

To: City Executive Board

Date: 20th May 2009

Item No:

Report of: Head of Finance

Title of Report: Fees and Charges Strategy

Summary and Recommendations

Purpose of report: That the Board is asked to recommend Council to adopt a fees and charges strategy

Key decision? No

Executive lead member: Cllr Ed Turner

Report approved by:

Finance: Emma Burson

Legal: Jeremy Thomas

Policy Framework: Transform Oxford City Council by improving value for money and service performance

Recommendation(s): The Board is asked to recommend Council to adopt the strategy and note the action plan for an audit of current fees and charges

Introduction

1. During 2008, both CIPFA and the Audit Commission produced reports on Charging within Local Authorities. The Audit Commission undertook a "critical friend" audit of Oxford City during the Summer of 2008. Their final report in September 2008 identified some good practice within the Council but identified no overarching Strategy.
2. This report proposes a Fees and Charges Strategy for the Council and identifies the next steps the Council should take for implementation of the Strategy.

Summary

3. The main thrust of this Strategy is to determine the principles used to set Fees and Charges. The basic principle for all Fees and Charges is set out in the MTFFS (Medium Term Financial Strategy) agreed September 2008. This is as follows:

“Ensure the Councils charging strategy and policies move towards higher level of cost recovery whilst not making services unaffordable for households on limited incomes.”

4. The remainder of the Strategy deals with the Legal implications of charging, the setting of new charges and the recovery of income owed to the Council.

Audit Commission review

5. The key points from the Audit Commission action plan were to introduce a strategy, define corporate income targets, and to clarify the rationale and purpose of charging for specific services and to actively use charging levels to promote service use and/or modify customer behaviour.
6. This report presents a strategy that defines the Councils approach to fees and charges. Corporate income targets are included in the MTFFS. To fully document and understand whether our current fees and charges promote service use/modify customer behaviour we need to undertake an audit of current charges.

Consultation

7. The Council undertook consultation on the general principles for fees and charges through a Talkback Survey in late 2008/early 2009. The summary of responses given below shows that the majority of respondents believe it is acceptable to influence behaviour through charging, and it is acceptable to charge different amounts based on the amount people earn. Detailed response to questions asked shown below:

By charging some people more or less for certain services, councils might try to influence their behaviour; how acceptable is this?

		Frequency	Percent	Valid Percent
Valid	Very acceptable	160	33.7	35
	Fairly acceptable	188	39.6	41.1
	Not very acceptable	57	12	12.5
	Not acceptable at all	42	8.8	9.2
	Don't know	10	2.1	2.2
	Total	457	96.2	100
Missing	System	18	3.8	
	Total	475	100	

To what extent do you think it is acceptable or unacceptable for councils to charge people different amounts based on the amount people earn?

		Frequency	Percent	Valid Percent
Valid	Very acceptable	118	24.8	25.7
	Fairly acceptable	165	34.7	35.9
	Not very acceptable	80	16.8	17.4
	Not acceptable at all	83	17.5	18
	Don't know	14	2.9	3
Total		460	96.8	100
Missing	System	15	3.2	
	Total	475	100	

Current Strategy

8. The Council's current fees and charges strategy is not totally formalised. Most fees and charges have evolved over a number of years and it is some time since the Council thoroughly reviewed all charges. There have been pricing reviews, most recently an external review of Leisure charges.
9. Current fees and charges are based on cost recovery with an RPI increase applied annually to income budgets to reflect the increase in costs. The RPI increase is defined in the MTFs and this then sets an income target. It is for each Service Head to decide how to achieve that level of income through the prices they charge. Service Heads take many things into account in setting their charges including competitors' charges and the real cost of providing the service. This information is not formally documented by the Council. All fees and charges are agreed annually as part of the budget and published in the Budget Book.
10. During the 2009-10 budget setting, income was a key area reviewed in the ABC budget prioritisation exercise. This focussed on areas where income could be increased. The budget setting did reject some proposed charges like Bulky Waste, where the introduction of a charge was felt to be detrimental.
11. Generally in agreeing the fees and charges for the year, Council only scrutinises new fees/charges so the majority of fees and charges remain on the same basis year on year. This means that the benefits of concessionary charges and the benefits of different charges to achieve different patterns of behaviour are not regularly reviewed.

The New Strategy

12. The new strategy will continue with an agreed RPI increase in income for existing charges. Individual fees and charges will be subject to an

annual review as part of the budget cycle and the methodology for setting the charges will be documented.

