

# Communities in Charge

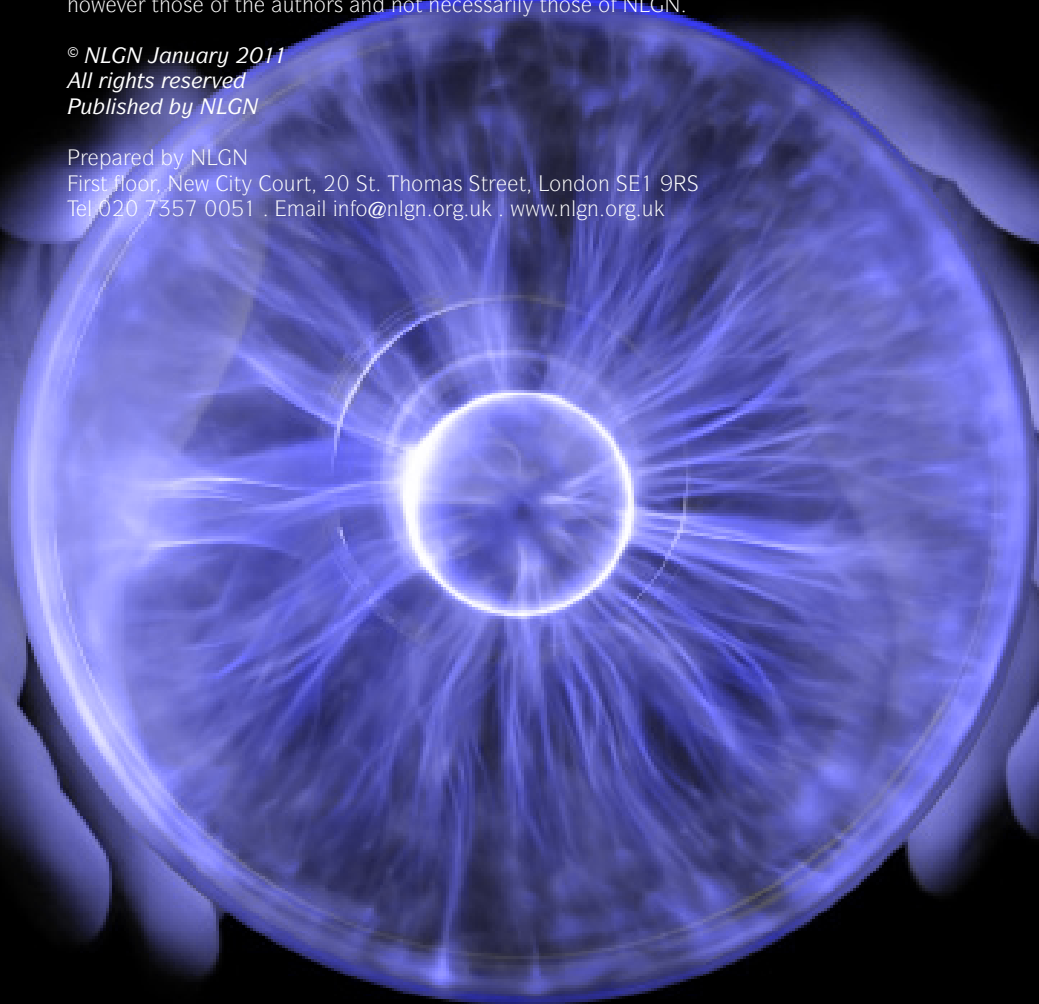
Decentralisation and differentiation of charges and fees

**Nick Hope**

New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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The views expressed and all errors and omissions are, of course, mine alone.

**Nick Hope**

*January 2011*

## *Introduction*

**As the Coalition Government embarks on a rapid programme of fiscal consolidation, local government will be hit by substantial funding reductions totalling 28% in real terms over the next four years. This reduction in core funding has been front-loaded, with many councils facing reductions in “spending power” of 18% in the first two years alone.<sup>1</sup>**

This new financial context presents local councils and their communities with a profound challenge. To minimise the impact of these funding cuts, local authorities will have to combine more traditional efficiency saving measures, such as back-office efficiency and smarter asset management, with radical service redesign, such as a shift to co-production and community-led service provision.

However, the timescale for these reforms is demanding, particularly given the front-loaded nature of the funding reductions councils face, and many local authorities will face impossible choices about which services to cut. As recent NLGN scenario planning exercises with local authority chief executives suggest even after substantial and radical efficiency savings are made the range of services councils provide will still have to be reduced under existing financial structures.<sup>2</sup>

In this report we call for new freedoms to allow innovative new frameworks for fees and charges so that communities can navigate their way strategically through the period of severe council funding reductions and prevent sharp cut-offs in service provision.

Many local authorities are exploring charging options to raise revenue. One recent poll of 163 senior council officers found 30% of respondents believed income from services would ‘increase a great deal’, 42% said fees income would ‘increase a little’ and only 3% said they expected their council’s charges to decrease over the spending review period.<sup>3</sup>

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<sup>1</sup> <http://www.bbc.co.uk/news/uk-politics-11990047>

<sup>2</sup> Hope et al. (2010), ‘Scanning Financial Horizons: Modelling the local consequences of fiscal consolidation’

<sup>3</sup> Commissioned by BDO and undertaken by pollsters Ipsos MORI and YouGov. See <http://www.localgov.co.uk/index.cfm?method=news.detail&id=93247>

However, fees and charges provoked much debate last year. The London Borough of Barnet's 'Easy' Council plans to set out a new charging structure for planning applications by offering a no-frills basic service and an enhanced fast-tracked service for an additional fee, received a large amount of media attention in the run up to the 2010 General and Local Elections. Some commentators expressed concern about the social justice implications and potential inequalities that two-tiered service provision could generate.

A more permissive financial framework would enable local authorities to vary charges for services in a way that is more sophisticated and responsive to both levels of demand and the ability of users to pay. This paper argues that not only would differential charging allow councils to optimise revenue generation to protect locally valued frontline services and help stimulate private sector growth within communities; it would help them to manage demand by influencing behaviour and allow them to provide and charge for services in a fairer way.

Of course reform of fees and charges should not be a short-sighted unilateral attempt to try and fill the hole in the Budget by councils and avoid maximising the potential of efficiency savings. Instead it should form an important part of a wider and more profound local conversation about public service provision. The challenging financial context demands that the fundamental role and purpose of each local authority be urgently renegotiated, redefining the relationship between the council and the public.

