

# Income from charging

Using data from the Value for Money Profiles, September 2013



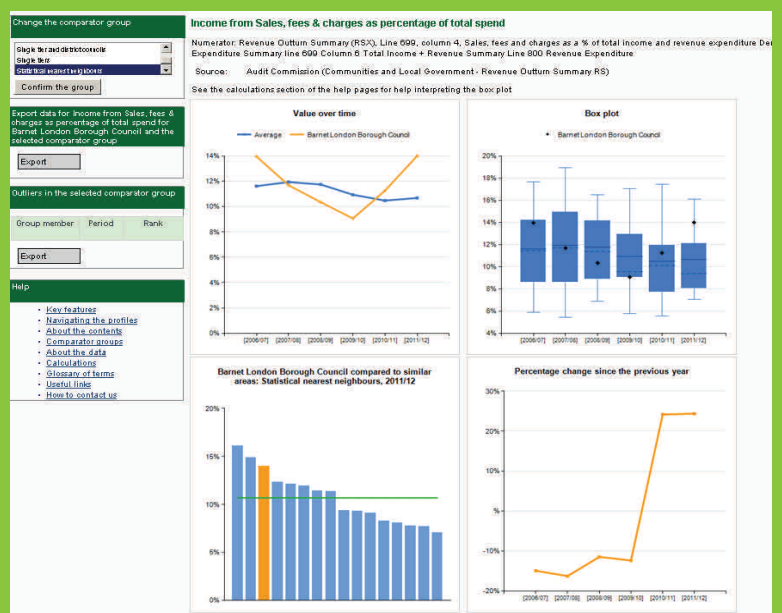
The government is legislating to close the Audit Commission by the end of March 2015 and the Local Audit and Accountability Bill is currently being scrutinised by Parliament. Until it closes, the Commission will continue to make available its Value for Money (VFM) Profiles, which bring together publicly available data about the cost, performance and activity of local councils and fire authorities.

To enhance the visibility of its VFM Profiles the Commission is publishing a number of briefing papers presenting new analysis of existing data examining:

- how council spending and activity have changed over time;
- how councils' performance differs; and
- factors affecting variation in councils' activity and costs.

We hope these data briefings will help councillors and senior officers examine and improve their council's performance, and assist the public, auditors and others interested in local government to hold councils to account for their decisions.

This briefing provides an overview of data in the VFM profiles on councils' income from charging for services. It also suggests further analyses that could be undertaken by anyone wishing to examine councils' charging income in more detail.

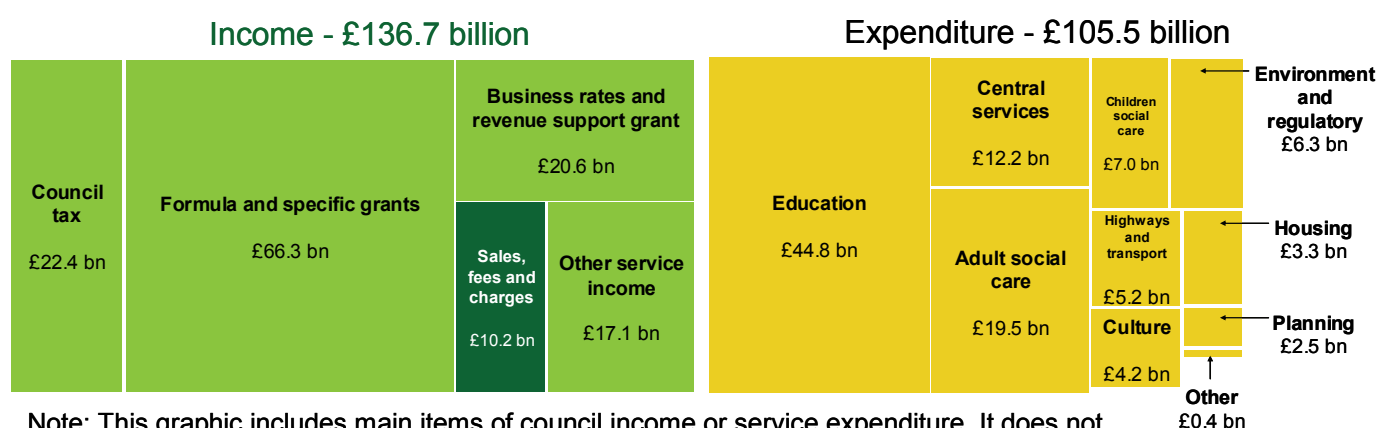


Screenshot from the Value for Money (VFM) Profiles showing income from sales, fees and charges  
<http://profiles.audit-commission.gov.uk/>

## Section 1: Introduction to charging

- 1 English councils have legal powers to charge for a wide range of the services they provide to recover the costs of providing those services.
- 2 In 2011/12, English councils' income from charging was £10.2 billion. This was about 10 per cent of their total service expenditure (Figure 1). (Throughout this paper, the term 'service expenditure' is used to describe councils' revenue spending on staff and running costs for services.)

**Figure 1: Councils' main sources of income and service expenditure 2011/12**



Note: This graphic includes main items of council income or service expenditure. It does not include £24 billion of benefits payments, £3 billion of capital expenditure from the general fund and £5.5 billion of interest and financing.

