



INTERNAL AUDIT REPORT



FEES & CHARGES 2016/17

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FEES & CHARGES 2016/17

EXECUTIVE SUMMARY

1. Introduction and overall opinion

Fees and charges are a significant source of income for the Council and are becoming increasingly important as central government funding reduces and there is greater need for self-sufficiency. Based on the Council's 2016/17 budget, income of approximately £4.9 million is generated from fees and charges. The Council has over 250 individual charges ranging from 10p for copying documents to over £19,000 for major planning applications. As well as generating significant income, effective charging policies can also support broader policy objectives such as targeting of subsidies and managing demand for services.

The overall governance framework is currently based on a number of broad principles set out in the medium term financial strategy and operating model. There is also a growing recognition and commitment to adopting a more commercial approach to income generation. However, the existing framework could be strengthened further by developing a clear corporate charging policy with the finance team taking a more proactive role in managing, coordinating and supporting the annual review and approval process in future.

Testing of statutory charges confirmed that all have been established in accordance with the relevant statutory or regulatory requirements. The approach to setting discretionary fees and charges varies across the Council. In some cases there is a detailed analysis of a range of factors used to inform pricing decisions. In others the approach is less formal and not always clearly evidenced. Consequently, it is not always possible to clearly demonstrate whether full cost recovery is being achieved or income maximised, where appropriate.

Based on these findings, the framework of controls currently in place provide **Sufficient Assurance** that the identified risks have been appropriately mitigated. Detailed findings are set out in section 2 below. The audit was carried out in line with the scope set out in the approved audit planning record (APR). The assurance opinion is based upon testing of the design of controls to manage the identified risks and testing to confirm the extent of compliance with those controls, as summarised in Table 1 below.

