Cardiff Council

Income Generation Framework

2024/25

Charging for Services

There are many reasons why a Local Authority may charge for services. Fees and charges can provide a key income source to help support financial sustainability, and in some instances, charging could make it possible to sustain services that would otherwise be lost. Charges can also enable the provision of services that the market does not supply and can help place a value on services to manage their consumption.

Income generation aside, applied strategically, fees and charges can be used to support policy growth, stimulate the economy, or support behavioural change for the benefit of communities or the environment (for example, issuing enforcement fines to reduce littering). However, as there can be negative associations with charging for services, it is important to be clear about the rationale and application of charges, to avoid the perception of a dual tax. It can also be important to make considered use of concessionary pricing structures.

Finally, as fees and charges are not a stable funding source, they can represent an area of significant financial risk, as evidenced by the impact of the COVID-19 pandemic. It is therefore crucial that directorates have a robust understanding of their customers, cost base and the markets in which they operate, so that they are well-positioned to pre-empt challenges and take corrective action.

Aims

The aim of this framework is to ensure:

- A shared understanding of the rationale for charging in a particular area.
- Consistency in approach to charging for services.
- Heightened awareness of the legislative framework applicable to individual charges.
- A clear governance structure for charging, varying charges and applying concessions.
- That charges reflect the ability to pay.
- A clear understanding of risk appetite and risk management with regards income generation.
- The maximisation of income - *within identified risk parameters.*
- The consistency of fees and charges with wider Council policy.
- The protection of services that may otherwise be at risk given the financial climate.
- Awareness of the importance of managing the cost/income relationship.
- The clear communication of fees and charges.

Scale and Scope

For 2023/24, the Council's budget reflects gross expenditure of £1.246 billion offset by income of £442 million as summarised below:

Net Budget	£m
Gross Expenditure	1,246
External Income	(442)
Net Budgeted Expenditure	**804**

The resultant net budget of £804 million is funded through a combination of Revenue Support Grant, Council Tax and Reserves. This income is ***non-hypothecated;*** it supports services in general, as opposed to a particular service.

Specific Income

The Council has budgeted specific income, (income that supports specific services) of £442 million, broken down as follows:

External Income	£m
Government Grants	(290)
Other Public Sector & LAs	(38)
Sales	(13)
Fees & Charges	(85)
Rents	(15)
Investment Income	(1)
Total External Income	**(442)**

This framework covers service specific income that is generated from sales, fees, charges, and rents, together with any new income streams that would fall into those areas. This represents a significant income stream (approx. £113m) which must be carefully and consistently managed, both in terms of risk and opportunity.

The following areas are *outside* the scope of the framework:

- Non-hypothecated funding - Council Tax & RSG.
- Specific Grants - these are awarded by the funding provider for a particular purpose, usually with audited outcomes.
- Treasury Management Income - this is governed by the Treasury Management Strategy.
- Housing Revenue Account Income
- Fees & Charges determined by delegated schools.
- Income collection and income management. Guidance in respect of these processes currently exists in separate documents and will be encompassed within future iterations of this framework.

Over time, the level of income generated by the Council may reduce. However, it is important to note that this is not always a cause for concern, if for example, the lost income results in a net saving. Examples of this in practice, include delivery changes to formerly subsidised services, including the Council's leisure arrangements, and more recently New Theatre and Saint David's Hall.

Governance Process for Charging

The Governance process for setting fees and charges is summarised top right. It is proposed that this process is timetabled to coincide with the Council's annual budget-setting process. Each aspect of the process is subsequently set out in further detail.

Process for Charging

1. Identify Applicable Legal Framework
2. Agree Charging Basis
3. Produce Income Strategy Statement
4. Directorate brief Cabinet Portfolio Holder
5. Collective consideration by Cabinet
6. Consultation where required
7. Draft proposals reflected in draft budget
8. Formal Cabinet Agreement (Budget Report)
9. Communicate Charges

Step 1: Identify Applicable Legal Framework

For Local Authorities, charging decisions are governed by complex series of statute and regulations. In broad terms, CIPFA identify five main charging categories as identified below.

