

Public services

National report

January 2008

Positively charged



Maximising the benefits of local public service charges

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Summary

Charging for local services makes a significant contribution to council finances.

- In 2006/07, councils in England raised £10.8 billion from charges for services, not including housing rents. This was around 8 per cent of their total income and about half as much as they raised in council tax.
- County councils collect the most charging income, but it is for district councils that charges make the greatest contribution to service delivery; equal to nearly one-fifth of total service expenditure.
- Over a quarter of councils generate more income through charging than they do through council tax.
- Education services, such as school meals and transport; social services, such as homecare; and highways and transport services, such as parking, account for over half of all income raised through charges.

Councils also use charging to influence individuals' choices and behaviours, to bring other benefits to local communities.

- Charges can be set to encourage or discourage people to use services and, through concessions, to target services at particular groups.
- They can also be used to ration services and other resources where demand is high or where overuse is deemed undesirable.
- Councils have used charges and concessions to pursue local objectives, such as encouraging recycling and composting; reducing congestion; and promoting participation in sports and leisure activities by target groups to reduce health inequalities.

In choosing how charges are used, councils and central government make an important political decision – which users should pay for which services and which services should be subsidised by taxpayers.

- Councils in similar circumstances make very different decisions about which services to provide and whether, and at what level, to charge for and subsidise services.

- As a consequence, households in different council areas can pay different amounts for essentially the same services. Councils can minimise local concern about such variations by explaining the reasons for them and involving local people in the decision-making process.
- For councils as a whole, there is no relationship between income from charging and levels of council tax, although many councils report using charging to minimise council tax increases.
- There is no clear relationship between councils' income from charging and, either overall council performance, or levels of local deprivation.

Councils do not always make the most effective use of their charging powers.

- Only one in five councils believes it uses charging to its full potential.
- Powers introduced in 2003 to charge for discretionary services have remained largely unused by councils.
- Nearly half of all councils have no agreed policy to guide their decisions on the use of charges.
- Local politicians' decisions on charging are often ill informed. Budget information is mostly presented to councillors net of charging income, making it difficult for them to see the contribution to spending and at what level services are being subsidised.
- Decisions on levels of charging are most often driven by corporate income targets, historic charges and by levels in neighbouring councils rather than knowledge of the likely impact on use of services.

The flexibility to use charges to meet local challenges is limited by centrally imposed restrictions.

- Central government sets the level of some charges and restricts the extent of charging in other areas.
- The rationale for these restrictions is not always clear to councils or the public.
- Councils' scope to use charges flexibly to meet local circumstances is limited because of concerns about geographic variation in charges.

Councils' perceptions of local opposition to charges are not always backed up with robust evidence.

- The public is more receptive to charging for some services than is often assumed. People are more willing to pay charges where they can see what they are getting for their money and have a degree of choice.
- People believe they get value for money from almost all of the local authority services for which they pay charges.
- A lack of public understanding about the levels of subsidy councils provide or the purpose of charges undermines public confidence that charges are being used well.

Councils will need to change their approaches to charging if they are to use it to achieve their financial and strategic objectives.

- Councils need to understand better the likely impact of charges on users, and on patterns of service use.
- They need to communicate better about the purpose of charging, and be accountable for their charging decisions.

The Audit Commission will provide tools to help councils assess their use of charging and the impact of particular charging patterns on different households. Additionally, from 2009, the Audit Commission's use of resources assessments will take account of how councils and other public bodies are using charges.

Recommendations

Councils should:

Undertake regular reviews of their approaches to charging, both within service areas and across the whole council.

- Finance managers should ensure that the income from charges, and the level of subsidy this provides for service areas, are transparent for councillors and inform the decision-making process.
- Service managers should, where it is cost effective to do so, collect and use information on who is and is not using services and how service users and non-users respond to changes in service charges.
- Finance and service managers should thoroughly understand the costs, including overhead and capital costs, of services for which charges might be applied.
- Service managers should, wherever possible, benchmark with the public, private and voluntary sectors not only the level of charges made for services but the costs of service delivery, levels of cost recovery, priorities, impact achieved and local market variations.
- Councillors and managers should understand better the non-financial contribution of charging to service and strategic objectives.

Engage service users and taxpayers more in decisions about whether and at what level to charge for services.

- Councils should describe the financial and non-financial contribution of charging and rationale for levels of subsidy for services to local people.
- Councils should include questions about charges in their consultations on services and on council finances.
- Councillors should regularly debate charges and charging policy.
- Councils should make the case for charging as a means of achieving council objectives.

Collect and use information on service usage and the take-up of concessions, and examine the impact of charges on individual households, to assess whether their equality and diversity objectives have been achieved.

Central government should:

- Periodically review the rationale for national charging frameworks, including nationally set fees.
- In doing so, it should consider the effectiveness of national frameworks in achieving their objectives, and their impact on councils' flexibility to use charges to meet their local objectives.

The Audit Commission will:

- Provide tools to help councils assess both their use of charging and the impact of particular charging patterns on different households.
- Use the findings from this study in developing the annual use of resources assessment.
- Continue to share notable and innovative practice related to charging with the local government community.

1

Introduction

- 1 The decisions made by councils and central government about charging for local public services affect everyone. Where councils charge for services, users pay directly for some or all of the costs of the services they use. Where no charges are made, or where charges do not recover the full cost of providing a service, council taxpayers subsidise users.
- 2 This report presents the findings from research, undertaken by the Audit Commission during 2007, into councils' use of their powers to charge for services. It will be of particular interest to councillors, in both their executive decision-making and scrutiny roles, and to finance and service managers with responsibility for the implementation of councils' approaches to charging.
- 3 The aims of the research were:
 - to assess the contribution of charging to the funding, efficiency and strategic effectiveness of local government, and to participate in the national debate on these issues;
 - to help councils improve their approaches to charging to support their strategic objectives better; and
 - to examine the impact of charging on equity and to help councils manage this impact.

The findings are based on an analysis of central government data on local authority income from fees and charges in all service areas;^I interviews with councillors and officers at 13 councils; a survey of council finance directors; and research with the general public undertaken for the Audit Commission by Ipsos MORI.^{II}

- 4 We recognise that there are legitimate political choices to be made concerning which services are charged for and whether, as a result, some services are subsidised more heavily than others. We do not judge the choices that have been made by councils and central government about whether charges are made for particular services and at what level. Rather, we seek to help councils make the most effective use of charging powers to achieve their strategic objectives and to understand the impact of charging decisions on local people.
- 5 The study was primarily concerned with how councils use charges over which they have most discretion. It has excluded housing rents, which are strongly influenced by national

^I Excluding housing rents but including services provided to tenants and leaseholders.

^{II} Further details of the research undertaken to inform this report can be found in Appendix 1.

formulae. Though not a primary focus for the study, during the research several councils raised concerns related to charges that are set by central government; for example, in relation to planning applications, licensing or personal searches of the land charges register. The charging arrangements for these and other services have been the subject of extensive review and debate elsewhere and we have not examined their use in detail within this study. We do, however, consider in paragraphs 37 to 47 of this report the wider implications for councils and central government of nationally set charges and other restrictions imposed by the legislative framework on councils' freedom to charge for services.

6 The report is structured as follows:

- Chapter 2 identifies the importance of charging to the funding of local government and to the achievement of councils' strategic priorities.
- Chapter 3 considers the national and local factors that prevent councils making the most effective use of charging.
- Chapter 4 explains how charges can help councils achieve their objectives and what councils can do to get the most from the opportunities to charge for services.
- Chapter 5 suggests questions that can be used by councillors to examine their own council's approach to charging and identify areas for improvement.

7 To support councils seeking to improve their approaches to charging we have also developed the following resources to accompany this report:

- **Charging directory** – The directory provides practical examples from a range of councils of how they are using charges in pursuit of their objectives. The Audit Commission invites councils to submit further examples of how charging is helping to support the achievement of their objectives.
- **Household charges calculator** – The calculator can be used by councils to understand better the financial impact of service charges on different households. The calculator helps councils to model the total expenditure by households on council services and relates this to household disposable income.
- **Charging income comparison tool** – This web-based tool will help councils compare the income they generate from charges with that of other councils, and consider whether it is consistent with their strategic objectives.

These resources can be accessed via the Audit Commission's website at www.audit-commission.gov.uk/charging.

2

Why charging matters

‘Without charging there’d be a black hole in our budget.’ [Finance Director]

- 8 How councils spend money, and where that money comes from, are issues that ignite fierce debate. The use that councils make of their powers to charge for services is central to both issues: in setting charges councils determine not only the service users from whom they will generate income, but how they will spend money to subsidise services.
- 9 In 2005/06, total local authority income in England was just short of £138 billion. The majority of this, 61 per cent, was determined by central government and received by local authorities in the form of government grants and redistributed business rates. In local education authorities, a proportion of this central government funding is ringfenced for spending in schools. Thirty-two per cent of local authority income was generated locally, through council tax, fees and charges, commercial rents, investments and asset sales **(Ref. 1)**. Other income, such as grants from bodies like the Big Lottery Fund or Sport England, accounted for the remainder.
- 10 Many councils, and the bodies that represent them, believe that the funding they get from central government is insufficient to deliver the level of public services that local people want and need. The demands of an ageing population, rising costs of service delivery, increasing expectations from central government and the changing expectations of citizens as consumers of services are commonly cited as reasons why more funding from government is needed. Central government, on the other hand, has invested heavily in public services in the last decade and believes that greater efficiency is key to ensuring that resources are available to sustain and improve frontline services. From 2004/05 to 2007/08, in response to requirements from central government, local government is forecast to have delivered £3.3 billion of cash-releasing efficiencies, exceeding the target set for it **(Ref. 2)**.
- 11 From 2004 to 2007, the funding and functions of local government were subject to an extensive review led by Sir Michael Lyons. In March 2007, the Lyons Inquiry put forward a series of proposals on how local services could be financed differently in the future **(Ref. 3)**, but the government has ruled out radical reform of the local government finance system in the short term. With constraints on resources and rising demands on their services, councils have to make decisions about what services they can afford to provide, to which individuals or groups, and how the services will be funded. They are

increasingly looking to opportunities for local income generation to bridge the gap between what they want to spend and what central government provides.

‘We’re having to make really serious decisions, including something in the region of about 150 redundancies this year, to balance the books. So some of the charging is coming out of necessity rather than out of desirability.’ [Councillor]

- 12 Of the income over which councils have control, local people will most commonly recognise council tax as the means by which they contribute to funding and improving services. Collectively, local authorities raised £22.4 billion through council tax in 2006/07 (**Ref. 4**) but few would realise that local authorities collect half as much again through the charges they make for local services.
- 13 Charging makes an important contribution to funding a wide range of services provided by councils; for example, nursery and early years’ services, school meals, social care, transport services, pest control, sports and leisure, arts and heritage, car parking, planning and building control, licensing, and burials and cremations. The latest central government data show that councils generated £10.8 billion from fees and charges in 2006/07 (**Ref. 5**), around 8 per cent of their total income and equivalent to just over £210 for every person in England.
- 14 In over a quarter of councils, income from charges exceeds that from council tax. There is, however, no relationship between the level of charging and the level of council tax for local government as a whole, or for any particular type of council^I (**Figure 1**).
- 15 Councils do not have total freedom to raise income locally. Central government has powers to cap local authority council tax increases, and controls how councils charge for services such that:
 - councils can only charge for some aspects of services and not others, for example, they can charge for lending audio-visual material from libraries, but not for books;
 - some charges are set by central government, for example, fees for planning applications and alcohol and entertainments licenses; and others are set locally by councils, such as charges for leisure services or car parking; and

^I A breakdown of charging income relative to council tax for different types of council can be found in Technical Appendix 1 available at www.audit-commission.gov.uk/charging.

