CYNGOR SIR POWYS COUNTY COUNCIL

Income Management and Service Cost Recovery Policy

January 2016

Contents

1. Context

Over the next five years, Powys County Council needs to find an estimated £70m of savings in response to a reduction in Welsh Government funding.

The Council recognises that the expected cuts over the coming years cannot be achieved on a service by service basis and a full cross-cutting programme is required to achieve sustainability. Increased revenue from fees and charges and complete service cost recovery has the potential to make a significant contribution to the Council's revenue target. In addition, charging should be used to ensure that those that can pay for services do pay. This will enable the council to make a choice to what support can be given to those who cannot afford to pay. This promotes fairness, encourages responsible behaviour and allows the council to protect other services.

The Medium Term Financial Strategy (MTFS) published in February 2015 stated that due to the reduction in funding, coupled with increasing costs for inflationary pressures, new responsibilities and increases in service demand, the Councils savings target for 2015/16 amounts to £16.339m, with further savings of £35.503m required over the remaining period of the strategy. Income management is one of the key cost improvement schemes for the council to meet its budget shortfall and sustain key public services over the next few years.

2. Legal requirements and limitations

The key pieces of legislation relating to charging and trading for local authorities are:

- The Local Government Act 2003 - Section 93 contains powers for all local authorities to charge for 'discretionary services' , whilst Section 95 permits local authorities to engage in commercial trading activity and to generate surpluses
- The Localism Act 2011 introduced a new General Power of Competence (GPC), which explicitly gives councils the power to do anything that an individual can do which is not expressly prohibited by other legislation. This activity can include charging or activity undertaken for a commercial purpose

There are services where the Council cannot over cost recover. These services in order to remain viable need to ensure cost recovery is at its highest while making sure no surplus profit is made. Where a service cannot over cost recover, fees and charges should be set at a price that reflects the true costs to the Council whilst ensuring they do not undercut local competition or price Resident's out.

In addition some service areas have specific legislation which would need to be borne in mind when considering income management. Some pieces of legislation are outlined below.

Service Area	Examples of the legislation which may apply to some service areas
Social Care	Section 7 of the Local Authority Social Service Act 1970. (Section 1) of the Social Care Charges (Wales) Measure 2010 gives local authorities a discretionary power to impose a reasonable charge for the non-residential social services for adults it provides, or arranges the provision of, under the powers to provide these services listed in section 13 of the Measure. While it provides authorities with this power to impose a charge, it does not place a duty on authorities to charge but leaves this to their discretion. Where authorities decide to impose a charge, what is a reasonable charge is a matter for the authority but any charge set would need to relate to the cost of providing the service concerned and the financial ability of the recipient of the service to pay a charge set. The Power to impose a reasonable charge is subject to regulation: • Section 2 – Maximum charge of £60 per week for all services • Section 3 – Exclude certain services

	• Section 8 – effect of determination as to ability to pay
Social Care - Residential/Nursing Care	The Charging for Residential Accommodation Guide (CRAG) is issued under Section 7(1) of the Local Authority Social Services Act 1970. Where a person is provided accommodation under part 3 of The National Assistance Act (Services for Personal Requirements) 1948 and Social Care Charges (Wales) (Miscellaneous Amendments) Regulations 2015
Social Care - Mental Health	Section 117 of the Mental Health Act 1983, there should be no charge made for aftercare services, which may include residential care.

Each service area will need to establish the legislative standing for each of their services prior to changing a charge.

3. Rationale for the policy

Increasing the amount of income within the authority allows the council to become more resilient to the budget cuts proposed by the Welsh Government, and allows the Council to continue to provide valued services to its residents.

A leading practice analyser assessment was undertaken with key officers from a cross cutting section of the council. The results highlighted that the council has elements of best practice across the authority, however processes aren’t standardised and shared across the council. This policy will create a standardised approach to income management and service cost recovery for the council.

