

COMMERCIAL STRATEGY 2021 – 2024

July 2021

Introduction – what is the purpose of the Commercial Strategy?

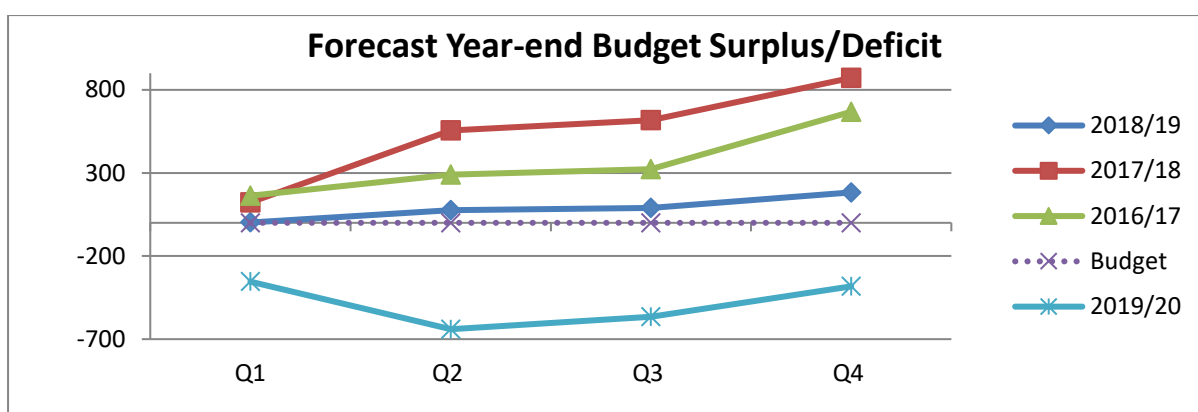
Like all other Local Authorities in the UK, Worcester City Council's finances have been in transition from a funding model based primarily on grants from central government to one based on locally-generated income. From 2019/20 onwards, revenue funding for services has been almost entirely from business rates, Council Tax and income that the Council can generate from its operations, including commercial activities.

However, there have been a number of changes since the first version of the strategy was published in January 2018:

- The Government has increasingly turned to forms of financing which shape future activities through access to capital, such as the Cultural Development Fund, the Future High Streets Fund and the Towns Fund, and short-term access to revenue funds, such as Homelessness Funding, Brexit Funding and Section 32 grants which target support for local businesses
- The Government and CIPFA have raised concerns about local authorities buying property for investment purposes and the Treasury has ruled that Councils cannot access Public Works Loan Board (PWLB) financing if they have such proposed purchases in their future capital plans
- The disruption caused by the Covid-19 pandemic from March 2020 has had a significant impact on the macro-economy which will have a long-term effect on the development of the High Street and local economic growth.

Through its Income Generation Strategy and Income and Efficiency Plans, the Council set targets to achieve sufficient cost efficiencies and income generation to enable a balanced budget despite the reduction in central government grant. Relying primarily on income from local sources, the Council has achieved an outturn within 3% of the annual budget in 2018/19 and 2019/20, as shown in Figure 1. The outturn for 2020/21 was distorted by the Covid-19 impact and the related funding from outside bodies and is therefore excluded.

Figure 1: Revenue outturn 2016/17 to 2019/20



It can be seen from the chart that the trend is moving from a surplus to a deficit position and there is therefore a need to continue to improve financial standing to meet the demands of the Medium Term Financial Plan. At the Council meeting of February 2021, a balanced budget was set for 2020/21 by drawing on reserves but a deficit was forecast for each of the subsequent years, as shown in Table 1:

Table 1: MTFP 2021/22 - 2025/26

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Forecast Draft Net Budget	11,975	11,480	11,905	12,444	13,085
<u>Grant & Taxation Financing</u>					
One-off Covid related support	863	0	0	0	0
New Homes Bonus for Budget	447	203	0	0	0
Business Rates	3,697	3,769	3,842	3,919	3,997
Council Tax	6,292	6,487	6,683	6,842	7,044
Council Tax Surplus	(35)	(35)	(35)	0	0
Net Transfer (to)/from Reserves	712	0	0	0	0
Forecast Budget Financing	11,975	10,423	10,490	10,761	11,041
Forecast Budget GAP	0	1,057	1,415	1,683	2,043

To help address these projected deficits, an Income and Efficiency plan forms part of the Medium Term Financial Plan (MTFP) which is reviewed annually. This includes elements of increased income as well as reduced costs.

The City Plan 2016-21 is due for revision alongside this Commercial Strategy. There will undoubtedly be changes in direction, reflecting the changes in the City and the wider environment that have taken place since 2016 and the different approaches in funding that have been identified above. The Commercial Strategy needs to reflect these changes to help ensure that there are sufficient revenue streams to deliver the programme of activities flowing from the renewed City Plan.

