East Lothian
Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 21 January 2014

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: Charging for Services (Audit Scotland, October 2013)

---

1 PURPOSE

1.1 To provide Audit and Governance Committee with a summary of the Audit Scotland report, '*Charging for Services: Are you getting it right?'* and the actions being taken by the Council in response to the report's recommendations.

2 RECOMMENDATIONS

2.1 It is recommended that the Committee notes the Audit Scotland report and the actions that East Lothian Council is taking in response to the report's recommendations (Para 3.14).

3 BACKGROUND

3.1 *Charging for Services: are you getting it right?'* (Oct 2013) is the latest in the Audit Scotland series of 'How Councils Work' reports for councillors and officers. The report is in three parts:

Part 1 looks at the types of services that Councils can charge for and the contribution that charges make to a Council's overall budget. This includes information about charging practice, variations in charges and the extent to which councils have clear policies for charging.

Part 2 looks at examples of good practice including understanding costs and getting the view of people who use services.

Part 3 provides a one-page guide to managing charges.

3.2 The Audit Scotland report highlights that charges are an important source of income but that they are also a means to help councils achieve their objectives. Councils have discretion over their charging policy and variations in charges can be expected. Councils with a clear basis for

their charges are better placed to explain their charging decisions to the public and service users.

3.3   Charges are subject to legislation and national guidelines. Exhibit 1 in the report (p.9) usefully illustrates the types of services that are subject to legislation that prohibits charging (e.g. Free Personal Care and children's education); services for which there is statutory guidelines about the level of charging (e.g. Planning fees and commercial waste); and thirdly, those services where there is local discretion as to whether a charge is made and the level of the charge (e.g. sports facilities, car parking and public toilets).

3.4   According to Audit Scotland the income that councils raise from charges has risen over the last decade and is now estimated to total around £1.3billion, which is approximately seven per cent of overall local government expenditure.

3.5   The report shows that the proportion of council income (the average across all 32 local authorities) raised from sales, fees and charges as a proportion of income raised from the Council Tax has increased from 42% in 2006/07 to 54% in 2007/08. In 2011/12 it had reached 57% (Exhibit 2, p.10).

3.6   Comparison across the 32 local authorities shows that the proportion of income raised from sales, fees and charges varies from as low as 22% in East Dunbartonshire to a high of over 500% in the Shetland Islands. For East Lothian the figure stands at 31.2% (£468 Council Tax and £146 income from fees, charges and rents per head of population). By comparison the figure for two neighbouring comparator authorities, Midlothian Council and Scottish Borders Council are, 53.9% and 78.6% respectively.

3.7   Benchmarking will be required to identify the reasons for these differences. How much is due to accounting differences (e.g. the income from sports and swimming centres will not appear in the East Lothian Council total as they are accounted for by Enjoy Leisure) and how much is due to charging for different services or to differential levels of charges?

3.8   Across Scottish local authorities income from charges for Social Work services such as home care, residential homes and adult day care centres account for about a quarter of the total income raised from sales, charges and fees. The next highest income earners are roads and transport (16%) and central services such as licensing fees (13%).

3.9   The level of charges for all types of services varies considerably between councils. Exhibit 5 (p.13) illustrates the variations; for example, the charge for adult swim session varies from £2.40 - £4.80; the charge for an hour of home care varies from £8.56 to £23.70; and adult day care varies from being a free service to carrying a charge of £34.98 per day.

3.10 Audit Scotland strongly recommends that councils should have a clear basis for their charges and that charges should be part of a council's financial and resource planning. Charges should be monitored and reviewed regularly and any unintended consequences identified. Importantly, charges should be based on a structured approach with clear overall objectives set in the context of guiding principles.

3.11 The report highlights that common principles behind charging policies are that charges should be reasonable, take account of the service user's ability to pay, and should not exceed the cost of providing the service.

3.12 The report provides a framework for managing charges. This is not intended to be a prescriptive process for councils to follow, but sets out some of the important stages that councils are applying in practice.

- Ensure councillors take a lead role in setting aims and priorities for charges and concessions.

- Adopt clear corporate principles and service objectives for how charges and concessions are applied.

- Understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges.

- Consult service users, community planning partners, residents and other stakeholders over proposed charges.

- Keep services under review to ensure that charges are appropriate and align with service and corporate objectives.

- Design charges to take into account the views of users and the potential impact on uptake and income.

- Design concessions that target priority groups and are consistently applied across services.

3.13 The report includes several examples of good practice including Clackmannanshire Council's simple explanation of the three categories of its charging policy (p.14); Sandwell Council's guiding principles for setting fees and charges (p.20); and East Renfrewshire Council's service charge review programme (p.24).

3.14 The Council Management Team has considered the report, its findings and recommendations. It has noted the findings in relation to the differential levels of income raised from fees, charges and rents, and that the Council does not have a charges Policy and a consistent approach to concessions. Therefore, it has instigated a benchmarking exercise to compare the services for which charges are levied and the level of fees and charges (see paras 3.7 & 3.8 above). Work has also begun on developing a charges policy using the examples of good practice and the framework provided in the Audit Scotland report. The review of charges and concessions for Enjoy Leisure services that was carried out in 2013 will be a useful starting point. The draft charges policy will be presented

for approval to Council in 2014 and will be used as the basis for a rolling programme of reviewing all Council charges.

4 POLICY IMPLICATIONS

4.1 The Audit Scotland report has highlighted that the Council does not have a corporate approach to charging and no guiding policy. It has also highlighted that the Council raises significantly less from charges, fees and rents than most other Councils and that many of the charges for Council services are below the Scottish average. The benchmarking exercise initiated by the Council Management Team will identify the reasons for the lower level of income and the differences in services for which charges are levied and the variations in the level of charges. The establishment of a Council charges policy and a rolling programme of reviews of charges will provide a more structured approach to charges which ensures that charging is part of the Council's overall financial management and that subsidy and concessions are applied consistently and are targeted to priority areas.

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required. However, it is recognised that the charges policy and reviews of charges carried out by the Council will be subject to consultation and Impact Assessments.

6 RESOURCE IMPLICATIONS

6.1 Financial – none. Any financial implications arising from the charges policy and review of charges will be reported to Council either as part of the budget setting process or in reports to Cabinet.

6.2 Personnel – none.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 *Charging for Services: are you getting it right*? Audit Scotland, Oct 2013

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Service Manger (Corporate Policy and Improvement)
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	6th January 2014

Charging for services: are you getting it right?

ACCOUNTS COMMISSION

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: **www.audit-scotland.gov.uk/about/ac**

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.
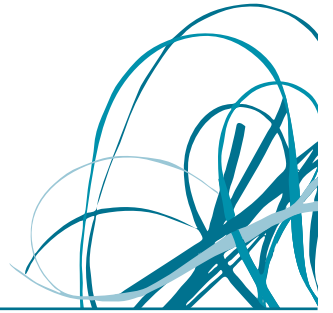
Contents
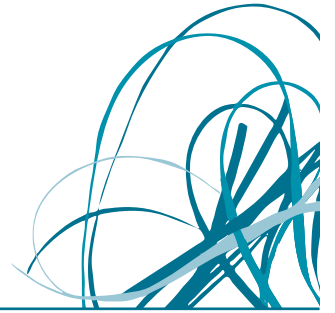
Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Summary

Key facts

Three-quarters of councils are reviewing their use of charges, but less than half have corporate policies in place

75 per cent

£1.3 billion

Raised from charges and fees by councils each year

Charges vary according to council policy from free to hundreds of pounds per year

£££

7 per cent

Total funding councils receive from charges and fees

Proportion of income from social work, roads and transport, and 'central services' charges such as licensing.

54 per cent

57 per cent

Income from charges relative to council tax take
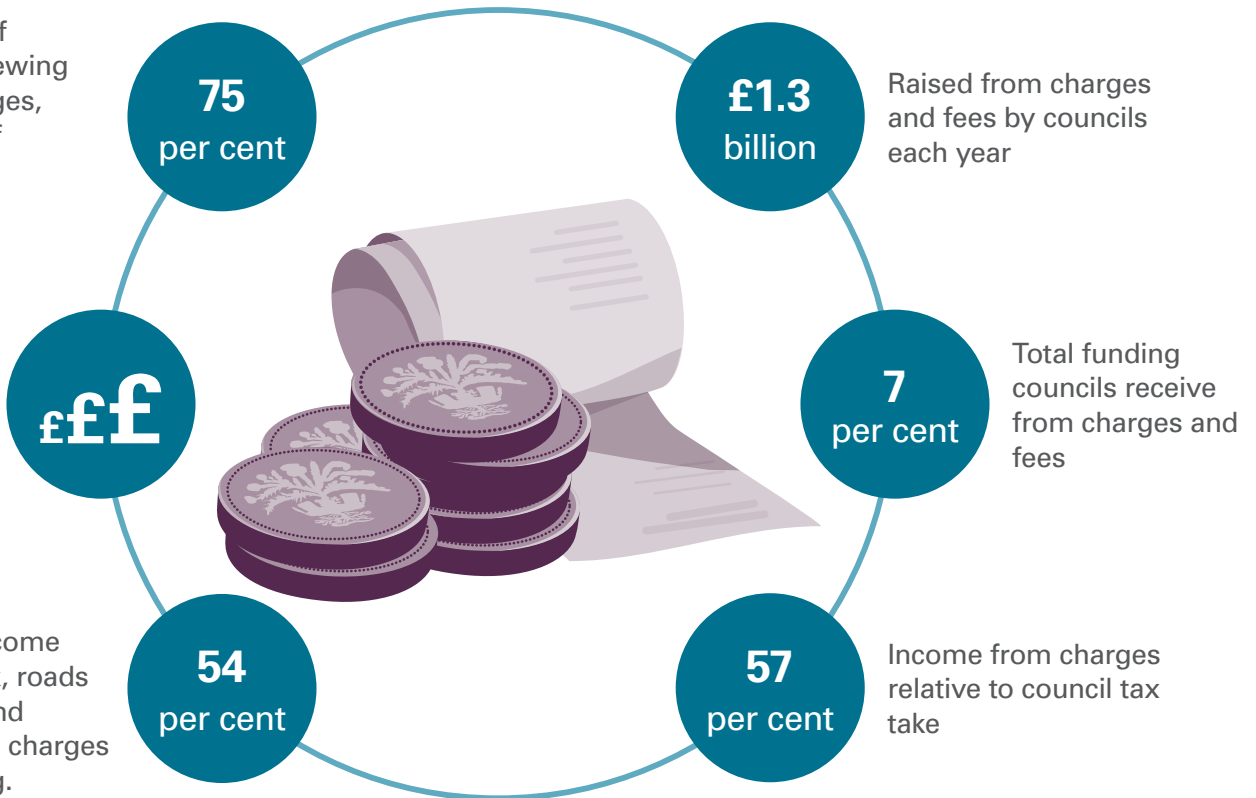
Background
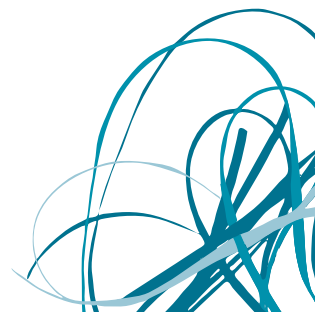
About our report

