



Fees, Charges and Concessions

Policy Framework

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1 **Purpose of Fees, Charges and Concessions**

Charging for local services makes a significant contribution to Council finances, totalling some £3.7m for 2020/2021 (budget £4.2m for 2021/2022), and the majority of which the Council has discretion over what it can charge (circa 70% of the income generated through fees and charges are non-statutory and therefore set by the Council). The more income generated through fees and charges, the less is needed from Council Tax; which means keeping Council Tax as low as possible.

Fees, charges and concessions can also play an important part in helping the Council deliver its objectives, by influencing service users' behaviour.

Some of the fees which the Council levies are set by statute (circa 30% of the income generated through fees and charges are statutory) and the Council has no say in what they should be, Planning Application fees are an example of this.

For some services, the Council no longer provides the service directly and therefore it has no say in the level of charge: however, it can offer subsidies or can instruct the service provider what concessions should be offered (i.e. Leisure Services).

In other cases the Council has the discretion to determine what charges should be made for a service and whether or not variations to the charge should be applied.

This policy relates to the fees and charges for services over which the Council has discretion about whether to charge and what the level of the charge should be, and to what concessions/subsidies should be offered on these services and those provided by third parties.

The purpose of the policy is to ensure that decisions about charges are made on a consistent basis across all services and to provide a framework for Members and Service Managers to work to in determining what the charges and concessions should be.

2. **Core Principles**

When considering whether to levy a charge for a service, Members and Service Managers should use the following principles to guide them.

In some circumstances, it may be the case that principles and objectives may be contradictory. For example, one of the core principles is that the opportunity to levy charges should be fully exploited to maximise income. However, this could potentially have a negative impact on service take up or potentially disadvantage lower income groups.

To resolve these possible dilemmas an examination and informed debate of the issues will be necessary. Part of the policy framework requires a better understanding of costs, demand for the service and usage patterns. This is key

information and should be used to model the impact of potential charges and how potentially detrimental effects can be offset by using other tools, such as concessions or discounts.

This policy is intended to facilitate informed decision-making and to encourage Members and Service Managers to rigorously examine existing fees and charges and to explore opportunities for using charging as a way of supporting the Council's priorities.

2.1 Generating Income

In considering fees and charges, Service Managers should apply the principle of maximising income wherever possible. That means ensuring that all opportunities for charging for services are identified and considered and also by ensuring that fees and charges are made at an appropriate level. The section on pricing strategy gives more guidance on this.

2.2 Managing Demand for Services

The second principle to be applied is that of using fees and charges as a mechanism for managing demand for services. This may be either as a means of introducing or increasing charges to limit demand if the service in question is oversubscribed; or through the use of discounts as a way of stimulating demand if there is poor uptake.

2.3 Council's Reputation

The third principle to be applied is that the reputation of the Council must not be damaged by the use of fees, charges and concessions, and that where possible these should be used to enhance the Council's reputation. Fees, charges and concessions can have a significant impact on the Council's reputation. When considering new or existing fees, charges or concessions Service Managers must ensure that appropriate consultation and communication has been carried out with service users and other relevant stakeholders, and that the rationale behind fees set are open and transparent to enable informed decision-making by officers and Members, and to ensure the basis would stand up to public scrutiny.

3. Delivering Objectives

The Councils vision is "West Lindsey is a great place to be where people, businesses and communities can thrive and reach their potential".

To meet this vision it has identified a number of values:

- to put the customer at the centre of everything we do
- to act as One Council
- to be business smart, act on evidence and take advantage of opportunities, thinking creatively and getting things done

- to communicate effectively with all stakeholders
- to have integrity in everything we do

When considering a charge or concession for a service, Members and Service Managers must consider how such a charge will affect the Council's overall priorities and the objectives for the individual service. Charges and concessions can clearly influence service users' behaviour and therefore can support or undermine service objectives and corporate priorities.

3.1 Delivering Corporate Priorities

When reviewing existing charges and concessions, or considering new ones Service Managers should indicate clearly which priority will be affected and in what way. Should there be a conflict between a service objective and a corporate priority, this will require discussion and resolution by the relevant committee.

For example, the core principle of income generation outlined above ensures the Council Tax requirement is as low as possible is to maximise income. However, introducing new charges for services may result in financial hardship for some of the poorer sections of the community, and might deter them from using the service or facility. This therefore conflicts with the theme of 'Our People' within the Corporate Plan, and the focus on Vulnerable Groups and Communities. In these cases the advantages and disadvantages, both financial and social should be explored and discussed by Members prior to any decision being made.