The Council – if it is to remain committed to providing the full range of services at the level of standards expected by local communities – will need to be more efficient in its operations, making the most of technology and flexible working practices, and be increasingly reliant on income from various sources. To do this it needs to continue to embed the working practices of a commercial organisation, whereby we view the delivery of services and functions in a business-like way and seek out new opportunities to generate income to support the services that our communities want to receive.

Alignment with the City Plan and Council Strategies

The City Plan is the core document that drives the Council's business. While the plan is due for review the core aim will remain central to the Council's thinking:

“Building a successful future on 2000 years of history”

To help achieve this successful future, the Council has identified five themes and set a number of key outcomes for each theme. Figure 2 summarises, with a few current examples, how the five themes can be supported by a more commercial approach to service delivery and by the development of new services on a commercial basis. These examples show how income-generating activities and ways of working that reduce costs can also enhance the offer that the Council makes to potential customers who wish to receive, or may require, new services.

Figure 2: Delivering the City Plan through commercial activity

City Plan Theme	Existing commercial activity	Potential new activity
Stronger and Connected Communities	Bereavement Services. Use of Council facilities and Community Centres for events. Licencing fees.	Assistive technology. New memorialisation offers. The Arches Worcester facilities and festivals. Support for skills. Civica contract renewal.
A Prosperous City	Planning applications. Pre-planning app. Assessment. Bulky waste collection . Taxi licencing. Car parking.	Provision of incubator units. Towns Fund – assets. FHSF – assets. Electric charging points. Advertising space.
A Healthy and Active City	Leisure Services Contract . Garden waste collection. Allotments. Football pitch hire. Loans to third parties (Hockey/Swimming Pool/FA).	Racecourse development. Futsal. All weather Pitch. Riverside development. Freedom Leisure contract renewal

A Heritage City for the 21 st Century	Community events. Worcester Festival. Commandery. Guildhall room hire.	Increased lettings for charities/community functions. Release MAG for museum/art gallery.
Sustaining and Improving Our Assets	Commercial lettings. Leases.	Riverside commercial development. Museums and Gallery management . Use of space for advertising. TIP and FHSF opportunities.

Figure 2 also demonstrates that a commercial approach is not incompatible with progressive policy-making. Underpinning the City Plan is a commitment to improving Worcester as a destination and as a place to live, work and spend leisure time. By providing services that are self-sustaining and by generating income in excess of direct need, the Council can build capacity for regeneration and increase service delivery to target groups. Commercialism is being pursued in order to provide the best possible services for Worcester’s residents within budgetary constraints.

At times, balancing commercialism and social purpose may throw up ethical dilemmas – such as the desire to generate income from properties and the desire to support tenants facing financial pressures – which will need to be considered on an individual basis. However, the core aim of the strategy is to develop approaches which further social as well as commercial objectives.

The Commercial Strategy also overlaps with city development programmes which have been published since 2018/19. These include:

- The *Masterplan* – which maps out zones of development as priority areas for improvement in defined areas of the City
- *The Arches Worcester* – utilising £5.4m of Arts Council and local match funding to rejuvenate the arches supporting the railway line from Foregate Street to Croft Road and delivering a programme of festivals and related cultural events
- The *Future High Street Fund*, which is providing up to £17.9m (as part of a £29m investment programme) to rejuvenate Angel Place and the nearby area
- The *Towns Fund*, which is bringing in another £19.6m in capital investment and which has already drawn in an additional £1m in accelerated funding to support three specific projects.
- *Green Homes Grant* and related funding of £1.1 which enables affordable warmth initiatives to be delivered in 160 homes in Worcester.

Government-led investment programmes restrict the types of activity that can be undertaken but provide the opportunity for the Council to provide services, and generate income in different ways, including using capital projects to support revenue activities, such as project management, ongoing support for facilities, letting of spaces as well as capital investment through which capital receipts can be recycled into new developments. Maximising the value of these developments will require a commercial approach and increased capacity in terms of expertise.

Many of the existing commercial activities have been incorporated into service plans. They also form part of the Council’s Business Plan which was first produced in 2019/20 as a three-year rolling programme. The plan includes a programme of efficiencies alongside business income growth initiatives and is designed to develop a progressive approach to service delivery alongside the Council’s core values of:

- Committed People
- Customer Focused
- Creative Council
- Good Governance
- Strong performance

These values are consistent with a commercially-minded approach to service delivery and income generation, as shown in Figure 3:

