Buckinghamshire County Council

Income Generation Strategy

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Income Generation Strategy

1.0 Introduction

1.1 The current financial climate for local government is very challenging and this is anticipated to continue at least into the medium term. The Governments strategy to addressing the national impact of a world economic recession has focussed on deficit reduction mainly through expenditure cuts. Under that strategy a number of high profile service areas, such as the NHS, International Development and schools have been relatively protected, meaning that non-protected service areas bear an even heavier burden of the cuts. For a range of reasons, local government, as a non-protected service area, has found itself at the forefront of the expenditure reductions.

1.2 Since 2010 grant funding from central Government to local government has been reduced by 40%. Due to the various grant streams and distribution mechanisms each local authority is affected slightly differently. For Buckinghamshire, Revenue Support Grant, the core Government grant has been reduced by £19m, or 31% from 2013/14 to 2015/2016. Comparisons prior to that are difficult due to a fundamental change in the funding mechanism for local government, but nonetheless it is clear that funding prior to that was also reduced substantially.

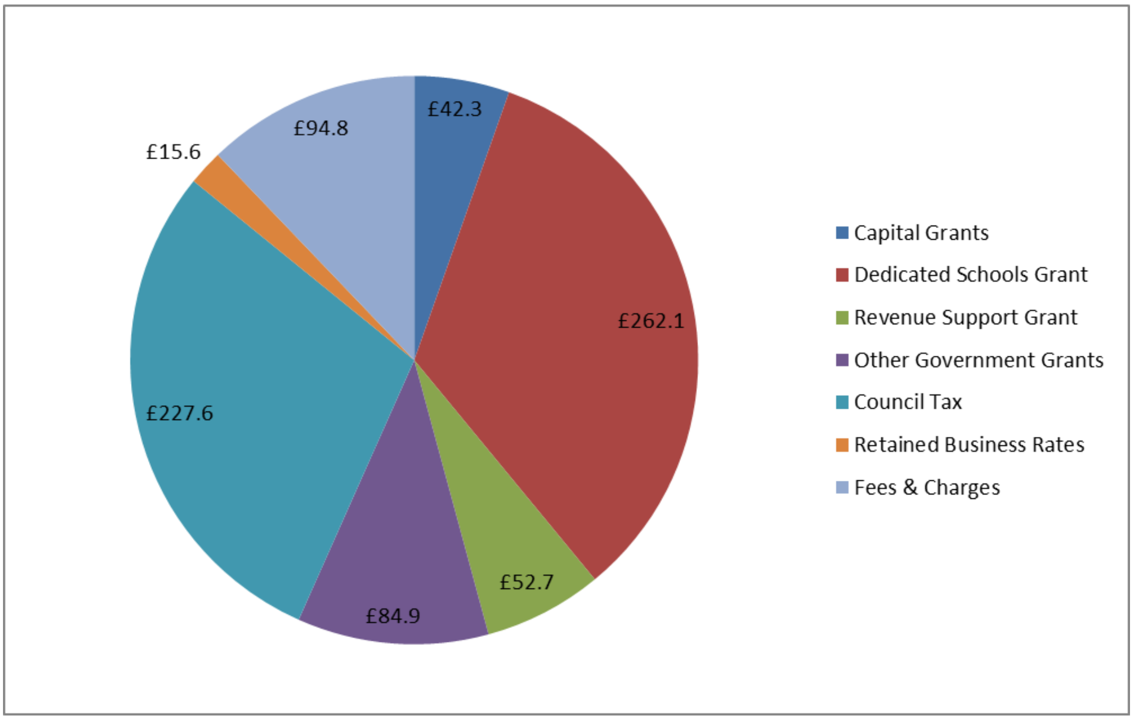
1.3 At the same time as Government funding is reducing, so demand on services is increasing. Demographics from an aging population and immigration, as well as medical advances leading to more complex needs and the wider economic downturn are all placing increased demand on local government services.

