

## Appendix III



Belfast City Council

Commercial & Procurement Services

'Setting Prices - Getting it Right' - guidance document

FOR INTERNAL PURPOSES ONLY



**Belfast  
City Council**

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# 1. Introduction

Introducing or increasing/decreasing charges (or fees) is a complex exercise and needs to take into account many factors.

This document will take you, as a Council officer, through each of these factors. But first, there are some key questions that you should initially consider when establishing or amending charges or fees.

Figure 1.1: Key Questions



*Importantly, charges should not be set in isolation.*

## 2. How does it fit with our Strategic Priorities?

Whether we decide to introduce or increase/decrease a charge is a significant strategic policy decision. At its most basic, introducing or increasing/decreasing charges will influence whether people use our services.

Whether we decide to introduce or increase/decrease a charge is a significant strategic policy decision. At its most basic, introducing or increasing/decreasing charges will influence whether people use our services. The diagram below illustrates some examples.

Figure 2.1: Charges influence whether people use our services

		
A strategic priority to enhance residents' health and wellbeing (which is one of the desired outcomes set out in the Belfast Agenda) may be adversely impacted by introducing or increasing charges on leisure or recreation activities/attractions, such as sports fields/pitches or swimming pools.	City centre car parking charges may be set high to influence our sustainable transport aspirations but in doing so they may generate an income. This could potentially be reinvested in, for example, leisure or recreation activities/attractions.	An image of quality and 'something to value' can be created by introducing a charge/fee. This can, in turn, have a significant impact on how people use a service and the corresponding benefit they may derive from it.

*As the examples illustrate, charging is not just about generating income.*

### Questions to ask...



- Have you read the Council's Pricing Policy to ensure that the proposed introduction or increase/decrease of charges complies with it?
- Is there a clear rationale for introducing or increasing/decreasing a fee or charge e.g. increase/decrease demand, influence behaviour, enhance quality etc.?
- Do you understand the actual and potential income streams and the opportunities that exist?
- Will the introduction or increase/decrease of charges adversely impact upon the delivery of the Council's (or a specific department's) strategic priorities?



### 3. Are we legally allowed to charge?

The Council cannot introduce or raise charges indiscriminately. We need to carefully consider the legal position in setting charges and be clear that what we are doing is in accordance with our legal powers and duties.

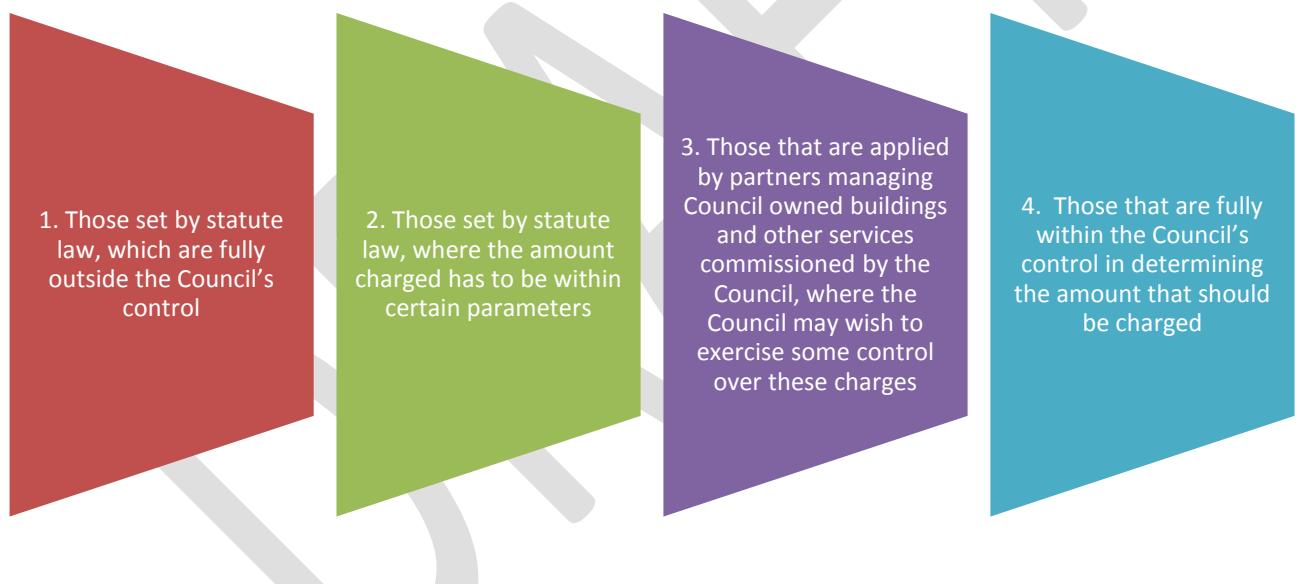
[Part 11 of the Local Government Act \(Northern Ireland\) 2014](#) outlines the General Powers of Councils, which includes:

