Appendix B

Income and total cost recovery principles and requirements

The following principles inform decision making on income generating and total cost recovery proposals.

Principle 1: We recover total costs of service delivery on a fair and transparent basis, to sustain and support service delivery and development as we move to a self-financing position as a Council.

Principle 2: We will seek to recover the total costs of service delivery and generate a surplus, to contribute toward corporate costs, unless there is a legal barrier to doing so or it has been otherwise agreed by Cabinet.

Principle 3: We assess our total costs each year using a standard method of assessing total cost, which includes directorate and corporate overheads.

Principle 4: We will only trade where we are confident that by doing so we are contributing to our corporate objectives and can do so on a sustainable basis.

Principle 5: Where we decide locally to subsidise services, including providing any concessions, we do so based on a clear understanding of the rationale, link to our objectives and outcomes and associated income potentially foregone.

Principle 6: We will expect payment in advance, or at point of sale, unless there is a rationale for not doing so, and will develop and use the most cost efficient collection channels available.

Principle 7: We will have a consistent framework and approach, led corporately, and using service understanding of demand and volume to forecast income within our budget planning and reporting processes.

Principle 8*:* Charging should be used to promote fairness and to influence public behaviour where it is appropriate to do so.

Details Included within each Principle

Principle 1: **We recover total costs of service delivery on a fair and transparent basis, to sustain and support service delivery and development as we move to a self-financing position as a Council.**

Our rationale for charging is to recover the total costs of service delivery so that we are better able to invest in our strategic priorities. By generating income and promoting the recovery of total costs of service delivery we are moving towards a self-financing model, which is necessary given the reductions in central Government funding, and will enable more resources to be focussed on where we create the most value.

Generating income and recovering total costs of service delivery is about more than financing and funding. We are also developing our framework for total cost recovery to help us to utilise pricing strategies that meet wider objectives including:

- *Encouraging demand* – there are some services where we are actively seeking to stimulate demand and take up of services. Our pricing should be encouraging access and utilisation of Council services. This objective will include setting prices at competitive levels and also intelligent charging strategies that encourage utilisation by fostering a sense of *investment* among users.

- *Encouraging pride in services* – that the Council delivers services to a standard that warrants the levying of fees and charges that should be a source of organisational pride.

- *Encouraging high professional standards* – charging, particularly at a *market rate,* obliges service delivery to high standards.

The impact of total cost recovery on market efficiency should be considered, particularly where the Council has a monopolistic position in a particular service area (e.g. the provision of local land information), or is subsidising a service which is operating in a market where there are other private providers.

***Principle 2:* We will seek to recover the total costs of service delivery and generate a surplus, to contribute toward corporate costs, unless there is a legal barrier to doing so or it has been otherwise agreed by Cabinet.**

We must have the legal power to recover the total costs of service delivery for the relevant service or, alternatively, there must be no legal barriers to recovering costs. It is the responsibility of the service to consult and seek advice on the basis for total cost recovery.

The amount of revenue raised from a total cost recovery proposal must be sufficient to meet the costs of implementation and enforcement of a new service.

We start from the assumption that, for an existing service, we will be targeting total cost recovery unless there is a limitation to this.

A mechanism for implementing and enforcing total cost recovery must exist, and should be well tested beforehand.

Users can only be compelled to pay for a service if those who do not pay can be excluded from consuming the service (i.e. where the service is not a public good) or where targeted concessions or exceptions are implemented as part of an agreed process. Where a service is a public good, it should explore the option of voluntary contributions.

***Principle 3:* We assess our total costs each year using a standard method of assessing total cost, which includes directorate and corporate overheads.**

The total cost of a local authority service is made up of all expenditure required to deliver the service, including overheads. There may be fees and charges for all or part of the service.

In determining the total cost, the local authority is free to decide what methodology it wishes to adopt. Drawing on existing and familiar principles as set out in the CIPFA Best Value Accounting Code of Practice (the Code) the total cost will be determined by the amalgamation of the Code's definition of Total Cost, an appropriate contribution for Corporate and Democratic Core (CDC) and Non-Distributed Costs (NDC), as those terms are defined in the Code, as a part of the costs of provision.

The total cost of delivering a unit of service needs to be understood in order to provide a basis for pricing decisions and efficient management of the service. Accurate data on volumes of units delivered needs to be maintained in order to calculate unit cost.

To help achieve this, our financial systems and processes may need to evolve to support us to:

- Keep expenditure separate from income;
- Keep expenditure and income relating to statutory services and grant funded services separate from those of other services;
- Allocate all components of total cost down to services and individual cost centres using a consistent method that reflects actual costs incurred.

Our pricing should be compared with those of other public, private and third sector services. If we are unable to recover our total costs on a comparable basis then we should be asking whether we need to provide the service and, if so, what value we add. Likewise, we also need to consider if, by providing the service, we are stopping others supplying services and preventing competition that would benefit our communities.