1. The Accounts Commission seeks to support developments in Best Value and how to manage resources such as people and finance. We recognise these as components vital to successfully delivering council services. Our 'how councils work' series of reports aims to stimulate change and help councils continue improving their performance. We select topics based on the recurring themes and issues from our Best Value and performance audit work, the work of local auditors and our annual overview report. All our reports are available on our website: www.audit-scotland.gov.uk Topics to date have included:

- the roles, responsibilities and working relationships of councillors and council officers

- councils' use of arm's-length external organisations (ALEOs)

- the management of costs

- performance management and improvement

- capital project management.

2. Local authority charging is an important issue. While charges for services make up a relatively small part of a council's income, they can be very significant to people who use services. Charges are one of the few ways that are within councils' control to raise income locally.

3. In Part 1 we look more closely at the types of services that councils can charge for. We also look at the contribution charges make to a council's overall budget. This includes information about current practice including variations in charges, and the extent to which councils have clear policies for charging.

4. Charges can influence how people choose to use services. In Part 2 we look at examples of good practice including understanding costs and getting the views of people who use services.

5. Part 3 includes a guide to managing charges, and Appendix 1 and Appendix 2 include checklists for councillors and officers to help them apply good practice.

6. We are grateful to all the councils who responded to our survey, and also to other organisations who we worked with to develop this report including the Convention of Scottish Local Authorities (COSLA), the Improvement Service, and the Society of Local Authority Chief Executives (SOLACE).

charges are an important source of income over which councils have control or influence
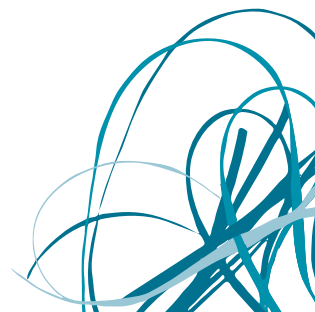
Key messages

1 Councils should have clear policies in place for charges and concessions. They should regularly review charges to ensure that they are appropriate and meet their intended objectives.

2 Councillors should take a lead role in determining charging policies. They should be involved and consulted over the design of charges and concessions.

3 Charges can be used to influence behaviour to help meet councils' objectives. They should not be seen solely as a means to generate income.

4 Councils should improve their use of cost information, including unit costs. This is essential for councils to design charges and understand the extent to which they will recover costs.

5 Charges for services vary markedly between councils, reflecting local circumstances and policy priorities. This may be appropriate but councils should be aware of any significant differences in their charges. They should be transparent in how they set charges and be able to explain their charging decisions to the public.

6 Councils should consider charging as part of their overall financial management. Councils should understand the contribution that charges make to their overall financial position, and the extent to which individual services are subsidised. This can help councils to target subsidy to priority areas.

7 Many factors must be taken into account when designing charges. To assist in this, councils should follow the good practice set out in this report. This includes identifying charging options, assessing their impact on services and the people that use them, and making comparisons with other providers.

Part 1

Why charges are important

Key messages

1 Charges are an important source of income and are a means to help councils achieve their objectives.

2 Councils have discretion over their charging policy and variations in charges can be expected. Councils with a clear basis for their charges are better placed to explain their charging decisions.

3 The income that councils raise from charges has risen over the last decade and is estimated at some £1.3 billion, or approximately seven per cent of a council's overall expenditure.

Councils use charges to help them meet their policy aims

7. Charges serve a variety of purposes. They bring in a vital source of income to councils and can be used to help councils to deliver services and their policy aims. Councils charge the users of their services through a variety of means. These include:

- charges at the point of sale or admission, eg gyms, galleries, school meals and museums

- fees paid up front for receiving services, eg meals on wheels, licence applications, parking permits, gym membership schemes

- services billed for after they have been provided, eg pest control, statutory repairs

- services where a contribution is paid by the user depending on their eligibility or ability to pay, eg non-residential care services

8. The term 'charging' in this report refers to all these charging methods used by councils. Our report does not specifically refer to housing rents, or to fines issued by councils, although similar principles apply in these areas.

9. Councils use charges to influence behaviours – for example, low gym charges can be used to encourage exercise or car park charges can be introduced to discourage the use of cars in city centres.

charges should be made clear to the public

10. Councils work with limited resources and face continuing financial pressures through increasing costs and demands on services. The Scottish Government funding settlement to local authorities for 2013/14 is £9.9 billion, a decrease of about 2.2 per cent in real terms.[1] Councils are predicting increasing funding gaps. There is therefore an increasing need for councils to examine potential sources of income, including charging more for their services.

11. Charges can be a means to sustain and improve services. They can also be used to bring in new sources of income or be used to help a council to improve the services it offers. In setting charges, councils must take into account the impact on the service user. They must also understand the contribution charges make to their council's overall financial position. Councils should consider charging within their overall plans for how they manage their resources.

12. Our assessment of the Scottish Government local financial returns shows that councils raise over £1.3 billion through charges,[2] equivalent to over 50 per cent of the amount they raise through council tax.

13. We have used information reported by councils in their local financial returns to the Scottish Government to illustrate broad trends in income from charges. These returns do not provide an accurate figure for the amount that councils raise through direct charges to service users. However, they allow us to compare data over time on a reasonably consistent basis. This information is reported by councils as their total income from sales, fees and charges.

14. The majority of income in this category comes from charges to service users, but it may include other income sources such as charges for services provided on behalf of other councils, or sales of discontinued equipment. It is not possible to separate these miscellaneous sources of income from the figures. The figures do not include income for services provided through trusts or arm's-length companies, as these are treated as separate organisations for accounting purposes. Such organisations are used by councils to different extents in areas such as leisure, property services and, more recently, social care services.

15. We emphasise that the financial information available to us on income from charges is limited. An important message from this report is that councils themselves must ensure that they have good financial information to manage their charges effectively.

Councils must provide some services free of charge, but have discretion to set charges in many areas
16. Councils do not have complete freedom to charge for services. Many council services are provided with no direct charge to the service user. Examples include children's education and street cleaning. Services such as these are funded mainly through taxes.

17. Councils do however have discretion to charge for other services. For example, the service user typically pays for services such as planning consents and building control certificates, the use of sports facilities, licensing and burials and cremations. Councils may also offer price concessions to certain service users based on, for example, their age, employment or financial circumstances.
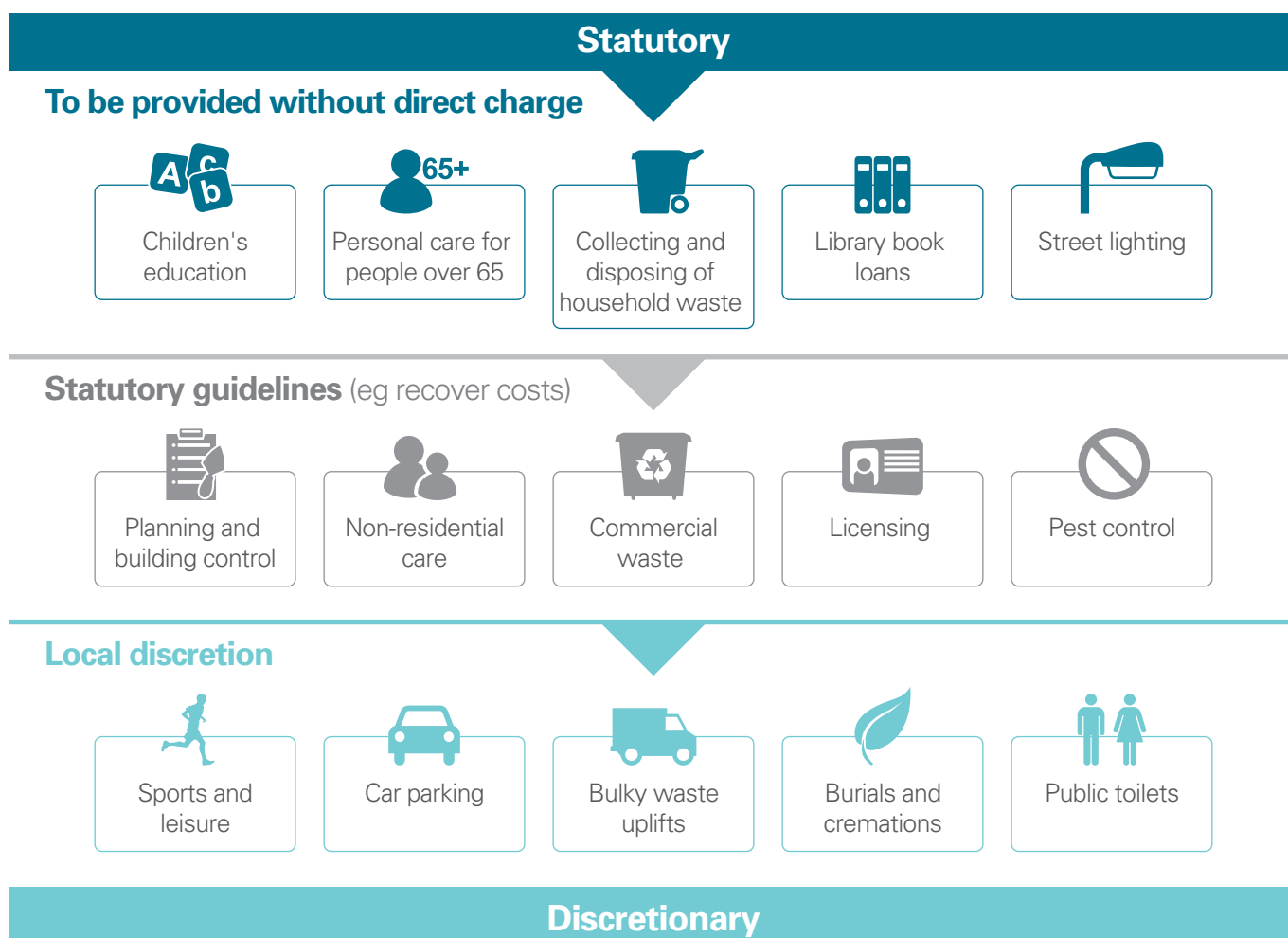
18. Charges are an important area of income over which councils can have direct control. This report focuses on areas where councils have discretion to apply charges.