1.4 There are many actions the Council can take to try and meet these challenges, such as demand management, increased use of digital media, service re-design, etc. This strategy document, however, focusses on just one of those strands, the Council's approach to generating income.

2.0 From where does the Council get its Income?

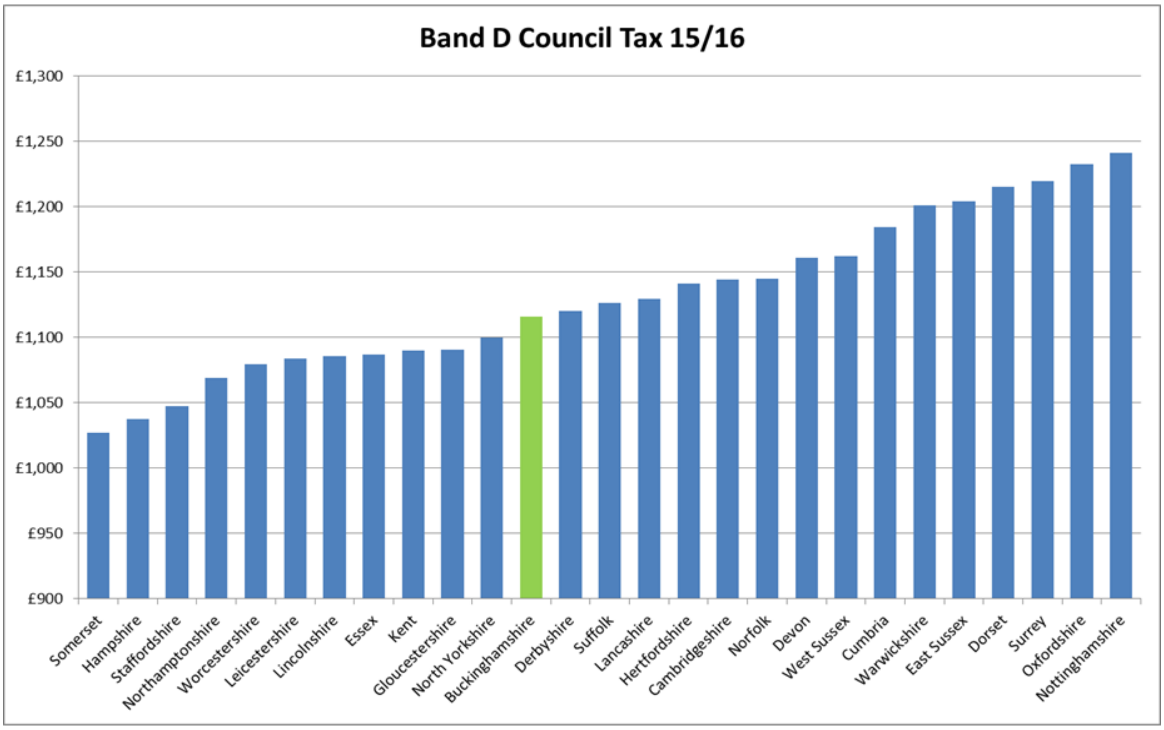
2.1 Due to the relatively affluent nature of Buckinghamshire, which tends to mean higher property prices and lower demand on public services the County Council's biggest source of local income is from Council Tax. Since the major change to the structure of local government financing in 2012/13 the Council also retains a proportion of local Business Rates (9%). Despite the cuts in central Government funding the Council still gets a considerable amount of income from grants both ring-fenced to specific functions and general. Finally the council generates a substantial amount of income from charging for its services, or to a much lesser degree fines. The graph below show the distribution of the total income of £780m the Council received in 2014/15.

Figure 2.1 – Sources of Council Income 2014/15 (£m)



2.2 Council Tax

2.2.1 The Council Tax is the largest source of locally generated income for the Council by some considerable margin, representing 29% of total income in 2014/15, or 67% of the net budget requirement. However, the level at which Council Tax is set is marginally below the national average for counties, as shown in the graph below. The overall yield from Council Tax is large for Buckinghamshire, due to the relatively high value of properties.