- Council's general power of competence;
- Boundaries of the general power;
- Limits on charging in exercise of general power;
- Powers to make supplemental provision; and
- Limits on power conferred by section 82(1).

This provides a starting point, but you should be aware that there are also individual pieces of legislation (or acts) that usually take precedence e.g. in relation to leisure services, burials and cremations etc.

The Council's fees and charges fall into 4 main categories, as illustrated below:

Figure 3.1: Fees and charges - 4 main categories



#### Questions to ask...



- Do you need to seek opinion from Legal Services?
- Is the Council legally allowed to set, increase/decrease or introduce charges?
- Will the decision to introduce or increase/decrease charges adversely affect individuals from an equality perspective; impact on the provision of services; and/or impact on the Council's ability to meet its statutory responsibilities?
- Do you know whether we can make a surplus?
- Have you considered how surpluses will be dealt with?



# 4. How do we determine the costs?

## Introduction

For many services, charges are based on precedents and do not reflect the actual cost of providing the service. Keeping charges low is often influenced by a conscious decision to support and encourage usage and to, for example, ensure those on low incomes are given the opportunity to access and use services.

However, only by fully understanding how much it costs to deliver a service can Council officers consider:

- What fee or charge could be set?
- What the strategic impact of our decision is likely to be on the service and those that use it?
- What level of subsidy is appropriate to provide for the service?

Some departments may apply a standard percentage increase in charges across all services (e.g. inflationary increases year-on-year), whilst others review and agree on changes on an individual service by service basis.

Treating all services exactly the same and setting flat rate increases in charges has the benefit of being easier to administer. Furthermore, there is evidence to suggest that charges for similar services or activities should be consistent across the Council area.

However, such an approach does not provide adequate assurance that we have considered the potential impact of a decision strategically.

*Knowing the full cost of delivering a service is the starting point when building a case to seek approval to introduce or increase/decrease charges.*

## Direct and Overhead/Indirect Costs

Most crucially, Council officers need to understand the full costs involved in delivering the service under consideration, which typically includes direct and overhead/indirect costs, as depicted below:

Figure 4.1: Direct costs

### Direct costs

Costs that can be readily and unequivocally attributed to a service/activity because they are incurred exclusively for that particular product/activity.

- Direct employee costs (including NICs and superannuation).
- Payments to third parties, contractors, service providers etc.
- Materials and supplies e.g. spare parts, inventory, fuel etc.
- Depreciation or lease costs of specific purpose buildings, vehicles, computer and other equipment used directly in delivery the service.

