

Innovations

A review for chief financial officers of

approaches to finding new non grant funding

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\ foreword

The squeeze on the public finances will be a catalyst for innovation. Necessity is the mother of invention so the saying goes. The current policy debates are looking to achieve desired social outcomes at a lower cost to the public purse and by bringing the entrepreneurial drive of business into the delivery of public services to bring step changes in productivity. This focus has been sharpened by the deterioration of government finances.

This briefing brings together the findings of recent reports that suggest ways that organisations can innovate to increase their non government grant funding. Some organisations are already taking up these approaches and others might find them fruitful to investigate further. References to sources of information are signposted.

What is clear is that the speed and scope of the policy and funding grant changes means that Chief Financial Officers and their teams across the public services need to be alert to new options. As with all things new, outcomes are not clear and the impact of new approaches is not settled. The time for good practice on these issues is further ahead. Even with tight budgets, sums may need to be set aside to enable innovate approaches and widen small projects into larger scale operations.

We hope that by bringing this information together now, which is current to the end of May 2011, it provides a useful summary as organisations explore these options.



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\ introduction

Public funding from government is being cut across all public services. Public bodies will be examining all options when it comes to finding new income streams to supplement government funding. Organisational leaders will be looking to their Chief Financial Officers to give them advice on what options should be explored. This review scans the current literature to bring together a summary of areas that may be fruitful. It describes the main features, opportunities and limitations, and associated risks and as well as pointing to further sources of information and ongoing work.

The topics examined are:

- Alternatives to revenue funding - Social Impact Bonds
- Renewable/green energy resale
- Capital financing – Bonds, TIF, asset backed partnerships, European support
- Charging and Trading

section 1: social impact bonds

A Social Impact Bond is a contract between a public sector body and the social impact bond investors to pay for an improved social outcome. Investor's funds are used to pay for a range of interventions to improve the social outcome. By enabling non-government investment to be utilised Social Impact Bonds can fund greater spending on preventative services, at risk in the current fiscal climate¹. Created in 2009 by Sir Ronald Cohen the first £5m bond was set up by Cohen's social equity firm Social Finance to resettle 3,000 ex offenders in Peterborough in a bid to reduce reoffending. If the scheme reduces crimes being committed by ex-offenders by at least 7.5% then investors take a share of the savings made by the government. In seven years the investors are looking to get £8m and the government will make savings in police costs and reduced welfare expenditure. Only the Treasury can approve these cross departmental savings and give the lead department the budget to pay for the bond. It transfers the risks to private investors and it costs the taxpayer only if the scheme works. If the promised outcomes do not materialise then investors lose their money. Other areas where such bonds are being considered for development include school drop out rates, reducing the number of children in care, homelessness, and acute hospital admissions. The idea is taking off in the US where 7 pilots using social impact bonds are in progress.

The benefits are that government only pays for success by releasing a proportion of savings to investors. Investors will initially be trusts and foundations, and in the longer term high net worth individuals and commercial investors. The long term aim is to unlock consumer interest creating a new class of investors once a track record has been established. For providers the upfront costs are funded meaning that small not-for-profit providers can plan with a degree of certainty in regard to income over the life of the scheme. There is also greater clarity over scheme goals and measures of success linked to positive outcomes, both socially and financially.

By bringing in new money without incurring public debt Social Impact Bonds should make it easier to develop and expand preventative services². Public organisations that invest in prevention and early intervention do not always see the financial benefits of a programme's success and these benefits may not be realised for many years. The risk of paying for prevention and the possibility of failure deters investment. In tight financial times as now spending on prevention tends to fall.

Local authorities would need to contract with the third party provider of services through a Special Purpose Vehicle, as they cannot borrow to fund revenue expenditure. The SPV receives the bond income and will engage providers to deliver the intervention services. The contract payments to the SPV would be outcome based, through which they repay bond holders.

Because payment is for success, innovation in approaches and an evidence base of outcomes will emerge, promoting better practice in tackling social problems. Social Finance³ has concluded that social impact bonds are feasible if

- They address a social problem that has high costs for the public sector and can be measured;
- The costs are such that, if avoided, they will reduce the public sector's expenditure;
- It is possible to identify the individuals that could benefit from the services funded by Social Impact Bond investment;
- Interventions that would deliver improved social outcomes are known; and
- The interventions cost substantially less than the public sector savings that would result from improved social outcomes.

