

<b>MEETING:</b>	<b>CABINET</b>
<b>DATE:</b>	<b>16 APRIL 2012</b>
<b>TITLE OF REPORT:</b>	<b>SUBSIDIES, FEES AND CHARGES UPDATE</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES AND EDUCATION</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To seek approval for the revised charging and trading principles outlined in the report and the suggested approach for the development of associated targets for directorates.

### **Key Decision**

This is not a key decision.

### **Recommendation(s)**

**THAT:**

- (a) the set of revised charging principles included in the report be agreed; and**
- (b) the implementation of any changes to fees and charges covered by the principles and policy direction, including those outlined in this report, be carried out under the overall scheme of delegation.**

### **Key Points Summary**

- A revised set of charging principles has been developed that updates the position agreed by Cabinet in June 2011.
- The council is moving towards the removal of service subsidies by using full service cost recovery when setting fees and charges; any subsidy relevant to income is then applied to the individual rather than the service. The council also wishes to use the charging principles to develop the market, increase personal choice where appropriate and to influence behaviour to achieve policy aims.
- Subsidies, fees and charges which are in line with the agreed policy and do not require consultation are being implemented in line with the budget set by Council in February through existing delegations to officers in consultation with relevant cabinet members.

- Where seeking full cost recovery, a service will need to be as efficient as possible in order to minimise the core cost of the service being charged for. The forthcoming Root and Branch review process is designed to provide assurance in this regard.
- The Overview and Scrutiny Task and Finish Group on Income and Charging reported back to Overview & Scrutiny Committee on 19 March 2012; the executive's response to the review's recommendation will be considered in due course, but the recommendations are contained within this report to inform Cabinet's decision making at this time.

## **Alternative Options**

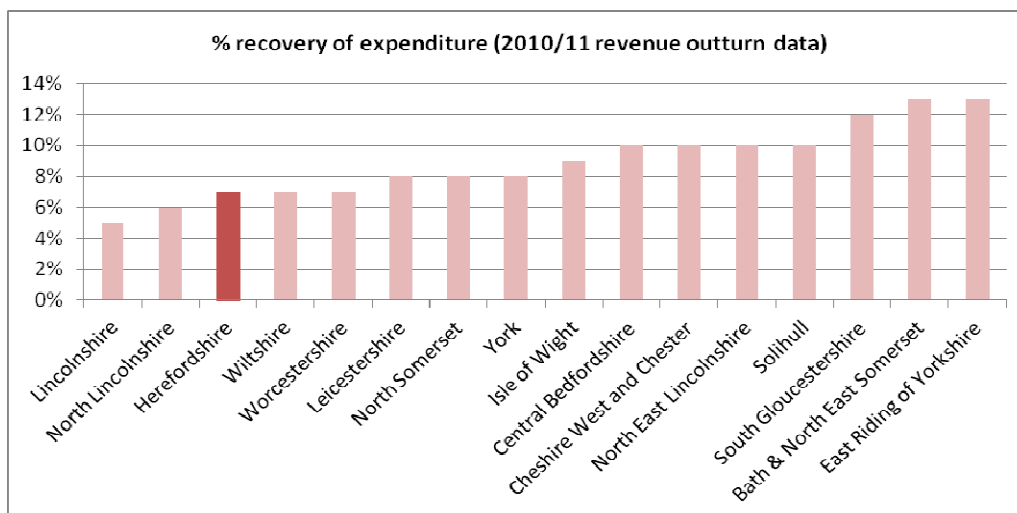
- 1 The council set the 2012/13 budget that included additional income and recovery targets.
- 2 This report outlines the implementation of the changes which will contribute to these targets. Further opportunities for subsidy reduction or increased income are also outlined and these will be explored further.
- 3 The council has a published framework for its approach to charging. This framework has informed the proposals set out below.

## **Reasons for Recommendations**

- 4 The council has a framework for its approach to charging. These principles assist the setting of levels of fees and charges.
- 5 The 2012/13 budget, assumes decreased costs and subsidies as well as increased income. This report sets out the resulting recommendations from the project established in 2011 which assessed what reasonable changes were possible in Herefordshire to meet the targets set out in the medium term financial strategy and to implement the charging principles agreed by Cabinet.

## **Introduction and Background**

- 6 A benchmarking review carried out in the autumn of 2010 showed that Herefordshire was in the lower quartile in terms of potential fees, charging and income compared to a wide range of comparator authorities. This meant that there was significant scope to reduce subsidies and generate additional income to offset budget pressures.
- 7 The council's relative position is shown in the table below which demonstrates the % of Herefordshire's costs recovered through fees, charges and income.