- 3 Although total charging income was less than half the amount raised through council tax in 2011/12, income from charging exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs.
- 4 Where councils are able to do so, charging for services forms an integral part of their strategic and financial management.
- 5 When councils recover some or all of their service expenditure by charging, they can use the income to: sustain those services (releasing funds for other purposes); improve those services; and/or reduce the need for funding from other sources, such as council tax or reserves.
- 6 Charging can influence who uses council services, when and how often. The Audit Commission's 2008 study (**Ref 1**) found that charging helped councils encourage or discourage use of particular services; target services at intended users; and manage demand for services over time.

### What services can councils charge for?

Councils can charge for a wide range of services, including:

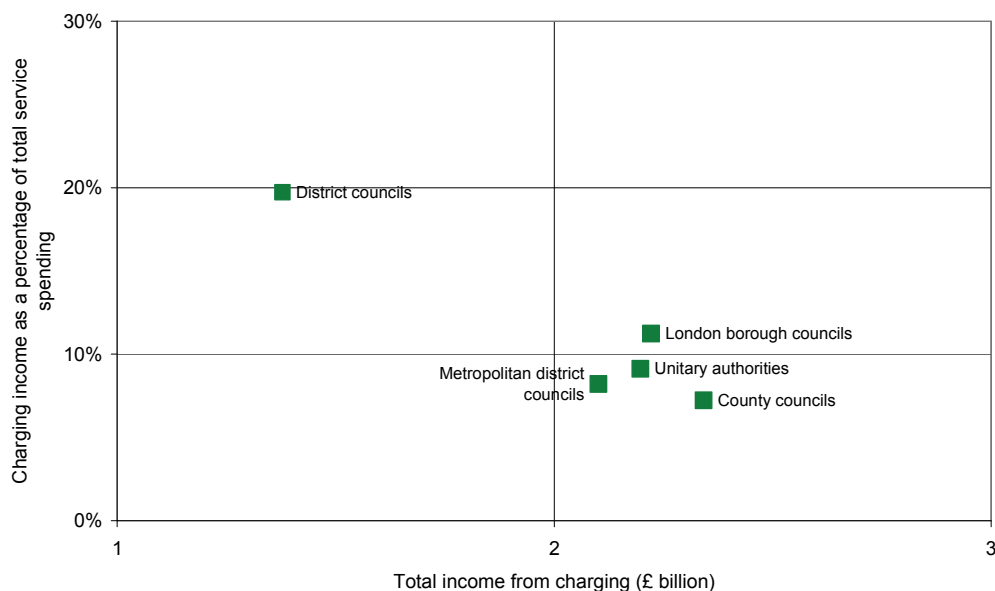
- nursery and early years' services;
- school meals;
- social care;
- transport services;
- environmental health;
- sports and leisure;
- arts and heritage;
- car parking;
- planning;
- building control;
- licensing; and
- burials and cremations.

- 7 But charging can have unintended consequences where it discourages those who would benefit from services from using them. There have also been recent challenges to the legitimacy of councils' approaches to charging, in particular, whether charges fairly reflect the cost of the services to which they relate.
- 8 Because the effect of charging policies for councils, their service users and taxpayers can be significant, councillors and electors should carefully scrutinise the approach councils take.
- 9 Given the different services councils provide, the varied reasons for charging, and the differing opportunities presented by local circumstances, it would be simplistic to judge councils purely on how much service expenditure they recover through charges. But such analysis is a useful starting point for comparing councils' approaches and evaluating how charging supports councils' financial and strategic objectives.

## Section 2: The income councils generate from charging

- 10 Due to the different services they provide, single-tier and county councils generate considerably more income from charging than district councils. But charging makes a much greater contribution to district councils' service expenditure.
- 11 In 2011/12, single-tier and county councils' combined income from charging was £8.9 billion – divided broadly equally between the four types of council in this group (county councils, London borough councils, metropolitan district councils and unitary authorities). This was equal to around 9 per cent of their service expenditure that year. In contrast, district councils' combined income of £1.4 billion was 20 per cent of their total service expenditure (Figure 2).