1 Social impact bonds rethinking finance for social outcomes Social Finance Limited 2009

2 Towards a new social economy Social Finance March 2010

3 Towards a new social economy Social Finance March 2010

The uncertainties about Social Impact Bonds centre on the difficulty of measuring outcomes and identifying cashable public savings. These would need to accrue within the term of the bond life. It will require the development of contracts that include outcome metrics and a baseline against which the impact of the intervention can be assessed. The contract would also need to ensure there were no perverse incentives to cherry pick from the target group. Investor confidence will depend on the risks attached and although the long term ambition is to develop a tradable and mature market, at this pilot stage the investors will need to be engaged with the social outcome desired and not just the financial return.

section 2: renewable /green energy resale

Councils now have the power to generate and sell renewable energy to the national grid, and this offers the potential for an additional income stream.

Feed-in Tariffs (FIT) for micro generation

Feed-in Tariffs (FIT) for micro generation of electricity were introduced from April 2010 and are designed to encourage small scale renewable generation⁴. The scheme covers generation of up to 5 mega watts of electricity through solar power (roof mounted or stand alone), wind turbine and hydro-electricity. The FIT is a cash back mechanism applying throughout the UK for renewable energy where households, businesses and the public sector will receive payments for energy generated from renewable sources on top of the savings they make on energy bills. Payment is covered by energy suppliers, who recover their costs from their wider customer base through fuel bills. The payments will continue for 25 years. The tariffs vary depending on when the micro generation is installed. The public sector can access these feed-in tariffs by installing renewable energy generators on their own estates including schools, social housing and council offices.

The review of FITs was due to take place in 2012 taking effect from 2013 but has been triggered early. A fast track review of photovoltaic (PV) generation over 50kW (the domestic scale) and farm scale aerobic digestion is now being consulted upon⁵ because of concerns about large scale arrays of solar generation which could take a disproportionate amount of the funding or break the cap on total funding. However smaller solar generation schemes at the domestic scale are not included in this fast track review. The cost of the PV technology has also dropped more quickly than anticipated making the returns more attractive on the tariffs set at the start. The consultation proposes reducing the tariffs for PV solar generation for the largest industrial scale installations over 250kW to the level of support to wind turbine generation. A scale of tariffs that captures installations between 50kW and 150kW and those between 150kW and 250kW would apply for installations such as on hospital or schools, recognising the distinction between these and industrial size arrays. The amendments to the tariffs for PV generation over 50kw and up to 5 MGW are planned to come into effect from July 2011. They will not be retrospective to schemes already accredited for FITs. This means that community based schemes can still attract FIT albeit at a lower rate.

The comprehensive review⁶ that includes domestic scale PV and other micro generation will be complete by the end of the year and only affect new entrants to the FITs scheme. Its broad terms of reference include all aspects of the scheme, including tariff levels and eligible technologies.

FITs remain an opportunity for the public sector to contribute to carbon reduction and energy efficiency whilst earning returns on the investment. The New Local Government Network report Power and Money⁷ suggests that local government is not taking up the opportunity that green power presents. The uncertainty over tariff levels is becoming clearer, but the issue of up front capital funding for the schemes remains locked into issues of access to capital funding.

⁴ http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/energy_mix/renewable/feedin_tariff/feedin_tariff.aspx, accessed May 2011

⁵ <http://www.decc.gov.uk/assets/decc/consultations/fits-review/1438-condoc-fasttrack-review-fits.pdf>, accessed May 2011

⁶ http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/energy_mix/renewable/feedin_tariff/review/review.aspx, accessed May 2011

⁷ Power and money NLGN February 2011

Renewable Heat Incentive (RHI) Scheme

The Government announced in March 2011 the details of the Renewable Heat Incentive scheme for financial support scheme for renewable heat. Support is for a range of technologies and fuel.

The detailed arrangements for this scheme are set out in The Renewable Heat Incentive (RHI) policy document⁸. It will provide long-term financial support to renewable heat installations to encourage the uptake of renewable heat. The regulations which underpin the scheme are planned to be approved by Parliament in summer 2011 and the scheme then introduced.

The scheme will be introduced in two phases. In the first phase, long-term tariff support will be targeted in the non-domestic sectors, at the big heat users - the industrial, business and public sector. The second phase will see households moved to the same form of long-term tariff support offered to the non-domestic sector in the first phase.

