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.
Why are charges important?

1. Councils set over 600 user charges for services, ranging from leisure centres to home care. Across England and Wales, these raise £6 billion each year, compared with £9 billion raised by council tax (excluding housing rents). Charges offer councils a way to secure more resources without calling on government.

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. Curiously, they are not used to their full potential by councils.

3. A new national report by the Audit Commission looks at the significance of charges to local authorities and identifies the potential of charges to deliver a broad range of top council priorities. This bulletin draws on the findings of the national report to:
   • highlight the significance and potential of user charges for councils;
   • identify what the barriers are that stop councils from getting the best from charges;
   • outline how councillors can help overcome these barriers and get more from charges, and, in so doing, meet the new duty of best value.

An important source of income

4. Income from charges is a very important source of local income for many councils. In England alone, more than 100 councils raise more income from charges than council tax. On average, each council raises £64 per resident each year through fees and charges. Since 1990, income from fees and charges has increased by 40 per cent in real terms [EXHIBIT 1]. It now funds around 9 per cent of council spending compared with the 11 per cent funded by council tax.

EXHIBIT 1
Income from fees and charges
Councils in England and Wales raise £6 billion from a range of services.
The power of charging

Charges can do more than simply raise income, however. They have the power to contribute a range of council objectives [EXHIBIT 2].

EXHIBIT 2

The six powers of charges

The powers of charges can be used to contribute to a range of council objectives.

<table>
<thead>
<tr>
<th>Targeting subsidy at top priorities</th>
<th>By taking steps to recover more of the costs of low priority services through charges, councils can target subsidy at top priority services. Similarly, charges can be used to focus subsidy at priority users.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving services</td>
<td>The income that charges can generate can be used to improve services through investment in better facilities, or by extending opening hours. By using charges to help control, limit or manage physical access, problems – such as vandalism or the abuse of free facilities – can be reduced.</td>
</tr>
<tr>
<td>Delivering corporate priorities</td>
<td>Charges can help to deliver corporate priorities that need joined-up action. For example, by simplifying access to concessions and increasing take up of services and benefits, charging can help to tackle social exclusion as part of an anti-poverty strategy; or leisure charges can be used to support strategies to improve health and well-being.</td>
</tr>
<tr>
<td>Generating income</td>
<td>More costs can be recovered by carefully designed charges that are able to tap the different value placed on a service by different users. Surplus income can be generated by identifying where services are under-priced compared to what users would be prepared to pay, and by questioning whether services that are currently free should continue to be so.</td>
</tr>
<tr>
<td>Managing demand for services</td>
<td>Well-designed charges can be used to encourage the take-up of services by priority users. Similarly, excessive demand for services can be controlled – by ensuring that lower-priority users have to pay a significant premium rate.</td>
</tr>
<tr>
<td>Communicating a message</td>
<td>An image of quality and ‘something to value’ can be created by introducing a charge, having significant impact on how people use the service and the benefit they get from it.</td>
</tr>
</tbody>
</table>

Source: Audit Commission
6. Although the Commission’s study has found that very few councils are getting the best out of charging, the examples of best practice which shine through show the scale of opportunities that are being missed. Councils that learn from best practice and take a joined-up and informed approach to charging have been able 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 percent) and which has increased access to services: applications for school clothing grants are up from one to 46 per year

- targeting subsidy in adult education to high priority target groups and courses linked to the council’s priority to encourage youth employment

- using parking charges as a central part of an 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.

…the examples of best practice which shine through show the scale of opportunities that are being missed
Barriers to overcome

7. Given this potential, why are charges neglected? A number of barriers have been identified which prevent councils getting the best from charges.

8. The controversy that surrounds charging makes it a difficult and highly political area for many councillors. Few councils have resolved the fundamental questions about the acceptability of charging and subsidising different users and services. The heated charging debate can close the minds of decision-makers to the wider potential of charges.

9. 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. It also means that charges are perceived negatively, often associated with cuts and savings. Lacking the armour of sound arguments, evidence and examples, most officers and councillors inevitably back away from change or innovation. This tendency has some important consequences. Decisions about charges may become driven by myths, not reality. A fundamental review of charges is likely to be thwarted or, more probably, never contemplated.

10. Charges often become divorced from service management and corporate priorities. Service plans rarely address the potential power of charges to deliver service objectives, and the links between charges and corporate policies (such as social inclusion, town centre regeneration or Sport For All) are often missed.

