

Finance and Resources Committee

10.00am, Thursday, 10 October 2019

Revenue Maximisation Project Report

Executive/routine Wards Council Commitments	Executive All
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1. Recommendations

- 1.1 The Committee is recommended to:
- 1.2 Note the outputs from the diagnostic work undertaken during the initial 3 months of this project.
- 1.3 Endorse the principle that the Council should actively consider opportunities to maximise existing revenue streams and seek to generate new revenue streams to support the sustainability of the Council's budget and core services.
- 1.4 Endorse the alignment of any further activities in this area with the development of the Council's Change Strategy and Budget Setting for 2020/21, including active consideration of any capacity investment needed to support this work being progressed.
- 1.5 Agree that the Executive Director of Resources will provide a further update report to the Committee in March 2020.

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Resources Directorate

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Revenue Maximisation Project Report

2. Executive Summary

- 2.1 This report and the associated appendix provides the Committee with an update on the revenue maximisation project work that has been undertaken during the last 3 months. The Committee is invited to scrutinise the progress made to date and to endorse this work being further progressed as part of the 2020/21 Change Strategy and Budget Setting process.

3. Background

- 3.1 The City of Edinburgh Council's revenue funding is provided in a number of ways, with the majority being attributable to Scottish Government funding, Council Tax and the distribution of Non-Domestic Rates income. However, the Council also generates income from a number of services and through the application of fees and charges for a range of functions. Given the increasing pressure that the Council's revenue budget is being placed under, the opportunity to review options to further maximise existing revenue and to consider new opportunities to generate revenue is deemed an important element of the Council's long-term financial strategy.
- 3.2 During the previous Administration, a member led working group examined income maximisation opportunities and recommended a number of proposals to the Committee. This report and the diagnostic work undertaken during the last 3 months builds upon this work and seeks Committee endorsement to progress this work further, aligned to the Change Strategy and Financial Planning for 2020/21.

4. Main report

- 4.1 The Council generates a significant level of revenue annually to support the sustainability of its revenue budget. The generation of revenue arises from a combination of key areas such as: parking charges, fees and charges for a range of facilities and discretionary functions and the management of the Council's property investment portfolio.

- 4.2 The Council has a strong history of effective financial management, with balanced revenue outturn positions achieved in each of the last 12 years. The Council's corporate finance arrangements and treasury management functions continue to deliver robust returns to the authority whilst ensuring prudent management.
- 4.2 The Council has applied a consistent charging policy of RPI plus 2.0% per year for a number of years, which has proven successful to date and has supported effective financial planning and management.
- 4.3 The Council's Commercial Excellence Programme has ensured the achievement of more than £180M in savings and benefits, over a number of years, ensuring that the Council's supply chain is well managed and balances both quality and value for money requirements.
- 4.4 As the other reports to this meeting of the Committee identifies, the Council's medium term financial framework outlines the increasing pressures facing the Council's services and revenue budget. To ensure that the Council continues to deliver a sustainable financial position and can support the essential public services that citizens need, the opportunity to maximise further existing revenue streams and deliver new revenue streams, supported by a more commercially aware culture and structure is considered key. As part of developing the Council's approach to this work, a 3 month diagnostic project has been undertaken to assess the baseline position and provide findings that the Council can consider to take forward this activity. This project has drawn upon good practice in other local authorities and public bodies across Scotland and the UK. Engagement workshops have been held with frontline staff in a number of key areas and with members of the Finance and Resources Committee to inform the findings presented to Committee and the more detailed analysis and ideas generated to date.
- 4.5 The high level findings associated with this report are provided to seek Committee endorsement of both the proposed direction of travel and the principle of revenue maximisation and the generation of new revenue streams, which are consistent with the Council's overall Change Strategy and Budget.

5. Next Steps

- 5.1 Subject to the endorsement of the Committee the next steps would involved taking forward a further phase of work to ensure the necessary data was available to support revenue maximisation

6. Financial impact

- 6.1 The financial impact of the report to date has been the cost involved in the secondment of the external and dedicated expertise from EY to undertake this detailed diagnostic work, alongside the Chief Procurement Officer and Finance staff. These costs have been fully contained within the Resources Directorate revenue budget for 2019/20.

