

Background Paper: Charging Policy

Fees & Charges Policy

a) Foreword

In choosing how charges are used the council is making an important decision – which users should pay for which services and which services should be subsidised by taxpayers. In 2008 the Council undertook the Revenue Income Optimisation (RIO) project which introduced a standardised charging framework to be implemented across the council. To date the application of the charging framework has been patchy however given the current financial situation it is imperative the charging framework is applied consistently across the council. To that aim the framework has been updated and simplified.

b) Purpose of the Framework

The framework aims to encourage a consistent and cost effective approach to the setting of charges for services provided by Harrow Council by:

- Specifying the process and frequency for reviewing existing charges for all areas of the council's work for which charges could in principle be set
- Providing guidance on the factors that need to be taken into consideration when charges are reviewed
- Requiring more active use of market intelligence when setting charges
- Establishing parameters for calculating different levels of charges
- Recommending the criteria for applying concessions or discounted charges consistently across the council

1) Process and Frequency for Reviewing Charges

A regular review of all charges should be undertaken to ensure they are consistent with the council's priorities and take account of service aims, market sensitivity, customer preferences, and income generation needs.

The setting of appropriate fees & charges should be an integral part of service planning and improvement. To achieve this from 2011/12 the setting of fees and charges is being fully integrated into the Medium Term Financial Strategy (MTFS). The following arrangements for reviewing charges will be applied to all areas of the council where charges for services already exist or could in principle be set:

- a major review of each service's charging policy should take place at least once every three years. To manage the workload it is recommended that charging reviews are undertaken on a 3 year rolling programme, with the more significant charges and/or the

less complicated areas being reviewed first.

- these reviews will form part of the Challenge Panel process and should be carried out in consultation with relevant Portfolio Holders. Any significant revisions to the charges will require formal approval by Cabinet as part of the budget setting process.
- the portfolio holder should have the authority to adjust charges between the annual review where this is considered necessary to protect usage and income in response to significant market developments.
- when introducing a new charge it will be necessary to establish the lawful basis of any charge.

2) Factors to consider when reviewing charges

Annual reviews of charges will consider the following factors:

- inflationary pressures - charges should be increased in line with inflation unless there is a good reason why not
- the actual or potential impact of any competition in terms of price or quality
- trends in user demand and the forecast effect of price changes
- customer survey results
- whether the particular service should be expected to cover its costs or should be subsidised, and to what extent
- council wide and service budget targets
- cost structure implications arising from developments such as investments made in the service
- alternative charging structures that could be more effective
- proposals for targeted promotions during the year, and evaluation of any that took place in the previous year
- Method and cost of income collection

A list of questions is provided as Annex A to assist service managers to review their charges. These questions were designed by the Audit Commission to be used by councils to examine their approach to charging and to identify opportunities to maximise the benefits of charges.

3) The Use of Market Intelligence

All managers of services for which a charge is made should consult regularly with customers and interested groups on the range, quality and cost of services provided. Where cost effective comprehensive and accurate usage statistics, commensurate to the size of the service, should be maintained for all services and at all facilities where charges are made. This will enable analysis of usage, justification of any subsidy given by council and accurate forecasting of the effect of price changes on usage. This is necessary to understand the needs, behaviour and expectations of the market and its users, and their ability to pay. This information should be used in the review of charges.

All managers of services for which a charge is made should take steps to identify competitors offering similar or related services, and make use of comprehensive and dynamic market intelligence in evaluating:

- their charging policy
- the range of services provided
- the quality of services provided
- their cost structure

Benchmarking should be undertaken regularly with other councils in the local area and with relevant national groupings of authorities, to ensure that charges are at comparable levels and that significant differences are understood and justified.

4) Parameters for calculating different levels of charges

Charges should be set at a level to maximise both take-up and income targets. Wherever possible the income raised should cover the full cost of providing the service in question. If a service is unable to cover its full cost then the subsidy to the service should be fully justified in terms of achieving the council's priorities. There are restrictions on making a profit from charging, further details of the legal background to setting a charge is provided as Annex B.

Full cost should be based on the direct cost of service provision including staff, supplies and services, equipment, premise costs. It should include support service costs (SSC's) where appropriate but not capital charges.

For certain services it will be normal entrepreneurial practice to set **Promotional Charges**, **Differential Charging** and **Frequent User Discounts**

- **Promotional Charges** are defined as short term charges that are targeted to increase take-up or awareness of the services that are available
- **Differential Charges** can be used to dampen demand at peak times and increase

revenue from spare capacity

- **Frequent User Discounts** are to be used only for commercial reasons such as generating customer loyalty where alternative provision from competitors exists, and where market analysis shows a real risk of reduced income if they are not offered.

Fines - 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, discouraging trade use of civic amenity waste sites etc. 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.

5) Concessions

There are two potential areas of concessions, the first type based on the individual's status, for example, child, student, pensioner, disabled person plus a second level based on ability to pay linked to receipt of means-tested benefits, such as housing benefit. The Council is in the process of defining a common set of eligibility criteria to be applied consistently across all service areas, which minimise duplicated processes and which are as simple as possible for the user to understand and to access. Further guidance will be issued when this work is completed.

Concessionary charges should not normally apply at times or in situations which would result in the loss of income from customers paying the full charge. No concessions will be provided to non Harrow Council residents.

Within the overall aim of minimising any social or economic barriers to the take-up of services, the council should at all times consider ways in which a proportion of income generated from charges could be used in the interests of social inclusion. The types of mechanisms that might be made available to encourage take-up of council services by disadvantaged groups might include transport to facilities, provision of child care, additional promotional discounts to encourage use, or development activity to raise levels of aspiration. Accurate user statistics should be maintained to ensure that a subsidy being provided on social inclusion grounds is effective.

Charging Review – Questions to be covered

The following questions, based on the Audit Commission's 2008 document "Positively Charged", are provided to assist service managers to undertake a review of their charges.

1. What do we want to achieve including:

- 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?

2. What's the current picture?

- What is the current charge.
- How do charges compare to similar councils and other service providers?
- How are charges structured, and why?
- Are cost effective mechanisms available for paying and collecting charges
- 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?

3. What do local people think of our charges?

- Have we consulted service users and the public about the current and proposed charges plus their views on value for money of the service?

4. 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?

Guidance on the legal framework for calculating charges

Discretionary income generation which must be in a 'function related activity', or contribute to 'wellbeing' outcomes as defined by the 2003 Local Government Act. Broadly the rules/guidance which apply are:

- Councils are under a duty to ensure, that taking one year with another, the income from charges for discretionary services does not exceed the costs of provision.
- Where discretionary charging results in a surplus or profit over and above the costs attributable that activity, this shall be addressed in subsequent years by reducing charges to compensate for the level of over recovery. Any over recovery should aim to be addressed within a three year period.
- Charges may be set differentially, so that users are charged different amounts, for example for parking at different times of the day or for different levels of service.
- Authorities are not required to charge for discretionary services and may provide them free of charge if they wish.
- Authorities need to be able to demonstrate that users have consented to a charge. Payment in advance not only demonstrates consent but avoids debt collection costs. Where a charge can't be levied in advance then a service needs to ensure that charges are clearly visible to the user.
- The charging powers conveyed by the 2003 Act do not apply if there are already powers to charge for the service or charging is already prohibited.