



Reimagine Local Government

**Council cash crunch: New approach needed to
find fresh income**



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- By 2020, councils must generate all revenue locally
- More and more are looking towards diversifying income streams as an integral part of this
- Councils have significant advantages in becoming a trusted, independent supplier
- To succeed, they must invest in developing commercial capability and capacity

When Richmond Council decided to step up opposition to Heathrow expansion, staff were keen to get expert support in running their campaign. They turned to a company called Westco. Based a stone's throw from the Houses of Parliament, the firm employs a number of experts in local government communications. That its chairperson is a councillor is no coincidence: Westco is a wholly owned company of Westminster City Council.

Westco is one example of local authorities' increasing desire to diversify their income streams. With central government phased out funding before councils have to fund their entire budget by 2020, the focus on income is intense.

The hunt for new income

Some will come from business rates, which local government will retain in its entirety by the end of the decade. Council tax will continue to be a key source of funding. But in both instances, there will be winners and losers. Councils with the right business and residential mix will be in clover, while more disadvantaged areas can expect a funding black hole. In all cases, the hunt will be on for new income sources, and in some instances the stakes are high.

"For many councils, if they continue on a straight path without doing something different on revenue, they will literally run out of money," warns Adrian Fieldhouse, Director at KPMG. "By that I don't mean they might have to close a couple of leisure centres. They will not have enough money to deliver their statutory services."

Facing that prospect, it is little wonder Fieldhouse says almost every council he visits wants to talk about income diversification with many focusing on generating additional revenue from businesses and other areas of the public sector rather than residents.

Westminster may have been one of the first to set up a separate trading arm – Westco was established 13 years ago – but it is far from an isolated example, and new plans are cropping up regularly. In early 2016, for instance, Wolverhampton City Council announced proposals to create its own housing company.

A trusted partner... but there's a caveat

Adrian Fieldhouse believes there is no shortage of options – not least as schools become academies – and he believes councils are well placed to operate in many of the spheres they are considering. "If you wanted to set up a business to serve the public sector and schools and so on, you'd do worse than start with all the attributes that local and regional government have got – they're trusted, they've got the relationship, they understand the environment, they've got the land, they've got people, they've got experience," he says.

Yet there is a caveat. "What Councils don't traditionally have," he says, "is the culture needed to seek out these new sources



of income and to maximize their return. That is not a criticism, culture is defined by the systems, processes, behavioral norms, performance measures and collective goals of the organisation and for most Local Authorities, these things have been pointed towards supporting children, caring for vulnerable people and providing high quality public services at volume not at competing for and generating income."

As such, he argues that if Local Authorities want to secure a significant and sustainable diversified income stream then the things that underpin culture have to be reassessed, changes made and care given to separating them from the statutory services such that they can flourish without creating risk elsewhere. He says "To enable diversified income streams to flourish you're going to have to have the right culture and approach. You want it to be entrepreneurial, you want it to be agile, you want it to be responsive. You want the council to be commercially minded – with a social conscience – but commercially minded. If that new business venture remains a unit within the council, how does it sit alongside adult social care, or children's services? They have totally different cultures and process needs."

Resolving the culture clash

The solution, he suggests, is to explore alternative delivery models such as joint ventures or local authority trading companies. "These essentially enable you to set up a separate organisation that is wholly or partially owned by the council but which can create its own processes, cultures; it can be as agile as it needs to be, responding to the market, attracting and retaining the right staff and incentivizing them in the right way."

There are still complications, not least governance, and not just how you govern a venture to make it effective. "What does it mean for the roles and responsibilities of council members or officers who might now be on the board of this company? And also making sure this company doesn't go off and do something that is completely contrary to what you want to be known for as an authority."

Fieldhouse is keen to stress to councils that the issue of income diversification is perhaps not as simple as they might think. "From this apparently very simple question ... there are a whole series of interlinked decisions around helping to maximise those revenues.

"Making the decision to diversify income really is just the tip of the iceberg."

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