

National Assembly for Wales Public Accounts Committee

Charging for services and
generating income



WLGA • CLILC

Summary

1. Councils have borne the brunt of austerity and the publication of the latest report from the Institute of Fiscal Studies (IFS)¹ on the Welsh Government Budget shows that local services are the most vulnerable to cuts. For some time, local government has recognised that income generation potentially makes a contribution to budget shortfalls.
2. The WLGA welcomes the report and the recommendations are consistent with the messages that the WLGA has repeated over the years since the onset of austerity which mainly advocate maximising income from fees and charges and having appropriate local discretion to set them.

The WAO Report

3. The full response rate to the survey work shows that this is a priority for Finance Directors. Prior to the WAO commencing the work around its latest report the Society of Welsh Treasurers had convened a sub group to look at fees and charges and are likely to carry out further work in light of the introduction of a general power of competence in the local government white paper.
4. It is important to point out that local government is not starting afresh on this, most if not all councils will have looked at fees and charges in developing their medium term plans.
5. Other professional networks taking a corporate approach to commercialisation include the Heads of Procurement where during meetings in 2016 a number of them indicated that they were developing approaches in these areas.
6. In our evidence to the Finance Committee's Inquiry on the Welsh Government's Budget Proposals for 2017-18² we demonstrated that many local government services had shrunk considerably but this was less so for relatively protected areas such as education, social services and environmental services. A 2015 report by the Public Policy Institute for Wales (PPIW)³ looked at how councils in England were coping with cuts. Strategies encouraging economic growth and commercialisation have been a main part of their response although, as the report points out, expanding trading and commercial activities is not a new approach.

¹ [Welsh Budgetary Trade-offs to 2019-20, Institute for Fiscal Studies 2016.](#)

² [WLGA Evidence: Welsh Government Budget 2017-18](#)

³ [Coping with the Cuts: Lessons from English Councils' Responses to Budget Reductions, PPIW 2015](#)

Fees and Charges in context

7. Going back to 2011, Deloitte were commissioned by WG Efficiency and Innovation Board and the Society of Welsh Treasurers to carry out an income review. The aim of the review was to enhance councils' understanding of the range of options available for generating income. The review activity was focussed around the following areas:
 - Detailed income benchmarking
 - Pricing comparative analysis
 - Income identification workshops
 - Implementation advice
8. This was the first time that authorities would have seen benchmarked information at a very detailed level. A number of authorities used a similar methodology in subsequent years for further, more detailed authority-specific work.

Commercialisation as part of public service reform and wider transformation

9. Being more commercial is not a matter of just introducing charges for discretionary services where there is limited market failure. A recent article by one of the London S151 Officers⁴ argues that councils should build on their history and be more commercial in their approach and activity. This means taking the broadest possible definition of commercial activity, looking to diversify income streams alongside collaboration with others to deliver local priority outcomes.
10. Local authorities have a long history of commercial approaches going back into Direct Labour Organisations (DLOs) trading functions. Historically this applied to functions such as Housing Maintenance, back in the early 1990's, when LA's and Housing associations were bidding competitively for each other's contracts to supplement income generation.
11. Following on from the Compulsory Competitive Tendering (CCT) regime many local authorities externalised various functions such as design engineering, initially as arms-length companies. DLO's have had a commercial 'trading' aspect under legislation going back to the 1980s.

⁴ <http://www.room151.co.uk/resources/alison-griffin-can-we-afford-not-to-be-more-commercial/>

12. As the author of the above article pointed out, councils need to consider a range of issues

- How to strengthen the balance sheet—and can this be done in a way that ensures residents and local businesses have a stake in the future growth of an area?
- What types of entities or vehicles are required to maximise the benefit for the council whilst reducing the risk?
- How are trading or development opportunities appraised and evaluated?
- What are the council's current strengths—is there a potential commercial value?
- Do you have the right skills mix and knowledge, or do you know where to get them?
- Are there discretionary services that could be charged for, or charged for differently?
- Are the arrangements for supplier management and market making strong enough?
- Are the governance arrangements robust enough to manage the different risks, but flexible enough to promote swift decision making when required?
- How effective are the income collection systems?

