

**State of the Market**

**Local authority income generation, trading and charging survey results**



**Briefing 15-64**

**December 2015**

The state of the market survey was conducted by Mo Baines, APSE Head of Communication and Coordination

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APSE member authorities are able to register to attend the new APSE Commercialisation, income generation and trading network which is a free network providing advice, support and up-to-date information on local authority commercial activities [using this link](#)

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## 1. Introduction

APSE conducted an Autumn survey of local authority activity in relation to income generation through simple charging mechanisms, trading activity through local authority companies and other opportunities for new sources of income. This state of the market briefing explores the survey results and provides an outline analysis.

## 2. About the survey

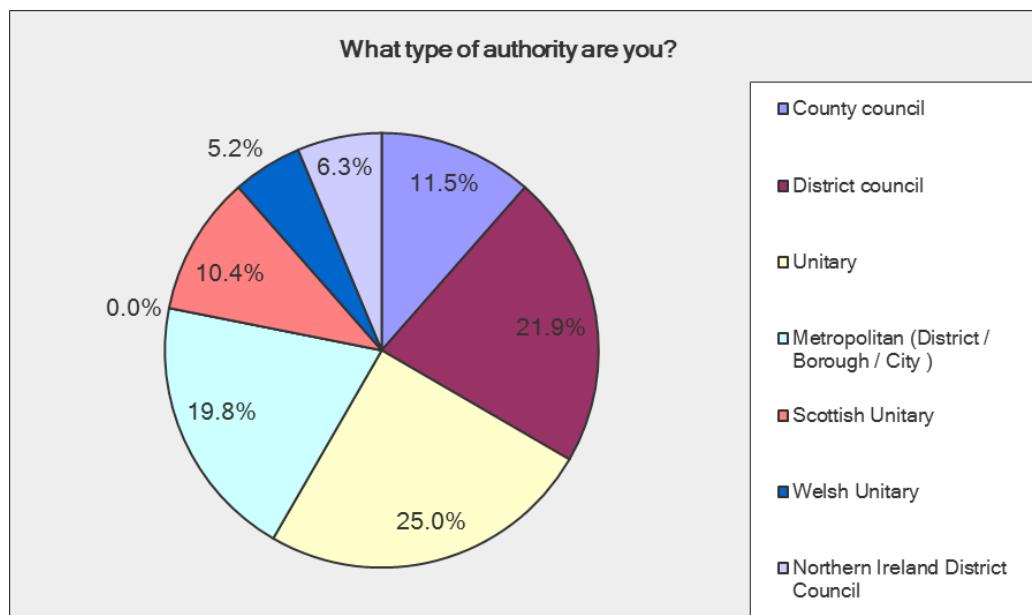
The survey respondents total 99 authorities but stripping out or merging authorities with duplicate responses this reduces to 96 in total. Respondents are from a range of authority types and include County Councils, District Councils, Unitary, Metropolitan (District / Borough / City), Scottish Unitary, Welsh Unitary and Northern Ireland District Councils.

This is a very good sample size coming from APSE membership of 252 local authorities and is considered to be a fair representative sample across types of authorities, political control and service types.

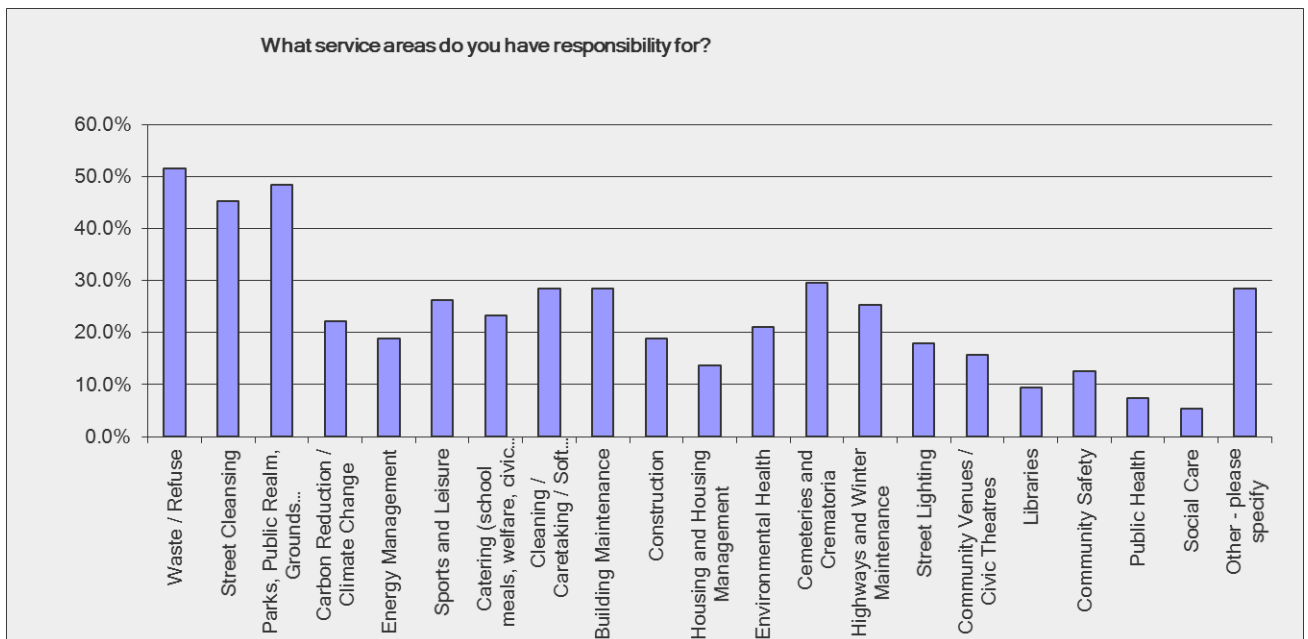
## 3. What do the survey results tell us?