This conversation must involve the ability of people to pay for services and help councils understand the financial pressures that their residents are under, as well as informing residents about the financial challenges the council faces. Without genuine and extensive dialogue, reforms would be far less likely to be successful and supported by the public, exposing councils to significant reputational risk. Local authorities will also have to navigate carefully the cessation of certain universal aspects of state provision in order to ensure that reforms do not undermine community cohesion or fail to promote greater fairness. What is clear, however, is that current models of provision and financing are unsustainable and local authorities must arrive at a new service settlement with their citizens.

Limiting the parameters of the debate to decisions about service trade-offs and service transfer from the public sector to the voluntary sector risks

angering, alienating and, ultimately, failing many citizens. Rather than simply ceasing to provide specific services, citizens should be given the option to pay for that service if they want to use it. However, local authorities must consider carefully the ability of people to pay, particularly given the financial pressures many households are under and the forecasts that these are likely to intensify.<sup>4</sup> Importantly, Whitehall should give greater discretion to local authorities so that communities have wider scope to think about how services are paid for and delivered in their area.

Some services, particularly statutory services for the most vulnerable in society, would not be appropriate for charging as they would place people at undue risk. Indeed, many vital services are under threat from funding reductions and require new revenue streams to prevent cuts to provision. A far fairer local service settlement could be secured by giving councils the freedom to differentiate charges and fees for certain services (such as parking or alcohol licensing for example) and to use the surpluses generated to cross-subsidise crucial service provision.

There is a range of services that local authorities may wish to explore for the implementation of new, fairer frameworks for fees and charges. This paper provides some examples of areas that local councils may wish to consider, if freed and empowered to do so.

In the longer term such reforms could play an important role in rebalancing the funding framework so that local councils gain greater financial autonomy and are no longer overly-dependent on grants from Whitehall.

The dependence of local government on grants from central government has grown as the revenue raising powers of councils have been substantially eroded and curtailed. Currently, local authorities receive approximately sixty per cent of their income from national government. This balance should be reversed and councils empowered to raise the majority of their own income sustainably, ending their over-reliance on central government grant while maintaining scope for equalization. There are a number of ways that this greater financial independence can be achieved and innovative new freedoms for fees and charges could help make an important contribution.

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<sup>4</sup> [http://news.sky.com/skynews/Home/Business/Hard-Times-Economic-Conditions-For-UK-Households-Deteriorate-In-September-And-Set-To-Get-Tougher/Article/201010215757575?chooseNews=UK\\_News](http://news.sky.com/skynews/Home/Business/Hard-Times-Economic-Conditions-For-UK-Households-Deteriorate-In-September-And-Set-To-Get-Tougher/Article/201010215757575?chooseNews=UK_News)

# 1 Powers and the Public

Councils already have some limited powers over fees and charges, but they are heavily circumscribed. However, polling indicates that there is public support for greater flexibility to mitigate the effects of the cuts and ensure greater fairness.

## Existing council powers for fees and charges

Local authorities have a number of powers to charge local residents for services they provide. **5 6 7 8 9**

**Table 1** Services for which local authorities may charge

Service	Relevant Legislation
Almost all discretionary services	2003 Local Government Act
Sports and most leisure facilities	1976 Local Government Act
Building control services	Building Control Act 1984, Building (Local Authority Charges) Regulations 2010
Licensing for various businesses and activities	Wide range of legislation, including Licensing Act 2003
Parking provision	Road Traffic Regulation Act 1984

However, local authorities are restricted by central government as to how they exercise these powers. They are:

**5** [http://www.opsi.gov.uk/acts/acts2003/ukpga\\_20030026\\_en\\_10#pt8-ch1-pb1-11g93](http://www.opsi.gov.uk/acts/acts2003/ukpga_20030026_en_10#pt8-ch1-pb1-11g93) The relevant section, s.93, largely covers charging for “well-being” services granted under sections 2-4 of the 2000 Local Government Act: [http://www.opsi.gov.uk/acts/acts2000/ukpga\\_20000022\\_en\\_1](http://www.opsi.gov.uk/acts/acts2000/ukpga_20000022_en_1)

**6** [http://www.opsi.gov.uk/RevisedStatutes/Acts/ukpga/1976/cukpga\\_19760057\\_en\\_1](http://www.opsi.gov.uk/RevisedStatutes/Acts/ukpga/1976/cukpga_19760057_en_1) Section 19 sub-section (2)

**7** [http://www.opsi.gov.uk/si/si2010/uksi\\_20100404\\_en\\_1](http://www.opsi.gov.uk/si/si2010/uksi_20100404_en_1)

**8** [http://www.opsi.gov.uk/RevisedStatutes/Acts/ukpga/1984/cukpga\\_19840027\\_en\\_1](http://www.opsi.gov.uk/RevisedStatutes/Acts/ukpga/1984/cukpga_19840027_en_1) This is an amended version of the statute including later amendments

**9** [http://www.opsi.gov.uk/acts/acts2003/ukpga\\_20030017\\_en\\_1](http://www.opsi.gov.uk/acts/acts2003/ukpga_20030017_en_1)



- Prevented from intentionally profiting from charges for discretionary services, parking, and building control.<sup>10 11 12</sup>
- Forced to charge a centrally fixed rate across many areas of licensing.
- Entirely prohibited from charging for many services that are widely subject to charges in other countries, such as waste management.<sup>13</sup>

## Public attitudes

While the public recognises the need to stabilise the public finances, polling data suggests that there is no widespread enthusiasm for cuts in council services. Polling commissioned by NLGN in May 2010 showed that the public's preferred option is an increase in taxation to maintain local services.

**Table 2** Levels of public support and opposition for methods of reducing the deficit

	Support	Oppose	Net Support
Local services should be maintained even if taxes have to be increased so that Britain's deficit can be reduced.	47%	29%	19%
New charges should be introduced for local services that are currently free to help reduce Britain's deficit	30%	45%	-15%
Existing charges for local services should be increased to help reduce Britain's deficit	27%	46%	-19%
Cutting local services to help reduce Britain's deficit	23%	54%	-31%

The challenge for local government is that the only significant source of local revenue is the council tax, which is widely regarded as unfair and regressive.