Other policies which may be of assistance when considering income management and service cost recovery are as follows:

Links to other relevant policies

- Powys One Plan
- Strategic Equality Plan
- Anti-poverty strategy
- Commissioning strategy
- Debt recovery
- Cash collection document

4. Key objectives and principles

Improving income management and service cost recovery has a key role to play in enabling the Council to achieve its financial and wider strategic objectives. The Council has developed income management and service cost recovery principles in line with its budget principles. They will apply to all of the services that the Council provides including work undertaken with partners. These were signed off by Cabinet on the 25th November 2014.

Budget principles	Income management and service cost recovery principles
Valued Services	• All services are prioritised and full costs will be recovered on all services, wherever possible • Services are only subsidised where a conscious decision is taken to do so (such as, providing a public good and to encourage service take up)
Supporting the vulnerable	• Concession schemes are used to target specific individuals and/or households, as well as to promote equity and increase access to services
Local delivery	• Alternative delivery models are evaluated to understand their cost recovery position • Cost recovery positions are maximised before they are transferred to alternative delivery models (e.g. neighbourhood management of libraries and other facilities)
Personal responsibility	• Charging is used to manage demand, change behaviours and/or encourage individual and community self-reliance
Value for money	• There is a single method for calculating service cost recovery across the Council which is consistent with the latest CIPFA guidance • Services that do not meet the expected cost recovery position, will instead reduce their costs or cease to be provided
Improving productivity	• There is a corporate approach to income management and service cost recovery, including use of a corporate register of fees and charges • Income collection processes are efficient, reducing the corporate ownership and increasing responsibility for service officers

These principles should be utilised to establish the charge and what the best method of collection would be. In setting new fees and charges, advice should also be sought from finance in relation to VAT.

In addition certain income streams will be out of scope.

In scope:

- Income generated from fees and charges to the public, business and other organisations

- Statutory and discretionary services where charging is permissible

- Council delivered services, internally and externally traded services, services externalised to a third party (e.g. outsourcing, shared service)

- Improving service cost recovery by:

    - Introducing new charges
    - Adjusting existing charges – level, structure
    - Increasing demand for services, through external factors (wider economy, changes in legislation), improved marketing by the Council
    - Increasing the quantity and quality of services supplied, through investing in capability and capacity
    - Improving payment mechanisms to enable more up-front payment, greater flexibility etc
    - Improving debt collection
    - Reducing staff and/or non-staff costs
    - Reducing or withdrawing from service delivery

The following sources of income are out of scope:

- Revenue support from central government, including specific grants – the objective of this policy is to reduce the Council's dependence upon revenue support from central government. Grant income needs to be taken account of however, when calculating cost recovery

- Council tax – the objective of this policy is to reduce dependence upon local, as well as national, taxation