2.3 Business Rates

2.3.1 Although Business Rates are collected locally by District Councils the rate itself is set by central Government. Traditionally the Government have increased the rate in line with the Retail Price Index as at September the preceding year. In 2012/13 the local government finance system changed so that a proportion of rates is retained locally. Although the actual system is quite complex the basic principle is that central Government retain 50%, district councils 40%, the Fire & Rescue Authority 1% and the County Council 9%. Again the relative affluence of Buckinghamshire makes this a reasonably buoyant source of income for the County Council, albeit the proportion retained is quite small. The Government have announced plans to allow local authorities to retain 100% of Business Rates by 2020, whilst at the same time phasing out the majority of revenue grant streams. These changes are subject to consultation and may also see a shift in the balance of retained Business Rates between the different local authroites.

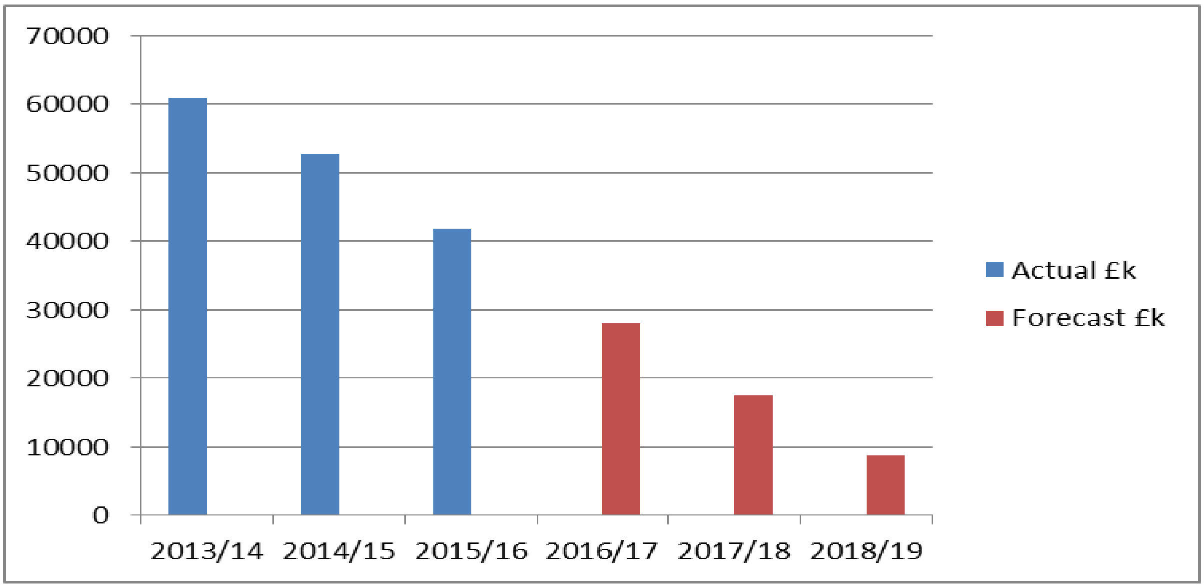
2.4 Dedicated Schools Grant

2.4.1 The largest single source of income for the County Council in 2014/15 was the Dedicated Schools grant. However, this is a ring-fenced grant subject to much legislative constraint and has to be spent on funding schools themselves, or a small proportion can be used for services which support schools and pupils. Largely the County is constrained to influencing the distribution of the resources amongst schools rather than what the money is spent on. In line with the Government's policy to promote Academies and Free Schools, money transfers away from the County Council each time such schools are established in Buckinghamshire.

2.5 Revenue Support Grant

2.5.1 The Revenue Support Grant is the general grant provided by Government. It is this grant that has seen and is anticipated to continue to see the largest reductions as part of the Governments deficit reduction programme. The Graph below shows both recent actual reductions and the latest forecasts for the years ahead.

