

# The challenge of charging

BULLETIN  
MARCH 1998

## A managed response

**With the continuing financial pressures on local government, councils are examining all potential sources of income, including charges for their services.**

- charges currently raise over £330 million a year, equivalent to about a third of the amount raised by council tax
- charges are important because councils have a degree of discretion over many of the charges they can levy
- councils need to strike an appropriate balance between the amount to be raised directly from charges and the amount to be met from their other sources of funding.

**The Commission's study suggests that there is scope in many councils to adopt a more structured approach to charging.**

- less than a quarter of councils currently have a corporate approach to charging for services, although a further 40% of councils are considering one
- councils generally do not know the unit costs of services; without these, it is difficult to establish appropriate charges
- new or increased charges are commonly used by councils as a means of achieving budget savings, without assessing the impact this may have on services.

**Charging is a complex and contentious area. Many factors affect the level of the charge, including:**

- the local authority environment - historical, political, legal and financial considerations

- the cost and quality of the service
- charges made by other councils and the private sector
- users' ability to pay and their views on the service.

**Councils can benefit from adopting a corporate and systematic approach to their management of charges. Such an approach would enable a council to:**

- explain to the public the basis for its charges, and demonstrate that it has a fair and consistent approach to charging
- set charges which support its service objectives, rather than conflict with them
- set charges at levels which optimise use and income
- predict with greater accuracy the impact of increasing charges on the use made of its services
- evaluate the cumulative impact that increases in charges across a number of services have on particular groups of people.

**The Commission wishes to assist councils to meet the challenge of charging.**

- services for which charges are levied are highly diverse but the issues that need to be considered for the management of charges are the same.

This bulletin sets out a structured process for managing charges within the corporate framework of a council. It is aimed at councillors, service managers and policy officers involved in the charging process.

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities and the health service in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government and the NHS
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils, 36 joint boards (including police and fire services), 15 health boards, 47 NHS trusts and five other NHS bodies. In total, these organisations spend public funds worth around £12 billion a year.

### Acknowledgements

The preparation of this bulletin was managed by Miranda Alcock under the general direction of Martin Christie, senior manager, Local Government Studies Directorate. The research element of the work was in part undertaken by Carole Millar Research.

The Accounts Commission would like to thank all those who assisted the study team in its work, most particularly the case-study councils, the Centre for Leisure Research and the members of the study advisory group.

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### Introduction

The Local Government Studies Directorate of the Accounts Commission is undertaking a national study of charging for council services. This bulletin is the first publication from that study. It is based on the results of a questionnaire survey<sup>1</sup> of Scottish councils conducted in autumn 1997. All councils provided a full or partial response. The survey was complemented by visits to selected councils. Examples of good practice found during these visits are included in this bulletin. These do not represent an exhaustive summary of good practices adopted by Scottish councils. For those councils wishing to obtain further information on the case studies featured in this bulletin, the names of the appropriate contact officers are listed in Appendix 1.

The bulletin aims to encourage councils to improve their management of charges. Charging is a complex and contentious area, raising many different, and often difficult, issues. These issues need to be considered at a local level by officers and councillors, in consultation with service users and other stakeholders.

The bulletin is not intended to be prescriptive, since each service and every council has its own set of circumstances. Its aim is to assist councillors, service managers and policy officers involved in the charging process, by raising awareness of the factors that should be considered.

During 1998, auditors appointed by the Commission will be conducting local audits on charging for services in most Scottish councils.

### Structure of the bulletin

The bulletin is structured into three sections:

**Existing approaches to charges** - which looks at the scale of income from charges, the culture of charging, and summarises the key findings from the survey

**The challenge of charging** - which examines the complexity of charging and the factors that affect charges

**A managed response** - which proposes a framework for improving councils' management of charges. It includes a checklist which councils can follow when considering and setting charges.

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<sup>1</sup> A list of the services covered by the Accounts Commission survey is included in Appendix 2.

# Existing approaches to charges

## Charges in context

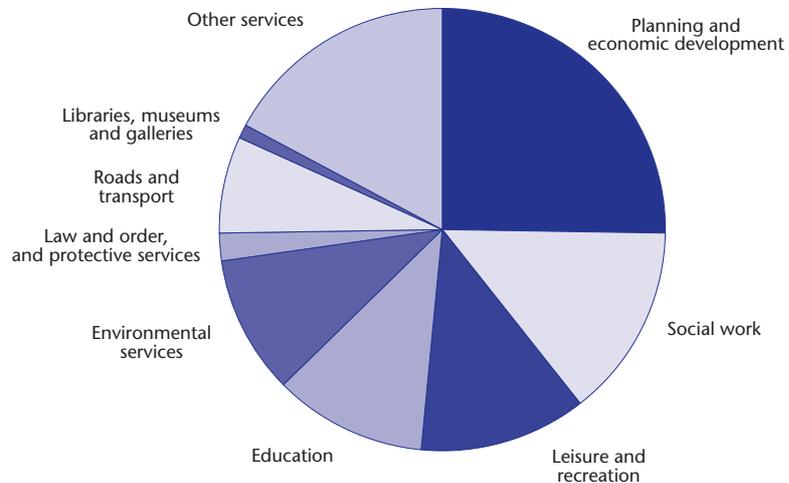
At present, about 80% of councils' total expenditure on services other than housing is met by grants from central government. These grants are mainly in the form of revenue support grant, non-domestic rates and specific grants. The remaining 20% of expenditure is financed from income raised locally - through local taxation (council tax 15%), and fees and charges for council services (5%).

Excluding housing and other rents, over £330 million a year is raised locally by councils from fees and charges for services, broadly equivalent to £65 per head of population. At a time when budgets are under increasing pressure, the income from fees and charges is important because it is an area where councils have a degree of discretion over many of the charges they can levy - although legislation restricts the freedom of councils to make charges for certain services, and in some cases, for example car parking charges, limits the use to which income can be put.

The range of services provided by councils has changed considerably over the past ten years. Many of the major income-generating services, such as public transport and further education, have been removed from direct local authority control, whilst others, such as sports and leisure services, and libraries, have broadened in their scope. Exhibit 1 indicates the scale of income raised by Scottish councils for categories of services.

Exhibit 1: Income from charges

Some services raise more income than others.



Source: Scottish Office Local Government Financial Statistics.

While fees and charges are a recognised feature of some services, more and more councils are taking a broader view of where charging should operate as a means of achieving budget targets.

Many services now run by councils have traditionally been provided at little or no direct charge to the user. The provision of services at low, or no, charge has led to a culture where this is seen to be a characteristic of local government - what citizens get in return for paying their council tax.

