

# **South Kesteven District Council**

## **FEES AND CHARGES STRATEGY 2008/09**

### **1. Introduction and Purpose**

- 1.1 The Council provides a wide range of services to the local community and visitors for which it is able to make a charge – either under statutory powers (set by the Government) or discretionary (set by the Council).
- 1.2 Income from fees and charges is an important source of revenue for the authority. In 2007/08, fees and charges raised £6.3m compared with £6.5m from Council Tax. Income from fees and charges as a percentage of total service expenditure is approximately 12% and this is broadly in line with many other similar sized councils. The main areas of income and details of current practice are set out in Appendix A. Details of individual fees can be found in the gold section of the 2008/09 budget book.
- 1.3 The purpose of this Strategy is to provide a framework and set out the key principles to be adopted in the annual review and setting of General Fund Fees and Charges. It is important for this Strategy to become embedded and linked to the Council's Medium Term Financial Plan (MTFP). It should also compliment the Council's key objectives and priorities, i.e. as reflected in specific subsidies and concessions where there is a need to ensure comprehensive participation by the local community.
- 1.4 The Strategy is drawn up under the framework provided by the Local Government Act 2003 and associated regulations. It also addresses the recommendations contained within the Audit Commission report entitled "Positively Charged – Maximising the Benefits of Local Public Sector Charges", published in January 2008.
- 1.5 The main focus of this strategy is on discretionary charges, i.e. where the Council can exercise some degree of control. The aim is to ensure that the Council makes optimum use of its charging powers having regard to its core priorities and objectives. This will help to fulfill its place-shaping responsibilities.

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### **2. Background and Context**

2.1 Broadly, fees and charges fall into one of two categories:

- Non-discretionary (statutory) – these are set by the Government and include planning, licensing, etc.
- Discretionary (there is no legal obligation) – these are set by the Council in line with the current policy for services such as Leisure, Arts and Car Parking. In most cases, the Council is restricted to recovering no more than the full cost of service provision (including overheads), i.e. the Council cannot make a profit taking one year with another.

2.2 Each year, fees and charges are reviewed as part of the Council's budget setting process – usually to reflect an increase in line with inflation.

2.3 Charges do more, however, than just raise income and lower the burden on the general council tax payer. They play a significant role in the achievement of a range of Council priorities from social inclusion to the contribution towards the health of the local community. In addition, they play a key role in:

- service delivery
- raising income and helping to deliver a balanced budget
- controlling access to services
- responding to competition – setting prices higher or lower than market rates,
- funding investment in new/existing services
- affecting (and influencing) public behaviour, i.e. to influence the level and timing of use, e.g. use of transport

2.4 Increasingly, there is a need to demonstrate the costs of chargeable services and the extent of any subsidy or concession. To achieve this, activity based costing models will need to be introduced and phased in order to capture the costs (including overheads) associated with providing the service.

2.5 From 2009, the Use of Resources assessment will take account of the extent to which the Council is using charging to further its aims and objectives. In line with best practice, the Council will be required to demonstrate that it is making the best use of its resources.

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### **3. General Principles Underpinning the Setting of Discretionary Charges**

- i. Charges should be: fair and equitable; transparent, easy to understand; and applied consistently.
- ii. In some circumstances, the Council will offer subsidies to all users or concessions to specific user groups where this is consistent with achieving its core objectives. However, it will not provide subsidy to commercial operators from the council taxpayer.
- iii. Aligned with budget setting, the annual review of fees and charges is a Member led process with particular focus on delivering service priorities and dealing with potentially sensitive or contentious issues. It may also help to close any funding gap.
- iv. The appropriateness of charges should be regularly reviewed as part of a 3 year rolling programme (linked to MTFP and supporting strategies) in order to consider issues relating to cost recovery, income generation, concessions, etc.
- v. Where appropriate, specific strategies for significant income streams should be developed, e.g. car parking.
- vi. Where appropriate, relevant partners and stakeholders should be consulted as part of any significant review of charges.
- vii. All charges should undergo an equality and diversity impact assessment to ensure they fully comply with any legislative requirements.

### **4. Budgetary Principles**

- i. Any fee or charge should look to cover the full cost of the service, including the cost of capital except where Members have agreed otherwise.
- ii. Where less than full cost is being recovered, the justification for the decision is reviewed at least every 3 years to ensure it remains valid and that significant income is not being lost.
- iii. Where there is a policy to provide a subsidy level or concession this should be clearly documented and the level of subsidy/concession calculated, together with the financial implications.
- iv. Where increases to current charges are being proposed then income profiling models should be completed in order to accurately predict future income levels.

