

# briefing

SEPTEMBER 1999

## The Price is Right? Charges for Council Services

### The fees and charges levied by councils are important.

- they raise £6 billion a year, compared to the £9 billion raised by council tax
- this income has increased 40 per cent in real terms since 1990/91
- they have the power to help to deliver a range of council objectives

### But charges are often not well managed...

- charges are seldom meaningfully reviewed; 63 per cent of prices are simply increased each year in line with inflation
- councillors have little information to help with charging decisions; less than one-third are told the impact of past price changes
- some councils do not understand user needs and priorities; only 16 per cent conduct regular market research
- there are wide variations in charges; from £1.15 to £4 for an adult swim or £100 to £450 for burials, for similar authorities

### ...and councils have little idea of what they want charges to deliver...

- fundamental questions of principle remain unresolved



- links to policy priorities are often missed; only 20 per cent of anti-poverty strategies link access to services with concession policies
- charges are often managed in isolation from service plans
- specific objectives for charges are rarely set

### ...so charges are not used to their full potential.

- service quality may suffer or resources may be wasted where subsidy is misdirected or charging opportunities are ignored
- council priorities such as social inclusion can be undermined or contradicted

- charging structures are often not focused on users needs or priorities
- the strategic power of charges can be neglected – for example, using parking charges to support town centre strategies

### Councils need to refocus their attention on charges and address the key success factors.

- establish clear principles for charging: which services? which users? what levels of subsidy?
- integrate charging into service management and forge links with corporate objectives
- set clear objectives and targets to quantify success in charging
- build an understanding of users and markets
- improve decision-making by taking into account the likely impact of changes to charges
- innovate via imaginative use of charge structures

Best value provides an excellent opportunity to use charges to deliver priorities, improve services and generate income. Councillors and officers have much to gain by responding to this challenge.



AUDIT  
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Promoting the best use of public money

## The power of charges

1. One issue unifies local government. It could do better if it had more cash. While income from council tax and grants receives considerable attention, one source of income remains curiously neglected. Income from fees and charges totals £6 billion per year for councils in England and Wales, compared to the £9 billion raised by council tax [EXHIBIT 1].

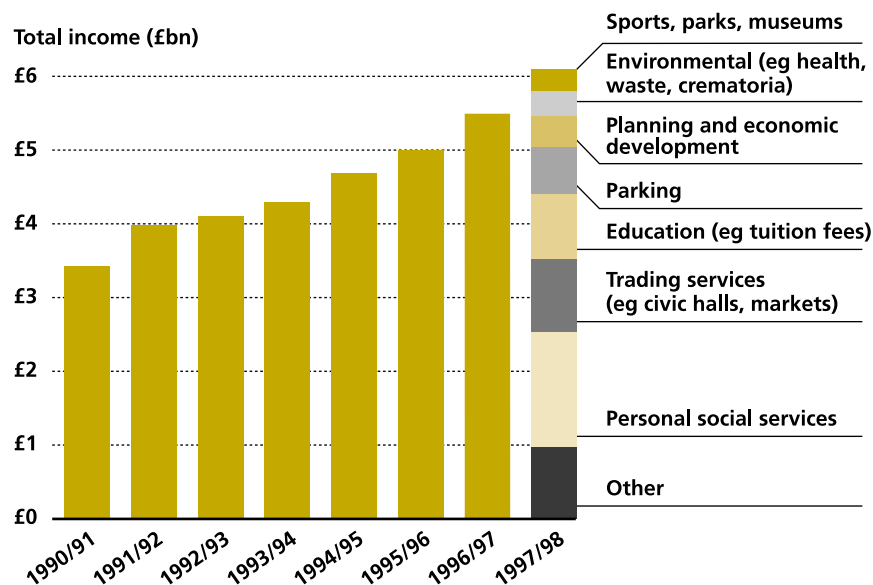
2. Charges can do more than simply raise income, however. They have a significant role to play in the achievement of a range of council objectives, from corporate priorities for social inclusion or the environment, to the health of the population. Charges also have a central role to play in service delivery: raising income; controlling access; responding to competition; funding investment; and affecting user behaviour.

*...one source of local government income remains curiously neglected*

### EXHIBIT 1

#### Income from fees and charges

Councils in England and Wales raise £6 billion from a range of services.



