20 would be £589,000 higher than the previous year.

Of course, 2018/19 may have been a strong year for income or may contain one-off items which could not be allowed for in future budgets. In which case the budget position or 2019/20 would be potentially misleading. Therefore three years, at least, of income recovery data needs to be collated to identify trends and provide relative assurance of the robustness of income projections. Three year trend data has been used for the Council's main fees and charges income streams for 2018/19 and budgets are being monitored against these.

For the first year of this strategy, 2019/20, all income budgets will be set on the basis of actual income recovery over the past three years. This should ensure that the £100k increase in income projected in November 2016 is achieved and provide a sound basis for future income projections. Future years trend data will be added to budget profiles to strengthen the evidence base for this work.

Strategy 1:

Income projections will be based on prior year data derived from at least three previous years, where this is available, and subsequent annual data will be added to support income estimates.

For the main income streams profiled budgets are now being used. These use data from the past three years to plot month by month changes in income patterns. Hence, if income is stronger in the summer and weaker in the winter, such trends can be taken into account when estimating the likely outcome for the year. This means that by the end of the second quarter, likely year-end outturns can be projected with a greater degree of certainty.

With longer-term projections, however, the level of risk increases. To mitigate this, contingencies are required to help manage reductions in income in the short term until strategies can be put in place to re-secure the income stream. Two reserves have been created for this purpose, as follows:

Income Contingency Reserve

This reserve has a balance of £495,250 at 1 April 2018. The reserve was established to mitigate the impact of sudden events which could radically affect income levels, such as flooding, which could close the Council's car parks for some time, or catastrophic failure of key equipment such as a cremator which could result in loss of service provision at the crematorium. The approach consisted of a smaller reserve and an annual contingency until the budget-setting process for 2018/19 when the

contingency element was rolled into the reserve. The reserve will, therefore, remain static at approximately £500k until income risk profiles change.

Localised Business Rates Reserve

This reserve has a balance of £761,276 as 1 April 2018. Its aims is to be mitigate significant reductions in business rates such as that caused by the reclassification of GP Surgeries in 2015/16 which reduced income from business rates by £168k per year. Worcester City Council is a member of a business rates pool with other councils in Worcestershire and this in itself provides some assurance against such risks as some of the impact of reductions in rates income is spread across all the pool members. In addition there is a volatility reserve within the pool arrangement itself which is available to address national- and county-level shocks to the system.

The Government has stated an intention to review business rates baselines in 2020 which will assess how much of the rates collected by the Council it will be allowed to retain and how much will be redistributed to other authorities. Currently, of the £42.5m collected by the Council, £2.516m is estimated by the Government to be Worcester City Council's share. This is the baseline funding level. The Council is also entitled to retain 50% of any growth above that amount. For 2018/19 that is estimated to be £0.827m. The MTFP allows a small growth against this figure for each year.

The business rates reset will reduce the level of growth that the Council is allowed to retain. The full extent of that risk is that the whole of the growth amount is taken for redistribution, resulting in a £0.8m pressure in the annual budget. The Council's risk reserve should, therefore, be set at that level to allow for one year's mitigation against the reduction, thereby allowing time for alternative strategies to be developed to address the shortfall over the longer term.

Strategy 2

The Income Contingency Reserve will be set at £0.5m until the risk profile changes to indicate that it should be revised and the Business Rates Risk Reserve will be set at the loss of one year's growth on the business rates baseline, currently £0.8m.