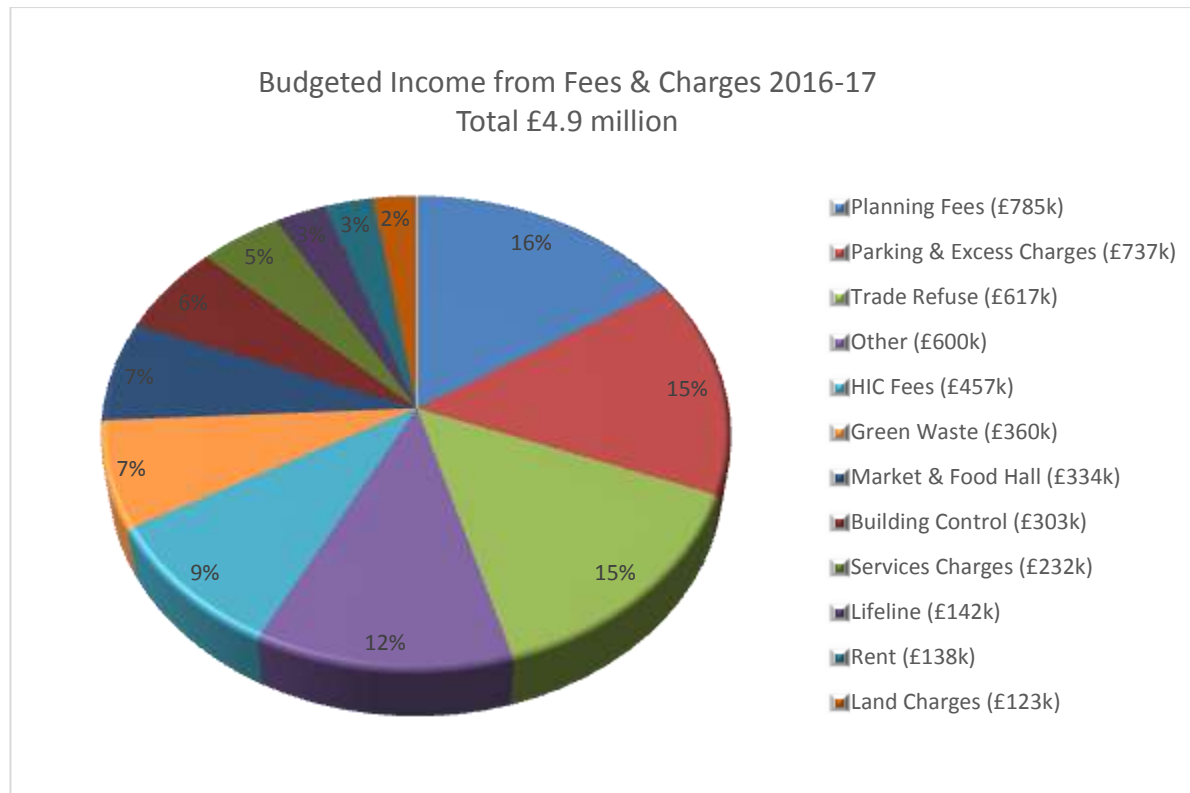
Table 1 – Assurance opinion

Internal Audit Assurance Opinion	Direction of Travel				
Sufficient Assurance	N/A				
Risk	Design	Comply	Recommendations		
			H	M	L
Risk 1 - Overall governance arrangements are weak or ineffective.	Sufficient	Sufficient	0	2	0
Risk 2 - Statutory fees are not set in accordance with the relevant statutory or regulatory notices.	Sufficient	Substantial	0	0	1
Risk 3 - Discretionary fees are not set on a fair and transparent basis in accordance with local policy requirements and/or any statutory constraints, where applicable.	Sufficient	Sufficient	0	3	3
Total Number of Recommendations			0	5	4

2. Summary of findings

Prior to commencement of the audit, an analysis of charges was undertaken to determine which service areas to focus audit testing on. The level of income generated by each service area was identified based on the 2016/17 budget. The results of this analysis are set out in exhibit 1 below.

Exhibit 1. Income from fees and charges



Based on the above analysis and discussion with management, the audit has focused on pre-application planning advice, parking, trade refuse, building control and land charges.

Risk 1: Overall governance arrangements are weak or ineffective.

The 2016-17 Medium Term Financial Strategy (MTFS) and the 2013 Operating Model include a number of broad based principles for income generation and cost recovery. Whilst most budget holders interviewed as part of the audit were not aware of the specific principles in place, there was a general understanding of the need to maximise income and recover costs wherever possible. The development and adoption of a specific charging policy would help to clarify and reinforce the Council's objectives relating to fees and charges and provide budget holders with a clear and consistent framework for establishing and reviewing fees in future (**see recommendation 1**).

Most fees and charges are reviewed, updated and approved annually as part of the budget setting process. The finance team issue budget setting guidelines setting out the procedure and timetable to be followed. Based on review of the 2016/17 guidance, there is no specific advice in respect of fees and charges. It is the responsibility of individual budget holders to ensure fees are reviewed in accordance with service and corporate objectives, although



budget holders stated that support is available from finance staff if requested. The provision of more detailed guidance would help budget holders to understand and comply with corporate objectives and help to deliver the Council's ambition of embedding a more commercial approach in future (**see recommendation 1**).

Audit testing confirmed that most fees had been reviewed and formally approved in 2016/17, although there were some significant exceptions. Car parking fees are not reviewed annually as there is a considerable lead-in time required for compliance with the relevant statutory consultation and notice periods. However, other exceptions were building control fees which, prior to the current year, had not been updated since 2011. In addition, there is no evidence that trade refuse fees have been formally approved in recent years (**see recommendation 2**).

Based upon these findings, the rating for the design and operation of controls in respect of this risk is **sufficient assurance**.

Risk 2: Statutory fees are not set in accordance with the relevant statutory or regulatory notices.

There are no formal systems or procedures for ensuring that statutory fees are correctly set. Responsibility is upon individual budget holders to ensure the correct rates are identified and applied based on their professional knowledge, networks and understanding of the service area.

Testing of statutory charges for 2016/17 confirmed that all had been established in accordance the relevant statutory or regulatory requirements. However, controls could be strengthened by requiring budget holders to provide annual confirmation that statutory fees have been checked (**recommendation 3**).

Based upon these findings, the rating for the design and operation of controls in respect of this risk is **substantial assurance**.

Risk 3: Discretionary fees are not set on a fair and transparent basis in accordance with local policy requirements and/or any statutory constraints, where applicable.

Based on discussions with budget holders there was some awareness of the need to maximise income and recover costs wherever possible, although most were not aware of the specific principles in the MTFs or operating model. Consequently, the approach to setting fees and charges varies across the Council and is not always clearly documented. This increases the risk of inconsistency and means there is no clearly evidenced link between the individual approaches adopted and the Council's corporate objectives. Given the growing importance of fees and charges to balancing the Council's budget, the annual fee setting and approval process should be given greater priority and attention in future. The finance team should take a more proactive role in managing, coordinating and supporting the annual review and approval process. As part of this, budget holders should be required to provide more detailed evidence of compliance with corporate policies and principles (**see recommendation 4** and appendix 1 for an example form that could be used for this purpose).