The culture of providing highly subsidised<sup>2</sup> local services at low cost to users, however, conflicts with the more recent trend of charging the 'market rate' for services. This conflict lies at the very heart of the political debate in setting charges. In order to fund a particular service, councils require to strike an appropriate balance between the amount to be raised directly from charges and the amount to be met from other revenue resources.

The culture and philosophy of charging for council services have been the subject of much research. A short bibliography of recently published material is included in Appendix 3.

### **The current situation in councils**

#### **A corporate perspective**

The Commission survey found that less than a quarter of councils currently have a corporate approach to charging for services. Clackmannanshire is one that does, and its approach is outlined in case study 1. Many councils recognise charges as an area that would benefit from a corporate approach, and 40% of councils are currently considering this. However, a third of councils currently have no plans to adopt a corporate approach to charging.

Most of the councils that have adopted a corporate approach to charging emphasised the particular importance of a corporate approach to concessions. By standardising entitlement to concessions across all council services, equality of opportunity and access to all council services could be enhanced.

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<sup>2</sup> Throughout this bulletin, the term 'subsidy' has been used to refer to the extent to which the cost of a service is financed from council resources other than charges.

### Case study 1: A corporate approach to charging

Clackmannanshire Council has adopted a corporate policy on charging, which was developed by a cross-service task team (on which all services were represented). The council recognises that there can be difficulties associated with charging if it is not approached in a coherent way. It is a complex issue and requires careful implementation. The council, therefore, has agreed that the following principles will apply to its approach to charging:

- charging decisions will be taken in the context of the council's goals and values. This implies that charging decisions should be cost-effective and should not disproportionately disadvantage the most vulnerable people (ie those least able to pay)
- in order to make informed decisions on charging, the council will ensure that appropriate information on service users, service usage and costs is kept. This information will be updated on a regular basis
- proposals to introduce or to amend charges will be submitted in an agreed format and will be accompanied by an impact assessment on different types of household and service usage
- proposals for introducing charges, or for amending existing charges, will be considered as part of the budget process
- service users should be consulted on, and informed of, all proposals to introduce charges or to amend existing charges prior to the council taking its final decision. Appropriate vehicles for consulting with and informing service users include service advisory groups, service user groups, the Clackmannanshire forum and customer surveys
- the council will produce an annual register of charges following the budget process
- a report assessing and monitoring the council's charging policy will be submitted to the council's performance review board on an annual basis.

The council has established ten criteria for departments to follow when reviewing their charges. Detailed guidance on applying the criteria, including a model for impact assessment, has also been developed. Departments complete a checklist, based on these criteria, when proposing or amending their charges.

The checklist covers:

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|--|---|
| <i>1 - clear objectives</i>                        | <i>6 - net effect on costs of service provision</i>   |
| <i>2 - assessment of demand</i>                    | <i>7 - consistency</i>                                |
| <i>3 - impact on service users</i>                 | <i>8 - charging as part of the budget process</i>     |
| <i>4 - anticipated costs of charging</i>           | <i>9 - monitoring and reviewing charges</i>           |
| <i>5 - impact on the demand for other services</i> | <i>10 - reviewing and evaluating charging policy.</i> |

Source: Clackmannanshire Council.

### Policy objectives of charging

Councils face difficult decisions when setting the policy objectives of charging. The objectives will vary depending on the nature of the service being provided, and there may be tensions between objectives. For example, a trade-off may be required between optimising use and reducing council subsidy. It is a valid role of the political process to decide where an appropriate balance needs to be struck.

Each council was asked to rank in importance the following possible objectives of charging for a range of different services:

- reducing council subsidy
- maximising revenue
- optimising use of the service
- ensuring equality of access.

Box 1 summarises the findings for a selection of the services surveyed.

Box 1: The primary policy objective of charging for a range of services

Reducing council subsidy	Maximising revenue	Optimising use of the service	Ensuring equality of access
Licensing (54%)	Skip hire (55%)	School lets (43%)	Adult education (37%)
Musical instrument tuition (50%)	Pest control (43%)	Community halls (40%)	Outdoor education (31%)
Burials and cremations (42%)	Property enquiries (40%)	School meals (36%)	
Library services (37%)		Sports and leisure (33%)	
Sports and leisure (33%)			

The figure in brackets is the percentage of councils that identified the objective shown as their primary objective for that service.

Source: Accounts Commission survey, autumn 1997.

In general, reducing council subsidy featured highly amongst those services that have traditionally received a high subsidy, eg library services. Maximising revenue was seen as a priority for those services which had some kind of competition from the private sector, and optimising the use of the service tended to be the priority objective for those services with a social policy focus. Within the education service, ensuring equality of access was the most important objective. For sports and leisure, both optimising use and reducing council subsidy were prominent key objectives.

### Levels of subsidy

The total cost of service provision is met, in the main, from council funds and charges. There is also income from sales. However, the capacity of a service to recover a significant proportion of its costs from charges varies by service, which results in widely differing levels of subsidy across services.

Box 2 gives some information on the proportion of cost recovered through income from charges, for a sample of services. The average subsidy per head of population is also shown.

Councils can use these indicative figures to make comparisons with their own situation. Indicators based on levels of subsidy per user, or particular groups of users, would provide councils with a clear picture of how they are using their resources, in relation to their corporate policies. However, few councils as yet have ready access to such information.

Box 2: Analysis of income and subsidy levels for a range of services

Services	Income as a percentage of costs <sup>3</sup>	Average subsidy per head of population (£)
Parking	188	- 4.36
Property enquiries	128	- 0.31
Burials and cremations	51	2.00
Sports and leisure	40	27.26
Pest control	38	0.37
Adult education	14	3.47
Museums and galleries	7	7.47
Library services	4	19.29

Source: Accounts Commission survey, autumn 1997.

### Concessions

Councils use concessions to provide a discount from the standard charge for certain services. Entitlement is normally specific to groups of users, eg juveniles, students and elderly people. Concessions are offered to users for a variety of reasons, for example:

- to encourage use of a service among particular groups of people
- to allow continued access to a service by people who are financially disadvantaged
- to reflect different levels of need for the service amongst users.

Only 14% of councils have a corporate approach to concessions. About half are considering introducing one, and the remaining councils have no plans to develop a corporate approach.

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<sup>3</sup> Costs exclude capital finance charges.

For sports and leisure services, most councils offer some kind of discount scheme, usually to protect those on low income, and sometimes to promote use of facilities by particular groups. Case study 2 illustrates how East Renfrewshire Council considered questions concerning concessions within Community and Leisure services.

