

## CABINET

<b>Date of Meeting</b>	Tuesday, 16 <sup>th</sup> July 2019
<b>Report Subject</b>	Fees and Charges
<b>Cabinet Member</b>	Cabinet Member for Corporate Management and Assets
<b>Report Author</b>	Chief Officer (Streetscene and Transport)
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

In late 2017 the Cabinet adopted an Income Generation Policy which set the rationale for charging and proposed an annual review of all fees and charges. The Income Generation Policy, including fees and charges and the new income streams identified in this report, forms part of the Medium Term Financial Strategy.

This outcome of the annual review of fees and charges is set out in Appendix A. For each charge the extent to which full cost recovery is being met – one of the objectives of the policy where desirable and achievable – is shown. Further work is required in this area. The report also proposes an approach to the annual indexation of all fees and charges.

This report proposes a policy framework that includes a consistent charging structure across all areas of service.

### **RECOMMENDATIONS**

1	That Cabinet approves the fees and charges documented in Appendix A.
2	That Cabinet approves the Consumer Prices Index, including owner occupiers' housing costs (CPIH), as the annual inflation index to be used for uplifting fees and charges where it is appropriate to do so (or market rate comparable/choice where applicable) along with the proposed inflationary implementation period documented in Appendix A.
3	That Cabinet support further work to establish whether full cost recovery (direct and indirect cost recovery) is being achieved for all services, where it is permissible for them to do so and/or comparable market rates are applied.

4	That Cabinet approve a three year staged approach to achieving full cost recovery (or market price comparison) for all services where it is permissible for them to do so.
5	That Cabinet approve a further review of the current Income Generation Policy, with a view to developing a policy framework for income generation to include a consistent charging and cost recovery structure.
6	That Cabinet approve the annual review of fees and charges format and request an annual report in July of each year, setting out the proposed fees and charges for all services, which will be introduced from the 1st October of the same year.
7	That Cabinet notes the additional income projects identified in Appendix B and approves the project commencement dates for each.

## **REPORT DETAILS**

<b>1.00</b>	<b>EXPLAINING THE LATEST POSITION ON INCOME GENERATION</b>
1.01	With continued central funding reductions under austerity, changes in sources of funding and increasing demand for many services, Local Authorities are experiencing unprecedented financial change and challenge. By 2020, APSE predict that local government spending "...will be lower than at any time since before 1948." <sup>1</sup>
1.02	Despite these challenges, and in many cases as a direct response to them, there is a growing wealth of research that demonstrates Local Authorities are being innovative and taking a more commercial approach to securing sustainable income streams and financial position. This includes selling services in a commercial market where buyers have a choice of who to buy from, reviewing fees and charges for services (in many cases to reduce the subsidy required to continue to deliver them) and implementing alternative delivery models. <sup>2</sup>
1.03	Local Authorities are required by law to have a balanced budget. That is a financial plan that demonstrates how income will equate to expenditure over the short and medium-term. The Council's Medium Term Financial Strategy currently forecasts a funding gap of £13.3m for 2020/21.
1.04	The generation of additional income from fees and charges, along with specific projects to explore the feasibility of new income streams, are two of the solutions available to the Council to help meet the budget shortfall. As such, income generation forms part of the strategy of options to meet the

<sup>1</sup> APSE (2016) Sustainable local government finance and liveable local areas: Can we survive to 2020? Available from: <https://www.apse.org.uk/apse/index.cfm/research/current-research-programme/sustainable-local-government-finance-and-liveable-local-areas-can-we-survive-to-2020/>

<sup>2</sup> See for example: Localis (2015) Commercial Councils: The rise of entrepreneurialism in local government. Available from: <https://www.localis.org.uk/research/commercial-councils-the-rise-of-entrepreneurialism-in-local-government/> and LGA (2017) Enterprising councils: Supporting council's income generation activity. Available from: <https://www.local.gov.uk/enterprising-councils-supporting-councils-income-generation-activity>

