

TASK AND FINISH INCOME AND CHARGING REVIEW

Background

1. The Income and Charging Task and Finish group was established following the request from Cabinet in July 2011 for a group to comment on the Council's approach to fees and charges as part of budget policy.
2. There is a growing awareness that whilst all expenditure is, of necessity, financed from Council Tax, Government Grants, and redistributed National Non Domestic Rates; some of this expenditure is able to be recovered through the application of Fees and Charges. The role this facility and flexibility plays in the wider finance model for the council needs to be better understood. Some fees and charges are effectively set by legislation, but many are a matter for local policy with a clear link to the budget process.
3. The Council recovers a smaller percentage of its service costs through charges than do other unitary councils. This review considers the extent to which a coherent charging policy can support service delivery and ensure that, where services remain subsidised, the reasons are clearly understood and articulated both within the council and in the wider community.
4. The Overview & Scrutiny Committee commissioned a Task and Finish Group to undertake a review. The agreed terms of reference of 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

Overview

5. When Cabinet requested the review there was a need to understand how the rationale for setting fees and charges linked to service provision and how this fitted within the overall approach budget policy. The move towards greater integration of fees and charges into the overall service delivery and budget process was indicated by Cabinet when it agreed draft charging and trading principles back in July. These principles required:

- A consistent approach to full cost recovery and increased income generation to be achieved through the adoption of corporate charging principles. Also noting that implementation of income proposals should be supported and driven using a properly managed process with clear timescales and priorities.
 - The work already undertaken around traded services to schools had identified proposals totalling £1.9m, which related to existing income streams. Such services needed to be further developed to mitigate the risk of this income being lost due to external competition as academy status schools exercise newfound 'choice' by purchasing services from outside providers.
 - A medium-term aim was stated to develop an appropriate approach to extending the traded services model to provide a wider range of council services on a commercial basis.
 - A benchmarking comparison with other unitary authorities in the council's comparator 'family group' shows Herefordshire in the lower quartile in terms of income generation. Cabinet formed the view that this indicates there is scope to generate additional income to offset budget pressures and to reduce the level of subsidy provided.
6. The full Scoping Statement for the review is set out in Appendix 1, the key points being to:
- Review charging principles to ensure the Council can generate income in a balanced and equitable manner;
 - Gain sound understanding of the role that charging and income plays supporting strategic change programmes and improving performance;
 - Develop an understanding of the role that traded services that could operate on a commercial basis could play;
 - Review initial tranche of income generation projects to support council funding requirements and suggest potential projects.
 - Understand the level of subsidy by council tax payer for services across the Council
 - Establish whether there is appetite and scope to increase charges and if so where having regard to best practice authorities and the potential to extend charges to services not charged for.
 - Understand the extent to which the principles could be applied to supplier and partnership models, e.g. HALO and Amey.
7. This report addresses many of the elements identified within the original scoping statement; comments upon a number of other related issues identified during the review; and sets out a number of recommendations.

OSC investigations and the PwC RIO project

8. Following approval of the scoping statement for this investigation, the Group was informed that the Commercial Board had commissioned PricewaterhouseCoopers (PwC) to review the Council's income management by means of a 'Revenue Income Optimisation' (RIO) project. There was significant overlap with the task contracted to PwC and the remit of the Group. In addition PwC was incentivised with a 'value add' dimension to their work which made it important to retain clear lines of responsibility and action throughout.
9. The Group was advised that it was welcome to comment on the detailed work undertaken by PwC at suitable points in the project's delivery. This comment took the

form of a preview of PwC's presentation to the Commercial Board in December – resulting in further changes to PwC's revised wording of the draft charging principles and changes to the scoring matrix and weighting of the opportunity assessment framework.

10. The final PwC final report on the RIO project was presented to the Commercial Board on 14th February 2012 when the first 7 of the income generating projects recommended by PwC were signed off by the Commercial Board.. The group was briefed on PwC's recommendations afterwards, but would have welcomed the opportunity to make a greater contribution to specific charging investigations and in order to play a more active role. Comment on the RIO report and its contents is made elsewhere in this report.
11. In the interim, the Group therefore refocused its activities to investigate a number of areas where charges are already being made for council services; to consider the degree to which the draft charging principles were being applied in these instances; and to synthesise any learning of wider application from the implementation and administration of these charges.
12. The report to Council on the Draft Financial Strategy and Budget 2012/13 referred to the work being undertaken by the Group stating:

"This will influence the outcome of the PwC work and the council's medium term plan."