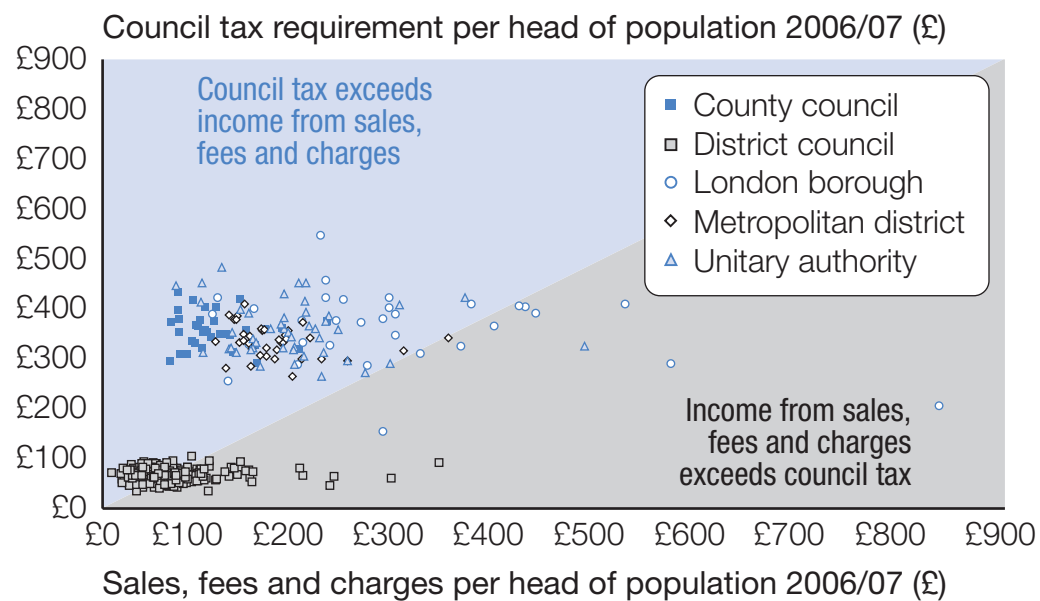
- in most cases, and especially in discretionary services, councils are restricted to recovering no more than the costs of service provision.

These controls affect some service areas more than others. As a result, the extent of charging in different service areas and the income generated varies enormously.

Figure 1

Charging and council tax income per head of population 2006/07

Charging income exceeds council tax in 114 out of 386 councils.



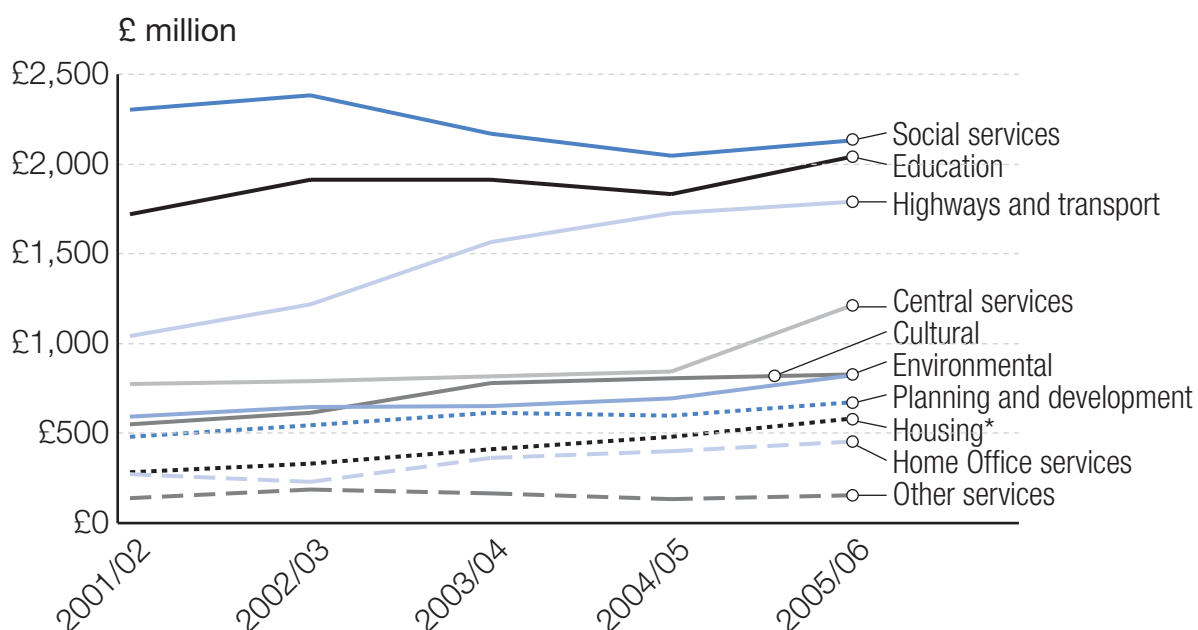
Note: Data not available for 2 councils. City of London not plotted (sales, fees and charges per head, £6,476.54; council tax requirement per head, £561.60).

Source: Local Government Finance Statistics: Revenue Outturn Service Expenditure Summary 2006/07 and Chartered Institute of Public Finance and Accountancy (CIPFA): Finance and General Statistics 2006/07

- 16 From 2001/02 to 2005/06, total charging income for local authorities increased by £2.5 billion (31 per cent) in cash terms – an increase of £1.9 billion (23 per cent) in real terms. However, as other local authority income increased proportionately, charging income remained at around 8 per cent of the total. Charging income increased in all service areas over this period, except social services where an overall reduction in income led to an increase in the level of service subsidy from other funding sources (**Figure 2, overleaf**).

Figure 2**Local authority income from sales, fees and charges by service 2001/02 to 2005/06**

Charging income increased in all service areas, except social services, over the period.



*General fund revenue account only.

Source: Local Government Finance Statistics 17: Table 2.5a

- 17** In 2006/07 three service areas accounted for 58 per cent of all councils' charging income:
- social services (£2.3 billion) – including residential care, homecare, daycare and meals;
 - education (£2.0 billion) – including school meals, adult education and early years provision; and
 - highways, roads and transport services (£1.5 billion) – including parking, public transport and road congestion charging.

However, the different responsibilities that councils have for service provision give rise to varying patterns of charging income across types of council. For example, in 2006/07, the majority of charging income for county councils came from just two service areas; social services (40 per cent) and education (36 per cent). By contrast, in district councils,

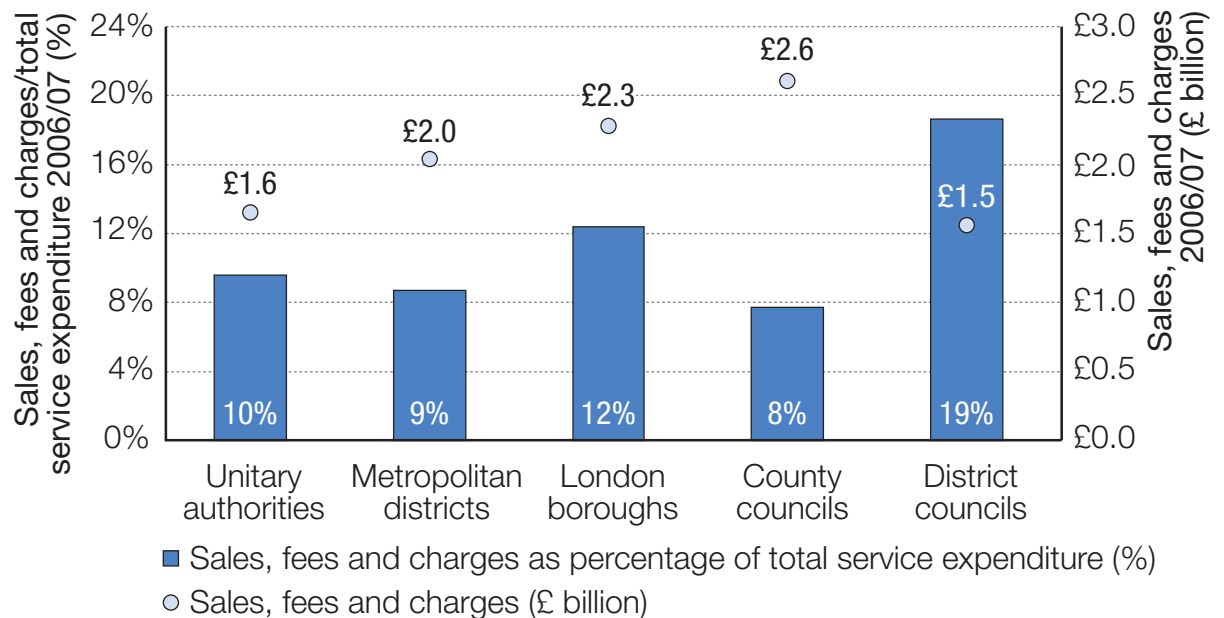
charging income was generated more evenly across a range of service areas.¹ Councils in which charging income is derived from a wide range of services will, inevitably, have to make a large number of decisions about charges. The fees and charges register for one district council details more than 450 individual charges determined locally. Where income is generated predominantly from a small number of services, fewer decisions will be necessary, although their financial significance may be greater.

- 18 County councils collected the largest proportion of charging income nationally in 2006/07, £2.6 billion collectively. District councils generated the smallest proportion, £1.5 billion, but for these councils it provided the greatest contribution to service delivery; equal to nearly one-fifth of their total service expenditure (**Figure 3**).

Figure 3

Charging income by council type 2006/07

County councils collect the most charging income, but it contributes most to service expenditure in district councils.



Source: Local Government Finance Statistics: Revenue Outturn Service Expenditure Summary Data 2006/07

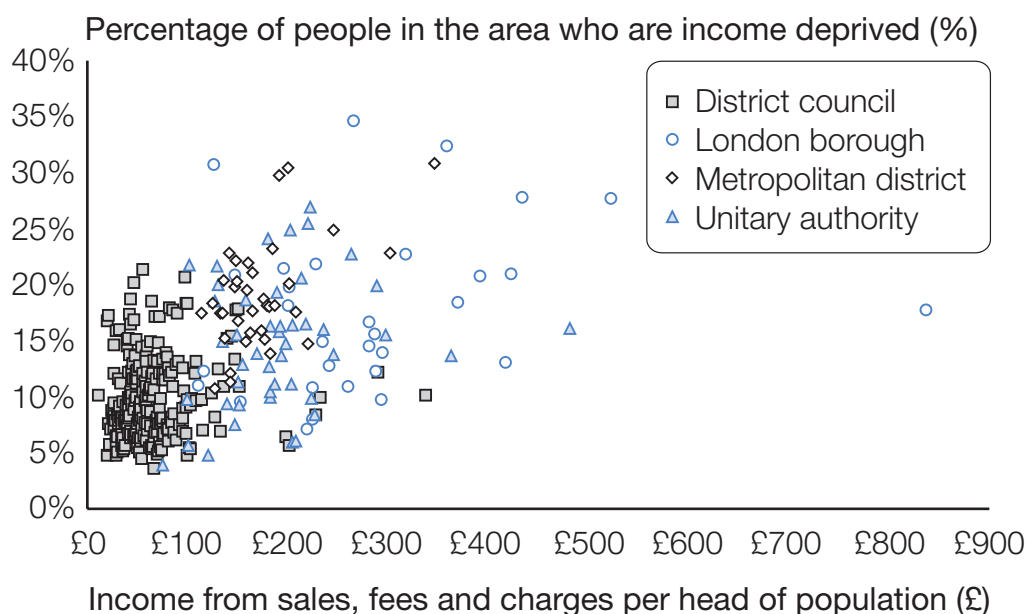
¹ A breakdown of income in different types of council is provided in Technical Appendix 2 available at www.audit-commission.gov.uk.