Figure 4.2: Overhead/indirect costs

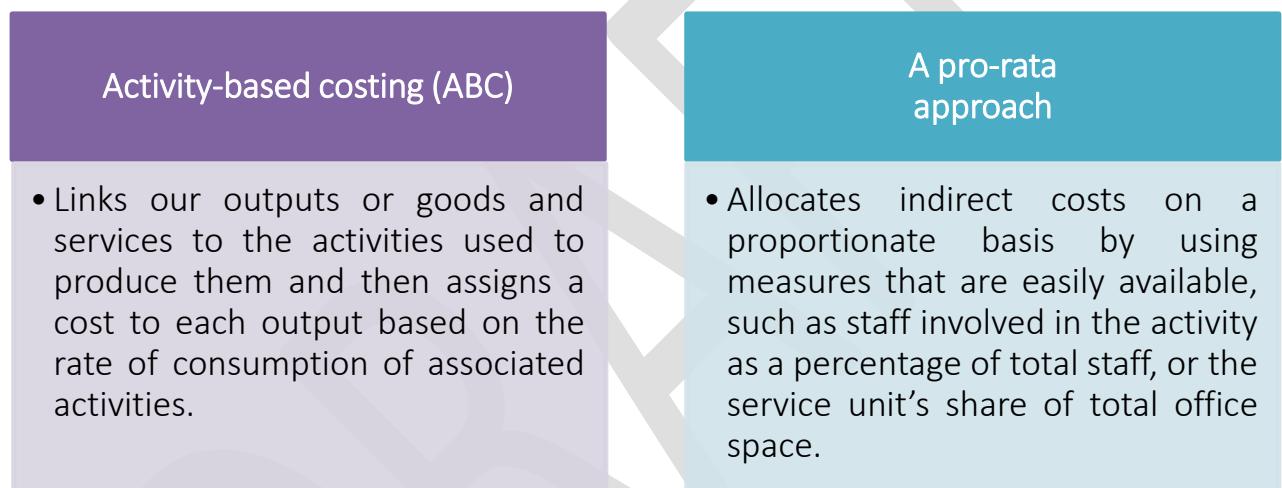
## Overhead / Indirect costs

Costs that are not directly attributable to an activity, but which are incurred in the provision of the service.

- HR, legal, ICT, property, finance, ICT and marketing and communications.
- Other employee costs.
- Materials and supplies.
- Office and accommodation costs.

Understanding overhead/indirect costs can be a challenge, but it is important to understand these if costs are to be fully recovered. That said, in the case of small-scale services, it may be appropriate to use estimates for allocating indirect costs rather than developing elaborate cost accounting systems. Internal overhead re-allocations/re-charges may also be applicable. Two widely used methods for allocating indirect costs are:

Figure 4.3: Two methods for allocating indirect costs



## Administering charges

Council officers need to also consider how charges will be collected, what an acceptable cost for administering and collecting income is, and how easy it will be to collect the charge.

For example, in practical terms, it may not be worthwhile to charge for services where the cost and complexities of the collection are more and/or take longer (or are waived where large-scale concessions apply) than was previously the case.

There are also a range of direct and indirect costs involved in collecting a charge e.g. administration, ticketing and equipment to collect charges, managing non-payment and arrears and bad debts etc. We may offer a wide range of payment choices and promote options that have the lowest transaction costs for customers and for us.

When introducing new charges/fees, there may be opportunities to both increase the use of digital, online and smartphone applications, as well as increase the use of external providers to improve efficiency further. Technology may also have a role to play in improving payment security and reducing transaction costs. Innovative ways to pay for services may include payment via authority websites, payment using mobile phones (e.g. for ticketless parking) etc.

## Questions to ask...



- Do you know how much it currently costs to deliver the service in full?
- Do you know how much the Council currently subsidises the service by?
- Is the Council seeking full or partial cost recovery (cost recovery relates to recouping a portion, or all, of the costs associated with delivering a service)?
- Do you need to seek assistance from your department's Business Support or Management Accounts?
- Do you know what the current demand for the service is?
- Is there sufficient capacity and/or resources to implement the fee/charge?
- Does the Council have the ability (technology, systems, human and financial resources) to implement and manage charges in areas not previously charged for?
- Does the cost of implementing collection systems outweigh the potential income that will be raised?



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## 5. Are there alternative providers and what do they charge?