The entry on Risk Management stated:

"Income: the council's budget is supported by income. The level of income receipt could be affected by factors such as the economic climate. The council's review of income and charging levels will need to play an appropriate part delivering the balanced budget."

For the avoidance of doubt the Group wishes to emphasise that this refers to the work of the wider Council to which the Group is seeking to contribute. Whilst it stands by its own recommendations, the Group considers that responsibility for the effectiveness of any income and charging policy must rest with the Executive.

13. The review did not consider fees and charges outside of the Council's control.

Investigations

14. The Task and Finish Group Members were Councillors E Harvey (Chairman); A Atkinson, C Bartrum, M Cooper, A Hempton-Smith, J Hope MBE, M Hubbard and J Knipe.
15. The following Officers supported the Review: D Powell, Chief Officer Finance and Commercial Services (Lead Support Officer) G Evans, Management Accounts Manager (Hoople Ltd) and T Brown (Democratic Services).
16. As part of the gathering of evidence the group's members led research and information gathering in five areas:
 - Traded Services: Halo's provision of leisure services.
 - Large Service Cost: Residential Accommodation
 - Competing with private sector: Pest Control
 - Income generation: Markets & Fairs
 - 2011 "Quick Wins": Car Parking, Planning, School Transport

The reports detailing the activity the Group undertook are set out at Appendix 2

17. As part of the task group's work programme evidence was provided by officers about how the Council consults on and implements its fees and charges regime; and also what enabling projects are underway to facilitate increased charging for services.
18. The Group would like to thank all those who participated in this review.

Considerations

19. As part of the overall linkage to budget policy, the Group concluded that there needs to be:
 - a) clarity regarding any subsidy of services;
 - b) value for money for the wider public in implementing service charges where service delivery costs and/or service delivery frequency is low ,
 - c) challenge to current savings proposals where they include cost recovery through charging; and
 - d) an understanding of the linkages between implementation overhead of new charging and any new or emerging service delivery models, e.g. where a 'smaller' Council becomes increasingly responsible for commissioning services rather direct service delivery.

Equity

20. The Group was keen to emphasize the impact that a rural community delivery setting may have on service costs, and to recognise that the issue of equity should be a key part in any implementation of charges.
21. Some services are more expensive to deliver into a rural location. The Council can use efficiencies/economies of scale achieved when providing the same service into a more densely populated setting to offset the cost of a rural provision, or may consider it is appropriate to reflect the true cost of service delivery in the more rural parts of the county.
22. This is more than a philosophical distinction – and requires that consideration of a 'fairness factor' associated with the charging structures i.e. whether services are discretionary purchases or essential/mandatory, some sorts of charges may hit people on lower income disproportionately, simply because the proportion of their income that is available to make discretionary purchases is much smaller than it is for the better off; also the fairness of charges to people living in urban areas subsidising services provided to people in rural areas needs considering.
23. If a decision is made not to recover the full cost of a discretionary service, then the local council tax payers' subsidy should be published as part of a transparent fees and charges policy - so that those in receipt of a service and those subsidising it are clear about the approach being taken.

Charging Principles

24. The Group examined the charging principles agreed by Cabinet in June 2011. Whilst there was general agreement about the principles' soundness and content it was felt that they should be more explicit about alignment with overall policy drivers and full cost recovery. The Group had a clear expectation that the charging principles, agreed in draft by Cabinet and rationalised by PwC with comments from the Group (see Appendix A and B), should be applied at the earliest opportunity when there is a review of existing fees and charges. The Group also wanted to ensure that any new fees and charges set by the council are accompanied by a clear explanation of how any such charges comply with the agreed principles and how they have been constructed.

25. These principles should be kept under review to ensure that they meet the needs of the authority and continue to reflect best practice in the wider local authority community.