1. **No Charge permitted** (e.g. assessment for community care, housing advice, planning applications for listed buildings.)
2. **Charges or Charging Structures that are set by Government or in legislation** (e.g. planning application fees.)
3. **Charging Schemes set locally but which must be in accordance with government prescribed principles.**
4. **Charges set locally but where income cannot exceed the cost of providing the service**. These would include charges for a discretionary service (with no other

charging rules), or charges for a service using the general power of competence.

5. **No limit on charges** - e.g. commercial property rent.

Given the complex legal framework, and the volume of fees and charges across the Council, it is not possible to provide guidance within this document on the rules that apply to specific individual charges. It is therefore critical that directorates are clear as to the specific legislative framework that applies to charging for a given service.

In addition to a thorough understanding of the legal framework for charging, there is also a need for:

- A full understanding of any potential legal obligations over the lifecycle of the good / service (e.g. guarantees / maintenance).
- Ensuring that the VAT liability of income sources is properly treated, so that income expectations are a reality, and no penalties are incurred by the Council.

Commercial Income primarily for yield

It has been recent practice for some local authorities to use leverage (borrowing) to invest in financial or physical assets on the basis that resultant income streams will meet the costs of borrowing and support the Council's revenue budget. Examples include commercial property acquisition or the issuing of loans. CIPFA Codes of Practice which have statutory backing, such as the Prudential and Treasury Codes, are clear that investment primarily for yield is not an activity that should be undertaken by local authorities. HM Treasury are also clear that any local authority deemed to be undertaking such activity will be prevented from accessing lending from the Public Works Loan Board. This represents a significant financial risk and accordingly the Council's Capital Strategy states that it will not incur capital expenditure primarily for financial return. This statement and significant risk make it even more important that the rationale for undertaking projects on an invest to save basis is supported by a business case in accordance with the Council's requirements and is only undertaken following finance due diligence.

The Codes mentioned above set out the requirement to report the proportionality of significant income sources such as commercial income, to the council's overall revenue budget. This is to ensure that the risks, performance, management and governance in relation to such income are supported by robust and agreed practices.

Step 2: Agree Charging Basis

Having established what is permissible (per step one), the next step is to ensure that charges reflect Council policy. This will require Cabinet input, to agree the basis for charging. Directorates should engage with their Portfolio Holders in this regard.

The basis for charging may include, but is not limited to, the cost recovery scenarios outlined below:

- Full Cost Recovery.
- Subsidised Provision - e.g. to promote healthy lifestyle, deter fly-tipping.
- Subsidised Provision - to reflect economic / environmental conditions (what people can pay).
- Concessionary charging structures.
- Higher charges as a deterrent - e.g. enforcement.
- Flexibly set charges - to respond to market conditions, benchmarking etc.
- Invest to Save - where recovery of costs and initial investment payback is required.
- Market rent – in the case of rental income streams.
- Lower than market rent – and the rationale for subsidy.

There will be instances where a balance will need to be struck between multiple aims – e.g. parking charges, where environmental and economic impact will need to be weighed. In these instances, Income Strategy Statements (see step 3), may need to provide a range of scenarios for Cabinet consideration.

The agreed charging basis will determine the parameters within which more detailed work on fee-setting should take place. For example, if a service is currently subsidised, but it is indicated that the optimal position is full cost recovery, the managing directorate's fee-setting strategy should aim to eliminate the subsidy over the medium term.

Step 3: Produce Income Strategy Statements

Directorates should review current levels of fees and charges for all currently charged-for services and consider the level at which they should be set for the forthcoming financial year. Proposed charges must reflect the relevant legislative framework and the agreed charging basis.