- 8 The Commercial Board agreed that a realistic target would be to achieve median performance for fees, charges and income as a % of service expenditure. If achieved, the benchmarking data indicated this would contribute approximately £3million of previous subsidy levels.
- 9 In June 2011, Cabinet agreed a number of charging principles designed to address this opportunity. A process for identifying ways to achieve this target was put in place, but by the end of summer of 2011 there was still a gap of about £0.5m between the target position and the proposals being brought forward.
- 10 The benchmarking information indicated higher performance was possible in order to reduce the pressure on front-line services. Price Waterhouse Coopers (PWC) were engaged to help find ways of addressing the difference using their tried and tested methodology.
- 11 The charging principles have been refreshed as a result of this project, and taking account of the views of the Overview & Scrutiny Committee Task & Finish Group; Cabinet approval is sought for the revised principles detailed at Appendix A.

### **Cost Reduction**

- 12 The council has already taken significant steps to reduce its costs largely as a result of the reduction in government funding as part of the deficit reduction programme. As indicated in a reply to a question to Council on 18 November 2011, there has been a net reduction in staff numbers of 195 for the council between 1 April 2010 and 31 October 2011. These reductions include efficiencies in the delivery of services. The council will continue to find ways of reducing the cost of services alongside the agreed principle of full cost recovery.

### **Fees, charging and income project**

- 13 Prior to the engagement of PWC, analysis of the council's income recovery position against 'family' local authorities was made. Service areas were also engaged to implement initiatives to improve the income recovered by the council and developed a programme of income projects. However, given that many of these projects were at an early stage of development PWC were engaged to use the project to review progress to date including a number of specific income projects recently approved by Cabinet, to increase corporate awareness of income management, and to consider new opportunities for increased revenue.

- 14 The project has identified significant opportunities for removing subsidies or increasing income. For a number of these, a high level business case has been produced; these are now being reviewed and refined as part of the next steps towards realising the projected benefit.
- 15 The council set the following objectives for the project:
- Consider the council's progress to date, including any completed business cases and provide challenge
  - Provide focus on service areas with potential to increase revenue
  - Identify how fees and charges can be optimised
  - Where possible, align of charges to the full cost of the service
  - Clarify current policy and practice in relation to subsidy, concessions and eligibility
  - Identify areas where income is not realised as expected
- 16 The project identified a number of common themes in relation to the council's ability to recover income:
- There is reliance across the authority on utilising local benchmarks. These give a restricted view of income and expenditure opportunities being identified in the wider local authority community.
  - There is still a reliance on historical prices to inform fees and charges. Typically, charges for services have been based on historical prices and have been increased by inflation (RPI) year on year with limited connection to the actual cost of the service, income achieved or demand for the service.
  - More work is needed across the authority to understand the true cost of providing services (including overheads as well as direct costs). This could lead to cost recover for discretionary services wherever possible and/or policy decisions to price at certain levels in order to take clear decisions over the levels of concessions granted.
  - There is a need to improve the commercial/entrepreneurial culture within the council so that further new sources of income can be generated.
  - Income targets are set across the council sensitive to the level of costs in each directorate, the level of charges vis-a-vis public and private benchmarks, local market conditions or the level of statutory discretion in setting fees and charges. A more sensitive approach to setting targets which takes the above into account is recommended.
- 17 The project identified the potential for over £6m recurring income over a 3 year period with £1m projected for year 1, £2.8m in year 2 and £2.8 in year 3, it also challenged current income generation practice across the council and provided insight and experience into leading income generation practices.
- 18 The project put forward several business cases in the final report, these are summarised below.

## **Adult Services Fees and Charges**

- 19 In line with national policy, the council is changing and developing the way adults who are eligible for social care support are able to make choices about the services they use. The emphasis is on enabling them to live as independently as possible. All eligible adults are being offered a personal budget, through which they will make choices themselves about the services they buy.
- 20 In line with council policy on charging, we are consulting on proposals to reduce and remove subsidies from a number of services, whilst retaining the subsidy applicable to individuals who qualify for financial support. This will provide greater clarity of costs and ensure all service providers are treated fairly. Where increased charges lead to a reduction in service use, proportionate reductions in expenditure should be secured.
- 21 Over three years this would reduce the current subsidy of services by £4.46m. However, the agreed 2012/13 budget already assumes £1.8m; this is in excess of the PwC view on likely income.
- 22 A consultation exercise has now commenced on the proposals made in this business case. The outcome of consultation will inform the final charging position.

## **Car Parking**

- 23 This business case proposes the introduction of on-street parking, including the associated introduction of meters and infrastructure. (The proposal also increases the charges for annual residents permit).
- 24 Charging for on-street parking requires infrastructure costs to be met. A net projected income total of £821k is estimated.
- 25 This business case identified a risk that the implementation of on-street parking charges could have a wider economic impact. It is therefore proposed that this is subject to a more detailed review before moving to implementation but that where a localised charge is proposed (e.g. residents or on street parking) there should be consultation with the local councils directly affected by that charge. The review should also seek to secure a consistent approach to provision of any free parking across the county.

