

Regulatory Committee

10.00am, Monday, 7 August 2023

Licence Income from Fees 2022/23

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| Executive/routine Wards Council Commitments | All |
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1. Recommendations

1.1 Regulatory Committee is asked to note the contents of this report.

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Report

Licence Income from Fees 2022/23

2. Executive Summary

- 2.1 This report provides Committee with high level information on the income collected from licensing fees during the last full financial year. The report gives detail on income from the three main licence categories and provides a breakdown of the areas of expenditure against this.

3. Background

- 3.1 The Council's activities as a Licensing Authority are funded directly by income raised from licence application fees and therefore the operations of Licensing services are not funded from the Council's general revenue fund. The fees currently charged are approved by the Council as part of the budget process. A small number of fees are fixed or capped by legislation and are thus not set by the Council. Notwithstanding that, Regulatory Committee has the power to amend the fee structure and most recently did this by amending the Houses in Multiple Occupation (HMO) licence fee structure in 2022.
- 3.2 Fees are designed to fully recover the costs of the service. Income in relation to Taxi and Private Hire Car (PHC) Licences and HMOs is ringfenced, and any surplus is maintained separately. Income from all other types of licence is not ringfenced, and any surplus which exists at the end of the financial year, is included within the Council's end of year accounts. In practice, this offsets the cost of the other council services that support the Licensing Service but do not receive any monies for their work as consultees, e.g. Parks. Planning, Roads etc.
- 3.3 The [Air Weapons and Licensing \(Scotland\) Act 2015](#) introduced a requirement for Licensing Boards to report income and expenditure. As requested by the then Committee, a similar report is now submitted to Regulatory Committee annually to increase transparency. This report provides the information for financial year 2022/23.
- 3.4 Following some disruption to licensing functions over the pandemic, the Licensing Service has returned to normal service levels and related income has largely stabilised.

4. Main report

- 4.1 Income is collected from [licence applications](#) and is coded against three main licence types:
- 4.1.1 Taxis and Private Hire Cars (PHCs) etc;
 - 4.1.2 Houses in Multiple Occupation (HMOs); and
 - 4.1.3 Civic (which includes any other licence types dealt with by the Council not in 4.1.1 and 4.1.2 above).

- 4.2 Details of the income and expenditure in these accounts are attached at Appendix 1. The structure of both civic and taxi/PHC fees was last fully reviewed in 2015 with minor changes thereafter. As part of its budget process, the Council considers whether any annual increase of fees is required, therefore this report does not deal with any fee changes.

Taxi and Private Hire Car licence income

- 4.3 In relation to income from taxi and PHC licences, the Council does not further break down income to show, for example, income for taxis as opposed to PHCs, and for vehicles as opposed to drivers. This is because the staff resource necessary to deal with these is the same and there is no operational need for the service to further breakdown income or spend in this category.

HMO licence income

- 4.4 The fee structure for HMOs was last reviewed in 2022, and on 29 September 2022 Regulatory Committee agreed to the reintroduction of a one year licence at a reduced fee rate.

Civic licence income

- 4.5 Civic licence fees are not subject to the same ring-fencing as taxi/PHC and HMO fees (as explained in paragraph 3.2). The position remains that many services do not receive specific funding to contribute to licensing work (e.g. Roads and Parks), and therefore any surplus income contributes to the Council's overall financial position through the Place Directorate's financial position. Conversely, the Directorate would be expected to contain any overspend as a pressure.
- 4.6 Post-COVID civic licence income recovery has not been as strong as other categories, reflecting that the return of events and street-based activities was slower in the first six months of the financial year as businesses emerged from the lockdown restrictions and experienced the financial impact of the pandemic. This was offset, to a certain extent, by corporate funding for COVID-related impacts which was used to mitigate this on a one-off basis.
- 4.7 As an interim measure, income of £0.027m collected for Short Term Lets (STL) in 2022/23 has been transferred into the HMO reserve. Ongoing requirements for STL service support will be assessed as the new licence scheme continues to bed in.

Reserves

- 4.8 The current reserves are set out in Appendix 2.
- 4.9 As explained in paragraph 3.2, income from taxis/PHCs and HMOs is ringfenced and if there is a surplus of income this is held in reserve accounts. These accounts are monitored regularly to ensure that they remain proportionate. A separate report to Finance and Resources Committee provides a comprehensive financial summary of any reserves maintained by the Council. This includes the licensing reserves.