**10** [http://www.opsi.gov.uk/acts/acts2003/ukpga\\_20030026\\_en\\_10#pt8-ch1-pb1-11g93](http://www.opsi.gov.uk/acts/acts2003/ukpga_20030026_en_10#pt8-ch1-pb1-11g93) The relevant section, s.93, largely covers charging for "well-being" services granted under sections 2-4 of the 2000 Local Government Act: [http://www.opsi.gov.uk/acts/acts2000/ukpga\\_20000022\\_en\\_1](http://www.opsi.gov.uk/acts/acts2000/ukpga_20000022_en_1)

**11** [http://www.opsi.gov.uk/si/si2010/uksi\\_20100404\\_en\\_1](http://www.opsi.gov.uk/si/si2010/uksi_20100404_en_1)

**12** [http://www.opsi.gov.uk/RevisedStatutes/Acts/ukpga/1984/cukpga\\_19840027\\_en\\_1](http://www.opsi.gov.uk/RevisedStatutes/Acts/ukpga/1984/cukpga_19840027_en_1) This is an amended version of the statute including later amendments

**13** <http://ec.europa.eu/environment/waste/studies/pdf/eucostwaste.pdf>

Polling conducted for the Lyons Inquiry in 2007 showed that a majority of the public believe a property-based council tax to be unfair.<sup>14</sup> A more recent survey has suggested that, when given the options of VAT, fuel duty, income tax, inheritance tax, or council tax, the latter is the tax the public least favour seeing increased.<sup>15</sup>

Even if local government wanted to raise council tax, it has been heavily discouraged from doing so. The coalition government has stated that it 'will freeze Council Tax in England for at least one year, and seek to freeze it for a further year'.<sup>16</sup> For 2010-11, councils have announced an average 1.8 per cent rise<sup>17</sup>, but central government has indicated that it will reward those councils which limit rises to 2.5 per cent this year and next with a grant to return that rise to zero.<sup>18</sup>

Increasing council tax above the rate of inflation is becoming a very unattractive option. But charges might provide a comparatively popular and practical way to provide additional new income.

NLGN's May 2010 polling shows that introducing new charges and increasing existing charges are both regarded as more palatable options than cutting local service provision.

Other polling suggests that charging is likely to be more widely supported if it is done in a way that is regarded as fair by the public:

- A recent YouGov poll commissioned by BDO found that a majority of the public think that charging is fair provided the money raised is used to protect other services, with only 14% saying it is always wrong and councils should raise council tax to cover any shortfall.<sup>19</sup>

<sup>14</sup> <http://www.webarchive.org.uk/wayback/archive/20070428120000/http://www.lyonsinquiry.org.uk/docs/final-07.pdf>

<sup>15</sup> Ipsos MORI/2020 Public Services Trust, (2010) 'What do people want, need and expect from public services?', p38-39

<sup>16</sup> Cabinet Office (2010), 'The Coalition: our programme for government'

<sup>17</sup> CLG (2010), 'Council Tax levels set by local authorities in England - 2010-11', <http://www.communities.gov.uk/publications/corporate/statistics/counciltax201011>

<sup>18</sup> Conservative Party (2009), [http://www.conservatives.com/~media/Files/Downloadable per cent20Files/Returning per cent20Power per cent20Local per cent20Communities.ashx?dl=true](http://www.conservatives.com/~media/Files/Downloadable%20per%20cent20Files/Returning%20per%20Power%20per%20Local%20per%20Communities.ashx?dl=true)

<sup>19</sup> <http://www.bdo.uk.com/press/2010/9/public-say-yes-charging-only-protect-other-services>

- An Ipsos-Mori poll in 2008 found that differential charging, based on the ability to pay, is also widely accepted.<sup>20</sup>

**Table 3** To what extent do you think it is acceptable or unacceptable for councils to charge people different amounts, based on their ability to pay, in order to ensure everybody has equal access to local services?

	%
Very acceptable	16
Fairly acceptable	43
Not very acceptable	21
Not at all acceptable	15
Don't know	5

The evidence suggests that differential charging, based on ability to pay and in order to protect wider public services, would have the support of most citizens. The following chapters explore ways in which this could work in practice.

<sup>20</sup> <http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/PositivelyChargedREPJan08.pdf>

## 2 *Making charging locally relevant*

**Offering greater flexibility over charging would provide councils with a powerful tool to influence public behaviour and achieve wider policy goals. Some councils may wish to reduce certain charges to stimulate economic growth and help rebalance their local economy, while others may wish to increase charges to raise revenue to support services without harming the local economy. The Government should permit fees to be tailored in this way to meet local circumstances and allow surpluses, when they arise, to be used to resource other services.**

### **Licensing and building control**

By imposing flat rate license charges for many activities and businesses, central government currently denies local councils the freedom to promote socially and economically beneficial activities in their area.

The current system, in which most types of licensing and building control charges are fixed across the country, means that those who live in poorer areas - with lower property and rental prices - are hit with larger fees relative to their general costs in creating new buildings and businesses. Under full decentralisation, councils could vary the charges they ask for by ward, postcode or even property type, to account for different levels of deprivation or, indeed, wealth.

#### **CASE STUDY**

##### ***Westminster City Council***

Westminster City Council published a “Living City Manifesto”, detailing the legislative changes that would be most helpful in empowering it to deal with local problems. One of these was the decentralisation of licensing fees.

*“The night-time economy in the UK’s cities is worth millions of pounds each year. The cost of managing and licensing this economy far outweighs the resources dedicated to it. We believe that licensing fees*

*should be able to reflect the benefits of operating in a particularly popular area such as the West End, and the costs borne by local authorities in managing and policing these areas.*<sup>21</sup>

Even though it presides over an area in which demand for licensing is exceptionally high, and a huge amount needs to be spent on policing licensed premises and providing the necessary infrastructure for an evening economy hotspot, Westminster City Council is prevented from making the rational response of raising licensing fees. It is forced to pay for licensing, nightlife policing and related services from Council Tax and central grants, passing the costs on to the taxpayer – not the licensees, who benefit from the council spending.

Local flexibility would also allow councils to charge those premises more that supply alcohol as part of the late night economy, to pay for extra policing to tackle alcohol related crime and disorder.<sup>22</sup>

Differential license fees for alcohol-selling premises could also be used by councils to stimulate regeneration and development by encouraging nightlife services in certain areas, or of certain types. Giving positive encouragement to the right kind of licensed premises can be a central part of vital local regeneration strategies.

Corby Borough Council, for example, includes as one of five elements in its Central Framework for regeneration the goal to “create an ‘evening economy’ with bars and restaurants together with a substantial leisure offer”.<sup>23</sup>

Newcastle is widely recognized as having used nightlife as a boost for wide-ranging economic and cultural recovery over the last twenty years.<sup>24</sup> Allowing councils to vary licensing fees in order to promote growth in their local service sector would give them another tool with which to encourage urban regeneration and rebalance the economy towards the private sector.

<sup>21</sup> [http://www.westminster.gov.uk/workspace/assets/publications/manifesto\\_006-1268943513.pdf](http://www.westminster.gov.uk/workspace/assets/publications/manifesto_006-1268943513.pdf)

<sup>22</sup> The Police Reform and Social Responsibility Bill introduced to Parliament by the Government on 30<sup>th</sup> November 2010 has proposals for that could make this possible.