## **Advertising and Sponsorship**

- 26 This business case identified a largely undeveloped area of income generation for Herefordshire Council. Benchmarking suggested that there was considerable scope to generate income from advertising and sponsorship through a variety of mechanisms – including the website publications, event sponsorship, and asset sponsorship. Any implementation would need to ensure targeted advertising is appropriate and does not undermine the council's impartiality.
- 27 Over three years £307k is the total projected income based on evidence from other local authorities. However, this total may not be sufficiently challenging and represents a minimum target.
- 28 This will now be taken forward for development and implementation, supported by a policy guiding the type of advertiser using council media.

## **Children's Services**

- 29 Many local authorities are reviewing post-16 home-to-school transport provision in order to achieve full cost recovery or to decide whether to provide the service at all. The business case for this area sets out full cost recovery for post-16 home to school transport services.

- 30 This proposal could cut net costs by £245k over three years. However, before implementation, an assessment of the effects on the rural bus service will be required.

### **Bereavement Services**

- 31 The achievement of full cost recovery for burial services would bring Herefordshire's burial fees into line with benchmarked services. This proposal applies only to council maintained cemeteries.
- 32 The proposals would produce an estimated £166k over three years.

### **Highway Services**

- 33 A proposal to increase highways licence charges for activities that disrupt traffic (e.g. skips) would yield £49k over three years. Charging increases would affect road closures and street works.
- 34 As part of the work supported by PWC, a number of other service reviews have resulted in proposals to bring fees and charges in line with benchmarked comparisons. In addition to the proposals set out above, the following increase in charges is also proposed:

### **Registration Services Proposals**

- 35 A recent evaluation of the fees and charges for the Registration Service show that they do not cover the full cost of the service. Statutory services have charges which are set by the Registrar General. However, there is scope to reduce net costs for non-statutory services and following benchmarking exercise undertaken with neighbouring authorities there is the potential to increase fees and charges to the average. The proposals estimate an overall income recovery of some £55k over three years.

### **Environmental Health Fees and Charges**

- 36 The council has the ability to levy certain fees and charges which help contribute to the regulatory cost of providing certain services. Whilst many fees in the Environmental Health area are set by statute, a number can be adjusted within guidelines. The fees and charges that the council can increase or set are:
- a. Taxi licensing;
  - b. General licensing;
  - c. Private water supply sampling;
  - d. Gypsy traveller weekly pitch rents and weekly water charges;
  - e. Pest control treatments and commercial contracts; and
  - f. Licensing of car boot sales.
- 37 The business case for this area established that gypsy travellers' pitch rent increases should be raised by not more than RPI over the period since the last increase. This would be in line with the requirement to restrict increases to RPI.
- 38 The benchmarking and analysis undertaken also identified that an increase in taxi licence fees was also possible to cover unit costs This would require a statutory consultation, but overall reduced cost subsidy in this area would amount to approximately £408k over three years.
- 39 The council is currently carrying out statutory consultation/notification procedures for taxi licence fees and gypsy traveller site tenancies.

40 The licensing of car boot sales is a discretionary activity, currently not implemented by the council; the business case suggests this is an area for further exploration.

### **Overview and Scrutiny Task and Finish Group**

41 The Income and Charging Task and Finish Group was established following a request from Cabinet in July 2011 for Overview & Scrutiny Committee to comment on the council's approach to fees and charges as part of budget policy.

42 The terms of reference agreed by the task and finish group were to:

- Focus on the principles of charging and equity of charging.
- Understand the subsidy of services across the council looking at the top ten subsidised services and the justification for subsidy including to what extent the subsidies are linked to and supported by policy objectives.
- Examine the current system of charging for these services and the nature of this system's link with service provision (including decrease in service use and any geographical trends) – provided data is available.
- Assess of the effectiveness and fairness of current methods of charging.
- Help to establish principles to support the development of additional charging schemes.
- Investigate the potential roles that:
  - traded services could play in generating income; and
  - currently outsourced contracts and partnerships could play in further minimising costs.
- Recommend any actions to deliver a more sustainable and effective system of charging

43 Overview and Scrutiny Committee on 19<sup>th</sup> March received the group's report. The group met and questioned PWC who had been commissioned by the Commercial Board to carry out an identification of charging options. Members of the group played an active role leading individual elements of the group's review to better understand the role that charging can play.

44 The result of the task and finish group's work was a clear expectation that the principles agreed by Cabinet should be applied. The group also wanted to ensure that any fees and charges set by the council are accompanied by a clear explanation of how any change to charges are within the agreed principles and how they have been applied.

45 The budget policy would be greatly assisted by increased transparency around charges noting that the council should publish its fees and charges in a comprehensive corporate list. This would complement the current approach of providing individual lists for specific areas such as Planning.

