LGIU Local Government Information Unit

Independent Intelligent Information

Positively charged: Audit Commission report (LGiU)

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Overview

Fees and charges are a significant part of local authorities' income - English councils raised £10.8 billion from charges in 2006-07, excluding council rents. County councils raise the most from charges, but charges make the greatest contribution to service delivery in district councils.

The Audit Commission report, published on 22 January, 2008, shows that the majority of councils are not clear how charges contribute to their overall spending and have little understanding of how their approach to charging compares with other councils. The findings also show that councils often do not demonstrate clearly to the public the rationale for charging or having to increase charges.

The report does include examples from councils of good practice and highlights how councils can use charges more strategically, for example, to influence behaviour and consumption, such as to shorten parking stays.

The Audit Commission wants councils to review their approach to charging and to how they communicate with the public on their charging policies. It also wants to see central government regularly review their rationale for national charging frameworks, including nationally set fees.

There is a list of questions in the report that councillors should be asking about charging. This could be particularly useful as the basis of a scrutiny review.

The Audit Commission rightly recognises that decisions on certain charges can be highly sensitive, and councils may need to balance different and sometimes conflicting objectives in making them. It does not perhaps give enough recognition to the context: councils are facing tough financial settlements and an inflexible and centralised finance system - it may sometimes be necessary to raise charges to meet funding gaps. However, it must be correct that councillors make these decisions with proper information about the consequences of what they are doing on individuals and services and within a properly considered policy framework.

Briefing in full

Background

The Audit Commission undertook research in 2007 into councils' use of their powers to charge for services. The report is particularly useful for both executive and scrutiny councillors, and for finance and service managers.

The Commission published alongside the report a charging directory, with examples of charging from a range of councils; a household charges calculator, to help councils understand the financial impact of charges on different households; and a charging income comparison tool, to compare charges with other councils.

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
- to examine the impact of charging on equity and to help councils manage this impact.

The importance of charging

Councils generated £10.8 billion from fees and charges in 2006-07. This is around eight per cent of their total income and equivalent to just over £210 for every person in England. In over a quarter of councils, income from charges exceeds that from council tax.

In 2006-07, three service areas accounted for 58 per cent of all councils' charging income: social services (£2.3 billion); education (£2 billion); and highways, roads and transport (£1.5 billion). County councils collected the largest proportion of charging income nationally and district councils the smallest, but for districts, charging provided the greatest contribution to service delivery, equal to nearly one-fifth of their total service spending.

The researchers found that there are large variations in charging income between councils of the same type. District councils, for example, generated income that ranged from 2 to 67 per cent of their total service spending. The variations appear unrelated to council performance or local factors such as deprivation.

Strategic uses of charging

Charging has the potential to be a significant policy instrument. Structuring charges in different ways can , for example, encourage particular patterns of use. This can be clearly seen in how parking charges can be used to increase or decrease lengths of stay in a car park.

Councils can target services towards specific groups by setting different charges or offering concessions. The report gives several examples form local authorities.

More than half of councils say that they use charging as a tool to achieve strategic policy objectives. However, the Audit Commission says that few councils can claim to have been successful: in many cases, changes that have been implemented following charging reviews have not been in place long enough for their effects to be discernible. Most councils lack suitable data to show they have achieved what they set out to do.

Constraints on charging

The national framework

There have been powers to charge for specific services, such as for a range of arts activities, for many years. The position was, however, complex and confusing. Section 2 of the Local Government Act 2000 and section 93 of the Local Government Act 2003 were introduced to reduce the complexity and to give councils greater flexibility to charge for local services

There is little evidence that councils have made much use of the greater autonomy to develop new discretionary services funded by charges. However, three in five councils report introducing new charges for services that they have previously provided at no charge. Charges for pre-application planning advice is the one most commonly cited.

Although the 2003 Act did provide greater local discretion to charge, the report highlights other aspects of law that reduce flexibility. This is the case where councils are:

- prohibited from charging for services, such as education in schools or the collection of household waste
- restricted to recovering the costs of providing specific services. The restriction also prevents charges being used to raise surplus revenue.
- required to charge at a level determined by central government rather than local councillors, for example, for determining planning applications or licensing premises.

The Audit Commission believes that, although there are valid reasons for these restrictions, they create difficulties for councils, particularly that councils and the public are not always clear about the rationale that lies behind them, or that the original reason no longer remains valid for the restriction.