Full use of differential charging, discounting and other alternative pricing structures should be made to maximise commercial benefit and target service take-up amongst target groups in line with our policy objectives.

Prices should be informed by data and intelligence on current and potential service users and customers and supply from other providers in order to understand the nature of supply and demand in each market the Council is operating in. Forecasting techniques should be used to model future income.

In order to improve recovery performance, current service expenditure needs to be challenged as well as income. We remain totally committed to being an efficient service provider.

By virtue of section 93(4) of the 2003 Act, authorities are to secure that for “each kind of service” the income from charges does not exceed the total costs of provision over a period as specified by the local authority. The local authority is allowed to compare the charges for and income from similar or related services together and so offers some flexibility to group services together when assessing compliance with the duty imposed by section 93(3) of the 2003 Act. Any service or group of similar or related services that consistently over- recovers over a period specified by the local authority should present a proposal with options for addressing consistent over recovery, which may include an option to trade.

We will seek to recover the total costs of delivering services funded through specific grants through the grant funding arrangement itself.

Principle 4: **We will only trade where we are confident that by doing so we are contributing to our corporate objectives and can do so on a sustainable basis.**

Services that are achieving, or have the potential to achieve, total cost recovery, from charging, will be encouraged to operate more commercially in order to reduce dependence on revenue support and stimulate efficiency. Where a service (group of services) has consistently over recovered over a period and is able to demonstrate how it will achieve sustainable, significant commercial benefits over and above current levels of recovery, then a trading and commercial model may be considered for that service.

Any decision to consider the use of a trading / commercial model should be based on a business case with robust validation to determine if setting up such a company would be beneficial. The business case must demonstrate that there is potential to both enhance delivery of our corporate objectives and to generate an agreed return per annum within two years of trading.

Principle 5: **Where we decide locally to subsidise services, including providing any concessions, we do so based on a clear understanding of the rationale, link to our objectives and outcomes and associated income potentially foregone.**

The decision on whether to subsidise a service is for Cabinet. The advice they receive should be informed by discussion at CMT, following Directorate Team discussions where relevant or based on advice through delegated authority.

A decision to subsidise a service needs a clear rationale. This is separate to the prior decision about whether total cost recovery is permissible and is therefore focussed on local decisions about additional subsidy and concessions. The decision should be linked to our strategic priorities, but may also include pricing decisions to encourage take up, stimulate alternative providers to improve service availability and quality and/or prototyping and testing of new service models.

The financial impact of subsidy decisions on the authority needs to be identified, both individually and collectively, and actively managed and reviewed. Likewise the impact of total cost recovery decisions on communities must also be considered through the relevant Equalities Impact Assessment.

In deciding whether to subsidise services which are also provided by other suppliers on a fully commercial basis, the rationale and degree of commonality with other suppliers must be discussed with the relevant governance Board prior to approval by Cabinet. Such decisions may have implications for competition, State Aid and may require expert legal advice.

The overall level and profile of service subsidy agreed must be made available to decision makers.

The principles governing concessionary pricing for particular users are limited to promoting equity and increasing access to services, particularly amongst those that would otherwise be unable to pay or are specifically targeted groups.

Differential pricing for one type of user should be readily defensible and easily explained to all users. It must also be readily enforceable based on simple business rules requiring limited discretion and oversight.

Any concessionary price for different types of user agreed must be applied consistently and transparently across all Council services. This should be captured in our business processes and in our register and recording of total cost recovery mechanisms. Eligibility should only need to be assessed once and then applied across all relevant services.

The impact of subsidies must be monitored, reviewed and evaluated as part of the annual review.

Principle 6: **We will expect payment in advance, or at point of sale, unless there is a rationale for not doing so, and will develop and use the most cost efficient collection channels available.**

Our starting position is that we should seek payment in advance of service delivery. This will depend on the nature of the service being delivered. For example it may be an annual license, a one off payment or a regular fee. We will be developing our processes and technology to facilitate easier payment and cost recovery.

Pricing and total cost recovery should be administered to maximise ease of collection and minimise the costs of collection, from both the Council and user perspective.

We will increasingly introduce modern methods of payment and cost effective channels, seeking to phase out high cost and labour intensive methods of income collection and debt management to reduce transaction costs. Chasing payment for services increases our overheads and charges for all services. We will increasingly automate this process.

Principle 7: **We will have a consistent framework and approach, led corporately, and using service understanding of demand and volume to forecast income within our budget planning and reporting processes.**

See section in relation to Income Management Annual Cycle process below (section 5.11)

Principle 8: **Charging should be used to promote fairness and to influence public behaviour where appropriate to do so.**

Charging can be used to rationalise or manage demand due to available resources or to influence behaviours and choices. This might also include penalties for anti-social and negative behaviours which have adverse consequences on others. Understanding our aim will be fundamental to our pricing decisions.