



PUBLIC SECTOR REPORT

CHARGING AHEAD?

Remodelling public services in a tight financial environment



▶ REMODELLING PUBLIC SERVICES IN A TIGHT FINANCIAL ENVIRONMENT

ALL COUNCILS ATTEMPTING TO DELIVER QUALITY SERVICES IN A TIME OF SEVERE SPENDING RESTRAINT SHOULD BE CONSIDERING THE POTENTIAL OPPORTUNITIES PROVIDED BY POWERS TO CHARGE FOR SERVICES AND TO TRADE – NOT ONLY TO RAISE REVENUE, BUT ALSO TO HELP CHANGE BEHAVIOUR AND MEET STRATEGIC OBJECTIVES.

As outlined in this document, there are a number of councils already exploring the potential for charging as a tool both for revenue raising and for influencing the behaviour of citizens to help them achieve improved local outcomes. High-profile examples such as the Barnet 'EasyCouncil' model of no-frills public service delivery or the Trading Company model of Essex and Kensington and Chelsea underline some of the opportunities for innovation open to local councils in what is bound to be an exceptionally difficult financial climate over the coming years.

There is clearly scope for councils to raise much more income from charging than they do at present: the contribution made by households through council tax varies much less than the difference in charges¹. In other words, there is considerable potential for councils that do not currently use their powers to the maximum to find new sources of revenue.

This should not mean that councils focus only on the income-generating potential of charges, however. It is at least equally important for councils to assess the opportunities they have to use charging to support their strategic priorities. This document outlines some of the opportunities for councils to use charging – and trading – to meet their citizens' needs.

¹ In the document 'Positively Charged' (2008), the Audit Commission analysed the contribution made by council tax and charges in four councils of comparable size and levels of deprivation. The difference in council tax between the highest and the lowest was £132, much less than the difference in charges, at £386.

HOW CAN CHARGES BE USED TO SUPPORT STRATEGIC OBJECTIVES?

The box below shows some of the potential uses of charges.

POSSIBLE OBJECTIVES FOR CHARGING:

- as a source of income
- to provide better services
- to offer new services
- to allow market signals to reach councils, and establish which goods people really value
- to stimulate entrepreneurial activity within the public sector
- to encourage behaviour change among citizens
- to provide choice in the marketplace
- to help fund local infrastructure projects, by enabling prudential borrowing against future revenue streams
- to help local authorities become more free of central government control.

Of course, there are always going to be some who decry charging for public services, arguing that all public services should be provided at the same standard, with discrimination based purely on need rather than the ability to pay. Variations in service standard may also lead to accusations of a postcode lottery. But it is at least arguable that councils have a responsibility to make considered choices between the level of council tax, the level of service provided (or whether it is provided at all) and the level of charge to ensure that the council's objectives and the needs of citizens are best met.

WHERE CAN CHARGES BE INTRODUCED?

Local Government Association (LGA) research² shows that for those councils that have decided to charge, certain patterns are beginning to emerge, involving charging for:

- the supply of documents
- civic ceremonies, such as civil partnerships and Muslim burials
- loan of assets, for example, municipal works of art
- advisory services, for example, pre-planning advice
- translation and interpretation services
- use of film locations.

But it is clear that local councils have far more potential to use charging as a tool than the above list suggests. For example, the provision of services to older people who are not eligible for statutory services is starting to emerge as an important area for charging, with services being either recovered at cost or subsidised. Examples include shopping, gardening, cleaning, painting, decorating, repairs, community alarms and home security. All of these can be important, for example, if council staff – in whom there is more trust – help to fill a gap in the market.

EASYCOUNCILS – COULD CHARGES ENABLE MORE PERSONALISED SERVICES TO BE OFFERED?

We are all familiar with the EasyJet model of running an airline. We pay to travel from A to B – the no-frills standard minimum service – and if we want to buy a cup of coffee or a sandwich we pay extra. If we are carrying more bags, or heavier ones, we pay for those too. We are perhaps less familiar with the concept of public services being run on the same basis – but this is the approach being tried in Barnet Council.

One of the key features of public service provision to date has been that professionals assess people's need and act as gatekeepers to services. The limitations of this approach have become more and more apparent in recent years, as the desire for individuals to arrange services that suit their lifestyles and needs has become stronger.