Even where the rationale is clear for nationally set fees, such as for planning applications, there can be significant financial consequences for councils. Planning fees often fail to provide the full recovery costs of the activities councils are required to undertake.

The authors conclude that there should be greater local discretion to allow councils to vary charges:

"*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. 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

The report describes barriers to the effective use of charging over which councils do have influence. 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.

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 such as social inclusion.

Information about the financial contribution of charging to councils' budgets is limited. 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.

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.

Councils have little understanding of how their approach to charging compares with other councils providing similar services to similar populations.

Councils believe that local public opinion is a major obstacle to making more use of charging. Ipsos MORI's research into public views on charging appeared to support the perception that the public were hostile to charges being introduced or increasing. 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.

Resistance, however, varied depending on the service under discussion and on local circumstances. People are less tolerant of charges that relate to services they need, rather than those they choose to use. Many people were aware of the link between what they pay and the quality of service that councils provide. MORI's survey found that, for most charged-for council services, most people who had paid a charge agreed that they had received value for money.

What councils can do

Setting the right charge

This section of the report sets out in a diagram 'the charging system' how councils can make sense of a complex system of which charging is an important part. 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 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.

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
- perceptions of value for money
- the availability of alternatives.

Other factors that influence individuals' levels of service use include accessibility, awareness and attitudes. Councils must understand and, where possible, control the effects of these factors. as the amount of use made of services at different levels of charge will determine whether councils achieve their service objectives, the financial impact of charges on individual users and the income that councils receive.

Questions for councillors

The report sets out a useful list of questions that councillors can ask to examine their council's approach to charging and to identify opportunities to maximise the benefits. It reminds councillors that 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 strategic objectives.

The questions focus on establishing how charges support the council's objectives; what the current picture of charging looks like; what the public's perception is of current charges; and what changes should be made to charges and how these can be evaluated.

Key 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 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 benchmark with the public, private and voluntary sectors the level of charges made for services and the costs
  of service delivery, levels of cost recovery, priorities, impact achieved and local market variations
- engage service users and taxpayers more in decisions about whether and at what level to charge for services
- 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.

Comment

This is a practical report. The emphasis on councillors taking the lead in setting a strategic framework for charging is particularly useful. The questions for councillors could also form the basis for a scrutiny review of charging.

Given the current financial constraints and increasing pressures on services, it is clearly crucial that councils use charging effectively to maximise income, whilst understanding the implications for their wider policies and objectives.

The Audit Commission recognises that there can be sensitive considerations in relation to which services are charged for and how charges are made. There are legitimate political choices to be made that can be difficult due to conflicting interests and objectives.

The authors state that the report does not judge councils on these choices, although it does emphasise that councils should compare their charges with others. It must be right for councils to understand the basis for their decisions, so that they are rational and can be justified, but the report does not perhaps give enough recognition of the difficult choices councils have to make. With a poor financial settlement over the next three years for some councils and an inflexible local government finance system, councils will often need to decide between increasing council tax or charges, or indeed making service cuts.

The report highlights the tensions between local and central government over charging. It rightly comes down on the side of maximum local discretion. It does raise, however, issues that are politically difficult, particularly those around charging for adult social care. Whether there should be an element of uniform charging may well be part of the debate in the government's proposed review of the system.

Charges are a major part of the income of many councils and can have a serious impact on individuals. It is clear that not enough attention is given to charging. Indeed, some of the Commission's findings are not that different from those they reached in a 1999 report 'The Price is Right' about the lack of strategic direction. Councils should not wait for the 2009 Use of Resources judgements on charging strategy to review their charging policies.

Additional Information

LGIU seminars that may be of interest

Use of Resources 2009, 31 January

How to finance carbon reduction, 5 February

Covers

- Adult social care
- Finance, Charging and trading
- Equalities, Social inclusion, Community cohesion
- Democracy, Governance, Councillor issues, Standards board, Neighbourhood governance, Regional governance, Local government information
- Corporate management, Audit and Inspection, Evaluation, Targets, Procurement
- Community planning and well-being
- Children's services

Question

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Related links

- Positively charged
- Charging directory
- Charging Income comparison tool
- Key findings from the research

Related briefings

- Charging for discretionary services: new research