The survey results are explored in detail below and are as follows:-

**Authority type.** We asked respondents their authority type and two thirds of respondents are from Unitary, Metropolitan or District authorities. The results also reflected the lesser overall numbers of council within Northern Ireland (with newly merged District Councils following reorganisation) Welsh and Scottish Unitary authorities compared to the larger number of overall councils in England.

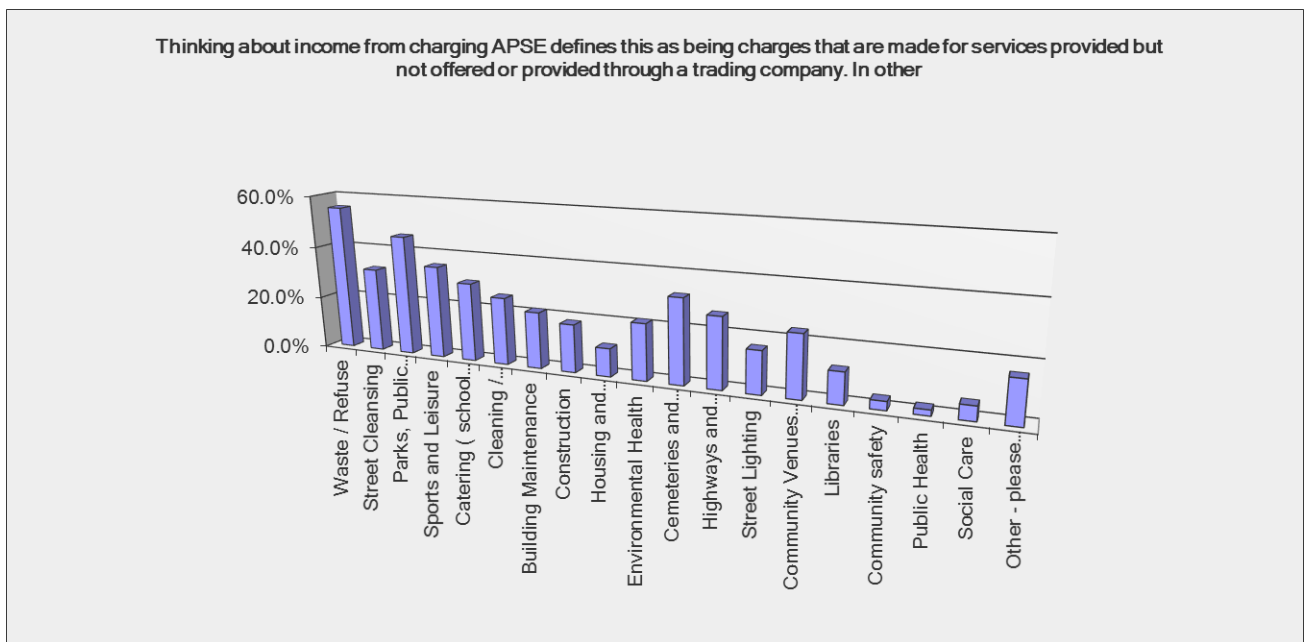


**Service / sector area.** APSE was keen to explore the level of income generation, trading and charging activity over different frontline services as well as more strategic areas within local authorities. Between 45-50% of respondents operated in environmental services like waste, refuse and street cleansing, with around 30% operating cemeteries and crematoria followed by sports and leisure services, catering, caretaking and cleaning with between 22-29% of respondents, with Highways related services coming it at around 30%. Most respondents are responsible for a range of different services. Other sector responses came from community venues, libraries, public and environmental health, housing management and building maintenance. This demonstrates that commercialisation is no longer viewed as purely a corporate matter but is a theme across all different areas of council activity and very much developed in many frontline or ‘neighbourhood’ based services.