Figure 2.5.1 – Reductions in Revenue Support Grant



2.6 Other Government Grants

2.6.1 Although far reduced in number from the past there are still a considerable number of Government Grants. A few of the key ones are:

- Public Health Grant, currently around £17m of core grant, provided to the Council following the recent transfer of Public Health responsibilities from the NHS. This is has increased in 2015/16 to £20m due to the additional transfer of some children's public health services (£23m in a full year). Buckinghamshire is currently below its target level according to the national distribution formula. Despite this the grant is likely to fall due to Government expenditure reductions, but remain a ring-fenced grant for the next two years.

- Education Services Grant, currently about £6m, provided to pay for responsibilities the local authority has in respect of supporting its schools community. This is subject to being cut if schools transfer to being academies, which the Government are seeking to drive forward.

- New Homes Bonus is a time limited grant (currently 6 years) which should stabilise at around £3.5m p.a. for the County Council. It is based on new housing growth and 80% is retained by the district council and only 20% comes to the County despite the majority of supportive infrastructure being the responsibility of the County Council. The Government have announced significant changes to NHB, which will see it reduced in value, the time period which it covers reduced to 4 years and possibly the balance between county and district altered.

- Capital Grants can only be used for capital purposes and are mainly aimed at supporting the maintenance and development of infrastructure such as roads and schools.

2.7 Fees & Charges

2.7.1 The Council makes a wide range of charges for its services, as well as seeking both client and developer contributions towards services, fines for regulation enforcement and receives income from its investments. In 2014/15 the Council obtained income totalling nearly £95m from fees and charges, making up about 12% of total income.

2.7.2 Whilst grants are generally declining as a source of income it is probably the area of fees and charges where there is most potential for increasing income.

2.7.3 Appendix 1 to this strategy sets out in more detail the fees and charges income received by each Portfolio and as such establishes a baseline for this revised Income generation strategy.

2.8 Recharges

2.8.1 Recharges are charges passed between various parts of the County Council and as such they do not constitute real income. However, there are several connections with real income, so they are discussed in this strategy document.

2.8.2 The Council operates effectively as a number of large “funds”:

a) The General Fund pays for the on-going costs of most core services of the Council.

b) The Pension Fund administers the pension contributions from current staff, the pension payments to former staff and the investment portfolio necessary to sustain and enhance the value of pensions over time.

c) The Dedicated Schools Budget, although not technically a separate fund, operates within a tight legislative ring-fence.

d) The Capital Programme which pays for longer term investments is also subject to legislative constraint and is in any case of a different nature.

2.8.3 Recharges between these “funds” can effectively be like income as far as the receiving fund is concerned. For example recharges made to capital, or to schools can boost the capacity of the General Fund to support core services just as real income does.

2.8.4 Recharges are also important in reflecting the true cost of services, which it is necessary to know when setting charges for real income.

2.8.5 Sometimes there are issues of equity, for example when recharging a local authority school for the same service as charging an academy.

3 The Actions the Council will take to generate more income

3.1 In general the Council will adopt a more commercial approach and therefore seek to maximise its income. However, it does recognise that this has to be balanced with the fact that the council supports some of the most vulnerable people in the Buckinghamshire community. The Council also has a desire to keep taxation levels as low as possible to allow both businesses and individuals to prosper in Buckinghamshire.

3.2 Council Tax

3.2.1 It is clear that Council Tax at around 30% of total income and 67% of locally generated income plays a very significant role in the funds that the Council has available to deliver its services. It follows that the decisions the council takes on Council Tax levels will have a significant impact on the total income generated by the Council and thus the services it can afford to fund. If the Council has an aspiration to become self-financing this will be all the more the case.

3.2.2 There is a difficult balance to be struck between keeping taxes low for local residents whilst at the same time generating the funds to provide the services that residents need and want. The Council will therefore aim to keep Council Tax as low as possible whilst providing appropriate funding for its services. In the current financial climate this is likely to mean higher rises in Council Tax than might otherwise be the case. In doing so the Council will also have regard to the position of other councils and will aim to remain below the average for county councils and certainly below the upper quartile.