A significant proportion of the Council's discretionary charges are set on a cost recovery basis, although there is currently no central guidance or standard methodology to ensure that a consistent approach is adopted. Budget holders determine their own approach based on their knowledge and understanding of the service and any statutory or regulatory restrictions. In some cases there are detailed costings supported by time recording systems and a separate trading account. In others, fees have been based on historic calculations and estimates which have then been increased incrementally by inflation in subsequent years. In addition, some budget holders stated that costs allocated to trading accounts do not always reflect actual costs, although work is currently in progress to review the



methodology for allocation of central recharges. It is therefore difficult at this stage to demonstrate whether costs continue to be fully recovered or to accurately quantify the current level of subsidy (**see recommendation 5**).

All budget holders recognise the importance of market intelligence (e.g. benchmarking and user surveys) to inform pricing decisions and this is clearly evidenced in some areas (e.g. car parking). However, in most other cases this is based on an informal review of prices charged by neighbouring councils or private providers, which is not consistently documented or evidenced. Consequently, it is not always possible to demonstrate or test the extent to which market factors have impacted on pricing decisions or whether the Council is truly maximising income wherever possible (**see recommendation 6**).

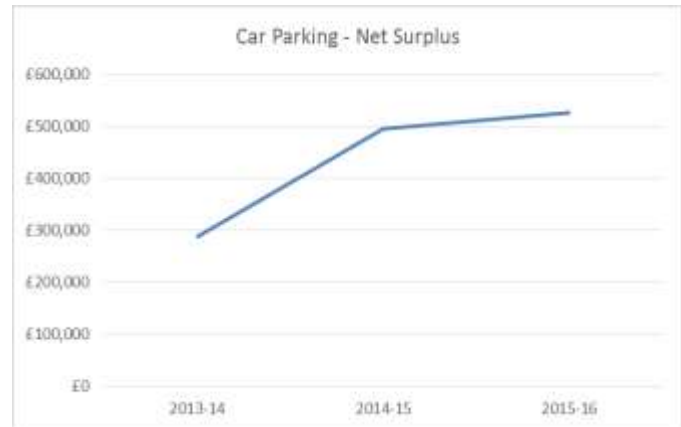
Based on interviews, all budget holders are aware of the need to maximise income and identify opportunities to introduce new fees and charges where possible. This is primarily considered as part of the annual business and budget planning process as well as a specific commercialisation project currently focused on three key service areas: trade refuse; building control; and lifeline. A range of options are being considered as part of this project, including a review of capacity to increase market share, the adoption of commercial marketing techniques and the use of specialist sales and marketing expertise.

The Council's MTFS and operating model set a principle that expects those that are able to do so to pay for the services the Council provides, thus alleviating the need for those services to be funded from general taxation or other funds. It states that the Council may decide to offer services free of charge or at a subsidised rate if this helps to achieve its priorities or manage demand, but that this will be a deliberate decision based on a clear rationale. Budget holders stated that some services continue to be provided free of charge for a range of reasons, such as lack of clarity over the legal basis for charging, minimal income generation potential, or to support disadvantaged groups. Requiring budget holders to identify and report such services to Members as part of the annual review process would ensure that a clear rationale exists and provide an additional discipline to ensure opportunities for new charges are considered (**see recommendation 7**).

Detailed testing of a sample of charges identified the following issues:

Car Parking

Current fee rates were approved in 2012 and are currently under review as part of a periodic review of the Council's car parking strategy. The proposed revised pricing structure is based on a detailed analysis conducted by an external consultant and takes account of a range of factors. This includes an analysis of demand and activity levels, consultation with users and local businesses and benchmarking of other local authority parking fees. All costs are separately identifiable but fees are set on a full commercial rather than cost-recovery basis. Discounts of up to 40% are offered for permit holders, although current proposals are to reduce the discount to 25% over the next few years. The service currently generates a surplus.

