

AUDIT COMMITTEE: 18 SEPTEMBER 2017

**MANAGEMENT RESPONSE TO WAO REPORT ON CHARGING FOR
SERVICES AND GENERATING INCOME BY LOCAL AUTHORITIES**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 8.1

Reason for this Report

1. To present to the Audit Committee the Wales Audit Office (WAO) national study of Charging for Services and Generating Income by Local Authorities.

Background

2. The Auditor General for Wales undertakes national studies across a range of functions and activities of local government. The report titled 'Charging for Services and Generating Income by Local Authorities' was published in November 2016.
3. This national study on charging for services and generating income examined several aspects of discretionary charging for services set out below:
 - How local authorities use their powers to introduce and increase charges on services
 - How performance on generating income has changed in recent years
 - The process of consulting with users on price changes
 - Impact assessments of charging decisions on users
4. All 22 local authorities in Wales took part in an online survey with six local authorities participating in a more thorough review of their approach to charging for services. The six authorities concerned were Caerphilly, Gwynedd, Merthyr Tydfil, Monmouthshire, Newport and Powys respectively.

WAO Comments

Part 1

5. The legal basis for setting and managing charges is complex and authorities are not always strategic in their approach to charging. There are different bases for charging for the various services that local authorities deliver and can be broadly categorised into four groups which are discretionary, income cannot exceed cost of service, nationally prescribed charges or where charging is prohibited.
 - Authorities are aware of the broad legal restrictions in place when reviewing charges, but many have not addressed these opportunities and risks in developing policies to generate income

- The Localism Act 2011 in England has encouraged authorities to develop commercial vehicles as a means of generating income, but this power does not currently exist in Wales, which limits opportunities.
- National charging regimes often do not reflect the true cost of running services
- A wide range of payment options for collecting charges are available and are mostly offered
- Authorities are beginning to develop corporate wide strategies for managing charges, but progress has been slow.

Part 2

6. Approaches to generating income vary and whilst there are opportunities to increase revenue, local authorities need to balance these aspirations with the ability of their communities to pay more.
 - There is a mixed picture in how well Welsh authorities generate income from charges
 - Welsh authorities are not generating as much income from charges as counterparts in England and Scotland
 - Local authorities need to consider how best to balance generating income with the communities' ability to pay more for services

Part 3

7. Authorities do not evaluate charges effectively in order to fully understand their impact.
 - Long established governance and accountability systems are not always agile or robust enough to support good decision making when reviewing charges.
 - Limitations in the quality, detail and range of information used by authorities affects their ability to maximise the benefits of increasing or introducing charges.
8. The Auditor General for Wales concluded that despite raising more money from charging, authorities are not pursuing all options to generate income because of weaknesses in their policies and in how they use data and information to support decision-making.

WAO Recommendations

9. Whilst the full report is set out in Appendix A, the summary of the recommendations that are assigned to local authorities are set out below:
 - R1 Develop strategic frameworks for introducing and reviewing charges, linking them firmly with the Medium Term Financial Plan and the Corporate Plan
 - R2 Review the unit and total costs of providing discretionary services, to identify clearly any deficits and where needed set targets to improve the current operating position
 - R3 Use impact checklist whenever changes to charges are considered
 - R4 Identify opportunities to procure private sector companies to collect charges to improve efficiency and economy in collecting income.
 - R5 Improve management of performance, governance and accountability by regular reporting, improving monitoring, comparing performance and provision of more comprehensive information to facilitate robust decision-making.

R6 Improve the forecasting of income from charges with scenario planning and sensitivity analysis

10. In addition, two further recommendations were assigned to Welsh government and Welsh Local Government Association, which are set out below:

R7 Consider how best to support and encourage local authorities to act more commercially in generating income

R8 Review nationally set fee regimes to ensure the levels set better reflect the actual cost of providing services, or explain the reasons why they are different.

Cardiff Council Response

11. Members of the Audit Committee will be aware of the significant budgetary challenges facing the Council in the medium term.
12. Cabinet received the Budget Strategy Report for 2018/19 on 27 July 2017. Within that report is a strategic direction to generate an additional £7.914 million savings through increased income and commercialisation. Over the last two years, guidance on increasing income has been issues during the Budget Setting exercise which is set out in Appendix B.
13. Whilst the focus of the report is the generation of additional income opportunities this is not the only option available to local authorities. For example, the transfer of the Council's leisure centre operations to GLL transferred the financial risk of the business to another operator and delivered savings in excess of £1.9 million as a result.
14. Appendix C shows the Cardiff analysis of income as a percentage of expenditure. The information has been compared to the 2014/15 data for Cardiff and we have used more recent data for 2015/16 and 2016/17. The 2016/17 data for the Wales average is not currently published but the trend of income for Cardiff can be seen to compare well against other welsh authorities.
15. Budget Scrutiny, over the last few years, have been shown analysis across services split into broad sub headings of expenditure and income. This analysis has shown a summary of those services with significant income budgets against them and their position in terms of net budget. This analysis provides the Council with the knowledge of which services are being subsidised where income is not covering the costs of running the service. The analysis sheets show costs that are directly connected with providing the service and do not contain the corporate overheads that arise. Therefore, in reality the subsidy of some services is greater than that presented.
16. The budget process requires a review of each fee and charge currently in operation, the detail of which is set out in the annual budget report laid before Council. Historically, the focus on the review has been the effect that a price change has on the income budget for that service.
17. For 2017/18, work continues to focus on the key areas of income generation across the Council by further developing the need for income/expenditure plans across the Council. The work going forward into the autumn will focus on those services considered able to achieve a relatively low level of subsidy or be self-financing. The work will look to understand the costs of services delivered including those with a relatively high level of

subsidy. The plans will incorporate any capital costs of the service and detail the cost elements that each plan is looking to recover through income. An example of this is the Crematorium, which recovers its revenue costs and puts money aside for maintenance/replacement of equipment at regular intervals.

18. In respect to collecting income, the Council primarily uses a corporate debtor system. Where a more robust recovery method is required then the council uses its own bailiff's service supplemented by use of outside contractors. The Council Tax Recovery Section provides a recovery service for other parts of the Council. For example, the Council Tax Recovery Section provides a recovery service for Civil Parking enforcement. This helps build on the skill set established in the Revenues section whilst providing efficiencies by delivering the service from the same base, management structure and offering a wider experience to the staff in the team.

Reason for Report

Legal Implications

19. There are no legal implications directly arising from this report.

Financial Implications

20. There are no financial implications directly arising from this report.

RECOMMENDATIONS

21. To note the work of the Auditor General in respect of the attached reports.

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18th September 2017

The following Appendices are attached:

- Appendix A: Wales Audit Office (WAO) Report, Charging for Services and Generating Income by Local Authorities – Cardiff Council
- Appendix B: Budget Strategy 2017/18 Income Generation Guidance
- Appendix C: Cardiff Performance against Welsh Average of Income as a % of Expenditure