Source: DETR/DoE Local Government Financial Statistics England (Nos 4-9) and Welsh Local Government Financial Statistics (1992-1997) adjusted for inflation, (1997/98 figures provisional)

## How are councils doing?

3. Given this potential, why are charges neglected? The Commission's study has revealed a number of barriers that prevent councils from getting the best from charges.

4. The controversy that surrounds charging makes it a difficult and highly political area for many councillors. Few councils have resolved the fundamental questions surrounding the acceptability of charging and subsidising different users and services. There is little awareness of the positive potential of charges.

5. In a recent survey, 85 per cent of service managers claimed to review their charges annually. However, on closer examination, it quickly becomes clear that these

annual reviews are limited. In most authorities, charges are driven by the annual budget cycle. This narrow focus typically results in an incremental approach to charging, with councils found to be simply increasing 63 per cent of their charges year-on-year by inflation.

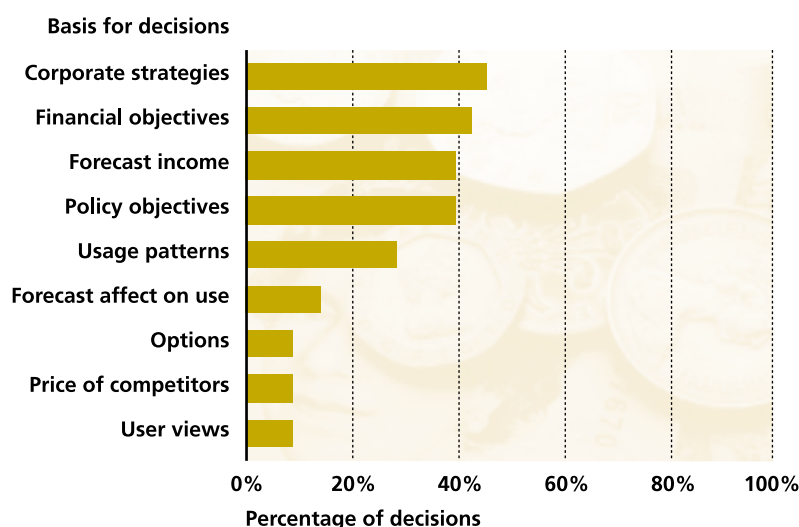
6. Charges often become divorced from service management and corporate priorities. Service managers often view charges as a negative imposition from the centre, usually associated with budget cuts. The links between corporate policies and charges are often missed: town centre managers are not consulted on car park charges, and anti-poverty officers may have no input into concession schemes run by departments.

7. Further evidence of a narrow approach to charges comes from an examination of charging decisions. Charging reviews rarely contain reference to users or market conditions, or give councillors real options to choose from [EXHIBIT 2]. In such an environment, with little time for proper consideration of charges and with the focus on savings and cuts, managers all too often opt for a 'low-risk' incremental approach, with little consideration of the affect of charges on services and users.

### EXHIBIT 2

#### What informs decisions on charging?

Less than half the decisions included objectives of any kind, and under 15 per cent considered the impact on users or the service.



Source: Audit Commission research sites

8. Meaningful objectives for charges are seldom set, let alone developed further into measurable targets that would allow the impact of charges to be monitored. Financial targets are often simply extra income targets devised in response to the current budget crisis, rather than the outcome of a debate about what income charges should yield in the long term. Where objectives do refer to specific target groups, it is rare to find them translated into targets for the level of access and take-up of services. It is hard for councillors to make informed decisions in these circumstances.

9. Without adequate information, neither councillors nor managers are able to build up an understanding of users – their attitudes to price, service quality, competition, and affordability. As a result, tariff design and charging decisions are often based on guesswork, myths about how users behave and the depth of the latest budget crisis.

10. It is no surprise that charges do not deliver their potential:

- low-income families are faced with charges that they simply can not afford, such as £7 for a family swim;

- income is foregone as prices are set below what users are willing and able to pay – even with commuter car parks full-to-bursting, annual season tickets may be priced equivalent to only 100 days parking;
- the opportunity to use charges to contribute to council objectives is lost, resulting in charges that contradict councils' principles and priorities; and
- services and users suffer – services may be cut or starved of investment or access to services may be reduced, for example, by cutting opening hours.