Case study 2: Concessions - examples of issues for consideration

Issue	Considerations (examples)
Who should receive concessions?	All residents, children, residents on low incomes, students, pensioners, unemployed people, disabled people, staff, charitable organisations, groups, and clubs?
When should concessions apply?	At all times, at certain off-peak times only, at different times for different groups?
To which facilities, activities and services should concessions apply?	All facilities, activities and services; certain activities only; less popular activities for which there is spare capacity?
How many tiers of charges should there be?	Two (ie a full charge and a concession charge); two plus an additional lower tier, say, for education use; or a more complex structure for an individual activity?
Should concessions be available to non-residents?	At all times, at certain off-peak times only, at different rates?
Should concessions apply to off-peak prices?	Yes or no?
How should concessions apply to group activities?	To qualify, should half the group fit into the concession category, or the entire group?

Source: East Renfrewshire Council.

**Consultation**

About half the councils responding to the survey undertake public consultation on their budget proposals, including charges, as a corporate initiative. Of those which do consult, most use a variety of means. These include public meetings, consultation with selected groups and consultation with user groups. Surveys of residents are not commonly used as a means of consulting the public on charging, possibly because of their relatively high cost.

In 1996/97, Fife Council used consultation with residents to assist it to achieve its £20 million savings target. Case study 3 provides details of the background and the outcomes from that process.

Councils identified the benefits of consultation as:

- developing understanding among the service users of the financial pressures being faced by the council and the solutions to these difficulties
- providing information to enable the council to select a range of options which have the broad support of council residents

### Case study 3: Consulting on budget proposals, including charges

Fife Council decided to consult with local people (via public meetings, focus groups, newsletters and a free automated telephone call line) on those options which had the most significant implications for savings, policy or staffing levels. Some of the options related to charging for services. The impact to the public if the charge was introduced, and an estimate of the amount of income that would be generated, was identified for each proposed charge. The views of local people, expressed through the consultation process, are summarised below. In total, 6,700 opinions were registered on the proposed options.

Results of consultation	Ratio for	Ratio against
Revise business landfill charge	18.6 to 1	
Introduce public toilet charge	11.5 to 1	
Introduce charge for concession travel card	4.8 to 1	
Introduce social work charges	4.6 to 1	
Pay freeze (for staff earning over £20,000)	3.5 to 1	
Increase community services charges	3.3 to 1	
End free TV licences (to those currently eligible)	2.0 to 1	
School transport - reduce to legal minimum	1.4 to 1	
Pay freeze - all employees	1.1 to 1	
End free music tuition		1.4 to 1
Roads services cuts		1.6 to 1
Reduce grounds maintenance		2.1 to 1
Reduce advisory/support services to schools		2.3 to 1
Reduce education staff		2.6 to 1
Reduce visiting teachers service		5.3 to 1
Cut leisure centre hours		5.9 to 1

Following these results, the council felt it was important to avoid decisions that would, in combination, impact unfairly on any one group of people. The council agreed to increase charges for social work and community services. However, as both these increases would have an impact on elderly people, no additional burdens were placed on this group - charges for concessionary travel cards and increases in contributions to TV licences were not introduced.

In 1997/98, Fife Council's budget consultation exercise included the BEST Scheme (Budget - Employees' Savings Targets). Employees were asked to make suggestions for budget savings (including suggestions on charges) and employee groups were formed to evaluate these. Monetary awards are made to people whose savings suggestions are used.

Fife Council's experience of having consulted with its staff and residents as part of its budget consideration process highlights a number of key issues which may be instructive to other councils:

- people would rather see increases in charges than cuts in services

- it is important to ensure that employees are consulted on savings proposals before they are presented to budget working groups
- consultation needs to start early. Councils do not need to wait for exact budget figures before consulting on potential savings targets
- employees and community groups are becoming increasingly aware of the consultation process and are more willing to participate
- access to information on savings options should be as open as possible
- a variety of feedback mechanisms are necessary to allow a full range of views to be expressed. They can include public meetings, press briefings, targeted newsletters, telephone call lines, written responses
- the link between savings options and the council's policies can be set out in literature and explained at meetings. Meetings can be used to discuss the concerns of any particularly affected groups.

Source: Fife Council.

- reducing the public relations difficulties that can arise as a result of increasing charges without consultation.

Care needs to be taken when assessing the views of consultees, because their views will be influenced by the extent to which they will be affected by the proposed charge. For example, taxpayers may benefit, while users may pay more.

### Variations in levels of charges

The extent to which charges differ among councils for similar services depends on the type of service. The survey found that for some services, for example school lets, there are significant variations in charges among councils, even where the service objectives are broadly similar (exhibit 2). For other services, such as school meals, the charges are relatively consistent (exhibit 3). A significant variation in charges does not necessarily mean that certain councils should increase their charges to the levels of other councils. Ultimately, each council must consider its charges in the context of its wider service objectives.<sup>4</sup>

Exhibit 2: Charge for the hire of a classroom by a commercial organisation

Charges for school lets vary considerably.

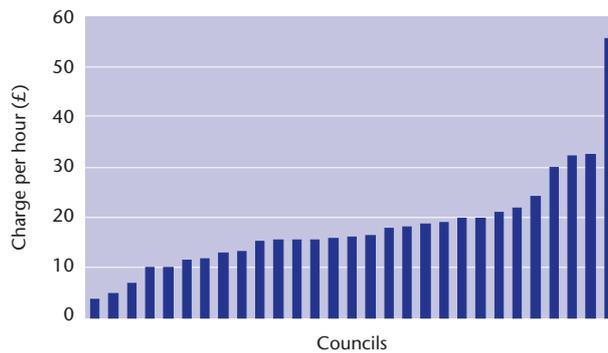
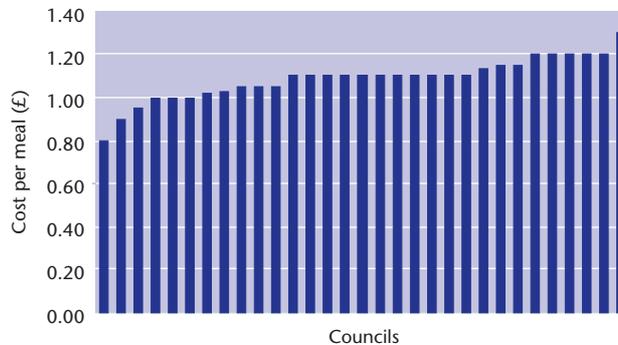


Exhibit 3: Set charge for a primary school meal

Charges for school meals do not vary much.



Source: Accounts Commission survey, autumn 1997.

<sup>4</sup> Further information on comparative charges for the range of services covered by the Commission's 1997 survey is available from the Accounts Commission, free of charge. Telephone 0131 477 1234.

Charges may vary within a council's area or for different times of day etc. Councils may vary the charge for a service for a number of reasons, for example:

- the quality of service may vary between different facilities
- a policy decision may be taken by the council to increase charges for non-residents, on the basis that residents have already contributed towards the cost of providing the service through their council tax
- the cost of providing the service may vary, for example, at different times of the day or days of the week
- there may be initiatives to increase usage of a service by a particular group or at particular times of the day or week.