<sup>23</sup> [http://www.corby.gov.uk/environmentandplanning/planning/documents/corby\\_regenerationframework.pdf](http://www.corby.gov.uk/environmentandplanning/planning/documents/corby_regenerationframework.pdf)

<sup>24</sup> Chatterton, P. and Hollands, R. *'Changing our 'toon'. Youth, nightlife and urban change. Newcastle upon Tyne'* (University of Newcastle, 2001)

## Planning Fees

Like licensing charges, planning application fees are currently set centrally and fail to take account of different circumstances in different places. In some instances, the level of planning fees fails to even cover the cost of the service and can be heavily subsidised by the tax-payer.<sup>25</sup> Last year town halls had to subsidise developers by more than £500 for every planning application submitted because rules set in Whitehall prevented them charging the full cost. This costs local authorities approximately £230m a year.<sup>26</sup> Allowing local variation would empower councils to stop this unfair arrangement.

NLGN therefore welcomes the consultation recently announced by Greg Clark, the Decentralisation Minister, calling for local authorities to be able to vary planning charges in order to fully recover their costs.<sup>27</sup>

Full local discretion over planning fees could also enable local authorities to encourage planning applications in areas in need of development by reducing planning fees, while charging increased fees for areas where there is high demand but less immediate need for development.

## Parking Fees

Many local authorities already use free or cheaper parking to help their traditional town and city centres to compete with out-of-town shopping centres, which can easily afford to offer such incentives. Some councils may wish to reduce car congestion and increase car parking charges for particular areas. Eric Pickles, Secretary of state for Communities and Local Government, recently said *"We're getting out of the way and it's up to councils to set the right parking policy for their area"*.<sup>28</sup> However, councils are limited in how they can set parking policy locally by central government.

Under current legislation councils are not allowed to increase charges with the motive of generating income, though the generation of income is legitimate if incidental to the setting of charges for other reasons such

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<sup>25</sup> [http://www.kettering.gov.uk/sdct/downloads/Fees\\_and\\_charges.doc](http://www.kettering.gov.uk/sdct/downloads/Fees_and_charges.doc)

<sup>26</sup> <http://www.lga.gov.uk/lga/core/page.do?pagelD=15017361>

<sup>27</sup> <http://www.communities.gov.uk/news/corporate/17686091>

<sup>28</sup> <http://www.communities.gov.uk/news/newsroom/1809347>

as traffic restraint.<sup>29</sup> This means that, even in harsh financial times, local authorities are unable to use parking fees to cross-subsidise crucial services that are vulnerable to cuts.

To encourage business start-ups and support small local businesses, councils could give discounts to businesses based in the locality, or which do not have more than a certain number of branches. In addition to encouraging local business growth, wider social concerns could also be considered. For instance, small local pubs and shops could be given discounts on licensing where they are central to rural communities, while low building control charges could encourage projects which improve the image of an urban area.

Decentralising building control, parking, planning and licensing service charges would make it easier for councils to give economically valuable enterprises a fairer chance of competing and thriving. Differential charging could help councils stimulate economic development and investment, as well as providing a lever to help them rebalance their local economies away from the public sector and to resource frontline services. Local authorities could also use variable planning, building, and licensing charges to take into account the wider civic contribution made to an area and thus bring environmental, social and cultural benefit to local communities.

Significantly, greater freedom would also allow councils to optimise revenue from charges and, where appropriate, to generate an income stream to support important public services during periods of severe funding reductions from Whitehall.

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**29** <http://news.bbc.co.uk/1/hi/england/london/8470804.stm>

### 3 *Citizen variation*

**The previous chapter focused on spatial variation – varying fees and charges based on geographical area – but there is also scope for differential charging for individual service users. This chapter considers how reconfiguring and reconceptualising services to allow differential charging for citizens could serve to drive more market-led provision, help shape behaviour to manage service demand, allow greater fairness and generate revenue to stop valued local services from ending.**

One of the key advantages of charging as a means of generating income is that it sends signals from the local residents to their council about the services people value most;<sup>30</sup> because of its transactional nature, when designed thoughtfully, charging can offer the public greater choice in investing in and accessing council services compared to traditional tax-funded public services. Rather than treating citizens as passive recipients and providing basic minimum services, citizens should be handed greater control over the characteristics of the services they pay for and use.

Not only would more demand-led services help drive improvement and responsiveness; a payment-by-use choice architecture would also open up opportunities to influence and manage demand. Current projections show that, as cuts hit over the next few years, demands on council services and expenditure will increase.<sup>31</sup> One of the ways to help close this funding gap is to reduce pressures on services by influencing citizen behaviour. Where local authorities feel that demand for services is unnecessarily inflated through overuse, intelligent service charging could help discourage people from exploiting provision.

Equally, where service take-up is judged to be too low by the local authority – decreased charges could encourage people to make greater use of services. For example, if a local community is particularly worried about child obesity, children could pay reduced charges or even no charge at all for swimming and leisure facilities.

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<sup>30</sup> <http://www.lga.gov.uk/lga/aio/1879652>

<sup>31</sup> Hope et al (2010), NLGN, Scanning Financial Horizons: Modelling the Local Consequences of Fiscal Consolidation



Central Government is currently exploring ways to solve policy challenges using theories of behavioural economics through the Behaviour Insight Team, based in the Cabinet Office.<sup>32</sup> Local authorities should consider the role behavioural economics and well-designed choice architecture could play in the way they use charges and fees.

Capital Ambition has formulated ten steps for planning behavioural change, which could be a useful initial model for councils. The steps are non-linear and as follows:

1. Behavioural goal
2. Understanding the behaviour
3. Segment population to identify target groups
4. Apply theory and learn from elsewhere
5. Engage stakeholders, staff and community
6. Design/ co-design interventions
7. Implement
8. Evaluate
9. Embed/ mainstream the change
10. Political and strategic buy-in: consent and legitimacy <sup>33</sup>

This checklist could be a useful starting point for councils who are considering implementing new charging frameworks and illustrates the range of factors that might be taken into account. NLGN will be undertaking work on behaviour change in the coming months that looks at “softer” options that could also be employed to help “nudge” people to make certain choices.

However, the merits of constructing a “harder” service choice architecture should not be overlooked. Varying charges based on usage for certain areas

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<sup>32</sup> <http://network.civilservicelive.com/pg/pages/view/377057/>

<sup>33</sup> Capital Ambition. *The Capital Ambition guide to behaviour change*. The London Collaborative. May 2010. Available from: [http://www.youngfoundation.org/files/images/Behaviour\\_Guide\\_130510\\_HighRes.pdf](http://www.youngfoundation.org/files/images/Behaviour_Guide_130510_HighRes.pdf)

of provision could help ensure far greater fairness. Waste management, for example, is a major spending area for local government, amounting to £6.3 billion in 2007-8: over 27% of the total amount raised through council tax. In the UK, citizens who recycle and minimise their waste output are hit by exactly the same charges as those who do not, producing a situation in which these citizens are essentially subsidising – through their council tax – the environmentally-damaging behaviour of others.