19. Charges in many areas are subject to legislation and national guidelines. Common principles behind these are that charges should be reasonable, take account of the service user's ability to pay, and should not exceed the cost of providing the service. Examples of how charging legislation applies to different services are shown in Exhibit 1.

Exhibit 1
Examples of charging regimes for services
Charging requirements and legislation vary for different services.

Statutory

To be provided without direct charge

| Children's education | Personal care for people over 65 | Collecting and disposing of household waste | Library book loans | Street lighting |

Statutory guidelines (eg recover costs)

| Planning and building control | Non-residential care | Commercial waste | Licensing | Pest control |

Local discretion

| Sports and leisure | Car parking | Bulky waste uplifts | Burials and cremations | Public toilets |

Discretionary

Source: Audit Scotland

20. Legislation and guidelines for charging should be kept under review. This is an area the Scottish Government may wish to consider to ensure that statutory charges remain appropriate for the environment in which councils operate.

21. Councils have discretion to subsidise services. Where a service is subsidised public money is used to make a contribution to part of the costs of providing the service. Subsidy applies to the service as a whole and is not targeted to a particular social group. Councils can also apply concessions through reduced fees and charges to certain groups, for example to encourage equal access to services.

22. Charges for public sector services generally cover the costs of providing them and are not intended to generate income. Where charges generate a profit or surplus, this is normally reinvested in the service. Parking is an example of this, where any surplus income from charges and fines is reinvested in related services. In the case of charitable trusts, any surplus is reinvested in the activities of the trust.

23. In certain circumstances, councils and their associated organisations may be able to trade in the open market, applying commercial rates to generate some profit. For example, many councils have set up arm's-length companies to undertake activities such as property development and facilities management services.

Councils generated over £1.3 billion from charges in 2012/13

24. Information reported by councils in their annual Scottish Government financial returns indicates that they raise over £1.3 billion a year through charges, accounting for 7.4 per cent of councils' total revenue. The proportion of income from charges rose from 5.6 per cent in 2003/04[3] to 7.4 per cent in 2013. The implementation of the council tax freeze in 2007/08 altered the relative proportion of councils' income from charges.

25. Income from charges now equates to over half of the income raised through council tax, having risen from about 40 per cent in 2003 to 57 per cent in 2013. Exhibit 2 shows how this proportion has changed over the last ten years.

Exhibit 2
Income from sales, fees and charges compared to income from council tax (shown in 2011/12 prices)
Income from charges is increasing, while income from council tax has declined in real terms.
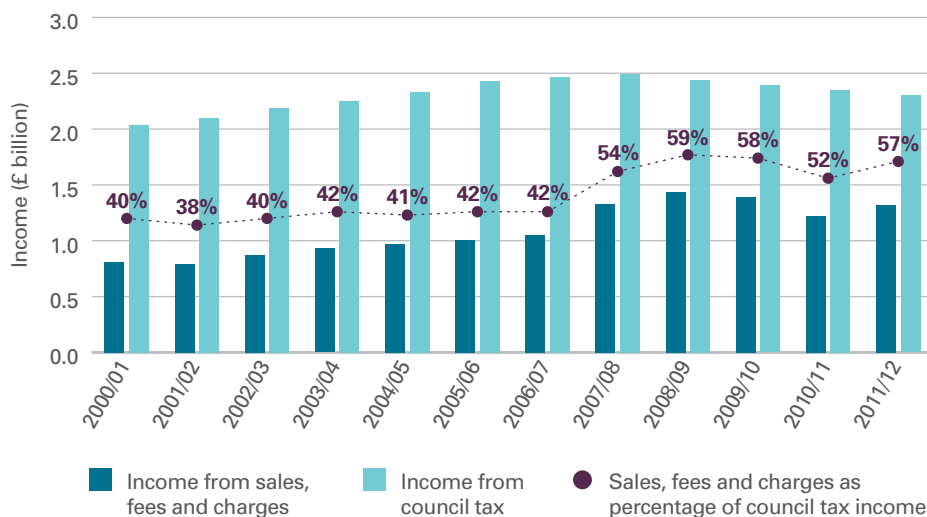
Note: Figures adjusted in real terms to 2012.

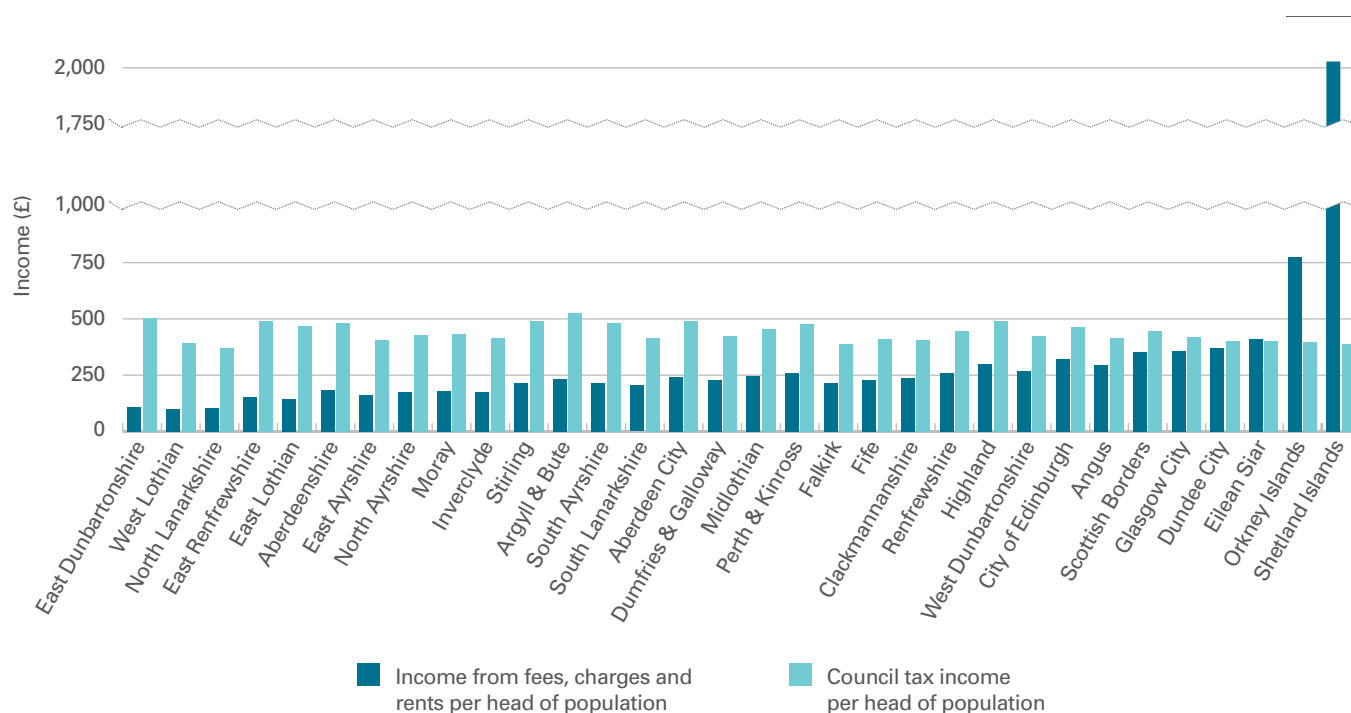Source: Audit Scotland and Scottish Government Local Financial Returns

26. Exhibit 3 compares income from sales, fees and charges with income raised through council tax. This shows a large variation in the amount that councils raise from charges. Income from charges as a proportion of council tax ranges from a low of 22 per cent in East Dunbartonshire to a high of over 500 per cent in the Shetland Islands.

Exhibit 3
Councils' per capita income from sales, fees and charges, compared to income from council tax
The amount councils raise through charges varies significantly.

Source: Audit Scotland and Scottish Government Local Financial Returns

27. Councils are therefore using charges to supplement the income they raise locally through council tax to varying degrees. The reasons for this variation are not clear, and there is no clear relationship between the levels of council tax and charges levied by councils. The variations are likely to be due to a combination of councils' charging policies and other local factors. For example, cities may be able to raise more charges from their business and tourism base. Similarly, Shetland Islands Council and, to a lesser extent, Orkney Islands Council and Comhairle nan Eilean Siar (Western Isles Council), generate significant private sector income from their harbour activities including essential ferry services and in the case of Shetland, oil-related revenue. This results in their comparatively high income levels from charges.

28. As part of good financial management and planning, councils should understand the contribution that charges make to their overall financial position. They should also be aware of how this compares with other councils.

29. Councils apply charges across a wide range of services. Exhibit 4 shows the services that generate most income from charges. Social work, roads and transportation, and central services make up the highest levels of income. Within social work, older peoples' services make up the majority of income, followed by services for people with learning disabilities. Income from roads and transport charges comes mainly from parking, and roads maintenance work. Within central services, charging income comes from activities such as licensing and registering births, deaths and marriages.