### **The impact of local government reorganisation on charges**

Many councils have had to review their charging policies as a result of local government reorganisation. Three out of four councils have inherited a range of different charges for broadly the same service. This has emphasised to councils the need to demonstrate consistency in the approach to charging for similar services. The services most affected by variations in charges after reorganisation are sports and leisure, community halls, and, to a lesser extent, libraries, property enquiries, pest control, letters of comfort and licensing. Most councils indicated that they have either harmonised charges for these services, or plan to do so. East Renfrewshire Council tackled the issue of harmonisation of charges for community and leisure services by establishing a Fees and Charges Group (case study 4).

#### **Case study 4: An example of a fees and charges group**

In East Renfrewshire Council, Community and Leisure services has established a Fees and Charges Group. This group was set up after reorganisation primarily to look at harmonisation of fees and charges, but the group has been so successful its work has since been extended to consider ongoing charging issues. Membership includes officers from all sections in Community and Leisure services. The group receives professional advice from the anti-poverty policy officer on the effects of charges on low-income groups. The initial remit of the group was to undertake detailed consultation with users and community groups regarding the proposed fees and charges for 1997/98. The results of this process were fed back to the group and formed the basis for detailed discussion on charging. The need to simplify the existing charging structure was identified along with an acknowledgement of the benefits of moving towards a standardised set of charges.

Source: East Renfrewshire Council.

# The challenge of charging

Councils cannot raise their charges indiscriminately. Charging is a highly complex process involving many issues. The process is complicated by the wide range of factors which affect the level of charge, the diversity of services that are provided and may be charged for, and the potential interrelationship between services.

Charging prompts questions about, for example:

- the services provided - which services should be charged for and why; or, even, should the service be provided by the council?
- the users and usage of the service - who are the users? Why, when and how do they use it?
- the charge - who should be charged? How much should be charged? What effect will charging have on the take-up of the service? How should the charge be collected?
- the impact on the welfare and social policies of the council - who are the vulnerable groups? How to protect vulnerable groups and maintain equality of access to the service?

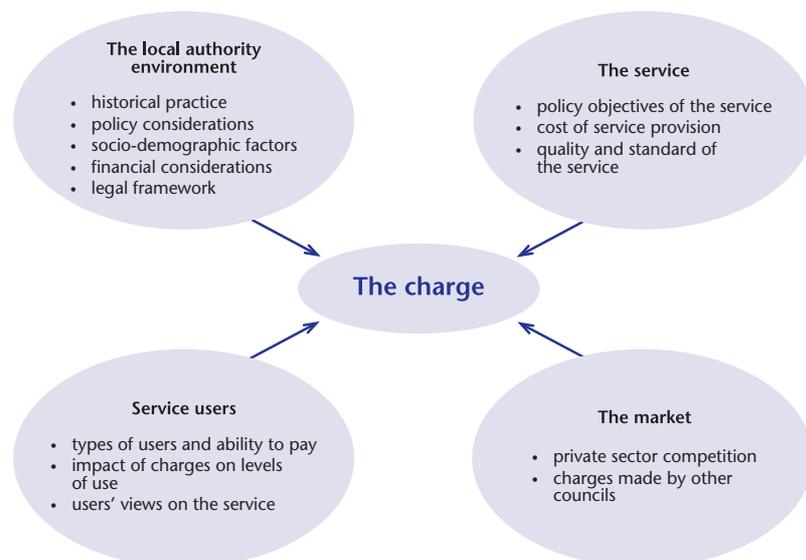
The complexity of charging often leads councils to manage charges on a service-by-service basis, instead of examining common issues in a corporate manner. It is not unusual to find that some departments within a council have well-developed processes in place for setting charges whilst others have not yet begun to explore the key factors which should be considered when setting charges.

## Factors affecting the charge

Factors affecting charges can be grouped into four main categories, namely the local authority environment, the nature of the service itself, the market in which the service is operating, and the users of the service. These interrelate as shown in exhibit 4.

Exhibit 4: Factors which affect council charges

Both providers and users have a role in the management of charges.



## **The local authority environment**

Within the local authority environment, there are a variety of factors which influence and constrain the process of setting charges for the services provided by the council.

### **Historical practice**

The past actions of the council and its predecessors influence the charges that are set today. There are three broad categories of service:

- services that are completely new (eg Internet cafés in libraries)
- services that have always been charged for (eg swimming pools)
- services that in the past were free of charge, and for which charges are now being considered (eg musical instrument tuition).

Services that are new are more likely to have charges that reflect the actual cost of provision. Charges for services that have always been charged for tend to be accepted by the public. However, the level of charge may be constrained by what has been charged in previous years. Experience shows that the introduction of charges for services that have traditionally been provided free by the council is likely to raise most resistance from users. This emphasises the need for councils to inform and consult with users of the service before introducing a charge.

### **Policy considerations**

The political environment has an important influence on the determination of charges. Charges are highly visible and often politically sensitive. Councillors will rightly be concerned with the ability of vulnerable groups to continue to have access to council services. They will be interested in how the charges for a service fit with the policies of the council, and the potential impact on their constituents.

The experience of councils suggests that it is beneficial to involve councillors in discussions on charges at an early stage. Such an approach:

- allows officers to discuss the overall impact of charges, and inform the political judgements necessary on ability to pay
- enables councillors to understand the reasons for the charges and to be in a position to justify them to their constituents
- facilitates the discussion of the proposed charges at committee stage
- minimises potential public relations difficulties.

Charges should always support the specific objectives of the service and the council's overall policy objectives. Keeping the corporate objectives in mind throughout the charge-setting process for each service will minimise any potential contradiction.

### **Socio-demographic factors**

Local socio-demographic factors, such as the level of social deprivation, need to be taken into account because users' ability to pay is an important consideration in setting charges. However, vulnerable groups could be protected through the provision of concessions, rather than by limiting the standard charge.

### **Financial considerations**

Councils face strong financial pressures and are having to review their policies on charging as a result. With some budgets decreasing in real terms, the choice for some services is often between reducing the level of service or raising charges. In this situation, the main consideration in setting charges can become the need for increased income, with income from charges being used to balance the budget. This can lead to authorities setting charges without proper regard to the usage of the service or the effect on the council's objectives. Without regard to these factors, political objectives may be undermined, public facilities may be used less effectively and income may not be optimised. Increases in charges that are not properly thought through can be counter-productive and result in decreasing income.

### **Legal framework**

Councils do not have complete freedom in deciding whether to charge for their services, or in the level of charge that can be made. Box 3 gives examples of the different kinds of legislative constraints and freedoms that councils face when setting charges. Certain services must be provided free of charge: for example, children's education. Other services are charged at rates set by government: for example, building control warrant fees. However, there are many services for which councils do have discretion on what to charge.