However, the Localism Bill currently going through Parliament seeks to remove the powers for local authorities to pilot charge-and-reward waste reduction schemes.<sup>34</sup> Prescribing how local refuse disposal schemes should be run by centrally prescribing new rules from Whitehall is inconsistent with the Government's localist aspirations and aims. As Eric Pickles, the Secretary of State for Communities, himself recently said: "*Central government has kept local government on a tight leash, strangling the life out of councils in the belief that bureaucrats know best. By getting out of the way and letting councils and communities run their own affairs we can restore civic pride, democratic accountability and economic growth - and build a stronger, fairer Britain*".

## CASE STUDY

### *Influencing behaviour in waste disposal*

Freedom over waste reduction could open up a number of innovative options for local authorities.

#### *Option A: Charging for extra collections*

In the UK, considerable controversy has surrounded the introduction of fortnightly rubbish collections by many local authorities. Currently, many people reportedly still want weekly collections, but it is unclear whether they would be willing to pay for them. Many local authorities already offer optional fortnightly or weekly schemes for differential

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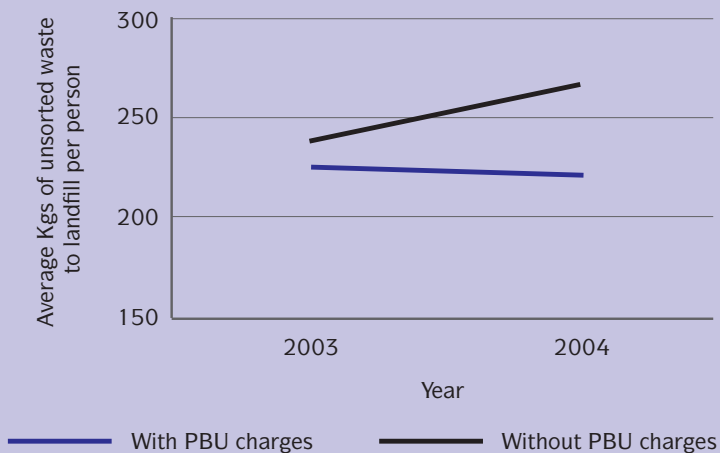
**34** Through the removal of sections 71 to 75 and Schedule 5 from the Climate Change Act 2008. See <http://www.publications.parliament.uk/pa/cm201011/cmbills/126/en/2011126en.htm>

charges to private business.<sup>35</sup> By allowing differential charging for weekly and fortnightly collection of domestic waste, citizens would be able to choose the collection option they wanted rather than having their choice dictated for them.

### *Option B: Charging by weight*

An alternative option to charging for the number of waste collections would be charging by the weight of waste collections. An evaluation of the success of payment by use (PBU) charging schemes for waste collection in Ireland found that they had a significant impact on demand, as the following graph illustrates:<sup>36</sup>

**Figure 1** The trend in annual average unsorted waste presentation rate in kilogrammes per person in local authorities with and without pay-by-use (PBU) in Ireland.



<sup>35</sup> <http://www.westoxon.gov.uk/business/tradewaste.cfm> and <http://swindon.gov.uk/environment/wasteandrecycling/commercialwaste.htm>

<sup>36</sup> O'Callaghan-Platt, A and Davies, A *Evaluating the success of pay-by-use (PBU) domestic waste charges in Ireland* (Irish Geography, Volume 41 Issue 3, 2008) pp.245-259

### *Option C: Charging for extra bins and sacks*

Blaby District Council adopted the UK's first 'variable charging' scheme for their waste collection that involves charging for the collection of waste above a baseline. Residents are provided with a 140 litre bin for their household waste collections that is collected weekly and free of charge. Residents creating more waste are charged for the collection of additional waste through a variety of means. They are offered additional bins at an annual charge of £32.40, a 240 litre bin for the same price and a 360 litre bin for £48.60. Discounts are available for households with five or more residents. Households that occasionally use more than their bin can hold can purchase purple sacks (£4 for three) to use as they need.<sup>37</sup>

Since 2004, Eden District Council has employed a scheme that limits households to two blue bags of waste a week. Upon collection, households will receive replacement bags free of charge, up to a maximum of two. If no waste is put out, no bags will be left.<sup>38</sup> If more bags are required, they will cost residents £1.20 each. Families of six or more may apply for additional bags free of charge. Eden put the scheme into place because of its high residual waste levels and by 2005/06 its recycling rates had risen to 40%.<sup>39</sup> The scheme remains successful and was trialled in Broxbourne. Take up elsewhere has been low, with some suggesting that charging for waste collection may not comply with the Environmental Protection Act.<sup>40</sup> Since the trial Broxbourne has implemented a scheme that distributes 52 bags once a year (one per week) to its residents.<sup>41</sup>

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**37** <http://www.blaby.gov.uk/ccm/navigation/environment/recycling--rubbish-and-waste/household-waste--domestic-bins/>

**38** <http://www.eden.gov.uk/environment/household-rubbish-and-recycling/household-rubbish-collections/blue-bags/>

**39** [http://www.letsrecycle.com/do/ecco.py/view\\_item?listid=37&listcatid=316&listitemid=9266](http://www.letsrecycle.com/do/ecco.py/view_item?listid=37&listcatid=316&listitemid=9266)

**40** [http://www.letsrecycle.com/do/ecco.py/view\\_item?listid=37&listcatid=320&listitemid=9594&section=legislation](http://www.letsrecycle.com/do/ecco.py/view_item?listid=37&listcatid=320&listitemid=9594&section=legislation)

**41** [http://www.broxbourne.gov.uk/environment\\_and\\_planning/recycling/faqs\\_for\\_refuse\\_and\\_recycling.aspx](http://www.broxbourne.gov.uk/environment_and_planning/recycling/faqs_for_refuse_and_recycling.aspx)

**CASE STUDY*****Influencing behaviour to reduce CO2***

*The London Borough of Richmond upon Thames started charging for residents' bays based on CO2 emissions in 2007. For cars first registered after 1<sup>st</sup> March 2001, permits would be issued on their CO2 value (the amount of CO2 they produce). Cars first registered before this date would be rated by their engine size. Variation from the baseline cost of a permit ranges from -100% (free) for cars with emissions below 100g/km to +200% for cars with emissions of 256g/km.<sup>42</sup> As a result of this, a household with two cars from the highest polluting band would have to pay £750 a year to the council. The first car would cost £300 and the second an additional £450. The move to put the scheme into place was only executed following a consultation with local residents, from which a survey found that 47% voted for the scheme and 39% against.<sup>43</sup>*

