



Income generation: using charging and trading powers

This briefing is one in a series of briefing papers being issued by APSE around efficiencies and how local authorities can deal with budget constraints and maximise opportunities. As councils face tougher times and unprecedented financial constraints, APSE have brought together some examples of best practice. Whilst many ideas are transferrable between councils, APSE recognises that local circumstances will vary and some routes may be more appropriate to some than others. This briefing paper relates to income generation.

Key issues:

- What powers are available to charge for and trade in services
- What opportunities should be explored
- How will income generation help achieve efficiencies
- Further information and support is available from APSE by contacting mbaines@apseorg.uk

1. Introduction

Whilst efficiencies and achieving savings in the level of public spending has been focussed on reducing service costs, including staff input time, service costs can also be minimised by maximising income to a service. Income generation can however have different meanings and there are many ways in which a focus on income generation can help to facilitate more efficient service delivery.

2. Defining income generation

The definition of income generation can be a subjective one but in terms of local authority front line services, and for the purposes of this briefing we are considering, within a broad sense, sources of additional income, that can be achieved to help offset the costs of a service. Income can then be treated as a means to either reduce the level of subsidy necessary, help to offset council tax or rate increases or provide a return of any surpluses to the council to help overall budgets or at a service level help towards the costs of providing a service.

In business terms the difference between the revenues of a business and the related costs and expenses, excluding income derived from sources other than its regular activities, and before income deductions, are synonymous with *net operating profit (or loss)*, and *an operating income or loss*, and *net operating income (or loss)*. In terms of public services certain 'income' is set through, for example, a budget settlement determined by local councillors when setting the council budget and determining what each service should receive within that authority. This budget setting process takes into account certain 'income' received at a council level, for example, through income received in central government settlements or dedicated grant payments.

Service level budgets will take into account political choices. For example within the school meals service local councillors may decide that in order to address child poverty or ill-health issues they expect a high quality service but do not expect the service to be self-funding, and therefore a level of 'subsidy' is anticipated each year to help fund the service where the cost of providing school meals is not fully recovered by the meal prices charged.

3. Sources of Income

There are a number of sources of income each carrying different values to different councils and different services.

Central government grants and redistributed business rates: According to the Audit Commission in 2005/06, total local authority income in England was around £138 billion. The majority of this, 61 per cent, was determined by central government and received by local authorities in the form of government grants and redistributed business rates though some money has been ring fenced; for example in local education authorities, a proportion of this central government funding is ring fenced for spending in schools.

Council tax, fees and charges: Thirty-two per cent of local authority income was generated locally, through council tax, fees and charges, commercial rents, investments and asset sales. Local authorities raised £22.4 billion through council tax in 2006/07. Charging is commonplace in areas such as nursery and early years' services, school meals, social care, transport services, pest control, sports and leisure, arts and heritage, car parking, planning and building control, licensing, and burials and cremations.

Other income: Councils have also sourced other income such as grants from bodies like the Big Lottery Fund. Some have successfully worked with other public bodies on cross-funding initiatives. For example Durham Council received a substantial sum from the local area Primary Care Trust (PCT) to assist with winter gritting to help prevent trips and slips on icy pavements which in turn helped to save the PCT the cost of treating sprains and fractures

due to falls, which as well as being costly in health terms to the individuals ratchet up significant costs in emergency and follow up treatments.

According to the Audit Commission report 'Positively Charged' central government data show that councils generated £10.8 billion from fees and charges in 2006/07 which represents around 8 per cent of their total income and equivalent to just over £210 for every person in England.

4. Charging and trading powers

Local authorities have broad powers to charge and trade in services. Trading and charging allows local authorities to bring in additional sources of income through trading their services or charging for services to be delivered to other organisations or individuals whether private or public. As local authorities throughout the UK strive to meet efficiencies many direct service or direct labour organisations have sought to generate income through the trading or charging route. Whilst a recent high profile court case may have led to some council to reconsider their trading and charging activities (see briefing [09-38](#) and [09-53](#)) there remains a wealth of opportunities within the current legal framework throughout the UK. In addition the Coalition Government has also pledged to bring forward a General Power of Competence which should further allay any fears as to how flexible the legal framework is that is available to local councils (in England).

There are a host of legal powers available to councils to charge for services including:-

- The Local Authority (Goods and Services) Act 1970
- S.111 of the Local Government Act 1972
- S.2 Local Government Act 2000 (Power of Well Being)

and express powers in other legislation:-

- Civic Restaurants Act 1948
- Local Government Miscellaneous Provisions Act 1976
- S. 93 of the Local Government Act 2003 (England and Wales)
- S. 94 trading powers under the Local Government Act 2003
(which provides a basis to charge for services to public/private bodies).