Figure 3: Our corporate values and commercial approaches

Corporate Values	Commercial values
Committed People	Sustaining delivery to high standards and finding new ways of delivering to attract more customers
Customer Focused	Thinking of the people of Worcester as customers who will be prepared to pay for good service at the right price
Creative Council	Identifying new income-generating opportunities, new services and new projects and finding ways to make these real, including bidding for grants
Good Governance	Aligning costs to income so that the business case for investment is robust and that trading activities are on a sound legal basis
Strong performance	Generating more income from existing streams means sustaining services, while achieving delivery in advance of expectations secures continued buy-in from customers

Other relevant strategies are aligned with the Income Generation Strategy. These include a Customer Services Strategy which seeks to put customers at the heart of our thinking about services, an ICT strategy which will enhance our capacity to deliver better services and Capital and Asset Management Strategies which will help marshal our resources in a sustainable way. All of these are forward-looking documents which are designed to provide a framework for effective service delivery so that we can

ensure that every operational activity is aligned to our corporate goals and the overarching aims of the City Plan, while exemplifying the corporate values.

While each of these strategies addresses directly a specific component of the business and, through this, supports the City Plan, there are numerous overlapping elements. Taken together they form a complete approach to shape and steer the future direction of the Council in order to achieve the aims of the Plan and establish the Council on a sound financial footing.

Where are we now?

The Council has recognised the need to support service delivery by generating income for a number of years and stated its intention to increase income in the 2017/18 budget papers published in November 2016.

Current budgets for income from Fees and Charges are shown in **Appendix A**. These amount to £8.5m in 2021/22, or 37% of budgeted service costs. Clearly, income from bereavement services and car parking are dominant strands but opportunities exist to strengthen income from other existing sources, such as trade and garden waste collection, where the Council is able to influence demand through targeted approaches.

Other income includes £434k in respect of the Freedom Leisure contract and £1.13m for property rentals, including markets. The latter are considered as part of the Asset Management Strategy which identifies the rationale for holding assets – whether for commercial or social purposes or for a mixture of both – and target rates of return according to asset category.

To understand the potential drivers for increasing income in purely financial terms, high level risk assessments can be used to show the level of increased demand for income to match reduced cash flows. Table 2 shows the impact of potential changes in the MTFP and thereby highlights the increased income that the Council will need to generate if it is to remain on course to achieve a balanced MTFP. This shows that while the overall impact on income demand is slight, changes can have a significant effect on specific controllable streams. This is exemplified using the garden waste income stream.

Table 2 : Risk assessment: impact of MTFP changes on income demand

	Change	£ per annum	Increase in income required (overall)	Increase in income required (garden waste)
Increase in salary costs to 3% for all years	1%	82,000	0.9%	17%
Increase in appeals/reduction in business rates income	2%	74,000	0.8%	15%
Failure to achieve projected savings in income and efficiency plan	25%	178,000	2.0%	36%

Table 2 reflects only income cash flows and does not take into account any increase in costs that may be required to generate additional income. The Council is not currently in a position to understand the relevant costs associated with each activity other than through allocation of direct and indirect costs to related cost centres. A more direct relationship between costs and income needs to be achieved.

A detailed fee-setting approach was adopted as part of this strategy to promote best practice and create a stronger understanding of the relationship between charging regimes and the marginal costs of delivery to provide the relevant services. This is used as part of the drive to secure and increase income from existing sources. The approach is attached at **Appendix B** and represents best practice.

One specific area of current income generation that is subject to change is income from investments. The Council is currently holding £15.5m in short term cash investments which generate a modest rate of return. In 2021/22 this is anticipated to be £55,000 at a rate of approximately 0.05% percent. There is potential to increase this income by transferring some of these funds into a Real Estate Investment Trust (REIT), which can generate returns in the region of 2% to 3%. This is a low-risk form of property investment focused on investment in a mixed portfolio of commercial properties held in a pooled fund, similar to the Council's existing investment in the CCLA fund, and would diversify the Council's investment portfolio.

Further options for increased income from property investments will be explored as part of this strategy but this is subject to the Treasury ruling that Council's cannot access PWLB loans to finance any part of the capital programme if it intends to invest in property with the sole intention of generating a return, whether that investment is funded from PWLB loans or not.

The Treasury document *Public Works Loan Board: future lending terms* published in November 2020 and related guidance, does not rule out the acquisition of assets from which Councils may ultimately derive income if the acquisition is not primarily for that

purpose. However, there are a number of limitations which significantly restrict the capacity to derive longer-term income from the asset and, where this is achieved, that the income should be ring-fenced to support the specific project and not used to help deliver services generally.

The Treasury will allow access to PWLB lending for the following purposes:

Service spending – the project supports delivery of services such as education, transport, public health, culture and related services

Housing – this is a specific category because of the special accounting arrangements that apply to local authorities

Regeneration – where the authority is addressing a market failure and/or is planning significant additional investment beyond the acquisition cost

Preventative action – perhaps to prevent a ‘community use’ asset falling into disrepair

Treasury Management – to allow authorities to refinance loans including internal borrowing (subject to that not being to get around the restrictions on borrowing for return)

Appendix C sets out project criteria that will be applied to property acquisitions as they are identified as part of the above schemes. The emphasis is on identifying projects which meet the criteria but are capable of making a return to cover the costs incurred and bring in secondary income such as business rates or Council Tax or inward investment.