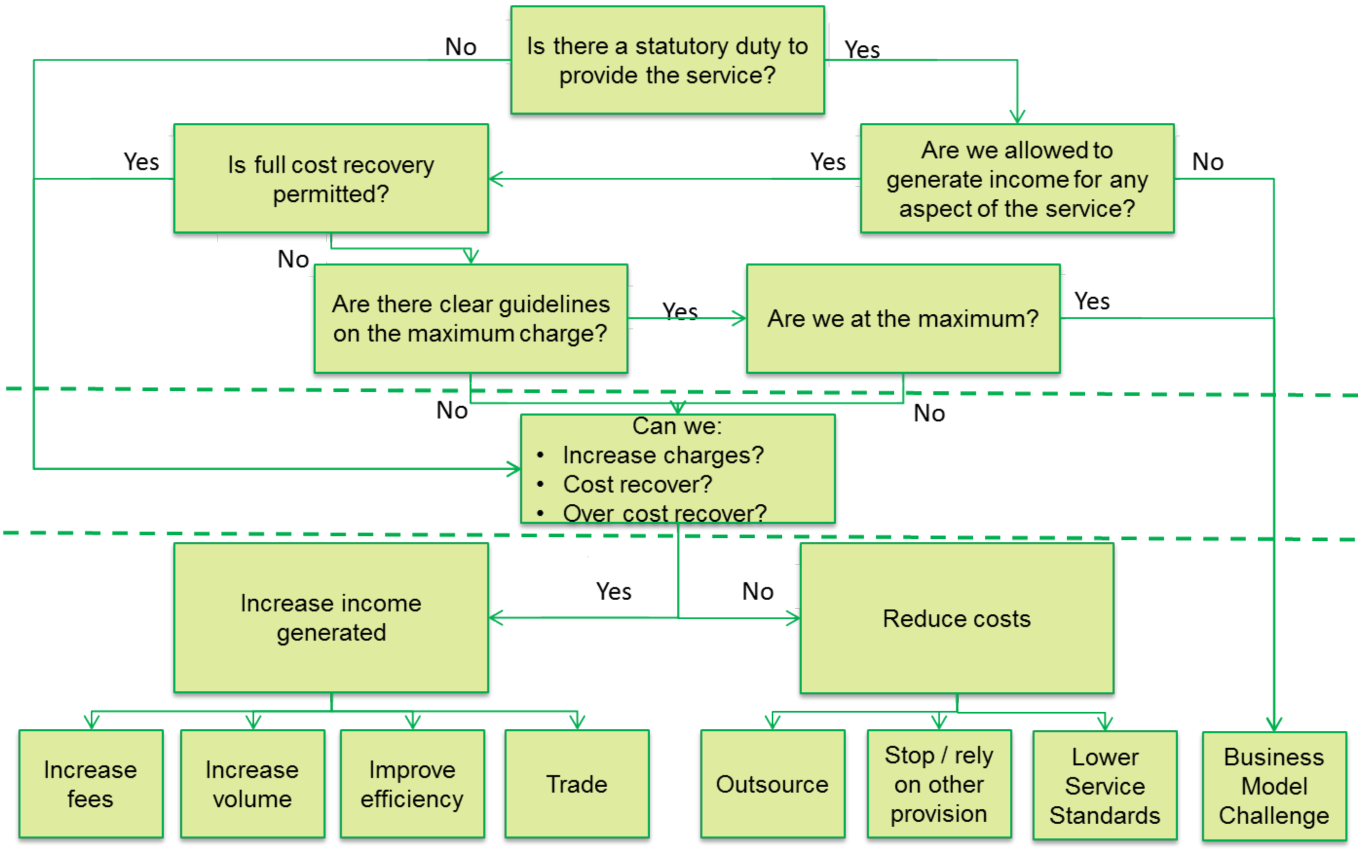
- Investment income – this is a specialist area and is best dealt with through the Council's Treasury Management Strategy

Internal Trading / Income

- Services support each other across the Council and expenditure needs to be recorded at the appropriate level and in accordance with the CIPFA Service Reporting Code of Practice (SeRCOP) 2014/15.
- The raising of charges/bills between departments should be stopped wherever possible and costs should be recorded appropriately at point of entry.
- Services and Finance staff will review current areas of charging and recharging to minimise processes and internal transactions.

5. Process for deciding whether to charge and how much to charge

To help decide whether charging should be considered for a given service, a decision tree has been developed.



6. The cycle / timeframes involved

Income management cycle

There is a five stage annual cycle to follow the Council's existing strategic and financial planning cycles:

1. Identify – responsible officers within departments to identify the baseline position in terms of income generation, cost recovery, the legal and policy framework and market conditions. The baseline position and any new ideas for generating income and improving cost recovery to be raised with the relevant head of service for their approval
2. Analyse –develop high level business cases and completing a market assessment. The unit cost calculator should be utilised to calculate cost recovery. Guidance on business cases can be seen in section 8.
3. Approval - Business cases will be sent to management team for sign off. If required by management team, business cases will be sent onto Cabinet / Full Council for decision
4. Implement and manage – Head of Service or relevant delegated officer will implement the business case. The business case lead will be responsible for securing the necessary resources for implementing the business cases. They will also need to put in place governance and management arrangements. There will need to be ongoing monitoring of benefits, market conditions, changes to legislation and policy.
5. Monitoring and Review – There needs to be senior level responsibility for income management and annual achievement of income and cost recovery targets, with responsibilities also devolved to individual departments and service areas. The corporate finance team will also monitor progress through the MTFS tracker. Corporate Management Team will be responsible for agreeing income targets for following year.