**Figure 2: Total charging income in 2011/12 by council type**

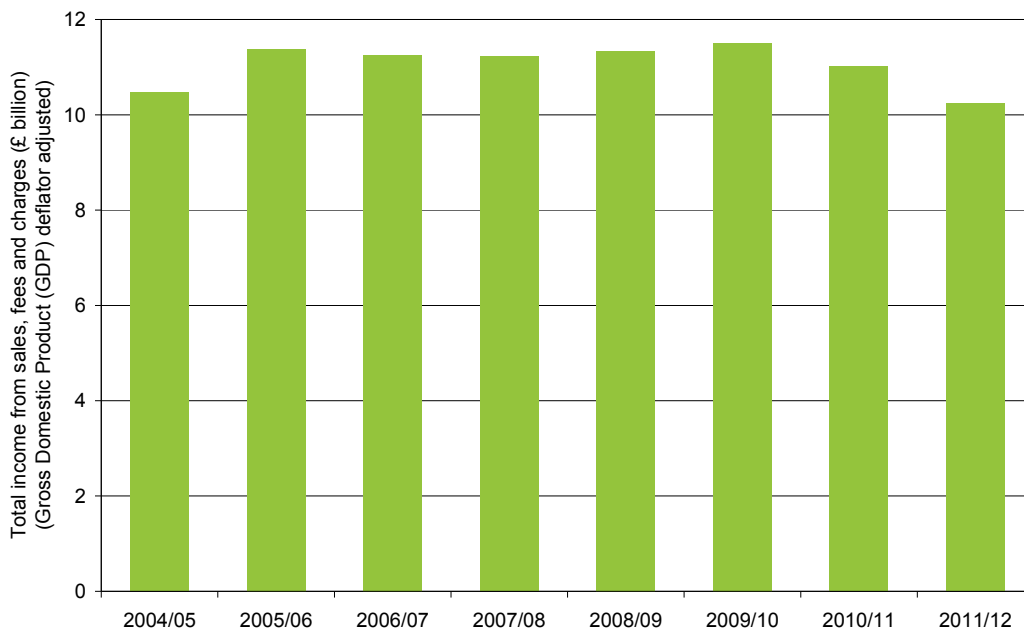


Source: Audit Commission analysis of revenue outturn service expenditure summary (RSX) data 2011/12 published by the Department for Communities and Local Government (DCLG) (Ref 2)

**12** From 2004/05 to 2011/12 councils' total income from charging reduced by 2 per cent in real terms (when adjusted for inflation). It has fallen by 11 per cent in real terms since 2009/10 (Figure 3). This recent reduction was expected. In 2011, the Commission reported (**Ref 3**) that charging income was likely to fall due to:

- reductions in demand for some charged-for services, which was planned by councils in some cases and the result of economic or market conditions in others; and
- the scaling back or outsourcing by councils of income-generating services as part of councils' wider plans to reduce spending.

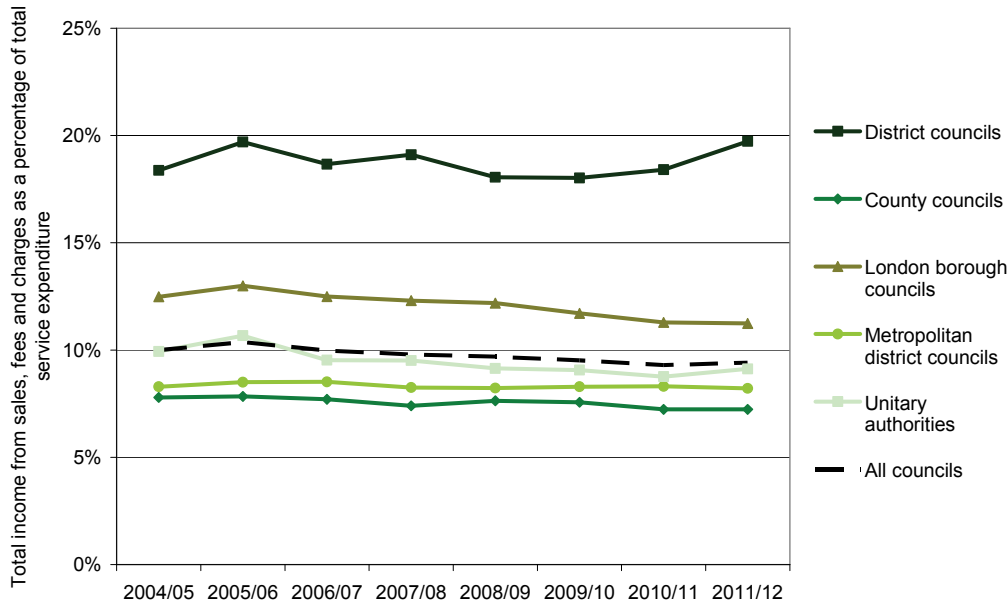
**Figure 3: Total charging income 2004/05 to 2011/12**



Source: Audit Commission analysis of DCLG revenue outturn (RO) data 2004/05 to 2011/12 (**Ref 4**)

**13** Despite changes in the amount of charging income received, the contribution it made to service spending remained relatively stable for councils as a whole over this period – at about 10 per cent (Figure 4). District councils, as a group, saw the contribution of charging income to spending increase from 2009/10 to 2011/12, while London councils saw it decline steadily.

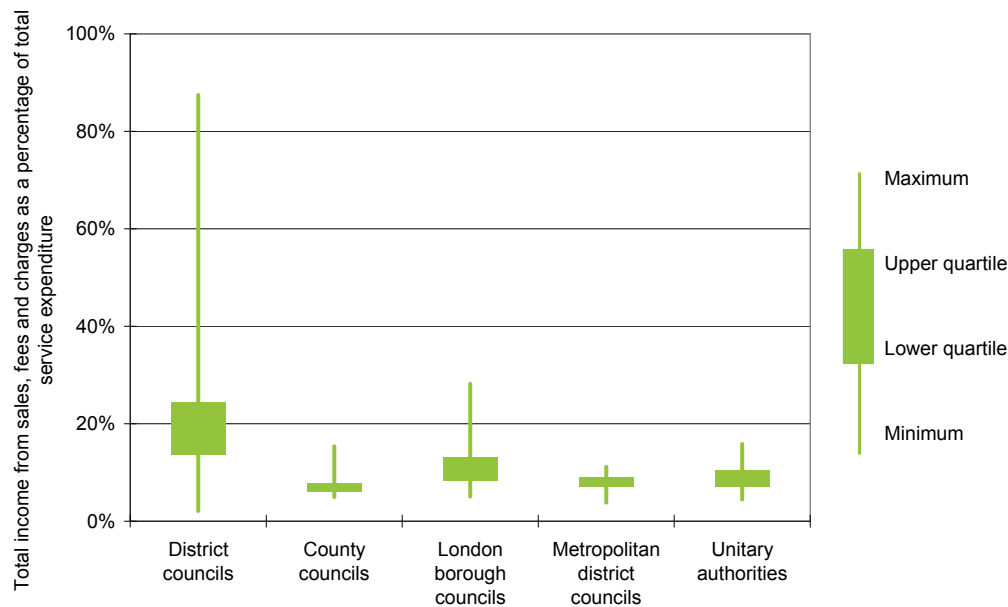
**Figure 4: The contribution of charging income to service spending 2004/05 to 2011/12 by council type**