46 Public consultation on service charges and subsidy will widen public endorsement of the council's approach and help to guide decisions on the approach in 'grey' areas. The council should ensure it has a thorough and consistent approach to communication on service charges, and should provide an appropriate degree of notice to service users ahead of making changes to charging structures. This would allow the public to modify their behaviour, consider alternatives or make the case for hardship should this be necessary.

47 The review report also recommended that there should be greater transparency around charging for services. This will require a clear explanation about the services already being paid for by local taxpayers through Council Tax and the services (or levels of service) people

are expected to pay more for. Clarity about mandatory and discretionary charges will be part of the annual schedule of charges.

48 The full recommendations of the task and finish group are included in Appendix B.

## **Community Impact**

49 Increases in fees and charges will have an impact on communities across Herefordshire. However, significant cuts to front line service provision would be necessary if the increase to median levels of fees and charges were not implemented.

## **Equality and Human Rights**

50 Any proposal to increase charges will be subject to an Equality Impact Assessment to inform decision-making.

## **Financial Implications**

51 The 2012/13 budget includes £2.9m of fees, charges and income targets.

52 The PWC project has identified that by attaining median levels of fees and charges, a further £900k of service subsidies can be reduced.

## **Legal Implications**

53 None.

## **Risk Management**

54 Additional income is a key strategy in addressing growth pressures and to mitigate any shortfall in funding. Failure to agree income generation measures would result in a requirement to make compensatory savings elsewhere in the budget

## **Consultees**

55 Overview and Scrutiny Committee

56 Consultation on individual proposals will be undertaken as appropriate.

## **Appendices**

57 Appendix A: Revised charging principles

58 Appendix B: Overview and Scrutiny Task and Finish Group Recommendations

## **Background Papers**



## Appendix A:

### Revised Council Charging Principles

1. The council should (subject to market conditions) aim to maximise income from fees and charges.
2. Full cost recovery should be achieved by 2014, through effective fees and charges models, unless there are contrary policies, strategy, legal or contractual reasons. Consideration should be given to market conditions.
3. Decisions to subsidise services should be agreed by Cabinet, following a Service Manager led business case clearly linked to council objectives and outlining the level of subsidy being provided (full costs of service, including overheads, capital costs and whole life cycle). This information should be made available to the public domain.
4. Benchmarking and service comparisons should be undertaken, including Public, Private and Third Sector.
5. Service forecasts and impacts on service and non-service users should be utilised in fees and charges setting.
6. Any concessionary scheme should be based on ability to pay and be applied in a consistent and transparent approach across all council services.
7. Managers should actively consider the use of alternative pricing structures to take advantage of opportunities to segment markets, and to target and promote take-up of services to specific target groups as appropriate to strategy objectives.
8. The council should seek, where appropriate, to influence the charging policies of partner organisations engaged in delivering council services to align with council policies through robust commissioning arrangements.
9. Cost effective and efficient income collection channels should be in place. This includes all fees and charges being collected before a service is provided.
10. As part of the budget process annual inflationary uplifts will implemented unless a decision is made not to do so.
11. Services must be as efficient as possible when seeking full cost recovery so that the cost of collection is minimised.

**Recommendations from Overview & Scrutiny Task and Finish Group**

The recommendations of the group are that:

1. Council should consistently apply the principles for setting or amending fees and charges agreed last year and revised by this group and by PwC. These principles should be set out as part of the annual budget papers where the full schedule of fees and charges is included. Any future presentation of the schedule to members should include a covering report setting out how the principles have been met.
2. Any new charges or any changes to existing charges in excess of inflation should be tested and reported against the council's stated principles for setting or amending fees and charges. Over a period of time, not exceeding 18 months, all existing charges should be tested against the principles in order to provide a baseline for future review.
3. The council should develop a consistent approach to engaging service users and taxpayers more in decisions about whether and at what level to charge for services. Questions should continue to be asked in consultations about services and wider engagement exercises to do with council finances. As part of this engagement, the council should describe the financial and non-financial contribution of charging, and the rationale for levels of subsidy for services to local people. The council should make this information available on its website and at service hubs and information centres.
4. Staff should receive the necessary training to behave in a business-like/commercial manner in developing and delivering council services
5. The appropriate finance mechanisms and tools should be made available to enable service costs and management overheads to be apportioned and managed effectively to ensure cost recovery.
6. Benchmarking should be undertaken to learn from commercial markets exhibiting functional or capability similarities to council services.
7. Enabling systems and tools should be in place to minimise the implementation and running costs of service charges and to ensure appropriate information about service use and user behaviour is captured to inform future planning and service delivery.
8. Services should be classified to distinguish between those that are mandatory, discretionary and commercial to aid transparency and clarity for staff, councillors and the public.