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- v. Where leases contain rental profiles these should be documented and incorporated into the budget setting process.
- vi. Where appropriate, benchmarking data from other providers of the service (including private sector) should be included in the service plan and explanations for significant differences should be provided. However, it should be recognized that local variations in charging is an inevitable consequence of flexibility to use charges in ways that meet local circumstances.
- vii. As a minimum, once the charge has been set, it should be increased annually in line with inflation unless this conflicts with agreed policy.
- viii. Material fluctuations in charges year on year (+/- 5%) will be highlighted as part of the annual review process.
- ix. The setting of fees and charges should be made in accordance with the current VAT regulations.
- x. Where appropriate, the cost of administering the charge, including debt collection should be proportionate to the income generated.

Appendix B gives details of the roles and responsibilities of members and officers engaged in the review and setting of fees and charges.

### **5. Audit Commission Report 2008 – “Positively Charged”**

- 5.1 This is a follow-up to their report published in 1999 that recognized the significance of user charges as a source of income for local authorities. It looked at how well charges were managed and whether they were being used to their full potential in delivering local priorities. It also described charging legislation as complex and confusing; a situation that has, to some extent been addressed by new legislation – principally the Local Government Acts 2000 and 2003.
- 5.2 The latest report concludes that “there is little evidence that Councils have made much use of the greater autonomy made available to them to develop new discretionary services funded by charges. However, 3 in 5 Councils report introducing new charges within the last 2 years for services where they previously provided at no charge. In 7 out of 10 cases these new charges have been introduced to recover the costs of service provision. Additionally, 4 in 10 of the new charges were introduced to minimize increases in council tax; 1 in 3 was

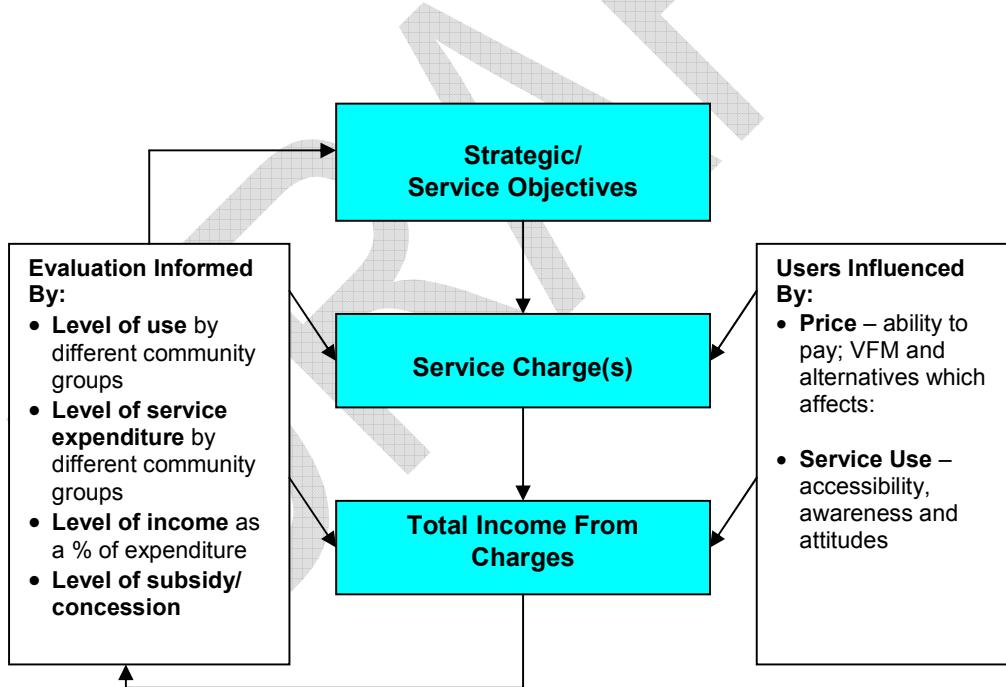
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intended to enable Councils to maintain or improve service levels in the face of budget pressures which might otherwise have necessitated service cuts; and 1 in 3 was designed to manage demand for the service”.

5.3 The summary and recommendations of the report are set out in Appendix C, together with a list of questions for Members and details of on-line tools provided by the Audit Commission.