*The results have been promising, with figures released in March 2010 showing an increase from around 25% to 30% in permits for the six lowest bands (all of which offer a discount from the baseline cost) and a small decrease from 39.57% to 38.01% in the number of permits in the top four polluting bands.<sup>44</sup> The council shifted from Liberal Democrat control to Conservative, who had campaigned to have the CO2 parking scheme scrapped and have succeeded in passing the plans to do so.<sup>45</sup> However, similar schemes have now been adopted by Camden, Islington, Hackney, Tower Hamlets, Haringey, Lambeth and Brighton councils.<sup>46</sup>*

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**42** [http://www.richmond.gov.uk/home/transport\\_and\\_streets/motor\\_vehicles\\_roads\\_and\\_parking/parking/car\\_parking\\_permits/vehicle\\_banding\\_for\\_parking\\_permits\\_explained.htm](http://www.richmond.gov.uk/home/transport_and_streets/motor_vehicles_roads_and_parking/parking/car_parking_permits/vehicle_banding_for_parking_permits_explained.htm)

**43** <http://news.bbc.co.uk/1/hi/england/london/6517119.stm>

**44** [http://www.richmond.gov.uk/home/council\\_government\\_and\\_democracy/council/civic-offices/departments/communications/press\\_office/press\\_releases/march\\_2010\\_press\\_releases/co2\\_parking\\_is\\_working.htm](http://www.richmond.gov.uk/home/council_government_and_democracy/council/civic-offices/departments/communications/press_office/press_releases/march_2010_press_releases/co2_parking_is_working.htm)

**45** [http://www.richmondandtewickenhamtimes.co.uk/news/richmondnews/8383973.CO2\\_parking\\_charges\\_scrapped/](http://www.richmondandtewickenhamtimes.co.uk/news/richmondnews/8383973.CO2_parking_charges_scrapped/)

**46** [http://www.richmondandtewickenhamtimes.co.uk/news/richmondnews/8383973.CO2\\_parking\\_charges\\_scrapped/](http://www.richmondandtewickenhamtimes.co.uk/news/richmondnews/8383973.CO2_parking_charges_scrapped/)

The waste disposal case studies illustrate ways in which local authorities can end the unfair situation in which environmentally minded citizens, in effect, pay for the environmentally-damaging behaviour of others through their council tax. Charging by service usage, then, has the potential to create greater fairness, but, if designed without care, it could generate new and deep inequalities; as some citizens are better placed to pay charges than others.

Fairness has been a key concern over recent months for the main political parties. The Prime Minister recently stated that “it’s fair that those with broader shoulders should bear a greater load. And I think it’s time for a new conversation about what fairness really means.”<sup>47</sup>

Many services already have differential charging, with cheaper rates for vulnerable and poorer people. For example, we already have a concessionary bus fare scheme offering discounted travel on local public transport for older and disabled people and students, and many local leisure facilities offer discounted rates to people on certain benefits, such as Income Support, Job Seekers Allowance, Working Tax Credit, Housing Benefit, Council Tax Benefit and Council Tax Credit, for example.

If councils are going to use more charges in a more varied way, then they will need to make sure this is done in a manner that is regarded as fair to local people. To help do this, local communities should be given the flexibility to carry out means-testing for service use to differentiate charging based on ability to pay. Councils would have to assess whether the administrative costs associated with assessing the ability to pay would be worthwhile.

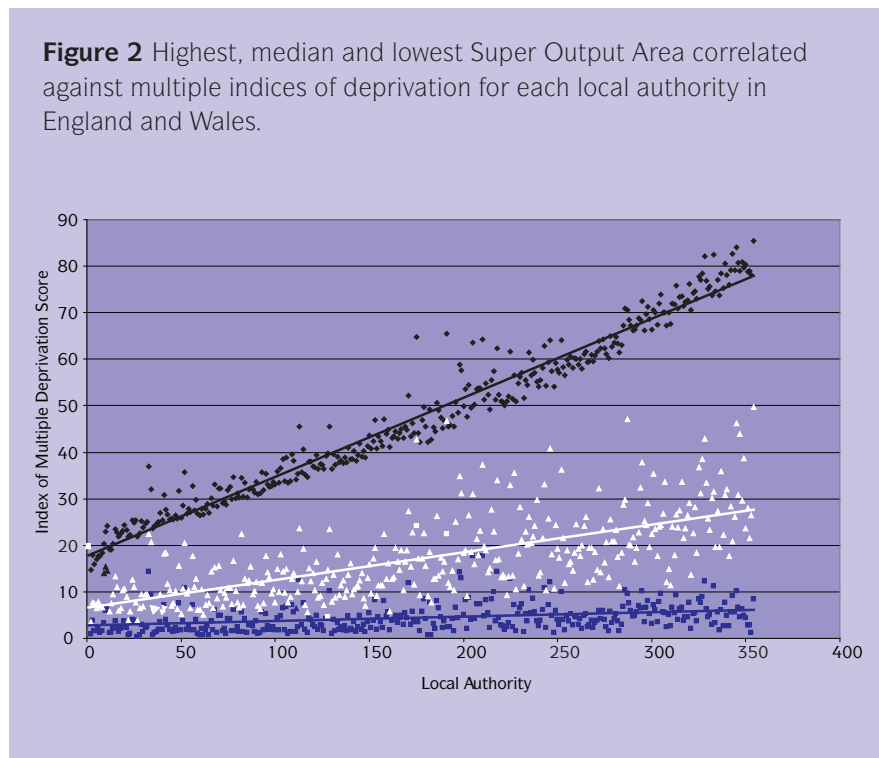
One way of doing this might be to vary charges based on the council tax band of the household. If, for example, a council charged for use of pest control services, collection of bulky waste items, additional bin collections on top of a standard fortnightly service, and residents’ bays based on car CO<sub>2</sub> emissions, they could have different pricing frameworks for each council tax band. As mentioned in the case study examples, discounts could be offered to large families. Councils may also consider offering discounts to other groups, such as single occupants and those with certain disabilities, for instance.

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<sup>47</sup> <http://www.telegraph.co.uk/news/newstoppers/politics/david-cameron/8046342/David-Camersons-Conservative-conference-speech-in-full.html>

But are there sufficient differences in wealth to justify means-tested fees and charges? Figure 2 plots the highest (in black), median (in white) and lowest (in purple) values of the index of multiple deprivation at the Super Output Area (SOA) level for each local authority in England and Wales.<sup>48</sup>

**Figure 2** Highest, median and lowest Super Output Area correlated against multiple indices of deprivation for each local authority in England and Wales.