A truly radical option is to put power over budgets to buy services into the hands of individuals, who would then buy what they decided was necessary to meet their needs – and top up any funds from the Government with their own money to buy enhanced or tailored services, if they so desired. Some estimates suggest that in leading authorities some 5 per cent of council budgets are currently personalised, with the opportunity to take that figure up towards 50 per cent³.

So could this be the way forward for local government? Barnet Council certainly thinks so. Its new strategy Future Shape aims to bring private sector flexibility and choice to the provision of public services and save £15m a year. The management of housing, refuse, recycling and residential care could go to private companies under the scheme, while it is considering devolving funds for the provision of public services into the hands of users – who could then choose to top up any level of services themselves. If introduced widely across local government, individual budgets could radically alter the nature of public service delivery, and make the 'EasyCouncil' approach a reality.

USING CHARGING TO CHANGE BEHAVIOUR

Local councils can use the opportunity of reviewing their charging policy to consider how charges can be used to meet other objectives such as behaviour change – either encouraging take-up of particularly socially-useful services among certain groups, or discouraging undesirable behaviour, such as the use of a car for short journeys. In London, for example, Transport for London has successfully used congestion charging to curb private traffic in the city centre and has invested much of the revenue in a fleet of new buses.

Reductions in charges can also be used to influence behaviour positively. For example, some councils have chosen to alter charges to encourage the take-up of school meals or leisure services among particular groups. In Bolton, the local council offered every child in the reception class of every primary school free school meals in the autumn and spring terms of 2008/9, with school meals provided for £1 to children in both Reception and Year 1 in the summer term of 2009. The results were dramatic. During the free school meal offer, the take-up levels reached 86 per cent for this year group, which was 37.5 per cent higher than the average take-up in all year groups in Bolton primary schools. The take-up rose to 69 per cent for the £1 meal deal. The Council is now considering extending the £1 a day offer to all primary school children.

² Using the New Powers to Trade and Charge – Local Authority Case Studies, LGA, November 2005.

³ Future Shape of the Council, Barnet Council Cabinet Paper, 21 October 2009.

Leisure services are another area where local councils are reviewing charging policies to encourage take-up among particular groups. Tower Hamlets, for example is introducing free swimming for local residents on Fridays. Other councils are choosing to charge for the use of local authority facilities, but discriminating between those activities judged likely to support local strategic objectives and those less likely, and varying their prices accordingly.

CHARGES COULD BE USED AS AN ALTERNATIVE FUNDING STREAM TO SUPPORT CAPITAL INVESTMENT

Perhaps just as important over the next decade will be the potential for councils to use charging to support prudential borrowing as an alternative funding stream for capital investment. The prudential capital finance system was introduced in 2004 and it allows local authorities to self-finance borrowing for capital spending without Government consent.

According to the recent Pre-Budget Report (PBR), capital investment is likely to bear the burden of any future public spending cuts: public sector capital investment is set to fall from 3.5 per cent of GDP to 1.9 per cent of GDP after 2011/12, falling to 1.3 per cent in 2013/14⁴. Councils will be able to exploit their reputation for servicing debt to borrow at a reduced cost, although local authority borrowing does count against the level of public sector net debt, and so there may be pressure on overall limits here too.

TRADING – A NEW ERA FOR COUNCILS AS SOCIAL AND WELFARE ENTREPRENEURS?

While charging can be a useful tool to raise revenue and support a council's strategic objectives, local authorities are prevented in legislation from using charges to generate a surplus. Trading companies, by contrast, are a more flexible option, if the legal hurdles can be overcome. The 2003

Local Government Act allowed local authorities to establish commercial arms as separate companies under the Companies Act, as long as at least 51 per cent of the shareholding of the company remains with the council. Through trading, the Government is seeking to encourage a "dynamic and entrepreneurial public sector that will increase quality, diversity and choice in the delivery of public services⁵."

Almost three-quarters of councils are involved in some form of trading activities, with the most commonly traded services being ground maintenance, building cleaning/maintenance, highways maintenance and vehicle maintenance, although only a quarter aim to profit on trading activity⁶. In the recent document on Smarter Government⁷, the Government added that it wanted to support "local authorities that wish to use their trading powers to create further commercial opportunities" and committed to setting out guidance on the effective use of joint ventures by local authorities and their partners.

WHAT IS THE POWER TO TRADE?