Transparency

26. 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.
27. The group noted that a schedule of charges would improve the public visibility and understanding of the council's approach to charges. The current variety and range of charges within services and across the Council should be reviewed with the intention of simplifying the structures, where possible – since the range and variation will make it complex (costly) to administer when improved online payment methods become available, negating much of the efficiencies they offer.
28. In addition, it was the group's view that the council lacked a rationale for setting and amending discretionary fees and charges across the council. In future there is also a requirement to be clear about which services are free at point of delivery, and why.
29. Councillors should have the opportunity to review and debate charges and charging policy. This will increase transparency and understanding of the charging rationale and should become part of the overall approach to policy development. This could form part of the annual budget process that would allow Overview and Scrutiny and full Council to debate any proposed charging decisions. In addition the Cabinet should make the case for charging as a means of achieving council objectives through encouragement of behaviour which is aligned with policy.
30. 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 so that people can modify their behaviour, consider alternatives or make the case for hardship – should this be necessary.

Commercial Approach

31. The group recommends that the Council look to other market sectors for examples of business models which match service areas internal to the council; e.g.
- Planning application processing benchmarked against working practices in solicitors/accountants ... with charging a function of time taken to process the applications.
32. It will be important to recognise that efficient handling by staff is in the mix too but a more business-like approach to the use of officer time on these activities, as compared to more strategic, policy shaping or advice roles would improve revenues and through-put.
33. Planning in particular has significant future call on officer time coming from changes brought in by the Localism Act and Neighbourhood Planning – increasing the quality of applications by charging more for pre-application advice, will also then speeding application processing. Increasing still further planning application charges to better reflect the 'value' derived from their grant will improve the take-up of pre-application advice and will increase the recovery of the costs of this service provision from the subset of the county's residents who use it thereby also improving the department's ability to absorb more work with current staff levels.

34. A more joined-up review of where charges impact across organisational boundaries will assist in charges better contributing to policy delivery too:
- School transport links to wider transport policy – using school buses to transport members of the public; putting on charged-for school buses for less than 3-mile journeys to prevent school journeys by car as part of wider Transport Strategy; etc.
 - Car parks linked to Locality agenda – recognise and reflect net revenue from car parks, not just quoting gross figures – so that running, maintenance and enforcement costs are properly considered ... i.e. identify service areas which should be accounted for as businesses reflecting all costs and revenues; seriously consider possibility of returning car park ownership to localities as income generating and behaviour changing mechanisms as part of wider service devolution debate.
35. The group recommends that staff receive the training and support necessary to assist them to behave in a commercial manner. Local government officers and front-line staff don't always have the expertise/skills to take a commercial approach to their activities.
36. The link between relevant management information and fees and charges was commented upon. This was a key issue given the need to be clear about subsidy levels. Whilst the soundness of the council's financial accounting process including its preparation of accounts was commented upon it was noted that the public sector bias in terms of information provision to support accounts and audit did not provide the detail and viewpoints necessary to run services as 'businesses'. A move to greater cost awareness and management accounting is necessary if the full cost of running a service was to be established and then managed effectively.
37. Service managers should, wherever possible, benchmark with the public, private and voluntary sectors not only the level of charges made for services but the costs of service delivery, levels of cost recovery, priorities, impact achieved and local market variations.
38. The Council should collect and use information on service usage by household and geography; the take-up of concessions; and examine the impact of charges on individuals to inform decisions relating to service devolution, service spread across the county and efficient operation in the context of the Locality agenda.

Systems

39. In order to develop a more systematic approach to charging the appropriate information management and charge handling systems and processes are required. This also covers improved ways to pay, linked to council tax account, via internet, via phone. This would help understand which demographic profile is buying what services and where in the county and also links to the Locality agenda.
40. The group felt strongly that council customers should be able to undertake transactions with the Council electronically and that the Customer Segmentation model should be robust enough to support this requirement.
41. A move to a better understanding of the cost base will greatly assist transparency and improve the internal management of charging in the Council. It will also ensure that effort is expended in monitoring and managing the services which have the greatest subsidy or incur the greatest overall cost to the Council. Properly configured management information systems will eradicate the existence of hidden subsidies within directorates.