3.2.3 The Council will also work with district council's to maximising the yield from Council Tax. This will be done through such measures as avoiding fraud, chasing arrears and encouraging and facilitating housing growth where appropriate.

3.3 Business Rates

3.3.1 At present the rate of taxation for businesses is set nationally. This is likely to remain the case even under the Government's recent proposals the allow councils to keep 100% of the income from Business Rates. Whilst details of the new arrangements are yet to be developed the outline proposals are that Council's will be able to reduce the rate, but not increase it above a nationally set cap, unless in specific circumstances under an elected mayor, which is unlikely to affect Buckinghamshire in the foreseeable future.

3.3.2 Given the constraints over the rate itself the largest influence over the rate yield the Council is likely to have is by encouraging business to flourish. This needs to be done sensitively in order to protect the county's natural environment, particularly the Chilterns AONB. Nonetheless the County Council will work with its partners, such as district councils, the LEP and Buckinghamshire Advantage to promote appropriate business growth and thus increase business rates yield. The Council may wish to consider discounts to business rates in specific circumstances in order to attract new businesses into Buckinghamshire.

3.3.3 The Council will also work with district council's to considering pooling if this is felt to be of mutual benefit, as well as chasing debt and dealing with appeals promptly (although significantly dependent upon the Valuation office at present).

3.4 Government Grants

3.4.1 The grant regime now has far fewer streams and less complexity than was the case in the past. The majority of significant grant streams are determined by a national allocation methodology over which the Council has no control. It is also anticipated that many of these grant streams will diminish, or even disappear over the next few years as the Government continues with its austerity programme as well as a restructuring of local government financing.

3.4.2 Nonetheless there do remain a number of grant areas where the Council's action impact on the level of grant, or where bids for funding are necessary. For example the Governments Troubled Families programme has an element of grant delivered on a payment by results basis. Although the Better Care Fund is a Government determined allocation, its use has to be negotiated with the Clinical Commissioning Group (CCG). The largest area of grants of a bid nature is in support of infrastructure projects. Much of this is now channelled through the Local Enterprise Partnership (LEP), but the Council has considerable influence. Allocations of capital grants for highways will increasingly be dependent upon sound asset management planning.

3.4.3 In terms of income generation the Council will aim to maximise its income from grants subject to any grant in question supporting the Council's policies and priorities. Thus it will not simply chase the money if the grant offer conflicts with those policies and priorities.

3.5 Fees & Charges

3.5.1 Fees and Charges represent the area of income over which the Council has the greatest control and influence. Unlike taxes and grants there is normally a direct connection between the service user and those that pay. It is this area of income that is most equivalent to revenue generated in the private sector and thus this element of the Income Generation Strategy is closely related to the Commercial Strategy.

3.5.2 The Council already makes a diverse range of charges for its services. Some of the charge rates are set by statute and others are fully at the discretion of the Council. This strategy cannot hope to cover all these individual charges in any detail, although Appendix 2 sets out a schedule of the Fees and Charges currently levied by the Council. Rather, what is set out below is a set of principles to guide those setting the Fees and Charges as well as the expectation of the Council in generating additional income from this source.

3.5.3 Principles in setting Fees & Charges

a) Technically this doesn't need stating, but for the avoidance of doubt**, the Council will follow all appropriate legislation and regulation which impacts on Fees and Charges**. In a number of cases legislation will prevent any charges at all and in other cases the statutory framework will determine, or heavily constrain the charges. However the boundaries of those legislative constraints need to be considered carefully. It may be possible to unbundle current service provision methodology, so that core activities are free as legislation stipulates, but that enhancements can be charged.

b) Unless statutory constraint applies the Council's default position is that **a charge should be made for all services that at least covers the full cost** of delivering those services. Any exceptions to this (see 3.5.4 below) will be an explicit decision of the Council in line with its key decision arrangements. In some cases it may be necessary to set up a Trading Account in order to charge at, or above full cost (see section 5)

c) Inevitably where charges are being levied there is likely to be some form of market place, or benchmark comparison with other local authorities. **Where the market/benchmark price is below our full cost, we will aim to drive our costs below that price. If this is not possible then we will outsource that service**, subject to this being sensible when other related services are considered.