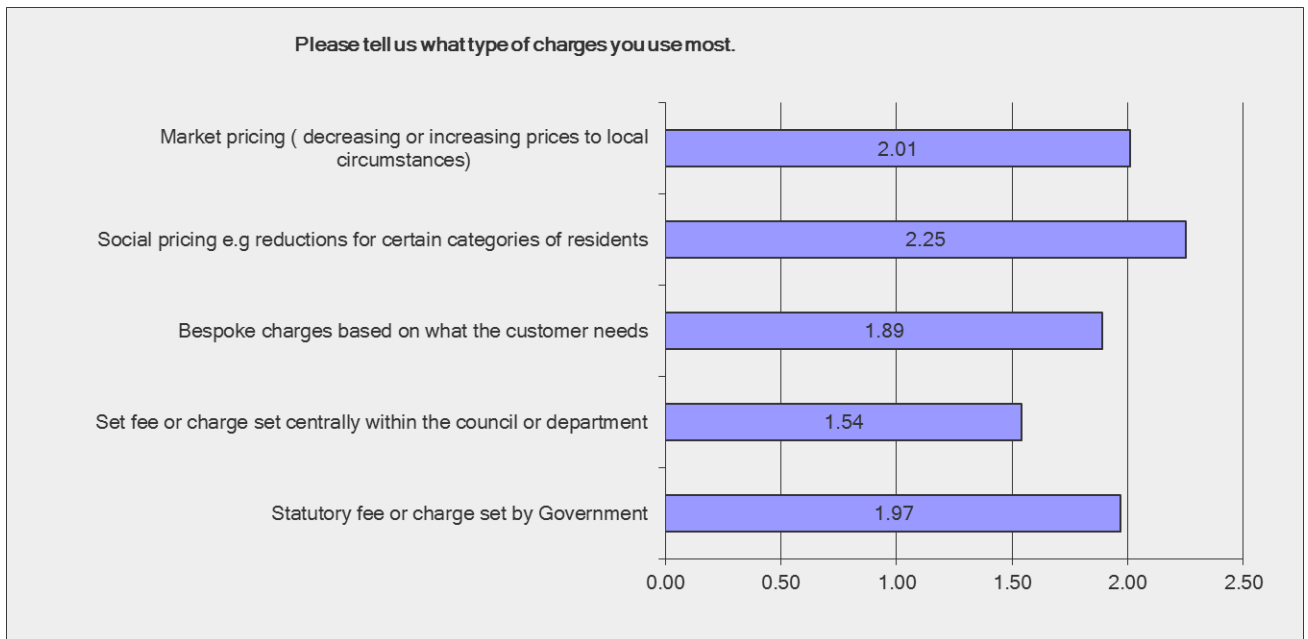


**Where do you get your income from?** We wanted to explore areas where councils are already exploiting opportunities to generate new sources of income. We defined ‘income’ as opposed to ‘trading’ or ‘for profit’ work through, for example, a wholly owned company. In the areas of waste and refuse 57% are generating some form of income. Whilst there are certain statutory areas that cannot be charged for many councils have introduced charges in areas such as garden waste and charges for additional / replacement bins. Within a local

authority boundary trade waste services can be offered without the need for a company and again this is a relatively buoyant area of activity for councils. Similarly around 30% are showing income from street cleansing which will include, for example, cleansing services on private or other public grounds, retail parks or clean-ups after festivals or events in parks. Cemeteries and crematoria services are also areas of significant charging activity with additional services such as memorial masonry, floristry and catering. School catering reflects the service changes with moves towards providing services to academies and free-schools, showing a successful sector response to the changing dynamics of the public service marketplace.