The great majority of local authorities' lowest deprivation levels fall below 10 on the index, creating an almost horizontal trendline (in purple). The figures for the highest deprivation present a stark contrast, with the vast bulk of local authorities falling between 20 and 80 on the index, producing a steep

<sup>48</sup> SOAs are a geography designed for small area statistics that are used by the Neighbourhood Statistics site that are more similar in population size than other geographical layers such as electoral wards. Data from [http://www.neighbourhood.statistics.gov.uk/dissemination/instanceSelection.do?JSAllowed=true&Function=%24ph=60\\_61&CurrentPageId=61&step=2&datasetFamilyId=1893&instanceSelection=122838&Next.x=16&Next.y=6](http://www.neighbourhood.statistics.gov.uk/dissemination/instanceSelection.do?JSAllowed=true&Function=%24ph=60_61&CurrentPageId=61&step=2&datasetFamilyId=1893&instanceSelection=122838&Next.x=16&Next.y=6)

trendline (in black). It is possible to infer that the lowest levels of deprivation are fairly constant between local authorities, whereas the level of the highest deprivation can change dramatically.

Where the variation between highest and lowest levels of deprivation is greatest, it indicates that there may be a stronger case for differentiating local authority charges; charging those that are most deprived comparatively less and the wealthy comparatively more.

The data for the median (in white) gives a crude idea of the weighting of deprivation within local authorities and suggests that a large number have an uneven spread weighted towards a lower level of deprivation. If there was a normal distribution, the trendline would lie equally between the top and bottom trendlines. However this is not the case. The trendline has a lower gradient, closer to that of the lowest levels of deprivation, suggesting that there are more residents on low levels of deprivation than those highly deprived. This is significant because it indicates a particularly compelling case for differentiated charging for those authorities characterised by high variation between top and bottom levels of deprivation and a population weighted towards the lower levels of deprivation.

More sophisticated profiling of local populations would need to be carried out by each local authority if it were to consider differentiating fees and charges for their residents, but our initial statistical analysis suggests there could potentially be significant scope for some form of means-testing.<sup>49</sup>

The graph on the following page shows the ten local authorities that our initial analysis suggests may potentially be most suited to varied fees and charges. They consist of the local authorities with the highest variation between their top and bottom scores on the index of multiple deprivation along with a relatively low median value.<sup>50</sup> It is important to note, however, that the multiple indices of deprivation are just one measure and there may be other

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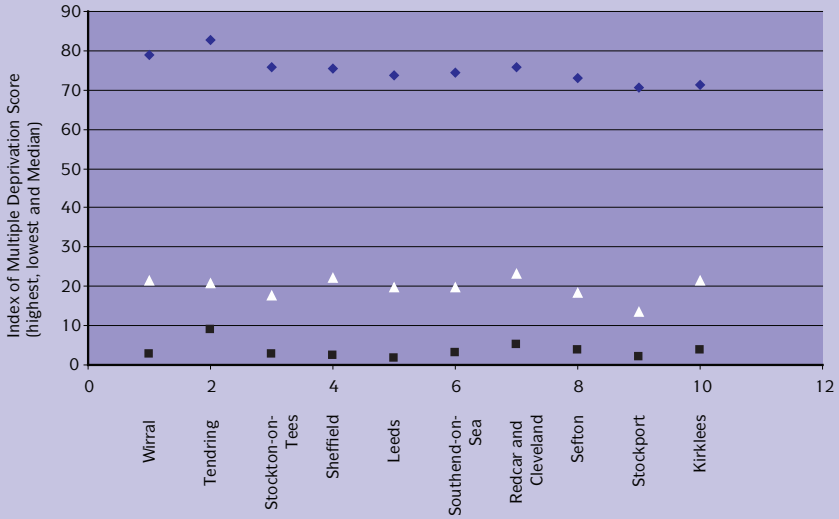
<sup>49</sup> There are however limitations to the data. Due to the use of the extreme values of deprivation for each local authority, the data does not take into account the general spread of deprivation. It may be that those local authorities with high variations have just one or two SOAs with low levels of deprivation and a majority with high levels, lessening the case for differentiated charging. The use of the extremes may therefore mask the overall picture and further research exploring the spread of deprivation within each local authority would be advisable.

<sup>50</sup> The methodology used in selecting these ten authorities was to select the forty authorities with the highest variation and then the ten with the lowest median were extracted.



metrics that local areas deem more appropriate, as well as other local factors that will inform whether charges are actually varied.

**Figure 3** Top ten local authorities identified through initial analysis as potentially appropriate for varied fees and charges.



## 4 Trading and charging

*“There is nothing inherently wrong with councils making the most of opportunities to generate extra cash offering and charging for services. In many cases this is happening as an add-on to their normal business. When the approach is sensible, local people are likely to support trading and charging particularly where doing it helps to protect other services, keeps council tax bills down or when residents themselves can benefit from the services on offer.” Eric Pickles, Communities Secretary<sup>51</sup>*

Many enterprising councils are already generating additional income through municipal trading. There are many commercial opportunities for councils to exploit in order to generate additional income, while providing useful services to local businesses and residents.

### CASE STUDY

#### ***Digital City UK<sup>52</sup>***

*Swindon Borough Council is, jointly with the private sector, making Swindon the first town in the UK to provide free internet access to all of its residents. This commercial venture provides a range of services and applications for the whole community - including free connection to the internet, free line rental and connection charge and borough wide movement - while staying online. The public can access the internet and download emails for free, but usage will be limited and subscribers will be charged for upgrades such as roaming connections, providing the Council with a unique funding stream.*

Building cleaning and maintenance, catering work, photographic identity card services, tree inspections, dropped roadside kerb services, MOT testing and vehicle maintenance and library transcription services are just some of the examples of trading services that councils provide.<sup>53</sup> Such municipal entrepreneurship can serve to generate important revenue for councils to

**51** <http://www.communities.gov.uk/newsstories/newsroom/1717213>

**52** <http://www.getsignal.co.uk/>

**53** <http://www.apse.org.uk/charging-trading/case-studies.html>

support crucial local services. State Aid rules and the 1998 Competition Act, amongst various other pieces of legislation, protect against market distortion.