d) Subject to putting in place appropriate trading arrangements, **where our full cost is below the market/benchmark price, we will aim to charge at or only just below that market/benchmark price**.

e) **Where charges are reduced/subsidised this will be as the result of an explicit decision**. This might apply to the charge as a whole, or when it is made to a particular group.

f) **The Council will aim to leverage its assets and skills base to generate additional income**.

g) **The Council is willing to invest in income generating opportunities.** This is subject to a sound business case and a full understanding of the risks involved.

h) **The Council will adopt a "what works best" approach to generating income** and thus is prepared to establish "Alternative Delivery Vehicles" where this is most appropriate.

i) **Charges should be levied in advance of or at the point of service delivery**, with service not being delivered until payment is made, in all but exceptional cases or for statutory reasons

j) **The default basis for costing new service offerings will be on an average cost basis.** That is not to say that a sound business case cannot be made for other approaches such as marginal costing in particular circumstances, but the risks need to be fully understood and accepted.

3.5.4 Exceptions to Charging

There may be a number of legitimate reasons why charges are either not made at all, or are made at below full cost, such as:

a) Charges are forbidden or limited by legislation.

b) A decision of the Council agrees that the service should be delivered free, or at a subsidised rate.

c) The Council has entered into a contractual arrangement which limits the ability to charge.

d) The cost of administering the charging arrangements exceeds the value of the income, unless there is some behavioural change reason for doing so.

e) For service areas with high fixed costs, the need to spread those costs over a broad base may mean that winning business at below full cost can make a positive contribution and reduce the average cost of service provision. This does need careful consideration, however, as it may have longer term risks associated.

f) The potential risks to the Council incurred as a result of charging outweigh the benefits. Examples of potential high risks would include:

   i. There would be significant fall in demand and as a result the Council would not achieve one or more of our Strategic Priorities, or the cost of doing so would become prohibitively expensive.

   ii. The reputation of the Council would be significantly damaged.

   iii. Charging would cause an unwanted change in behaviour of customers resulting in a high likelihood that costs would be incurred elsewhere in the Council's business which would be greater than the income generated by the charge.

3.5.5 Concessions when Charging

a) Concessions, i.e. reducing the charge below full cost recovery, may be appropriate in certain circumstances. Clearly this must be done where there is a mandatory requirement to do so. Where the Council exercises its discretion to offer concessions this should be in order to meet a policy objective in line with the Strategic or Business Unit plans.

b) Care is needed to ensure that the chosen target group, or eligibility criteria meets the policy objective. For example there are many people over state pension age who are very wealthy, or young people from wealthy families making age an inappropriate criterion if reaching those unable to pay is the real issue.

c) As far as possible, definitions and eligibility criteria for concessionary target groups should be consistent across the Council.

4 Recharges

4.1 As already briefly mentioned in section 2.8, recharges are internal charges, or movements of costs, between different parts of the Council. In that sense they are not true income as there is no flow of money into the Council. However, recharges are relevant to the Income Generation Strategy in a number of ways, as set out below.

4.2 The complex nature of local government finance means that the Council is effectively set up as a number of funds (see 2.8.2). Recharges between these "funds" can effectively be like income as far as the receiving fund is concerned.

4.3 For example the salary costs of an officer working on a capital project will be charged in the first instance to the General Fund, but might then be recharged to Capital, where legitimate. Thus these costs are funded from the Capital Grant, or Capital receipts, etc. rather than from, say Council Tax. The capital grant/receipt remains exactly the same, so there is no real additional income, however, it does allow the burden on the Council Tax to be reduced and thus freed up for other purposes.

4.4 A particularly tricky area here is in connection with schools. Academy schools are funded direct from Government and so a charge for a support service made to one of these schools is real income. The same charge for the same service made to a community school, which is funded via the Council is a recharge. As with the capital example there is strictly speaking no new income, but the funding burden shifts from the Council Tax to the Dedicated Schools Grant. It is therefore important that officers providing services to schools and thus raising charges on them understand the particular nature of the school in question.