Exhibit 4
Income from sales, fees and charges by service area
Social work, roads and transport, and central services (such as licensing) together raise over 50 per cent of income from charges.
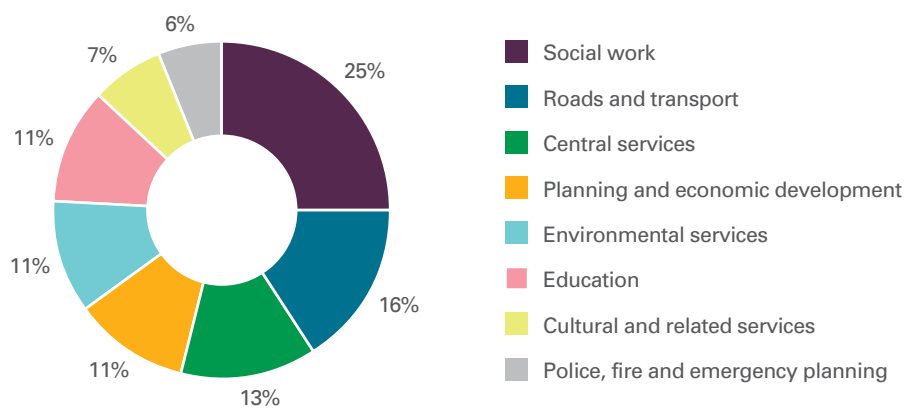
Source: Audit Scotland

Charges vary between councils

30. Legislation and guidance sets out how councils can apply charges, but councils have discretion to set charges in many areas. Legislation prohibits charging altogether in certain areas such as children's education. In other areas, legislation sets out broad principles but its application may vary between councils, for example in the way councils determine what constitutes a reasonable charge. Local differences such as the nature of the services provided and the actual costs involved in providing them will also affect councils' charges.
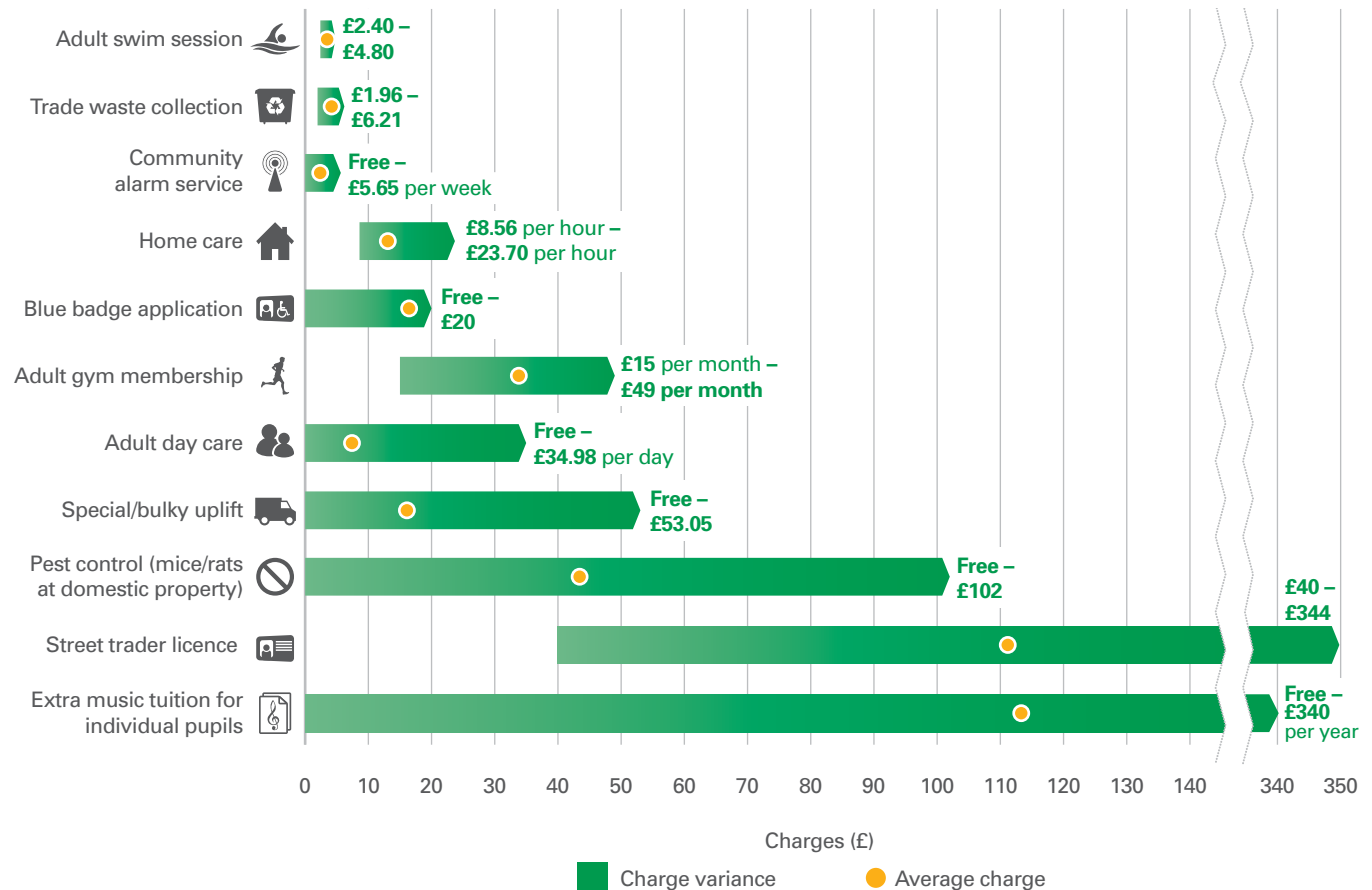
31. As locally elected bodies it can be expected that councils' charging policies will differ. Service users, however may perceive variations in charges for similar services as inconsistent, confusing, or unfair. This may be particularly the case where some councils charge for a service and others do not. Also, the public may be less assured about charges with no clear basis or that are simply set at historical levels.

32. Some users will be more aware of differences in charges. Businesses, for example, may deal with several councils and find different approaches for commonly used services such as commercial waste disposal, scaffold permits and licensing. Exhibit 5 (page 13) shows how charges vary between councils across a sample of services.

Exhibit 5
Variation in charges for a sample of services provided by councils
Charges vary significantly across councils.

Service	Charge range
Adult swim session	£2.40 – £4.80
Trade waste collection	£1.96 – £6.21
Community alarm service	Free – £5.65 per week
Home care	£8.56 per hour – £23.70 per hour
Blue badge application	Free – £20
Adult gym membership	£15 per month – £49 per month
Adult day care	Free – £34.98 per day
Special/bulky uplift	Free – £53.05
Pest control (mice/rats at domestic property)	Free – £102
Street trader licence	£40 – £344
Extra music tuition for individual pupils	Free – £340 per year

Charges (£)

■ Charge variance   ● Average charge

Note: Shows range of charges across sample sizes ranging from 16 to all 32 councils. Charges reflect, as far as possible, similar terms of service and exclude concessions and off-peak reductions. In areas where means testing applies, such as adult social care, the charge shown is the total service charge and does not necessarily reflect the amount any individual service user will pay.

Source: Audit Scotland

33. There can be significant variation in charges. The cumulative effect of these on a household receiving a variety of services could be significant and amount to hundreds of pounds a year. However, it is often difficult to compare charges across councils. The variation in charges between different councils is not always clear from simply looking at the stated prices.

34. For example, Exhibit 5 shows that the charge for individual music tuition[4] varies from being provided free (Dundee City Council, City of Edinburgh Council, Comhairle nan Eilean Siar, Glasgow City Council, Orkney Islands Council, South Ayrshire Council and West Lothian Council) to £340 per year (Aberdeen City Council). However, the service being provided also varies between councils, with the number of lessons ranging from 28 to 40; lesson duration ranging from 25 minutes to an hour; and some councils providing free use of equipment while others charge a hire fee. The Scottish Government published a review of school music tuition in June 2013.[5]

35. The variation in costs for adult day care services is also more complex than the difference in the core fee suggests. For example, some councils include costs for meals and transportation while others charge an extra cost to the user.

36. Councils should be transparent in their use of charges. It is good practice for councils to set out clear charging schedules so that the public are aware of what services they need to pay for and how much they will cost. Some councils make such information clearly available on their websites and also at the point of service delivery, for example through customer service standards and leaflets. Exhibit 6 shows how Clackmannanshire Council gives a clear overview of its overall policy for community care charges.

Exhibit 6
Community care charging policy
Charges fall into one of three categories.

Free services

- Personal care over age 65
- Minor adaptations
- Equipment to assist with daily living
- Mobile emergency care service
- Day care
- All services to children are currently free

Services charged according to ability to pay

- Homecare
- Residential care
- Nursing homecare
- Major adaptations to property

Fixed charge services

- Meals provided at home and at day centres
- Respite care

Source: Clackmannanshire Council website, Community Care Charging Policy, adapted by Audit Scotland.

Councils should have a clear basis for their charges

37. Ultimately, each council must set its charges in the context of its wider service objectives. However, councils should be aware of practice elsewhere to help set their charges. They should compare their charges with other providers and make use of national and other benchmarking approaches. This does not mean simply mirroring charges elsewhere, because local circumstances may vary. However, councils should be aware of any unexplained inconsistencies and be able to explain why their charging policy differs.

38. We found that most councils use benchmarking to compare their charges across services and with other councils and providers. This allows them to identify any significant variations and take these into account when setting their charges. Councils should be able to explain any significant variations in charging, for example because of differences in costs, service quality or policy.

39. At a national level, organisations including the Association of Public Sector Excellence (APSE), The Chartered Institute of Public Finance and Accountancy (CIPFA), COSLA, the Improvement Service, and SOLACE are all involved in benchmarking charges for services. Our survey found that councils also use the COSLA/Association of Directors of Social Work (ADSW) non-residential social care charging survey which is completed annually and circulated around all authorities.

40. Benchmarking is often triggered by the annual budget process or individual service reviews. We found some councils had undertaken major, one-off reviews of charging or income across the council. Some were using benchmarking to identify charges that were significantly lower than those elsewhere as part of initiatives to identify new sources of income.

41. Councils have found benchmarking difficult because of the wide range of charges applied, and variations in the services delivered. Some also reported that the range of different providers also makes benchmarking difficult. For example, sports and leisure is often provided through diverse organisations including councils, charitable trusts, arm's-length companies and the private sector. However, it is important that councils find ways to benchmark their charges. We found that some councils had compared charges across public, private and third sector providers in areas such as crematoria, social care, waste management, and sports and leisure.