4. Pricing Strategy

All fees and charges are to be set in the context of a pricing strategy for each service, which will be determined by the objectives of the service, the core principles outlined above, corporate priorities and market intelligence. For major changes (i.e. new discretionary income sources, changes to concessions and removal of discretionary charges) a detailed explanation of the basis for the proposal must be provided, which gives an analysis of the market, the financial implications, the risks associated with the proposal and how it meets the Corporate Objectives of the Council.

The following principles should be applied to the pricing strategies for services:

4.1 Full Cost Recovery

For discretionary services, the Council is not allowed to recover more than the cost of providing that "kind of service" and as a general principle, charges should be set in order to recover the full cost of providing a particular service. Clearly market forces play a part in determining prices and in order to be competitive some charges may be lower than the cost of providing a service.

In determining the price to charge for a particular service it may be necessary to estimate the numbers of “units” of a service that are likely to be sold during a financial year. If there is no management information to support this, market research data and benchmarking data should be used as the best alternative.

Within a group of services, the cost of some individual discretionary services may exceed their cost in order to subsidise other services within the group. The key point is that the overall total cost for a service must not be exceeded. This is a complex area and Service Managers must agree with the Financial Services Manager what individual service groupings constitute a “kind of service”, setting out clearly which services they expect to recover more than their costs to offset those services which will not recover all of their costs.

A similar flexibility in recovery of total cost is allowed across clients: theoretically, as long as the total cost of a service is recovered, some client groups could be charged more and some less than full cost. As a general principle the Council would not anticipate subsidising one group of clients through increased charges to another. However, there may be some cases where this would be appropriate (e.g. Planning services might make a higher charge to commercial developers than domestic householders). These should be agreed with the Financial Services Manager on a case by case basis.

In some cases, the Council may decide not to recover the total cost of the service, in which case the full cost should be established so that the level of subsidy is clear, and the rationale for the proposed charge must be transparent i.e. benchmarking data, market knowledge, any detrimental impact anticipated from an increase in charging.

There are different methodologies for establishing the full cost of a service. The Council requires that the CIPFA Service Reporting Code of Practice (SeRCOP) definition of total cost is used. However, it will be appropriate to exclude certain costs such as those relating to pensions early retirement. The costings should therefore be established by the Service Manager and relevant finance business partner working together, using data from the main financial system.

4.2 Different Levels of Charges

The agreed charge for a service, determined by the factors outlined in 4.1 above, represents the “standard charge” for that service. Against that “standard charge” a range of variations may be offered.

4.2.1 Standard Charge

The price for a service, based on:

(Total cost of the service/number of units per year) less any direct subsidy.

In calculating the standard charge, Service Managers will need to adopt a pragmatic approach. It is suggested that services are categorised in one of three ways:

- Costs are likely to be far in excess of the potential income (based on an assessment of what the market will bear). In these cases the service manager should be clear to what extent the service is being subsidised and should be sure that it is appropriate to provide the service, in accordance with the Council's priorities.
- Costs are broadly equivalent to the likely income. Care should be taken that all costs are clearly identified, so that it can easily be demonstrated that the Council is not exceeding its charging powers.
- Costs are much lower than the potential charge which the market would bear. Care should be taken to ensure all costs are clearly identified and attributed. Consideration to be given to grouping the service with services that do not recover costs, in discussion with the Financial Services Manager. Consideration also to be given to greater differential charging between client groups, in discussion with the Financial Services Manager.

4.2.2 Commercial Charge

A premium charge for a service, which does not necessarily reflect the cost of providing that service, but rather is based on what the market will bear. This may only be applied for services within a "Service Group", where a subsidised service to another client group will mean that the overall charges for providing a service will not exceed the modified total cost for that service. Any commercial charges will need to be agreed with the Financial Services Manager. Potential examples of this type of charge could be commercial waste collection and theatre hire.

Setting property rents needs special consideration since in addition to having regard to the commercial market for the area, it may be that a specific rate of return would be required or perhaps to meet corporate objects it may be appropriate to offer substantial discounts in order to attract new businesses into the area. Due to the specialist nature of property rents, the Councils Property & Asset Manager should consult with the Assistant Director Finance, Business Support & Property Services for all proposals to review or introduce new property rents.