## 6. Setting the Right Level and Structure of Charges

6.1 This is crucial because it has a significant effect on how well the Council achieves its financial, service and core objectives. To illustrate, the brief diagram below outlines the charging system and highlights the key factors where the Council can focus to ensure that the optimal balance is achieved. This acknowledges that charges work within a system of choices exercised by individuals and the Council.



## 7. Implementing This Strategy – 3 Year Plan

7.1 In accordance with the above key principles and factors and having regard to the recommendations of the Audit Commission report, the Council will, over the next 3 years:

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- i. Carry out a full zero-based review of all discretionary charges as part of a rolling programme in order to determine if the current level and basis of charging is appropriate.
- ii. Seek to identify the full cost of service provision (including overheads), any subsidy or concession (and the basis of that concession), the Council priority the charge supports and the criteria to be used for future setting of the charge.
- iii. Ensure that Members fully understand the way in which charges are set, the relationship to expenditure and how they contribute towards the achievement of corporate objectives.
- iv. Engage service users and local council tax payers, where appropriate, in decisions about whether and at what level to charge for services.
- v. Collect and use information on service use and the take up of concessions and examine the impact of charges on individual households or user groups to assess whether equality and diversity objectives have been met
- vi. Identify new sources of income arising from service/budget reviews

7.2 The Policy Development Group will agree the annual programme of work according to service area and priorities and the criteria for reviewing specific charges. This work will commence as part of the budget setting process for 2009/10. This process will ensure that the annual review of fees and charges is given a higher profile compared with previous years.

7.3 The criteria for determining priorities and which charges to review on a phased basis over the 3 year period should include:

- i. Level of income and impact on council tax and delivering a balanced budget, e.g. raise additional income and/or shift the burden on council tax payers
- ii. Latest trends/fluctuations in income/usage, i.e. falling demand/income, e.g. car parks
- iii. Latest comparisons with other councils and service providers
- iv. Need to focus on achieving wider strategic objectives, e.g. encouraging healthy lifestyles, promote greater choice or manage demand for the service
- v. Need to recover full cost or higher proportion of cost
- vi. Current resistance or concerns of users, including adverse publicity

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vii. Need to address Member concerns, e.g. any evidence of inequality of pricing, affordability and treatment of vulnerable groups, etc.

7.4 The following is a list of some of the issues and questions that will need to be addressed / answered in relation to the review of specific charges and in recommending any change in policy. Therefore, this information is particularly important for Members. Some of these questions are similar to those set out in Annex 1 to Appendix C.

- i. What category of charges have been introduced and why
- ii. What is the current policy and how do they relate to strategic objectives in terms of income generation, service provision, service improvement, demand, behaviour, value for money, etc.
- iii. What barriers, if any, were overcome before the charges were introduced
- iv. How are the charges determined, i.e. the basis of the charge, e.g. full cost recovery
- v. How difficult is it to calculate the full cost of the service, including overheads and cost of collection
- vi. What concessions or subsidies apply
- vii. What information is available on service use, cost, concessions, income levels and how has this fluctuated between years
- viii. How do charges compare with other councils and where appropriate, other service providers – use relevant comparatives as suggested in the 2008 Audit Commission report
- ix. What mechanisms are available for paying and collecting charges – how cost effective are these and what proportion is collected (%)
- x. Gather any intelligence on what local people think of current charges and review the results of previous consultation or market research

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### Appendix A SCHEDULE OF FEES & CHARGES – MAIN AREAS OF INCOME

SERVICE/AREA OF CHARGE	CATEGORY/TYPE OF CHARGE	CONCESSION Yes/No	CORP. PRIORITY	Policy	BUDGETED INCOME 2008/09 (£k)
<b>Sustainable Communities:</b>					
Building Control	Statutory – with discretionary element				533
Planning	Statutory - prescribed				940
Local Land Charges	Discretionary with Statutory element				246
Markets	Discretionary				356
Helpline	Discretionary				859
Bus Stations	Discretionary				24
Cycle Centre	Discretionary				-
Fair Charges	Discretionary				43
<b>Finance &amp; Resources:</b>					
Car Parks	Discretionary				1,521
<b>Healthy Environment:</b>					
Art Centres	Discretionary				795
Bulky Waste Collection	Discretionary				40
Gypsy Caravan Site	Discretionary				30
Hackney Licenses	Discretionary				99
Gambling	Discretionary within limits set by the government				14
Liquor Licenses	Statutory				117
Other Licenses	Discretionary and statutory				38
Air Pollution	Statutory – some cost related				40
Corn Exchange	Discretionary				53
<b>Special Expenses:</b>					
Cemetery	Discretionary				91
Outdoor Recreation Areas	Discretionary				9

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### Appendix B

#### **Roles and Responsibilities**

**Service Managers and Corporate Heads of Service** – active involvement in reviewing fees and charges as an integral part of annual service planning and budget setting. In accordance with this revised strategy, a more business-like approach will be required.