Source: Audit Commission analysis of DCLG RO data 2004/05 to 2011/12 (Ref 4)

**14** In 2011/12, there was wide variation between councils with the same responsibilities. District councils showed the most divergence in the contribution of charging to spending. Charging income ranged from 2 to 87 per cent of total service spending for this group, although half had income between 14 and 25 per cent of service spending. Metropolitan districts showed the least variation, with income from 4 to 11 per cent of spending (Figure 5).

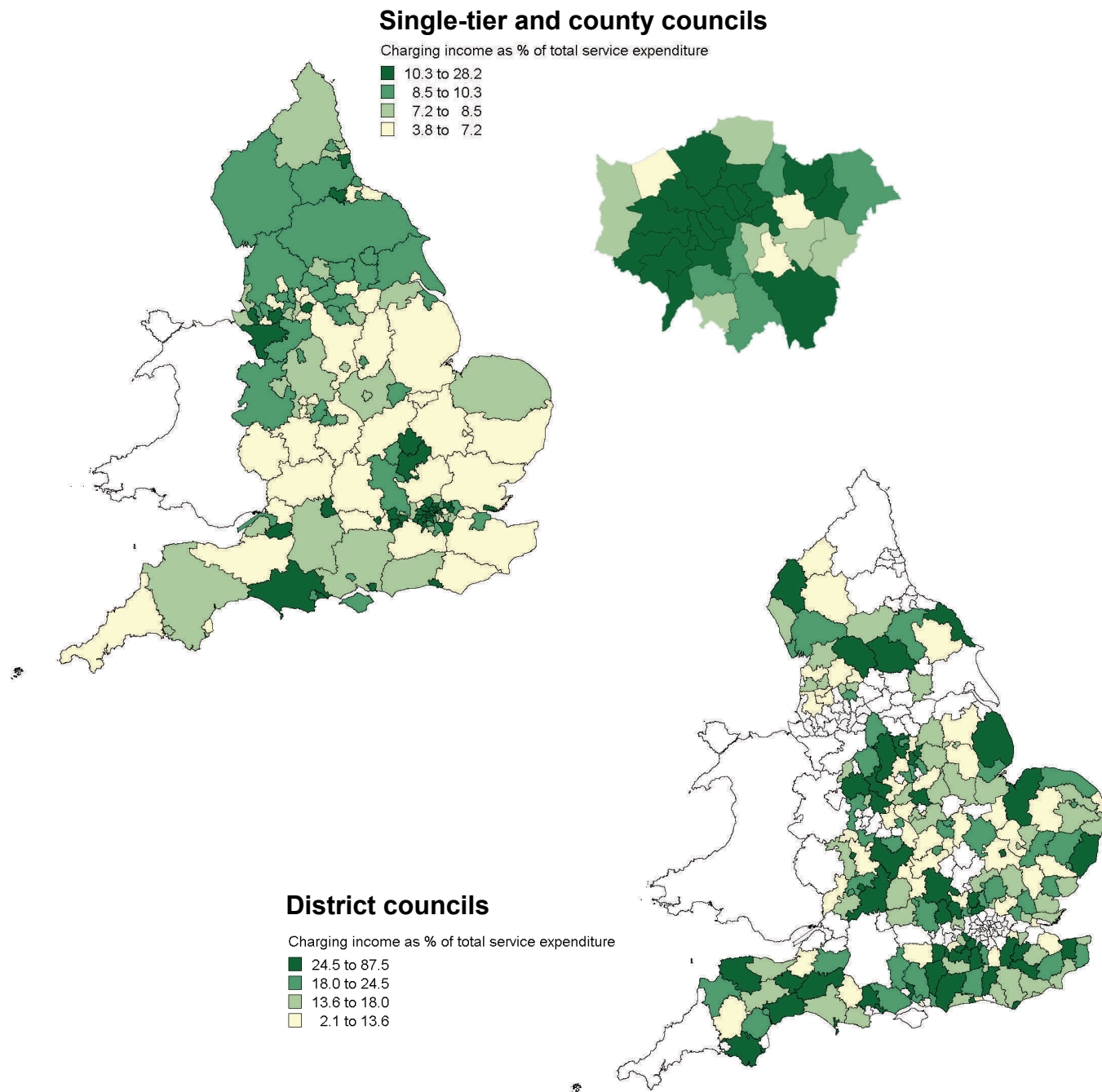
**Figure 5: Variation in the contribution of charging income to service spending 2011/12**



Source: Audit Commission analysis of DCLG RSX data 2011/12 (Ref 2)

**15** These variations within council types are not explained by, for example, different levels of government funding to councils or different levels of council tax income. It is more likely that they result from the different opportunities councils have to charge for services, given their local circumstances, and the choices councils have made about whether and how much to charge when they are able to. Each English region had councils with high and low levels of cost recovery from charging in 2011/12 (Figure 6).