Future Proofing

42. The growing impact of the Localism agenda will affect future approaches to charging. This, along with public rights to take on certain services currently under local authority control, was noted by the group.
43. The group also met with officers to confirm the approach taken to date, and to explore ideas for improving the approach to setting and amending fees and charges in future, and how that can play a role in cost reduction and also how best this could be communicated to the public.
44. The current budget policy framework is contained in the Medium Term Financial Strategy and includes a 2.5% uplift for inflation. This is a council-level budgetary assumption and should not be used as a matter of course to adjust service charges rather than to properly tailor charges to recover costs.
45. Charge benchmarking with respect to external, commercial service suppliers is also necessary to ensure that the council services are efficient, offer good value for money and to ensure that the council does not behave in an anti-competitive manner by using public funds to subsidise or undercut services in direct competition to those offered by local businesses.

Subsidy

46. Service Managers should ensure that the income from charges, and the level of subsidy this provides for service areas, are transparent for councillors and inform the decision-making process. The group looked at the issue of subsidy as part of its early work and interviewed relevant officers.
47. There needs to be a consistent approach to the issue of subsidy and in this context the Council may form a view that in some circumstances it does wish to provide a subsidy. Such an approach would be policy driven but must be able to demonstrate how it meets wider council objectives and should be very closely monitored to ensure it is delivering the intended effect.

Charging Segmentation

48. As part of the need for greater transparency in the policy framework the council should explain the context within which it might raise a charge for services or goods provided. These can be grouped into the following categories:
 - a) Within a mixed economy – where the council is one provider of a service or good that is also provided by others e.g. leisure services
 - b) Mandatory – where the level of charge is set by Central Government. Here the Council must ensure that its efficient delivery of the services keeps the cost of the service within the envelope of the service charges that are centrally set. Unless a service is agreed to receive a council tax payer subsidy.
 - c) Discretionary – where the council is sole or primary provider and has a discretion as to whether to charge or not, and the level of any charge, e.g. library charges, pest control, etc.
49. By bringing this level of clarity to charges Councillors will be clear about those service areas that are a matter for local discretion.

National and Local Context

50. As part of the overall gathering of evidence the group noted that since 2000, two pieces of legislation have sought to address the barriers to effective use of charging

by local authorities and give councils greater flexibility to charge for local services. The evidence is that only now the Council is exploring the freedoms and flexibilities provided by this framework.

- In Section 2 of the Local Government Act 2000 local authorities are provided with the power to do anything that they consider is likely to promote or improve the economic, social or environmental well-being of their areas. This could include introducing new discretionary services.
- In addition under section 93 of the Local Government Act 2003 local authorities enables them to charge as they choose to for discretionary services. This is as long as they are not prohibited by other legislation and they do not make a profit. The intention of this general charging power is to:

“encourage authorities to provide those sorts of services they would otherwise decide not to provide (or improve) at all because they cannot justify or afford to provide them for free or to improve them.”

51. Against this legislative background the Council should take steps develop its approach whilst being clear about the financial and non-financial contribution of charging makes to its strategic objectives.
52. Similarly if a subsidy is provided its rationale and level should be a matter of public record. In this way the public will be clear about the reasons for any differential charging arising from the policy.

Recommendations

1. Council consistently applies 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; and 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 rationale for levels of subsidy for services to local people and make that 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 upon 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.

Council Charging Principles (agreed by Cabinet June 2011)

- The council should (subject to market conditions) aim to maximise income from fees and charges by ensuring that charges reflect the full cost of provision, unless there are contrary policies, legal or contractual reasons.
- Decisions to subsidise services, or to not make a charge for a service should be clearly linked to council objectives, and the potential income that is not earned must be a consideration in the decision.
- Where the council continues to subsidise the cost of services provided to customers, the level of subsidy should be clearly understood by managers and members, and publicised.
- Service Managers should clearly understand the costs of their services including overheads, capital costs and the whole-life costs of new schemes when setting charges. Such costs should be applied on a consistent basis across the council.
- Service managers should undertake comparisons and benchmarking with relevant sectors in terms of charges made, cost of service delivery, levels of subsidy and market variations.
- Managers should implement full cost recovery for all chargeable services, subject to legal, strategy or market considerations, within a maximum of 3 years.
- Charges must be linked to both service and strategic objectives and must be clearly understood.
- The direct implications of charging for residents, and the indirect implications for public, private and voluntary sector partners should be clearly understood.
- Information on service users and research into non-users should be collected and used to inform future decisions for charging.
- Any concessionary scheme should be based on ability to pay and be applied in a consistent and transparent approach across all council services.
- 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.
- 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.
- Consideration should be given to the cost and cash flow implications of charging. Wherever possible payment should be received in advance of the service being provided to reduce debt recovery action. Cost effective and efficient income collection channels should be in place.
- The council should aim to charge for all services where it is appropriate to do so, unless there are conflicting policies or legal reasons not to do so.