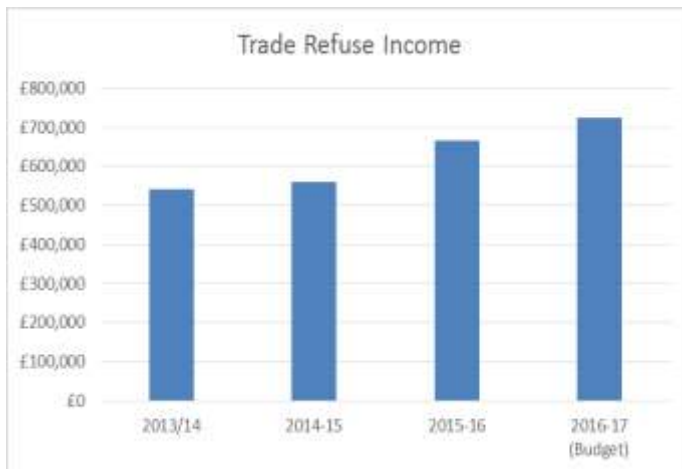


Trade Waste

Current fees were calculated using an incremental approach by calculating the percentage increase required to generate sufficient additional income to cover increased collection and disposal costs. The percentage was then applied to the previous year's baseline fees. Audit testing confirmed that the increase had been correctly applied, although it was not possible to test the baseline fee rates as these were originally calculated on a cost recovery basis in 2013/14 and had been increased incrementally since then. The original cost-recovery calculations had not been retained or updated (**see recommendation 8**).

No formal benchmarking has been undertaken to inform pricing decisions, although information on competitor prices is often obtained informally when customers request a quotation. However, this information is not formally recorded and there is no evidence to demonstrate how or whether it has impacted on pricing decisions.

All costs are separately identifiable and fees are set with the objective of making a surplus. There are no discounts or concessions, although the fee structure is set to allow flexibility and discretion to negotiated rates with customers.

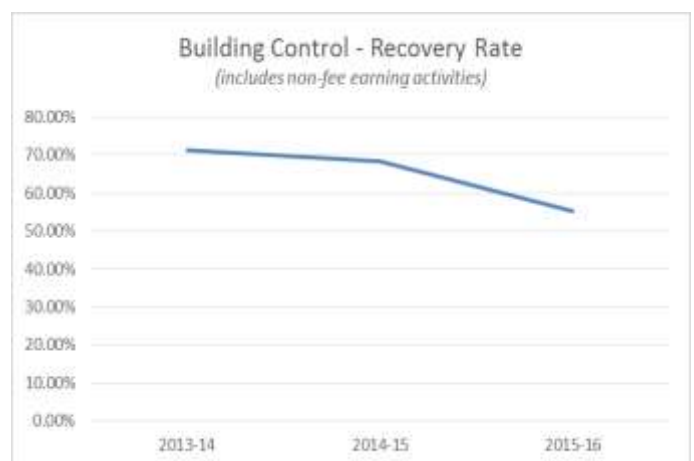
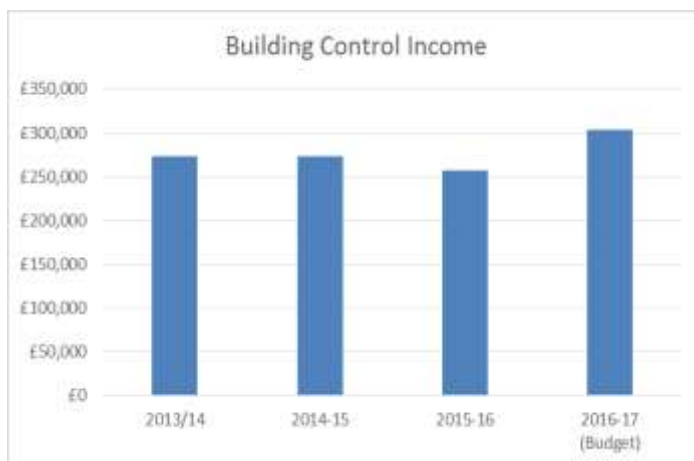


Building Control

Charges are set to fully recover eligible costs in accordance with statutory requirements. Current charges were updated in September this year but had not been previously updated since 2011. Rates were established by multiplying a composite hourly rate (including overheads) by the estimated time required to complete the number of inspections required for each type of development. The hourly rate is calculated based on total service costs and the estimated amount of time spent on fee-earning activities. Charges are also informed by competitor prices, although this is based on the professional knowledge of the existing budget holder and is not formally recorded or evidenced. There are no locally determined discounts or concessions.