   Business case leads will be responsible for:

   a. Collecting good quality data on volumes so that unit cost can be monitored
   b. Regular forecasting to anticipate changes in income levels
   c. Evaluating impact (local economy, changing customer demand, access to services etc)
   d. Forecasting cost pressures
   e. Evaluating any changes to legislation and policy

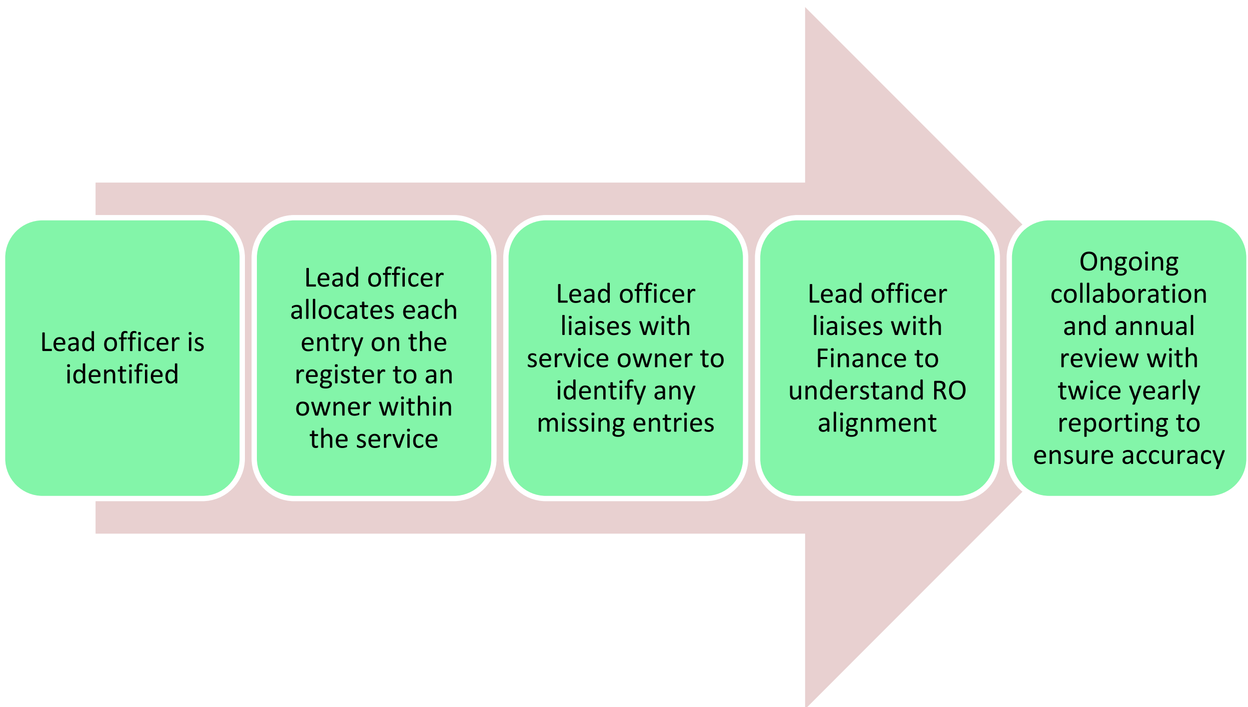
Activities for each of these stages are set out in more detail below:

