

Report to: Budget Panel
Date of Meeting: 11 September 2012
Report of: Head of Strategic Finance
Title: Income Policy Review

1.0 SUMMARY

1.1 This report informs the Budget Panel on income charging policy considerations.

2.0 RECOMMENDATIONS

2.1 To request the Budget Panel to consider the attached papers and make recommendations for a revised Income Charging Policy. Views of the Budget Panel can then be incorporated into a more specific paper (back to Budget Panel) with proposals for levels of fees and charges for 2013/2014. Budget Panel can then make recommendations on to Cabinet as part of the Budget process for next year. In particular would the Budget Panel accept the categorisation of charges referred to at Paragraph 7.3.1 and should officers seek to classify current fees and charges accordingly?

Contact Officer

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3.0 Introduction

- 3.1 The Budget Panel's Rolling Work Programme for 2012/13 requested a report on Income Policy Review to its September 2012 meeting.
- 3.2 This report provides a discussion document and potential framework for deciding whether and how to charge for services in order to strike a balance between the need to generate increased income (and so reduce the pressure for reductions to front line services) and the need to mitigate any direct adverse impact charging could have on achieving the Council's priorities or the use of services by the community.
- 3.3 The Council does have a framework policy for determining the setting of fees and charges but it has not been reviewed for a number of years (**see Appendix 1**)

4.0 Background

- 4.1 The Council continues to face significant budgetary pressures. Income has reduced along with reductions in Government Grant. Service Prioritisation measures over 2010-2013 has achieved annual savings of £1.6m. Service Redesign and the Council Roadmap is targeted to generate a further £2m of additional annual savings/income over the remaining period of the current Medium Term Financial Strategy (MTFS) (2013-2016).
- 4.2 The Council is faced with decisions to achieve balanced budgets and acceptable levels of Council Tax. A consideration in setting budgets within the MTFS will be whether to increase income from charging for those services which are currently provided or subsidised by Council Tax. A clear framework and approach is required to ensure transparency.

5.0 Audit Commission Review

- 5.1 The Audit Commission has produced three reports in recent years 'Positively Charged'; 'The Price is Right' and 'A Stitch in Time' and internet references are provided within the Appendices Section of this report.
- 5.2 A summary of the Audit Commission publication '*Positively Charged*' is included below. The report itself includes recommendations with questions for councillors to examine their own council's approach to charging.

'Positively Charged' (Audit Commission 2008)

- Intended to help councils improve their approaches to charging, enabling them to better support their strategic objectives.
- Charging for local services makes a significant contribution to council finances, with district councils collecting nearly one fifth of their total expenditure on services, which has a substantial impact on an authority's budget.

- Charging Policy is an important tool to influence or discourage people to use services, and is not being used enough in this capacity. In choosing how charges are used, councils are able to make an important decision – which users should pay for services, and which should be subsidised by the taxpayer.
- The report made the following recommendations:
 - Councils should undertake regular reviews of their approaches to charging, both within service areas and across the council;
 - Finance managers should ensure that income from charges, and the level of subsidy this provides, are transparent and inform the decision-making process;
 - Councillors and managers should better understand the non-financial contribution charging has to strategic and service objectives.
- Councils do not make an effective use of their charging powers, and authorities need to change their approach to charging if they are to achieve their financial and strategic objectives. At a time when pressure on services is increasing in the public sector and revenues decreasing, councils need to understand, address and improve the way they charge for services.

6.0 Response from Other Authorities

- 6.1 Every District Council in England (circa 280 authorities) has been contacted to ascertain how they deal with the issues associated with 'an Incomes Policy'. It was extremely gratifying that approximately 50 authorities responded accompanied by at least 30 detailed submissions. Attached at **Appendices 2, 3 & 4** are three typical responses received and the Budget Panel might find it useful background as part of this evening's discussion.
- 6.2 The general approach of councils over recent years has been to classify services in a framework to support a clear policy approach. An income policy must support the strategic aims of the Council. In terms of increases in charges there are different approaches whereby, for example, Guildford has been increasing its charges by inflation whereas other authorities have tended to take Watford's approach which has been to generally freeze charges until the wider economy recovers.
- 6.3 Additionally recent developments with a number of councils have been to explore innovative ways to involve corporate sponsors (other than sponsorship of roundabouts and road junctions to meet maintenance costs). Aimed to offset the effect of spending cuts these seek to access revenue from asset wealth and include advertising on council websites, use of 'brand reputation' to endorse private initiatives and sponsoring council buildings and museums. This is an initiative that Watford has tended to reject in the past.

6.4 Discussions have also been held with SLM (the Council's private sector operator of our leisure facilities) and centred upon any modelling techniques used to determine future pricing policies. SLM has advised that it does not model 'elasticity of supply and demand' as it is an imprecise science. Price increases are very much geared to a subjective view of what the market might bear but it is important to closely monitor usage and be prepared to reverse increases if they appear counter productive.