19 While variations in charging income between different types of council can be explained, in part, by different opportunities to charge for services, there are also large variations between councils of the same type, which cannot. For example, in 2006/07, district councils generated charging income that ranged from 2 to 67 per cent of their total service expenditure. Not only are these variations unrelated to council tax levels, they are also apparently unrelated to:

- council performance, as measured through Comprehensive Performance Assessment and use of resources assessments; and
- local factors that might be expected to affect councils' approaches to charging, such as the extent of local deprivation (**Figure 4**).

Figure 4
Charging income per head of population relative to local income deprivation

For councils as a whole, charging income appears unrelated to local deprivation.



Note: Data not available for county councils. City of London not plotted (sales, fees and charges per head, £6,476.54; percentage of people in the area who are income deprived, 7.8%).

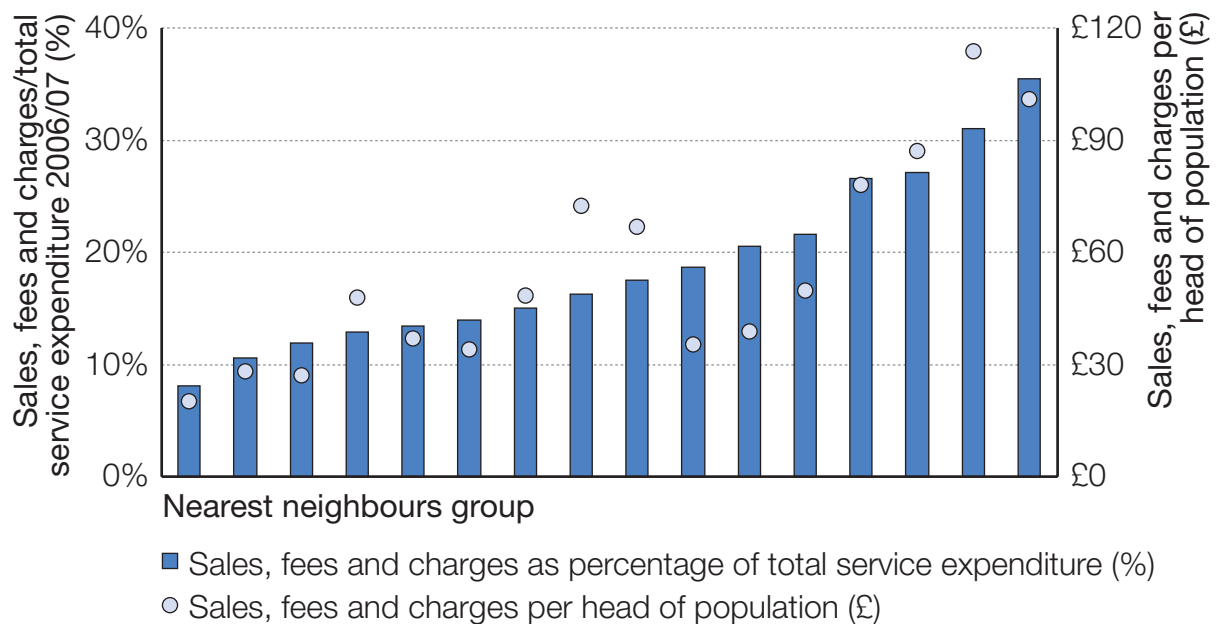
Source: Local Government Finance Statistics: Revenue Outturn Service Expenditure Summary 2006/07 and Index of Multiple Deprivation 2004

- 20 Even councils that are similar in terms of population, deprivation and economic factors generate very different levels of charging income. For example, in 2006/07 a group of district councils identified as statistically similar using the CIPFA Nearest Neighbours model (Ref. 6) generated income of between £19 and £113 per head of population from charging – or between 8 and 35 per cent of their total service expenditure (Figure 5).¹

Figure 5

Charging income for a group of district council nearest neighbours (2006/07)

Even very similar councils have very different approaches to charging.



Source: Local Government Finance Statistics: Revenue Outturn Service Expenditure Summary Data 2006/07

- 21 These variations are the result of decisions made by councils about the type and quantity of chargeable services that they provide and the levels at which charges, and therefore subsidies, are set. Those decisions are part of a wider set of political choices that councils make about how they prioritise the funding of services to meet the needs of their local communities.

¹ A breakdown of charging income as a percentage of total service expenditure for different types of council can be found in Technical Appendix 3 available at www.audit-commission.gov.uk/charging.

- 22 There is considerable opportunity for councils to adopt different approaches, which results in variation in the charges they make for services. For example, survey data published by CIPFA in September 2007 for English councils (**Ref. 7**) show charges for a weekday swim range from:
- £1.68 to £4.75 for adults;
 - £0.55 to £3.00 for juniors – with free swimming in 4 councils; and
 - £0.50 to £3.70 for senior citizens – with free swimming in 15 councils.

A similar survey related to council cemeteries (**Ref. 8**) found that in April 2006, charges for burial of an adult parishioner varied from:

- £58 to £2,400 for exclusive burial rights (£58 to £4,044 for non-parishioners);
- £17 to £1,260 for interment (£17 to £3,292 for non-parishioners); and
- £0 to £255 for memorial headstones (£0 to £668 for non-parishioners).

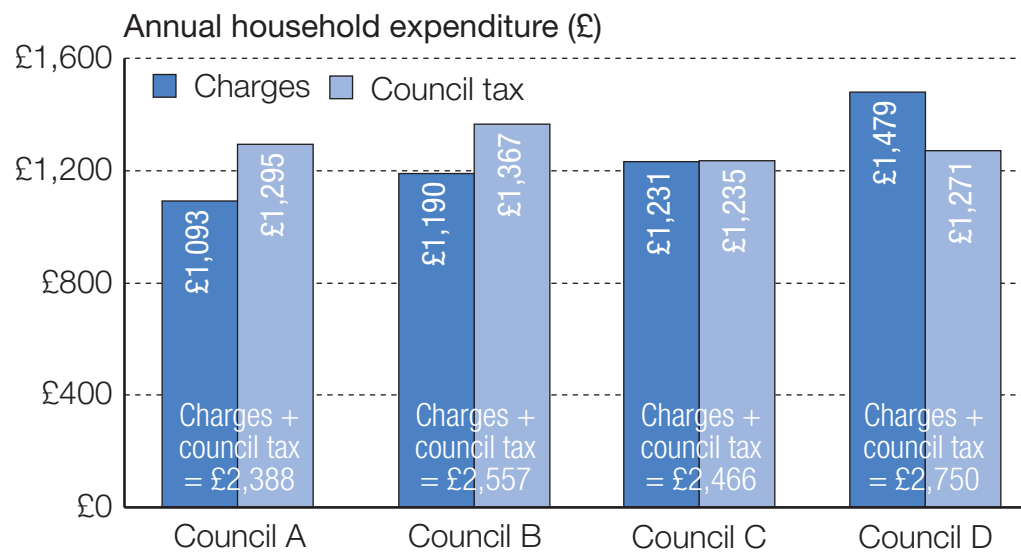
- 23 The breadth of variation in income from charging as a proportion of expenditure, and in actual charges, illustrates the potential for some councils to use charging differently. For example, in 2006/07, one district council raised 11 per cent less income from charging per head of population than the average of its nearest neighbours, despite having expressed a clear intention to raise more revenue through charging to fund services and minimise council tax increases. If it had raised charging levels to the neighbours' average it would have increased its charging income by over £1.4 million, 6 per cent of its total service expenditure.
- 24 The different choices councils make about whether and how much to charge for services also affect local households in different ways (**Box A**).

Box A

The financial impact of charging on households

A comparison of four single tier councils, in different parts of the country, shows that the amount paid in charges by identical households for use of the same 'basket' of chargeable services can vary by as much as £386 per year. The comparison, based on a household of two adults and two children over the course of one year, includes charges for use of swimming pools and other leisure facilities, audio materials from libraries, car parks, pest control services, school meals and special waste collections (**Figure 6**).

Figure 6
Household expenditure on charges and council tax



Source: Audit Commission

Councils A and B, in the South and North of England respectively, are statistically near neighbours. While household spending on charges and council tax follow similar patterns, the overall cost in Council B is £169 higher than in Council A.

Councils C and D, also statistically near neighbours, in the East and West of England respectively, have very similar levels of council tax but a difference of £248 in the charges made for the basket of services used by the household.

The analysis shows that while the contribution made by the households through council tax also varies across the four councils, the difference between highest and lowest, at £132, is much less than the difference in charges, at £386. The councils that take most and least in charges also take most and least overall after council tax is taken into account.

Source: The analysis shown is based on real data on charges and council tax in 2007/08 for four single tier councils in different English regions using the Audit Commission's Household Charges Calculator available at www.audit-commission.gov.uk/charging

Strategic uses of charging

‘Primarily, we see parking charges as being a very important control in the overall transport system. It’s one of the key levers that we can pull to influence behaviour. Our principal interest in it is as a transport tool rather than as an income-generating device.’ [Service manager]

- 25 Beyond its financial importance, charging also has the potential to be a significant policy instrument to help councils achieve their service and strategic objectives. Councils that understand how charges influence individuals’ consumption of services can set them in a variety of ways:
- By setting charges below competitive rates councils can encourage the use of services. For example, a council wanting people to use its town centre car parks to use local shops or markets could deliberately keep them free.
 - By setting charges high councils can discourage use of scarce resources; for example car parks near stations, or discourage behaviours that have undesirable consequences; for example, tackling town centre congestion and pollution by setting car parking charges to discourage the use of cars.¹
 - By structuring charges in different ways councils can encourage particular patterns of use:
 - an increasing price per unit consumed encourages small scale consumption. For example, councils wanting to encourage short stay parking in a particular car park might charge a nominal fee for a short stay but more for a long one;
 - a constant price per unit has no incentive effect so might be appropriate where a council is indifferent as to the length of stay in a car park;
 - a decreasing price per unit consumed encourages greater consumption. A declining rate per hour for car parking might be preferred if commercial or traffic considerations make longer stays desirable; and
 - a structure which bases price differences on the time of consumption rather than the amount of service consumed can be applied to ration service use at times when demand exceeds supply, for example to discourage peak time use of car parks.

¹ Councils may also use fines and penalties as a tool to regulate the behaviour of individuals. The use of these has not, however, been examined in this study.

- By setting different charges for different groups or offering concessions, councils can target services toward specific user groups, for example, allowing free parking to local residents or blue badge holders while charging others.

While the examples above relate to car parking, the principles of charging level and structure can apply across the range of council services. As the examples below illustrate, used in these ways, charges can support councils to address a wide range of local challenges and fulfil their place-shaping responsibilities.