**Figure 6: The contribution of charging income to service spending for 2011/12**



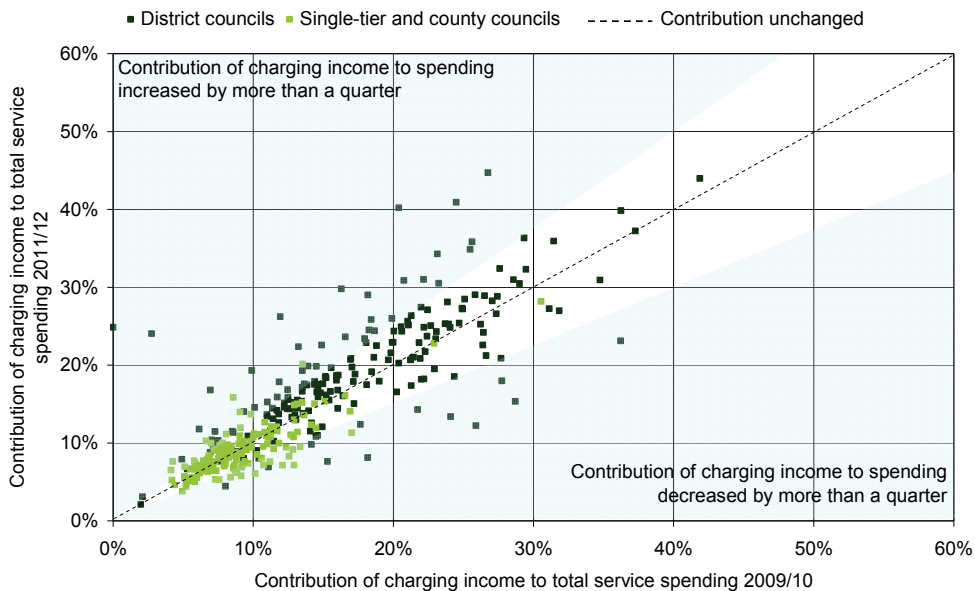
Note: Ranges for maps based on quartiles for type of council

Source: Audit Commission analysis of DCLG RO data 2011/12 (Ref 4)

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**16** For some councils, the contribution made by charging income to their service spending has changed significantly over time. These changes are the result of increases or decreases in levels of income, spending, or both income and spending. From 2009/10 to 2011/12, one in four councils (27 per cent) saw the contribution of charging income to spending vary by more than 25 per cent. Most of these saw overall cost recovery increase, with one in ten (10 per cent) single-tier and county councils and one in four (26 per cent) district councils seeing the ratio of charging income to total spending increase by more than a quarter over this period (Figure 7).

**Figure 7: The changing contribution of charging income to total service spending 2009/10 to 2011/12**



Source: Audit Commission analysis of DCLG RSX data 2009/10 and 2011/12 (Ref 2)

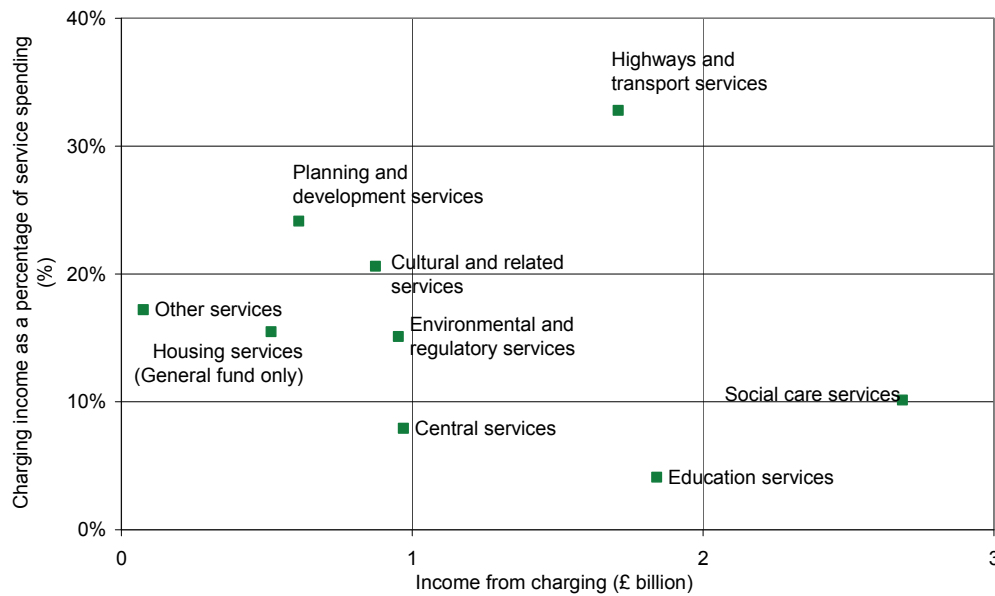
### Section 3: How charging income supports service spending

**17** Charging income makes a greater contribution to spending in some service areas than others due to a combination of:

- limitations on which services can be charged for and, in some cases, charges that are determined by statute;
- the use of means testing for some services to determine who pays and how much; and
- councils' choices about whether and how much to charge for services when they have discretion to do so.

**18** Social care services accounted for £2.7 billion of charging income in 2011/12; more than one quarter (26 per cent) of all charging income (see detail below). This was around 10 per cent of social care spending that year. Education (£1.8 billion) and highways and transport services (£1.7 billion – see detail below) generated similar amounts of income in 2011/12, but the contribution to spending in those service areas varied considerably (4 per cent and 33 per cent of service spend respectively) (Figure 8).