13. New charges will be subject to the project management process. This is to document all benefits and the business plan for achieving income can be reviewed before implementation. An example of this is the new Preplanning application charge.
14. The key principles of the new Fees and Charges Strategy are:
 - To set fees and charges to achieve corporate objectives
 - To set fees and charges to recovery the full cost of the service (but with regard to corporate policies and households on limited incomes
 - To define full cost as all costs including organisation overheads
 - To define “households on limited incomes” as those in receipt of Council Tax or Housing Benefit.

Next Steps

15. The next step will be to audit all current fees and charges. All Service Heads will be required to complete a programme for each fee/charge as per Appendix A This approach is based on the Audit Commission website directory of Fees and Charges. This will define the reasoning behind the charge and provide the Council with reasons for levels of charges. Alterations to individual charges will be made for the 2010-11 budget or sooner if it is deemed practicable.

Level of risk

16. There is no risk in approving the strategy, the risk may occur in the setting of each individual fee/charge and whether that meets the Council's objectives.

Climate change / environmental impact

17. Each fee/charge will need to be evaluated on an individual basis.

Equalities impact

18. Each fee/charge will need to be evaluated on an individual basis.

Financial implications

19. Approving a clear strategy and reviewing in detail each current charge has the possibility of increasing income available to the Council. On the other hand the Council may decide that fees and charges should be applied in a different way to achieve one of the Council's aims/objectives as per the Corporate Plan.

Legal Implications

20. Each fee/charge will need to be evaluated on an individual basis.

City Executive Board is asked to recommend Council to adopt the strategy and note the action plan for an audit of current fees and charges

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List of background papers: Income, Fees and Charges, Audit and Governance Committee September 2008

Version number: 2

CEB Report Risk Register – Fees & Charges Strategy

Risk Score **Impact Score:** 1 =Insignificant; 2 = Minor; 3 = Moderate; 4 = Major; 5 = Catastrophic **Probability Score:** 1 = Rare; 2 = Unlikely; 3 = Possible; 4 = Likely; 5 = Almost Certain

No.	Risk Description Link to Corporate Obj	Gross Risk		Cause of Risk	Mitigation	Net Risk		Further Management of Risk: Transfer/Accept/Reduce/Avoid		Monitoring Effectiveness				Current Risk	
		I	P			I	P	Action:	Outcome required:	Q 1	Q 2	Q 3	Q 4	I	P
1		I	P		Mitigating Control: Level of Effectiveness: (HML)	I	P	Action: Action Owner:	Outcome required: Milestone Date:	⊗	⊗	⊗	⊗		
		⊖	⊖					Mitigating Control: Control Owner:		⊖	⊖	⊖	⊖		
		⊕	⊕							⊕	⊕	⊕	⊕		
2	The Council fails to maximise revenue income opportunities	3	3	Fees & charges not all regularly reviewed	Plan for audit of all charges as part of 2010-11 budget process H	3	2	Action: Accept (once review complete) Action Owner: Head of Finance	Outcome required: Fees & charges audit completed and reviews undertaken Milestone Date: Sept 09						
3	The Council makes some services unaffordable for households on low incomes	3	3	Affordability may now be fully considered when charges set	Strategy provides for concessions for households on low incomes and flexibility for services to refine the definition of low income H	3	1	Action: Reduce Action Owner: Service Head setting fees	Outcome required: Fees set taking into account affordability issues Milestone Date: Ongoing						

Fees and Charges Pro-forma

Service Area

Name of Charge

1.	Is the charge set by Statute? If Y go to question 2 / If N go to question 3	Y	N
2.	Is the actual level of charge set by Statute? If Y end / If N go to question 3	Y	N
3.	Is the level of charge based on full cost recovery? If Y go to question 4 / If N go to question 5	Y	N
4.	What does the cost recovery include? <i>Direct costs only, overheads, unallocated central costs? Please give detail or include analysis of costs included.</i>		
5.	Does the service undertake benchmarking or other comparative costing work? Please give detail below. This question is designed to understand whether cost recovery is based on an understanding of the costs of the service. Go to question 7		
6.	If not full cost recovery, then what basis? <i>Please give details</i>		

7.	Has the charge been the subject of an individual report to Council? Did this report detail the non-financial benefits of not imposing a charge based on full cost recovery
8.	What concessions are given and why?
9.	What marketing does the service undertake?
10.	Have the service customers been subject to consultation?
11.	Review of charges a) when was the last charge reviewed? b) Is the charge achieving its objective of either full cost recovery or influencing behaviour?
12.	What Corporate objectives does the charge meet?