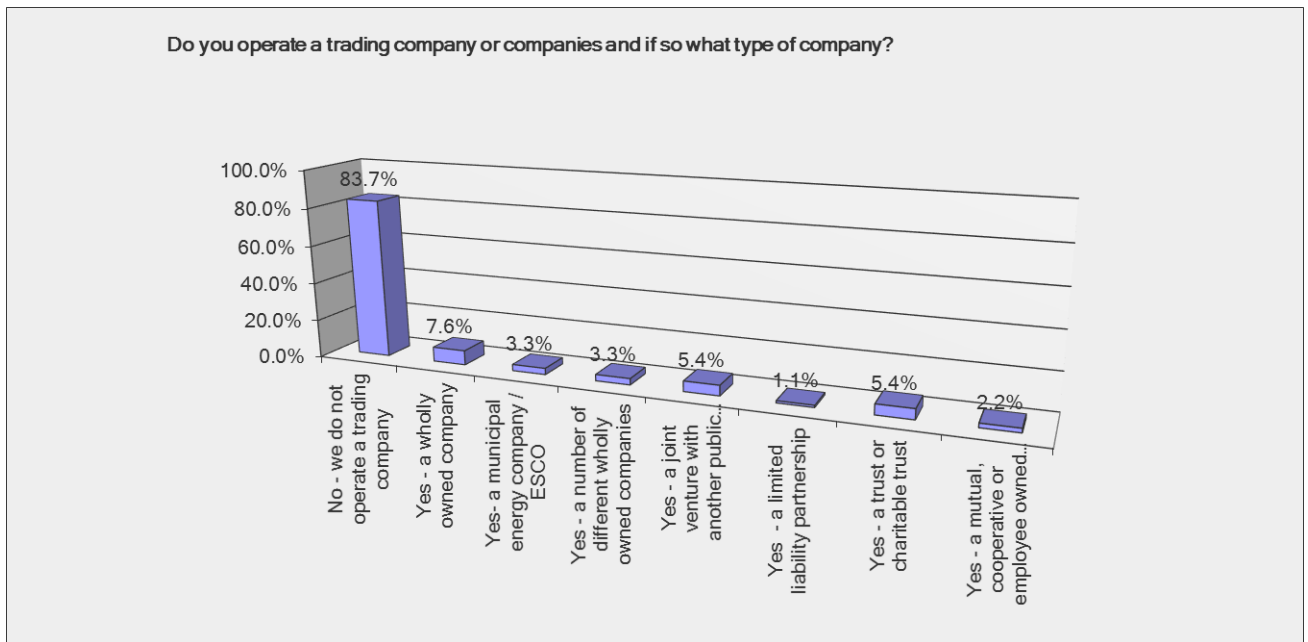


**What type of charges do you use?** The legislation, which slightly varies between areas of the UK, generally permits differential pricing. However there is still greater reliance by respondent authorities on set fees or charges, agreed at either council wide level or at departmental level. Social pricing is the least used as you will see from the weighted responses on page 6. Social pricing is therefore an area where councils could benefit from its' use. Effective social pricing could help to ameliorate any local concerns that the introduction of fees and charges could impact adversely on those least able to pay. Currently however differential or social pricing is an effective mechanism that appears to be underutilised.



**Do you operate a trading company?** There is a common myth that charging without a trading company is not possible. This is generally not the case and with the odd exception the majority of commercial activity and income generation can take place without the need for a council trading company. We wanted to establish the variance between those councils operating a trading company and those simply using charging mechanisms.

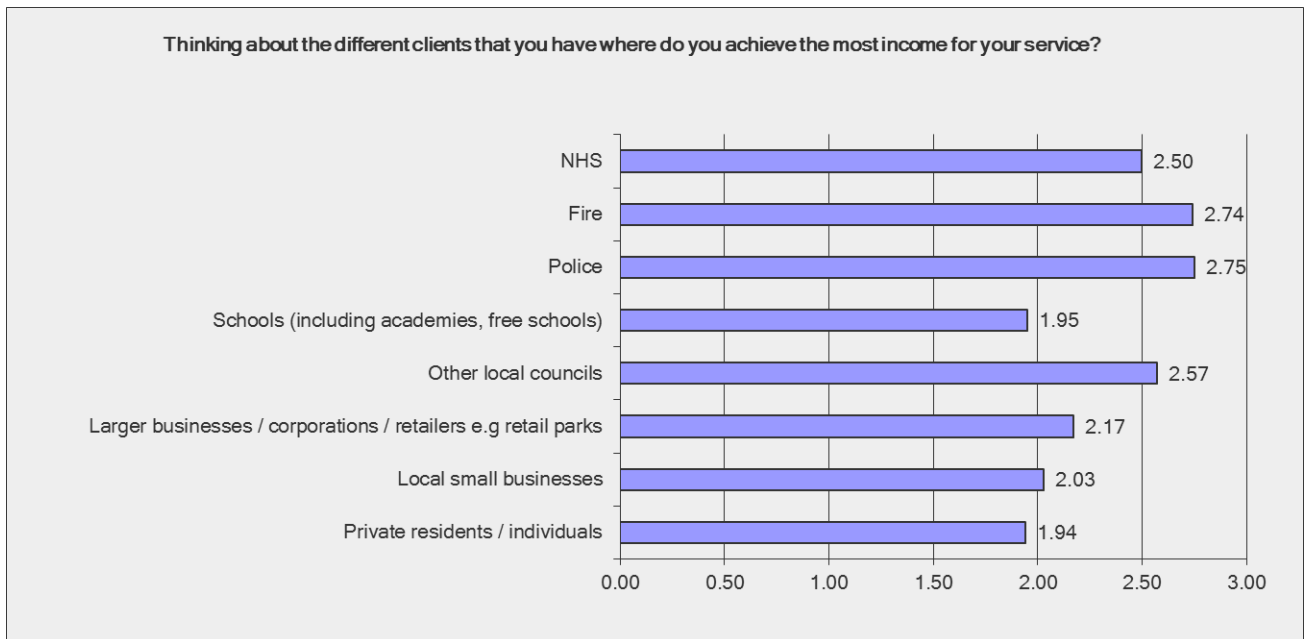
Over 83% of respondents are not operating a trading company but are nevertheless charging for services. However 7.6% of respondents operate some form of trading company and a further 3.3% are operating a range of trading companies. Interestingly although Westminster policy has pursued coops and mutuals as delivery vehicles in the public sector, activity is still limited in these types of companies (many coops and mutual are companies limited by shares or guarantee and would generally require a procurement exercise between the councils and its' former employees to award contracts). Whilst they are in limited operation it would appear these are used most commonly in highly specialised care settings rather than, for example, being a viable model for the delivery of services like refuse collection. This perhaps reflects the mismatch of certain delivery models to the scale, assets and investment needs of frontline services. The delivery model of choice is very much an issue for local authorities to determine.