HMO Reserve

- 4.10 In relation to the HMO reserve, Committee may recall that at the time of implementation of the new HMO fee structure (as set out at paragraph 4.4), the long-term plan was to allow this reserve to reduce as the effect of three year licences became apparent.
- 4.11 The setting of the revised HMO licence fees took the level of the reserve into account. This will continue to be monitored and adjustments recommended, if necessary, in advance of the Council setting its budget in February 2024. There was a small draw down from the reserve last year. As highlighted in paragraph 4.7, the HMO reserve balance includes a small sum for STL related income.
- 4.12 In the budget setting for 2023/24, HMO fees were not increased, despite inflationary pressures, in order to allow that adjustment to have effect.
- 4.13 A major review of HMO fees was conducted this year to address the size of the reserve. Income in the reserve looks healthy for a number of reasons:
- 4.13.1 2022/23 was Year 1 of the three year licence cycle and therefore the income is weighted towards the first year of the cycle. A share of this income has been carried forward into the reserve and will be needed to offset the cost of HMO licensing services in years 2 and 3;
 - 4.13.2 The HMO trade appear to be using the one year licence option more often than had been expected. This is being monitored; and
 - 4.13.3 The Licensing Service has had challenges in filling vacancies due to a shortage of candidates, despite several attempts to recruit. The means that the staff costs for the service have been less than anticipated. Recruiting to these posts is essential and work is ongoing to fill all remaining vacancies.

Taxi and PHC Reserve

- 4.14 Taxi and PHC income have remained consistent, and the reserve remains healthy as the Licensing Service works towards completion of a move to the new Vehicle Examination Centre. The current estimate of costs for the Vehicle Examination Centre stands at £1.56m and reflects a better understanding of the anticipated costs following detailed surveys, inflation (which for construction is significantly higher than headline inflation) and, for the first time, an estimate of the costs of ramps etc which will be required.
- 4.15 Also included in the reserve is £0.237 of income from the Scottish Government for processing COVID era taxi grants. These have been placed in that account as a

contingency against cost over-runs. Therefore, the actual reserve of income for licence holders would be net of that amount.

4.16 There was a small draw down from the reserve last year.

5. Next Steps

Issues for Financial Year 2023/24

- 5.1 There are a number of issues which will require further work and may require Committee consideration in 2023/24. These include:
- 5.1.1 Identifying long term funding for the additional new licensing enforcement officers. This was funded on a one-off basis for 2021/22 and 2022/23;
 - 5.1.2 A range of issues that have been raised in relation to fees charged for some Public Entertainment Licences, including sunbed/tanning operations. It is anticipated that a report on this will be submitted next cycle; and
 - 5.1.3 Income from Short Term Lets has thus far been low, reflecting numbers of applications received as a result of the delayed date for existing operators to apply. Further work will be required to ensure that appropriate cost centres are in place to ensure that costs and income can be recorded once the scheme is fully operational.

6. Financial impact

- 6.1 This report is for information only and provides details of the income received by the Licensing Service in 2022/23. The Council's scale of fees for licensing applications was approved by as part of the budget process for 2023/24, with effect from 1 April 2023.

7. Stakeholder/Community Impact

- 7.1 The report provides members with information. No direct policy implications arise from the report. Decisions on fees and expenditure are made as part of the Council's budget process.

8. Background reading/external references

- 8.1 [Current licence fees](#) (2023/24).
- 8.2 Licence Income from Fees 2019/20, 2020/21, 2021/22 [report](#) to Regulatory Committee on 6 February 2023.

9. Appendices

- 9.1 Appendix 1 – Income and expenditure for 2022/23
- 9.2 Appendix 2 – HMO and taxi/PHC reserve accounts

Appendix 1

City of Edinburgh Licensing Services Financial Report

Year Ending: 31 March 2023

This report has been prepared using unaudited financial data taken for year ending 31 March 2023. It should be noted that not all expenditure is directly attributable to certain licensing categories. Where general costs have been incurred, these have been allocated to the Licensing category based on a best estimate of the expenditure incurred. The report accordingly should not be relied upon as a precise reflection of income and expenditure.

The financial statement is as follows:

| | 2022/23 | 2022/23 | 2022/23 | 2021/22 | 2021/22 | 2021/22 |
|--|-------------------|-----------------|-------------------|-------------------|-----------------|-------------------|
| | Cab Licensing | Civic Licensing | HMO Licensing | Cab Licensing | Civic Licensing | HMO Licensing |
| <u>Income</u> ¹ | | | | | | |
| Licensing Income | -1,781,017 | -732,274 | -1,906,606 | -1,678,546 | -524,080 | -3,436,143 |
| Other Income | -130,968 | 0 | 0 | -158,698 | -0 | -0 |
| Total | -1,911,985 | -732,274 | -1,906,606 | -1,837,244 | -524,080 | -3,436,143 |
| <u>Staff Costs</u> ² | | | | | | |
| Regulatory Services Staff | 494,971 | 41,829 | 1,246,585 | 458,631 | 111,810 | 1,039,646 |
| Legal Services | 68,105 | 25,651 | 74,029 | 58,073 | 19,937 | 80,646 |
| Taxi Examination Centre | 464,907 | 0 | 0 | 438,070 | 0 | 0 |
| Administrative Support | 33,591 | 12,652 | 174,197 | 28,242 | 9,696 | 151,977 |
| Total | 1,061,574 | 80,132 | 1,494,812 | 983,016 | 141,444 | 1,272,269 |