Phase	Suggested timing	Key actions
Identify	Suggestions to Heads of Service April to June	• Establish baseline position across Council – income strategy, current fees and charges, subsidies and concessions, cost recovery performance, governance and management arrangements • Confirm national legal and policy framework, key local strategies • Gather market intelligence – demand and supply
Analyse	June to August	• Review Council's income and cost recovery performance against policy • Identify opportunities for improving service cost recovery • Develop high level business cases, challenge and sign off • Undertake market assessment
Prepare	September	• Set corporate income/ recovery targets and cascade • Assign individual responsibilities • Start to implement business cases – new pricing structure, internal and external consultation, communications • Secure additional resources required • Secure new people, systems and processes required
Implement and manage	October	• Implement actions to improve cost recovery • Manage benefits and risks • Monitor impact • Monitor developments in legislation, policy, legal precedents • Gather customer data • Monitor market developments (range of suppliers, services, prices) • Regular reporting on progress against income targets • Identify further income opportunities, develop business cases, seek required approvals
Review	September – mid year review	• Review cost recovery performance for whole council, directorates and individual services, including benchmarking with other councils. • Establish whether individual income targets have been met • Evaluate impact of fees and charges • Identify cost pressures • Identify market developments (demand and supply) • Identify changes in local and national policy and legislation • Develop income strategy and targets for following year • Review charges for following year • Develop business cases, obtain sign off

7. Fees and Charges Register

An accurate fees and charges register is a key document for the Council and it is advised that the following steps are taken:

- A lead officer is identified for coordinating the fees and charges register;
- Each line of the register is allocated an owner within the service;
- Each owner is responsible for reviewing their fees and charges annually, in line with the service cost recovery methodology used for the business cases, as coordinated by the lead officer;
- Working with finance, the lead officer should align each fee on the register to a Revenue Outturn (RO) line in accordance with the CIPFA returns guidance;
- Ongoing work with each service is undertaken to ensure the fees and charges register is complete;
- Fees and Charges across the Council will be set annually as part of the overall Budget setting process. The Register will be approved for the forthcoming Financial Year.
- The fees and charges register will be made public via the webpage, along with any communication surrounding changes.



8. Guidance on business cases and propositions

All new and existing income proposals need to be taken forward through a business case approach. Each business case will include a clear rationale for charging, the development of charging options, modelling of net benefits, impact and risks (e.g. of fluctuations income, unintended consequences).

Financial systems, guidance and business rules are required to enable consistent apportionment of overheads to a given service in line with total unit cost principles. Further information on this can be seen in appendix B

When developing a business case, Business Case leads need to draw on advice and support from the Finance Business Partners on all financial aspects including VAT.

Appendix C shows the business case template that will be used by the council for proposing changes.

Communication

Changes the council make that affect the public will have to be communicated effectively. For all changes, the following questions need to be considered:

- Who are the key customer groups which need to be informed?
- What key messages do you need to give?
- Where will you publish the information?
- When do you need to inform people of the change?

Depending on the scale of the change, a communications plan may need to be completed. Please contact the communications team for assistance.

Appendix A: Definitions

A service – a level of activity at which a charge is made (e.g. wasp catching, book lending, property rental, a bus journey)

Total cost - the total cost of a service is made up of all expenditure required to deliver the service, including central overheads such as Non-Distributed costs and Corporate and Democratic Core costs. This definition is consistent with current CIPFA guidance.

Statutory service – a service which a local authority is legally required to provide. There are a wide range of statutory requirements and permissions in relation to charging for these services, including:

- a requirement to provide free of charge
- a requirement to levy a fixed charge (e.g. planning application fees)
- permission to levy a maximum charge
- permission to recover the full costs of providing a service (e.g. building control fees)
- permission to recover or over-recover full costs provided that income is ringfenced for improving specific services (e.g. certain types of parking income must be reinvested in transport)

Discretionary service – a service which a local authority may decide whether to provide or not

Subsidy – setting of a charge at below the level of unit cost

Cross-subsidy – charging below unit cost for a given service as a result of charging above unit cost for another service

Concession – a charge for a service which the Council has decided to set at below the unit cost of delivering the service in order to promote take up amongst particular individuals

Appendix B: Calculating unit cost

1) Defining total cost

In line with CIPFA's *Service Reporting Code of Practice 2011/12 (SeRCOP)*, the total cost of a service is comprised of the following elements.