**Financial Services** – support and advice to service managers on issues such as: cost recovery including overheads, cross subsidies, overheads, profiling, benchmarking, etc. Also, to ensure full integration with budget setting process and prepare and maintain full list of fees and charges.

**Members** – to approve the Fees and Charges Strategy and the implementation of charges for discretionary services (annual review and budget setting). Also, regular liaison with service managers on issues arising during the year.

**Partners and Stakeholders** – consultation as part of any significant review of fees and charges and during the annual budget setting process.

**Local Community/Individuals** – public consultation as part of any significant review of fees and charges and during the annual budget setting process.

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## **Appendix C**

### **Positively Charged - Maximising the benefits of local public service charges © Audit Commission 2008**

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#### **1. Background**

- 1.1. Positively Charged is a recent Audit Commission report which presents the findings from research undertaken in 2007 into councils' use of their powers to charge for services. Housing rents were not considered within the scope of this report.

#### **2. Key Findings**

- 2.1. Charging revenue is an important source of income for local councils. It represents around 8% of their total income and about half as much as is raised in council tax.
- 2.2. County councils collect the most income but the greatest contribution to service delivery is made in District Councils; equal to one fifth of total service expenditure.
- 2.3. Councils use charging to influence individuals' choices and behaviours to bring benefits to their community e.g. setting charges to encourage or discourage the use of a service, rationing services where overuse is deemed undesirable, encouraging local objectives such as recycling.
- 2.4. Disparities between charges set for the same services by different councils cause concern to the residents. This can be mitigated by communicating the reasons and involving local people in the decision making process.
- 2.5. No clear relationship was found between levels of income from charging and either overall council performance or levels of local deprivation.
- 2.6. Councils do not always make the most effective use of their charging powers. Nearly half have no agreed policy to guide decisions on the use of charges.
- 2.7. Decisions on charging are most often driven by income targets, historic charges and level in neighbouring councils rather than knowledge of the likely impact on use of service.
- 2.8. Councils are limited by centrally imposed restrictions in the setting of charges. The rationale of these restrictions is not always clear to councils or the public. Concerns about the geographical variation of charges also constrain their decisions.

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- 2.9. Councils' perceptions of local opposition to charges are not always backed up with robust evidence.
- 2.10. The public are more receptive to charging where they can see what they are getting for their money and have a degree of choice.
- 2.11. Lack of public understanding about levels of subsidy councils provide or the purposes of charges undermines public confidence in charging levels.
- 2.12. In order to meet financial and strategic objectives councils need to change their approach to charging.
- 2.13. They need to communicate better about the purpose of charging and be accountable for the decisions they make.
- 2.14. The Audit Commission have suggested a number of questions which Councillors can work through and produced on-line resources to assist the process (see annex 1 & 2)