**Figure 8: Charging income 2011/12 by service**



Source: Audit Commission analysis of DCLG RSX data 2011/12 (Ref 2)

### Income from charging in social care services

Charges for adults' services accounted for 96 per cent of all social care charging income in 2011/12. More than three-quarters (77 per cent) related to services for older people, such as residential and nursing care, home and day care services, meals, equipment and adaptations. Charging income funded 7 per cent of the cost of services for this client group.

Income from services to adults under 65 with a physical disability represented 5 per cent of all social care income, but funded 21 per cent of the spending on this group.

	Charging income £m	Charging income (%)	Contribution to service expenditure
Children's social care	115	(4)	2%
Older people (aged 65 or over) including older mentally ill	2,060	(77)	7%
Adults aged under 65 with physical disability or sensory impairment	122	(5)	21%
Adults aged under 65 with learning disabilities	289	(11)	7%
Adults aged under 65 with mental health needs	70	(3)	5%
Other adult social care	30	(1)	4%
<b>Total</b>	<b>2,686</b>	<b>(100)</b>	<b>10%</b>

Note: Columns do not add due to rounding

Source: Audit Commission analysis of DCLG RO data 2011/12 (Ref 2)



## Income from charging in highways and transport services

	Charging income		Contribution to service expenditure
	£m	(%)	
Transport planning, policy and strategy	82	(5)	20%
Highways and roads - maintenance	126	(7)	6%
Traffic management and road safety	88	(5)	24%
Parking services*	1,292	(76)	160%
Public transport	87	(5)	6%
Airports, harbours and toll facilities	34	(2)	100%
<b>Total</b>	<b>1,708</b>	<b>(100)</b>	<b>33%</b>

Highways and transport services accounted for 17 per cent of all charging income in 2011/12. Parking-related income accounted for more than three-quarters (76 per cent) of this, £1.3 billion. This was more than one-and-a-half times councils' revenue spending on parking services. Councils are required by law to spend surplus income on transport-related purposes.

Charges related to roads maintenance were the second largest source of income – 7 per cent of the total – and recovered 6 per cent of spending in that service area.

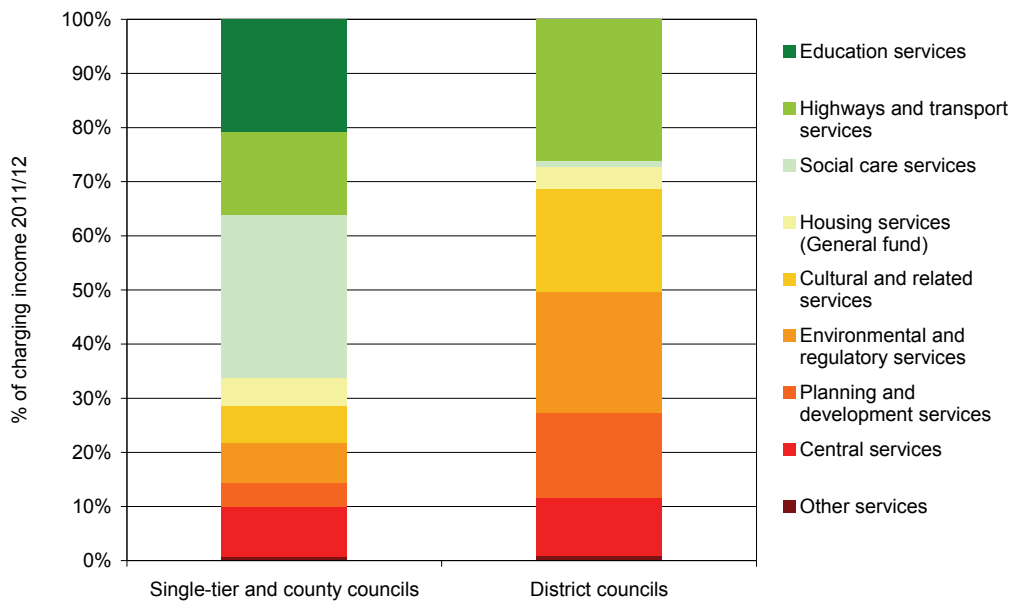
\*includes £340m income from Penalty Charge Notices

Note: Columns do not add due to rounding

Source: Audit Commission analysis of DCLG RO data 2011/12 (Ref 2)

**19** The profile of charging income varies for different types of council and between councils of the same type. Social care, education, and highways and transport services accounted for two thirds (66 per cent) of the charging income generated by all single-tier and county councils in 2011/12. A similar proportion (68 per cent) of district councils' collective charging income came from highways and transport, environmental and regulatory, and cultural and related services (Figure 9).