7. Stakeholder/Community Impact

- 7.1 Not applicable at this stage.

8. Background reading/external references

- 8.1 Not applicable.

9. Appendices

- 9.1 Appendix 1 – Revenue Maximisation Project – Presentation

The City of Edinburgh Council

Revenue Maximisation Project
Finance and Resources Committee Update
10 October 2019



Executive summary

The conclusion of this diagnostic project is that there are pockets of revenue maximisation activity however more could be done and greater revenue can be achieved.

- The Council will **receive £89m through revenue generation during 2019/20.**
- One of the **Councils stated Outcomes is to achieve greater revenue** to address the current budget pressures.
- Current state analysis showed the **approach to revenue maximisation is organisationally fragmented, current income streams are risk assessed as medium and there is not a consistent calculations to assess net revenue.**
- Staff workshops generated a **thorough but not exhaustive prioritised list of ideas for revenue generation.** These require further due diligence throughout subsequent phases to arrive at a more robust figure to include in budget planning.
- A new **centre of excellence, or small, expert team** with the appropriate **people, processes, data, partnerships and culture** should be created in order to achieve “**revenue maximisation by design rather than by exception.**”
- The centre of excellence will **develop the ideas already generated** along with **generating new ideas from a thorough review of current revenue received and a review of all services.**
- The approach to delivering optimised revenue maximisation is **to implement these changes using a structured change management plan, creating a small, expert team and generating quick wins.**

Complexity

- The balance between revenue maximisation and the Council’s responsibility to deliver core services for the public remains a key issue in determining the success of any revenue maximisation programme.

Background and approach.

The Council is under increasing financial pressure though it has undertaken various operational efficiencies projects over the last 6 years.

- The Council is facing **increasing budget pressures** which is resulting in a **gap of more than £100m** over the next 4 years.
- To date the Council has delivered a powerful savings programme across third party spend through a Commercial Excellence programme completed in 2018.
- **Targeted focus on revenue maximisation** is needed to protect existing income and grow new income.
- **The calculation of net revenue** should be embedded to allow decisions to be taken which are in the Councils best interests supported by data.

The Council has **a strong incentive to adapt its approach** to revenue maximisation and in doing so move to a leading model that is able to:

- **Accurately evaluate** current and future revenue streams
- **Maximise the sustainable revenue** streams in the current portfolio
- **Adapt and capture new policy and revenue opportunities** that arise
- **Create an environment** that attracts and enhances new opportunities in the medium and longer term

“Maximised revenue by design, not exception”

The objective of a revenue maximisation programme would be to embed the structure to achieve revenue in a targeted, consistent and managed way therefore achieving revenue by design, not exception