The specific exemption for Housing means that the Council is in a position to support housing developments. One current strand of activity is to acquire short-term accommodation which reduces the costs of bed-and-breakfast and other expensive alternatives that result in un-recoverable Housing Subsidy costs. The Communities Committee is commissioning an assessment of opportunities for Council-led housing development which will include consideration of the establishment of a Council-owned Housing Development Company for this purpose.

Strategic approach

To put itself in a position to balance income and costs effectively, the Council will need to focus on five areas:

- Being commercially minded in the way we do things, so that we are aware of unit costs and income in all service areas and aim to increase the margin between direct costs and income wherever possible/appropriate

- Maximising existing income streams, in balance with customer needs and market conditions
- Identify new services that are self-sustaining through income streams and establish ways of achieving them
- Increase investments – for example by developing our range of investment vehicles
- Supporting growth within the city to achieve growth in Business Rates, Council Tax and footfall through securing external investment – for example through mixed-tenure housing developments.

Each of these is addressed in Figure 4 overleaf which sets out planned approaches and identifies progress measures.

Figure 4: Planned approaches to making services self-sustaining through income generation

Activity area	Planned approach	Progress measurement
Being commercially minded in the way we do things so as to increase the gap between costs and income	Establish a trading account approach to income generating areas	<ul style="list-style-type: none"> • For each known income strand, all relevant costs are identified. • Contribution to overheads and capital requirement is established and targets set to maintain and/or increase over time.
Maximising existing income streams, in balance with customer needs	Implement criteria for fee charging and review fees regularly	<ul style="list-style-type: none"> • Annual review of fees and charges approved at Committee. • Set target rates of return on commercial investments.
Identify new services that are self-sustaining through income streams and establish ways of achieving them	Use the Income Generation Sub Committee to review ideas and act as a project gateway	<ul style="list-style-type: none"> • List of potential opportunities identified. • Workstream planned to bring forward opportunities for consideration. • Business Cases developed. • Business case owners identified.
Improve returns on investments to maximise value of cash holdings – for example by investing in property funds	Set aside investment funds or borrowing requirement to invest as far as regulations and our risk appetite allows (Appendix C includes project selection criteria)	<ul style="list-style-type: none"> • Acquisitions meet Treasury criteria to support council aims and income sufficient only to meet costs. • Borrowing needs identified and capital financing arrangements in place in line with regulations
Supporting growth within the city to attract CT and Business rates	Continue to bid for capital and revenue programmes to support regeneration and inward investment opportunities	<ul style="list-style-type: none"> • Proposals for mixed-tenure housing developments in place • Programme of activities established. • Project owners identified and timelines recorded on Pentana for monitoring

Key to successful delivery of the strategy will be the development of an entrepreneurial culture which can be measured by the achievement of six characteristics of commercial organisations. These are set out in Figure 5 overleaf.

The Council is already in a strong position to adopt these characteristics as they are compatible with the five values of the organisation set out in Figure 3. These, in turn, support the drive to become an Excellent Council and form part of the wider organisational change programme that is underway. Training and development activities derived from these initiatives can also be used to support the transition to commercially-oriented approaches.

An additional dimension to this approach which has developed since the first version of this strategy is the need for capacity to identify opportunities to bid for external funds, to produce those bids and then to initiate projects once bids have been approved and grant agreed. This requires:

- Forward planning and horizon scanning to identify potential bidding opportunities
- Timely access to specialist consultants and advisers that can support the bidding process, particularly for technical requirements
- A bid development fund where such funding is not provided or is insufficient
- A resource planning method to ensure that agreed programmes can be quickly moved from approval to delivery stage.

To date the Council has been very successful in securing external funding for programmes sponsored by Government. To maintain this, it is necessary to build revenue consideration into bids to ensure that the full revenue implications are recognised prior to submission of the bid and that there are resources for project management. A resource plan for programmes agreed at the date of this strategy needs to be developed to support this aim.