4.5 The second reason that recharges are important for income generation arises from the principle expressed at 3.5.3 b) that charges should be set at a level to recover full cost. Full cost means all the direct costs of delivering the service and an appropriate share of overheads. Recharges become important in understanding the appropriate share of overheads.

4.6 Just as with the charges set for the generation of real income it is important that those involved in setting recharges have some guiding principles for sake of consistency. These are set out below:

4.6.1 **Recharges will be set with the aim of recovering full cost, but no more or no less**. There is no real gain to the Council as a whole if internal services make a gain (or a loss), but if internal recharges are made at a level other than full cost this will distort the apparent full cost of end user services and thus it will be unclear if those end user services which are generating real income are making a surplus, or a deficit.

4.6.2 It follows from the above that **recharges should be set to avoid hidden subsidies to external services by over-charging internally**. A Council service that is providing both internal services and services to external clients should not cross subsidise between the two, as this will lead to distortions and misinformation, which in turn leads to inappropriate decisions.

4.6.3 **Recharges should be set to strike an appropriate balance between simplicity and transparency**. As already mentioned it is important for the understanding of full cost recovery that recharges are made. However, it needs to be recognised that there is a bureaucratic overhead of having recharges at all and this needs to be kept to an absolute minimum if operations are to remain efficient.

5 Trading

5.1 The generation of new and additional income is likely to involve services in trading activity. This, of course, brings with it a range of commercial risks. It is therefore important that those engaged in this activity understand and effectively manage those risks.

5.2 The Power to Trade

5.2.1 The Local Government Act 2003 provided a general power to trade to local authorities and the Localism Act 2011 further enhanced that power by adding the general power of competence.

5.2.2 The general power to trade allows a Council to do anything for commercial purpose which it is already authorised to do for the purpose of carrying out its ordinary functions; but not where it is already required or authorised to do so under its ordinary functions, i.e. for discretionary and not statutory services.

5.2.3 The general power of competence gives an authority the power to do anything that individuals may generally do, anywhere in the UK or further afield, and for a commercial purpose or charge; but authorities are still prevented from trading in activities where there is a statutory duty.

5.2.4 There are limits to how these powers can be exercised by the authority itself, with some powers only being exercisable through a “company”. A company means one established under the Companies Act 2006, or a charitable trust, or Industrial or Provident Society.

5.2.5 It is therefore vital to obtain legal advice at the earliest stage, to ensure that any proposal to trade and the model of trading has the relevant legal authority. The risk and consequences to the County Council in not exercising its powers correctly is huge.

5.3 Developing the Case to Trade

5.3.1 Setting up a trading activity will inherently involve taking commercial risk. It is therefore important that a robust business case is developed. To justify the taking of those commercial risks it will be important that there is a strong policy rationale and link to the Strategic Plan. In other words if the activity is not a priority for the Council, why would it take the commercial risk to set up a trading activity?

5.3.2 The underlying rationale for trading a particular activity needs to be made clear and the subsequent business case needs to demonstrate that the proposal meets those objectives. Some examples for why trading may be appropriate are:

a) The potential for harnessing additional income/profits/return on investment, which cannot be achieved or can't be maximised without setting up a trading vehicle;

b) We own a "unique" skill or skill set which is desirable and marketable;

c) The potential to reduce costs or achieve economies of scale can only be achieved through a trading model;

d) Cost diversion to maintain a wide client base over which to charge overheads;

e) Attraction of funding or discounts not available to a Local Authority;

f) The potential to further improve performance can only be achieved through a trading model;

g) Improved income and/or profit can only be achieved in a more commercial setting;

h) Attraction of inward investment into the County area;

i) Encourage job creation in the County;

j) To overcome the resistance of others to trade with the County Council, by providing an organisation which is independent of the Council, allowing more opportunities to be taken up.

k) To set up a partnership with others to share risk and reward.