Part 2
Managing charges
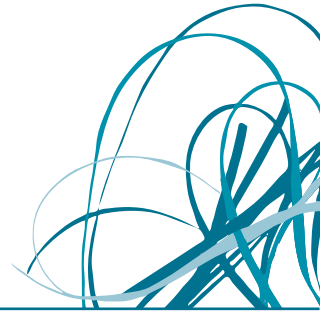
Key messages

1 Charges for services should be consistent with councils' overall policy aims. Few councils have corporate policies specifying the circumstances in which charges and concessions should be applied, but most have policies in place for individual services.

2 Councillors approve charges through the budget-setting process, but should take a stronger role in determining policies for charges and concessions.

3 Councils have tended to review charging as part of their annual budget-setting cycle, but are beginning to undertake more strategic reviews of charging.

4 Good financial information is essential to manage charges effectively. The availability of cost information in councils is limited. Many factors must be taken into account when designing charges. Councils must also understand the views of people who use services, including their ability to pay.

councillors have a lead role, and should be aware of costs, comparisons, and the views of service users

Charges should be part of a council's financial and resource planning

42. Many factors must be taken into account when deciding how to apply charges. In some councils, charging decisions have been made late in their budget-setting process. With a more structured approach, however, councils are better able to take informed decisions on charges that are consistent with their policy aims.

43. Councils should be clear on their overall objectives for charging and have guiding principles in place. They should also understand the legislative context, the views of users and other stakeholders, and the likely impact of charges on service uptake and income. Councils should consider how to introduce new or increased charges. It is often prudent to phase in charges over a period.

44. It is important to monitor and review the impact of charging decisions. Where pricing aims to achieve a policy aim it is important to monitor whether this has been achieved in practice. This should include identifying any unintended consequences of pricing decisions such as people withdrawing from services. For example, initiatives to increase participation in exercise or to encourage healthy eating for school children could be affected by price increases.

45. Councils should periodically review their overall approach to charging and concessions. As part of this they should assess the impact of charging arrangements and ensure that service charges comply with corporate guidelines.

46. The following bullets set out a framework for managing charges. This is not intended to be a prescriptive process for councils to follow, but sets out some of the important stages that councils are applying in practice. The following sections of this report expand on the main elements within this framework.

- Ensure councillors take a lead role in setting aims and priorities for charges and concessions.

- Adopt clear corporate principles and service objectives for how charges and concessions are applied.

- Understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges.

- Consult service users, community planning partners, residents and other stakeholders over proposed charges.

- Keep services under review to ensure that charges are appropriate and align with service and corporate objectives.

- Design charges to take into account the views of users and the potential impact on uptake and income.

- Design concessions that target priority groups and are consistently applied across services.

47. Part 3 includes an overall cycle for managing charges exhibit and Appendix 1 and Appendix 2 provide supporting checklists for councillors and officers.

Councillors should take a lead role in setting charges

48. Charges are an important means for councils to sustain services and to help meet their policy aims. Councillors should provide strong leadership and direction over charges. They should be aware of the impact of charges on the services they are responsible for, and be actively involved in charging decisions. Councillors have an important role in representing their constituents and should be consulted over charges along with users and other stakeholders.

49. Officers should provide councillors with clear financial information on the contribution charges make to a service. Councillors should also be made aware of the sensitivities of how pricing influences service uptake in particular services.

50. Councillors should be aware of their council's overall financial position. This requires a clear understanding of costs, subsidy levels and the contribution of charges. Councils have limited money to subsidise services. By having a clear understanding of the costs of services and the extent to which they are subsidised, councillors can ensure that any subsidy is channelled to priority areas.

51. Without this, there is a risk that councils are subsidising services where it would be reasonable to charge the service user more. Alternatively they may not be targeting subsidy to areas where people are struggling to afford services that are essential to them.

52. Typically councillors are involved in charging decisions through the budget-setting process and through service committees. This tends to be mostly where there are proposed changes to charges or charging policies.

53. There is scope for councils to involve councillors more closely in setting charges. We found limited evidence of councillors being involved in charging outside of committee. By involving councillors, charging proposals can be closely aligned with the council's priorities. For example, North Lanarkshire Council had involved councillors in an option appraisal and challenge process with senior officers. This was used to assess charging proposals, including their impact on services, client groups, savings targets and strategic priorities.

Charges should be set within a clear corporate policy framework

54. Charges should not be set in isolation. Any decision to vary or introduce charges should take into account the council's priorities and financial objectives. Councils can benefit from having a systematic approach to setting charges. This means having clear policies for how and when charges are to be used. These include corporate policies setting out council-wide principles for charging, and also departmental policies setting out objectives for individual services.

55. Some councils have developed registers of charges setting out current charges, the annual adjustments to the charge, and their charging basis, for example to recover costs. These help councils to monitor their overall approach to charging and take a consistent approach across services. Councils should consider concessions as part of their charging schemes. Policies for charging and for concessions should be consistent and integrated.

56. Councils should decide what services it is appropriate to charge for and what the objective of the charge is. Where services benefit the entire community, councils tend to fund them principally through taxation. This is often more efficient than attempting to charge service users directly. Councils are more likely to apply charges where services provide direct benefits to identifiable groups. Here services will typically be funded jointly through taxation and user charges.

57. Some councils apply punitive charges or fines where they need to provide services in response to behaviours that cause negative effects to the community or individuals. Here, charges are funded as much as possible from users. Dog control is an example of this.

58. What we found – 1 (page 19) indicates how the Highland Council applies its charging principles across all services. The policy helps to ensure that charging reviews as part of the council's budget-setting process reflect common corporate principles. The council's finance service is responsible for managing the application of this policy.

59. What we found – 2 (page 20) shows how a West Midlands council has set out a wide range of charging requirements under three guiding principles of viability, fairness and consistency. This illustrates the link between a council's policies for charging and concessions.

What we found – 1

Highland Council – corporate charging policy excerpt
The policy sets out fundamental principles for charging:

- All services must adhere to this policy and the principles outlined here. Any exceptions must have committee approval.

- The Corporate Charging Policy is designed to create a consistent approach to charging across council services and each service director is responsible for applying it.

- How fees and charges are used can have a positive impact on service delivery and therefore should not be automatically considered detrimental or controversial.

- The reason for levying a charge, and the basis on which the charge should be levied, should be transparent and must be considered against the council's corporate objectives. Charges should first and foremost be in accordance with legislative or regulatory requirements and be set to deliver policy objectives. Where appropriate, they may also be used as a means to generate income.

Source: The Highland Council

Most councils only have charging policies for individual services

60. Corporate charging guidelines would make councils better placed to make charging decisions that are consistent with their policy aims. In 1998 the Accounts Commission found that less than one-quarter of Scottish councils had established corporate principles for charges.[6] Our 2013 survey of Scottish councils indicates only a slight improvement.[7] Only nine out of 23 councils who responded to our survey said they had a corporate or council-wide policy in place for charging.

61. We found that most councils do, however, have charging policies for individual services. These were often approved by the relevant committees, with service directors being responsible for ensuring that they are followed. Clackmannanshire Council's community care charging policy is an example, as noted in Exhibit 6 (page 14).

Councils should be able to provide clear information on service costs and subsidies

62. Setting charges for services can be a complex exercise and needs to take into account many factors. Most crucially, councils should understand the full costs involved in delivering the service, including overhead costs and the costs of related services. Only then can they understand the contribution that charges are likely to make in recovering these costs.

63. For some services, charges may be set at historical levels and may not have been reviewed for some time. In other areas, councils may have reviewed

charges to reflect the actual costs of providing the service, or to reflect market rates. Councils should also take into account the public perceptions of what makes a reasonable charge.

What we found – 2

Sandwell Council – guiding principles for setting fees and charges

This council sets its core principles for charging as viability, fairness and consistency.

Viability	Fairness	Consistency
The council will aim to achieve an appropriate level of income from fees and charges by ensuring that charges to users reflect the full cost of the service provision, unless otherwise required.	Fees and charges should be set at a level that is fair to users and council tax payers. Services received by commercial organisations should always pay the full cost, unless otherwise required, and concessions should be available to groups determined by the council as being unable to pay the full charge.	Concessions for target groups should be consistent across the authority's services in terms of who is eligible.
The decision to subsidise a service by either not charging for it at all or by charging at less than full cost should be a conscious choice, not an accident of history.	Significant price increases should be phased in over time to reduce the impact on service users.	Charges for similar services or activities should be consistent across the authority.
Charging levels should take account of market demand, competition from other service providers and comparisons with charges made by other comparable local authorities.	A tough stance should be taken on fee dodging so that other users do not pay more to compensate for non-payers.	Decisions about whether and how much to charge should be consistent with the achievement of customer outcomes and council strategies.

Source: Sandwell Council

64. Councils will also need to consider what costs charges are intended to cover. This may vary from full cost recovery to a percentage of costs, or marginal costs.[8]

65. Councils need to consider which pricing structures to apply. Three broad approaches are set out below. These should all be considered before deciding how to design a charge.

- Cost-based pricing – to recover all or a proportion of the costs of providing the service.

- Competition-based pricing – to reflect market rates.

- Demand-based pricing – to promote, or to control and limit uptake.

66. The basis for calculating costs may vary between councils, for example, the extent to which they include overhead costs such as building costs and central services such as information technology and human resources. Councils must identify and include all relevant costs. This is particularly important to help councils compare their costs and to report financial information publicly.

67. By identifying the full costs involved in delivering services, councils can then understand the extent to which charges recover costs. This is important if councils are to demonstrate that charges are reasonable and reflect the actual costs of delivery. It also allows them to understand the extent to which public money is used to subsidise services.

68. Good financial management is essential for councils to get charging right. Our 'how councils work' report on using cost information stressed the importance of management accounting.[9] Financial accounting tends to focus on the past and is used mainly to prepare annual financial statements. Management accounting is more forward-looking. It involves using current financial information to plan and manage services. This is the type of information that is important to understand and manage the impact of charges on services.