- Power to trade provided by Local Government Act 2003.
- Under this legislation, it is available to all Comprehensive Performance Assessment rated – 'excellent', 'good' or 'fair' councils.
- Now available to all councils under Comprehensive Area Assessment.
- Only trade in 'functional-related' activities.
- Able to use 'well-being' powers – where activity or service is likely to promote or improve economic, social or environmental well-being of its area.
- Cannot be used to authorise trading in anything which an authority is statutorily obliged to do in relation to a person.
- Trading is only exercisable through a company.

CASE STUDY: WASTE MANAGEMENT IN NORTH TYNESIDE

In May 2007, North Tyneside introduced a range of charges related to special waste collections from local households. The charges are intended to encourage householders to take greater responsibility for the waste they produce and better manage the environmental impact of disposal.

North Tyneside decided to differentiate charges for the collection of hazardous household waste such as fridges and televisions according to how urgently the service was required. A £10 charge for special collections of bulky waste within two working days was introduced, rather than the usual three to four week waiting period. This led to greater revenue, and a more efficient use of services.

In addition, a £10 charge for the collection of waste resulting from construction and DIY projects was brought in after the Council identified that a high proportion of building contractors undertaking work for local householders had been relying on the Council to collect and dispose of waste. In the six months following the introduction of the charges, the number of hazardous waste collections by the council fell considerably, despite a significant increase in the number of items being disposed of through the Council's household waste recycling scheme, suggesting that householders or contractors were transporting the waste by alternative means. This reduced pressure on North Tyneside's council services and led to greater individual responsibility.

⁴ Table 1.1, Summary of fiscal projections, HM Treasury December 2009.

⁵ ODPM, 2004.

⁶ Local Authority Trading Research Report, CLG, 2007.

⁷ Putting the Frontline First: Smarter Government, HM Government, December 2009.

One of the key barriers cited by authorities considering setting up trading companies is the necessity of producing an 'exit strategy' from trading if a council's CPA rating falls. But this will be overcome with the advent of the Comprehensive Area Assessment, with the Department for Communities and Local Government now having extended local authorities' power to trade to all authorities, regardless of their rating.

Perhaps the real potential for charging and trading lies in opening opportunities for councils to act as social and welfare entrepreneurs, providing a new range of services and tailoring existing provisions more closely to the personal requirements of users.

Both Chelsea Care in the Royal Borough of Kensington and Chelsea and EssexCares in Essex are examples of cutting-edge thinking in this area. Chelsea Care is a start-up business providing personal care and skills training, and EssexCares is a transfer of existing in-house provider capacity. Both intend to develop a range of new services to private funders, personal budget holders and other authorities and businesses. The surpluses can be reinvested in the company and go back to the shareholders in the form of a dividend. This could be used to reduce Council Tax, invested in other start-up ventures or used to support subsidised services and achieve better value for money. EssexCare – which will embrace many of the Council's 850 adult care staff – has already said that it expected to earn the authority upwards of £3m a year in dividends and may take over the running of some local primary care trust services.

In the Royal Borough of Kensington and Chelsea, the original motivation was to meet the needs of the whole population and be relevant to all local residents – not just those who come through eligibility routes. The council also had a strong interest in developing the market of brokers around self-directed support. In Essex, the trading company model was seen to allow the council to become a commissioning organisation while retaining a carer of last resort function and ensuring stability and choice in the marketplace.

CHARGING AND TRADING – THE LEGAL FOOTING

The Local Government Act 2003 put both charging and trading onto a new legal footing and councils can now decide to charge for any discretionary services – and that includes any services provided on the basis of the well-being power. The only exceptions are where charging is specifically prohibited or a special charging regime already exists. The other provision is that charging cannot be designed to make a surplus, only for cost recovery. If a council wishes to make a surplus, they have to set up a trading company and comply with EU procurement rules. But if councils can clear the legal hurdles, trading provides another radical new option for local authorities to consider using to raise money, while at the same time enhancing the quality of the services offered to their citizens.



BOTH CHELSEA CARE IN THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA AND ESSEXCARES IN ESSEX ARE EXAMPLES OF CUTTING-EDGE THINKING IN THIS AREA. CHELSEA CARE IS A START-UP BUSINESS PROVIDING PERSONAL CARE AND SKILLS TRAINING, AND ESSEXCARES IS A TRANSFER OF EXISTING IN-HOUSE PROVIDER CAPACITY.