Council officers should undertake benchmarking analysis with comparable services offered by other Councils (in Northern Ireland and/or Great Britain) and other service providers to compare their proposed charges and prices. This should serve as a starting point to inform your decision making and allow you to identify any significant variations and to take these into account when setting your charges.

A key principle is that proportionate effort should be applied. This means that the resources to be devoted to this exercise should be in proportion to the scale or importance of the objectives and resource consequences under consideration.

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*A note of caution, this does not mean simply mirroring charges/fees elsewhere, as local circumstances are likely to vary.*

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Importantly, Council officers should be aware of any unexplained inconsistencies and should be able to explain any significant variations in charging e.g. due to cost differentials, service quality or policy etc.

The phenomenon of '**me-too**' pricing can be a common reaction of some Council officers that prefer to copy others, rather than to take steps to understand how the users of their service(s) think and behave. Such narrow benchmarking can mean that opportunities are missed.

### Questions to ask...



- Are there competitors/alternatives to the Council who could provide the service?
- Is there potential to deliver services jointly with another Council or provider to reduce overheads?
- Have you benchmarked costs to determine the scope for increasing charges?
- Have you benchmarked the likely impact of introducing or increasing/ decreasing charges?
- Could the Council stop providing the service without this decision impacting adversely on its statutory responsibilities?
- Is there a commercial advantage for the Council providing this service?



# 6. How do we treat concessions?

Concessions are a means for us to offer discounted fees and prices to particular individuals or groups, without having to limit standard charges. Some groups are widely recognised as being eligible for concessions e.g. children, people 60+ years old, adults on low incomes, individuals with a disability, students etc. Others include community groups and service veterans.

This can help us to achieve our policy aims e.g. to promote social inclusion by encouraging minority or hard-to-reach groups to use services.

Charging and concessions should be considered together when designing pricing structures for a service.

*Importantly, policies for charging and for concessions should be consistent and integrated.*

The images below set out the typical considerations that may apply to you:

Figure 6.1



Figure 6.2



Figure 6.3



Figure 6.4



Figure 6.5

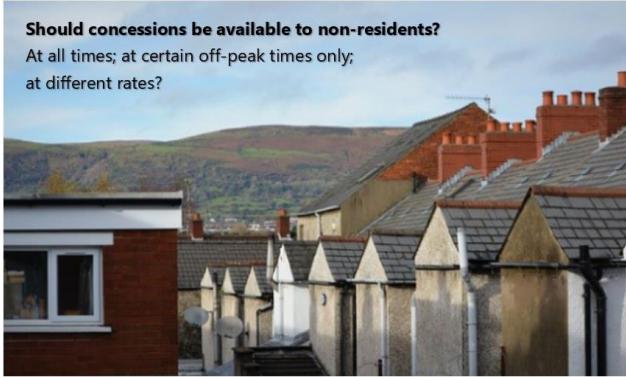


Figure 6.6



Figure 6.7



Equality of opportunity and the promotion of good relations are central to the Council's Corporate Plan and the implementation of the Belfast Agenda. As part of our continued commitment to these, and to aid compliance with our responsibilities as a public authority under Section 75 of the Northern Ireland Act 1998, Council officers should ensure that, where appropriate, Equality Screening and/or a Rural Needs Impact Assessment are conducted in line with the Council's policies and procedures.

## Questions to ask...



- Have you considered the use of concessions?
- Have you considered how to treat non-residents?
- Do you need to change eligibility?
- Have you communicated eligibility criteria to service users?
- Is there a requirement for Equality Screening and/or a Rural Needs Impact Assessment?



# 7. What will the impact be on services, users and citizens?

Traditional economic theory suggests that a service is subject to an 'elasticity of demand'. That is:

- Increasing prices will typically lead to a situation where there is a corresponding decrease in demand (alongside potential increases in income, if the charges are being introduced rather than being increased).
- Conversely, reductions in price will typically increase demand, potentially resulting in the service becoming financially unsustainable.

There is, therefore, a careful balancing act.