Support is throughout the UK and through an RHI tariff, not through the previously proposed RHI levy. The RHI will be funded from general Government spending. RHI payments will be claimed by, and paid to, the owner of the heat installation or producers of biomethane for injection and will be made quarterly over a 20 year period. Combined Heat and Power schemes will be eligible in so far as they are not supported by the FIT from electricity generated by the scheme.

Tariff levels have been calculated to bridge the financial gap between the cost of conventional and renewable heat systems, with additional compensation for certain technologies for an element of the non-financial cost. The Gas and Electricity Market Authority (Ofgem) will administer the RHI.

⁸ <http://www.decc.gov.uk/assets/decc/What%20we%20do/UK%20energy%20supply/Energy%20mix/Renewable%20energy/policy/renewableheat/1387-renewable-heat-incentive.pdf>, accessed May 2011

section 3: capital financing

The squeeze on public finances will have a significant impact on access to capital funding streams. The increase in the Public Works Loans Board (PWLB) rates announced in the October 2010 budget will increase the cost of new borrowing and the refinancing of existing debt. Local authorities and foundation health trusts have freedom to borrow under the prudential rules, so called unsupported borrowing. Borrowing has to be prudent, sustainable and affordable and the key to satisfying the prudential rules is the need for a long term revenue stream to finance the cost of the loan. The ability to use unsupported borrowing is limited by future available revenue streams, but not including recycling of the business rate. With the constraints on revenue in the coming years and the increased costs of PWLB borrowing, other sources of capital funding will be needed. In addition much of the new social and physical infrastructure has been provided within public / private partnerships with private capital investment and public annual revenue commitments in PFIs or PPPs and this will equally be constrained in the future. And with the property market depressed and a lack of private development activity it is unlikely that significant planning gains will be achieved in the future to support public capital investment. The New Local Government Network has launched a task force to investigate the range of options in raising capital for infrastructure and development in a period of low growth⁹.

Bonds

Municipal bonds issued by local authorities were once common. In recent years only Transport for London (TfL) and the City of Birmingham have issued bonds. TfL sold £600 million of AA rated bonds in two tranches in 2004 and 2006 to finance its extensive capital programme which includes Crossrail and the London underground upgrade. Importantly TfL has the scale and clear sources of revenue to meet the bond finance payments. Birmingham City Council issued a £215m bond in 2005 to finance the National Exhibition Centre. Local Authorities have the freedom to issue bond at a fixed rate repayable at a specific time but have used this freedom in a very limited way largely because there has been unlimited access to cheap long term borrowing from Central Government through the PWLB. PWLB borrowing adds directly to the net public sector debt and it is now more costly.

Local authorities may want to investigate the case for issuing bonds. These would be long term bonds either financed from specific sources of revenue flowing from the infrastructure or a general call on its finances. To attract investors the bond would need to achieve an external credit rating reflecting the creditworthiness of the public body and its price would fluctuate like UK gilts according to the perceived risks and market conditions. Issues are likely to need to exceed £200 million to be viable. Large local authorities or consortia could create a capital structure that would enable them to finance their long term infrastructure needs with confidence through the use of bond issues.

Local authority bonds, being effectively 'guaranteed' by the public sector still add to the public debt. Used for financing capital infrastructure the risk of development cost overruns or that revenue is inadequate to service the debt remains with the public sector.

The Local Government Association is looking at the feasibility of a collective investment institution modelled on MuniFin in Finland which raises its own bonds and then lends onto member councils. Such a sector owned institution would save on rating agency costs and dealing costs and allow smaller authorities access.

9 <http://www.nlgn.org.uk/public/2011/localist-capital-finance-the-challenges-ahead/>, accessed May 2011

Tax Increment Funding

Tax increment funding is a model widely used in America. It uses the anticipated additional local taxes paid that arise as a result of the development to fund the development costs. It translates an anticipated future tax income for a present benefit. Typically the future tax revenue is used for a limited period to finance the infrastructure costs through the issue of bonds secured on the expected new tax income. After the period needed to repay both the capital and interest the tax income reverts to the local authority. The principle underlying TIF is 'no new tax, no lost tax'.

The process involves calculating the existing property tax revenue in order to agree the additional or incremental tax that would be payable following development. The surplus revenue is available to drive new capital investment.

The challenge is securing investment capital for upfront infrastructure expenditure serviced by uncertain tax revenues from buildings yet to be developed and occupied by unidentified occupiers. TIF investors commonly insist on a development guarantee, only releasing capital funding when the development of buildings is assured.