### **The service**

The various characteristics of the service which affect the level and pattern of charging include the policy objectives for the service, the cost of provision, and the standard and quality of the service being charged for.

### **Policy objectives of the service**

Charges have a key role in service planning. For some services, charging can play a key role in achieving service objectives; for example, parking charges can be set to manage the use of parking places in the town centre. However, all services will benefit from having clear objectives for charging, which are consistent with the policy objectives for the service. Once the objectives for charging have been agreed, it becomes easier to set a level of charge which does not conflict with service objectives.

### **Cost of service provision**

One of the arguments for introducing charges, as opposed to raising income through local taxation, is that charges can reflect the cost of service provision. However, for many departments, while the total cost of service provision may be known, the cost of providing one unit of that service to a user is seldom known. Without this information, charges are commonly set on the basis of 'the going rate', or at a level which is perceived to be publicly acceptable.

Councils need to know the cost of service provision, both in total and analysed in relation to use, and the amount being recovered through charges, if they are to make informed decisions on the use of their resources. With this information, a council can assess the level of subsidy (or profit) for each service, and ensure that it is in keeping with the council's corporate policy objectives. Without information on the level of subsidy and the types of users, councils cannot be confident that they are fulfilling their objectives in the most effective way.

Box 3: Examples of different legislative bases for charging

Basis of charging covered by statute	Extract of wording contained in the relevant statute	Reference
<b>Prescribed by Government</b>		
Building control warrants	'A buildings authority may, in respect of such of their business as may be prescribed, charge such fees as may be prescribed in relation thereto; and different fees may be prescribed for different buildings authorities.'	Buildings (Scotland) Act 1959 s20.
<b>Free of charge</b>		
Libraries, museums and art galleries	'All libraries, museums, or art galleries established under this Act, or to which this Act applies, shall be open to the public free of charges, and no charge shall be made for the use of books or magazines issued for home reading.'	Public Libraries (Scotland) Act 1887.
<b>Sufficient to meet expenses</b>		
Licensing charges - taxis, private hire	'A licensing authority shall charge such fees in respect of taxi and private hire car licences and applications for such licences as may be resolved by them ... and shall seek to ensure that the total amount of such fees is sufficient to meet the expenses incurred by them in carrying out their functions ... in relation to such licences.'	Civic Government (Scotland) Act 1982 s12.
<b>Shall be reasonable</b>		
Trade refuse	'A person at whose request waste other than household waste is collected under this section shall be liable to pay a reasonable charge for the collection and disposal of the waste ...'  Charges should be 'realistic and should have a direct relationship to the cost of providing the service. The overall aim should be to achieve full cost recovery.'	Environmental Protection Act 1990 s45(4).  The circular on the Controlled Waste Regulations 1992, S.I. 1992/588.
Charges for the use of bus stations	'Any charges for the use of accommodation for public service vehicles at any bus station ... shall be reasonable.'	Transport Act 1985 s81(3).
<b>Council discretion</b>		
Parking	'... the authority by whom a designation order is made shall by order prescribe any charges to be paid for vehicles left in a parking place designated by the order ...'	Road Traffic Regulation Act 1984 s46(1).

Generally, local authority accounting systems have not been designed to provide detailed costings of individual activities for unit pricing. However, the increasing use of cost-centre budgeting is a positive step towards providing better financial management information. The calculation of the total cost for each service activity can be a complex exercise. A balance needs to be struck between the requirement for detailed activity costings and the resources involved in extracting that information.

An example of an exercise to calculate unit costs for the provision of football pitches is a review by Community and Leisure services in East Renfrewshire Council (case study 5).

#### Case study 5: A review of unit costs for football pitches

The Fees and Charges Group of East Renfrewshire Community and Leisure analysed the unit costs for a game of football. The group wanted to:

- understand the relationship between the level of costs and the charge per game, to assist decision-making on the levels of charge, and
- be able to make informed decisions about the future provision of pitches by the authority.

The annual cost for each of the following activities was calculated for each playing field:

- sports pitch maintenance (as per the specification in the grounds maintenance contract)
- other grounds maintenance operations including litter/leaf scavenging, hedge and fence operations, play equipment
- other operations, including car park, parks furniture, snow clearance/gritting
- the provision of the pavilion, including energy costs, cleaning, repairs and maintenance
- Park Ranger Service, including erecting and removing nets for each game, opening building and patrolling during use, securing building, and purchase of equipment
- a percentage allocation of pitch booking costs
- a percentage allocation of client administration costs.

For each playing area, the computed costs were balanced against potential income (based on the proposed charges and on the predicted use of the pitches). The group was then able to calculate the amount of subsidy for different levels of use at different rates of charging. The financial impact of different charges was clear and could inform the decision-making process. An additional benefit was the ability to compare unit costs for different grounds within the council, which facilitated decisions on the rationalisation of the council's provision of football pitches.

Source: East Renfrewshire Council.

### Quality and standard of the service

Charging users directly for a service encourages them to consider the value they place on that service, to decide whether they wish to use it, and it may raise their expectations of the quality of the service they wish to receive.

The experience of councils, and results of research, show that an increase in charges, when justified in terms of quality of service, and supported by effective consultation with users and marketing, can result in improved attendance and increased income (case study 6).

#### Case study 6: Improving the quality of chargeable services

South Lanarkshire Council developed a car parking charter in 1997. Its parking policy aims to manage the demand for parking and contribute towards a sustainable environment by restraining unnecessary commuter travel, encouraging the use of public transport and ensuring an adequate supply of short-stay parking for social and economic needs. The council's 'Car Parking Charter' seeks to extend the management of both on- and off-street parking and provide high-quality facilities which ensure:

- availability of spaces
- personal security
- security of property
- closed circuit television
- attractive environment, including:
  - cleanliness
  - good lighting
  - ease of use
  - helpful staff
  - convenient location
- clear, concise signing
- facilities for special needs
- user-friendly systems.

Having improved the quality of its car parks, the council has begun to introduce charges for a selection of car parks in East Kilbride and Hamilton, and use the subsequent income to further improve car parking provided by the council.

Source: South Lanarkshire Council.

#### The market

The market within which a council is operating may have an effect on the level of charge for a service. Two main factors are relevant:

- the extent to which there is private sector competition for the service
- the level of charges made by neighbouring and other councils.

#### Private sector competition

Some council services for which there is a charge are provided in competition with the private sector. Examples covered by the Commission's survey are property enquiries, skip hire, pest control and sports and leisure services. The existence of local private provision can provide a benchmark for council charges, and focus councils' attention on the quality and value of the service they provide. However, councils have a concern for the economic circumstances of their area and need to consider the effect of their charges on local businesses and the services they provide.