26 In May 2007, **North Tyneside Council** introduced a range of charges related to special waste collections from local households. The charges are intended to encourage householders to take greater responsibility for the waste they produce and better manage the environmental impact of disposal. They include:

- Charges for the collection of hazardous household waste such as fridges (a charge of £15), televisions, computer monitors, tyres and chemicals (all at £10 per item). These items are considered harmful to the environment and there are costs to the Council associated with their disposal. In the six months following the introduction of charges, the number of hazardous waste collections reduced considerably compared to the same period in the previous year, despite an overall increase in the number of items being disposed of through the Council's household waste recycling centre. The Council collected 1,720 fewer fridges, a 54 per cent reduction, and 236 fewer televisions and monitors, a 43 per cent reduction. At the same time the Council generated more than £25,000 in charges to contribute to its collection and disposal costs. As well as introducing charges, the Council is providing advice to householders on local recycling and re-use schemes, which can divert unwanted items with a residual working life from being sent for disposal.
- A £10 charge for the collection of waste resulting from construction and DIY projects. The Council identified that a high proportion of building contractors undertaking work for local householders had been relying on the Council to collect and dispose of waste arising from their activities (commercial waste) at the expense of local taxpayers, rather than taking proper responsibility for the waste themselves. From May to November 2007, the Council received 1,492 requests for such collections.
- A £10 charge for special collections of bulky waste items that are required within two working days. The Council continues to operate a free service for collections that are completed within three to four weeks. The enhanced service, funded through charging income, provides greater choice for local people about the level of service

they receive. In the six-month period following the introduction of charges, nearly 250 households opted for the enhanced service; although, at just over 1 per cent of all special collections, this was considerably fewer than the Council anticipated.

27 In 2003, **Ipswich Borough Council** reviewed sports services pricing to ensure that charges supported corporate objectives, enhanced equality and improved access to services for disadvantaged groups. The review sought to clarify which service users would receive a subsidy and to what extent. Where subsidy was not desirable, charges were set to ensure that users paid the full market rate for services. The Council revised its concessions policy, introducing a two-tiered system. The first level of concession was based on the individual's status, for example, child, student, pensioner, disabled person. A second level of concession was introduced for recipients of means-tested benefits, such as housing benefit. The Council also revised its approach to charging for hire of sports facilities by organised groups to maximise income and support corporate priorities. A standard charge was introduced for facilities hire based on the cost to the Council of providing them. A premium rate, 125 per cent of the standard charge, was introduced for commercial hirers such as professional football clubs. Discounts of 25 or 50 per cent of the standard charge (reduced to 20 and 40 per cent respectively with effect from 1 October 2007) were introduced for hirers whose activities supported the Council's strategic priorities; for example, karate, judo, athletics or swimming clubs that were encouraging participation from ethnic minorities or had special junior membership arrangements. At the same time, the Council employed a club development officer to work with clubs in improving their approach to equalities and access and supporting them to achieve the standards necessary to qualify for discounted hire rates.

28 Since the revised charges were introduced:

- 151 clubs have registered with the Council to qualify for discounted facilities hire, requiring them to have developed a constitution and a child protection policy;
- 52 clubs have achieved either Sport England Clubmark accreditation or the Football Association Charter Standard, which are required to qualify for the highest level of discount; and
- the Council's sports facilities have become more competitive, attracting business from other venues within Ipswich and beyond.

29 In October 2002, following the provision within the Transport Act 2000 for local authorities to introduce road congestion charging, **Durham County Council** was the first to do so. The Durham Road User Scheme is a cordon-based, pay-on-exit scheme aimed at restricting vehicular access to the historic peninsula within the city of Durham between 10.00 am and 4.00 pm from Monday to Saturday, in order to:

- resolve the conflict between pedestrians and vehicles in the city centre and approach to Durham cathedral and castle;
- improve access for people with disabilities; and
- enhance a world heritage site.

A range of exemptions to the £2 charge are allowed, including residents, students, public transport vehicles, emergency services and disabled drivers. Following its introduction there was an 85 per cent reduction in vehicular traffic, reduced vehicle emissions and a 10 per cent increase in pedestrian activity. In 2006/07, the scheme generated income of £67,000, providing a surplus of £18,000 to subsidise the low-floor, easy-access cathedral bus service. The bus gives the opportunity for those who do not own a car and are unable to use a conventional bus, or tackle the steep walk to the cathedral, to access the area (**Refs. 9 and 10**).

30 The London congestion charge, introduced in February 2003 and operated by **Transport for London** has also shown the potential for charging to influence the behaviour of transport users. At the same time it highlights the controversy that can be generated by charging schemes designed to change individual behaviours and the importance of continuous monitoring and review. The London congestion charge was introduced to encourage the use of public transport for journeys into central London, thereby minimising congestion and improving journey times for road users. Money raised from charges must be spent on other transport initiatives in London. The charging scheme was introduced as part of an integrated transport strategy designed to improve the capacity, quality and affordability of other modes of transport. In July 2005, the basic daily charge was increased from £5 to £8 and in February 2007 the congestion charging zone was extended.

- 31** There are many measures by which the effectiveness of the scheme is judged and many interpretations of whether it has achieved its objectives. Transport for London's fifth annual monitoring report (**Ref. 11**) identifies that in 2006/07 the scheme generated net revenue of £123 million, which is being spent on transport improvements. During 2006, 21 per cent fewer vehicles with four or more wheels entered the congestion charging zone during its operating hours than in 2002, before the charge was introduced. However, levels of congestion, as measured by delays per kilometre, while still lower than in 2002, rose from the previous year, showing that other factors are mitigating the benefits that are derived from fewer vehicles.
- 32 East Hampshire District Council** is also influencing the travel behaviours of local people by removing car parking charges in the towns of Alton and Petersfield on a number of days in December. The free parking scheme is designed to incentivise people to support local traders by doing their Christmas shopping locally, rather than travelling to larger shopping centres in the region. The scheme was piloted in 2006, at a cost to the Council of around £20,000, which included foregone revenue and marketing costs. While the value of such a scheme to the local economy can be difficult to quantify, the Council's own research found high levels of satisfaction from the local community and local traders.
- 33 Exeter City Council** has operated its Exeter Scrapstore for around 15 years. Scrapstore members can purchase waste materials created by local manufacturing processes for creative arts projects. The project has the dual purpose of diverting unwanted materials from going to waste and providing a supply of affordable, high quality arts materials to members. Membership is open to schools, groups and organisations working with children and people with special needs, families and, in some cases, individuals. The membership scheme allows the Council to know who is making use of the service in order that marketing activity can be better targeted. In April 2007, the Council revised its charges related to the Scrapstore. Membership fees were reduced to encourage more organisations and individuals to join. As a result of the change membership has increased by 30 per cent, to 650, although membership income has reduced. The decrease in membership income was offset by increased charges related to the amount of scrap material taken by members; raised to £1.00 for a carrier bag and £3.50 for a bin bag. These charges are designed to discourage members from taking more material than they need, ensuring more members benefit from the resources and reducing the likelihood that unused scrap material will go to waste.

- 34 While more than half of councils report using charging as a tool to achieve strategic policy objectives (**Ref. 12**) few councils can claim to have been successful. Although many councils have reviewed approaches to charging in recent years, few of the changes that have followed those reviews have been in place long enough for their effects to be discernible. And most councils lack suitable data to show that they have achieved what they set out to do. For example, in 2005, one council introduced a compostable garden waste collection service in response to demand from politicians and local residents unable to take such waste to the local household waste recycling centre. Residents wishing to receive the service purchase bags from the council at a cost of £1.50, or £1.00 for specified concessions. The prices were set to be affordable for those at whom the service was targeted. The scheme has proved popular, serving nearly 2,000 households across the borough, with a net cost to the council of £40,000. But the council has insufficient data on who is using this subsidised, discretionary service and, therefore, little confidence that the service and concessions are being appropriately targeted. The council is currently reviewing its operation.
- 35 It is clear that charging presents councils with significant opportunities, both for income generation and for achieving strategic objectives. But for the majority these opportunities are not yet being fully realised. The next section of this report considers the factors, both national and local, that prevent councils from making more effective use of charging.

3

Constraints and barriers

36 Only one in five council finance directors believe that their councils make optimal use of charging powers (**Ref. 12**). The use that councils make of charging is determined on the one hand by the national legislative framework of powers provided by central government, and on the other by a range of local factors over which councils have opportunities to exert some influence. Both affect councils' ability to use charging to best effect in response to local circumstances.

The national framework

- 37** Councils have powers to charge for a wide range of services. Many of these powers derive from legislation that applies to specific service areas, for example:
- sections 1 and 3 of the Civic Restaurant Act 1947 provide the power to establish and run restaurants and supply meals and refreshments to the public and to charge for these to recover costs;
 - section 145 of the Local Government Act 1972 enables authorities to provide and charge for a range of arts and entertainment activities;
 - section 19 of the Local Government (Miscellaneous Provisions) Act 1976 gives the power to provide a range of sport and recreational facilities and to charge or not charge as they think fit; and
 - section 6 of the Prevention of Damage by Pests Act 1949 allows authorities to take action as necessary to remove rats and mice from their area, in fulfilment of their duty under section 2 of the Act, and to recover their reasonable expenses in doing so.
- 38** The Audit Commission's previous study, published in 1999, on the use of charging powers (**Ref. 13**), described charging legislation as complex and confusing to councils and a barrier to innovative and effective use. Since then, two pieces of legislation, lobbied for by local government, have sought to address these concerns and give councils greater flexibility to charge for local services. The first of these, section 2 of the Local Government Act 2000, provides local authorities with the power to do anything that they consider is likely to promote or improve the economic, social or environmental well-being of their areas. This could include introducing new discretionary services. The second, section 93 of the Local Government Act 2003, enables local authorities to charge as they

choose to for discretionary services, provided they are not prohibited by other legislation and they do not make a profit. The intention of this general charging power is to:

‘encourage authorities to provide those sorts of services they would otherwise decide not to provide (or improve) at all because they cannot justify or afford to provide them for free or to improve them.’ (Ref. 14)

- 39 There is little evidence that councils have made much use of the greater autonomy made available to them to develop new discretionary services funded by charges. However, three in five councils report introducing new charges within the last two years for services that they have previously provided at no charge. In seven out of ten cases these new charges have been introduced to recover the costs of service provision. Additionally:
- four in ten of the new charges were introduced to minimise increases in council tax;
 - one in three was intended to enable councils to maintain or improve service levels in the face of budget pressures which might otherwise have necessitated service cuts; and
 - one in three was designed to manage demand for services (Ref. 12).
- 40 The introduction of charges for pre-application planning advice is an example commonly cited by councils of how they have used the general power to charge for discretionary services. It provides a powerful illustration of how the greater flexibility it provides has enabled councils to respond in different ways to local circumstances (Box B).

Box B

Pre-application planning advice – different approaches for different areas

The introduction of the general power to charge for discretionary services within the Local Government Act 2003 has enabled councils to introduce charges for the provision of pre-application planning advice. Around 15 per cent of councils report having introduced charges in this area (Ref. 12).