69. We have found that the use of cost information is relatively underdeveloped across councils. For example, performance management reports to committees often focus on service quality or uptake, but lack cost information. This can make it difficult for councillors to make informed decisions as to what level to set charges. It also makes it difficult for them to take strategic decisions on how they should make the best use of their limited resources to subsidise services.

70. Our 2012 'how councils work' report on using cost information emphasises the need to understand 'unit costs'. Unit costs are particularly useful when setting charges as they can help to identify the costs of the discrete activities the service user is paying for. Calculating unit costs involves identifying a suitable costing basis such as the cost per transaction, or the cost per visit. As part of this, overheads and other 'fixed' costs such as building costs need to be factored in, as do 'variable' costs such as staff time, materials and other expenses. Costs are then apportioned to the activity in question.

71. Stirling Council examined its burial and crematorium costs. This involved detailed task analysis and cost calculations to establish full-cost recovery for this service, What we found – 3.

What we found – 3

Stirling Council used activity-based costing to identify the full costs of the service

Stirling Council examined the income it receives from fees and charges as part of its financial planning process. It reviewed its burial service charges as part of this. The council's charges for this service had been set at historic levels and had not been reviewed for some time.

The council allocates all services for which it charges into categories: no charge, subsidised, full-cost recovery, income generating or statutory charges. The burials service is categorised as a full-cost recovery service.

The council used activity-based costing to understand the actual cost of providing the service. This showed that the council was subsidising the service significantly more than it had anticipated.

Activity-based costing involved identifying all the key steps involved and their associated costs. To cost activities, the council identified direct costs, such as staff time, and indirect costs, such as property costs, management costs, and support functions such as IT. The council used time-recording information, transactions and uptake data, and meetings with staff to gather the cost information. The activity-based costing exercise also highlighted activities not previously recognised as part of the service such as permit costs for stone masons.

The review gave councillors clear information on the service costs, charges, and how these compared to other providers. This allowed them to fully understand the financial implications of charging options. The council decided to move to full-cost recovery for most aspects of the service. The new charges were to be phased in to manage the impact on residents.

Source: Audit Scotland and Stirling Council

It is vital to understand the views of people who use services

72. Consultation is vital to understand the particular needs of service users. This includes talking to service users and other stakeholders such as residents and tax payers. Councils are consulting residents over charges as part of their annual budget-setting, and are inviting customer-satisfaction feedback, including complaints. Councils with good processes for monitoring service uptake and customer satisfaction have a valuable source of information to support their charging decisions.

73. We found that councils are using a variety of means to talk to the users. For example, in social care services, councils are consulting both service users and staff to gather their views on the service, their ability to pay, and the likely impact of welfare reform Exhibit 8 (page 29). Equalities-impact assessments should be considered as part of any significant charging decision to gauge how charges are likely to affect minority or disadvantaged groups.

74. Councillors, community councils, and voluntary or third sector organisations provide a useful sounding board for the likely impact of charges. It is also important that councils take into account the perspective of businesses, especially where private sector companies use services across different council areas.

75. Councils should also gather benchmarking information and comparisons with charges elsewhere. In some cases councils have realised that people are prepared to pay more for better services, such as secure car parking, or improved sports facilities. Councils can make more effective charging decisions when they consult with service users. For example, East Renfrewshire Council had consulted a theatre users' group over its charges for theatre lets. This group was not able to pay in advance so the council agreed to take payment once the theatre group had received its ticket sales income.

76. Councils are increasingly delivering services in partnership through community planning and other joint working across organisations. There is scope for councils and their partners to make greater use of community planning as a means to discuss and develop charging proposals.

Councils are reviewing how they use charges

77. We were encouraged to find that about three-quarters of councils who responded to our survey had conducted reviews of charging across their organisation. This shows that they recognise charging as an important area in its own right. What we found – 4 (page 24) summarises some of the types of corporate review activity we found.

78. Some have undertaken corporate reviews to help set a consistent approach to charging across services. In many cases the annual budget process has triggered reviews of charges. This is of course a practical consideration where councils face financial pressures. But it is important that decisions on charges are not taken in isolation.

79. Most councils have also reviewed charges in specific services within the last three years. Some councils have a systematic approach to doing this. East Renfrewshire Council has a rolling programme to review significant charging areas Case study 1 (page 24).

80. Councils' overall objectives for individual reviews into charging varied. Many cited generating income from new or increased charges as their main objective. Councils often applied wider aims where services are essential to people's wellbeing. Here cost recovery was seen to be a more appropriate aim than generating income. Examples of such services include social care and burials and cremations. In the case of social care, the ability of the service user to pay was an important factor in designing charges and concessions. What we found – 5 (page 25) summarises some of the service areas councils have examined, including the review objectives.

Many factors must be taken into account when setting charges

81. As well as contributing to income, charges are used to encourage certain behaviours to help meet service and corporate objectives – for example, to encourage equal access to services such as sports facilities, or to ensure that those who can afford to pay for services do so. Where charges are used to

influence behaviours it is important to monitor whether this has been achieved in practice. Some charges may result in unintended consequences. As an example, charges for special or bulky waste uplifts may lead to more fly tipping causing environmental damage and clear-up costs for councils.

What we found – 4

Progress in corporate reviews of charging

Our survey of Scottish councils found the following:

- Council-wide reviews to set a framework for charging to identify the extent of cost recovery or income generation across all services.

- Joint reviews with other councils to allow comparisons and consistency in charging practice.

- Reviews of individual services to check compliance against existing corporate charging policy.

- Prioritisation exercises to target reviews in certain service areas.

- Overall income reviews as part of the annual budget process.

- A basic annual uplift of charges as part of the budget process.

- Council-wide reviews of concessions to ensure their consistent application.

Source: Audit Scotland

Case study 1
The service charge review programme in East Renfrewshire
Example of a structured approach to reviews.

The council has a rolling three-year programme of service charge reviews. This requires major charging areas to fully cost the services they provide at least once in each three-year period. Charges are calculated on an appropriate basis such as full-cost recovery, part-cost recovery, or contribution to revenue. This allows councillors to consider levels of service subsidy. In the interim two years, charges are adjusted according to the annual uprating guidance issued by the director of finance. This includes taking into account the impact of price changes on demand levels and competitor prices.

Source: East Renfrewshire Council

What we found – 5

Councils' reviews of charges and their objectives
The objectives of reviews depends on the services in question.

Charging review area	Main objectives cited by councils
Aids and adaptations	Remove charges Increase uptake
Bulky waste uplifts	Reduce subsidy Encourage efficient use of the service
Cemeteries and burials	Reduce subsidy Achieve full-cost recovery Improve facilities
Childcare	Increase income Create parity with other public provision
Ferry services, licensing, school buses, trade waste, pest control	Generate income
Individual music tuition	Expand and invest in the service Increase income
Non-residential social care (see Exhibit 8)	Fairness, consistency, transparency Reduce subsidy Consider impact of Welfare Reform and Self-Directed Support
Parking charges	Support the transport strategy Generate income
School meals	Cost recovery (to cover increased food costs) Generate income
Special schools	Benchmark charges
Sports and leisure	Generate income Increase uptake/target user groups Standardise charges and concessions

Source: Audit Scotland survey of Scottish councils 2013

82. It is good practice to monitor the impact of charges both on the uptake of the service, and on the overall financial position of the service. When designing charges many factors must be taken into account. Exhibit 7 highlights a range of issues that councils should consider.

Exhibit 7
Issues to consider when designing charges

Collect and analyse service information including:

- Who uses the service/who is the service targeted at?
- What charges and concessions apply?
- What is the financial position, including subsidy?
- What are the unit costs?
- What is the uptake, and service standards?
- When is the service used – peaks and troughs?
- How satisfied are service users?
- Is there scope to generate further income?
- What is the alternative to charging?
- What has been the impact of previous charging decisions?

Examine options for different levels of charging and concessions, referring to corporate guidelines, including:

- Assess the impact on service users and uptake, considering the sustainability of the proposals.
- Forecast demand and income.
- Assess the impact around equalities and accessibility.

Source: Audit Scotland

83. As an alternative to increasing charges, councils should also consider whether there is scope to reduce the costs of delivering the service, for example by redesigning or re-tendering aspects of it. A council that continuously reviews its activities will be better placed to find efficiencies without having to pass costs on to the end user.

84. Case study 2 (page 27) gives an example of how the Comhairle nam Eilean Siar (Western Isles Council) examined charges for its sports and leisure service. By reducing prices the council managed to increase income and at the same time support its policy aim to encourage people's participation in exercise.

Councils are making greater use of charges to offset financial pressures

85. In planning their budgets, councils are considering various options to reduce costs or generate income. As part of this work, some councils have stated that some free-of-charge services are no longer viable.

86. At the time of our survey in July 2013, a number of respondents were reviewing non-residential social work charges. This is a complex area and many factors must be taken into account. Demographic changes are leading to growing demand for services such as older peoples' care.[10] At the same time councils are facing continuing financial pressures. Budget and demand pressures have led some councils to introduce charges for services that were previously delivered free of charge.

Case study 2
Comhairle nan Eilean Siar (Western Isles Council): Slàinte Mhath Scheme
Reducing charges can increase service uptake and generate more income.

Slàinte Mhath, which is Gaelic for 'good health', is a reduced price access scheme for the comhairle's sports facilities. Launched in January 2010, the scheme gives members access to all sports facilities, including pools and classes, across the islands.

Before the scheme started, the cost of membership was more than double its current price. Individual and corporate memberships were available but their cost meant low uptake. The comhairle had identified that sports participation levels were decreasing and that some health indicators, especially heart disease and obesity levels, were worsening.

The comhairle launched the scheme with the aim of increasing participation in physical activities and supporting long-term health improvements. The scheme aims to make membership attractive to the local population while keeping prices reasonable for the casual user or visitor.

Memberships are available in two main categories: families at £20 per month and individuals at £15 per month. There are also concession rates available for those over 60, in full-time education and those receiving qualifying benefits (£10 per month for individuals and £15 for families). Pay-as-you-go prices have increased but still remain within sportscotland's national guidelines.

By March 2013, the scheme had about 5,000 individual participants. This is about 30 per cent of the island's population under 70 years of age. The scheme resulted in a 30 per cent increase in the use of sports facilities. There has also been a similar percentage increase in the income generated. Since the launch of the scheme, income has increased by about £100,000, reducing the overall service cost to the comhairle.