In determining the level of charge (and subsequently reviewing it), it is important that there is appropriate consultation with actual and potential service users in order that there is an understanding of the relationship between service use and charges.

Service users are more willing to pay charges where they see that they are getting Value for Money. Council officers may also need to take into account local socio-demographic factors, such as the level of social deprivation, average weekly earnings etc., as users' ability to pay is an important consideration in setting charges.

Council officers must ensure they can:

- Provide transparency and accountability of the charge introduced or increased/decreased.
- Explain the context of the charge e.g.
  - How it has been determined;
  - The basis upon which charges have been calculated;
  - Set out the context within which the charges are being considered; and
  - What the income will be used for.
- Demonstrate that the Council has considered the impact of charges on different members of the community.
- Provide thorough market research on what other Councils are doing, what they are charging and what other private and voluntary bodies are doing in the same or similar markets.
- Demonstrate that the end user is obtaining Value for Money.

There is a risk that by increasing charges without proper consultation, the Council may actually lose income by pricing users out of the market.

There may also be a reluctance among some Council officers to engage with service users and local communities on planned changes, especially where there are political sensitivities and perception of difficulties around the introduction of charges. Councils which have experienced a negative public or media reaction to new or increased charges are often reluctant to tackle the issue again, and consequently choose not to introduce or increase charges.

*Charging for a service could be controversial and unpopular. Taking the time to adequately consult with the market and stakeholders can often help to mitigate against such issues.*

## Questions to ask...



- Have you consulted with Elected Members, users, visitors, residents, third-sector partners and businesses within the area in relation to, for example, provision of the service, the introduction or increasing/decreasing of charges, changes to the eligibility criteria etc.?
- Will the decision result in an increase/decrease in usage i.e. levels of demand?
- Will the decision have a positive/negative impact on user's behaviour?
- Will the decision result in the service improving e.g. improvement in quality, quicker response times etc.?
- Do you know what the likely impact of the decision to introduce or increase/decrease charges will be on services, visitors/users, stakeholders, businesses and the authority in the medium to long term e.g. on household incomes, the local economy etc.?
- Do residents of the Council have the economic capacity to absorb an introduction or increase in charges?
- Is the Council decision likely to result in unintended consequences?
- Have you considered the political risks?



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## 8. How do we monitor and review activity?

The absence of monitoring and evaluation, particularly of the impact of charges on users, creates an 'information vacuum'. Consequently, it comes as no surprise that charging decisions, and the design of charges, can become dominated by 'myths' and 'misconceptions', as depicted by the examples below:

Figure 8.1: 'Myths' and 'misconceptions'



All charges under the Council's remit should be reviewed annually as part of the rate setting process. As part of the annual review, an appropriate increase or decrease should be included for factors such as inflation, the full cost of providing the service and any supporting services, current market rates, the Council's strategic policies etc.

The annual review should, where it is cost effective to do so, collect and use information on who is and is not using the service, and how service users and potential or non-users respond to changes in service charges. Any changes to Government policies in respect of charging should be adhered to and appropriate transitional arrangements put in place.

The decision regarding the level and basis of calculation of charges should be transparent and open to scrutiny. Any significant increases in charges should be introduced over a period of time to reduce the impact on service users.

Monitoring and evaluation does not have to be complicated or to involve expensive market research or consultants. Many departments may already collect useful information which will help them to see how users react to changes to charges or to the behaviour of competitors, such as information collected:

- As part of contract monitoring;
- Through one-off surveys; or
- Through computerised systems e.g. those at leisure/recreation provision that provides usage of a facility by type, by length of time, by day/frequency etc.

Nonetheless, it may be necessary to supplement the above with specific market research in order to probe aspects of user behaviour, including:

- To determine how important price is in the context of other factors;
- To identify how much users value different aspects of a service; or
- To understand how target groups behave and think.

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*A Council that fails to review and revise charges is often delaying the inevitable and continuing to fail to address the issue could result in far worse outcomes such as service closure or greater price rises in the future.*

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## Questions to ask...