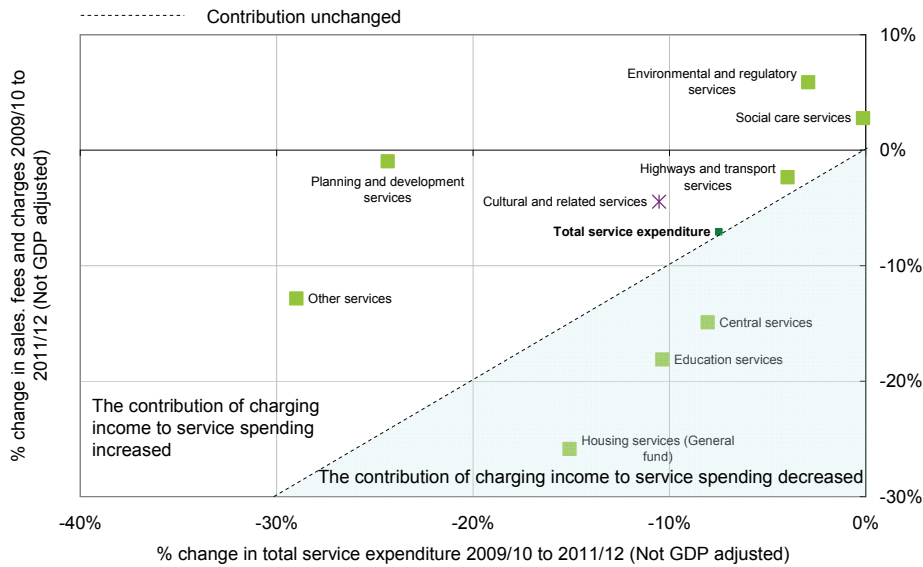
**Figure 9: Charging income in 2011/12 by council type**



Source: Audit Commission analysis of DCLG RSX data (Ref 2)

- 20** The contribution of charging income to spending in service areas changed at different rates from 2009/10 to 2011/12. These service-level changes varied for different types of council.
- 21** For single-tier and county councils the overall ratio of charging income to spending remained unchanged from 2009/10 to 2011/12 as both income and spending reduced at around the same rate (Figure 10). Income fell less sharply than spending in some services (such as planning and development services), or grew while spending fell (as in environmental and regulatory services). This resulted in an increase in the level of cost recovery for these services. In others (such as education services) income fell more sharply than spending, reducing the level of cost recovery.

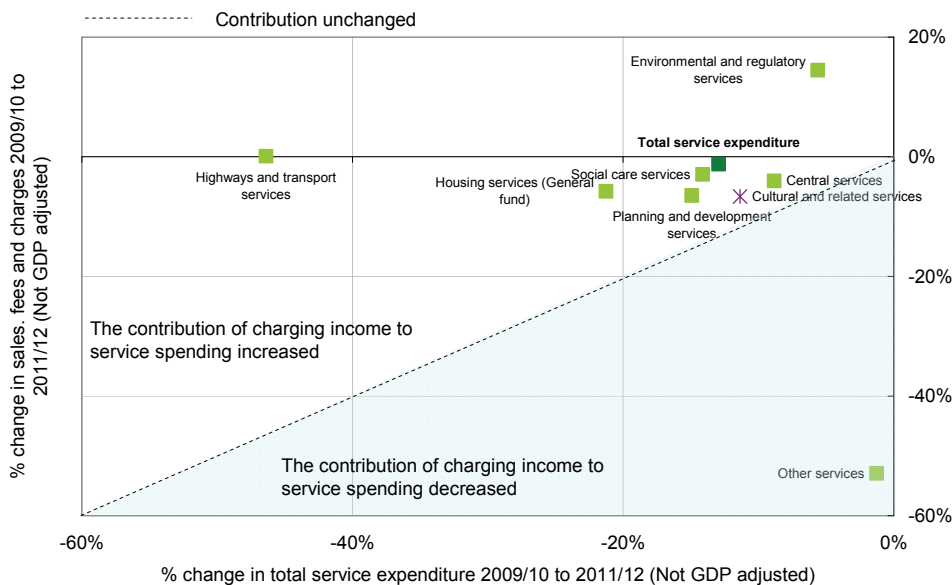
**Figure 10: Changes in charging income and service spending 2009/10 to 2011/12 – single-tier and county councils**



Source: Audit Commission analysis of DCLG RSX data 2009/10 and 2011/12 (Ref 2)

22 District councils saw an overall increase in the ratio of charging income to spending from 2009/10 to 2011/12 as income remained broadly stable while spending fell (Figure 11). In most service areas income fell less sharply than spending or (in environmental and regulatory services) grew while spending fell. Highways and transport services saw the greatest increase in contribution as income remained broadly unchanged while spending reduced by 46 per cent. This spending reduction was largely a result of the transfer of responsibility for concessionary fares from district to county councils.

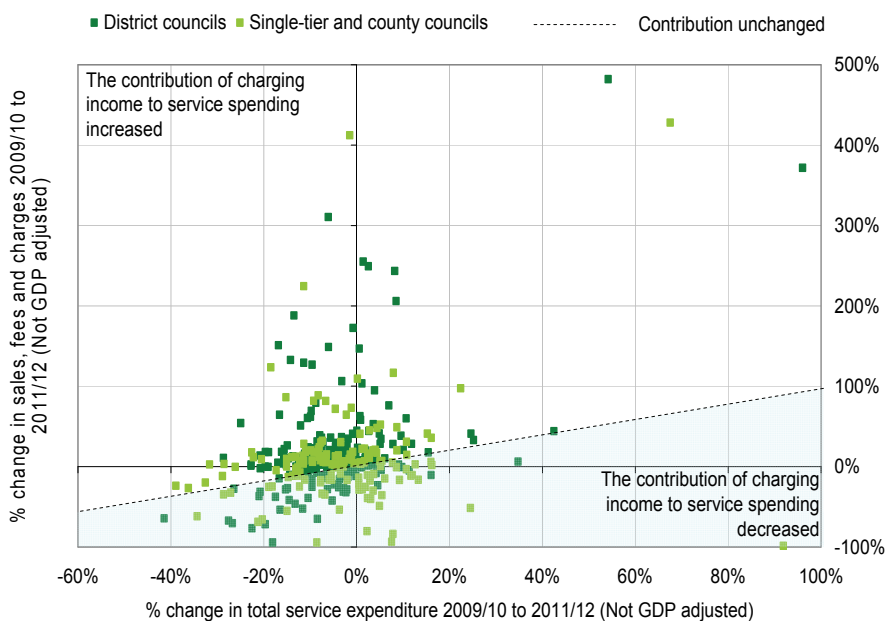
**Figure 11: Changes in charging income and service spending 2009/10 to 2011/12 – district councils**