Revised Charging Principles (PwC + Income & Charging T&FG)

as at 15-December-2011

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.

Comment:

Principle 2 should be reworded as follows:

“Full cost recovery should be achieved through effective fees and charges models, unless there are contrary policies, strategy, legal or contractual reasons. Consideration should also be given to market conditions

Comment on PwC Final Report on RIO Project

The Income and Charging Task & Finish Group wish to make the following comments regarding the final version of the report by PwC to the Commercial Board on the RIO Project.

The Group has not had sight of the detail contained in the business cases for the 7 Income Projects listed below, which have already been signed off by the Commercial Board:

1. Adult Social Care
2. Car parking
3. Advertising and sponsorship
4. Bereavement Services
5. Highways
6. Post 16 home to school transport
7. Environmental Health

However, the group makes the following comments:

In General: Generally it is not clear which income is associated with new service charges, which is existing revenue from existing services; and which is a stretch of revenue from existing revenue.

It is not clear whether PwC have created a comparator authority group which is a good match for Herefordshire, its economic make-up and its geography; or whether they have used the standard unitary authority comparator family group when comparing cost recoveries. Predicted revenues are therefore difficult to assess in terms of their credibility.

It is not clear whether the current and forecast future economic conditions have been considered by PwC in making their revenue generating predictions. Predicted revenues are therefore difficult to assess in terms of their credibility.

Returns on investment over 3 years vary greatly between project areas. The required investment does not appear to have been handled in a consistent fashion..

That differential charging should be considered as part of the charging principles

The group recommended that a report be made to the Overview and Scrutiny Committee in October 2013 setting out how much of the projected additional income has been achieved and reviewing the intended and unintended consequences of the implementation of new/additional charges.

Adult Social Care: The revenue projections for Adult Social Care in project (1) now appear to lag those already made in the budget for 2012-13, which raises risk and uncertainty regarding the budget assumptions and may require mitigating action.

Also that consideration be given to phasing in the increases for some adult social services to ensure that the possibility of adverse impacts on aspects such as safeguarding are minimised.

Car Parking: Insufficient attention has been paid to the recommendations made in the O&SC report concerning on-street parking in regard to project (2). If investment in car park infrastructure is under consideration it may make more sense to upgrade existing council car parks to become pay on exit. This would enable all car parks to become short and long stay according to the sliding tariff for their charges; would allow people to pay for the time

they use; and would allow use of car parks to be linked to other activities – use of Halo facilities, shopping in town, eating locally, etc.

The withdrawal of concessionary disks for over-65s needs further development and other options should be explored. Increasing the cost of the disks to, say, £2/week and increasing the handling fee would have produced significant revenue up-front and been better aligned to rural isolation; equality and transport policies.

That immediate action should be undertaken to ensure that car park passes issued to Councillors and staff are only used for Council business as intended.

Advertising & Sponsorship: That in seeking to generate income from advertising and sponsorship action criteria be put in place to ensure that the approach is appropriate to Herefordshire.

Appendix

Other areas for consideration

The wide ranging nature of charging and income brought the group into contact with various parts of the council along with other organisations. The following appendix captures valuable insight that the project provided that may not have precisely matched the terms of reference.

- Planning was not an area within the PwC remit, but this Group considers it offers significant potential for further revenue generation both from pre-application advice and from post-application processing.
- Whilst not directly covered by the charging and income remit of the group's work it was felt that considering the lessons and business operation of websites like 'Last minute.com' may offer prospects to reduce the cost. This would be an alternative to increasing income from areas where people transition between hospital and home; or receiving respite care. A way of integrating information regarding short-term and last minute availability of beds in community hospitals and private care homes may allow them to be occupied for very short periods of time at much lower costs than under normal circumstances – especially as care homes need to operate with an assumed level of under-utilisation of their accommodation built into their fee structures.
- The flexibilities associated with the local management of business rates should be explored and a protocol produced to consider a 'local' dimension to the business rates to take account of increasing Locality priorities.