Most American states permit TIF schemes provided they meet certain constraints;

- They are required to address a public policy goal
- They should concern public infrastructure (roads, sewers, light rail systems)
- They need to establish the 'but for test', that the project would not be able to proceed without TIF funding

American TIF projects have clear rules on public, regular and transparent financial disclosure to protect the interests of investors, developers, tax payers and local communities. The model usually uses local government bonds or the anticipated revenues to underpin borrowing by the main developer. Most jurisdictions only allow bonds to be floated based on a portion (usually capped at 50%) of the assumed increase in tax revenues. Providing a project is moderately successful this means that a good portion of the expected annual tax revenues can be dedicated to other public purposes other than paying off the bond. The model is not without its critics, these being largely concerned with the designation of districts being drawn to include areas where development would have taken place anyway and that it does not provide the funding for community infrastructure more widely such as schools, health care and public spaces for which other monies must be found. There have also been concerns about governance and connections between developers and local politicians influencing projects. In the US there are tax incentives associated with TIF.

Calls for TIF funding in the UK have grown over the years. A pseudo TIF was introduced in 2005 where additional revenue from central government rewarded increased tax from non domestic rates as an incentive to maximise economic growth in the authority's area. The Local Authority Business Growth Incentive Scheme (LABGI) provided further revenue if the NDBR increased beyond a target floor set by the historic growth rate. It was seen as complex, and the Treasury remained concerned to ensue the system was fair in rewarding relative performance rather than circumstance and was applicable to all providing the same incentive in high and low growth areas, and did not reward inaction. It was largely replaced by the Supplementary Business Rate Levy powers where authorities can levy an additional 2p in the pound. The October 2010 white paper¹⁰ proposed a new Business Increase Bonus that allows authorities to retain the growth, up to a certain level, in the business rates yield arising from development exceeding a threshold for 6 years.

The coalition government announced in September 2010 new borrowing powers to enable local authorities to carry out TIF. These will require legislation. It is proposed that TIF will be implemented through a bid based process to allow understanding of the risks involved and to develop a shared approach to implementation. Accelerated Development Zones, were piloted by the previous government and were loosely based on TIF, allowing local authorities to capture and retain any incremental commercial tax revenues non-domestic business rates generated as a result of the development. The bid process attracted a good deal of interest, based around city region regeneration.

Options for TIF are going forward via the Local Government Resources Review which will examine how TIF proposals can be delivered in the context of the greater retention of business rates proposed by the review, with legislation to follow.

The Scottish Futures Trust working with local authorities has developed TIF for use in Scotland. The Scottish Government passed enabling legislation in December 2010 for up to six TIF pilot schemes to be developed in Scotland and approved the business case for the Edinburgh waterfront schemes in March 2011.

10 Local Growth: White Paper Realising every place's potential, November 2010

Asset backed partnerships

Public bodies can be asset rich but cash poor. Using public sector assets to leverage in private sector finance and expertise can help bring forward projects that the public body alone cannot afford to finance and is most suited to regeneration and economic development projects. Such Local Asset Backed Vehicles (LABV) have long life terms and share the risks with the private sector. The public body contributes land and a private partner or Urban Development Fund brings debt financing and equity into the joint venture. The outcome for the public authority is to bring forward regeneration projects that would not otherwise go forward.

Urban Development Funds

The European policy initiative Joint European Support for Sustainable Investment in City Areas (JESSICA)¹¹ provides additional resources to Private Public Partnerships (PPPs) for urban renewal and development projects in the regions of the European Union. It allows the use of some European Regional Development Funds as a source of loans, equity investment and guarantees. These, alongside complementary resources from the European Investment Bank and others, help de-risk developments in regeneration areas otherwise considered too marginal for commercial lenders or investors. This is done through the creation of Urban Development Funds (UDFs) to support selected projects. The programme contributions will be used to finance loans provided by the UDFs to the final beneficiaries, backed by guarantee schemes established by the funds and participating banks. No state guarantee for these loans is involved, hence they do not add to public finance debt. There is no standard model of application, with each area developing its own proposals. UDFs have been set up by Regional Development Agencies (RDAs) in some regions. The RDAs are due to be wound up by March 2012 and are replaced by new Local Enterprise Partnerships (LEPs). The returns on these investments by the UDFs can be used to fund further investments so extending the life of the European funding.

Enterprise Zones

Although not part strictly of infrastructure funding, local authorities in a Local Enterprise Zone located within LEPs will be able to retain and share all business rate growth in the zone for a period of at least 25 years to support their economic priorities.