### Charges made by other councils

Most councils consider the charges of neighbouring councils to be fairly important in setting their own charges. An increasing number are participating in benchmarking exercises on local authority charges.

It is good practice for councils to make comparisons with other councils. However, there are dangers in adopting a purely copycat approach to charging - ie setting a charge simply in line with other councils. This approach may have the effect of keeping charges artificially low in some circumstances. There are likely to be differences in the quality of service provided by different councils, and the local factors underlying the setting of charges will also vary by council.

### Service users

#### Types of users and ability to pay

A key requirement for the effective management of charges is knowing who uses a service, why they use it, when they use it and how they use it. Scope generally exists for councils to improve their collection and use of non-financial information relating to the use of services. For example, information may be available on the total number of visits or users, but not on the patterns of use. Detailed knowledge of the types of users, and potential users, of a service would assist councils to segment their market in a way that allows charges to be optimised.

An analysis of users may identify categories of people who may be excluded from using the service by their inability, or sometimes their unwillingness, to pay. Councils could possibly raise their charges if they could ensure that there were concessionary charges which allowed continuing access to the service by potentially disadvantaged groups.

The area of concessions is a complex one. Councils need to consider issues such as who should receive them, how eligibility should be assessed, and how awareness of concessionary charges can be promoted.

Some anti-poverty campaigns by councils have been very successful in increasing users' take-up of all eligible benefits, enabling them to afford to pay charges for council services. Case study 7 shows how one council's approach results in an increase in disposable income for some people, even after taking increased charges into account.

#### Case study 7: Improving service users' ability to pay

A key element of Dundee City Council Social Work Department's policy on charging is its anti-poverty approach based on equity and fairness. A welfare rights benefit check is a guaranteed right for every service user. This approach has been a major success. The amount of extra income that has been generated for some of the most vulnerable people in Dundee is now over £6.25 million, including over £0.73 million in benefits paid in arrears. In the great majority of instances, the welfare rights benefit check has led to an increase in the service user's disposable income even after the increased charges have been taken into account.

Source: Dundee City Council.

A number of councils are investigating the use of micro-chip technology such as 'smartcards' to capture information on a user's eligibility for concessions, as well as to provide information on users and patterns of use. West Lothian Council is conducting pilot exercises on the use of smartcard technology. Possible applications are outlined in case study 8. The council has also successfully piloted the use of swipe cards by children in certain schools. The take-up of free school meals has been increased, at least in the short-term, because the children's cards all appear the same whether or not they are eligible for concessions. Any stigma attached to being seen to receive free meals has been removed.

**Case study 8: Use of smartcard technology**

A smartcard is the size of a credit card, containing a small silicon chip that can store, process and share information. It differs from magnetic strips or memory cards in two ways:

- it can store more information
- it can process information in line with pre-programmed instructions.

Because of its ability to process information, the smartcard has numerous applications. It can be used, for example, as an electronic purse, a credit card, an ID card, a transport pass, and a security pass. Possible wider applications for a smartcard include:

Buses	For paying fares and for loyalty discounts
Leisure/sports centres	For concession schemes, loyalty schemes, and ticketing
Libraries	For use as a membership card, for issue of loans and payment of fines
Schools	For access control and payment of school meals
Payments to councils	For identification of payee and speedy transaction processing.

Source: West Lothian Council.

**Impact of charges on levels of use**

It does not follow that by increasing charges councils will necessarily increase their income. Two main factors determine how much income will be generated - the level of take-up and the charges users pay. The relationship between these two factors is often complex. For example, if raising a charge increases the proportion of concessionary users and decreases the proportion of users paying the standard charge, the council's overall income may reduce.

Case study 9, taken from an academic study of sports and leisure charges, explores the relationship between charges and the demand for services. An assumption often made is that the charge is a major obstacle to participation in sports; also that a council's policy objective of increased participation can be assisted by the use of subsidised entrance charges. The corollary of this assumption is that participation is sensitive to the level of charge and that levels of participation will respond to changes in entrance costs. One of the study's findings was that users' attitudes towards charges are influenced by their perceptions of the quality and the value for money of the facility.

**Case study 9:** The link between the charge and demand for services in sports and leisure

The Scottish Sports Council commissioned the Centre for Leisure Research to study the impact of variations in entrance charges using a before and after approach, interviewing users at the facility and local residents. In the four sports centres studied, charges rose on average between 10% and 71%. Although some percentages were high, these often represented small absolute amounts due to the low base of charges. The increased charges were found to have little impact on the aggregate levels of use and the frequency of use by existing users. In terms of the composite cost of participation (travel, equipment, refreshments and time), the entrance charge was often less than half of the total cost. Users' views on their awareness of the level of increase in the charge, their level of acceptance of the new charge, and their opinions about value for money, were gathered to gain an insight as to why the increased charges may have had so little effect.

*Awareness* - between 18% and 44% of users were unaware of the previous, lower charge. Of those aware of the previous charge, between 14% and 44% were unaware of the increases in the charges.

*Charge paid* - although about one in five regarded the increase in charge as excessive, attitudes to the charge were generally positive. At one centre, where 36% thought the increase in charge was excessive, only 12% thought the charge was too high and 87% thought it was reasonable.

*Value for money* - at one centre, despite substantial increases in charges, those who regarded their activity as either excellent or good value for money increased from 67% to 79%. Their attitude to the increase in charges was modified by their perception that they were getting value for money.

When attitude to the charge was examined within the wider context of lifestyle and overall leisure expenditure, only 4% of the respondents in the household survey regarded the entrance fee as a major obstacle. Amongst users, this figure was slightly higher, with between 6% and 13% saying that a higher charge might reduce their frequency of visits.

The barriers to participation in sport are often cultural and structural (lack of time etc), and an over-concentration on entrance charges may greatly over-simplify the real management issues.

Source: The Centre for Leisure Research.

Most people have an expectation of the charge for using a service - a reference price - based on their experience and knowledge of the charge for similar services, or charge most frequently made. An increase in charge which creates a substantial discrepancy between the actual charge and the reference price is likely to meet with user resistance. Research suggests that the reference price can be influenced by comparative information. For example, if users are informed about the level of subsidy associated with their activity, or what it might cost if commercially provided, then they will adjust their reference price upwards. If this is so, then it has important implications for the management of charges, implying that more than simple consultation would be worthwhile.

### **Users' views on the service**

Users' views are important in obtaining information about whether they believe that the service represents value for money, for judging their possible reaction to proposed increases in charges, and for improving the quality of the service.

Users' views should play a key role in service strategy and planning, and the Government's Best Value framework also stresses the importance of developing a customer/citizen focus to enable people to contribute effectively to the shaping of policies and service provision.

