



## **FEES AND CHARGES REVIEW**

### **SUMMARY**

- 1.1 Fees and charges provide a significant level of income for the Council. Annual or periodic changes to fees and charges are considered as part of the budget planning process each year.
- 1.2 The future budget position requires significant savings to be identified, including consideration of the increase to fees and charges. The proposed changes increase income beyond the standard inflation level, in order to support the delivery of a balance budget for 2011/12.
- 1.3 Further changes may be required following the series of Star Chamber budget meetings in November, the preparation of a summarised position in early December, along with the findings of the Finance Settlement expected on 2 December 2011.

### **RECOMMENDATION**

- 2.1 Cabinet is asked to note the action taken so far in relation to fees and charge setting, approve the principles outlined in paragraph 6.1 and agree delegate the implementation of specific detailed proposals to the relevant Cabinet Members in conjunction with the relevant Strategic Directors.

### **REASONS FOR RECOMMENDATION**

- 3.1 A balanced budget is required to be set for 2011/12. These proposals support this requirement.
- 3.2 Early decision on changes to fees and charges are required to fit in with the VAT increase in January 2011 and to deliver a full years income for 2011/12.

## **SUPPORTING INFORMATION**

### **4 Financial Background**

- 4.1 The Council is facing unprecedented funding reductions over the next four years, as a result of the recent Comprehensive Spending Review - CSR - announcement. A significant proportion of this reduction is forecast to fall in 2011/12, leaving a funding gap between the level of resources and the cost of current services to be bridged.
- 4.2 In order to address this funding gap consideration has been given to the level of fees and charges increase which will help to reduce the impact on other service reductions. Significant price increases have been considered with this focus in mind. Some proposals ensure that the Council is charging an appropriate rate for the service which may have been subsidised to a greater extent in previous years. These changes are above a standard level of inflationary increase but reflect a more realistic charge.
- 4.3 The budget strategy outlined in July 2010 covered three aspects in relation to fees and charges. These were; to ensure payment for services was at an appropriate level, that services were delivered at the optimum level of subsidy, and that we would determine the level of service eligibility. The principles outlined in this report seek to address the charging elements of these principles.
- 4.4 As part of the 22 June 2010 emergency budget announcement the Chancellor of the Exchequer confirmed that VAT would increase from the current 17.5% to 20% from 4 January 2011. The potential impact of this was identified within the July Strategy report at an estimated cost of £100,000. It was also agreed that this cost would be passed to customers.

### **5 Financial Effect**

- 5.1 For budget planning, fees and charges rates typically follow the level of inflation. Inflation has been quite unpredictable over the past two years moving from 4.7% in October 2008, to a low of 1.8% in October 2009, peaked at 5.2% in April 2010 and is now 4.6%, based on the October 2010 rate. This inflation is based on RPIX, which is Retail Price Index – RPI – excluding mortgage interest payments. This rate is judged to be the most appropriate overall for applying to fees and charges increases.
- 5.2 For the existing Medium Term Financial Strategy - MTFS - standard inflation was forecast to be 1.5% for 2011/12. The budget forecast an increase in funding of approximately £0.75m from standard fees and charges increases. At 4.6%, after adjusting for those areas where standard inflation cannot be applied, it is estimated at this stage that the net increase would be approximately £1.75m. As inflation is running at a higher rate than estimated some 18 months ago, the costs of services is also rising, however a level of this increase will need to be absorbed within service budgets. The increase in income from fees and charges can therefore be applied to offset some of the funding gap expected for 2011/12. Detailed calculations are currently being prepared on a line by line basis.

- 5.3 As a general principle, some services will not have an inflationary increase where the charge rates are tied to expenditure as it could have a negative effect on the overall budget position.
- 5.4 An early increase in fees from 1 January 2011 will support the 2010/11 financial position, support the loss of inclusive vat income which cannot be implemented by 4 January 2011 and create capacity to suppress and support budget risks this year.

## 6 Principles

- 6.1 There are a number of key principles adopted for the 2011-15 MTFS:
- the January 2011 VAT increase will be passed on to customers. This is particularly relevant to VAT inclusive supplies
  - standard inflation is assumed at 4.6% for 2011/12
  - standard inflation for 2012/13 to 2014/15 is estimated at 2.5% for budget modelling purposes to account for the assumed levelling off of inflation rates over a longer period
  - above standard inflationary increases will be applied where practical and appropriate, without having a detrimental effect on demand
  - some income will be exempt from the increase because either the fees are nationally set, or the current rates form part of an existing agreement for a period of time
  - new charges will be applied, which have never previously been charged, or to a new client group based on changes to eligibility
  - fees will be applied from 1 January 2011, or as soon as possible after this date.
- 6.2 **VAT inclusive supplies** – vat inclusive supplies are charges to customers at a set rate, within which the Council has to declare the vat element to HMRC. The increased rate from 17.5% to 20% means that at the same fee level an increased amount of the fee will be paid to HMRC. To counter this it is proposed that these fees are increased by 2.1%, which is the level required to maintain the net fee income retained by the Council. The increase will be passed to the customer. This is in effect no different to the increases customers will see for supplies where vat is added on top. These areas will then be subject to the same principles outlined in paragraph 6.1 and apply further increases where appropriate.
- 6.3 **Exempt increases for 2011/12** – there are a number of fees which are either set nationally, such as Development Control fees, or are under a current agreement, such as Market Rents, for which lease agreements are set until July 2013. Such fees will remain at the same net level.
- 6.4 **Timing** – it is proposed that fees are only increased once, on 1 January 2011, rather than in January 2011 to address the VAT increase and in April 2011 as is normally the case. In some circumstances there is either a practical lead in time, a statutory notice period, or a consultative process period. It is proposed that these are implemented as soon as possible after the 1 January 2011 target date. Although the vat increase does not come in to effect until 4 January, a 1 January target date is relevant for planning purposes.