Testing of fee calculations was not possible as officers did not provide any evidence to support the current fees (**see recommendation 8**). It was also not possible to determine the current level of cost recovery. Officers stated that a separate trading account was maintained but no evidence of this was provided (**see recommendation 5**).

The main accounting system records information on costs and income for all building control activity but does not distinguish between fee-earning and non-fee earning functions. Whilst the service is generating a deficit overall, the recovery rate for the past three years has been in the range of 55% to 71%. For 2015/16 officers estimated that 61% of their time was spent on fee-earning activities.



Pre-application Planning Advice

Fees for this service were first introduced in 2011/12 and were limited to major applications. This was broadened to include minor application from 2012/13. Charging rates were set based on a comparison of fees charged by other local authorities and were increased incrementally in subsequent years under delegated powers. For 2016/17 a further benchmarking exercise was undertaken resulting in increased fees and a simplified charging structure. Given that fees are based primarily on benchmarking rather than cost-recovery, no audit testing was possible.

There is no separate trading account for pre-application planning advice. At the time that fees were first introduced a time recording exercise was undertaken which indicates that fees recover less than 50% of costs, although there has been no repeat of the time recording exercise in recent years and cost recovery estimates are based on the professional judgement of the service manager (**see recommendation 5**).

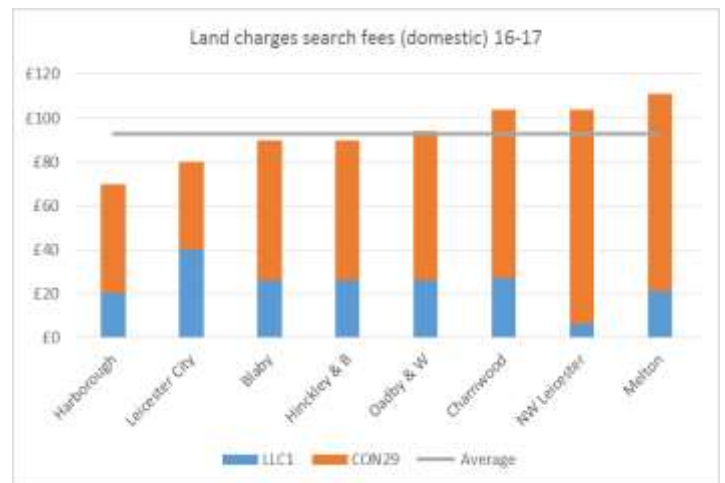
Land charges

Fees are set on a full cost recovery basis. However, whilst there is a separate trading account for land charges, the budget holder stated that not all costs are allocated to the account. Consequently, it is not possible to accurately determine the current level of cost recovery.

In order to set the 2016/17 fees, costs have been estimated based on a combination of budgeted costs and the service manager’s professional judgement of the amount of staff time spent on the activity. Total costs are then divided by the estimated number of searches to determine individual search fees. A time recording exercise was undertaken a number of years ago but has not been repeated recently (see recommendation 5). Internal Audit was advised that cost allocations are currently being reviewed.

Testing was therefore limited to checking the budgeted figures to supporting evidence and the accuracy of the apportionment calculations. No errors were noted.

There is no formal benchmarking of search fees, although officers do have access to fees charged by other Leicestershire Councils, which indicates that Harborough fees are relatively low. There are no concessions or discounts in respect of land charges.



The Council does not currently have a corporate concessions or discounts policy (see recommendation 1) and in most cases no discounts or concessions are offered. For those minority of services that do offer discounts and concessions (e.g. collection of bulky waste, car parking permits etc.), the basis and rationale for the decision is not clearly evidenced. In addition, one budget holder stated that there is a lack of consistency of approach across the Council (see recommendation 9)

Based upon these findings, the rating for the design and operation of controls in respect of this risk is **sufficient assurance**.

3. Action Plan



The Action Plan at Appendix 2 provides a number of recommendations to address the findings identified by the audit. If accepted and implemented, these should positively improve the control environment and aid the Council in effectively managing its risks.

4. Limitations to the scope of the audit

This is an assurance piece of work and an opinion is provided on the effectiveness of arrangements for managing only the risks specified in the Audit Planning Record.

The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.