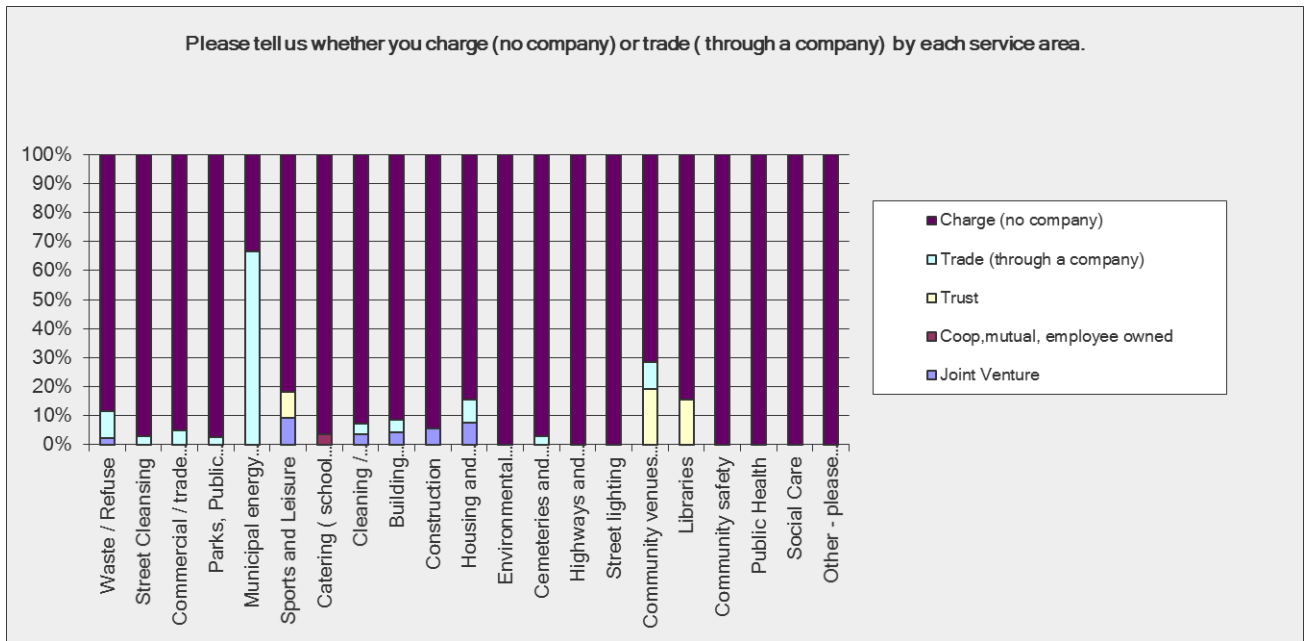
**Who do local authorities sell to?** We wanted to establish what markets local authorities are tapping into as potential areas for sales. In the graph on page 8 the lower the number the higher the level of activity. Local residents and schools are primary sales groups for local authorities. This reflects the diversification of certain services into charged for services on top of basic services, so for example charges for bulky waste collections, or gym class charges. In the area of schools the traditional relationships between LEAs and schools in English authorities has all but disappeared; this has been replaced by a much more robust commercial relationship for the sale of services to schools or academies reflecting devolved budget arrangements. This leads to minor geographic differences for example within Scotland where a more traditional provider relationship with schools still exists.