Information on the views of users can be collected in a number of ways by councils, for example by:

- outreach meetings with users, residents, community or special interest groups etc
- customer satisfaction forms
- user groups for particular facilities
- groups representing particular types of user (such as older people, or people from minority ethnic groups)
- complaints and suggestions schemes.

In addition to these methods, focus groups and surveys of residents can be important in gathering views more representative of the whole population, and can provide information about the level of awareness of services among non-users, and the reasons for non-use.

Increasing the involvement of users in developing services, and genuinely consulting them about what they want or need from a service, can greatly assist the process of charge-setting. Improvements to basic services can be developed, with appropriate revision to charges. Users who benefit from service enhancements are more likely to accept an increase in the charge without it adversely affecting their take-up of the service.

The importance of getting public reaction prior to a potentially controversial review of charges cannot be over-emphasised. Consultation processes can be time-consuming and costly, but introducing a charge which is subsequently removed or reduced by the council can be both expensive and politically damaging. A charge that is based on the results of effective consultation is more acceptable and defensible.

## A managed response

### A structured approach

The initial findings from the Commission's study of councils' approaches to the management of charges suggest that there is scope in many councils to adopt a more structured approach to charging. A systematic approach will enable a council:

- to explain to the public the bases for its charges, and to demonstrate that it has a fair and consistent approach to charging
- to set charges that support corporate and service objectives, rather than conflict with them
- to set charges at levels which optimise use and income
- to identify where the greatest capacity to raise income lies
- to predict with greater accuracy the impact of increasing charges on the use of its services.

### A corporate framework

Councils should consider developing a corporate framework for charging. However, charges for a specific service need to be managed by officers with responsibility for that service.

A corporate framework will enable a consistency of approach within and across services, and ensure that charges are in keeping with council policy. Furthermore, it allows councils to assess the wider impact of charges on their services and their communities by, for example:

- evaluating the cumulative impact that increases in charges across a number of services at one time have on particular groups of people
- comparing levels of subsidy across different services, expressed per user, or per head of population, to ensure that these reflect council policy
- assessing the impact of a possible reduction in the use of a service (as a result of increased charges) on other council services, and on the council's social, welfare or environmental policies.

In developing a corporate framework for charges, councils may wish to consider:

- how to involve service managers with experience and skills in managing charging
- how the interests of members will be represented
- how to ensure that both their corporate policy objectives and budget requirements are met
- how to handle any overlaps with the work of other corporate groups.

Most councils have approached the development of a corporate framework by establishing a multi-service task team. To be successful, such groups need to have clear authority, an agreed remit and timetable, and specific objectives which are perceived to be of value to the council. In relation to charging, discussions on the remit of such a group could include:

- the extent to which charging should be considered as a separate issue, or included in a review of income as a whole
- the value of developing a corporate policy on concessions

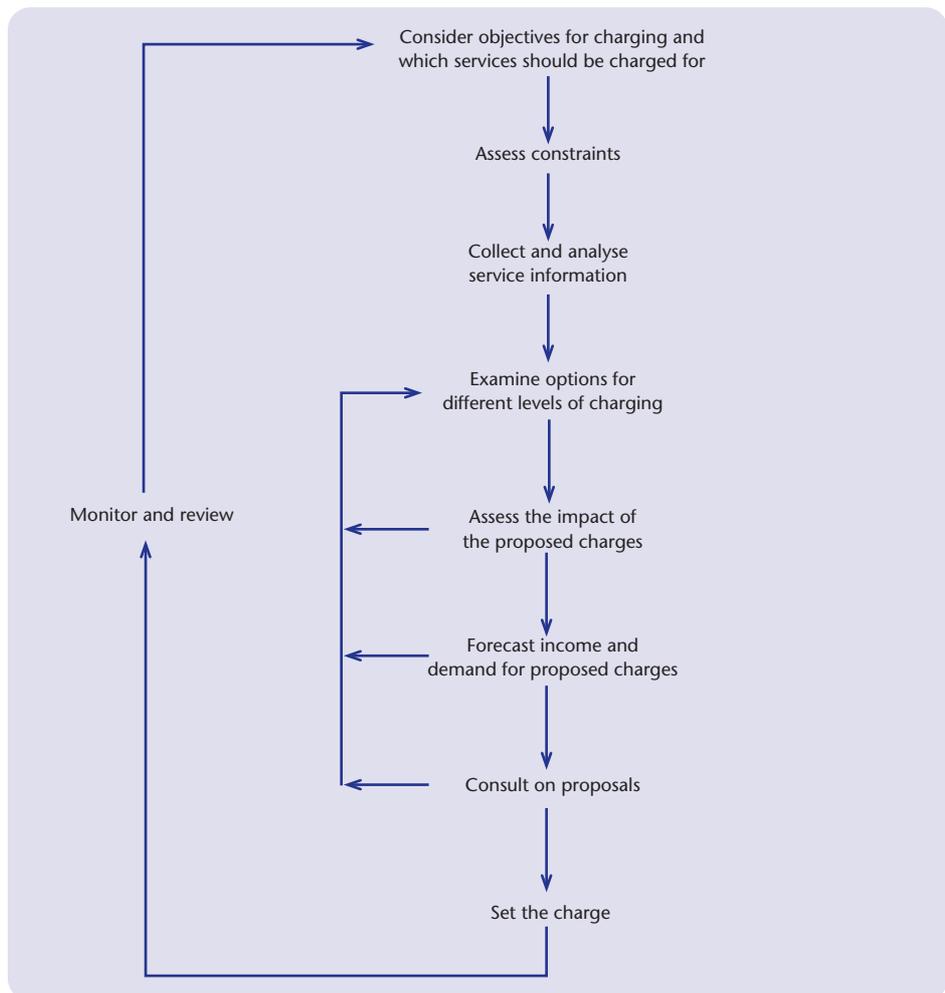
- the most effective way to ensure that charging is managed consistently and effectively throughout the council
- identifying the potential benefits of sharing information on users of different services, to enable more effective marketing to particular groups.

### Managing charges at a service level

The services for which charges are levied are highly diverse, and cover the whole spectrum of council activity. They have different objectives, different types of users, and different forms of delivery. However, the issues that need to be considered for the management of the charging process are the same, irrespective of the service being charged for.

In many councils, the setting of charges has been dominated by the late stages of the budget-setting process. However, by adopting a structured approach to managing charges, which is separate from, but links to, the budget process, councils will be able to make informed decisions on setting charges that are consistent with their policy objectives and optimise income. A structured process for managing charges is outlined in exhibit 5. It can be followed whether or not there is a corporate framework.

Exhibit 5: Managing charges - a staged process



## Managing charges - a checklist for service managers

This checklist is offered for use by service managers who wish to apply a systematic process to their review of charges. It is based on the stages outlined in exhibit 5, and includes questions that managers may wish to consider when managing charges. Every council service has different circumstances and the relevance of each step may therefore vary for individual services.