Objectives the council hopes to achieve through the charges/introducing new charge.

Recover costs of service provision	
Generate surplus income (where permitted)	
Maintain existing service provision	
Fund service improvement	
Fund introduction of new services(s)	
Manage demand for service(s)	
Promote access to services for low income households	
Promote equity or fairness	
Influence individuals' behaviour	
Minimise council tax increases	
Achieve corporate policy objectives, (please expand)	
Other:	

FEES AND CHARGES STRATEGY

1. Aim of the Strategy

The Council is committed to moving towards higher levels of cost recovery whilst not making services unaffordable for households on limited incomes¹. In order to ensure fees and charges are being used effectively the Council will ensure that its overall charging policy links in with its corporate aims and objectives.

This document sets out an overall policy framework to support and guide a practical approach to fees and charges that is consistent with the Council's Corporate Plan.

2. Context

It is vital that the Council looks at all opportunities for reducing costs and increasing income. The Medium Term Finance Strategy shows that, based on current estimates, savings are required into the medium term.

Income from fees and charges is an important resource for local authorities. Oxford's 2009/10 budget includes £7m frp, property rental and £7m from car parks. By comparison Council Tax revenues are £12m, Formula Grant is £16.5m.

It is often argued that councils are not consistently maximising their revenue income opportunities. In January 2008 the Audit Commission published a report entitled "Positively Charged – Maximising the Benefits of Local Public Services Charges". The Audit Commission found that charges could make a significant contribution to council finances and could also be used to influence people's choices and behaviour and bring other benefits to local communities. However councils generally did not have clear and comprehensive policies setting out which charges should be subsidised by local tax-payers and did not always make the most effective use of their charging powers. The Audit Commission recommended that councils need to change their approaches to charging if they are to use it to achieve their financial and strategic objectives. The Audit Commission did an initial report to Audit and Governance Committee in September 2008.

3. Charging Powers

Overview

¹ MTFS September 2008

Charges do more than just raise income. They have a significant role to play in the achievement of a range of council objectives, from corporate priorities for social inclusion or the environment, to the health of the population.

Charges also have a central role to play in service deliver: raising income; controlling access; responding to competition; funding investment; and affecting public behaviour. Charges should be reviewed as part of the revenue budget and Transformation Plan setting process where possible.

The basis of the powers that councils have to raise income from charging for services is historic, varied and complex. Broadly these fall into:

- a. Services where fees are set by statute such as planning fees, liquor and entertainments licences. In both cases there may be opportunities to provide discretionary services over and above the statutory service with the Council setting a supplementary charge; for example pre-application planning advice.
- b. Services that council have a duty to provide where required and can make a 'reasonable' charge (for example commercial waste collection and disposal).
- c. Discretionary Services where councils have the powers to provide and to charge for the service. These powers are conferred either by specific legislation relating to the service or by Section 93 of the 2003 Local Government Act. Charging for discretionary services under the 2003 Act places a duty on Councils to ensure that taking one year with another the charges do not exceed the cost of provision; ie. Charges are limited to 'cost recovery'.
- d. Authorities with a CPA rating of 'fair', 'good' or 'excellent' services can provide services on a trading basis through an arms length company under powers in the 2003 Local Government Act. Traded services can generate a surplus.

4. Proposed Charging Policy Framework

The policy framework would apply to any service that the Council has a power and discretion to provide to the community, or has a statutory duty to provide, and has discretion to set a charge.

5. Key Principles

The key principles for fees and charges are set out in the MTFs as agreed September 2008.

- Where it is legally possible the presumption is that the cost of providing a discretionary service should be fully recovered through charges except where the Council makes a positive decision to the contrary.
- Decisions to exempt a particular service from the full cost recovery requirement may be taken by the Council:
 - To support a particular objective or group of people in support of achieving its corporate objectives.
 - Where it would be impractical (eg. public access to Parks).
 - Where charging would not be cost effective (eg. the cost of administration and collection outweighs the income that could be generate).
- Concessionary charges may be available in the following circumstances:
 - To individual low incomes users. This will usually be defined as those in receipt of Housing Benefit or Council Tax benefit, but this definition may vary according to the service being provided.
 - To subsidise a group or groups of users to support a particular corporate objective eg. free swimming for children. Decisions could be regularly reviewed.
 - Where a business case is made to support a short-term reduction in charges aimed at increasing take up and the overall income yield for the service in the long term. Such concessions would be time limited.
- The Council could aim to maximise the potential to generate income, for example, through differential charging to tap into the value placed on the service by different users.
- Where a service is subsidised as a result of a positive decision by the Council, the level of subsidy will be made explicit and the decision will be subject to regular review.
- As part of the process of setting new or reviewing existing charges, targets for benefit will be established, both qualitative and quantitative.
- Where a service is 'demand led' and/or competes with others based on quality and cost the charge should be determined by the

maximum that users are prepared to pay and take account of competitor pricing.