Increasing income from existing and complementary activities

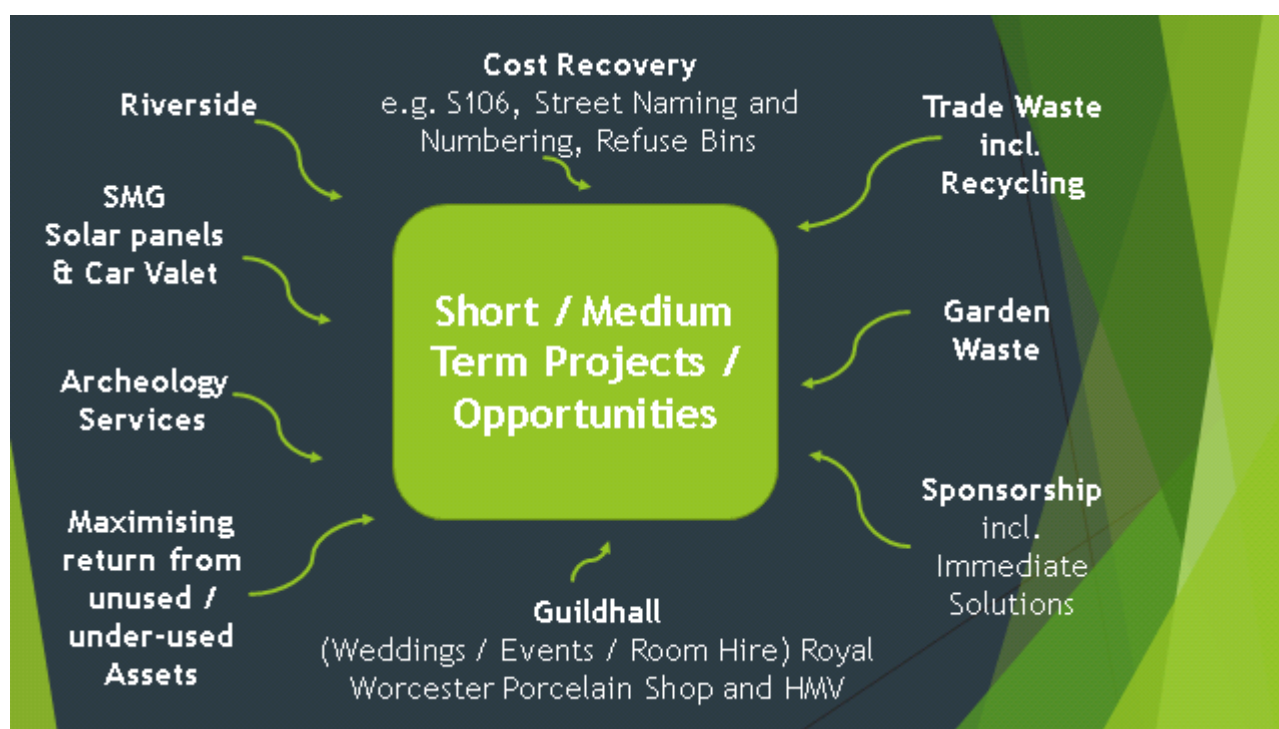
Budget alignment is the process by which growth in income is captured and translated into forecast net budgets within the MTFP. However ensuring growth requires strengthening gains from existing sources and developing new income-generating opportunities. This is the concept of 'commercialisation' which is developed in the *Commercial Strategy*.

There have been a number of activities designed to identify opportunities to increase income from existing sources or identify new ones. These include:

- a 'blue sky thinking' exercise following the November 2016 proposal
- the creation of a small projects programme which included proposals that would generate new income
- creation of a Riverside Task & Finish Group to explore commercial opportunities
- requests for suggestions as part of consultation on the 2018/19 budget, which elicited 236 responses.

In spring of 2018 an Income Generation Co-ordinator was appointed to sift the various proposals and identify those that could be taken forward with a reasonable prospect of success. This identified some short term proposals or quick wins which could be implemented relatively quickly. These are shown in figure 1:

Figure 1: short and Medium Term income generating projects



Of these, four projects have made significant progress:

SMG (ST Martin's Gate Car Park) Solar Panels and car valet

The business case for the solar panels scheme has been accepted and a contractor appointed to implement it on a design-and-build basis. The project is scheduled for completion in November 2017. The scheme will reduce costs of electricity at the car park and will generate income from the feed-in tariff of approximately £7k per year, with a pay back of investment costs in approximately 12.5 years.