7.0 Policy Principles

7.1 Key principles for a Charging Policy - in general a charge will be levied for all discretionary services on the principle "the user pays". Charges should seek to optimise potential income. The decision of whether to charge for a specific service will be subject to an assessment of the impact of charging on the delivery of the Council's corporate priorities and priority outcomes.

7.2 In undertaking an 'impact assessment' the following questions will be asked:-

- Why are we providing the service?
- Which of the Council's corporate priorities and priority outcomes are achieved by the service?
- What impact will charging have on the achievement of the Council's corporate priorities and priority outcomes?
- Do other similar or neighbouring Councils charge for the service and what is the impact of any such change?
- Are alternate service providers operating in the market and if so what is their level of charging?
- What is the estimated net additional income that is likely to be generated by the charge (i.e. impact on our financial position)?

7.3 There are different levels, or basis, for the charging of service. The actual level, or basis of the charge, will be influenced by the impact assessments.

7.3.1 The objectives for differing charging strategies can be -

Charging Strategy	Objective
Commercial Charges	The Council aims to cover the cost of providing the service and make a surplus used to fund other priority services. The full cost of the service, including an element for capital financing costs, support services and corporate overheads, will be the starting point for calculating charges.
Full Cost Recovery	The council aims to recover the costs of providing this service from those who use it. The full cost of the service, including an element for capital financing costs, support services and corporate overheads, will be the starting point for calculating charges.
Subsidised	Users of the service to make a contribution to the costs of providing it. This might be to meet a service objective or allow competition with other providers

Free	The Council chooses to make the service available at no charge to meet a service objective - cost of service met by all Council Tax payers.
Statutory	Charges are determined in line with legal requirements

8.0 Service Responsibilities

8.1 Service Managers should initially assess current chargeable services and allocate these to one of the categories in the Charging Strategy above.

8.2 To maximise income from fees and charges in accordance with an Income policy, Service Managers would be responsible for –

- Annually reviewing their services to identify any aspects that could be charged for and to introduce such charges unless Cabinet considers it would be inappropriate.
- Reviewing and varying fees and charges at least annually for services under their control, after consultation with the relevant Portfolio Holder and, in doing so, they shall –
 - ensure that relevant legislation is complied with,
 - have regard to the charges of any alternative service providers with whom the Council is competing, seek to maximise income, net of applicable costs, unless it will have a clearly detrimental impact on the achievement of the Council objectives.
 - introduce differential pricing to particular client groups where these are expected to stimulate demand and generate additional net income which would otherwise not be obtained.
 - set prices lower than could be reasonably achieved if this is the most cost effective way of achieving Council objectives and the necessary funding is available. Use of this option requires approval of Cabinet,
 - set fees and charges that allow an element of discretion if it can be demonstrated that this will lead to an overall benefit to the Council. It is important that any use of discretion is recorded so that it can be clearly shown that decisions have been made fairly and consistently.

9.0 Equalities

9.1 Where appropriate and specifically when significant increases in existing charges or the introduction of new/additional charges are being considered, an Equalities Analysis will be undertaken.

9.2 This will ensure that the impact on residents and service users, who share a relevant protected characteristic as defined under the Equality Act 2010, are fully understood before any proposals are implemented.

10.0 Shared Service Implications

10.1 The opportunity will be taken wherever possible to align with and follow the same policy principles as Three Rivers District Council.

11.0 Concessions

11.1 In some circumstances it may be appropriate to consider offering a concession to certain users of a particular service where this is consistent with achieving the Council's strategic aims and priorities.

11.2 The Council recently reviewed its policy on concessions and it is suggested that this should not be reconsidered at the present time.

12.0 Financial Implications

12.1 Included in the body of the Report

13.0 Legal Implications

13.1 Councils can charge for services where express legal powers exist. The Local Government Act 2003 introduced a wide ranging power to charge and this includes all discretionary services under the Well Being powers. There are exceptions where charging is specifically prohibited or a special charging regime exists.

14.0 Potential Risks

14.1

Potential Risk	Likelihood	Impact	Overall Score
The Council fails to increase charges. Services have to be cut back to compensate	2	3	6
The Council increases charges excessively and chokes off demand	2	3	6

Appendices

Appendix 1: Current Council Policy on Income Charging

Appendix 2: Lancaster Fees & Charges Policy

Appendix 3: Woking Strategy for Applying and Setting Fees & Charges

Appendix 4: Newark and Sherwood Corporate Charging Policy

Internet References to Audit Commission Publications

Positively Charged – Audit Commission 2008 <http://www.audit-commission.gov.uk/subwebs/publications/studies/studyPDF/3423.pdf>

The Price is Right – Audit Commission 1999 <http://www.audit-commission.gov.uk/subwebs/publications/studies/studyPDF/1585.pdf>

Stitch in Time – Audit Commission 1999 <http://www.audit-commission.gov.uk/subwebs/publications/studies/studyPDF/1266.pdf>