	challenge of the Medium Term Financial Strategy with an income target of £200,000 for 2018/19, which increased to £300,000 in 2019/20.
1.05	The income target for 2018/19 was not achieved in full and there remains in the region of £170,000 of additional income to generate (once income related business planning efficiencies have been taken into account) to achieve the 2019/20 target. It is therefore imperative to maintain a focus on income generation and those fees and charges that can be reviewed, or introduced, as part of the Medium Term Financial Strategy to protect Council finances.
1.06	The Council provides a wide range of services some of which customers are required to pay a fee or charge for. Good practice says that Local Authorities should have a clear rationale for charging. This should include what services are charged for, how much is charged and how charging supports the delivery of corporate priorities <sup>3</sup> .
1.07	The Council's rationale for fees and charges is set out in its Income Generation Policy which was previously endorsed by Cabinet. The objectives and principles of this policy include:- <ul style="list-style-type: none"> <li>• Maximisation of revenue generation with full cost recovery wherever possible;</li> <li>• Ensuring that charges reflect the ability to pay (affordability);</li> <li>• Comparability within the public sector and market;</li> <li>• Adopting differential pricing where warranted;</li> <li>• Ensuring fees and charges complement wider policy goals;</li> <li>• Having, as a minimum, annual increases in line with inflation; and</li> <li>• Transparency in charging.</li> </ul>
1.08	The Policy identifies the role income generation plays in contributing and supporting the continuation of key frontline services. Maximising income generation streams is also a key activity and measure to support the Council priority of "Effective Resource Management" as contained in the Council Plan 2017 to 2023 under the theme of "Serving Council".
1.09	The Income Generation Policy requires an annual review of fees and charges with annual cycles of resetting fees and charges and appropriate delegations for enacting changes.
1.10	When setting fees and charges we should be aware of the complexities around charging, including Local Authorities ability to set fees and charges locally. Broadly speaking fees and charges fall under two categories – statutory fees and discretionary charges. Statutory fees are governed by legislation/regulation and may be set by Government with little or no local discretion to alter. For example, Penalty Charge Notices, Enforcement Agent fees, environmental permitting and most Planning fees. Whereas discretionary charges generally allow for greater local discretion in setting

<sup>3</sup> Wales Audit Office (2016) Charging for services and generating income by local authorities. Available from: <https://www.audit.wales/system/files/publications/income-generation-2016-eng.pdf>

	charges. For example, allotments, Bereavement Services, market stalls and pest control. However, some discretionary service charges may be restricted to recovering the cost of service delivery only, such as Building Control and Taxi Licensing.
1.11	In line with the Income Generation Policy an annual review of fees and charges has been conducted. This review aimed to identify all of the fees/charges applied by services; the level of fee/charge applied in 2018/19, as of 1 <sup>st</sup> April 2019 and the proposed fee/charge from 1st October 2019 (including any new fees/charges). Alongside this, services were asked to identify if fees/charges are statutory or discretionary and whether the income generated from the fee/charge recovered the full cost of service delivery. The result of this review can be found at Appendix A. Identifying and capturing all fees and charges across all services is a complex piece of work to verify and the latest draft list of fees and charges is provided. Please note that whilst every effort has been made to capture a full, accurate and up to date list of fees and charges, work is ongoing and as such the list of fees and charges is subject to verification and minor change.
1.12	For ease of reference, the list of fees and charges captured in Appendix A to this report have been risk rated on a RAG (red, amber, green) basis: <ul style="list-style-type: none"> <li>• Red indicates fees/charges which are identified as not achieving cost recovery where it is permissible for them to do so.</li> <li>• Amber indicates further work required to verify whether full cost recovery is being achieved (56% of the total fees/charges captured in Appendix A)</li> <li>• Green indicates statutory fees where there is limited or no scope to alter the amount charged.</li> </ul> <p>In addition, cells highlighted in yellow indicate a new fee or charge and cells highlighted blue indicate where information is yet to be confirmed.</p>
1.13	The information contained within Appendix A to this report indicates that of the 605 fees/charges listed, 36% are statutory where the Authority has no or limited discretion in setting the price and 64% are discretionary where there is more room for local discretion when setting the price.
1.14	In addition to income from fees and charges a number of income projects have been identified for further exploration. An overview of these projects and the indicative commencement date can be found at Appendix B to this report.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	Additional income generated through fees and charges, and the income projects, will be tracked and monitored against the income target for