A feasibility study was undertaken for the car valet service at the site but this determined that the scheme could not be implemented due to structural issues.

Guildhall

Budgeted income from weddings and other events has grown by £11,000 since 2016/17. New events include boxing evenings and a Gin Festival, along with a strengthened wedding offer through stronger marketing and commercially developed packages. The Guildhall has its own website to promote the building as a venue for events. The next step is to increase the facilities available for lettings and work more closely with the Commandery as a complementary wedding venue. The income target for 2018/19 is £75,000 (£6,000 over budget). This should be extended to £80,000 over the lifetime of the strategy.

Trade and Garden Waste

Trade and Garden Waste budgeted income has increased by £220k since 2015/16 due to stronger marketing. Garden waste has made the most gains as Trade Waste has been affected by the loss of a contract to collect waste from HOW College. To change this decline the service has been set up to offer a recycling service for trade waste customers for the first time and proposals for increasing access to the town centre to collect waste have been brought forward. This is expected to add £80k in income by 2020/21.

Riverside

A riverside task and finish group was established to explore means of generating increased income from this major asset. This concluded that income could be increased through re-letting the Severn Café with a more ambitious programme, improving the moorings at South Quay and North Quay and establishing temporary facilities at Diglis weir and Copenhagen Street car park, all within the wider context of a Riverside Park development and the City-wide masterplan. Work is set to continue on each of these elements during 2018/19 but considerable investment will be required before income streams will develop. Therefore the business case for each scheme will need to be considered in detail.

In respect of the return from under-utilised assets, an *Asset Management Strategy* is in development. This will review the current commercial property holdings and set targets for an expected rate of return from such holdings. New investments are considered under the next section below.

All other areas will be explored during the lifetime of this strategy with a view to achieving the targeted income growth set out in the November 2016 report.

Strategy 3

Each of the proposals put forward at October 2018 for increasing income will be reviewed and implemented during the lifetime of the strategy with a view to generating an additional £200k by October 2021 compared to 2018/19 budgets.

In all cases, the income arising from the activity should be sufficient to make a contribution to overheads as well as cover running costs. For each of the budget streams, the extent of the impact on overheads is difficult to assess as the full costs of delivering the function are not consistently lined up against the income received. The marginal gain from increasing resources to bring in additional income is not, therefore, easy (or possible) to quantify. Consideration of the fees to set when developing income streams will need to take into account the costs of provision and a pro-forma has been developed to enable this. This is developed in more detail in the *Commercial Strategy*.