Example Fee Review Form

Appendix 1

REVIEW OF FEES/CHARGES 2016-17									
Note: Budget holders are expected to comply with the Council's corporate fees and charges policy / principles. In particular:									
<ul style="list-style-type: none"> • Fees and charges to be increased in line with the corporate inflation assumption as a minimum - for 2016/17 this will be X% • Where fees are set on a cost recovery basis, charges will normally be set to recover 100% of costs. Any subsidised services require clear justification. • Where fees are set on a full commercial basis, the objective should be to maximise income (benchmarking and activity analysis are compulsory). • Any concessions should be consistent with the Council corporate policy to • Statutorily set fees and charges will be set in accordance with the legislative provisions. 									
Service:			Account Code:			Budget Holder:			
What are the financial objectives of the charging policy. Please select.									
Commercial Charges	<input type="checkbox"/>	Free	<input type="checkbox"/>	Subsidised	<input type="checkbox"/>				
Full Cost Recovery	<input type="checkbox"/>	Statutory	<input type="checkbox"/>						
Which corporate/service objectives impact on the charging policy?									
What is the legal basis for making a charge?									
Who are the users of the service?									
What is the current financial position of the service area?									
		2015-16							
		£							
Direct Costs 2015-16									
External Income:									
Contribution to overheads/Council Funds				0					
Recharges from other services									
Recharges to other services									
Net subsidy/contribution to Council funds				0					
Service Provided	Existing Fee/Charge	Effective Date of Last Increase	Annual Income	Annual Usage	Concessions	Recommended Fee/Charge 2016-17	Additional Income 2016-17*	%	
How will the proposal contribute to the achievement of corporate/service objectives? (Particularly any subsidy provided).									
What impact will the proposal have on the use of the service ?									
What is the reasoning for the recommended fee/charge structure? (Include reference to any consultation, user surveys, benchmarking etc. Benchmarking is mandatory for commercial or subsidised services).									
I confirm that all statutory fees have been checked and remain consistent with the relevant statutory or regulatory requirements and that any concessions are consistent with the Council's corporate policy.									
Completed by:			Signature:			Date:			

Appendix 2

Action Plan

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
<i>Risk 1: Overall governance arrangements are weak or ineffective.</i>						
R1	Whilst a number of over-arching principles are set out in the Council's MTFS and operating model, there is no specific fees and charges policy. In addition, only limited guidance is provided to budget holders when reviewing fees and charges as part of the annual budget cycle. This increases the risk of inconsistent approaches and failure to achieve the Council's corporate objectives.	Develop a formal fees and charges policy for consideration and approval by Members. The policy should include: the Council's overall objectives for charging; its approach to cost recovery and subsidies; a framework for determining any concessions; use of benchmarking to inform pricing decisions; and a clear governance structure setting out roles and responsibilities for review, amendment and approval of charges. Annual budget setting guidance should refer to the key principles of the policy.	The Council's Financial procedure rules and budget process ensure that fees and charges are calculated and published A formal policy will be developed A fees and charges will be drawn up in time for the setting of fees and charges for 2018/19, scheduled for the Autumn 2017	Medium	Financial Services Manager	30/09/17
R2	Testing found that most fees had been formally reviewed and approved, although there was no evidence of formal approval of building control or trade refuse fees.	The annual budget setting cycle, controlled and coordinated by the finance team, should include arrangements to ensure that all charges are reviewed and approved on an annual basis.	Fees and Charges template to be used for the 2017/18 budget and referenced to the published fees and charges schedule approved by Council	Medium	Financial Services Manager	31/03/17
<i>Risk 2: Statutory fees are not set in accordance with the relevant statutory or regulatory notices.</i>						
R3	Testing confirmed that all statutory fees were consistent with the relevant statutory provisions, although controls could be strengthened by including formal confirmation from budget holders as part of the annual review process in future.	The annual review of fees and charges should include formal confirmation from budget holders that all statutory fees have been checked to confirm that they remain consistent with the relevant statutory and/or regulatory	Fees and Charges template to be used for 2017/18 budget along with evidence of the statutory fee	Low	Financial Services Manager	31/03/17



Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
		requirements.				
<i>Risk 3: Discretionary fees are not set on a fair and transparent basis in accordance with local policy requirements and/or any statutory constraints, where applicable.</i>						
R4	The approach to setting fees and charges varies across the Council and is not always clearly documented. Consequently, it is currently not possible to clearly demonstrate that pricing decisions are consistent with the Council's corporate objectives.	As part of the annual review process, budget holders should be required to provide evidence to the finance team that all fees have been reviewed in accordance with corporate policies and principles regarding inflation assumptions, income maximisation, cost recovery, commercial considerations and any concessions. This information should also be provided to Members as part of the annual approval process (see example form at Appendix 1).	Fees and Charges template to be used for the 2017/18 budget and referenced to the published fees and charges schedule approved by Council Portfolio Challenge Session on fees and charges for 2018/19 to be initiated	Medium	Chief Finance Officer	31/03/2017 31/12/2017
R5	There is some use of trading or memorandum accounts to demonstrate cost recovery, but costs are not always fully or accurately allocated. Cost recovery information is not provided to members as part of the annual fee approval process. This increases the risk of over or under-recovery of costs and potential legal challenge.	Arrangements should be made to ensure that all costs are accurately identified and allocated to relevant accounts. Where costs are allocated based on staff time, this should be supported by ongoing or regular sample time recording exercises. The budgeted net surplus or deficit should be reported to Members as part of the annual review and approval process (see R4 above).	Recharges have been reviewed during 2016/17 and will be integrated into the Council's budget reporting process. Annual refresh of recharge drivers to be initiated It is not proposed to implement individual trading accounts as for many services there will be a number of fees and charges relating to one cost centre. Individual queries will be investigated through the use of the Council's collaborative planning system.	Medium	Chief Finance Officer	31/03/2017 31/12/2017

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
R6	All budget holders interviewed recognised the importance of market intelligence (e.g. benchmarking and user surveys) in informing tariff design. However, where benchmarking information has been used the process is largely informal and not documented.	For all fees and charges set on a full commercial or subsidised basis (where the subsidy is linked to perceived market conditions), annual benchmarking should be mandatory. Budget holders should be required to formally evidence and submit benchmarking information together with any other market intelligence (e.g. user surveys) as part of the annual review process. They should also be required to explain and demonstrate how market information has influenced pricing decisions.	The inclusion of Market intelligence information will be reviewed. This will be piloted for a number of fees and charges and if informative will be incorporated into the fees and charges template for the 2018/19 budget	Low	Financial Services Manager	31/12/2017
R7	The Council's operating model states that service users, where able to do so, are expected to pay for the services they receive. There are some services that continue to be provided free of charge, although these are not formally reported to or approved by Members.	As part of the annual review of fees and charges, budget holders should be required to provide a summary of all services that are currently provided free of charge, together with details of the reasons for not charging. The list should be approved by Members as part of the annual budget approval process.	A review of all service areas will be undertaken to identify services provided to the public and third parties to identify whether they are chargeable or not. This process will be documented However, only chargeable services will be considered and approved by Members as part of the annual budget process	Low	Financial Services Manager	31/12/2017
R8	Testing identified that trade refuse fees were calculated on cost recovery basis but original calculations had not been retained.	For trade refuse and any other fees that are calculated on a cost recovery basis, detailed costings should be prepared and updated on an annual basis to determine the baseline fee, prior to application of any adjustments to reflect market conditions or other relevant	Agreed	Medium	Financial Services Manager	31/12/2017



Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
		factors.				
R9	There are relatively few discounts or concessions offered by the Council, but the lack of a concessions policy increases the risk of inconsistency and failure to achieve the Council's objectives.	Following establishment of a corporate policy (see R1), future annual fee updates should include a review of any existing discounts and concessions to ensure that a consistent approach is applied across the Council and the need for any new or modified schemes is considered.	Agreed	Low	Chief Finance Officer	31/03/2018

Appendix 3

Glossary

The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean.

Level	Design of Control Framework	Compliance with Controls
SUBSTANTIAL	There is a robust framework of controls making it likely that service objectives will be delivered.	Controls are applied continuously and consistently with only infrequent minor lapses.
SUFFICIENT	The control framework includes key controls that promote the delivery of service objectives.	Controls are applied but there are lapses and/or inconsistencies.
LIMITED	There is a risk that objectives will not be achieved due to the absence of key internal controls.	There have been significant and extensive breakdowns in the application of key controls.
NO	There is an absence of basic controls which results in inability to deliver service objectives.	The fundamental controls are not being operated or complied with.

Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority	Impact & Timescale
HIGH	Management action is imperative to ensure that the objectives for the area under review are met.
MEDIUM	Management action is required to avoid significant risks to the achievement of objectives.
LOW	Management action will enhance controls or improve operational efficiency.