11. Charging reviews rarely contain reference to users or market conditions, real options for councillors to choose from, let alone any analysis of the impact of proposed changes. In such an environment, managers all too often opt for a ‘low-risk’ incremental approach, with little consideration of the affect of charges on services and users. Without adequate information, councillors and managers are unable to build up an understanding of users — their attitudes to price, service quality, competition, or affordability. As a result, tariff design and charging decisions are often made based on a mix of guesswork and the depth of the latest budget crisis.

12. Meaningful objectives for charges are seldom set, let alone developed further into measurable targets, so it is difficult to evaluate their success. Where there are objectives that refer to specific targets groups, it is rare to find those 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.

13. It is no surprise then 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 reduced, for example, by cutting opening hours.
Releasing the potential

14. Some councils have begun to overcome some of the barriers by: integrating 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.

15. 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.

16. From this best-practice a picture of the success factors for good charging emerges:
- establish clear principles for charging: Which services? Which users? What levels of subsidy?
- integrate charging into service management: make the link with corporate and service objectives;
- formulate targets for charges: define what ‘success is’ in terms of charging;
- inform the process: learn about users and markets by monitoring and evaluating the impact of changes;
- design tariffs to deliver the charging targets; and
- make an informed decision: weigh up options and check fit with corporate and service objectives.

Charges and best value

17. The extent to which people are prepared to pay for a service can be an excellent indicator of the value they place on that service. Councils are required to carry out a programme of searching best value reviews of all their services over a five-year period. These reviews have to encompass the ‘4Cs’ of best value:
- challenge why and how each service is being provided or if it should be provided at all;
- compare their performance with other authorities and relevant outside organisations across a variety of indicators;
- consult with local taxpayers, service-users and the business community, in particular, as regards performance targets; and
- embrace fair competition as a means of securing efficient and effective services.

18. Councils can use the opportunity of best value reviews to help them get the best out of charging. The questions raised by each stage of the charging cycle will provide a challenging kick-start to any best value review.
- Why are we providing this service at all?
- Who benefits from the service, individuals or the wider community?
- Why do we subsidise it? What are we trying to achieve by subsidising it?
- How much do residents and businesses value the service and how willing are they to pay for it?
Councillors in charge

19. If councils are to get the best from charges, current practice needs to be challenged. But, how will councillors know which stage their council is at? When is the right time to ask questions? There are three key opportunities for councillors to move the charging debate forward:

- external auditors are carrying out a value-for-money audit looking at charges during 1999. If the council has signed up to this audit they will find the report from the auditor a good starting point.
- alternatively, councillors might commission a short corporate review to establish where the council is, and use this as a launch pad for tackling charging.
- even in the absence of any corporate work, councillors can use the opportunity provided by best value reviews to make sure that the key charging questions are asked and answered.

20. The national report provides practical examples and detailed guidance on how to tackle each part of the charging cycle, but there are some tips from best practice councils which will help councillors ensure they get the best from the opportunities provided by the audit, a corporate review, or best value [EXHIBIT 3].

21. Councillors can use these opportunities to ask a number of searching questions that will enable them to provide political leadership on charges [EXHIBIT 4, overleaf].

22. Councillors and officers have much to gain by responding to this challenge.

The questions raised by... the charging cycle will provide a challenging kick-start to any best value review

EXHIBIT 3
Tips for effective charging reviews
Lessons learned from best practice councils.

- Make sure councillors are involved because there are important political judgements to be made.
- Aim to produce a small number of basic corporate principles which are relevant to most services, but avoid narrow, over-prescriptive principles which will impede experimentation and creativity.
- Clarify any local uncertainties about the legal framework for charging.
- Don’t be too ambitious. Focus on top priority services and policies where there is most to gain and charging looks to have most to offer.
- Use the idea of ‘target groups’ to produce specific objectives with clear outcomes. This will ensure a user focus and help guide each stage of the charging cycle.
- Learn from and build on existing best practice in the authority.

Source: Audit Commission fieldwork
EXHIBIT 4

Staying in control of charging – Key questions for councillors

Councillors can get the more from charges by asking some key questions

Where are we now? How significant is charging? How do we approach charging? How do we compare?

What principles are right for our council? When should we charge? Which services should be subsidised? Who should we charge? Who should be exempt?

Which corporate and service objectives can charging help deliver? Is charge management integrated with service management?

Are objectives turned into meaningful targets for charges?

Are our charges meeting their targets? How do service users and non-users react to our charges? What are our competitors doing?

Are our charges designed so that they produce the benefits we want, and have the right impact on our target groups?

Are our decisions well informed? Do they fit with the corporate and service objectives?

Source: Audit Commission

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.

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