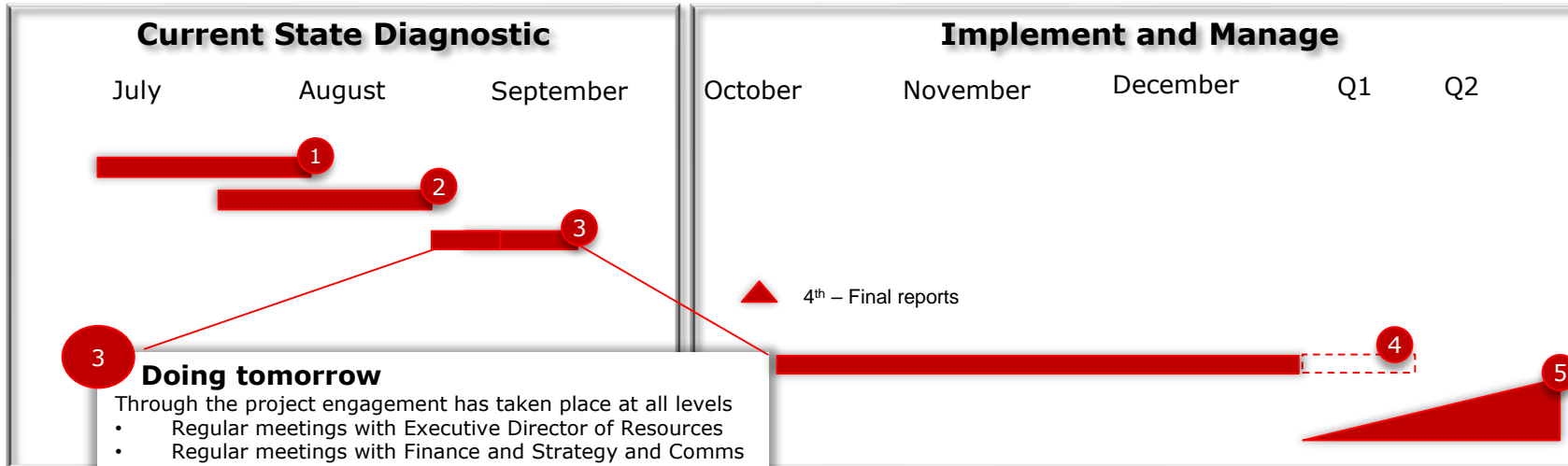
- Revenue maximisation needs to be considered in light of the Council’s other priorities and stated outcomes and is an integral part of any service review activity.

Overall project approach timeline.

This report details the recommendations the Council should adopt to maximise its revenue.

As-is assessment through to Revenue Maximisation

- 1 Doing today - Current state assessment
- 2 Doing more - What options are there to do more revenue maximisation?
- 3 Doing tomorrow - What is the best structure to maximise revenue?
- 4 Optimising the business - implementation of recommendations
- 5 Increase in revenue to improve over time



Doing tomorrow

- Through the project engagement has taken place at all levels
- Regular meetings with Executive Director of Resources
 - Regular meetings with Finance and Strategy and Comms
 - 1-2-1s with Heads of Service
 - Two meetings with Elected Members
 - Over 50 people engaged in 5 workshops at a service delivery level.
- Additional insights have been gleaned from:
- Other local authorities across the UK
 - Major policing organisations
 - Current guidance (Association for Public Service Excellence)

Complexity

- The workshops with staff have initiated the process of employees thinking differently about revenue and how this is maximised. This is the start of the cultural shift that needs to happen.
- Further engagement is necessary to implement and manage a programme of revenue maximisation.

Overview of opportunity and recommendations.

The single most important short term step is to be able to systematically evaluate the current and future opportunities.

What can this deliver for the Council?



It has been identified that there is an additional gross revenue benefit that can be delivered over the next 3 years, with the potential to generate more. Such a figure would require substantial due diligence and strong political support and the underpinning capacity to deliver it.



Improved "customer" experience for citizens, service users and national/international visitors creating a virtuous cycle.



An agile organisation that has the governance and interfaces to extend and adapt as policy changes and service users change.

Complexity

- Councils have not traditionally focussed on the "customer" and the different customer types that they address with service offerings.
- Any increases in revenue must be seen in isolation of market conditions for instance reduction in commercial property insolvency of tenants.

Overview of opportunity and recommendations (cont).

To deliver optimised revenue the Council need to have an agreed net revenue template calculation and the right organisation, opportunities and approach.

1

Net revenue calculation

- Evaluate current net revenue to make data driven investment decisions.
- Create a model to calculate the total cost inputs (direct and indirect) to calculate fully loaded costs.
- Apply net revenue model to decide which revenue ideas to pursue.

2

Organisational Structure

- People.
- Process and governance.
- Culture.
- Data and technology.
- Customers.
- Partners.

3

The Right Opportunities

- Continuous ideas generation.
- Full review of all services.
- Full review of current revenue.
- Prioritising the right opportunities to deliver the greatest benefit.

4

The Right Approach

- Consolidated project plan.
- Implementation of centre of excellence.
- Prioritisation of quick wins for FY2020/21 benefit.