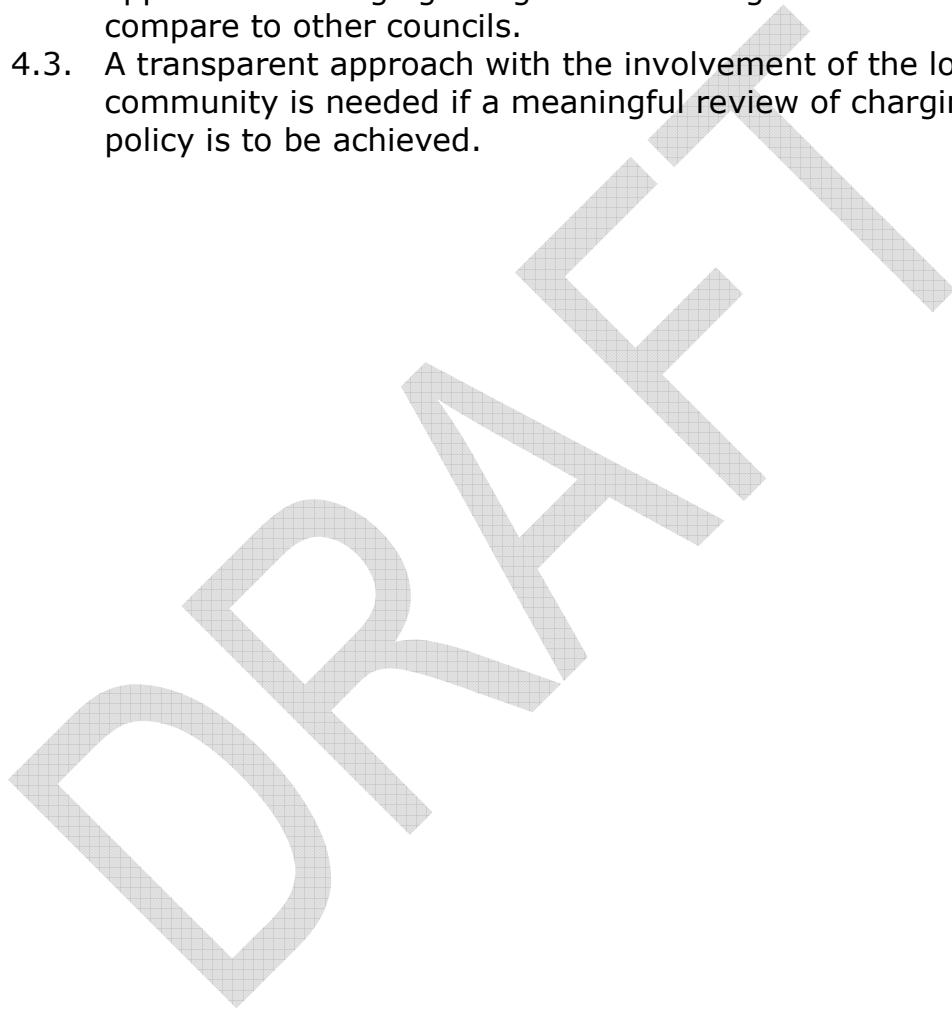
### **3. Recommendations**

- 3.1. Regular reviews of the approach to charging, both within service areas and across the whole council should be undertaken.
- 3.2. Finance managers should ensure income from charges and the level of subsidy this provides service areas can clearly be identified and is available to inform the decision making process.
- 3.3. Service managers should, where possible, use benchmarking to assess both charging levels and the cost of service delivery, levels of cost recovery, priorities, impact achieved and local market variations.
- 3.4. Councillors and managers should have a better understanding of the non-financial impact of their charging structure.
- 3.5. Service users and taxpayers need to be engaged in the decision making process.
- 3.6. Information on service usage and take-up of concessions should be collected and used to examine the impact of charges on individual households in order to assess whether equality and diversity objectives have been achieved.
- 3.7. Central government should periodically review the rationale for national charging frameworks, including nationally set fees.
- 3.8. From 2009 the Audit Commission will take account of how well individual councils are using their powers to charge as part of its annual use of resources assessment.

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### **4. Summary**

- 4.1. Charging income is an important source of income for local councils and is increasingly being used to help fund the modernisation and improvement of services. Charging policy also provides an effective method of managing demand for services and helps in the pursuit of strategic objectives.
- 4.2. Councils must ensure they understand the contribution charges make to overall expenditure and review their approach to charging using benchmarking to see how they compare to other councils.
- 4.3. A transparent approach with the involvement of the local community is needed if a meaningful review of charging policy is to be achieved.



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## Annex 1

**The report includes the following list of questions for councillors.**

### **What do we want to achieve?**

- What objectives are we supporting with charges?
  - How much income are we trying to generate, and why?
  - Whose use of services do we want to subsidise, and by how much?
  - Whose behaviour are we hoping to influence, and in what ways?
  - How will charges help improve value for money, equity and access to services?
- How do these objectives relate to other council objectives?
- What principles should underpin our approach to charging?

### **What's the current picture?**

- What targets have been set for charges and what assumptions are these based on?
- How do charges compare to:
  - Similar councils?
  - Neighbouring councils?
  - Other service providers?
- How are charges structured, and why?
- Are cost effective mechanisms available for paying and collecting charges?
- Are the charging objectives being met?
  - Are income targets being achieved?
  - What is the impact, intended or unintended, of charges on local people?
  - Which people are using services and which aren't?
  - Which users are paying for services and which aren't?
  - Are concessions being taken up by the people at whom they are targeted?
  - Are we maximising the take up of related benefits in this area?
- How does the impact of charging on behaviour and budgets compare to:
  - Similar councils?
  - Neighbouring councils?
  - Other service providers?