Other Direct Costs³

| | | | | | | |
|----------------------------------|----------------|----------------|---------------|----------------|----------------|----------------|
| ICT Equipment | 28,455 | 14,982 | -45,420 | 6,273 | 4,385 | 192,145 |
| Training | 0 | 2,100 | 0 | 11,900 | 0 | 0 |
| Postage | 8,822 | 340 | 3,602 | 6,890 | 52 | 256 |
| Printing/Stationery/Photocopying | 7,532 | 316 | 325 | 13,139 | 101 | 99 |
| Capital funded through revenue | 0 | 0 | 0 | 0 | 0 | 0 |
| Consultant Fees | 68,738 | 0 | 0 | 38,593 | 0 | 0 |
| Medical Fees | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational Materials | 80,447 | 0 | 545 | 43,776 | 0 | 0 |
| Recharges from public bodies | 141,944 | 0 | 56,782 | 131,302 | 0 | 0 |
| Property Charges | 114,987 | 419 | 6 | 57,537 | 0 | 0 |
| Legal Fees | 4,406 | 244,374 | 1,212 | 13,233 | 7,450 | 6,696 |
| Transport | 3,564 | 272 | 1,099 | 3,754 | 82 | 120 |
| Other expenses | 86,706 | 26,017 | 3,771 | 21,369 | 9,990 | 3,373 |
| Internal Charges | 12,764 | 133,663 | 81 | 0 | 160,876 | 933 |
| Total | 558,365 | 422,483 | 22,003 | 347,766 | 182,936 | 203,623 |

Indirect Costs ⁴

| | | | | | | |
|-----------------------------|--------|--------|---------|--------|--------|---------|
| ICT/Telecommunications | 23,720 | 8,934 | 25,783 | 21,080 | 7,237 | 29,274 |
| Business Support | 18,808 | 7,084 | 20,444 | 16,635 | 5,711 | 23,101 |
| Property | 99,859 | 37,611 | 108,545 | 86,158 | 29,580 | 119,648 |
| Corporate & Democratic Core | 46,640 | 17,567 | 50,697 | 38,135 | 13,092 | 52,958 |

| | | | | | | |
|--|----------------|-----------------|----------------|-----------------|----------------|-------------------|
| Other ⁵ | 135,945 | 51,784 | 296,975 | 153,132 | 52,573 | 360,308 |
| Total | 324,972 | 122,979 | 502,444 | 315,140 | 108,194 | 585,288 |
| Net (Surplus)/Deficit⁶ | 32,926 | -106,680 | 112,653 | -191,323 | -91,507 | -1,374,963 |

Notes:

1. Denotes income from applications and annual fees received in 2022/232.
2. Denotes salary, superannuation, national insurance and pension costs associated with Legal Services/Depute Clerk, Licensing Officers, Licensing Standards Officers and other Council staff responsible for administrative support. HMO staffing costs include a share of Private Rental Sector enforcement officers. Where costs are not directly attributable to the Licensing Categories, costs have been allocated based on the proportional share of licensing applications.
3. Denotes direct budgetary costs associated with the exercise of the Licensing functions, such as travel and transport costs, stationery, supplies and services etc.
4. Denotes the portion of centralised administrative costs such as ICT, training, property costs etc. that are allocated to Licensing and PRS Enforcement. These allocations are derived from the Council's Central Support Cost model.
5. This represents a share of services such as Legal & Risk, HR, Finance, Strategy & Insight and Communications.
6. To note that surplus income from ringfenced accounts after covering expenses is transferred to reserves. If costs in ringfenced accounts exceed income recovery for the year i.e., a deficit, the equivalent shortfall will be drawn from reserves.

Appendix 2

City of Edinburgh Licensing Services – Balance of Reserves

Year Ending: 31 March 2023

The end of financial year position for each licence type will determine the action required in respect of reserves adjustments. When full year costs have been established for the respective financial year, if the position shows a surplus of in-year income, the balance will be transferred to the reserves account for each licence type. However, if expenditure exceeds in-year available fee income, a draw from reserves will be required to make sure full year costs are funded. Movement on the reserves can be seen in table 1.

Table 1

| Type | 21/23 Balance b/f £ | 22/23 Movement £ | 22/23 Balance c/f £ | Notes |
|---------------------------|---------------------------|------------------------|---------------------------|------------------------------|
| Taxi and PHC ¹ | 1,796,794 | 32,926 | 2,000,368 | Draw from reserves required |
| HMO ² | 3,113,773 | 112,653 | 3,001,119 | Draw from reserves required. |

¹ Includes £0.237m of income from the Scottish Government for processing COVID era taxi grants (see 4.15 above)

² Includes £0.027m of income relating to Short Term Lets (see 4.7 and 4.11 above)