Development tariffs

These schemes set strategic tariffs on developers to provide an income stream to support the infrastructure requirements of an area and have been in operation in a number of areas. They are voluntary but are more certain than negotiating planning obligations scheme by scheme. The Community Infrastructure Levy introduced by the Planning act 2008 is to be retained although with some amendment¹². The new levy came into force from April 2010. Councils will set a levy on developers as a contribution to additional infrastructure needed as a result of the development. A meaningful proportion of the revenues raised will be allocated to the area but councils will retain the ability to use this revenue where it is most needed to address the cumulative impact on infrastructure that may occur further away from the development. It can be pooled to support sub-regional infrastructure such as transport links or passed to bodies outside the authority area for infrastructure such as flood defence or education. The income from the levy may, if allowed by the Secretary of State, be used to support prudential borrowing to repay loans used to support infrastructure. Planning obligations or Section 106 agreements will remain but limited only to social housing provision and relate only to the development rather than being applied more widely to fund general infrastructure needs as happened in the past.

The government signalled in the March 2011 budget its intention to pilot land auctions starting with publically owned land to allow Councils to capture the rise in value when they grant planning permission for housing. Indications are that pilots are not likely for a year.

11 http://ec.europa.eu/regional_policy/funds/2007/jjj/jessica_en.htm, accessed May 2011

12 <http://www.communities.gov.uk/documents/planningandbuilding/pdf/1897278.pdf>, accessed May 2011

Business improvement districts (BIDs)

Introduced in 2004 these allow a levy of about 1% on non domestic rates payers in the district to fund improvements in urban infrastructure additional to that provided by the local authority. A Business Improvement District is a precisely defined geographical area within which the businesses have voted to invest collectively in local improvements to enhance their trading environment. BIDs do not affect the level or quality of service provided by the local authority to the area. A BID is initiated, financed and led by the commercial sector, providing additional or improved services as identified and requested by local businesses, to the baseline services provided by the local authority in that area.

New Homes bonus

The New Homes Bonus¹³ scheme commences in April 2011 and will match fund the additional council tax potential from increases in effective housing stock, with an additional amount for affordable homes, for the following 6 years. The Bonus will provide an additional £350 for each affordable home for the following six years. The bonus available for an affordable home will be up to 36 per cent more than for a similar market home. It is designed to measure increases in effective stock - the change in total number of homes and change in empty homes.

The New Homes Bonus will be not be ring-fenced. The funding can be returned to communities affected by growth in a way which best meets local need. Local authorities will need to lead the debate with their communities to determine local spending priorities.

13 <http://www.communities.gov.uk/statements/corporate/newhomesbonus>, accessed May 2011

section 4: charging and trading

The rhetoric on charging for public services is often highly emotive. Naturally citizens do not want to pay for services for which they feel they have already paid for through taxation. Some see such charges as ‘stealth’ taxes, taxation wrapped up under the guise of a fee or charge. Charges made by public bodies are set to recover costs and it is important that there is transparency in how charges are arrived at and that the costs recovered are for services delivered in a cost efficient manner.

Charges for public services have been in place for many years and can bring advantages other than just the raising of revenue. But with the growing perceived disparity in the minds of the public about what is or is not charged for by public bodies across the UK and media comment on the postcode lottery, it is important that an organisation’s charging policy sets out clearly the rationale and purpose of the charge and why the body has imposed it. Any new charge or increase will otherwise be seen as imposing an extra cost on users for something previously received for free.

Organisations also need to bear in mind that revenue from charges is less certain than tax financing because it is subject to economic downturns, as evidenced by the significant reduction in planning fees following the credit crunch and downturn in development activity.

At each period of restriction in public finances public bodies have inevitably looked to the option of raising extra revenue through charges. We are again in such an economic climate. Whilst the debate^{14 15}, on the role of charges in funding public services has been underway for some time, it would now seem that fiscal restraint will mean an extension in the role of charges. The major concern is equity and that the imposition of additional charges has the potential to erect barriers to access to public services which will particularly harm poorer and disadvantaged groups. This concern must be answered convincingly if charges are to be extended as a source of funding.