Complexity

- Cultural change that is required to achieve optimised revenue needs to be carefully managed to ensure the support of all staff who are involved in this project.
- Careful internal and external communications need to be considered to ensure the correct messages are conveyed.

- A revenue maximisation programme has to consider a number of complex stakeholders and priorities.
- Revenue maximisation is only one consideration in the review and redesign of Council services. Other priorities, where they conflict, may take rightly need to take precedence.

Political context and Council priorities.

In taking forward any programme of revenue maximisation the wider national and local political context and the Council’s stated priorities will have to be considered.

National Context Scottish Government

- A programme that achieves increased revenue should be considered in light of any potential reduction in the Councils general revenue grant to ensure that there is a net positive impact.
- The Scottish Government should be engaged to confirm whether they would support a revenue maximisation programme in the current legislative environment.

Local Government Context Elected Members

- In conversations with key elected members to date they have been supportive of revenue maximisation as a principle.
- A workshop with the Finance and Resources Committee members has explored how this support will apply to the ideas that have currently been demonstrated and how any programme will be implemented.

Council Priorities / Change Strategy

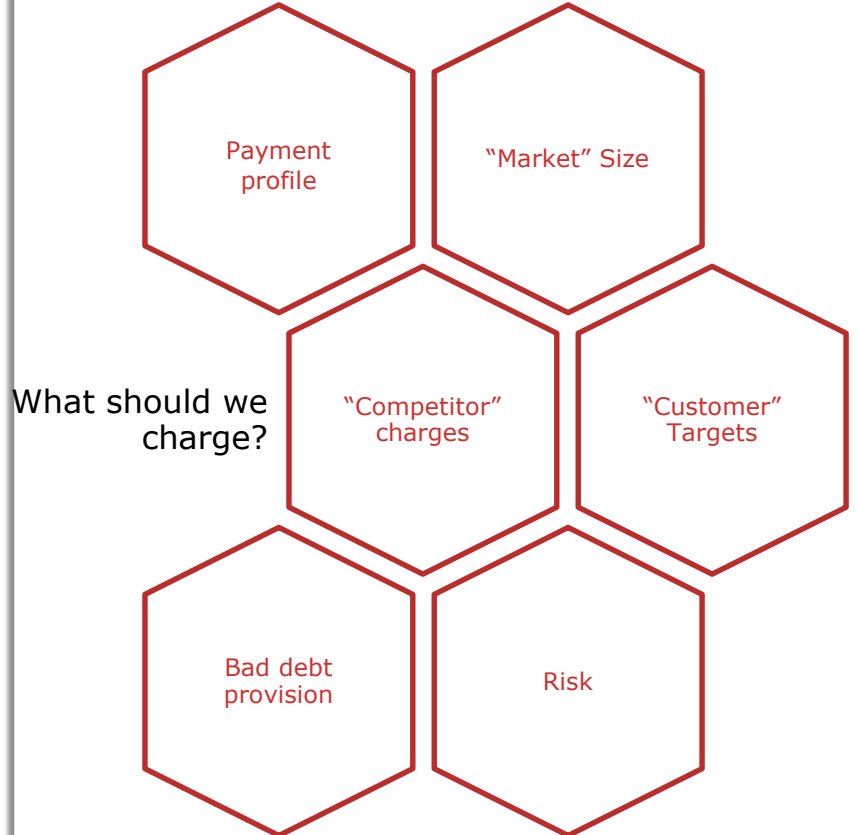
- Revenue maximisation is one of the Council’s stated Outcomes.
- Revenue maximisation should be viewed as one tool to be applied when strategically assessing services and service delivery and a calculation of a net positive revenue position does not mean that the Council can, and should, proceed.
- Other priorities such as the focussing services upon addressing poverty and sustainability may necessitate the application of appropriate charges to promote behavioural change.