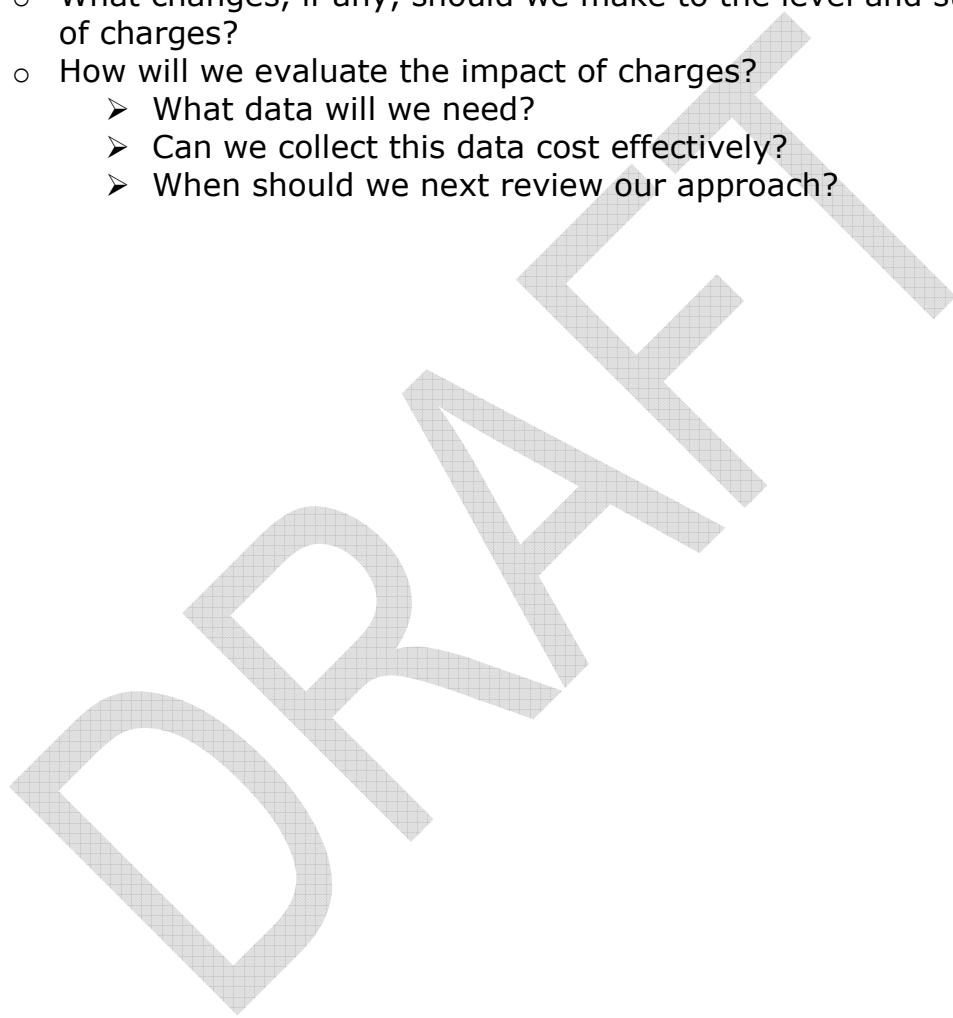
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### **What do local people think of our charges?**

- Have we consulted service users and the public about:
  - The current and proposed charges for the service?
  - The value for money of the service?
- Do service users and taxpayers understand our objectives and how the structure of our charges contributes to achieving them?

### **Where do we go from here?**

- What changes, if any, should we make to the level and structure of charges?
- How will we evaluate the impact of charges?
  - What data will we need?
  - Can we collect this data cost effectively?
  - When should we next review our approach?



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### Annex 2

#### Audit Commission Resources

The following resources have been developed by the Audit Commission to accompany their report and are available at [www.audit-commission.gov.uk/charging](http://www.audit-commission.gov.uk/charging)

- **Charging directory** – gives practical examples from a range of councils of how they are using charges in pursuit of their objectives.
- **Household charges calculator** – helps councils to model the total expenditure per household on council services and relates this to household disposable income.
- **Charging income comparison tool** – helps councils compare the income they generate from charges with that of other councils and consider whether it is consistent with their strategic objectives.