It is clear from the results that there is huge scope for developing business relationships with other public sector providers including the NHS, Police and Fire and Rescue Services. Whilst shared services have not really gain much traction, often due to the complexities of resolving issues around who is the lead provider in a shared service arrangement, and contract issues, a simple opportunity to provide work to another public sector body, on a charged for basis can often be over-looked and over-complicated into a 'shared service company model'. Such complexities are often not needed and indeed hinder the more rapid development of a mutually beneficial charging arrangement for services that local

authorities could ably provide to other public service providers. Exploiting the opportunity for councils to simply sell services to other public sector bodies, within the locality, should be part of any income generation strategy. Examples would include grounds maintenance services to police or hospital grounds, catering and cleaning services to fire stations or perhaps being able to offer back-office services or satellite office space on a lease / rented basis.



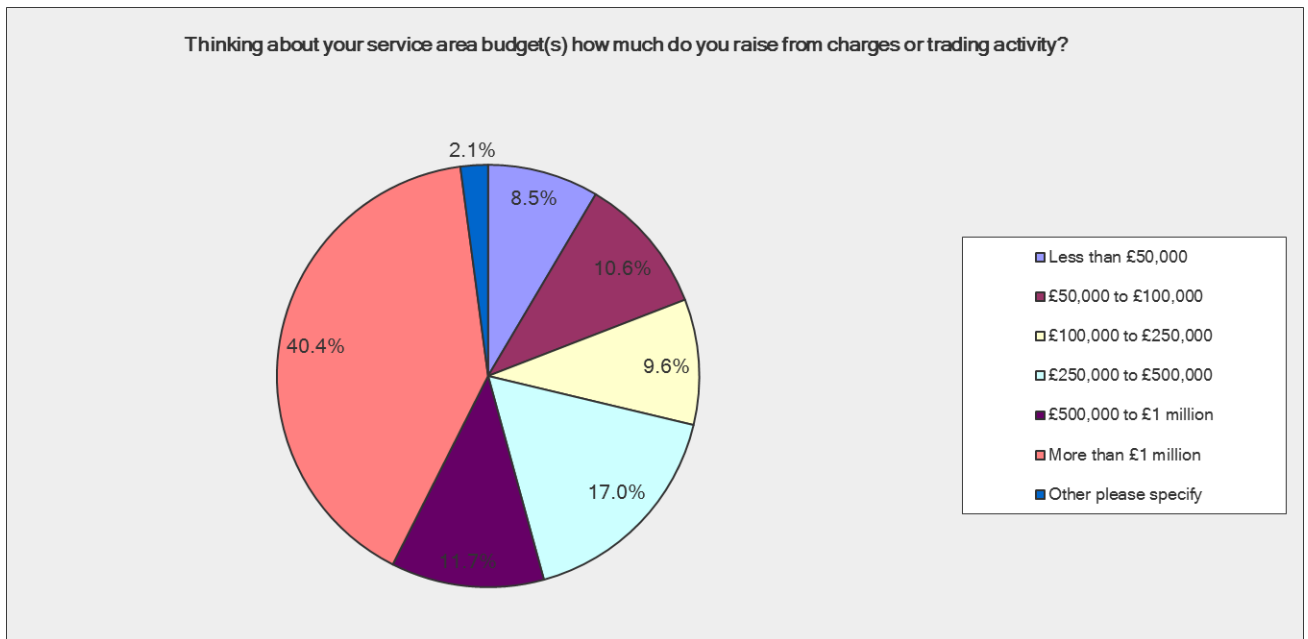
**Type of income generation by service area.** The survey sought details on the nature of income generation by service area activity to establish if there is a particular model most often used in a particular service or type of service. Unsurprisingly the prevalence of trading companies in the field of local authority energy is clear and this is because of legal requirements around local authority energy companies (ESCOs). Again unsurprisingly Trust models are represented in areas like culture and community venues, leisure and libraries. Other areas where trading companies show through in the results are cemeteries and crematoria, housing management and trade / commercial waste services. Again in the area of commercial waste this could reflect requirements on cross-boundary trade waste services.



**How much is raised from charging or trading activity?** APSE wanted to explore the volume of income generated to discover if this was smaller amounts of supplementary income or a significant source of revenue. Over 40% of respondents raise more than £1 million in additional income; when the further specifics are explored amongst this respondent group significantly some authorities are reporting income as high as £25m.

However as part of the commentary many reported that this income was subsequently utilised across other council departments and budgets to offset cuts in statutory services or services to vulnerable people. Some also reported that in terms of a link to finances additional income is used to reduce overall central {within the council} funding of services with budgets linked to anticipated levels of income generated by the services, as there is a distinct shift to services being required to be more self-funding. Just over 2% of respondents reported income as being less than £50,000. Interestingly near to 70% of respondents on a cumulative basis report income generation of over £100,000.

This clearly demonstrates that charging and trading activity is no longer an 'added extra' but a very essential part of the budget setting process for local government services.