## Releasing the potential

11. Some councils have begun to integrate the management of charges with the delivery of objectives: tackling the difficult political questions about whether or not to charge or subsidise different services and users; building links between charges and corporate policies; managing charges as part of service delivery; and formulating targets against which the performance of charges can be evaluated.

12. Others have made progress by moving beyond a focus on internal budgetary issues and starting

to look outward. By building up an understanding of users (and potential users), who they are and what they want, councils can make sound decisions over the effects of different charge structures. By understanding the value that users place on a service, councils can improve service delivery, effectively target investment and respond to competition.

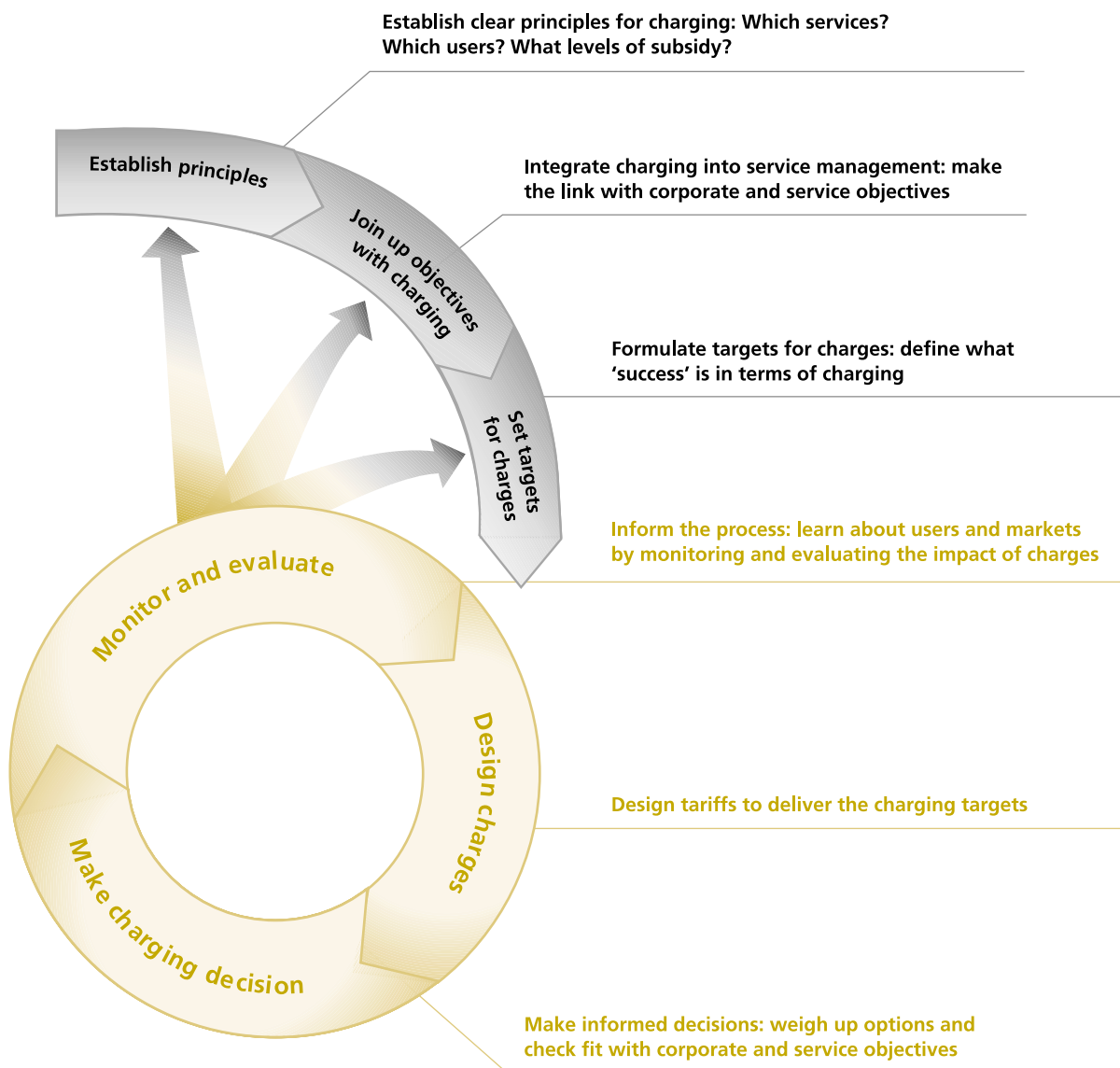
13. From this best practice a picture of the success factors for good charging emerges [EXHIBIT 3].