	2019/20. Failure to achieve the income target will lead to a budget shortfall, which may lead to funding from alternative sources being required.
2.02	<p>Whilst further work is required to calculate income projections for all the proposed fee/charge increases from 1<sup>st</sup> October 2019, some indicative figures have been calculated, for reference.</p> <p>It is proposed to raise the charge for the garden waste collection service by between £2 and £5 per season, depending on the chosen payment method (detailed in para 4.09 of this report) and the date the payment is received by the Council. This reflects the rising cost of delivering the service and will increase the projected income levels by between £70,000 and £130,000 per year.</p> <p>The proposed charge for the new Food/Drink Ceremony Packages under Registration Services has been projected to generate additional income in the region of £580 in 2019/20 and £850 in 2020/21.</p> <p>The new charge for the transfer of grave ownership administration is yet to be confirmed. However, comparable charges in other Councils varies from £30 to £55 for this service. Based on current service demand, implementing a £30 charge for this service would generate in the region of £15,600 per annum and a £55 charge £28,600 per annum.</p>
2.03	Further work is required to verify that the services identified as operating at cost recovery in Appendix A (those highlighted as amber) are recovering the full costs of service delivery, where it is permissible for them to do so. That is both the direct and indirect costs associated with service delivery. This work will ensure due diligence and will be undertaken by Finance Managers and the Income Generation and Marketing Manager.
2.04	Discretionary services, where the Council has a power but not a duty to provide the service, are most at risk. Achieving cost recovery wherever possible for these services is therefore a necessity for service sustainability. Where the charge applied for these services does not cover the cost of service delivery, or it is not permitted to, this raises strategic questions for the Council to consider. For example, should these services continue to be provided? If so, how will they be funded? If they are to be subsidised where will the funding come from?
2.05	As outlined in the Income Generation Policy, it is proposed that the annual review of fees and charges is overseen by Programme Boards, with any changes implemented from 1 <sup>st</sup> October each year following reporting to Cabinet in July.
2.06	Where in-year changes are required to fees and charges, i.e. statutory fee changes or other extenuating circumstances, these should be made in line with the delegated authority process (respective Chief Officer and Cabinet Member).

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	The Income Generation Policy was previously endorsed in October 2017.
3.02	It is proposed that the annual review of fees and charges is reported to Cabinet in July each year to ensure appropriate accountability.
3.03	For the purposes of transparency, a detailed list of all the fees and charges applied by the Council will, going forward, be published.
3.04	The schedule of fees and charges (Appendix A) has been considered by the Corporate Resources and Overview Scrutiny Committee on 11 <sup>th</sup> July 2019, with feedback to be provided to Cabinet as part of this agenda item.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Maximising income generation and the annual review of fees and charges is not simply a case of increasing the fee/charge applied for services. For example, increasing fees/charges for services that operate in a commercial market to above the market rate may reduce demand for services, negatively impacting on income. Similarly, raising fees/charges to a level where customers can no longer afford them is likely to have the same effect. However, the Council does need a consistent approach to reviewing fees and charges and ensuring charging reflects the objectives and principles of the Income Generation Policy, as summarised above.
4.02	It is therefore proposed that a staged approach is adopted to raise fees and charges to a level where they achieve market rate comparison, or full cost recovery, where they are not already doing so and it is permissible for them to. To balance this with considerations of affordability, it is proposed that this is achieved over a period of three years (by 1 <sup>st</sup> October 2022).
4.03	Once services have reached the benchmark of full cost recovery, or market rate comparison, there needs to be an agreed process/formula for ensuring annual increases in line with inflation.
4.04	<p>There are three inflation indexes that the Council needs to consider:</p> <ol style="list-style-type: none"> <li>1. The Council's inflation rate, which would require a calculation of the annual increases in direct and indirect costs for each service where a fee/charge is applied;</li> <li>2. Market rate comparison/choice; and</li> <li>3. The Consumer Prices Index including owner occupiers' housing costs (CPIH)</li> </ol> <p>The Council has no scope to increase statutory fees, which are set in legislation/by regulations, in line with inflation.</p>

4.05	The CPIH is an extension of the Consumer Price Index (CPI), which is used for the government's target for inflation and meets both international and European standards and regulations. CPI is used for increasing pensions and benefits, amongst other things. The CPIH is more comprehensive than the CPI as it includes housing associated costs for owner occupiers and as such it became the lead inflation index for government in March 2017 <sup>4</sup> .
4.06	It is therefore recommended that the CPIH is used as the normative annual inflation index, with market rate comparison/choice used for services where this is warranted, i.e. those that are delivered in a commercial market.
4.07	The CPIH 12-month inflation rate was 2.0% in April 2019 <sup>5</sup> and in most cases this can be applied as an annual uplift to fees and charges as part of the annual review. However, for some fees/charges, implementing an annual inflation increase of around 2% is not practical due to the minimal fee/charge in place (i.e. a 2% increase on a £2 car boot space equates to 4p). In these circumstances it is proposed that inflation increases are implemented every three years and rounded up/down accordingly. The proposed inflation uplift period for each fee and charge has been captured as part of Appendix A.
4.08	Currently, some services seek payment in arrears of service delivery, meaning recovery of fees and charges is not guaranteed. To protect income, and prevent non-payment for services, there will be greater focus on securing upfront payments for applicable services in future. This will be supported through digital mechanisms, such as online payments, wherever possible.
4.09	<p>Online payments are a less costly transaction when compared to payments made over the telephone or face-to-face. As such, the use of online payment reduces the cost of service delivery. These 'savings' in service delivery costs may then be passed on to the customer through a slightly reduced charge.</p> <p>An example would be the proposal for garden waste charges, whereby if customers pay online, and before the season commences, the charge will be £32. For those who join the scheme late in the season, or wish to pay over the phone or face-to-face at local Connects Centres, the charge will be £35 per season.</p> <p>Take up of this reduced charge will however impact on the additional income projection provided in 2.02. For example, if 25% of existing customers renew at £32 and 75% at £35, the projected additional income will be £136,000. If 75% of existing customers renew at £32 and 25% at £35, the projected additional income will reduce further to £88,000.</p>