- When introducing new charges or making changes to existing charges, the Council will have regard to the views of users and other stakeholders.
- There may be circumstances where income generation is not the key driver for the way in which prices are set, for example, where the Council wishes to manage demand, or deter or incentivise certain behaviours such as encouraging re-cycling or re-use and discouraging trade use of civic amenity waste sites. In this context however, the general principles of pricing should apply and in particular that any charged activities, enforcement etc must at least recover cost.
- The Council recognises that there may be opportunities to trade services with other public sector, private and voluntary sector organisations to increase the capacity of others to provide services, or to maintain the efficiency of its own cost base. Where it enters into commercial trading arrangements, these will be within the scope of its powers, be based on a prudent assessment of any risks to its core activities and will not be contrary to the values and philosophy of the Council.
- There will be an annual review of fees and charges by officers and elected members as part of the budget setting process. For each service charging information will be set out in a format that demonstrates that the income stream has been developed in accordance with the principles and approach in this document.

6. Definitions of Cost

The Council defines cost as all costs incurred in providing the service including allocated overheads and cost of administration and collection.

7. Definition of Households on Limited Income

The Council will usually define this as those in receipt of Council Tax benefit or Housing Benefit, but this definition may vary according to the service being provided.

8. Considerations for Introducing a New Charge

Each service should follow the following step by step guidance for reviewing/introducing a change. A generic approach is proposed to ensure that income streams are viable and consistent.

Can income be generated and on what basis? Is the increase lawful?
Does the Council have the power to charge?

This policy requires that there is a presumption towards 'full cost recover' except where there is a positive decision to support those on low incomes or a specific group of users. This is an option identified in the statutory guidance and ensures that cost recovery is maximised.

Is charging consistent with the Council's policy on charging? Would there need to be exemptions from charging for some users or groups of users?

When considering how to create an income stream or to increase income, though should be given as to how this fits with the Council's general policy principles state in corporate plan.

Make an informed decision

Where possible charging decisions should be based on management information that allows the basis of the charge to be calculated (for example, in relation to user preference, demand trends, elasticity of price and demand, knowledge of the full costs attributable to the service, the impact of competition and competitor pricing).

Designing the charge

The following elements should be taken into account when designing/changing a charge:

- Recovering full cost, which should include any direct, indirect and variable costs including the cost of collection.
- The impact of exempted users or target groups and whether the cost of this can be recovered.
- Any positive decision to subsidise the service and how this links to corporate priorities.
- Where there is premium demand for a service, that this should be reflected in the pricing structure, for example where there is peak usage at certain times of the day.
- The impact of competition and competitor pricing.
- Understanding the impact of user preference and price sensitivity on the 'elasticity of price and demand'.
- The impact and cost of promotional activity and promotional pricing.

- Whether the charge creates any specific tax liabilities, for example VAT.

9. Review of Existing Charges

All charges will be reviewed as part of the budget setting process. A standard form is shown at Appendix A. This requires all Service Heads to identify all charges, explaining the basis of the charge, discounts agreed and how the charge contributes to the corporate plan objectives, the subsidy per user, and the forthcoming threats to income generation and opportunities to expand income. There will be a link to the Invest to Save Scheme and Transformation Board for new proposals.

10. Recovery of Charges

Recovery of all fees and charges should be in accordance with the Council Debt Strategy. Prepayment for services should be used wherever possible and where not, all fees and charges should be pursued by invoice under the agreed Corporate Debt Process (whether through the Central Debt recovery system or a local system).

Appendix A

Fees and Charges Pro-Forma

1.	Is the charge set by Statute? If Y go to question 2 / If N go to question 3	Y	N
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		I	P			I	P			Q 1	Q 2	Q 3	Q 4	I	P
1		I	P		Mitigating Control: Level of Effectiveness: (HML)	I	P	Action: Action Owner: Mitigating Control: Control Owner:	Outcome required: Milestone Date:	Q 1 ☹	Q 2 ☹	Q 3 ☹	Q 4 ☹	I	P
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