▶ CONCLUSION

THERE IS SIGNIFICANT POTENTIAL FOR COUNCILS TO USE CHARGES AS A SOURCE OF INCREASED REVENUE, BUT ALSO AS A TOOL TO INFLUENCE BEHAVIOUR. THE BARNET 'EASYCOUNCIL' MODEL OF NO-FRILLS PUBLIC SERVICE DELIVERY COMBINED WITH CHARGING AND THE TRADING COMPANY MODEL OF ESSEX AND KENSINGTON AND CHELSEA UNDERLINE SOME OF THE OPPORTUNITIES FOR INNOVATION OPEN TO LOCAL COUNCILS IN WHAT IS BOUND TO BE AN EXCEPTIONALLY DIFFICULT FINANCIAL CLIMATE OVER THE COMING YEARS.

RECOMMENDATIONS:

Councils should consider the potential use of all powers at their disposal to help them maintain and improve public services at a time of severe financial constraint.

Councils should map all charges currently in existence in their authority, identify gaps and opportunities, and benchmark their levels and total revenue generated through charges against other authorities.

Councils should develop consistent principles for the use of charges across all services and identify how charges in particular areas could help or hinder their strategic objectives. They need to model the impact of charges on demand and revenue and consider the effect on particular groups in their area.

Councils should consider whether services could be developed further to fill a gap in the market, or offered across boundaries, if charging or trading were introduced.

Councils should consider how services could be remodelled to respond more to individual need, with additional paid-for services available to the end user.

▶ TO REVIEW ALTERNATIVE THOUGHT LEADERSHIP PIECES WHICH HIGHLIGHT THE INDUSTRY ISSUES, AND POTENTIAL SOLUTIONS, FOR THE PUBLIC SECTOR PLEASE VISIT WWW.BDO.CO.UK

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PUBLIC FINANCES – THE SCALE OF THE CHALLENGE

▶ **ONE OF THE KEY BATTLEFIELDS FOR THE NEXT GENERAL ELECTION IS GOING TO BE WHICH PARTY HAS THE BETTER PROGRAMME TO DEAL WITH THE BURGEONING PUBLIC SECTOR DEFICIT, WHICH IS SET TO REACH ALMOST £180BN THIS FINANCIAL YEAR.**

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The figures are as at: Which party wins the election, the next two decades will represent an unprecedented age of austerity for the public sector. The Institute for Fiscal Studies sees the national debt peaking at close to 80 per cent of GDP by 2015 – up from 40 per cent last year and 30 per cent in 2000 – and not returning to 40 per cent until around 2030. As a result, all political parties are now signed up to a programme of raising its spending.

The Labour Government has committed itself to bringing in a Fiscal Responsibility Bill to halve public debt over the next four years, legally obliging the Government to 'reduce the budget deficit year on year, ensuring that the national debt remains sustainable in the medium term'. The Fiscal Responsibility Bill introduced to the Commons in December 2009 sets out what that means: it introduces a duty on the Treasury to ensure that for each of the financial years to 2010/11 to 2015/16 public sector net borrowing as a proportion of GDP is lower than its previous year, and it imposes a duty on the Treasury to ensure that public sector net borrowing as a proportion of GDP is at least below its level for the financial year ending in 2010 by 2014/15. The structural deficit would not be eliminated until 2017/18, and the eventual fiscal tightening will be equivalent to 5.4 per cent of national income in £70bn.

According to the Institute for Fiscal Studies, public spending may be cut by as much as a fifth in areas such as defence, higher education, housing and transport during the next parliament. After taking into account the announcements of net spending growth on the fire service, health, schools and Sure Start for 2011/12 and 2012/13, the Pre-Budget Report (PBR) arithmetic implies that other government departmental budgets are likely to absorb by 5.6 per cent a year on average over the period of the spending review. If spending in key areas is protected for a third year, that equates to 6.5 per cent year – or more than 20 per cent over three years'. This is the tightest squeeze in spending in public services since the UK was negotiating its spending plans with the IMF in the late 1970s.

The Conservative Party has pledged to go further and faster in reducing the size of the debt burden. The Shadow Chancellor, George Osborne, has said that he agrees with the Governor of the Bank of England that we must 'administer a large part of the structural deficit' over the lifetime of this Parliament' to help in that task, he has pledged to set up an Office for Budget Responsibility, headed by Sir Alan Bond, former Chief Economic Adviser to the Treasury in the 1990s under Ken Clarke. This would publish a fiscal forecast before each budget. If the Chancellor did not accept his assessment, he or she would have to explain why to Parliament.

1. Post-Budget Report Briefing, Institute of Fiscal Studies, 10 December 2009.
 2. IFS.

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