Generally, a 'yes' response indicates good practice, whereas a 'no' response indicates that further action should be considered.

### Consider objectives for charging and which services should be charged for

- Do we have a register of existing charges?

For each service under review:

- Is charging for this service in keeping with the council's corporate charging policy?
- Is charging for this service in keeping with the policy objectives for this service?
- Do we know what we would be trying to achieve by charging for this service?
- Do these objectives have the support of councillors?
- Have we assessed the extent to which this service has the capacity to generate income?
- Have we improved the quality of this service, or added new features, which could justify the introduction of, or an increase in, the charge?
- Do we know at whom this service is targeted?
- Have we assessed the impact of introducing or increasing charges for this service on:
  - the users the service is targeted at?
  - groups of vulnerable people the council wishes to support?
  - the wider community?
  - other council services?
- Should this service be charged for?

## Assess constraints

### Historical practice

- Have we assessed the extent to which the current charge is based on charging levels that have been set in the past?
- Have we looked at whether there are long-held assumptions about the basis of the charge and, if so, whether these have been challenged recently?

### Policy considerations

- Has the impact of introducing or raising the charge been assessed and discussed with councillors?

### Financial considerations

- Do we know the income-generation requirements of the budget?
- Is the budget's target for income from charges for this service realistic?
- Is the level of council subsidy for this service consistent with the policy objectives of the council?

### Legal issues

- Do we know whether there are any legal constraints on charging for this service?
- If the legal situation is unclear, has clarification been sought?

## Collect and analyse service information

- Do we collect, analyse and use information on:
  - the amount of income collected from charges for this service?
  - the cost of collecting the charge for this service?
  - the full cost of providing this service?
  - the unit cost of providing this service?
  - users' views on the quality of this service?
  - the number and mix of users of this service (including concessions)?
  - the patterns of use?

- Do we assess whether the actual mix of users reflects the mix of users anticipated by the charging policy?

- Do we collect and consider charges for similar services made by other councils, the private sector, and the voluntary sector?

#### Examine options for different levels of charging

- Are different rates of charging appropriate for this service?

- Have we evaluated the options of setting differential charges for:

- residents of the area?
- individual facilities, taking into account the circumstances of the local area?
- regular or frequent users, perhaps through an access card scheme?
- different times of use (eg off-peak hours, weekends)?

- Have we recently examined our approach to concessions for this service?

- Is our approach to concessions for this service in keeping with overall council policy and/or the council's corporate policy on concessions?

#### Assess the impact of the proposed charges

- Have we assessed the impact of the proposed charges on:

- the users the service is targeted at?
- groups of vulnerable people the council wishes to support?
- the wider community?
- other council services?

#### Forecast income and demand for proposed charges

- Have income forecasts been prepared, based on anticipated numbers and mix of users?

- Does the forecast income for this service meet the council's budget requirements?

### Consult on proposals

- Have we identified the different groups of users who will be affected by the charge?
- Have we consulted with the following groups on our charging proposals, explaining the reasons underlying the charge:
  - front-line staff?
  - user groups?
  - community groups?
- Have we obtained users' views on their satisfaction with this service, and whether they feel they are getting value for money?

### Set the charge

- Is our decision on setting the charge justified, taking account of all the key information gathered during the charge-setting process?
- Have the results of consultation on the proposed charges been taken into account?
- Is there a marketing plan for the new charges?
- Have we set an agreed timetable for committee approval and implementation of the charge?

### Monitor and review

- Do we have systematic arrangements in place to monitor the impact of charging, including:
  - comparing actual levels and patterns of usage of the service against forecast?
  - comparing actual income from charges with the budget?
  - ensuring that the charge remains consistent with the council's policy objectives?
- Do local managers have sufficient flexibility to take action to address, for example, any shortfall in actual service take-up?
- Do we have arrangements for monitoring the effectiveness of marketing?
- If income targets are not met, is this information fed into the charge-setting process for the following year?

## Appendix 1: Bulletin case studies

Councils may wish to obtain further information concerning the case studies included in the bulletin. The following officers have agreed to their names being listed as an appropriate contact point for such enquiries.

Case study reference	Organisation	Contact officer
1 A corporate approach to charging	Clackmannanshire Council	Elaine McPherson, Social Policy Manager, Chief Executive's Services.
2 Concessions - examples of issues for consideration	East Renfrewshire Council	Colin Chaytors, Head of Sports and Recreation, Community and Leisure.
3 Consulting on budget proposals, including charges	Fife Council	Les Perez, Head of Communications Unit.
4 An example of a fees and charges group	East Renfrewshire Council	Colin Chaytors, Head of Sports and Recreation, Community and Leisure.
5 A review of unit costs for football pitches	East Renfrewshire Council	Colin Chaytors, Head of Sports and Recreation, Community and Leisure.
6 Improving the quality of chargeable services	South Lanarkshire Council	Shona Fraser, Assistant Principal Engineer, Traffic and Transportation, Roads and Transportation.
7 Improving service users' ability to pay	Dundee City Council	Rod Crawford, Principal Officer (Planning and Welfare Rights), Social Work.
8 Use of smartcard technology	West Lothian Council	Marion Rennie, Policy Adviser, Strategic Services.
9 The link between the charge and demand for services in sports and leisure	The Centre for Leisure Research, Moray House Institute, Heriot-Watt University	Fred Coalter, Director.

## Appendix 2: List of services covered by Commission survey, autumn 1997

The survey questionnaire, in addition to asking about corporate issues, gathered information on each council's charging practices for the following services:

### Central services

- licensing<sup>5</sup>

### Education services

- adult education
- musical instrument tuition
- outdoor education
- school lets
- school meals
- school milk

### Environmental services

- burials and cremations
- pest control
- skip hire
- special uplifts from domestic property

### Miscellaneous property services

- management of private property repairs
- property enquiries<sup>6</sup>

### Planning and building control

- building warrants
- letters of comfort<sup>7</sup>
- planning permission

### Recreation and leisure

- community halls
- library services
- museums and galleries
- sports and leisure

### Roads and transport

- bus stations
- parking

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<sup>5</sup>Licensing includes all licensing services managed by the council, including statutory licence charges set by government (eg liquor, betting and gaming) and licences where councils have discretion in setting the charge (eg taxis, private hire cars, and street traders).

<sup>6</sup>Property enquiry service covers checks on statutory notices, building warrants and environmental health.

<sup>7</sup>Letters of comfort may not be the term used by all councils, but it relates to the service where councils provide a letter to the effect that no enforcement action will be taken as a result of not having a building warrant, or not having had an inspection to ensure that the works have complied with building regulations.

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