Possible areas with potential for extending charging

- Pre-school education and care
- Non core 5-16 curriculum activities
- Extended schools – Breakfast clubs, after school clubs, holiday care schemes
- Treatments for well being - counselling, weight loss
- Park and ride, congestion charges, extensions to road parking coverage, school transport, workplace parking
- Housing improvements for social housing tenants, concierge services, energy efficiency improvements
- Loans for post 16 training courses
- Social care
- Drug treatments outside of NICE approval, hotel services in hospitals

All public services are subject to rationing. Rationing through the use of a charge may be preferred to that through other means. Charges can be used to expand the supply of a service if the additional revenue can be invested in the service. This can be used to build support for the imposition of a new charge. Such hypothecation of revenue is a way of ensuring the charge is additional to taxation.

14 Achieving the potential: How best to pay for ever higher expectations of our public services KPMG 2008

15 Charging Ahead? Spreading the costs of modern public services, Social Market Foundation 2006

Charging makes users' price conscious. Where people have a choice whether to pay for a service or not, those who provide the service can more accurately judge the level of demand. Introducing charges can bring an added benefit of helping to prevent waste. If people are being asked to pay for a service they will want to see a direct link between the money they spend and the outcome for themselves. It can therefore make the user engage better with the service, because they will want to know exactly what they are paying for and why. It therefore encourages public service providers to be clear about the exact service being offered and the terms and conditions on which it is being offered and this may encourage public providers to improve efficiency and quality. However competitive pressures through price can only exist if there is a choice and real alternative. At some point there is a danger that users may move from the public provider to a private provider if charges and service levels reach a par or are such that the private provider is seen to offer a better service or customer experience for the same charge.

Charges may have as their prime objectives changing behaviours rather than revenue raising and this links with arguments around incentives or rewards for good social behaviours, which ultimately would save money for the taxpayer in the long term. Penalty charges can be used to prevent waste such as time wasting or vexatious actions by users, for example missed or late appointments,

Understanding the equity and redistribution impacts of any charge will be important for decision takers. The ability of different income levels to access a charged for service, whether the charge is intended to promote a more equitable system or avoid negative behaviours, is something that in designing charging schemes decision makers need to consider. If a charge deters people from taking up a service which they need, this may as a consequence store up additional costs at a later date either for the public body or elsewhere in the public sphere. Concessions can be offered to ensure client groups are not priced out from access to the service. These, often complex, systems of concessions can reduce the sums generated by the charge quite considerably and may result in a low overall return from the charge. Where access to the service is restricted because of ability to pay a charge and concessions are made available for users on specific criteria such as income or age, it important that the cost of administering the concessions and the subsidy as a result of the concessions granted is understood. Concessions also reduce the potential for limiting or rationing demand.

It is also important that any knock on effects, negative or positive, on people not being directly charged but whose business or activity is affected by the introduction of any charge is considered in the design of charging schemes and whether compensation is needed to gain support in the wider community.

As people's expectations on public services increase alongside the demand for personalisation and flexibility, then charges offer a route to define a core service with charges for additional options giving users control over the level of services they receive. This may keep middle income users connected to the public service whilst ensuring a core service for all.

Evidence suggests that additional revenue from charges is only likely to be generated in public services which do not have high levels of low income users.¹⁶ The general pattern is that when a charge is introduced or increased there is an immediate fall-off in take up which subsequently recovers over time as public acceptance develops.

Charging across the public services

National services such as the BBC, passports and visas, driving licences and a range of other services are charged for. Managing Public Money chapter 6¹⁷ sets out the guidance for all charges and levies set by Ministers or public bodies. The norm is to set charges to meet the full costs of the service. It sets out the rules about how the charge should be determined. Central government bodies need primary legislation to charge for a service provided to the public.

In health the scope for charges is limited largely because it prevents the take up of services by lower income groups. Prescription charges and the concessions which are offered means that the revenues generated remain small as a percentage of the drug bill, as most prescriptions are written for the old, young or chronically ill. It does however reduce overconsumption in part and the revenue though small is not insignificant. Only England retains these charges with

16 Sarah Smith, University of Bristol, User charging: Some efficiency and equity implications, Charging Ahead? Spreading the costs of modern public services, Social Market Foundation 2006

17 http://www.hm-treasury.gov.uk/d/mpm_ch6.pdf, accessed May 2011

all other parts of the UK now abandoning them. The Health Select Committee's report of July 2006 on NHS charges recommended a wholesale review from first principles. It is not clear what the future health reforms will mean for the future of charges for health care, for example whether hotel charges might emerge as an additional funding stream or whether the use of drugs not approved by NICE can be funded additionally by individuals without losing their entitlement to continuing NHS treatment. There has also been discussion of penalty charges for missed or late appointments to reduce waste. The use of incentives and rewards, a sort of reverse charging approach in areas such as weight loss or smoking cessation may also be options.