Source: Audit Commission analysis of DCLG RSX data 2009/10 and 2011/12 (Ref 2)

**23** These differential changes in the contribution of charging income to service spending also occur between individual councils. For example, in environmental and regulatory services (Figure 12), the ratio of charging income to service spending increased from 2009/10 to 2011/12 for 71 per cent of councils (two-thirds of single-tier and county councils and three-quarters of districts). In most of these councils (89 per cent) this was the result of increases in income, which were greater than spending increases in nearly a third (31 per cent) of cases. Among the 29 per cent of councils where the ratio of charging income to spending decreased, most (91 per cent) saw a reduction in income, which was greater than the reduction in spending in two-thirds (65 per cent) of these cases.

**Figure 12: Changes in charging income and service spending 2009/10 to 2011/12 – environmental and regulatory services**










Source: Audit Commission analysis of DCLG RSX data 2009/10 and 2011/12 (Ref 2)

## Section 4: Using the VFM profiles to explore charging income

Below is a screenshot of the Income & charging page of the Financial Resilience section of the VFM Profiles. It shows income from charging as a proportion of spending in different service areas.

**Income & charging**

Different types of council have different patterns of charging income. For county councils, most income from charges is from education and social services. For district councils income is more evenly spread across services. Over a quarter of councils (mainly district councils and some London boroughs) generate more income through charging than they do through council tax. In our study 'Positively Charged', most councils reported using charging as a means of minimising council tax increases.

Indicator	Period	Value	% change	DoT	Rank	Average
Income from sales, fees and charges from central & other services as a percentage of service spend	2011/12	10.95%	38%	↑	 In the highest 10%	6.00%
Income from sales, fees and charges from planning & development services as a percentage of service spend	2011/12	21.54%	9%	↑	 Average	21.37%
Income from sales, fees and charges from environmental & regulatory services as a percentage of service spend	2011/12	20.10%	-3%	↓	 Average	21.57%
Income from sales, fees and charges from cultural & related services as a percentage of service spend	2011/12	26.25%	46%	↑	 In the highest third	20.05%
Income from sales, fees and charges from housing services as a percentage of service spend	2011/12	21.30%	48%	↑	 In the highest 20%	11.79%
Income from sales, fees and charges from social services as a percentage of service spend	2011/12	Unable to calculate	Unable to calculate	Unable to calculate	Unable to calculate	0.00%
Income from sales, fees and charges from transport services as a percentage of service spend	2011/12	119.43%	44%	↑	 Average	110.72%
Income from sales, fees and charges from central & other services (£000s)	2011/12	£677	23%	↑	 In the highest third	£627

- 24** At a time when funding reductions and rising demand for some services are presenting councils with difficult choices about which services they can afford to provide, the use of charging to support service expenditure or influence demand for services merits closer examination. Councils need to ensure that their approaches to charging deliver the benefits expected and remain lawful.
- 25** This briefing presents a high-level analysis of councils' income from charging and the contribution it makes to service spending. It focuses on the national picture in 2011/12 (the latest year for which data is available) and trends for different types of council across broad service areas. The data we have used can be found in the Financial Resilience section of the Audit Commission's VFM Profiles.
- 26** Our analysis shows that there is much variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years.

- 27** It is important that council staff and elected members monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council's financial objectives and complying with legal requirements. Such analyses can provide the starting point for a more detailed review of local charging policies. This might examine, for example: the impact charging policies have on service demand; other influences on service demand that affect charging income; and the relative contributions charging makes to spending in different services.
- 28** The topic will also be of interest to others who wish to hold councils to account for discretionary decisions about whether and how much they charge for services.
- 29** The data in the VFM Profiles can be used to examine, for individual councils:
- how much charging income is generated in total and in broad service areas;
  - how charging income contributes to total spending and spending in broad service areas;
  - how charging income and cost recovery compares to other councils of the same type; to councils that serve areas that are similar in terms of population and economic factors; or to councils within geographic areas; and
  - changes over time.
- 30** Those who wish to examine charging income at a more detailed service level can undertake similar analyses using the income and expenditure data contained within the revenue outturn statistics published annually by DCLG at <https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-authority-revenue-expenditure-and-financing>.

## References

- Ref 1.** Audit Commission, *Positively Charged: Maximising the Benefits of Local Public Service Charges*, Audit Commission, 2008.
- Ref 2.** Department for Communities and Local Government, *Local authority revenue expenditure and financing England: 2011 to 2012 individual local authority data* [Online], Department for Communities and Local Government, 2012.
- Ref 3.** Audit Commission, *Tough Times: Councils' Responses to a Challenging Financial Climate*, Audit Commission, 2011.
- Ref 4.** Department for Communities and Local Government, *Local authority revenue expenditure and financing* [Online], Department for Communities and Local Government, 2013.