- Can you collect the information you need to review the activity?
- Have you agreed on an appropriate timescale (at least annually) to review your decision to introduce or increase a fee or charge and is this happening?
- Have you agreed on an appropriate range of measures to be able to understand the impact of introducing or increasing/decreasing charges?
- Can you benchmark performance with other organisations?



## 9. What is the 'right' price to charge?

Each time a Council officer reviews its charges, they are faced with the same question - 'what is the right price?' i.e. what charge should be levied to the end user for the service provided.

This seemingly straightforward question masks a deceptively complex challenge. Experts in the private and public sector have been unable to provide simple answers or even a converging view on the problem. They come at the problem from different perspectives, all of which have their merits.

The nature of Councils brings additional complications that do not face a private sector organisation. We pursue a wide range of objectives. We have a unique role as both commissioners and providers of a wide range of services. For some services, we are the only provider and have a geographical monopoly. For others, we compete openly with the private sector for custom.

Council officers are faced with a difficult judgement about which factors (depicted in the diagram below) should be given most weight. They need to balance the pros and cons of different charging options, and to prioritise competing, often incompatible, objectives and priorities. These complications ultimately make it difficult for Council officers to decide what the 'right' price is.

Figure 9.1: What is the right price?



In general, charges are simply rolled forward relatively unchanged each year.

Despite the above, most charges are driven by the annual budget cycle. This typically results in an incremental approach to charging, which means we simply increase charges year-on-year in line with inflation. This is, on occasion, disrupted by crises, as we take action to attempt to meet a specific budget shortfall.

When charges are reviewed, this budget-driven approach means that the focus of the charge-setting tends to be based on the total income figure. The link, therefore, between charging and the objectives of service delivery are not made, with the result that decisions are made in isolation from their effects on users e.g. low-income users may be left facing charges that they simply cannot afford.

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*The best charging models make it clear that services cannot be developed in isolation from the user.*

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As outlined in this document, responses from user surveys and wider consultation, alongside other analysis such as benchmarking and understanding the full cost of the service, should help inform the determination of charges for specific services.

In cases where a material increase in the level of charge is proposed, it may be appropriate to give consideration to transitional arrangements. These may involve, for example, phasing in a change over a period of time to avoid undue financial hardship to particular groups. In such cases, the impact on the overall income received by the service should be clearly set out.

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# 10. Charging - Pros & Cons

The key pros and cons to charging are summarised below:

Figure 10.1: Pros and Cons

Pros	Cons
<ul style="list-style-type: none"><li>Charges can be linked to corporate policies such as the environment or the health and wellbeing of individuals.</li><li>Charging has the power to affect the way that our services are delivered e.g. it can facilitate or deny access to services, change residents/users' behaviour and/or enable us (via any income generated) to develop and improve our services in response to the needs of users.</li><li>There is a clear link between the payment of the charge and the consumption of the service.</li><li>Charges are transparent. The customer knows the cost of availing of the service and can, therefore, judge whether it provides value-for-money.</li><li>Conservation on the part of both the consumer and the local authority is encouraged.</li><li>An image of quality and 'something to value' can be created by introducing a charge.</li></ul>	<ul style="list-style-type: none"><li>The perception of 'double taxation' i.e. Council taxes/rates plus charges.</li><li>Charges are not always easily linked to individuals' ability to pay.</li><li>On occasion, it is difficult to assess the true cost of the service and/or the actual level of consumption.</li><li>On occasion, charges can be difficult to collect.</li><li>Many consider it morally wrong to charge for public services.</li><li>For some services that are generally used by a large cross-section of the community, it is often impractical or unacceptable to introduce charges.</li></ul>

# 11. Recap of the process...

A summary of the process is depicted below.

Figure 11.1: Establishing Prices – An overview



## 12. Contact Details

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For more information or assistance with any queries, please feel free to get in touch with Michael.

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## 13. Feedback

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Please feel free to click on the image below to provide some feedback on the information and guidance provided in this document.



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