Figure 5: Characteristics of successful commercial organisations

Communicates effectively	Is forward thinking and plans accordingly	Adapts easily	Makes use of skills and talents	Listens to customers and stakeholders	Understands risks and acts to address them
<p>The sharing of ideas and information helps to promote best practice across the organisation by sharing information about successes achieved as well as any issues that arose and their solutions. Analysis of this information can play a crucial part in the successful development of new projects.</p>	<p>A successful commercial organisation is always looking for new areas and opportunities in which to expand so that income can be increased whilst at the same time, improving service delivery</p>	<p>Organisations that adapt to new ways of working and seek out new areas of work are more likely to survive than those organisations that always do what they have always done</p>	<p>Successful organisations identify entrepreneurs and give them room and scope to flourish</p>	<p>A successful commercial organisation needs to be open and receptive to new ideas and issues raised from a variety of areas.</p>	<p>Successful commercial organisations have contingency plans in place to deal with issues that may arise in the future.</p>

Appendix A

Income generating services 2021/22 compared to 2017/18

Fees & Charges	Annual Budget 2017/18 £000	Annual Budget 2021/22 £000
Facilities - Room Letting Fees	(69)	(90)
Museums	0	(82)
Revs & Bens - Court Fees/Summonses	(252)	(252)
- Environmental Health and Licencing	(280)	(361)
- Bereavement Services	(1,776)	(1,590)
- Parking Income	(3,641)	(3,900)
Community Services	(5,697)	(5,851)
- Garden Waste Collection	(341)	(491)
- Trade Waste Collection	(638)	(836)
- Open Spaces	(60)	(58)
- Other Fees and Charges	(16)	(25)
Operational Services	(1,055)	(1,410)
- Planning Application Fees	(353)	(425)
- Local Land Charges	(193)	(113)
- Pre-Application Fees	(39)	(35)
- Permitted Development Fees	(2)	(4)
- Other Fees and Charges	(25)	(24)
Development Management	(611)	(600)
Building Control - Fees	(110)	(110)
Housing - Licencing Income	(102)	(152)
Fees & Charges - Services	(7,896)	(8,547)

Appendix B

WORCESTER CITY COUNCIL CHARGING STRATEGY

1 Introduction and Context

There is a range of specific powers which enable charging. The most important of these is Section 93 of the Local Government Act 2003 which gives a specific power to charge for discretionary services where "the Authority is *authorised...* to provide a service" but not under a duty to provide it and the person receiving the service has agreed to its provision.

There is a restriction on the amount of charge which can be levied under section 93, to the effect that taking one financial year with another, income should not exceed the cost of provision. Although the recovery period has been recognised as three years, there is flexibility in the legislation about how the costs are calculated. Costs would normally be assessed in accordance with proper accounting methods and Government guidance but can include all overheads including corporate and democratic core costs and the cost of assets required to deliver the service. It is also worth remembering that charges could be set at different levels for different people. It would be quite lawful to charge nothing for some beneficiaries of the service and a higher charge for others.

Like many other Local Authorities nationwide, Worcester City Council has traditionally reviewed and agreed charges and prices for activities and services annually in line with inflation and increases in income targets within the budget setting process, with some ad hoc benchmarking. There has been some fluctuation over the last four to five years, largely due to budget pressures or the results of benchmarking.

Increasingly pressure has come upon non-statutory services to justify levels of subsidy and spend of the public pound in their service areas. National data demonstrates a wide variation in charges between Councils, some of which may reflect legitimate differences in the quality of facilities or local market conditions. However, it may also be due to the issues not having been examined other than for budget setting purposes. Since the Value for Money Audits carried out by the Audit Commission in 1999 Local Authorities have been guided through a range of documents¹ to set fees and charges based on research and benchmarking. A Mori survey in 2010 demonstrated that 33% of residents support local authorities selling services locally and 64% of the public support differential charging. The Mori report makes it clear that the public is not averse to paying for services where that protects the front line. This means that there are opportunities for councils to review charging strategies and look at new ways of generating income to help balance the books in a way which the public will understand.

¹ The Price is Right? - Charging for Public Services - Audit Commission 1999; Enterprising Councils Getting the Most from Trading and Charging - Local Government Association 2012; Pricing and Concessions in Leisure Briefing 12-55 2012 – Association of Public Service Excellence; Positively Charged 2008 – Audit Commission Local Govt. Information Unit; 2010 MORI research project 'A Perfect Storm Revenue and Charging' for BDO

This strategy seeks to interpret the guidance referenced above to take a strategic approach to the annual setting of fees and charges through the use of a range of research to inform the process. The objective is for Services to ensure that charges can be used to their full potential to help the service area to meet overall Council objectives and priorities. A strategic approach to charging also aims to clarify both the decision-making process and criteria, reflecting information available.