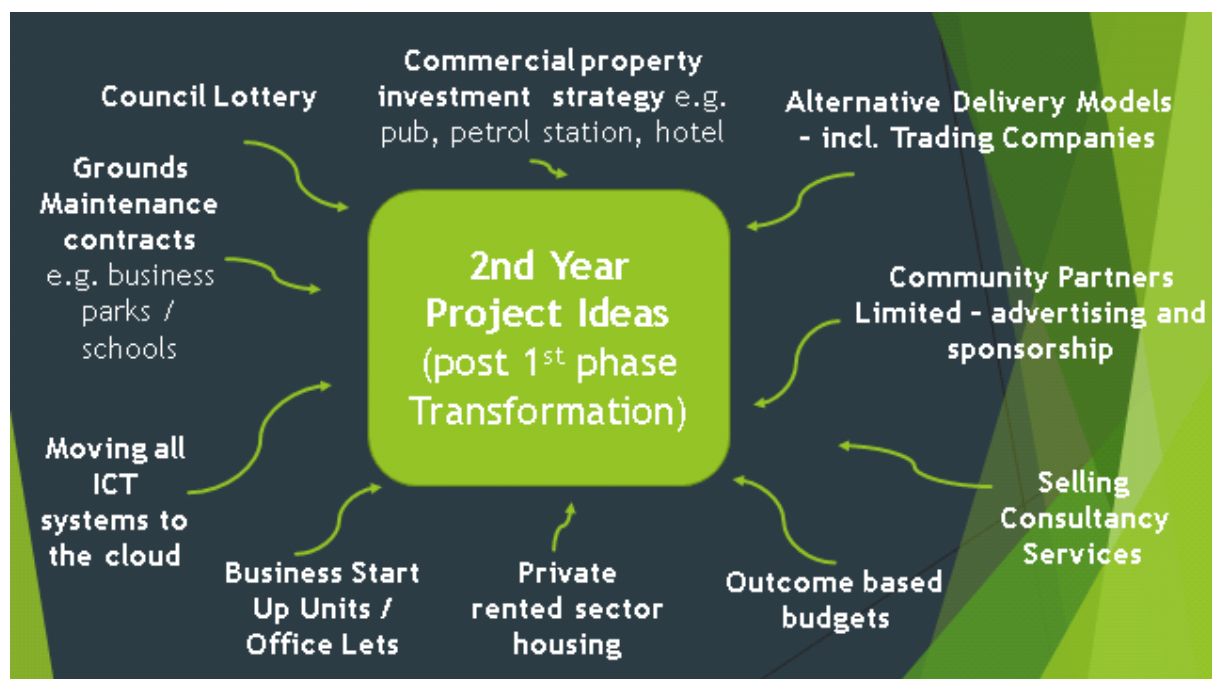
Strategy 4

For future income generating activities, costs of undertaking the activity will be identified and allocated against income budgets so that the extent of any recovery against overheads can be determined.

New major income streams

In addition to immediate opportunities, the Income Co-ordinator identified longer term projects which will require some investment and for which some development time is required before income streams can be anticipated. These are shown in Figure 2.

Figure 2: Longer-term project proposals



The Council Lottery suggestion has been considered by the Income Generation Subcommittee and a proposal to develop a scheme was approved in July 2018. This will not generate income to the Council directly but will increase income to local groups and their causes. This will enable the Council to reduce its own grant support or divert that to reducing costs in other areas.

For other schemes, an element of funding was set aside from the City Plan during the 2018/19 budget and as part of the year-end closedown to create start-up or seedcorn funding for development. These are shown in Table 2:

Table 2: Budget allocations for major schemes

Committee	Indicative allocation (£000)	Purpose
Planning and Economic Development	500	To support housing initiatives other than social housing including: <ul style="list-style-type: none"> - Helping people onto the housing ladder - purchasing vacant and redundant buildings to return them into use the establishment of a Housing Development Company
Planning and Economic Development	100	To support business development initiatives
Communities	500	To increase capacity to provide housing for vulnerable tenants through a suitable model such as: <ul style="list-style-type: none"> - dispersed family units - design & build schemes - a joint venture with a provider
Communities	100	To appoint Private Sector Housing Officers (investigational), for two years on a fixed term contract to: <ul style="list-style-type: none"> - assist with processing HMO licence applications - investigate un-licenced HMO's - investigate tenant complaints - investigate empty properties - work with Planning Policy to advise landlords on the Article 4 Directive - investigate rented properties which are below E rated from EPC assessments.
Communities	100	To fund a fixed term post to provide marketing and promotional time to communicate the range of health and wellbeing, sport, physical activity, play and community programmes in the city
Policy & resources (year end)	200	To support development of leisure facilities to international standard

Environment	300	<p>To allocate funding for the development of the riverside to:</p> <ul style="list-style-type: none"> - Give greater identity to the area - Improve the visitor experience of Worcester - Provide more and better information and signage - Improve access - Improve landscaping
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Each of these allocations will enable the development of detailed proposals and business cases to be brought forward for specific actions which will generate income, either directly or through enhancing the Worcester offer to residents, tourists and businesses.

A key component of this programme of work is procuring sites and property which have the potential for development as well as income generation. A Development Fund was established in July 2018 to enable borrowing for these purposes and to date eight sites have been considered as potential investment properties. None have met the criteria set out in the Commercial Strategy sufficient to justify investment but opportunities continue to be explored.