Harrow Council introduced its pre-application planning advice charges in October 2006. During the three preceding years the Council had effectively stopped providing pre-application advice as it focused its available resources on processing planning applications to meet statutory targets. In January 2005, the Council introduced a system to offer advice on written development proposals, provided by a multi-disciplinary team of planning officers, the planning advice team. The Council was keen, however, to improve the level of engagement it had with developers before

submission of applications to ensure they better reflected the Council's development requirements. Charging has allowed the Council to invest resources in providing advice at a time when the planning service, and the Council as a whole, is reducing staff through financial pressures. Developers can now choose between:

- receiving written advice on schemes considered at a fortnightly meeting of the planning advice team: there is a £100 charge for initial requests and a £75 charge for repeat or alternative requests; or
- a face-to-face meeting with relevant members of the team. There is a two-tier scale of charges for meetings: £1,500 for large-scale developments; and £750 for medium-scale developments. Meetings are followed by a minuted account of the issues discussed. Follow-up meetings with designated officers are charged at the same rates.

Initially charges were set to test the level of market demand for the service. Developers clearly value the advice they receive. The demand for the service was so great when first introduced that the Council was able to increase its charges in April 2007, and now aims to achieve full cost recovery. The Council continues to provide free advice for householder developments through the planning office duty planner system.

Even smaller councils with different planning workloads have found benefits in charging for pre-application advice. **Mid Sussex District Council** also considers the service important because it improves the quality of applications which facilitates the determination of planning permission. It introduced charges in 2006. Charging is seen primarily as an opportunity to recover the costs of a service provided to private sector developers: no charge is made for advice relating to householder applications. Charging is also designed to improve the quality of pre-application discussions as applicants tend to think more about what they intend to present to the Council when they have to pay for a meeting. It can also discourage developers from seeking advice on frivolous schemes, wasting valuable officer time. Charges are made for meetings and also for written advice. In introducing charges the Council has published details of the level of service it will deliver, for example, the time it will take to respond to enquiries.

Not all councils, however, have regarded the introduction of a charge for pre-application planning advice as appropriate. **Durham City Council** sees pre-application advice as an important component in the Council's efforts to support regeneration in the area and is reluctant to discourage developers from engaging with the Council. The City considers that it competes for developers' interest with Leeds, Tyne and Wear and the Tees Valley. The Council's research found only one neighbouring authority charging for pre-application advice.

- 41 While the Local Government Act 2003 has provided greater local autonomy to charge for some services, other aspects of the legislative framework for charging prevent councils from using charges flexibly in response to local circumstances. This is the case where councils are:
- prohibited from charging for services. Prohibitions reflect the choices made by government about services that it believes should be freely accessible as they provide a public good, for example, education in schools, loans of printed materials from libraries or the collection of household waste;
 - restricted to recovering the costs of providing specific services. Charging to recover costs ensures that councils are not financially disadvantaged by the requirements made by central government, for example, to license houses in multiple occupation. The restriction also prevents charges being used to raise surplus revenue; and
 - required to charge at a level determined by central government rather than local councillors. Fees are set nationally where it is considered desirable to provide a level playing field across the country, and commonly relate to services provided to businesses, for example, for determining planning applications or licensing premises for alcohol and entertainments.
- 42 While there are valid reasons for these restrictions on freedom to charge, they create difficulties for councils and give rise to considerable debate. It is not always clear to councils or the public:
- what the rationale is for applying charging restrictions to some services and not others; for example, why councils cannot charge for lending printed materials from libraries, but can charge for lending audio-visual material; or why councils can make surpluses on charges for parking or cremations but are restricted to cost recovery in other areas;
 - why councils have the power to set their own charges for services where a uniform approach to charging might be preferable; for example, those which the public considers to be necessary, rather than a matter of choice, for the service user, such as personal care services. This debate is heightened by the distinction drawn between these services and nursing and health services, which must be provided free of charge; and
 - that the original rationale remains valid given changes in the context in which services are provided; for example, councils now provide building control services in competition with approved inspectors, reducing the monopoly position in the market which originally justified a price control.

- 43 Even where, as in the case of nationally set fees, the rationale is clear, to ensure a uniform approach to charging across the country, there can be significant financial consequences for councils that in turn impact, unequally, on local taxpayers. In the case of fees for planning applications, the government's own research reports that fees commonly fail to provide full recovery of the costs to councils of the activities they are required to undertake (**Ref. 15**). This reflects the view that the costs of the planning system should be shared between the public, which receives in return the public good that is derived from controlling development, and the users of the service, those undertaking development activity.
- 44 Fees for personal searches of the local land charges register are another area of concern for councils. Councils report that they do not reflect the costs of maintaining the register and making this available to personal search agents. Where this is the case, local taxpayers subsidise a service that their councils are obliged to provide to private individuals, though councils have an incentive to keep costs down to minimise this subsidy.
- 45 Even where nationally set fees are reviewed and revised periodically, for much of the time they may be out of step with rising costs. Where costs vary by area, reflecting differences in local labour markets, uniform, nationally set fees will either fail to meet some councils' costs or provide a windfall to others, or both. Councils argue that national restrictions on their ability to charge inhibit them from taking decisions that reflect local circumstances. It is clear, however, that councils have not yet made full use of the flexibility they already have.
- 46 At the heart of the tension between local and centralised control over charging are concerns about the so-called postcode lottery: a term used, particularly by the media, to refer to variations in the level or cost of services experienced by service users in different geographical locations. The public is divided on the issue of whether it is reasonable for different councils to charge different amounts for the same type of service, with equal proportions (40 per cent) agreeing and disagreeing (**Ref. 16** and **Appendix 2**). The Lyons Inquiry into Local Government (**Ref. 3**) suggested that support for local variation is qualified. The public supports more flexibility and local control for local services, but considers national levels of quality and cost to be desirable in some services, notably adult social care and residential care. It is interesting to note that in these areas of greatest concern for citizens the government has not determined that nationally set fees should be prescribed.

- 47 Local variation in charging is an inevitable consequence of flexibility to use charges in ways that respond to local circumstances. The needs and priorities of communities in different areas vary, as do the costs of providing services. If councils are to fulfil their place-shaping responsibilities, they need to be empowered to use charging to support local policies and priorities and to be responsive to local circumstances. Restrictions on councils making their own decisions about charges for local services run against the current thrust of central government policy towards greater devolution of power to local areas. Central government should ensure that, in regularly reviewing the restrictions on charging within service areas, the impact on local councils' flexibility to charge in ways appropriate to local circumstances is considered alongside national policy objectives.

Local barriers

- 48 In addition to the constraints imposed by central government, other factors over which local councils have some influence also act as barriers to the effective use of charging.

The contribution of charging to council objectives is unclear

- 49 How charging contributes to the achievement of council objectives is often unclear. Four in ten councils report that they do not have a written corporate policy on charging that makes what the council intends to achieve through use of charging powers explicit, and makes links to other corporate strategies, for example, social inclusion (**Ref. 12**). Even where policies do exist they are often not widely known within councils, or are not consistently used to ensure that charging decisions reflect corporate objectives.
- 50 Information about the financial contribution of charging to councils' budgets is limited. Budget information provided to councillors commonly focuses on a council's net budget, after charging and other income has been taken into account. This highlights the effects of spending on council tax, but leaves councillors with limited opportunity to understand the income generated through charging. Council tax, regardless of how much income it generates, receives considerably more of councils' and the public's attention during the budget setting process than charges, and is also subject to greater scrutiny from central government.
- 51 Information for the public also tends to focus on council spending and council tax with less attention to where the rest of the council's income comes from, or where subsidy is provided. Even where users pay a charge for a service, it is seldom made apparent how

that charge relates to the cost of the service. For example, the cost to a user of an hour's tennis court hire in one council is around £5.00, but the cost to the council of maintaining and operating a tennis court is about six times that amount per hour of operation. Users and taxpayers, however, have no way of knowing that the service is subsidised to such an extent, or how that relates to the subsidy provided to users of other council services. Local people will only be able to make informed assessments about value for money when they understand the true cost of services.

- 52 Managers can be unaware of how charging income contributes to overall service expenditure. Some councils report difficulties in identifying the costs of services. Where costs or income are not correctly allocated, councils will recover a greater or lesser proportion of expenditure through charging than they intend, resulting in more or less subsidy being directed to those services. As part of a review of charging in 2007, a unitary council identified that it was only recovering 71 per cent of its £156,000 expenditure in relation to taxi licensing, compared to an average for similar authorities of 86 per cent, providing a subsidy of £100 for every taxi driver despite its intention to achieve full cost recovery. The subsidy had been impossible to detect as income and expenditure for taxi licensing had been allocated to the same cost centre as that for alcohol and entertainments licensing.
- 53 Councils also have little understanding of how their approach to charging compares with other councils providing similar services to similar populations. While voluntary benchmarking in some service areas is supported by the Institute of Public Finance or professional bodies, there are many services which lack easily accessible data on levels of charge for comparative purposes. Councils commonly benchmark individual charges, for example, the cost of a swim, with other, particularly neighbouring, authorities, but this has limited value in isolation from other data. Councils should also consider the quality of services provided, the underlying costs on which charges are based and the way in which charges reflect both differences in demand for services and the extent of competition from other service providers.
- 54 Where the contribution of charging income to service expenditure is unclear, or where councils have insufficient data about who is using services, they cannot be sure of the extent to which different activities and service users are being subsidised. As a result subsidy may not be directed in accordance with council priorities, diminishing value for money for local people. One council has recently reviewed its free extra-curricular music

service for school pupils, but has insufficient data about users to know who is benefiting from the subsidy it provides, or how charges, if introduced, will impact on take-up.

‘I don’t think the majority of members would be aware of how much subsidy goes into the service.’ [Councillor]

Local public opinion

‘I think there’s a cynicism in the community that if we put charges up then it’s for our own benefit, not for the benefit of the wider public. That’s a risk politically.’ [Councillor]

- 55** Councils believe that local public opinion is a major obstacle to making more use of charging. Seventy-eight per cent of councils identified the views of service users as a major or partial barrier to charging. Local taxpayers’ views are a barrier for 69 per cent of councils (**Ref. 12**). Ipsos MORI’s research into public views on charging (**Ref. 16**) identified a number of concerns that would appear to support councils’ perception: in particular, unpopular charges are sometimes seen as ‘stealth taxes’, or as a double payment for services made necessary by council inefficiency.

‘Where people are used to having things for free, like local car parking, there’d be a lot of objection from people saying, we’re paying loads of council tax and yet you’re charging us for parking our cars as well. I think it would be a very unpopular move.’ [Councillor]

- 56** Ipsos MORI concluded that public resistance to paying charges is most likely where services have been traditionally provided free at the point of delivery such as waste collection, or where there are particular political sensitivities around the introduction of charges, such as congestion charges. However, it also found that this resistance varies considerably depending on the service area under discussion, and on local circumstances. Overall, people are less tolerant of charges that relate to those services they need, such as social care services, rather than those they choose to use, such as leisure services.

- 57** Under certain circumstances, however, the public does find charging acceptable, both as a method of payment for services and as a strategic tool. Some people value the direct link between payment of a charge and receiving a service, in contrast to the payment of council tax which for many bears little or no relationship to the services they receive. Others feel that a direct charge for a service improves the accountability of the service

providers, giving them better grounds for complaint and comment when they are dissatisfied or want improvements. The public would welcome improvements in services and would be prepared to pay charges to fund them, so long as it could see it was getting more for the extra money.