In higher education the introduction of fees for higher education has seen a significant shift away from taxpayer funding to personal funding and created widespread protest. Whilst the equity arguments can be demonstrated with individuals receiving a personal benefit from such education supporting the argument for the individual to be charged, it is not clear what the redistributive effects on access will be longer term and whether take up by lower income groups will fall when higher fees are in place.

In local government charging policies have developed in an ad hoc basis. For some services charges are constrained by statute or prescribed centrally, such as planning applications and licensing, although a relaxation on these restrictions is underway. For some services the income can be applied only to that service, such as car parking. Other charges are subject to competitive pressures, for example in recreational facilities such as swimming and sports, libraries, arts and museums, venue hire, and vary significantly across the country. Charges for other services such as waste recycling, environmental health and cemeteries also vary across the country. Charges proposed to change behaviours in the way waste is recycled and to reduce landfill costs by charging by volume for domestic waste have fallen foul of public opinion that sees domestic waste collection as a key service that local taxes should cover. The Localism Bill repeals the powers for local authorities that permitted councils to charge or fine residents for household waste collections. The Local Government Act 2003 allowed councils to charge for discretionary services¹⁸, those where they have no duty to provide, under 'well being powers', not to provide a new source of income but to cover the costs of providing services that are not statutory, with the aim of developing new services for local areas.

In social care there is a mix of costs met by individuals or families, the health service local authorities and national support, according to assessed medical need and an individual's wealth.

Congestion charging in cities has been successfully implemented only in two places in the UK, despite the positive benefits of reducing traffic congestion and the potential for raising revenue to improve public transport. It remains to be seen how this area will develop. Despite acceptance of tolls for new large scale infrastructure in bridges, the public view the public highway as a free good unlike the rail network. Road parking charges in contrast, whilst not loved, are accepted as normal and in some authorities no part of their area is now not subject to controlled parking. Workplace parking schemes, that charge employers who provide parking space for employees, are also being tried. Only one scheme in Nottingham has been given the go-ahead. The impact on the local economy and business location decisions will need to be considered in consideration of such schemes.

Designing charging policy

The rationale behind the charge has to be clearly identified and transparent if the case is to be made to users. Chief Financial Officers need to be able to advise decision takers about the options and implications for charges. What the CFO will need to be able to demonstrate is how the charge will perform and how much revenue might be raised, modelled against any changes in behaviour and resistance by users, any concessions or exemptions to the charge to meet concerns over equity and access, and the administrative costs of verifying concession eligibility. The impact on those not being charged and unforeseen consequences need to be considered and how they impact finances overall.

Organisations need to have a consistent strategy and approach to setting charges. It is not enough to set increases in line with inflation. Clearly selling any new charge is difficult, but it can be successful if the positive benefits can be linked to the revenue raised from the charge. Hypothecation of the additional revenue raised to related service improvements has been shown to be helpful in winning acceptance.

It is the CFO who is likely to set the strategic framework for charging policy and ensuring consistency with that framework.

Key features in reviewing or introducing charges

The link of a charge to organisational and community priorities

- A clear picture of all charges
- A clear picture of power to charge and discretion to change charges, and those which are prescribed by legislation
- Concessions granted and the criteria for concessions
- Subsidy borne through the granting of concessions
- Knowledge of full service costs
- Benchmarking information on charges and concessions with the private, public and voluntary sectors
- Market place data for services subject to competition
- Feedback from users
- Trends in demand/ estimates of projected revenues
- Pricing structures and how they impact on revenues
- User information
- Understanding of the wider impact of charges on the local economy and others not directly charged
- User consultation to understand reactions and identify potential unforeseen consequences
- Consultation and consideration of equalities issues arising from changes to existing charges or the introduction of new charges

Decision takers will want to review subsidies and ensure these are targeted at the organisation's priorities. They will also want to consider the fairness of the charge and how the design of charges can change behaviours in desired ways; either to encourage or discourage. They will need to know how concessions operate and the impact on access and equity and whether the subsidy is having the desired effect on access and that the right groups are being subsidised.

The break points for concessions will need to be carefully chosen so that access is fair. Consistency in the criteria for the granting of concessions then means progress can be made with introducing a single point of verification for eligibility and the administration costs of concessions reduced.