5.3.3 A detailed analysis of the external markets and the potential opportunities should be carried out, including:

a) looking at the competitive landscape – who else is doing what?

b) the changing market dynamics – current and future trends

c) changing customer base (individuals, businesses, other public bodies, voluntary and community sector)

d) potential growth and optimisation opportunities – where are the gaps?

e) value of the BCC brand

5.3.4 The potential rewards of entrepreneurial innovation are high but this brings risks. Awareness of the potential problems throughout the process can ensure that risks are recognised and can be minimised, mitigated or provided for. Potential risks include:

a) Choosing an inappropriate trading model

b) Getting the governance arrangements wrong

c) Inflexible contractual arrangements entered into restricting ability to react to increasing/reducing service demand

d) Getting pricing structures wrong – uncompetitive or not covering costs

e) Duplication of governance and decision making

f) Council exposed to employee claims or financial loss

g) Council exposed to bad publicity or loss of credibility

h) Resistance from potential customers and/or competitors

i) Uncontrolled or unpredicted cost increases over longer term

j) Increased tax liabilities/complexity, e.g. VAT, Corporation Tax, etc.

k) Not achieving income targets and predicted savings not delivered

l) Potential conflicts of interest to Member and Council officers

m) Staff and unique skills retention

n) Agreements with external clients reduce the ability to provide services to internal clients

6.0 Investing for Income Generation

6.1 In some cases it is likely that in order to generate a new stream of income some form of up-front investment will be required. This might be the purchase of new/enhanced assets which facilitate the generation of income, the investment of time to re-design processes via either consultants or the establishment of a dedicated project team, or a combination of both.

6.2 Business Unit Level Investment

6.2.1 Under the Council's Operating Framework this is essentially a business decision for the Business Unit(s) concerned. The proposal will therefore require a sound business case to be presented to the Business Unit(s) Board. The Business Unit(s) have a choice in the way the necessary investment can be supported.

a) The Business Unit(s) can fund the investment from within its own revenue resources, recovering that investment from the additional income generated. This route is likely to be the most suitable in cases where the level of investment is low, the payback period is short, or where the risk appetite of the Business Unit(s) is greater than that willing to be borne by other parties. In such cases the Business Unit(s) will benefit from all of the additional income generated.

b) The Business Unit (s) can seek to "borrow" the necessary investment funds from HQ, who will effectively act as "corporate banker". This route is likely to be the most suitable where the level of investment is greater, or the payback period longer. In such cases it will be necessary for the Business Unit(s) to submit the business case to the relevant corporate board (One council Board in the case of revenue investments and the Asset Strategy Board in the case of Capital Investments). The first call on the new/additional income generated will be the repayment of the corporate loan in line with the approved business case. Any income generated above this level will be retained by the Business Unit(s).

6.2.2 Where the latter route is chosen HQ will require not only the repayment of the principal sum, but will also charge an appropriate interest rate. The interest rate will be set to reflect a number of factors:

a) The cost of borrowing the money externally (this will be the case whether or not HQ actually borrow money or finance the transaction from internal resources)

b) The time period for which the money is locked up in the investment

c) The scale of the investment

d) Other risks with the investment.

The appropriate interest rate will be determined at the time of approving the business case.

6.3 Corporate Level Investment

6.3.1 The Council has a substantial financial turnover and as a consequence may hold a cash surplus at any point in time. The investment of these cash balances needs to strike a balance between providing maximum return without risking financial loss. The approach taken is determined by the Council's Treasury Management Strategy, which is not repeated here.

6.3.2 Under the Capital Investment Strategy the Council has agreed its willingness to invest in Capital Assets purely for the purposes of generating income. The basis for those investments is set out in the Capital Investment Strategy as amended from time to time by the Asset Strategy Board.

6.3.3 As part of the Medium Term Financial Plan the Council has set out an ambitious transformation agenda and in doing so has approved both significant revenue savings targets and set aside some revenue resources to facilitate the changes. Whilst much of these plans will focus on cost reduction there is also the scope to bring down the net cost of services through income generation.