- 58 The perception among councils that the public is averse to charging appears to arise from a number of assumptions. To many, it seems common sense that people will not want to pay more for something than they do at present. Some also believe that local people have a generally low opinion of council services and will expect them to be as cheap as possible. But this perception may underestimate people's awareness of the link between what they pay and the quality of service that councils provide. In fact, Ipsos MORI's survey of the general public found that, for most charged-for council services, most people who had paid a charge agreed that they had received value for money. This was true for all services except car parking, but even there opinion was evenly divided, with as many agreeing they had received value for money as disagreeing.
- 59 A lack of understanding about how local services are funded, and what council tax pays for, can fuel public concern about charges. The survey shows that most people (60 per cent) believe that they understand the way their council raises money. However, comments during focus group discussions suggest that some residents don't think they are provided with any information at all about council funding and spending. This is unlikely to be the case, but does suggest a lack of good communication and public understanding about council finances, which can only contribute to wariness about charging.
- 60 Councils' caution about public opinion can lead to an unwillingness to confront the issues openly and encourage debate about how local services are funded. For example, one county council has acknowledged that its strategy of freezing social care service charges for a number of years, to protect users from rising costs, subsequently resulted in widespread protest when a long overdue increase was perceived as too high. Following extensive engagement through a series of public meetings, service users eventually, albeit reluctantly, accepted that the increases were necessary to maintain services. They pointed out to the council, however, that more frequent, smaller increases in charges are easier to bear.

Local political views

‘It’s anarchy out there, in parking terms, but the council is throwing away one of the levers of policy by not having realistic parking charges. I’d quite like to get my hands on the £1.5 million of income that charges could generate but as members see it they’d all be voted out.’ [Chief Finance Officer]

- 61 Local politicians exert a fair or great amount of influence on charging in more than 85 per cent of councils. But in more than 70 per cent of councils the views of local politicians are regarded as a barrier to the greater use of charging (**Ref. 12**). Politicians are commonly concerned to ensure services remain affordable for local people, and to protect vulnerable groups from charges, but they can overestimate public resistance to paying directly for services. Councillors can be especially reluctant to consider charging for services provided to certain groups, for example, people with physical or mental disabilities. This is the case even where there may be opportunity to charge, for example, where service users can afford to contribute toward the cost of the services they receive. While councils should be responsive to the views of local citizens, political sensitivity to public opinion can undermine councils’ community leadership role.
- 62 It is right that councillors, in their representative role, have the opportunity to debate and influence how charging is used. But when that debate occurs at the level of individual charges it can sometimes be a hindrance to effective decision making.
- ‘I can remember a report to cabinet once where they agonised for 40 minutes over putting the price of a drink in a vending cup in a day centre up by 5p... Other items on that same agenda which were far more significant got dealt with in a quarter of the time.’ [Head of Policy]
- 63 To address this, some councils have increased the level of delegation to portfolio holders and officers for setting charges. While the council continues to provide the strategic framework within which charges operate, delegation has enabled councillors to focus on the most important charging decisions – those where charges have greatest impact on households as well as those where income is highest. It also allows managers working with their executive leads to set other charges more flexibly in response to changing local conditions. In **East Hampshire District Council** the majority of charge-setting decisions are delegated to officers within clear parameters, for example, that increases above the rate of inflation will need councillor approval. The council has determined that charges in some services, for example, car parking and cemeteries, are sufficiently sensitive to require all charging decisions to be reviewed by councillors.

The historic approach to charging

64 Councils can be sensitive to the legacy of previous decisions on charging. Where councils have experienced a negative public or media reaction to new or increased charges, this can lead to reluctance to tackle the issue again. But councils that fail to review and revise charges regularly may merely be deferring the problem of confronting public opinion.

‘About three years ago we fundamentally reviewed the charge and almost doubled it, to ensure we were recovering the actual costs involved in the process, and because we were well below other local authorities.’ [Service accountant]

65 While there are many councils undertaking reviews of their approaches to charging, in others charges are not reviewed or are simply increased annually in line with inflation. Councils adopting such an approach can find that charges fail to take account of changing circumstances, for example, patterns of service use or rapidly rising costs. They may also lose the opportunity to ensure that charges reflect their priorities, for example, that subsidies are targeted toward priority services and communities.

66 **Kettering Borough Council** undertook a fundamental review of its approach to charging in 2005. The Council wished to move away from its historic approach, through which charges were set to meet income targets, or merely inflated annually with little reference to current policy objectives. The Council’s Policy and Improvement Committee was tasked with examining how charges could help maintain a balanced budget and to establish a set of guiding principles that would inform future charging policy (**Table 1**). As a result of the review the Council:

- standardised the concessions available to particular service users into two levels, ensuring that even those in receipt of income-related benefits would contribute something toward the services they used; and
- revised charges in a number of service areas to reflect the new principles, for example, introducing a standard rate per hour for car parking, with phased introduction in some services to manage the impact of the changes on service users.

Table 1**Kettering Borough Council – a principles-based approach to fees and charges**

Following a review by the Policy and Improvement Committee in 2005, Kettering Borough Council established a set of guiding principles to inform its decisions on charging for services.

1. Fair shares	2. Rationality and prioritisation	3. Stability and predictability
A. Subsidy from taxpayer to service user should be a conscious choice.	A. Fees and charges should reflect key commitments and corporate priorities.	A. The impact of pricing policies should be managed through phasing over time where the impact is high.
B. Concessions for services should follow a logical pattern.	B. Price should be based on added and perceived value as well as cost.	B. Policies should fit with the council's medium-term financial strategy, ie, be affordable to service users and taxpayers.
C. Fees and charges should not be used to provide subsidy to commercial operators from the council taxpayer.	C. There should be some rational scale in the charge for different levels of the same service.	C. Fees and charges should generate income to help develop capacity, deliver efficiency and sustain continuous improvement.
D. A tough stance should be taken on fee dodging.	D. There should be some consistency between charges for similar services.	

Source: Kettering Borough Council

Striking the right balance

- 67 There are legitimate political choices to be made by councils about which objectives they seek to deliver through their approaches to charging within different services, and how these combine to meet the needs and aspirations of their communities. Councils will also need to balance the willingness and ability of service users to pay for services, with the ability and willingness of local taxpayers to subsidise services. Inevitably councils will sometimes have to make difficult choices between conflicting objectives.

68 In practice councils most often focus on the income-generating potential of charges and give insufficient attention to how charging might contribute in other ways. More councils report that their approach to charging is influenced by a desire to minimise increases in council tax (74 per cent) than to achieve strategic policy objectives (57 per cent) (**Ref. 12**). Income targets set by corporate finance departments commonly provide the basis for service managers' proposals on charges. This can create tensions between corporate and service objectives, where service managers aspire to use charges for other purposes.

'As leisure managers we have a lot of knowledge about what's going on out there and in some cases we'd like to drop the prices to improve participation rates. But then we might not hit our income target. So there's a very fine balance.' [Service manager]

69 Where financial objectives predominate, councils may forego opportunities to achieve more through charging and may even act against their strategic priorities through ill informed decisions about charging for services. Where councillors do not have an opportunity to see the contribution of charging to the council budget, or where authority to set charges is delegated to officers without adequate scrutiny, these risks are heightened.

70 It is evident that councils face many challenges in making the most effective use of charges. The next section of this report examines the actions councils can take to ensure charging makes the greatest possible contribution to their objectives.

4

What councils can do

71 Charges are part of a complex system. How well councils understand that system, and the extent to which they are able to influence its operation, will determine their success in using charging to achieve their objectives. This chapter explains how the charging system works and considers actions that councils can take to ensure they get the most from charging.

Setting the right charge

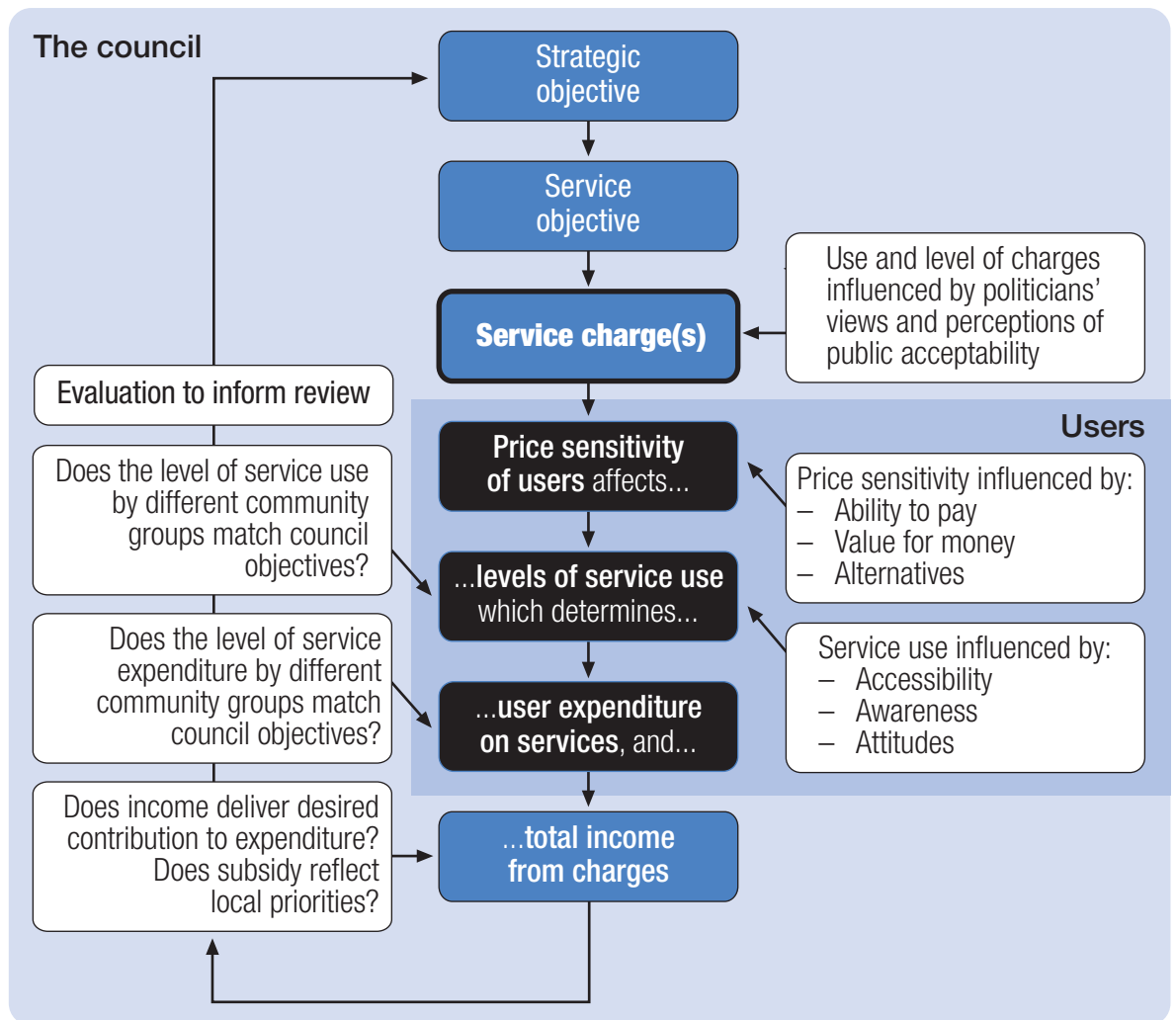
72 The charges that councils make for services can have a significant effect on how well they achieve their financial, service and strategic objectives. Whatever councils aim to achieve through charging, for example:

- income to fund service improvement;
- a higher level of cost recovery to reduce service subsidy; or simply
- more or fewer people using a service;

success will depend on their ability to anticipate the effect of charges on service use for different individuals and more widely for different community groups. For example, if charges are set too high, they may unintentionally reduce service demand and result in failure to meet income targets, or have a punitive effect on those who have little choice but to use the service. But, if charges are set too low, councils may find that excessive demand strains resources, or that subsidies are extended to those who may be able and willing to pay more.