The delivery of the optimal cost/income relationship indicated by the charging basis (e.g. full cost recovery etc) will require the following detailed factors to be taken into account:

- Whether existing income budgets are being met.
- The total cost of the service.
- Whether any cost savings are possible.
- Any specific inflationary or other cost pressures that will need to be met.
- Any specific economic / environmental factors likely to affect demand for services.
- Elasticity of demand – the relationship between price and demand.
- Benchmarking.
- Impact on the directorate's budget.
- Impact on services users.
- Requirement for any concessions – their rationale and financial impact.
- Promotion of take up of the service.
- Equality Considerations.
- Medium Term Considerations.

Income Strategy Statement Template

An Income Strategy Statement template should be completed to ensure that these considerations are captured consistently across all areas. A template is included at Appendix A.

In total, the Council has over 600 individual fees and charges. For practicality, it is proposed that the template is completed for key charges, with other areas covered at an aggregate level of service.

Areas for which individual statements will be required will be agreed annually. However, key charges are likely to be determined as:

- Those that generate a significant income stream.
- Charges linked to policy change.
- Newly proposed charges.

Statements completed at an aggregate level are likely to encompass multiple charges at individual sites (e.g. Cardiff Castle, Cardiff White Water), or multiple charges in a particular area of service (e.g. Bereavement). In these instances, the statement should be completed at an aggregate level, apart from the "proposed charges" section. This should be left blank and be supplemented with a spreadsheet detailing existing and proposed charges for each individual fee (in line with established practice.)

Total Cost

It is important that the total cost of the service is understood. Total costs include all the traditional direct costs associated with providing a service, including for example, employee costs, premises costs, transports costs as well as supplies & services. In addition, it is important to consider wider costs of service provision, including support services overheads and capital charges. Directorates should work with their accountants to establish the uplift that should be applied to more traditional measures of total cost to ensure adequate coverage of these areas.

Inflationary Factors

In recognition that the factors affecting income generation are muti-faceted, the Council does not assume a blanket annual uplift to fees and charges in line with inflation. However, where a proposal is to hold fees and charges static or increase them by less than the rate of inflation, a clear rationale for this should be provided in the directorate's Income Strategy Statement.

In recent years, inflation has been at particularly high levels. It is important to note that CPI is a general measure of inflation based on a basket of goods. In understanding the inflationary factors like to impact on the cost base of a service, it will be critical to understand the key cost drivers of that service, and the specific inflationary pressures linked to each. This will help ensure that the price of the service is flexed appropriately in relation to increasing cost.

Demand

As well as price, there are many other factors that include demand for a service including, economic context, weather (e.g. for outdoor facilities), marketing, perceived quality of the service and the availability or otherwise of substitutes or alternatives.

It is important that pricing decisions are made with clear consideration of their likely impact on demand, coupled with the wider factors outlined above. There may be situations where a *reduction* in price could generate a larger income stream, but this will require robust supporting evidence as part of the Income Strategy Statement.

Benchmarking

Benchmarking can be an important consideration in pricing decisions. It can also be a means of identifying unrealised income opportunities. However, it is important to keep in mind that every situation is unique and that multiple factors can affect the comparability of charges across Local Authorities. These include

the history of charges (e.g. comparing new charges with established charges) as well as the level or nuances of service provided (e.g. comparing service provision from a 1970's building with a service from a state of the art new venue).

Impact of Proposals

The impact of proposals on customers should be considered. This should include consideration of protected characteristics, Welsh language, and deprivation. Consideration should encompass potential mitigating actions including for example, the use of concessionary charging structures.

Concessions

The appetite to adopt concession charging structures should have been identified at Step Two. Having established that a concession structure is the preferred approach, there will need to be clear consideration of how concession structures will operate including but not limited to:

- Should there be bands – half price, full price etc?
- Are there clearly defined groups to whom bandings would apply?
- How will demand across bands be modelled to support budget planning?
- What will be the standards for proof of entitlement?
- Are there associated admin costs that need to be considered?
- For rents, if a charge is less than market rent, is there a clear rationale for this?