**Capacity for income generation.** Most council respondents do not have dedicated teams of officers tackling commercialisation strategies but 17% report that they are actively looking to develop this capacity in the near future. However 35.4% of respondents do have a dedicated resource capacity to take forward their commercialisation agenda. We also asked what support they needed to assist in commercialisation and skills that are prevalent in private B2B circumstances came top overall; this included a commercial culture at 79.1%, marketing expertise at 73.6 % to reflect the differences between ‘commercial’ or ‘paying customers’ compared to service recipients, on a passive basis, and a further 71.4% valuing a network between councils. APSE has already responded to this need by establishing its’ own ‘Commercialisation, Income Generation, Trading and Charging Network’ for its’ APSE member authorities. This group is free to attend and you can register to attend using this link: - [Register here for APSE's commercialisation network](#)

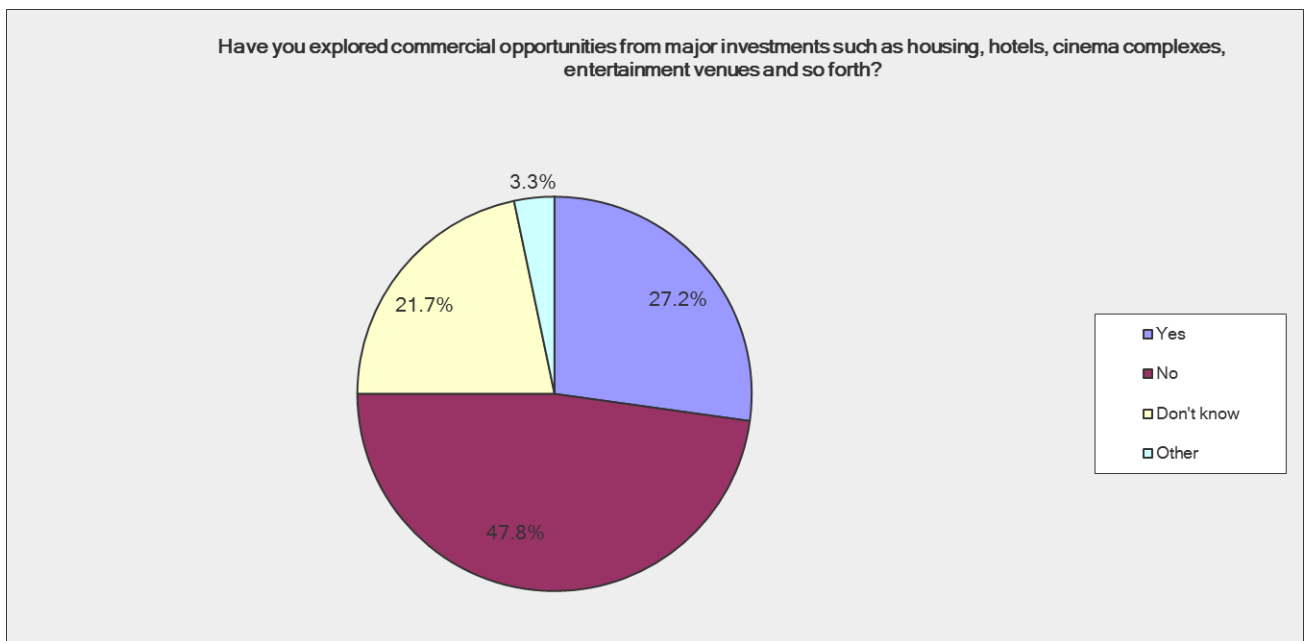
**Going beyond charging to generate investment led income.** With changes to business rates, which will fundamentally shift the reliance on budgets from the current mix of:-

- Revenue support grants, (RSG)
- Council tax
- Partial business rate retention and
- Income