73 Setting the right level and structure of charges is crucial. But these decisions are likely to be politically charged as councils attempt to balance the diverse needs of their communities and determine whether the burden of paying for services should fall most heavily on service users or local council taxpayers. They will also be influenced by councillors' and officers' perceptions of public views about the acceptability of charging for particular services or, where resources are limited, about the relative priority of services. The set of charges that is right for a particular service or group of services in a local authority area at a given time will be affected by several factors. The charging system (**Figure 7, overleaf**) shows how these factors operate together and highlights for councils where they can take action to make the most of opportunities to charge for services.

Figure 7
The charging system



Source: Audit Commission

74 Councils set charges at different levels depending on the objectives they wish to achieve, and based on their understanding of how charges will influence the demand for services. Whether opportunities to charge for services are used at all, and at what level charges are set, will be influenced by:

- the views of politicians toward the use of charges; and

- the extent to which councils respond to the views of the public about the acceptability of charges, or are willing to confront public opinion and make the case for charging.

75 The main factor that determines the impact of charges on service use is the price sensitivity of current and potential service users. People will have different levels of price sensitivity for different services, influenced by:

- **their ability to pay** – how charges relate to an individual's level of disposable income;
- **perceptions of value for money** – whether charges are judged to provide value for money for the level of service being offered and influenced by the extent to which a service is deemed to be a necessity, for example, homecare for an older person, or a choice, for example, loan of a DVD from the local library; and
- **the availability of alternatives** – whether the same or similar services can be obtained from other public, private or voluntary sector providers at lower cost or with greater value.

76 Where the price sensitivity of individuals is high, for example, in relation to leisure services where there are commonly a number of alternative service providers in an area, small changes in price can result in large changes in levels of use. Where individuals' price sensitivity is low, for example, for people living in areas where public transport is scarce who regard use of a car, and consequently car parks, as a virtual necessity, large changes in price will be needed to achieve small changes in service use. When councils understand the price sensitivities of individuals and groups within the community, they can set charges appropriately to deliver the levels of, or changes in, service use necessary to achieve their objectives.

77 Other factors will also influence individuals' levels of service use:

- **Accessibility** – how easy is it for individuals to access services, for example, availability of local transport or the extent of opening hours.
- **Awareness** – whether people know what services are available (from which providers) and what benefits they might derive from using them.
- **Attitudes** – the beliefs and values of individuals particularly in relation to their personal rights and social responsibilities, for example, whether they believe they have a right to drive a car regardless of the environmental impact, or whether they consider they have a social responsibility to use more sustainable forms of transport.

Councils must understand and, where possible, control the effects of these factors.

- 78 The amount of use made of services at different levels of charge will determine:
- whether councils achieve their service objectives – the right people using the right services;
 - the financial impact of charges on individual users – the right people paying the right amount for services; and
 - the income that councils receive – delivering the right level of contribution to expenditure from charges and, consequently, the right level of subsidy.

Using information and evaluation

- 79 Setting charges at the right level to achieve objectives will require councils to gather and make use of a wide range of information about demand for services, the profile of service users and non-users, the wider market for services and the costs of service provision. While the principles of effective price setting are understood by many councils, they sometimes lack or ignore information that would enable them to make more effective charging decisions. For example, in one council operating a Saturday theatre school for local children, the long waiting list for the 300 available places suggested demand was at a level where the council might reasonably increase the £175 per term charge and still operate at full capacity or fund a larger number of concessionary places for children from low income households.
- 80 Councils can use consultation exercises and attitudinal research to understand better how different groups will respond to charging at different levels in different services. As the charging system suggests, councils need to understand not just whether people can afford services, but what they are willing to pay, their perceptions of value for money and what other factors affect their use of services. In practice, councils may not be able to access all the information they need to understand how all users and potential service users will respond to charges: the costs of undertaking such detailed market research may be prohibitive. Even in the private sector, trying to establish sensitivity to potential price changes through market research is regarded as difficult and unreliable.
- 81 Councils can, however, monitor whether the current approach to charging is contributing to the achievement of objectives. But fewer than half of councils report that they routinely monitor the impact of charges on service user groups (**Ref. 12**). Councils can do more to ensure that, where it is cost effective to do so, they collect and analyse data on current

users of services, and identify who is not using services and why. They should also evaluate the impact of previous changes in charges on levels of service use for different groups of users. Few currently do so. **South Gloucestershire Council** has used historical data on changes in the use of the school meals service following price changes to predict the impact on service use and income of future price increases. It has established that a 5 per cent increase in the charge for a meal will result in a short-term decrease in meals purchased of around 6 per cent. While demand rises again gradually, it remains at around 1 per cent less than at the original charge level. The Council will achieve an eventual increase in income of 3 per cent, based on reduced sales at the higher rate of charge.

- 82 Councils also need to know about the local market for services; not just the prices charged for similar services, but the quality of services being provided. In some service areas there will be little or no competition from other providers, for example, in regulatory services, but in others there may be highly competitive markets, for example, leisure services or commercial waste collection. Councils can use this information to set charges in ways that will make their services more or less desirable than those of other providers. For example, by making council homecare services less competitive by removing the weekly maximum charge, some councils have sought to encourage their most affluent service users to purchase services from other providers, freeing up council resources.

Making the case for charging

- 83 Councils' decisions on charging should take account of local views about the appropriateness of charging within services and local priorities for the use of resources in service subsidy. But councils can also do more to engage service users and taxpayers in a dialogue to gain acceptance for greater use of charges. There are many examples of councils consulting local people on charges for specific services, but there are few councils seeking the views of local communities on the wider issue of how local services should be funded. There are fewer still where councils are actively promoting their vision of how charges should contribute to maintaining or improving services and the delivery of value for money.
- 84 Councils wishing to take a lead on charging will need to make clear what the purpose of charging is within any service and what the consequences might be of not charging. Achieving this will require greater transparency from councils about the contribution of

charging, both financially and as a tool to deliver strategic objectives. In particular, councils should make clear what additional benefits will be delivered by new or increased charges, as in the case of North Tyneside Council's new £10 charge for special waste collections completed in two days.

- 85 In 2006/07, **East Sussex County Council** undertook a review of its passenger transport services, which included pupil transport to denominational schools. In its consultation leaflet on the introduction of charges for the service, the Council set out the current costs of providing pupil transport to denominational schools, and the contribution that various levels of charges might make. This made explicit the level of council subsidy that would be required to provide the service at different levels of charge. The leaflet also set out the policy arguments for and against charging for the service, explaining that the issues were not just financial but related to issues of parental choice and equity across all those benefiting from the pupil transport services.

'We have to consider whether the current arrangements are fair and applied equally to everyone. Most parents who choose not to send their child to a local school have to pay the transport costs. It can be argued that it is unfair that parents whose children go to denominational schools receive help with their transport while children at other schools do not.' [East Sussex County Council consultation on charges for transport to denominational schools]

This explicit approach allowed the Council to engage the public in a more informed debate about what level of charging was appropriate. The consultation exercise resulted in a high level of public response together with extensive local press coverage. It also created the complex task for the Council of deciding how to weight the different responses between those directly affected by the proposed changes and the wider public.

- 86 **Richmond upon Thames Council** has taken an active lead on the use of charges to achieve environmental benefits. In April 2007, it introduced variable charges for parking permits based on vehicle CO₂ emissions. The structured charges offer reductions for smaller, more environmentally friendly vehicles, while more polluting vehicles are charged at up to three times the previous standard rate. Before introducing the scheme, the Council carried out a full consultation with a structured sample of the local population. This identified support for the proposals (49 per cent in favour) but also considerable opposition (39 per cent against). The proposals generated national media interest. National motoring organisations questioned the legality of the scheme and the likely

environmental benefits that could be achieved, regarding the move as more about revenue raising than tackling air pollution. However, environmental organisations welcomed the move and called on other councils to follow suit.

- 87** The Council has responded to accusations that the scheme is designed to increase revenue by emphasising that it is primarily about delivering environmental benefits. In fact, the overall level of income from the scheme is expected to remain the same as before – a point which the Council sees as essential to maintaining the support of local residents. Since the new charging structure was introduced, most of the residents renewing their permits have paid less than before as their vehicles have fallen into the lower bands. As a result the Council believes it is likely that support for the scheme is growing, and while it is too early to see whether it will influence residents' choice of vehicle, there is evidence that awareness of emission levels has grown.
- 88** The research carried out by Ipsos MORI into public attitudes on charging examined what people thought about charges being used to influence behaviour. Sixty-two per cent of survey respondents agreed it is acceptable for councils to use charging in this way. However, focus group participants were inclined to be hostile to specific examples, such as road congestion charging, and more likely to suspect that these were merely revenue-raising exercises. It is inevitable that some people will disapprove of charges that are set at levels designed to restrict their use of services and bring about changes in their behaviour. But it is only by charging at levels that generate such responses that councils will succeed in achieving the changes they seek. This heightens the importance of communicating clearly the purpose of charging in such cases, and explaining how revenue from charges will be used.

Supporting affordability

- 89** Although councils will wish to use charges to influence levels of service use, councils are rightly concerned to ensure they do not restrict access to services unintentionally for those who may have difficulty affording charges. To combat this, in many cases, councils offer concessionary charges to individuals in receipt of income-related benefits or, as in the case of personal social care services, following a financial assessment of income and savings. However, in some cases, affordability may also be enhanced by supporting increases in the income of those at whom services are targeted.

- 90 North Tyneside Council** sets charges for nursery care provision at levels that remain within the limits of what can be claimed through working families' tax credits or the Care to Learn scheme. At the same time, it also actively promotes the take-up of these benefits to ensure those who have need of the service can afford to pay for it. Similarly, **Reading Borough Council** provided face-to-face advice on benefits maximisation to users of the Council's early years and play services as part of a phased introduction of increased charges for the service. **Bath and North East Somerset Council** introduced charges for its social care transport service while supporting the take-up of mobility allowance among service users.
- 91** Other councils may find additional opportunities to introduce or increase charges for services where they are able to support the users of services to secure increases in income from relevant income- or needs-related benefits.

Lowering transaction costs

- 92** In some cases councils may rightly determine that the benefits of charging are outweighed by the transactional costs associated with collection of charges. Councils will have greater opportunities to use charging where the costs of collection are low. A wide range of payment methods are available to councils, with new technologies significantly reducing the costs of collection. The use, for example, of pre-pay cards in school canteens cuts queues for pupils and reduces staff time and costs in handling money.
- 93** While some methods can make it easier for service users to pay charges and more cost effective for councils to collect them, for example, payment by mobile phone text message, they may also exclude some service users. Even commonly used payment methods such as direct debit may unintentionally discriminate against those without bank accounts. Councils will need to ensure that an appropriate range of collection methods are in place for different services and groups of users.

Promoting equity

- 94** Councils should be mindful of the different impact that charges can have on groups within their communities. When councils evaluate their approaches to charging, it is essential that they include an assessment of how charges have influenced:

- the levels of service use by different groups, for example, whether some groups are using the service more or less than previously or have stopped using the service altogether; and
- the levels of expenditure on services by different groups, for example, whether expenditure reflects relative levels of need or ability to pay for the service.