Source: Audit Scotland and Comhairle nan Eilean Siar

---

87. Many councils are looking at options to increase income from charges. There is a danger, however, that by increasing charges, councils may actually lose income by pricing people out of the market.

88. Councils must consider the ability and willingness of service users to pay. This is particularly important for services that people rely on as part of their daily lives, such as homecare for people with disabilities, and meals on wheels.

89. Many councils have reviewed their non-residential care charging policies or are planning to do so. Almost 40 per cent of councils' social care spending is non-residential services for adults and older people. This includes homecare, day care, meals on wheels and community alarms.

90. With a projected 82 per cent increase in the population aged over 75 between 2010 and 2035, this is an area facing particular pressures, including rising demand and pressure on capacity. Current policy changes, will also significantly impact on this service area. These include the integration of health and social care services, welfare reform, the move to greater personalisation of services, which includes self-directed support, and the focus on earlier and more localised provision of care.

91. Some of the councils we spoke to are planning to carry out wider financial assessments of service users and have already put planning groups in place to progress this. This is partly in response to legislative changes that could have a potential impact on people's disposable income such as welfare reform. Exhibit 8 (page 29) outlines some of the challenges faced by councils in this important area.

Concessions are an important part of charging

92. Concessions are a means for councils to offer discounted fees and prices to particular individuals or groups, without having to limit standard charges. This can help councils to achieve their policy aims, for example to promote social inclusion by encouraging minority or harder-to-reach groups to use services. Charging and concessions should be considered together when designing pricing structures for a service.

93. Some groups are widely recognised by service providers nationally as being eligible for concessions. These include children, people over 60 years, adults on low income, people with a disability and students. Councils have local discretion to set concessions in line with their pricing structures for these groups, and for other groups or service users that they identify as a priority. Examples include the discounted hire of council facilities for various community groups, or the award of concessions to service veterans.

94. There are national schemes in place to improve the management of concessions. Universal benefits cards such as the national entitlement card allow a common means to identify eligibility for benefits. Councils use these schemes to varying degrees for services such as schools catering, libraries and public transport.

95. It is important that councils have a coherent and coordinated approach to concessions. From the user perspective this allows consistency; and from a council perspective it allows subsidy funding to be targeted to priority groups. To achieve this, councils should have corporate principles setting out how they will apply concessions. A good concessions policy will require services to

observe applicable legislation and guidance, and to consider the impact of the concessions. Policies for charging and for concessions should be consistent and integrated. As part of a more strategic approach, councils should also consider how service-users access welfare and other related benefits.

Exhibit 8
Reviewing charges for non-residential social care
Councils face a challenge in balancing the need for financial contributions from clients, with ensuring their welfare and quality of life.

Councils have identified that:

- Charges are increasingly important to sustain social care services.

- They need a clearer understanding of the cost of services and the financial contribution made by service users.

- They need to understand the impact of charging policies on all service user groups.

Examples of review activity we have found include:

- Identifying further areas for service charges. This includes examining the costs of collecting any additional charges, and the likely impact on the take-up of the service.

- Service and finance teams working together to understand service costs including benchmarking how much clients are expected to contribute to their care costs.

- Assessing the impact of any changes through one-to-one meetings with service users, workshops with service users groups, and discussing proposed changes with front-line staff.

Source: Audit Scotland

---

96. Councils need to develop stronger corporate management of concessions. In the majority of councils concessions were determined by individual service departments. Only five respondents indicated that they had a corporate process and criteria for concessions that is shared across services. There is a risk otherwise that eligibility criteria can be inconsistent and confusing to the person seeking the concession.

97. Dundee City Council had reviewed its overall approach to concessions as part of the implementation of its Dundee Fairness Strategy. This resulted in simplified criteria for income-related concessions. The council also had a mechanism in place to recognise eligibility for concessions. Here, a resident's entitlement to a council tax reduction also confirmed their eligibility to receive concessions across services. Case study 3 (page 30) gives a further example of how North Lanarkshire Council used concessions in partnership with its leisure provider to support its aim to increase participation in exercise.

Case study 3
Example of how North Lanarkshire uses concessions to help meet its outcomes

North Lanarkshire Council has used concessions to support its Single Outcome Agreement aim to 'increase the number of people enjoying a physically active life'. The council's social care service has worked with North Lanarkshire Leisure to encourage residents to take part in sport and be more physically active. The main focus was on those in the community who are harder to reach and who suffer disadvantage and deprivation. Some of the concessions introduced include:

- Kids Klub free of charge programme in the school holidays.

- Free swimming lessons during school holiday periods.

- Saturday Sports Scene project which offers free access to ten to 17 year olds on a Saturday night to a range of sports, coached activities and guidance on healthy lifestyle choices.

Source: North Lanarkshire Council

98. The Equality Act 2010 requires public authorities to have regard to the need to eliminate discrimination, advance equality, and foster good relations across a range of protected characteristics. These are defined as age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, sex and sexual orientation. In assessing the impact of their charging proposals, councils should also consider the impact on these characteristic groups to avoid or manage any detrimental effects.

99. Councils should also consider wider issues around access and affordability. For example, the children of people on low incomes may not be directly eligible for concessions. As such they may not be able to afford services that would benefit them such as swimming.

100. Councils' policies for charging and concessions should be consistent with their overall approach to equal opportunities. It is good practice for councils to carry out equality impact assessments for concessions. Some councils involved staff in their diversity and equal opportunities functions in the design of concessions.

101. Examples of measures councils have taken to apply concessions more consistently are set out below. Practice such as this is a good way for councils to make sure they are aware of the impact of charges, particularly on the vulnerable or income deprived.

- East Ayrshire Council used its budget-setting process to give an overview of all charges. By taking a corporate view it identified service users who would be affected by multiple charges from different services. As part of this, the council carried out equality-impact assessments to help maintain equity and fairness, particularly where new or increased charges were proposed.

- West Lothian Council was developing a council-wide concessions policy. This took into account the impact of welfare reform on eligibility for concessions. The aim of the policy is to put in place a fair and equitable range of concessions, to create greater awareness of concessions in the community, and to increase the uptake of concessionary services.

The costs of collecting charges should not be overlooked

102. One factor that should not be overlooked is how charges should be collected. Councils should make sure that they consider the costs of collection, and also the risks and benefits of various options for collecting charges.

103. It may not be worthwhile to charge for services when collecting them would be onerous or expensive. Highland Council's corporate charging policy stated that charging would either be limited or not applicable where charges were not cost effective to collect. Similarly, it stated that if it was likely that charges would frequently be waived depending on the service users' circumstances, then charges may not be appropriate.

104. The two main approaches to collecting charges are collection at the point of service delivery, and billing. The former involves collecting money up-front from the customer and requires administration such as cashiers and banking services. An example of this is admission to sports centres. Billing involves sending invoices to the recipient for the service provided, for example parking permits and building control certificates.

105. There are a range of direct and indirect costs involved in collecting a charge. Direct costs include front-line administration, ticketing and equipment to collect charges. Indirect costs include pursuing arrears, bad debts, and possible fraud costs where money may be misappropriated. Collection through taxation, such as through council tax, is a more efficient method. However, this cannot be used where it is necessary to charge specific service users.

106. Where money is collected at source, the risk of internal fraud is higher because of the need for money handling. Where service charges are billed, the risk of such fraud is reduced, but there is a greater risk of incurring bad debts which can then require expensive recovery processes.

107. Technology can be put to good effect to improve payment security and reduce transaction costs. Innovative ways to pay for services include payment via council's websites, payment using mobile phones, for example to pay for ticketless parking, and the cashless payment for services such as school meals using smartcards.

108. The use of technology such as smartcards is not yet well established in councils. Some are piloting new approaches, and the use of smartcards, for example, is not yet widespread or integrated across services or client groups.

Arm's-length companies and trusts may be directly responsible for setting charges

109. Our 'how councils work' report on the use of ALEOs[11] looked at how councils use companies, trusts and other forms of organisations to deliver services. Where a council uses delivery models such as these, its control over the services in question may be affected. This will be determined by the particular governance arrangements in place.

110. We found that many leisure trusts, as independent bodies, have control over setting prices for admission to sports and leisure centres. Some councils had arrangements in place to mutually agree charges with ALEOs. These included boards of leisure trusts being required to negotiate amendments to charges with the council as part of a services agreement.

111. Councillors and officers must take into account the implications of different delivery models on the way services are governed. Where an ALEO has delegated responsibility for setting prices there is a risk that its charges and concessions may differ from the policy aims of the council. This risk can be reduced where prices are mutually agreed, and endorsed by the appropriate council committee. However, such arrangements must recognise the independent status of organisations such as charitable trusts.

Want to know more?

