

## External income policy

### 1 Introduction

1.1 This paper sets out the Council's external income policy.

1.2 The policy has the following fundamental principle that:

- services should raise income wherever there is the power or duty so to do; and
- services should seek to apply s93 of the Local Government Act 2003 wherever possible to the benefit of the authority as a whole and to help achieve corporate priorities; and
- the income should (at least) cover the **full** cost, including all overheads, capital charges, recharges and cost of collection of the service.
- unless specifically prohibited by legislation, income should be collected in advance or at point of delivery to ensure that debt is not built up. Where this can not occur, invoices must be issued promptly and appropriate recovery procedures followed.

1.3 This is because if the Council is not raising income when it can it is failing to maximise resources: income forgone is expenditure foregone. If the Council is failing to raise income in areas where it has the power to, less money will be available for spending on high priority areas.

1.4 There are situations when the Council may decide not to raise income when it is empowered to or not to cover the full cost of a service. These decisions must be made explicitly by members. A decision to forego income or to subsidise a service is a policy decision about resources as significant as any decision made in the budget setting process.

1.5 The policy recognises four classes of external income. These are outlined in the table below with a description of the policy objective and points to consider when reviewing budgets. This is followed by an outline of the Council's approach to subsidy and concessions.

### 2 Classes of external income

<b>Class of Income</b>	<b>Policy Objective</b>	<b>Points to Consider</b>
Commercial	The Council is providing a good or service which is also available (or could be available) from the private sector. The Council seeks to maximize revenue within an	<ul style="list-style-type: none"> <li>▪ Are the charges high enough for the business to be profitable? If not, consider whether we should be providing this service.</li> <li>▪ Are competitors</li> </ul>

	<p>overall objective of generating as large a surplus (or minimum loss) from this service</p> <p>The Council may chose to provide concessions to some users to give them access to this service</p>	<p>charging similar prices?</p> <ul style="list-style-type: none"> <li>▪ Do we offer any premium in terms of service levels that customers would be prepared to pay more for?</li> <li>▪ How would changes in pricing structure affect demand for the service and potentially its profitability?</li> <li>▪ How does the proposed fee structure fit in with the long-term business plan for this service?</li> </ul>
Statutory	Charges are set by central Government or statute.	<ul style="list-style-type: none"> <li>▪ Are charges in line with statutory requirements?</li> <li>▪ Are they set at the maximum permitted levels?</li> <li>▪ If yes, can expenditure be reduced without impacting on service delivery? If not, this should be highlighted as an issue to Members</li> </ul>
Cost Recovery	The Council wishes or is required to make the service generally available but doesn't wish to allocate its own resources to providing the service and cannot make a surplus.	<ul style="list-style-type: none"> <li>▪ Do charges recover the full costs, including overheads, capital charges, recharges and cost of collection?</li> <li>▪ Is it possible to charge on a full commercial basis and if so has the loss of income from not charging on a full commercial basis been evaluated?</li> <li>▪ Are members aware of the effect on demand for this service from this charging policy?</li> </ul> <p>• What would be the</p>

		effect of changing the policy to a different one e.g. subsidised? (n.b. this may not be a possible option)
Discretionary	The Council has the discretion on whether to levy fees and charges. This discretion must be exercised by members and normally services will be expected not to exceed the cost of providing the service taking one financial year with another. The Council may decide to set a nominal charge to discourage frivolous usage or may chose to provide the service free.	<ul style="list-style-type: none"> <li>▪ Are Members aware of any general fund subsidy being provided for this service?</li> <li>▪ Does this approach meet current political/service policies</li> </ul>

### 3 Subsidy & Concessions

3.1 The Council offers subsidised services in a number of areas. There are two types of subsidy: a general subsidy to all users of the service and specific subsidies or concessions targeted at users deemed to be in need. The second category will generally use an income related criteria.

#### General subsidy

3.2 General subsidies occur when a policy decision is made to deliver a service at below cost to all users.

3.3 Services to businesses should not be subsidised. An explicit policy decision may be made to subsidise services to the public where there is a genuine public benefit (positive externality) to the service. The level of the subsidy should be explicitly considered annually.

3.4 An examples of a service which may fall into this category is the provision of sports facilities, as the health benefits of access to leisure facilities are worth subsidising.

#### Specific subsidy/Concessions

3.5 Fees and charges levied by the Council may, for low income residents, provide a powerful disincentive against using the service. The Council may decide that it wishes to counter this disincentive as equality of access to

services is an important principle of public sector provision. If the Council decides to subsidise certain users by providing concessions it has a clear responsibility to use fair and objective criteria in deciding who should be subsidised.

- 3.6 Furthermore, the Council will not want to set up a complex bureaucracy to assess entitlement (as this is expensive and will deter users) and will need to be aware of, in effect, exacerbating the poverty trap.
- 3.7 The Council has a number of entitlement systems imposed upon it by national rules such as:
- housing and council tax benefit;
  - student awards;
  - free school meals.
  - housing renovation grants
- 3.8 There are a limited number of areas where the interaction of legislation and other benefits may require that the Council designs a separate entitlement system. This will only be the case in a very limited number of areas. Otherwise, users should be entitled to subsidised services or concessions if they receive means tested benefits.

#### **4 Review, Collection and Recording of Fees & Charges (new section added)**

- 4.1 Business Unit managers should review the fees & charges within their Business Unit annually as a minimum. This should normally take place during the annual financial & business planning process and there is an expectation that charges should increase by the RPI as a minimum and also seek to maximize allowable income as set out in section 1.2.
- 4.2 Any new service areas being provided need to be assessed in the light of this policy to consider what, if any, income can be achieved and under what class it would fall.
- 4.3 Where a service is being provided that does not fully recover it's costs (at least taking one year with another) the level of general fund subsidy being provided should be clearly set out with recommendations of how to reduce this including the implications on service take up of doing so.
- 4.4 Each Directorate is required to present a full list of proposed charges for the coming year to Cabinet by the end of March. This should be on the corporate format and include all charges whether set but statute, cost recovery or discretionary in order for Members to understand the full interaction between income and expenditure.

- 4.5 Wherever possible charges should be collected in advance or at the point of service delivery. Where this can not occur, invoices must be issued promptly and appropriate recovery procedures followed.
- 4.6 All services should ensure that a full range of payment options are available for payment of income to the council. This will include internet payments, debit and credit cards, cheque and cash options. Services should ensure that they encourage payments via the internet with debit and credit cards as the preferred options.
- 4.7 All income from charges should be appropriately budgeted for on SAP and charges allocated to the correct profit centre and account code. It is recommended that the SAP structure is reviewed annually to ensure this is being adhered to. Any new sources of income should follow this same principle.