Where levels of service use and expenditure are found to be different among different groups, councils will need to assess whether this reflects their service and strategic objectives, particularly those related to equality and diversity.

- 95 Councils' assessment of financial impact will ideally consider not just individual charges, but the cumulative effect of charges for different services on individuals and households. An analysis of the expenditure on council services made by two households living in the same council area, using the Household Charges Calculator developed as part of this study,¹ highlights the different and sometimes regressive impact charges can have (**Table 2**).

Table 2

Financial impact of charges on different households

	Household A 2 adults and 2 children	Household B 1 adult and 2 children
Net household income	£39,000	£21,000
Council tax – Band D	£1,367	£1,025*
Expenditure on council services – charges	£1,190	£1,073
Total expenditure – council tax and charges	£2,557	£2,098
Expenditure on council tax and charges as % of net household income	7%	10%

*Includes 25% discount

Note: The analysis shown is based on real data on charges and council tax in a single tier council in the North of England

Source: Audit Commission

¹ Available at www.audit-commission.gov.uk/charging.

96 Councils can make deliberate use of the different responses of individuals and groups to charges to achieve their service and strategic objectives. This will require councils to understand how charges can be set to:

- influence service use by different community groups; and
- deliver the desired balance of income from different groups of users.

This is no different from the way that commercial companies seek to predict how different groups of customers would react to changes in price.

97 In many cases this will be achieved through differential service charges for different groups. Lower charges for some groups ensure that they are not discouraged from using a service that might otherwise be too expensive. Higher charges for others may, simultaneously, reduce service use by certain groups. Used in this way charges can make an important contribution to ensuring that resources, in the form of service subsidy, are distributed:

- in accordance with council priorities; and
- relative to need.

98 In 2007, **Westminster City Council** reviewed the approach to charging within its library service. In relation to internet access within libraries, the review found that some service users, who were a lower priority for the Council, were benefiting from council subsidy. New charges were introduced so that only members of the library service would have free internet access for up to 30 minutes. Non-members now have to pay to use the internet service, as they would if using a commercial internet cafe.

5

Questions for councillors

- 99** All councils have opportunities to make better use of charging powers to achieve financial, service or strategic objectives. Getting the most from charging means finding the optimal balance between these different objectives and recognising that there may be trade-offs between them. Councils will inevitably have to make difficult choices between achievements in each of the three areas.
- 100** From 2009 the Audit Commission's judgements on use of resources will take account of the extent to which councils are using charging to further their aims. Most importantly, councils should ensure that:
- the choices they make are founded in good evidence about the likely impact of charging on patterns of service use by different groups of users;
 - the objectives of charging are clearly communicated to the public who should have the opportunity to hold the council to account for its decisions; and
 - they evaluate whether the choices they have made are having the desired effect and take appropriate action if not.
- 101** The findings presented in this report and the additional resources identified in paragraph 7 will support councils to:
- understand better the impact of charging for service users (household charges calculator) and taxpayers (charging income comparison tool); and
 - identify alternative approaches to the design and management of charges (charging directory).
- 102** The questions in the remainder of this section can be used by councillors to examine their own council's approach to charging and to identify opportunities to maximise the benefits of local public service charges.

Questions

What do we want to achieve?

- What objectives are we supporting with charges?
 - How much income are we trying to generate, and why?
 - Whose use of services do we want to subsidise, and by how much?
 - Whose behaviour are we hoping to influence, and in what ways?
 - How will charges help improve value for money, equity and access to services?
- How do these objectives relate to other council objectives?
- What principles should underpin our approach to charging?

What's the current picture?

- What targets have been set for charges and what assumptions are these based on?
- How do charges compare to:
 - Similar councils?
 - Neighbouring councils?
 - Other service providers?
- How are charges structured, and why?
- Are cost effective mechanisms available for paying and collecting charges?
- Are the charging objectives being met?
 - Are income targets being achieved?
 - What is the impact, intended or unintended, of charges on local people?
 - Which people are using services and which aren't?
 - Which users are paying for services and which aren't?
 - Are concessions being taken up by the people at whom they are targeted?
 - Are we maximising the take-up of related benefits in this area?

- How does the impact of charging on behaviour and budgets compare to:
 - Similar councils?
 - Neighbouring councils?
 - Other service providers?

What do local people think of our charges?

- Have we consulted service users and the public about:
 - The current and proposed charges for the service?
 - The value for money of the service?
- Do service users and taxpayers understand our objectives and how the structure of our charges contributes to achieving them?

Where do we go from here?

- What changes, if any, should we make to the level and structure of charges?
- How will we evaluate the impact of charges?
 - What data will we need?
 - Can we collect this data cost effectively?
 - When should we next review our approach?

Appendix 1

Study method and research

The study was conducted under Section 33 of the Audit Commission Act 1998. Section 33 places a duty on the Audit Commission to undertake studies to support recommendations aimed at improving economy, efficiency and effectiveness in the provision of local authority services.

The findings presented in this report are based on:

- an analysis of central government data, at both a national level and for individual councils, which examined the contribution that charging makes to local government finances, and considered variations in levels of charging;
- a review of literature on charging, which examined recent research and current academic and other thinking on various approaches to charging for services in the public sector;
- fieldwork in 13 councils, which involved in-depth interviews with councillors and officers about local approaches to charging, and a review of council documents including charging policies (a list of councils taking part is provided below);
- a number of informal discussions with a range of councils that contributed to the development of the study, particularly in the scoping stage;
- a survey of council finance directors in conjunction with the Local Government Association, investigating local charging policies and developments;
- research with the general public commissioned from Ipsos MORI, including focus groups with local people and businesses and omnibus survey questions, that explored the general public's attitude to council charges and their views on charged-for services; and
- contributions from a range of councils of their written charging policies, and examples of how they are using charging powers.

The research was undertaken by Louise Gitter, David Pottruff and Katie Smith. John Kirkpatrick was the Project Director.

Fieldwork councils

The councils who participated in fieldwork were:

Barking and Dagenham London Borough Council

Durham City Council

East Hampshire District Council

East Sussex County Council

Harrow London Borough Council

Ipswich Borough Council

Kettering District Council

North Tyneside Council

Peterborough City Council

Reading Borough Council

Solihull Metropolitan Borough Council

South Gloucestershire Council

Westminster City Council

External Advisory Group

An External Advisory Group (EAG) was established to advise on the scope of the study, to help develop themes for in-depth investigation and to comment on outcomes and key messages. Members of the EAG were selected to provide a wide range of perspectives on charging issues, and were invited to contribute their personal viewpoints as well as those of their organisations where appropriate. They met the study team on two occasions, and commented on key documents, as well as providing support and information on points of individual expertise.

The EAG members were:

Stephen Bailey – Glasgow Caledonian University

Keith Beaumont – Local Government Association

John Bennett – Eversheds

Martin Jennings – IPF

Jim Cassin – Chester City Council

Derek Coates – Gateshead Council

Cliff Dalton – CIPFA Finance Advisory Network

Peter Goldsworthy – Chorley Borough Council

Margaret Lees – Communities and Local Government

Jonathan Mills – HM Treasury

Ian O'Donnell – Waltham Forest Council

Ben Page – Ipsos MORI

Leyland Pitt – Leeds University Business School

Laura Rowley – Shropshire County Council

Peter Watt – Institute of Local Government Studies (INLOGOV), University of Birmingham

Emma Wild – CBI

We would like to extend our thanks to all the individuals who have contributed to the study, including those named above and numerous others who gave their time to support our work.

Appendix 2

Findings from an omnibus survey of the general public

- Ipsos MORI interviewed 1,941 adults aged 18+ across Great Britain.
- Interviews were conducted face-to-face from 23-29 August 2007.
- Data are weighted to match the known profile of the population.
- The base for all questions is 1,941 British adults unless stated otherwise.
- Where percentages do not sum to 100, this may be due to computer rounding, the exclusion of 'don't know' categories, or multiple answers.
- An asterisk (*) denotes any value of less than half a per cent.

Q1 Which of the following have you paid a charge for in the past year or so?

	%
Libraries (excluding fines)	10
Local parks (eg, tennis courts hire)	6
Adult education services	7
Local authority schools (eg, meals)	10
Recycling services	5
Homecare services	2
Leisure clubs/gyms/swimming pools provided by the council	32
Local museums and arts facilities	10
Council pest control services	3
Car parking (but NOT fines/penalties)	50
Bulky waste collection	9
None/don't know	31

Q2 For each one that you have paid a charge for, to what extent would you agree or disagree that you received value for money?

	Strongly agree (%)	Tend to agree (%)	Neither agree nor disagree (%)	Tend to disagree (%)	Strongly disagree (%)	Don't know (%)		Net agree (agree minus disagree) (%)
Libraries (excluding fines)	51	37	4	4	4	–	(191)	80
Local parks (eg, tennis courts hire)	16	59	8	11	5	1	(59)	59
Adult education services	31	50	6	9	2	2	(126)	70
Local authority schools (eg, meals)	21	44	10	16	5	3	(193)	44
Recycling services	23	40	7	17	11	1	(99)	35
Homecare services	22	24	27	10	15	3	(42)	21
Leisure clubs/ gyms/ swimming pools provided by the council	21	56	8	11	3	1	(625)	63
Local museums and arts facilities	34	48	6	9	1	1	(189)	72
Council pest control services	23	28	21	14	14	–	(49)	23
Car parking (but NOT fines/penalties)	9	33	15	23	20	*	(972)	-1
Bulky waste collection	18	42	10	16	13	1	(166)	31

Q3 To what extent do you think it is acceptable or unacceptable for councils to charge people different amounts, based on their ability to pay, in order to ensure everyone has equal access to local services?

	%
Very acceptable	16
Fairly acceptable	43
Not very acceptable	21
Not at all acceptable	15
Don't know	5

Q4 By charging some people more or less for certain services, councils might try to influence their behaviour; for example, they might try to encourage more recycling and discourage landfill waste, or encourage use of public transport while discouraging people from parking cars in city centres. To what extent do you agree that this is acceptable or unacceptable?

	%
Very acceptable	16
Fairly acceptable	46
Not very acceptable	21
Not at all acceptable	11
Don't know	6

Q5 I would like to provide you with a specific example. There are broad proposals for the councils to charge less council tax to individual households, but to then charge for services such as household waste collection – based on how much is thrown away. This would have the effect of making people think more about recycling and reduce the amount they throw away, thus helping to improve the environment. To what extent do you agree or disagree that this approach would work for your household?

	%
Strongly agree	16
Tend to agree	35
Neither agree nor disagree	15
Tend to disagree	16
Strongly disagree	15
Don't know	3

Q6 To what extent do you agree or disagree with the following statements?

	Strongly agree (%)	Tend to agree (%)	Neither agree nor disagree (%)	Tend to disagree (%)	Strongly disagree (%)	No opinion (%)	Net agree (agree minus disagree) (%)
I understand the way the council raises money	15	45	14	18	7	2	35
The council provides good value for money	4	33	22	26	11	3	0
Information on how the council raises and spends money is available if people want it	17	43	15	12	4	9	44
The information provided on how the council raises and spends money is useful	9	43	24	13	3	8	36
I think that it is reasonable for other councils to charge different amounts for the same type of service	6	34	15	26	14	5	0

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