4.2.3 Concessions

The Council offers concessionary rates for some services to certain client groups. The basis for concessions is as follows:

- Financial hardship
- Age:

- School aged children (3 -15)
- senior discount (pension age +)
- Students

All groups entitled to a concession will receive up to a maximum discount of 50% of the standard charge for the service. Acceptable evidence for eligibility for a concession would be:

Financial hardship:

In receipt of Housing benefit, Council Tax relief, Job Seekers Allowance, Disability Living Allowance, Personal Independence Payment or state pension (as sole income).

Age (school age 3-15):

Passport/birth certificate/proof of age card (if not obvious)

Senior Discount (pension age):

Passport/driving licence/birth certificate/medical card/travel pass (if not obvious)

Student:

A valid NUS card

Services to which concessions apply:

- Planning applications
- Film showings
- Leisure services

4.2.4 Promotional and Premium Charges

Promotional charges offer a discount to the standard charge either for a time-limited period, or for bulk purchasing. They are generally used to stimulate demand.

Current examples;

- An annual season ticket at a bulk purchase rate for parking.
- New market traders offered a reduced rate per stall on Saturday for a maximum of 6 months.

Premium charges are higher charges than the standard for a particular service. For example, customers may be willing to pay extra to have bulky waste collected on a specific day.

4.2.5 Discounts

Discounts to the standard charge may be offered to certain client groups for specific services, if in support of specific corporate priorities or service objectives.

Current discounted services are:

- Green bins: 100% discount on first green bin per household, for all client groups
- Car parking: 100% discount for blue badge holders and 50% reduction for early payment of penalty notices (within 14 days)
- Fixed penalty notices (statutory) i.e. failure to comply with a receptacles notice: 25% discount if paid within 10 days of issue
- Fixed penalty notices (statutory) i.e. depositing litter: 33% discount if paid within 10 days of issue
- Leisure: Three price levels, adult, junior and concession
- Swimming: 25% for disabled users and free for accompanying carers
- Markets: Discounts for registered traders and vending vans

4.3 Compliance

All non-statutory services provided must be in accordance with the provisions of Part 1 Section 2 of the Local Government Act 2000 and any discretionary charging must be in accordance with Section 93 of the Local Government Act 2003.

The costs of provision of a service must be calculated as described in CIPFA's publication "A Practical Guide for Local Authorities on Income Generation (2019 Edition) and in accordance with CIPFA's Service Reporting Code of Practice for Local Authorities.

4.4 Consistency

All discretionary fees and charges for services provided by the Council must be in accordance with the policy framework outlined above.

5 Procedures

5.1 Frequency of Review of Fees and Charges

All fees and charges should be periodically reviewed and updated by covering the following:

- To establish the costs of providing the services within the group – identify the range between controllable cost and total cost recovery

- Identify past demand for the service, and expected future demand over the period of the Medium Term Financial Plan (MTFP).
- Apply market knowledge and sensitivity analysis to determine the impact of amendments to charges on demand for the service.
- To determine what the standard charge for the service should be as a base point (total cost of service/number of units per year)
- To identify any potential gap between current charges and the recalculated ones, and to develop a plan to close the gap over a suitable time period i.e. incremental increases over a period of years
- To identify benchmarking data:
 - Geographical neighbours
 - Statistical 'near neighbour' groups – those councils identified by Cipfa as having similar economic and social characteristic
 - Commercial businesses who offer the service
- Apply inflationary increases to non-statutory fees as a minimum to ensure increases in service costs are reflected in future income generation.
- Where there is a proposal to maintain the charge at the current rate into the next financial year, the service must provide a robust rationale, and any increase in subsidy of a service as a result be reported to senior officers and Members as part of the decision making process.
- Where amendments to charges are proposed above the rate of inflation, the calculation basis and rationale behind the proposal must be presented to support the decision making.
- Where pressures within budget lines are identified based on projected volumes/demand any resultant savings on expenditure budgets must be identified i.e. a reduction in commercial waste.

In establishing the standard charge for a service, consideration of anticipated usage and competitor pricing will need to be taken into account.

Thereafter, as a minimum, annual review of fees and charges should take place. This should take into account the cost of provision of the service, the volume used and therefore the income generated, and the prevailing market rates. The following year's prices should be adjusted accordingly in the light of the findings of the review.