Once charges are decided it will be important to communicate the strategy and reasons for change to users and the public more widely. Phasing of the introduction may be necessary where the impact of changes is significant.

The CFO will need to pull together charging policies and set those in their policy context to examine whether they complement policy or are unintentionally antagonistic. Charging income is potentially volatile and the risks of relying on this as a source to underpin longer term expenditure commitments need to be made clear.

Trading

As the autonomy of bodies in the public sphere grows with schools converting to academies and free schools established, GP commissioning, and possible mutualisation of services then specialist and other back office services could be provided by other public bodies with established functions. Local authorities have broad powers to 'trade' with other public bodies largely under the Local Government (Goods and Services) Act 1970. They will want to consider how the changing structures of the public services might alter the way they offer services to these new bodies. Trading to public bodies does not need to be through a company.

The power to trade to private companies and individuals was introduced by the Local Government Act 2003 for authorities with certain performance ratings and these powers to trade were extended to all authorities in 2009. The power to trade is only exercisable through a company and is for all services¹⁹, but not for services that the authority is under a duty to provide for an individual.

Trading can be at a profit. The trading company route might provide an innovative route towards a more entrepreneurial approach to service delivery and an alternative to outsourcing. Authorities need to be clear they have the power to engage in the activity before they trade in it. Post tax profit is available for the authority to use as they see fit.

The trading company operation requires considerable effort and risk and like any company operation a trading company will require the identification of business plans, assets, company articles, staff transfers and pension arrangements. Moreover there is no automatic right for a trading company to be awarded work from the local authority as there needs to be compliance with procurement rules. The organisational model of the company will have an impact on how it is managed, run and financed.

The expansion of trading activity can have a very positive impact on the local economy, not only by maximising economy activity within the public sector but in supporting the local economy.

It may help to develop provision for local use, income generation and specialist services, through a trusted public sector source. For example domestic cleaning services to older people who remain in their own homes, vehicle adaptations to the charity sector, gardening or car parking services to an NHS trust. The possibilities are many and some councils have used these powers to create a positive local impact. For example in the provision of personal care services with the introduction of personal budgets allowing the purchase of services from a company wholly owned by the local authority and whose profits return back to the service.

The general power in the Localism Bill allows a local authority to do things for a commercial purpose but only if they are things that the authority may do otherwise than for a commercial purpose, using its general power. The power does not authorise authorities to trade in a service with a person to whom they are already statutorily obliged to provide the service and they must also only trade through a company.

19 General Power for Local Authorities to Trade in Function Related Activities Through a Company
<http://www.communities.gov.uk/documents/localgovernment/pdf/133628.pdf>
<http://www.communities.gov.uk/documents/localgovernment/pdf/323153.pdf>, accessed May 2011

\ conclusion

Taking advantage of the new funding streams will involve an appetite for innovation and risk. Finance professionals need to keep a watch on these policy areas and alert decision takers to the opportunities they present. Some public bodies are taking the plunge and CIPFA will work to share experiences and develop approaches and practice through its networks and panels.

CIPFA's Financial Management Panel

The panel focuses on the principles of financial management that apply across the whole of the public services and on identifying actions to achieve improvements in financial management. The panel develops leading edge tools on the overall approach to financial management improvement and good practice guidance on specific aspects.

Nigel Hiller (Chairman) - South Yorkshire Police

Carole Hicks (Secretary) - CIPFA

David Alexander - South Ayrshire Council

Vic Allison - Wychavon District Council

Brian Baverstock - Scottish Further and Higher Education Funding

Michael Burton - Police Service of Northern Ireland

Paul Carey-Kent - Surrey County Council

Steve Clark - Independent

Paul Connew - PKF (UK)

Mark Day - Community Health Partnerships

Christina Earls - Department of Work and Pensions

Lisa Forster - CIPFA Business Services

Suzy Foster - Capgemini

Rachel Hardy - South Birmingham PCT

Nick Jackson - HM Treasury

Chris Jackson – ICAEW (Observer)

Rachel Johnson - Audit Commission

Chris Lambert - National Audit Office

Hugh O'Sullivan - Merthyr Tydfil County Borough Council

Caroline Rolfe - Department for Transport

Peter Steed - Lincolnshire Police

Jayne Stephenson - Trafford MBC

Roger Tabor - IFAC PAIB

John Thornton - E-ssentials Resources

Neil Thornton - North East Lincolnshire Council

Catherine West - Suffolk County Council

Ian Whittaker - Amor Group

Julie Wright - Independent



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