There are some specific legal restrictions that prevent charging for certain services and it is important to remember that the charging power under the Local Government Act 2003 (England and Wales) only applies to 'discretionary services' not statutory services. A council could not for example charge for its education services that it is required to provide. Different provisions apply in England, Wales and Scotland. Northern Ireland operates

on a fairly restrictive framework. Within England the essential difference between charging and trading is that charging for discretionary services is limited to cost recovery whereas trading (through a company) permits the making of a profit. Within Scotland local authorities can provide services for other public bodies and charge them for this without restriction. They can charge for discretionary services such as leisure and parking. Local authorities can trade with community partners and the private sector up to certain thresholds although these thresholds remain to be set.

5. Case studies charging

Vehicle Maintenance: This authority currently provides maintenance for hire companies who supply the authority with vehicles and horticultural equipment such as grass mowers. They have been carrying out the work for only three months but are keen to expand this service. They hope to utilise any funding generated to limit rates to internal customers. Therefore they are looking at other markets and opportunities to diversify the business. The current value of the work is small at present.

The Director of Services has given approval for the work to be carried and has also sought member approval. The charges are levied on the basis of costs plus overhead apportionment

Tree Inspections: Many insurers insist on an annual inspection of trees within policyholder's premises. This is to safeguard owners against trees being blown over or collapsing. A large city council is undertaking these inspections as part of its arboriculture work. The inspections have been carried out for council premises, private householders, private companies and health trusts. This service has been undertaken for approximately one year.

The work is undertaken by the council's arboriculture team and equates to around 25% of their workload or £30,000 of income. The external auditor has raised no objections to this work being carried out. Following analysis of the local area it was found that an extreme skills shortage existed in this service and therefore the council decided to utilise the expertise and equipment it possessed to the benefit of the local community. A charge of approximately £100 per tree is made for the inspection process with additional works incurring supplementary fees.

Highways services and street lighting: This authority has developed a range of services to both public and private clients which maximize the use of resources both in terms of available workforce and plant and equipment. Services sold to others to generate income include car park gritting and clearance during the winter snow, runway clearance to allow a local airport to reopen during heavy snowfall, alongside snow clearance and gritting services

to schools. They have also worked in partnership with developers to put in new street lights on developments but this has created a less risky situation for the developer, particularly where there are S 38 bonds as the developers know that the lighting will be comply with the requirements of the local authority and this helps to reduce additional costs such as inspections as well as the risk of the street lighting failing to comply with requirements.

6. Case studies trading

Flexible trading company model: This authority has set up a very flexible trading company model that sits alongside the direct service organisation. Any council department can utilise the trading company to carry out work, at a profit, for external bodies. The trading company is a wholly owned local authority company. The council has not set income targets against the trading company but the availability of the trading company allows the councils to second staff in and out as and when work arises – this can be for as little as a couple of hours – and it also acts as a vehicle to allow the council to market and brand its traded services. The company has been used to allow joint working on a number of capital projects, often in partnership with private developer in regeneration schemes. Services provided through the company include electrical and mechanical design services, architectural services, quantity surveying and consultancy and building repairs and maintenance alongside a host of other services. In future the trading company may be used to allow building cleaning work to be carried out on private office developments to support income and overheads in the council run building cleaning service. The trading company was initial set up to ensure a sustainable future for the in-house direct services by maximising usage of both people and equipment.

Trading company model absorbing direct services: This trading company model was established shortly after the passage of the Local Government Act 2003. It was designed to enable greater flexibility in trading for services under an ambitious plan to generate surpluses. A number of sub-divisions exist to deliver highways services, soft FM services such as school catering and other services. The Trading Company has a board arrangement with representation to the board from the local authority. A business plan is approved which sets out the level of surpluses and the investment plan for the trading company and staff were transferred into the trading company. It remains a 100% local authority owned company and is now looking to expand its work by carrying out work for other local authorities or working on a shared services basis.

7. APSE comment

As budget pressures mounts it would be an easy solution to simply look at shedding staff or to diminish services. However income generation plans can act as a catalyst to both creating new income and providing innovative local solutions. This income can be used to offset subsidy, to support service development and share new commercial skills amongst staff, and to 'smooth' budget lines by helping to redistribute overheads or indeed central establishment charges within authorities.

Income generation can help local councils to make best use of resources by maximising workforce productivity and use of productive time. Charged for work can also ensure that capital assets and plant and equipment are 'sweated' to maximise value for money. Charging powers are not new and are a simple solution for those authorities looking to develop an income generation stream quickly without the cumbersome processes sometimes associated with trading company models or other forms of service delivery. The trading companies may provide a solution within some situations the time taken to establish them may fetter income generation as a immediate source of additional finance.

The Communities Secretary Eric Pickles appears to support income generation by councils though he has cautioned, quite rightly, against unnecessary or steep increases in fees and charges such as car parking fines. The Communities Secretary referenced APSE's case studies, such as charging for tree inspections, and DCLG linked the APSE web portal on trading and charging to their own news alerts. APSE members can download information and briefings on the [APSE charging and trading web portal here](#).

If you would like to comment on this briefing or find out more about how APSE can support authorities, through our not for profit consultancy services or training services in developing income generation strategies please contact Mo Baines at APSE on mbaines@apse.org.uk

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