EXHIBIT 3

**Framework for getting the best out of charges – The Charging Cycle**

A joined-up and informed approach to charging enables councils to tap the potential of charges...



Source: Audit Commission

*By building an understanding of users, charges can be designed that deliver their targets*

14. This joined-up and informed approach to charging has enabled some councils to tap the potential of charges:

- transforming a loss of £435,000 on the trade refuse service to a surplus, while increasing from 2,500 to over 3,100 trade refuse contracts;
- funding the expansion of music tuition in schools, increasing pupil numbers from 2,800 to 8,600 – including a high proportion of children from low-income families;
- promoting social inclusion through a well-designed concession card scheme, co-ordinated across all departments, with a high level of take-up (60 per cent), which has increased access to services; applications for school clothing grants up from one to 46 per year;
- targeting subsidy in adult education at high-priority target groups and courses linked to the council's priority to encourage youth employment;
- using parking charges as a central part of integrated transport strategy - to improve car park security, support city centre retail objectives and to manage congestion; contributing to a cut of 8 per cent in peak time traffic.



## Moving forward with best value

15. Many councils may be attracted by the power of charging, but will ask the question ‘how can we tackle charging as well as all the other plans, reviews and changes we have to manage at the moment?’ The lessons learned from good practice councils provide a starting point [EXHIBIT 4].

16. As part of their new duty of best value, councils are required to carry out a programme of searching reviews of all their services over a five-year period. These reviews have to encompass the ‘4Cs’ of best value. The questions raised by each stage of the charging cycle fit comfortably with the best value challenge and can act as a catalyst for the best value reviews:

- Why are we providing this service at all?
- Who benefits from the service – individuals or the community?
- Why do we subsidise it? What are we trying to achieve by subsidising it?
- How much do residents and businesses value the service? How willing are they to pay for it?

17. These questions about how services are resourced – how subsidy is targeted at users and services, how well managers understand their users, and how objectives are delivered – are all fundamental to good management. By addressing them, many aspects of service delivery should improve.

After all, there are few better measures of ‘value’ than a user’s willingness to pay for a specific service, and few more fundamental questions than the balance between ‘user pays’ and taxation.

18. There is a role, too, for government. The current legal framework for council charges

is complex and confusing. It is open to differing interpretations, it can stifle innovation, and can be a considerable barrier to councils getting the best out of charges. It is timely to review that framework, and to look to provide the best councils with freedom to improve and innovate.

### EXHIBIT 4

#### Tips for effective charging reviews

Lessons learned from best practice councils.



Source: Audit Commission fieldwork

# Key recommendations

## For councillors

- 1 Find out what approach is taken to charges in the council and ask 'are we getting the best from charges?'
- 2 Establish clear principles to guide charges in the council.
- 3 Question whether there are clear objectives and targets for specific charges, and whether the success and impact of charges is monitored and evaluated.
- 4 Use the opportunity of best value reviews to ensure that charges are considered as an integral part of the review and planning of services.
- 7 Concentrate the council's efforts on the most important charging services and highest priority corporate objectives.
- 8 Identify clear objectives and associated targets to guide the development of specific charges.
- 9 Build up an understanding of users and markets to get the best out of tariff design.
- 10 Provide decision makers with enough information about the impact of charges on service and financial objectives to allow them to make informed decisions about charges.

## For council managers – at the corporate centre and in service departments

- 5 Use the charging cycle as the framework for the management of charges, and compare the existing approach to charges with best practice.
- 6 Identify where there is potential to make better use of charges to meet top council priorities.

- 11 Use the opportunity of best value reviews to ensure that charging questions are dealt with as an integral part of service development and review.

## For government

- 12 Encourage innovation and best practice by providing councils with a power to charge for all discretionary services.
- 13 Undertake a fundamental review of the existing legal framework for charges to ensure it is consistent and logical.

If you want to know more:  
the full national report, **The Price is Right?: Charges for Council Services** looks at these issues in more detail and includes information, case studies and specific guidance.

Audit Commission,  
**The Price is Right?  
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