To a new budget base mix of just

- Business rates
- Council tax and
- Income

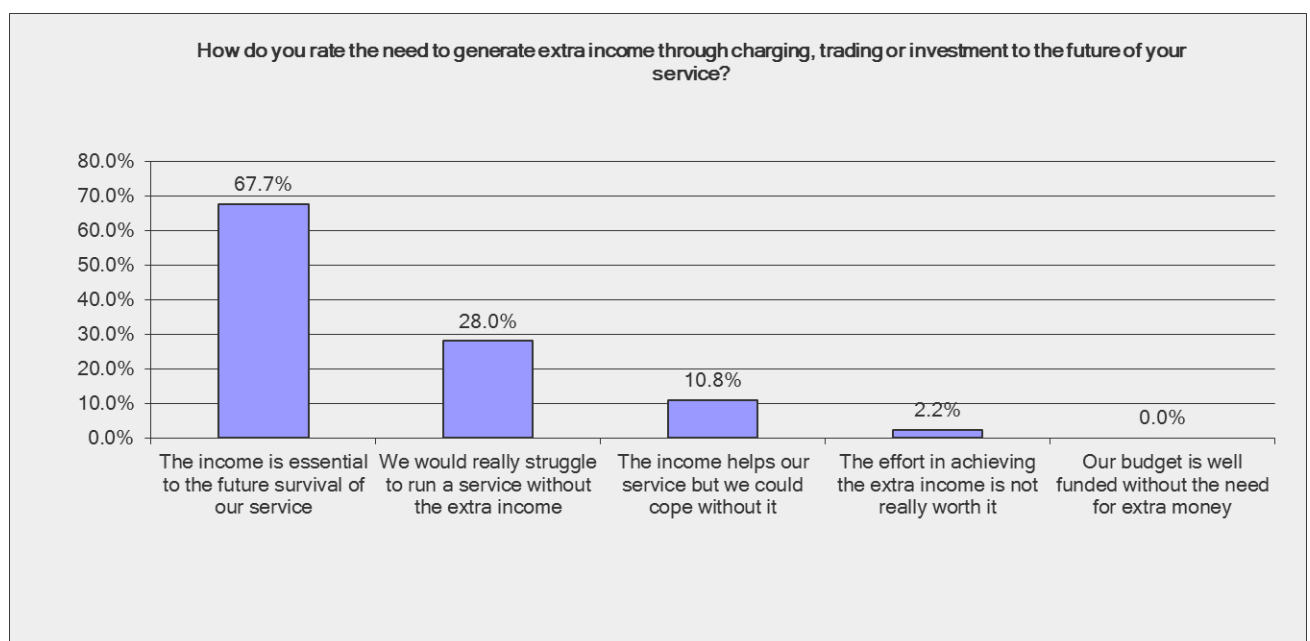
We wanted to see if councils were geared up to generate further income from investment and at the same time use this to grow their business rate basis. This reflects the potential reliance on business rate growth for future council finances. 27.2% of council respondents are exploring investment led income growth with 47.8% who report they are not currently doing so. However the 'don't know' count on this question suggests that there could be under reporting of councils who are in fact pursuing this but it is not necessarily translated across all departments and may sit within the corporate centre, with a respondent bias to frontline service issues.



**Where are you seeking investment from?** Of those seeking investment led income 6.5% reported seeking funds from the public works loans board and just 0.05% of respondents seeking funding via the LGPS investment pots, with 5.4% seeking additional funding from the NHS; though details are scant this appears to be on spend to save projects and co-location. 3.2 % report private investors. There is clearly much more scope for investment led income generation and whilst there is a need to take sensible risk there appears to be a

degree of risk aversion in some areas whilst in other areas like Sevenoaks Council innovative investments have seen the local authority purchasing viable businesses such as petrol stations and local shops.

**How essential is your extra income?** We wanted to find out if income generation was essential or desirable to frontline services and 67.7% of respondents suggested that income generation was essential to the future survival of their service. 28% reported that they would struggle to survive without the additional income. Only 10.8% said the income helps but they could cope without it. This crystallises why councils are embarking, at pace, on sourcing new income streams.



#### 4. APSE commentary

The survey is not intended to be a full reflection of all the different strands of income and trading activity. Within this policy area there are complexities as to the classification of income; for example to include statutory fees and charges, parking fee income and where and how this can be used, alongside more innovative income generation schemes such as providing winter gritting services to regional airport runways. In areas like Nottingham City Council the newly developed 'Robin Hood Energy' is designed to ameliorate fuel poverty as well as generating income from renewables and new technologies but conversely one Merseyside authority is generating over £5m, by simply gearing up its in-house services to

develop ambitious charging strategies for additional services. Some councils have fully embraced a trading culture with Cheshire East Council developing ANSA alongside other wholly owned council companies.

The type of service delivery model to generate income will vary from place to place and will reflect local need, local culture and local preferences and ambitions. However with many councils developing more innovative responses to budget reductions, and the shift in business rates and gradual reduction in RSG, it should be noted that many powers already exist for local councils to take innovative approaches in generating income, without the need to change structures or introduce new legal frameworks.

What is clear from the survey results is that a cultural shift is vitally important and allowing services to be flexible, within the context of a democratic framework, in developing income generation strategies could reap rewards. Elected members can set the tone of engagement on commercialisation strategies and the corporate parameters – for example on social pricing – but equally engaging with the workforce to develop innovative approaches will be critical to the success of commercialisation.

APSE has a network of services for member authorities in this area including the new commercialisation network which is free for members to attend.

APSE Solutions, which is part of APSE's ethical not-for-profit services, provides bespoke development workshops for commercialisation and income generation whilst APSE Training offers training courses, including masterclasses to skill up staff in critical areas such as finances. APSE Performance Networks services also provides information to assess current levels of productivity and value for money against the potential for new income streams. APSE Seminars are hosting a series of specific seminars on trading, charging and income generation with the first being held on [Thursday 21 July at the Etihad Stadium Manchester City Football Club](#).

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