Type of expenditure	Expenditure categories
Expenditure required to deliver the service or activity (including all costs arising in other departments and internal recharges, with exception of NDC and CDC)	• Employee costs (gross salaries and wages, including all bonuses and allowances, employers' contributions to National Insurance and superannuation) • Expenditure relating to premises and • Transport • Supplies and services • Third party payments • Transfer payments • Support services • Capital charges • Impairment
Non-distributed costs (NDC)	• Past service costs relating to retirement benefits • Settlements relating to retirement benefits • Curtailments relating to retirement benefits • Costs associated with unused shares of IT facilities • Costs of shares of other long-term unused but unrealisable assets.
Corporate and democratic core (CDC)	• Democratic representation and management • Corporate management

2) Calculating total and unit cost

There needs to be a standard methodology for all service managers to use when calculating total and unit cost, which will need to be agreed with officers as part of this project. A number of initial principles for developing a method are set out below for further discussion:

- The method needs to capture all expenditure required to deliver a given service, including management and support costs incurred outside the service area, and any NDC and CDC costs. Activity-based costing may be necessary to apportion central costs across a wide number of service areas.

- For each service area, income and expenditure needs to be broken down between i) statutory, ii) grant funded and iii) discretionary service provision.

- Calculations can be made by managers in several ways depending on the level of detail held within the financial system and the scale of a service:

    - Accounting for the service in a discrete cost centre or subdivision of service on the main financial system. Budgets, forecasts and actuals derived from the main financial system and associated reporting software can then be used directly for calculations. (For example, the expected total cost of the service in the financial year is the expenditure budget on the main financial system.)
    - Ad hoc calculations with a clear audit trail to the main financial system. These would arise, for example, where the accounting hierarchy is not sufficiently detailed to separate out the discretionary element of a service. (For example, 50% of staff time is devoted to the discretionary service, so 50% of the employees' budget on the main financial system relates to the discretionary service.)
    - First principles calculations not derived from main financial system data. (For example, the cost of a service is so many hours of staff time multiplied by an hourly rate.)

- These costs need to be apportioned to individual services on both an annual and in-year basis.

- Total expenditure for a service over a given period then needs to be divided by total volume for the same period, in order to derive unit cost. Therefore, reliable and up-to-date volume data needs to be maintained by service areas charging for services and made accessible at a corporate level.

3) Achieving and managing service cost recovery

- Full cost recovery needs to be achieved where this is permissible and achievable at a level of activity where a charge is made. There should be no cross-subsidy of services.

- Where commercial pricing structures are used, the link between unit cost and unit charge should be maintained, although there may be circumstances where there is temporary divergence (e.g. promotional offers).

Appendix C: Business Case template

Business Case Name

Current financial position

Service	2012/13 income (£)	2013/14 expenditure (£)	Net position (£)	Cost recovery (%)
				%

Opportunity description:	

Projected additional income

Service	Investment (consider revenue, costs, staff, capital etc)	2015/16 Additional recovery	2016/17 Additional recovery	2017/18 Additional recovery
Insert opportunity subheadings here				
Total (£)				

Notes to calculations

Put in any assumptions made to help make the calculations for the projected additional income.

Key evidence including relevant benchmark data

Risks and Issues

Issue/ Risk	Probability (H / M / L)	Impact (H / M / L)	Proposed risk mitigation actions

Delivery Plan and Project team

Delivery plan	
Key activity	When

Project team			
Name	Role	Responsibility	Level of Authority

Equality Impact Assessment

Please indicate the outcome of the EIA screening. Identify any equality impact issues with the project and their scale and describe how they will be mitigated and any actions taken to reduce the risk

Appendix D: Template for the Fees and Charges Register

Directorate	Service Area	Service	Function	Units	Charge (£)	Key Contact	Category e.g. Statutory/ Discretionary	Volume (average annual volume in same units as price)	Concessionary details	Payment channel	Outstanding debt Where debt is over 90 days old	Income 2015/2016	Expenditure 2015/2016	Income 2014/2015	Expenditure 2014/2015	Income 2013/2014	Expenditure 2013/2014	Comments