There is a need to ensure that charges support the following:

- Targeting subsidy at top priorities – as recommended by the Audit Commission low priority services should be able to have a higher proportion of their costs recovered allowing the Council to target its subsidy at priority users
- Improving Services – charging can be used to make service better, or increase and manage access
- Delivering Corporate Priorities – to support key strategies; plans and priorities
- Generating Income – improved cost recovery can support services under budget pressures, while consideration of introducing charges for services which are currently not charged for demonstrates a valid approach
- Managing Demand for Services – sensitive use of peak or premium pricing can support targeted access to services
- Communicating a Message – an image of quality or something of value can influence how people use a service, and the benefit they get from it

2 Terms of Reference

The key principles of the charging strategy are aligned to the Worcester City Council Charging Policy:

- Income optimisation through the annual review of fees and charges
- Cost recovery should be as near to 100% as the market can reasonably bear
- Aligned where necessary to the costs associated with providing the service

Subsidy should be targeted to those known to be on a low income or within a priority group.

In order to set out a strategic approach to charging for Worcester City Council services, the following areas need to be reviewed:

- Current fees and charges
- Previous fees and charges
- Provision by competitors or other sectors such as private provision and associated charging
- Annual income and income targets
- Current service expenditure
- Current subsidy and % recovery rates
- Current concessions
- Usage/participation levels and user/customer data – where known
- Contract specifications for third party providers
- Alignment of service to corporate objectives and the Worcester City Plan
- Any current annual registration/memberships and joining/induction requirements

This allows a reference base and framework for review to be established which will support the annual review of charging in all service areas.

This strategy will be reviewed every three years.

3 Council Priorities

Worcester City Plan

The City Council has set out five main priorities in its City Plan 2016 – 21:

1. Stronger and Connected Communities
2. A Prosperous City
3. A Healthy and Active City
4. A Heritage City for the 21st Century
5. Sustaining and Improving our Assets

The Charging Strategy supports all of these themes as it seeks to achieve a balance between subsidised services provided for those that need them and charged-for services at a level that customers can afford and/or are prepared to pay. At a strategic level the Council is required to achieve value for money in the delivery of services and charging strategies are an important test of this concept: a decline in turnover may be an indication that the price offered for the service is considered too high by customers, while providing services at a subsidised rate does not represent 'value for money' for all Council Tax payers who will be bearing a share of the subsidised cost of a service that they do not choose to use. Pricing strategies must therefore seek to achieve an appropriate balance between maximising income and supporting local needs. This is explored in more detail in the Council's Commercial Strategy.

4. Service Elements

Community Services

There is a mixed economy picture emerging within the city, with some services such as leisure, sports, play and arts development outsourced to Freedom Leisure through a 10 year contract and other services being delivered through a shared service such as heritage. Many private and not for profit organisations also deliver services such as parking, and community events alongside services delivered directly by the City Council.

Key service areas, in terms of income generation and cost recovery levels, for consideration are:

- Parks and Open Spaces
- Community Events
- Car Parking
- Bereavement Services
- Allotments
- Licensing and Regulatory Services (through Worcestershire Regulatory Service)
- Heritage Services (through the Worcestershire Museums Service)
- Leisure Centres, arts and sports development (through Freedom Leisure)

This charging strategy seeks to interpret Worcester's City Plan priorities through the promotion of a pricing structure and approach which will uphold in particular the priority of reducing inequalities and improving the quality of life.

Operational Services

There is equally a mixed economy in this area of services too in terms not of service outsourcing but in terms of local choice particularly in trade waste where there is private operator competition and unlicensed operators too.

Key service areas, in terms of income generation and cost recovery levels, for consideration are:

- Bulky waste collection
- Trade Waste collection.

Other Services

Planning income is constrained by national guidance around the level of fees that can be set. This is designed to increase the Council's capacity to progress planning applications which should, in turn lead to increased income overall. There is more flexibility around fee setting for pre-application work.

More limited income streams could be expanded by appropriate fee-setting regimes. These include:

- Room letting at Council-owned facilities
- Housing - Licence fees
- Building Control fees.

5. The Price Cycle

Designing the charge

Improved information will allow Members to evaluate the impact of charges and develop a better understanding of both customers and the market place. When setting the charge the following approach shows the points of the price cycle that help the charge to be designed. Annual reviews of charging will follow "the charging decision" process – how the decision is made and what factors are taken into account; "an informed approach" – what market intelligence and other management data are used to inform the decision; and "designing the charge" – considering if proper account taken of market intelligence and management information.

(1) ***Establish the principles*** – this is why there is a charge for a service, and if market rate would be charged, or if this is a priority service for subsidy, e.g. a charge for the hire of a football pitch is made as this is a service used out of choice by some residents, not everyone, it is not a service the Authority **has** to provide. Equally Central Government does not legislate for free access; but the charge does not recover the full cost of providing the pitch because the Council wants to

support people to be physically active, and stay healthy supporting the delivery of the City Plan objective of a Healthy and Active City.

(2) **Join up objectives with charging** – match the reason for charging a market rate; achieving full cost recovery or subsidising activities with Council objectives, e.g. a charge for the fixed penalty notices for environmental enforcement delivers the Council's objective of a Heritage City for the 21st Century. The nature of Council services means that setting objectives for charging is complicated by competing priorities e.g. cost recovery against health benefits.