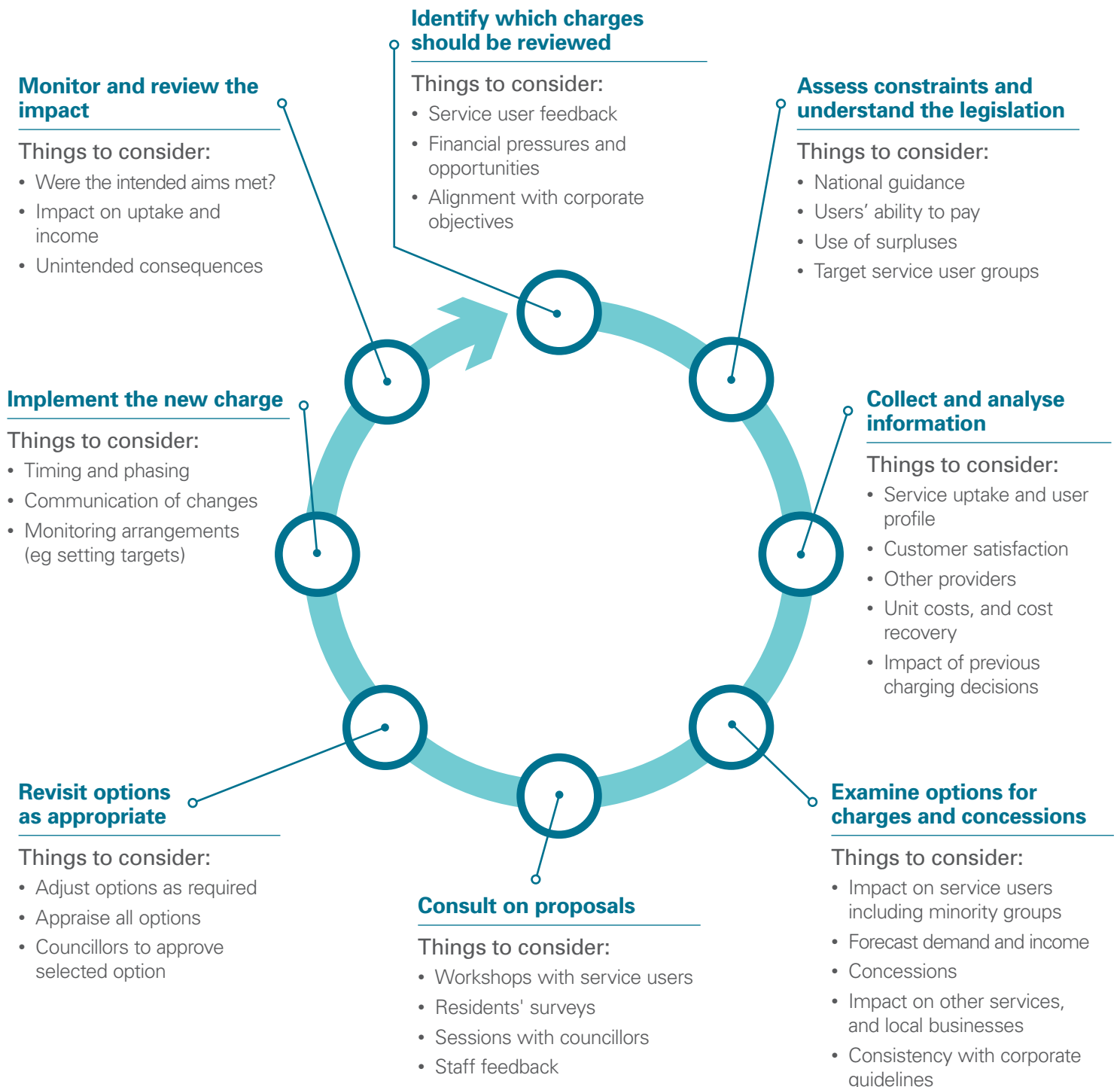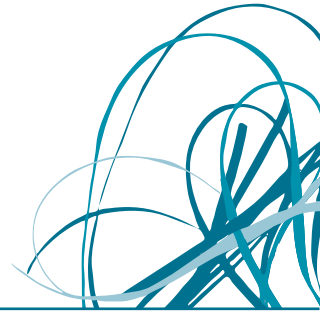Further information on charging for services can be found in these publications:

- *How councils work: an improvement series for councillors and officers – Using cost information to improve performance: are you getting it right?,* Accounts Commission, May 2012

- *How councils work: an improvement series for councillors and officers – Arm's-length external organisations (ALEOs): are you getting it right?,* Accounts Commission, June 2011

- *The challenge of charging – Bulletin March 1998,* Accounts Commission, March 1998

- *Positively Charged, Maximising the benefits of local public service charges*, Audit Commission 2008

- *The Price is Right?, charges for council services,* Audit Commission 1999

Legislation – examples of Acts that contain charging legislation:
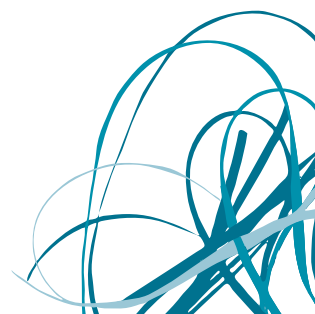
- Local Government in Scotland Act 2003 specifies areas that must be provided without charge.

- Community Care and Health (Scotland) Act 2002 covers areas of charging for social care.

- Environmental Protection Act (1990) covers trade refuse.

- Civic Government (Scotland) Act 1982 covers licensing.

Part 3

Cycle for managing charges

Identify which charges should be reviewed

Things to consider:
- Service user feedback
- Financial pressures and opportunities
- Alignment with corporate objectives

Monitor and review the impact

Things to consider:
- Were the intended aims met?
- Impact on uptake and income
- Unintended consequences

Assess constraints and understand the legislation

Things to consider:
- National guidance
- Users' ability to pay
- Use of surpluses
- Target service user groups

Implement the new charge

Things to consider:
- Timing and phasing
- Communication of changes
- Monitoring arrangements (eg setting targets)

Collect and analyse information

Things to consider:
- Service uptake and user profile
- Customer satisfaction
- Other providers
- Unit costs, and cost recovery
- Impact of previous charging decisions

Revisit options as appropriate

Things to consider:
- Adjust options as required
- Appraise all options
- Councillors to approve selected option

Examine options for charges and concessions

Things to consider:
- Impact on service users including minority groups
- Forecast demand and income
- Concessions
- Impact on other services, and local businesses
- Consistency with corporate guidelines

Consult on proposals

Things to consider:
- Workshops with service users
- Residents' surveys
- Sessions with councillors
- Staff feedback
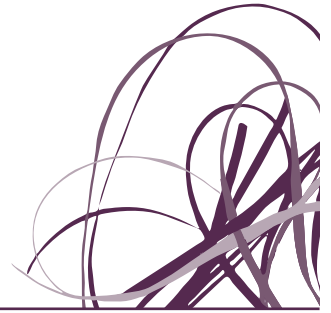
Endnotes

◄ 1   *Local Government Funding: Provisional Allocations for 2013-14*, Scottish Parliament Information Centre (SPICe), December 2012.

◄ 2   Total income from sales, fees and charges by all councils in 2011/12 as reported by councils in the Scottish Government's local financial returns. It is not possible to get accurate income data which only includes direct user charges. The majority of income in this category comes from direct user charges, but it may include other external income sources. It is this financial data, which we refer to throughout this report as charges.

◄ 3   This is the first year in which the source data is included in the Scottish Government local financial returns.

◄ 4   This relates to individual music tuition provided to pupils who wish to study a particular instrument. It does not include general music tuition provided in classroom settings.

◄ 5   *Instrumental Music Tuition in Scotland: a report by the Scottish Government's Instrumental Music Group*, Scottish Government, June 2013, which is available at **www.scotland.gov.uk** 🖥

◄ 6   *The challenge of charging – Bulletin March 1998* (PDF) 🖥 Accounts Commission for Scotland, March 1998.

◄ 7   In June-July 2013, we asked Scottish councils to update us on their charging practice and areas of good practice. Approximately three-quarters of councils completed the survey.

◄ 8   The extra cost of providing each additional unit of service.

◄ 9   *How councils work: Using cost information to improve performance* (PDF) 🖥 Audit Scotland, May 2012.

◄ 10 The Accounts Commission and Auditor General for Scotland will be publishing a performance audit on reshaping care for older people in early 2014. This will be available on the Audit Scotland website **www.audit-scotland.gov.uk** 🖥

◄ 11 *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* (PDF) 🖥 Audit Scotland, June 2011.
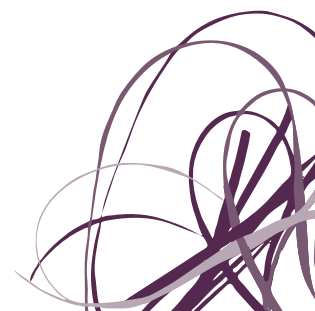
Appendix 1
Questions for councillors

Issue	Yes/No	Action
• Do you give strong direction over aims and priorities for charges (in areas where the council has discretion)?		
• Do you understand the non-financial contribution of charges, eg to behaviours and service uptake?		
• Do you get good information on costs including the costs of providing services and the contribution made from charges?		
• Do you know the extent to which services are subsidised across the council?		
• Are charges and concessions pitched at an appropriate level for people and businesses that use services?		
• Do you know where charges are used to generate extra income?		
• Are concessions taken up by the people they are aimed at?		
• Do officers provide you with sufficient guidance on options for using charges?		
• Do you understand the views of service-users and residents, and consult them over charges?		
• Are there areas where charges need to be reviewed?		

Appendix 2
Questions for officers

Issue	Yes/No	Action
Charging policy • Do councillors give you a clear direction over charging priorities? • Do you have clear policies in place for how charges should be applied – do these recognise the constraints and legislation that apply? • Are corporate policy and guidelines adhered to by service directors/ service providers? • Is charging practice in arm's-length providers and contracted services consistent with the council's policy?		
Financial management • Do you understand the contribution that charges make to the financial position of the council? • Do you understand how your charging practice compares with other councils? • Do you understand unit costs, the extent to which costs are recovered by charges, and patterns of income from charges? • Do you understand how services are subsidised and the extent to which charges recover costs? • Do you have a register of charges across the council to help manage charges consistently?		
Setting charges • Do you fully assess charging options, in line with the good practice set out in this report? • Do you have clear objectives for charging, such as to influence behaviour and service uptake, or to recover costs? • Do you understand customer views and the likely impact of charges on service uptake and income overall? • Is there evidence that charges are adversely affecting uptake or impacting on service users?		

Issue	Yes/No	Action
Reviewing charges • Have you reviewed the council's overall approach to charging – what issues need to be addressed? • Are there any charges that should be reviewed, eg that are inconsistent with other providers? • Is there scope to generate more income from charges, for example by raising charges in line with the market? • Have you consulted service users and council tax payers over charging? • Do you make good use of available technology to make charging and concessions more efficient and user-friendly?		
Concessions • Do you have corporate guidelines on how concessions should be applied? • Are these consistent with and linked to overall charging policies? • Are concessions applied consistently across services? • Is eligibility for concessions managed efficiently and shared across services? • Are concessions and the use of subsidy managed to ensure that services are financially viable?		

Charging for services: are you getting it right?

This report is available in PDF and RTF formats, along with a podcast summary at: **www.audit-scotland.gov.uk**

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0845 146 1010 or **info@audit-scotland.gov.uk**

For the latest news, reports and updates, follow us on Twitter or subscribe to our email delivery service:

@AuditScotland

Subscribe to updates