The right financials

Making data driven investment decisions requires a net revenue projection that includes full cost recovery and substantiated income projections.

$$\text{Net revenue} = \text{income projection} - \text{full cost recovery}$$

Income Projection



Full Cost Recovery



Complexity

- Net revenue will involve estimates about the total size of market to target and an assessment of risk.
- Full cost recovery may not be able to be achieved if the efficiency of delivering the service is not currently optimised. A process of optimisation using the Council's Lean and Intelligent Automation teams therefore may preclude any revenue maximisation activity for certain ideas.

The right organisational structure.

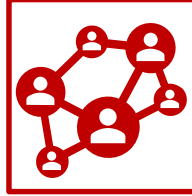
The organisational structure for optimised revenue maximisation is comprised of 6 elements.

People



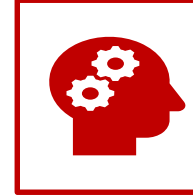
- What capability and team is required?
- What skills are required?
- What is the team organisation and reporting line?
- How will the team be targeted and measured?

Process and Governance



- What processes do the team need to gain approval for activities?
- How are processes applied across the Council?
- What processes facilitate an efficient flow of approval for ideas?

Technology and Data



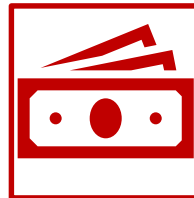
- What data does the team need in order to function?
- How often does the team need this data?
- What management information will the team produce for the wider organisation?

Partnerships



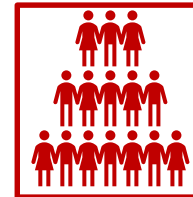
- What external organisations can supplement the internal capability?
- How should external organisations be engaged as part of programme?

"Customers"



- Who are the "customers" of the Council?
- What do the "customers" want from the Council?
- How can we embed "customer" centricity into everything we do?

Culture



- How does the team develop the right culture to optimise revenue?
- What culture is needed to prioritise revenue maximisation in services?
- How is a revision to the culture implemented?

Complexity

- The right organisational structure will include a blended team of Council staff and external expertise with support from Elected Members, the Corporate Leadership Team and Heads of Service.
- The organisational structure requires Council wide rollout of key enablers such as online payment platforms, online booking and consistent application of payment practices.

Idea Generation.

We recommend a threefold approach to generating revenue ideas.

Idea generation



- 5 workshops and over 50 people engaged in idea generation to date as part of the current state diagnostic.
- Carry out a process of continuous improvement to generate ideas from within the Council and considering best practice from other local authorities and the private sector where appropriate.

Current Phase

Review of current income



- Thorough and structured review of all income to determine whether net income is received and if not
 - Review the service
 - Review the pricing
 - Apply operational efficiency targets
- The review should understand the risk profile of the current income and what strategies to put in place to mitigate and manage these risks.

Subsequent phases

Review of Services



- Review of all Council services to determine :-
 - Should they be chargeable?
 - Are we charging the right amounts?
 - Should they be continued? (in conjunction with Change Strategy, statutory duties and Council Outcomes.)

Complexity

- Workshops are not a systematic way of identifying all the opportunities but they do generate engagement and discussion on the topic with the service areas.

Recommendations

The Council needs to establish a formal programme of revenue maximisation with a consolidated project plan and centre of excellence underpinned by a series of quick wins.

Consolidated Project Plan



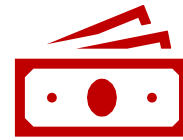
- Staged change management approach to implementing a revenue maximisation structure which focusses on establishing the pre-requisites to measure and manage changes and then implements the resources to further develop revenue opportunities.

Centre of Excellence



- Implement the organisational changes as proposed in this pack in order to have a focus to support the service lines to achieve maximised income.
- In creating a centre of excellence the people, process, data and technology, "customers", partners and culture needs to be considered.

Quick Wins



- Generate a pipeline of quick wins to demonstrate additional value through sustained focus on revenue maximisation.
- Utilise quick wins to test the process and governance and net revenue calculation.
- Communicate quick wins in order to gather support for the new centre of excellence team.

Complexity

- The capacity for change in the Council would have to be considered when embarking on the implementation programme as it will involve buy in from many employees outside of any proposed centre of excellence.