(3) **Set targets for the charges** – setting targets for the amount of the cost of a service to be recovered from a charge, e.g. if it costs the Council £60 per hour to provide a football pitch, a charge of £31.50 to aim to recover 50% of the true cost.

(4) **Design the charges** – research or benchmarking through comparisons² what customers will pay, what they pay elsewhere. Understand stakeholder and service user information through participation; satisfaction; and views about value. Set charges for members to agree, e.g. other local authorities charge up to £40 for a football pitch of high quality, with some charging as little as £25, Worcester may recommend a charge in line with the target for cost recovery within the service area.

(5) **Make the charging decision** – the range of charges is recommended to Members to agree any recommended changes.

(6) **Monitor and evaluate** – participation in activities is monitored with satisfaction surveys and income levels against targets, to evaluate if the charge is working, e.g. football participation is maintained or increases, and footballers respond that value for money is good, or that the reasons for booking cancellations is not related to charges - the charge is likely to be correct.

(7) **Feedback to strategic principles following annual review** - if there is a need to improve facilities or services income from fees and charges can be used, if supported, e.g. football pitches need better drainage to stop matches being cancelled, clubs are surveyed to see if they will pay an additional £5 per hire to cover this work being done during the off-season. If this approach is supported and a proposal is agreed with Members, income generated to improve facilities, above and beyond the normal maintenance that is provided.

At each point in charge design the following should be established:

- **Clear objectives** – what the charge is expected to achieve
- **Clarity over objectives review** – a framework for reviews to understand subsidies
- **Joining up charges** – avoiding unintentional significant inconsistencies across the City
- **Exemptions and concession clarity and consistency** – ensuring that where services are free these have been considered, that any reduction in charges are properly targeted

² Benchmarking comparisons of charges between similar authorities; similar services; or neighbouring areas

- **Monitoring of the impact of charges** – checking that participation changes, or low usage are not in the main due to charges, by conducting regular surveys of customers and those electing to not to purchase these services (where possible)

6. The Worcester Approach – Strategy Deployment

Service managers will deploy the strategy using a standard template (**Annex A**) for annual completion and the following approach for key elements:

Market Intelligence

- Do we know the users? – Who is using the service and why, established through surveys, and who is not using services and why
- Are user and non-user reactions to charges and marketing assessed? – Understanding through research why customers start and stop using services, through regular surveys
- Are target groups identified and monitored? – Checking that services are used by the Council's priority groups from surveys or user information, and that this then influences programming and marketing
- Are competitors identified? – Do we regularly record pricing for other similar organisations?
- Is their behaviour monitored?

Benchmarking

The CIPFA benchmarking service is in place with 28 authorities currently subscribed. Other benchmarking services such as APSE and Housemark may be available.

Within Charge Design

- Is the charge design used to its full potential?
- Are there missed opportunities?
- Is charge design based on good use of market intelligence?

Payment Methods

In relation to methods of payment and convenience fees and charges for public services are being paid increasingly online or by phone. Some examples in Worcester include:

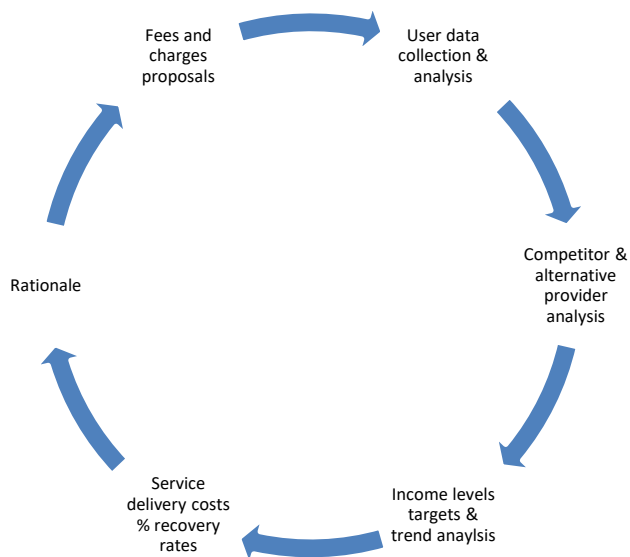
- Ringo – apps and direct phone payment for car parking
- Garden waste – online payment by debit card
- Leisure Centre Membership – direct debits.

The services will continue to investigate modernisation of payment methods offered over the coming three year period to respond to customer requirements; competition and feedback; through annual service plans and transformation reviews.