New Fees and Charges

The position set out so far applies to services that are currently charged-for. There may also be circumstances in which new charges are considered; these could involve a completely new service, or charging for a service for which there is currently no charge. All the above considerations remain applicable to new charges. However, in addition, the following factors should also be taken into account:

- Does the Local Authority have the power to undertake the activity in question?
- Does the Local Authority have the relevant skillset to undertake the activity in question?
- Does the proposed activity/charge align with Council Policy?
- Is there clear evidence of market demand for the good or service - with focus on recurring and sustainable demand over a period of years?
- Is there full clarity on precisely what good / service is being provided?
- Will there be any impact on existing service charges?
- Is there any potential impact on perceived market demand if there are several income initiatives arising at the same time?
- Are costs and income streams able to be accurately determined?
- Is there a realistic assessment of the certainty of costs compared to the certainty of income – optimism bias.

<u>Medium Term Considerations</u>

As previously outlined, it is proposed that the fees and charges process be undertaken annually to coincide with the Council's wider budget setting process. In time, Income Strategy Statements will be extended to cover a multi-year approach. As an interim arrangement, Income Strategy Statements will include a medium-term section to capture a high-level overview of proposed future pricing strategy. This should indicate any potential impact of wider Council Policy on existing income streams.

Steps 4 & 5: Brief Cabinet Member & Wider Consideration by Cabinet

Once directorates have completed their Income Strategy Statements, they should brief the relevant individual Portfolio Holder. If the Portfolio Holder is comfortable with the proposals, they should be submitted to Corporate Finance who will arrange for briefing of wider Cabinet. Steps 3, 4 and 5, will be iterative, until Cabinet are collectively comfortable with pricing proposals.

Step 6: Consultation

Where proposals are linked to an income generating budget proposal for the forthcoming financial year, they will be consulted upon as part of the Council's wider Budget Consultation arrangements.

There may be instances where increases in price do not relate to a specific budget proposal for the forthcoming financial year. In those instances, the managing directorate, will need to ensure that necessary consultation requirements are met.

Step 7 and 8: Reflect in Draft Budget and Cabinet Approval in Budget Report

After considering consultation feedback, the next step will be to reflect proposals in the draft budget for the forthcoming financial year. If issues have been raised in the medium-term section of Income Strategy Statements, these will be considered in the Council's updated Medium Term Financial Plan.

Fees and charges for the forthcoming year, will continue to be formally approved as part of Cabinet's consideration of the annual Budget Report - usually in late February / early March. (The authority for approval of fees and charges rests with Cabinet, as opposed to full Council.)

<u>Approval for In Year Changes to Fees & Charges</u>

It is recognised that the Council must be able to react to changing events, both in terms of income opportunities and shortfalls. In recognition of the need for flexibility, on an annual basis (via the Budget Report) it will be proposed that Cabinet delegates to the appropriate officer, where necessary in consultation with the Cabinet member, the ability to amend fees and charges during the financial year as and when required. These arrangements also apply where discounts are introduced for a time-limited period, or for a particular client group.

Decisions must be taken in consultation with the Section 151 Officer and the Cabinet Member for Finance, Modernisation and Performance. Where appropriate, Cabinet will need to consider a report within a reasonable timescale of the decision.

Step 9: Communication of Charges

Charges will need to be communicated to a range of key stakeholders including, as appropriate, Council staff, service users, tax-payers, business groups, community groups and the media.

The Council's annual Budget Report will continue to include a detailed fees and charges appendix which outlines key details including current and proposed new charge.

Beyond this, directorates will need to consider what additional measures may be required to ensure that charges are communicated to their customers in manner that is clear, gives adequate notice of any changes, and is linked to the timing of the proposed increase.

Where increases to charges are proposed, it will be important that any relevant concession structures are clearly communicated.

Appendix A: Income Strategy Statement

See excel file – will incorporate as one, once convert to PDF