Service Managers need to be flexible in their approach to reviewing charges. They need to be aware that maximising income may not always involve increasing fees and charges. In areas where there is competition for Council services or where demand is reducing it may be more appropriate to reduce fees and charges to gain a bigger market share. Service officers should therefore put in place systems to actively monitor income, performance and market forces during the course of the year.

Once new charges have been calculated, the annual review of fees and charges will be reported to both Prosperous Communities and Policy & Resources Committee for discussion and recommendation to Full Council for approval as part of the Medium Term Financial Plan.

The Fees Charges and Concessions policy to be reviewed every 3 years.

5.2 Identifying New Opportunities for Fees and Charges

Services should actively identify new opportunities for income generation. This is undertaken by keeping abreast of benchmarking, other developments within Local Authorities, being entrepreneurial in their approach to delivering their services for example.

Any new opportunities identified should be costed, initial market research undertaken to gauge potential demand and what competitor pricing is set at, and a proposed standard charge identified. This, together with forecast annual income and costs, risks of implementation, and wider impacts should form a business case for consideration initially by Management Team and then by Members.

The complexity of the business case will depend on the materiality of the potential fee income: if it is small, then the “business case” need not be complex, but should just summarise issues under each of the headings given. If the potential income is a significant figure and may incur additional costs to generate, then a more detailed business case will be required.

5.3 Budgeting and Price Setting

As described earlier in the framework, prices should be based on a “standard charge”, which is dependent on the total cost of a service and the anticipated volume of that service (which in itself is likely to be price sensitive). This will also take into account competition, “what the market will bear” and how far the Council may wish to subsidise the service in the pursuit of its objectives.

If the service is “marginal”, i.e. no additional resources or costs are incurred to provide that service, then a charge for the service may be based on an apportionment of costs, based on the time spent in providing the service.

Where a service is provided by an identifiable team or part of the organisation, specifically set up to provide that service, it should form a separate cost centre. In this case the standard charge for the service should be based on the costs of that service, divided by the number of units of the service provided.

So, the price for a service should be based on the following formula:

$$\frac{\text{(Total cost of providing service)}}{\text{(Number of units of service provided)}} \quad \text{less any subsidy}$$

Services may be subsidised for a number of reasons:

- The Council deems it desirable to provide the service, but the market would not bear the full cost of providing the service.
- The Council deliberately subsidises the service in order to achieve policy objectives.

However, care must be taken in this situation that the Council does not put itself in contravention of EU law by providing “state aid” in the provision of services. This is most likely where the service in question is also provided by the private sector. Advice should be sought from the Financial Services Manager if services are to be subsidised.

5.4 Financial Management and Monitoring of Income

The fundamental principle is that systems for accounting for income and administering charges should be as simple as practicable, to reduce the administrative overhead as much as possible.

Payment for services should be taken in advance, or at the point of delivery. A pre-set list of charges should be available, and be clearly publicised. Customer services agents should be fully apprised of all potential services, the charges, and the mechanisms by which customers may pay. In some circumstances it may be necessary to invoice for services; this should be done using the Council’s sundry debtors system.

Each service should have its own income code so that income relating to a particular service can be clearly identified.

Income should be monitored as part of the monthly budget monitoring process and should be measured against anticipated profiles. If significant deviation is identified the cause should be established as quickly as possible and suitable remedial action taken.

5.5 Gathering Market Intelligence

In order to set charges at the right level a wide range of information about the demand for services, the profile of service users and non-users, the wider market for services and competitors for the provision of the service will be required.

Systems should be developed for recording service take up, including not just volumes, but information which would allow for a more sophisticated understanding of usage patterns (such as seasonality, time of day etc.). If practical it would be useful to be able to segment users of a service by client group, at least to the extent of understanding the concession take up. This will allow Service Managers to determine who is using or not using a particular service. Latent demand for a service can be established by the use of waiting lists if appropriate.

Consultation exercises and attitudinal research can provide valuable information about what customers are willing to pay, their perceptions of value for money and what other factors affect their use of services. The cost of carrying out such research must be balanced against the significance and likely impact of the service in question.

Information about the local market for services is also important. This should cover not just the price charged for similar services, but also the quality of the services being provided. This information can be used to set charges in ways that will make the Council's services more or less desirable than those of other providers.

Benchmarking data should be gathered from a combination of:

- Geographical neighbours
 - Statistical 'near neighbour' groups – those councils identified by Cipfa as having similar economic and social characteristics
 - Commercial businesses who offer the service
- where available, and the data is comparable and meaningful.