13. Trading and commercialisation has therefore been a part of the local government armoury for some time. It's the context and emphasis that has changed and awareness of its potential role has probably become prominent in broader local government services more recently.

14. It would be misleading to claim that commercialisation is an embedded trait within local government, and whilst it is further developing, the skills and capacity needed for it to be a so will take considerable nurturing and support. Local government has not previously been seen as obviously innovative, and or as risk takers, quite the opposite in many cases. A key element of future progression will be in changing the perception of the commercial markets to see local government as a credible and viable business organisation.

Shared Learning

15. The WLGA continue to work collaboratively to support innovation and service transformation through providing opportunities for practitioners to acquire

knowledge and skills and share experiences and connections. This collaborative approach has proved valuable in cross fertilisation of ideas across service areas and sectors and alignment with national priorities or legislation such as the Wellbeing of Future Generations Act and Social Services and Wellbeing Act.

16. National partners work together via the Good Practice Wales partnership to share information, identify practice and plan programmes of activity either through case study development via the Good Practice Wales website or shared learning events:

- Good Practice Wales: a single access online portal to Welsh Public Services good practice and knowledge. The site currently signposts to over 3000 case studies and key resources such as Co-production Catalogue for Wales, Alternative Models of Service Delivery etc. as well as hosting national programmes such as Together 4 Children and Young People, All Wales Continuous Improvement Network etc. The WLGA is the co-ordinating partner (<http://www.goodpractice.wales/>).
- Shared Learning events over a range of themes such as the Behaviour Change, Joint Commissioning for Integrated Health & Social Care, digital services, open data, etc. Many events are organised or coordinated via the Wales Audit Office's Good Practice Exchange (<https://www.wao.gov.uk/good-practice>) or are coordinated by the WLGA via Good Practice Wales.
- Professional networks and communities of practice actively share practice and learning. Communities of practice have been established for continuous improvement and the Welsh co-production network has recently received funding to expand its activities.

General Power of Competence

17. The WLGA Council debated the General Power of Competence in February 2016. There is support for such a power to give Welsh councils renewed confidence in their powers to continue this work to improve efficiency, for example through joint arrangements, in particular to provide back office and support services which may be defined as 'incidental' in law to their primary functions. Challenges such as climate change and energy security, changes in the make-up of the population, economic change, and technological developments, make it vital councils can take reasonable risks, and provide new services.

18. There is a welcome commitment by Welsh Government in the current White Paper to legislate to create a power of general competence for local government. It is anticipated that this would contribute to councils' confidence in their powers to tackle the challenges their communities face in new ways. It

is important therefore to gain a full understanding of the limitations but also the considerable possibilities inherent in this approach.

WAO recommendations

19. The report makes two recommendations for the WLGA and the Welsh Government.

R4 Consider how best to support and encourage local authorities to act more commercially in generating income.

20. This is probably more for the WLGA and we are working with the LGA, looking at skills for 21st Century Procurement/Commercial officers. A competency framework for procurement practitioners is being worked up. We are also discussing how we can help councils to join up on commissioning skills and training and whether it would be possible to deliver short training opportunities on a national level. This will have to be done with the Heads of Procurement network.

21. We will continue to work with the Welsh Government to promote income generation through existing arrangements. We are also working with other partners such as Local Partnership who offer specific seminars on Commercial Councils. These could be run as stand-alone events or hitched onto meetings of professional networks. We would expect to run one or two events on top of other shared learning events.

R6 Review nationally set fee regimes to ensure the levels set, better reflect the actual cost of providing services, or explain the reasons why they are different.

22. Work is already underway to catalogue fees across Wales and who sets them whether the Welsh or UK Government. The harder part will be estimating the full economic cost of the services and working with governments at different levels.

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