<sup>4</sup> Office for National Statistics (2017) Consumer Price Inflation (includes all 3 indices – CPIH, CPI and RPI) QMI. Available from: <https://www.ons.gov.uk/economy/inflationandpriceindices/methodologies/consumerpriceinflationincludesall3indicescpihcpiandrpiqmi>

<sup>5</sup> Office for National Statistics (2019) Consumer price inflation, UK: April 2019. Available from: <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/april2019>



4.10	The Income Generation Policy should be reviewed with a view to becoming a policy framework that incorporates a consistent charging structure, as outlined above and to include differential charging/concessions. To ensure potential economic, social, and environmental ramifications are considered this should be subject to an Integrated Impact Assessment (IIA).
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<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix A: List of fees and charges
5.02	Appendix B: Overview of income projects and indicative commencement date

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Flintshire County Council's Income Generation Policy can be accessed online:  <a href="https://www.flintshire.gov.uk/en/PDFFiles/Digital-Customer-and-Community-Resilience/Income-Generation-Policy.pdf">https://www.flintshire.gov.uk/en/PDFFiles/Digital-Customer-and-Community-Resilience/Income-Generation-Policy.pdf</a></p> <p>The Council Plan 2017-2023 can be accessed online:  <a href="https://www.flintshire.gov.uk/en/PDFFiles/Policy-and-Performance/COUNCIL-PLAN-2018-23-Final-English.pdf">https://www.flintshire.gov.uk/en/PDFFiles/Policy-and-Performance/COUNCIL-PLAN-2018-23-Final-English.pdf</a></p> <p><b>Contact Officer:</b> Kelly Oldham-Jones – Income Generation and Marketing Manager  <b>Telephone:</b> 01352 702143  <b>E-mail:</b> <a href="mailto:kelly.oldham-jones@flintshire.gov.uk">kelly.oldham-jones@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>Alternative delivery models</b> – refers to services that are not delivered in-house by the Council but through a different model of delivery such as a Local Authority Trading Company or mutual.</p> <p><b>Commercialisation</b> – for the purposes of this report commercialisation is defined as “...the development of trading relationships where there is an intention to generate additional funds to ease financial pressure on council services...” APSE<sup>6</sup>, p5</p> <p><b>Differential pricing</b> – charging different prices for the same product or service. For example, offering concessions (a reduced price) for people in receipt of certain benefits.</p>

<sup>6</sup> APSE Taking a commercial approach: A guide for local councils in Wales to income generation, trading and charging. Available from:

[https://www.apse.org.uk/apse/assets/File/Taking%20a%20commercial%20approach%20-%20a%20guide%20for%20local%20councils%20in%20Wales\(2\).pdf](https://www.apse.org.uk/apse/assets/File/Taking%20a%20commercial%20approach%20-%20a%20guide%20for%20local%20councils%20in%20Wales(2).pdf)



**Direct costs** – costs that are completely associated with the delivery of a service or production of a product. They include things like employee costs, transport and supplies and materials.

**Indirect costs** – these are also known as overheads and are the costs that are incurred by organisations as part of their operations but which are not directly attributable to a specific service or product. For example, premises costs such as utilities (water, lighting, heating).

**Inflation index** – is a tool that measures the rate of inflation (rises in prices).

**Market rate** – is the usual price charged for goods and services.

**Medium Term Financial Strategy** – The Council's Medium Term Financial Strategy covers a period of three years and collates information on things that affect the financial position of the organisation. This enables objectives to be balanced against the available resources.