Meanwhile, the Council is currently holding £15.5m in short term cash investments which generate a modest rate of return. In 2017/18 this was £82,000 at a rate of approximately 0.5% percent. There is potential to increase this income by transferring some of these funds into the CCLA Property Fund which can generate returns in the region of 4.5%. This is a low-risk form of property investment focused on investment in a mixed portfolio of commercial properties held in a pooled fund. £3m was transferred into the CCLA Fund in April 2018 but the return on this investment will not be known until year end 2018/19.

Strategy 5

Establish a programme of property investment, including the CCLA Fund, to generate a return of £200k over the lifetime of the strategy.

An alternative is to lend to a property developer in order to unlock a potential develop in return for an income which covers the cost of the borrowing and mitigates, to some extent, the Council's risk of lending. Two schemes are currently under consideration but these are subject to substantial assessment of the viability of the schemes and the risks associated with them.

Strategy 6

As part of the utilisation of the Development Fund, use the Council's capacity to borrow to unlock development in return for an income over the borrowing costs to mitigate the Council's risk associated with third party lending.

The other major schemes include some activities – such as moving ICT systems to cloud based approaches and establishing delivery companies – that will not in themselves generate income but will establish the basis for service improvements and reduced costs. These will form part of the next stage of the Council's Transformation programme which will focus on achieving excellence in service delivery. Such schemes will, therefore be taken forward through that programme rather than through this strategy.

Strategy 7

The delivery of major schemes designed to delivery service improvements which will support future income generation activities will be carried forward through the next iteration of the Transformation Plan.

Marketing

The success of these major schemes and other aspects of the Income Generation Strategy will depend to some extent of effective marketing of services that generate income. A significant amount of marketing has taken place to promote the Guildhall as a venue which has had an impact in terms of increased income. Targeted marketing of Garden Waste has also had an impact and marketing of new Trade Waste services has taken place via the Council's website.

To support income generation, a more developed marketing strategy is needed to:

- Identify key markets and potential customers
- Establish timelines or bringing new services to market
- Create marketing and communication strategies in support of new and enhanced services
- Establish target income levels and monitoring approaches to ensure delivery
- Review risks and develop mitigating actions

Marketing forms part of the role of the Income Generation Co-ordinator as defined in the Commercial Strategy but along with the Council's decision to host the Museums Service there is a new opportunity to share marketing resources across the Council's heritage and visitor offer. In addition £90k has been set aside for a Tourism Strategy which includes elements of promoting the City and the Council has recently taken over responsibility for the Tourist Information Centre from the Chamber of Commerce.

These various strands need to be brought together into a coherent marketing strategy for the Council and for its role in supporting the City to grow. The development of a marketing strategy for the Council will form a key component in the delivery of this Income Generation Strategy.

Strategy 8

A marketing strategy for the Council's services will be developed to promote income generating functions alongside promotion of the City as a tourist destination and as a thriving location for residents and businesses.

Income generating services 2018/19

Fees & Charges	Annual Budget	Annual Budget 2018/19
	£000	£000
Facilities - Room Letting Fees	(69)	(69)
Revs & Bens - Court Fees/Summonses	(252)	(252)
- Environmental Health and Licencing	(280)	(287)
- Bereavement Services	(1,776)	(1,835)
- Parking Income	(3,641)	(3,698)
- Open Spaces	(33)	(33)
Community Services	(5,730)	(5,981)
- Garden Waste Collection	(341)	(375)
- Trade Waste Collection	(638)	(688)
- Open Spaces	(27)	(27)
- Other Fees and Charges	(16)	(16)
Operational Services	(1,022)	(978)
- Planning Application Fees	(353)	(425)
- Local Land Charges	(193)	(193)
- Pre-Application Fees	(39)	(39)
- Permitted Development Fees	(2)	(2)
- Other Fees and Charges	(25)	(25)
Development Management	(611)	(683)
Building Control - Fees	(110)	(110)
Housing - Licencing Income	(102)	(97)
Fees & Charges - Services	(7,896)	(8,170)