- 6.5 **New charges** – a number of new charges are proposed which ensure that the level of subsidy afforded to service users is appropriate. These are measured against regional and national levels to measure value for money. The new charges are highlighted in section 8.

## **7 Implementation**

- 7.1 As highlighted in paragraph 6.4, a 1 January 2011 implementation date is proposed.
- 7.2 The implementation of these changes is extremely complex. This is due to the range of fees and charges we apply across a varied service base, along with the even more complex charging tables which need to be reviewed before implementation. An example of this would be the different parking charges dependant upon the site, the length of stay, transport policy and competitor rates.
- 7.3 With this complexity in mind it is proposed that services are tasked with the detailed development of charging structures which support the overall budget strategy. The delegation to deliver these specific changes will be with the Cabinet Portfolio holder in conjunction with the relevant Strategic Director.

## **8 Above Standard Increases and New Charges**

- 8.1 A number of significant above standard and new charges are proposed for 2011/12.

### **Neighbourhoods**

- 8.2 Burial and Cremation Charges – increases proposed to fund the substantial investment in service equipment. The cost of a cremation will increase by £50 from £395 to £445, which is slightly lower than the regional average. Burial costs will increase by a similar amount, or even higher to meet specific requirements. The estimated increase in income is £200,000 per year, net of investment costs.
- 8.3 Outdoor Events – it is proposed that a charge be levied for future outdoor events, such as the City Bonfire or Darley Park Concert. Exact details will be established during the budget process. This is estimated to provide £100,000 income per year.
- 8.4 Network Permits – a scheme is being developed to charge operators for working on the highway. This is currently being developed and is anticipated to be implemented by 2012/13, although it may be earlier. This is estimated to net £100,000 per year, after taking account of the costs to the Council against our own highway works.
- 8.5 Public Conveniences – Cabinet are considering charging for some public conveniences, to coincide with additional investment in facilities. A future report will identify the scope of this initiative.
- 8.6 B-Line – the current level of subsidy provided to 13-19 young persons travel is currently 50%, with the individual paying the remainder. It is proposed that this is reduced to 25% subsidy, therefore increasing the cost to the individual by 25% of the fare. This will reduce the cost of the service to the Council and create a budget saving of approximately £100,000.

- 8.7 Car Parking – parking charges are proposed to be increased overall by approximately 8%, although a number of varied rate changes will be applied to achieve this. Taking account of the vat increase to off street parking, the increase across all parking fees would be approximately 6%. The net increase expected from these changes is approximately £250,000, however these increases are proposed to partly offset the existing shortfall in parking income budgets. These increases would therefore support a balanced position for 2011/12 but not deliver further savings to bridge the estimated budget gap.

### **Children and Young People**

- 8.8 Home to School Transport – a separate paper will be presented to Cabinet in January reviewing the provision of transport, and who picks up certain transport costs between the Councils revenue account, the schools through the Delegated School Budget, or parents. This area relates more to who picks up the cost rather than a change to charges.

### **Adults, Health and Housing**

Items 8.9 and 8.10 below are subject to public consultation.

- 8.9 Home Care Double Attendance – it is proposed that a charge is levied where double attendance is provided, rather than at the current single rate. It is estimated that this will provide an additional £175,000 per year.
- 8.10 Home Care subsidy review – users are currently being consulted upon regarding home care charges. The increased charges would aim to reduce the subsidy to an affordable level whilst still retaining a means testing process. The estimated increased income is £750,000 in 2011/12 with a further £250,000 in 2012/13, as it will take until July 2011 to implement fully. At this level, the service will still require a subsidy as full charging could change client behaviour and result in less income.

### **Other Charging Issues**

- 8.11 Further opportunities or the need to deliver additional funding towards the MTFS will be considered during the budget consultation period.

## **OTHER OPTIONS CONSIDERED**

- 9.1 Other options to address the budget gap are being considered alongside this proposal. Any reduction in this proposal could impact on additional service reductions to support a balanced budget.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Julian Kearsley – Strategic Director of Resources
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<b>For more information contact:</b> <b>Background papers:</b> <b>List of appendices:</b>	Martyn Marples 01332 643377 e-mail martyn.marples@derby.gov.uk None Appendix 1 – Implications
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<b>IMPLICATIONS</b>
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**Financial**

- 1.1 The increase in fees and charges are estimated to net approximately £3.1m in 2011/12 towards supporting the forecast budget position. Detailed line by line calculation are currently being prepared and will be confirmed as part of the budget report to Cabinet in February 2011. The main changes are:

	Budgeted income £
Standard inflation forecast	1,750,000
Burial and Cremation (above standard inflation)	200,000
Outdoor Events (new charge)	100,000
B-Line (change in fee paid by the customer)	100,000
Home Care Double Attendance (new charge)	175,000
Home Care charges review (increased charge)	750,000
	3,075,000

**Legal**

- 2.1 Changes will be compliant with statutory requirements

**Personnel**

- 3.1 None

**Equalities Impact**

- 4.1 The effect of certain groups will be considered as part of the Equalities Impact Assessment to each proposed budget change.

**Health and Safety**

- 5.1 None

**Carbon commitment**

- 6.1 None

## **Value for money**

- 7.1 Value for money has been considered when proposing the level of fees and charges in relation to the regional and national average, plus those charges levied by the private sector.

## **Corporate objectives and priorities for change**

- 8.1 These proposals support the delivery of excellent services, performance and value for money.