Financial Context

- Are subsidy levels set?
- Which services provide the income?
- What are the trends for charges?
- What informs the decision?
- Is benchmarking available and in place

The percentage recovery rates vary considerably among services, and are reflected below where there is a calculation available. It is recognised that there is further work required over the coming three year period to better understand cost recovery across service areas and ensure that expenditure and income budgets are set up to allow accurate analysis of cost recovery to be achieved.



Fees and Charges Setting - Service Guide Proforma

Service Area		Document Control	Created By:
Complete By:		Created	
Last Updates:		Version	

Introduction – Enter Service Area Here	
Section 1	<p>This rationale is in line with Council policy for charging, in that the Council aims to optimise income through the annual review of fees and charges, in line with what the market will bear, what is considered can reasonably be borne by users of the facilities and where necessary the costs associated with providing that service.</p> <p>Xxx Service Area approach to fees and charges is that this is a discretionary / statutory service, which delivers the City Council Plan through:</p> <ul style="list-style-type: none"> • List City Council plan area here with 1 sentence to explain how delivered • List City Council plan area here if there is a further area of delivery <p>The charging objective is to be in the upper/median/lower area of charging for the service, based on:</p> <ul style="list-style-type: none"> • Quality of service – is there a quality standard in place – externally verified? • Market demand - are we sole supplier or is this a very competitive market

	<ul style="list-style-type: none"> • Do we aim to deliver a significant range of service or capital improvements or have we recently (last 5 years) invested heavily in the service area <p>Competition in this service area is xxxx add here headlines such as the following providers also deliver this service in Worcester City:</p> <ul style="list-style-type: none"> • Private sector – how many providers deliver – 1 or 10+ put actual number • Educational sector – again put number • Public or Third Sector – again total number of charities or not for profit delivering this service in the area 	
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Annual Income				
Section 2		<p>Enter here a bar chart with the service areas' last 3 years total gross income – include a split if needed:</p> <p>E.g. Parking could be PCN; On Street and Off Street</p> <p>Work with finance if needed</p>		
	Income Target next year			
Section 3		For example list here		Assumptions
		Total service income plus RPI at 2% for next year		
		E.G. Car Parking Income current year plus 2%	£	
		Additional income - transformation prog target	£	
	Total target			

Income v Expenditure current year				
Section	Enter in table here total costs allocated against this income – it may not be possible for current year –Finance will be able to help			Notes
	Expenditure	£	Notes	
	Total			

% Recovery Rate current year			
Section 5		This is only possible to calculate if we are able to allocate service expenditure against income	Notes
User Data current year			
Section 6		<p>Annual survey results re. satisfaction</p> <p>Annual survey results re. value for money</p> <p>View survey for Worcester if covering your service area</p> <p>National participation e.g. for sport / leisure</p> <p>Mention survey source for each figure with survey base (i.e. number of people responding to survey)</p>	<p>Note here also if there are waiting lists e.g. for allotments; trade waste etc</p> <p>Mention if we have over provision of facilities e.g. parks or sports remember to count educational and voluntary sector provision and commercial</p> <p>Competition level or travel times if known from national data</p>

Rationale

Section 7

This service area rationale is aligned to Council policy, in that the Council aims to optimise income through the annual review of fees and charges, in line with what the market will bear, what is considered can reasonably be borne by users of the facilities and where necessary the costs associated with providing that service.

Enter overall rationale in 1 or 2 sentences maximum for charging – our Corporate rationale is to be left in.

Any charges here which are varying over the prevailing RPI for 2018/19 – 3.5%

List any new charges here too

Name of Fee/Charge	Current year	Proposed next year	Notes / New Charge
			Change approach e.g. £x April 1 then £y Sept 1

Property acquisition investment criteria

Projects which require the acquisition of assets and which meet the Treasury's acceptable definitions for PWLB lending will need to take into account the cash outflows and inflows to ensure that they are financially viable. Property investments will be reviewed according to criteria set out in an evaluation spreadsheet which seeks to take into account all income and expenditure cashflows, using median case, best case and worst case scenarios for rent reviews, void periods and management and maintenance costs.

The assessment will support acquisition where:

- The projected cash flows result in a positive outcome over the lifetime of the project under all recognised scenarios
- There is a positive return to the project over its lifetime
- There is a positive return, including use of contingencies, over the first five years.

Where the return to the project is in the form of a capital receipts, these will be considered for reinvestment in the project in the first instance to ensure overall viability. Surplus receipts will be taken to general capital financing.

Non-financial risks will be assessed in accordance with the Council's risk assessment procedures and a risk register compiled for each viable project that meets the qualification criteria established above and is in line with Treasury guidance.

Where there are alternative options for acquisition, each option will be assessed as above and the highest-ranking opportunities will be recommended for investment.

Two overarching criteria are also to be applied:

- Does the proposal include opportunities for further local regeneration or enhanced services for target areas?
- Does the project generate secondary income for Worcester, such as business rates?