We recommend that municipal entrepreneurship should be built on three principles:

**Profitability:** *new activities must have strong business models and returns should be commensurate with risk.*

**Sustainability:** *new activities should not be focused exclusively on short-term returns, but should provide a sustainable revenue stream.*

**Additionality:** *new activities should complement and improve service provision locally, avoiding market distortion.*

Greater local discretion over charging could allow local authorities to eliminate anomalies whereby they, and citizens, effectively subsidise businesses and other public sector bodies because they do not have discretion over the charges they levy. For example, under the Government's Controlled Waste Regulations, councils can charge commercial properties for collecting waste categorized as "household waste", but they cannot take into account the costs of its disposal.<sup>54</sup> In effect, this results in the obligatory provision of a subsidised service to non-domestic sources. Local discretion over charging would allow local authorities to no longer have to meet the disposal costs accrued by private sector organisations and other public bodies.

Currently, health and safety and food safety inspections cannot be charged for by local authorities. Consequently, there is little incentive for premises to ensure they have adequate inspections and therefore cut the number of repeat inspections they ultimately undertake. Allowing flexibility to charge for inspections could reduce the frequency of inspections, driving down costs to the council and taxpayers. Moreover, the costs of inspection would no longer be met by all local taxpayers, but would instead be passed on to the users of the premises and consumers.<sup>55</sup>

Local authorities are prevented from charging a market rate by the prohibition on profiting from charges for discretionary services laid out in

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**54** [http://www.opsi.gov.uk/si/si1992/uksi\\_19920588\\_en\\_1.htm](http://www.opsi.gov.uk/si/si1992/uksi_19920588_en_1.htm)

**55** [http://www.kettering.gov.uk/sdct/downloads/Fees\\_and\\_charges.doc](http://www.kettering.gov.uk/sdct/downloads/Fees_and_charges.doc)

the 2003 Local Government Act, at times producing missed opportunities to better fund local services.<sup>56</sup> One council currently offers bus services, at a charge, to private and denominational schools.<sup>57</sup> Since there are clear private sector alternatives here, there is little chance of the charge level becoming unfair or excessive. As long as members of the public voluntarily choose to pay, therefore, it would seem fair for the council to make a small profit for use in supporting other services. The same argument applies to cultural services, and those leisure services which fall under the 2003 Act.

Such reform would also remove unnecessary barriers for councils seeking to subsidise one area of a discretionary service – for example, local heritage services which are important to the community – with the profits from another area. Under the current legislation, this is perfectly legal as long as the two are counted as being part of a single service area, but not otherwise: for example, a heritage centre can probably be subsidised from a museum, but not from a leisure centre.<sup>58</sup> This peculiar bureaucratic anomaly should be removed so that charges for some services can be optimised in order to protect services categorised in other broad service areas.

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**56** [http://www.opsi.gov.uk/acts/acts2003/ukpga\\_20030026\\_en\\_1](http://www.opsi.gov.uk/acts/acts2003/ukpga_20030026_en_1)

**57** <http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/PositivelyChargedREPJan08.pdf>

**58** Bennett, J and Cirell, S *Charging and Trading in Local Government* (Sweet and Maxwell, 2005)

## *Conclusions*

**We are entering a period of profound change in public services. Local authorities are pursuing efficiency savings on an unprecedented scale. Improved productivity can unlock significant cashable savings in many areas, but – given the speed and scale of reductions in central government grant – the current range and nature of services provided by councils is unsustainable.**

Councils must urgently negotiate a new service settlement with their local residents. The fundamental role and purpose of each local authority must be urgently rethought and the relationship between every council and its citizens redefined. This report has argued that citizens should not be denied the option of choosing for a service to be maintained through charging in a fairer way.

Rather than local authorities simply ceasing to provide specific services, citizens should be given the option to pay for that service, if they want to use it, in a fair way. The freedom to introduce and differentiate charges and fees for services would:

- Allow councils to optimise revenue generation, using surpluses generated to cross-subsidise and protect locally valued public services.
- Help councils to manage demand by influencing behaviour, to stimulate or reduce service take-up where appropriate.
- Free councils so that they can provide, and charge for, services in a fairer way, such as by usage and with means testing.
- Empower councils to stimulate economic development and investment, providing a lever to help them rebalance their local economies.
- Support a rebalancing of funding to remove local authority over-dependence on central government grant, giving communities greater financial independence.

This report has shown how public polling indicates that introducing new charges and increasing existing charges are regarded as more palatable options to cutting

local service provision. It is important to note, however, that polling also suggests that charging is more likely to receive public support if it is done in a way that is regarded as fair. We strongly recommend, therefore, that local authorities are empowered to charge for some services to subsidise and protect other locally valued services and to differentiate charging, based on the ability to pay.

Whitehall should give greater discretion to local authorities so that communities have wider scope to think about how services are paid for and delivered in their area. Central government should not stand in the way of local communities and should allow greater local autonomy over fees and charges. The new General Power of Competence – if designed correctly – could overcome many of the barriers that limit local flexibility. The Government should not seek to define new freedoms, but rather leave councils free, except where actions are expressly forbidden by statute.<sup>59</sup>

The Government may also wish to reflect on the limits of General Power of Competence and explore changes to statute that may be needed to allow greater local autonomy. Ministers should prioritise a systematic review of existing legislation and regulations that would otherwise severely limit the scope for local authorities. We anticipate a number of specific reforms may be needed:

- All discretionary services except those within education and social care should be exempted from the provision of schedule 93 of the Local Government Act 2003, which allows councils only to cover their costs using charges.
- The 1984 Road Traffic Regulation Act should be amended to make it clear that councils may use parking charges to generate income.
- Councils should be empowered to charge for waste collection services. Clause 29 of the Localism Bill, deleting sections 71 to 75 and Schedule 5 from the Climate Change Act 2008, and so removing the powers for local authorities to pilot charge-and-reward waste reduction schemes, should be scrapped.
- Councils should be freed from the provisions of all Acts relating to

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<sup>59</sup> See Keohane (2010), NLGN, Going Nuclear? A general power of competence and what it could mean for local communities

licensing that set a fixed fee for licensing services. The Police Reform and Social Responsibility Bill, currently going through parliament, would be a good vehicle to deliver this reform.

- Councils should be freed from the provisions of the Building Control Act 1984 and Building (Local Authority Charges) Regulations 2010 regarding fees for building control services.
- Councils should be freed to subsidise one area of a discretionary service with the profits from another.

Areas with greater economic polarisation within and between their local neighbourhoods would have far greater scope for differential charging and fees than communities that have far more uniform demographics of low and middle income families. Therefore, not all of our proposals would be as appropriate for every locality. We are calling for localism, rather than prescribing an approach.

It is important to emphasise that the reforms proposed in this report should take place in the context of wider changes to the local government financial framework. The local government finance system must retain a strong national redistributive element that takes into account the differing needs of local communities and their varying means to pay for services. NLGN will be publishing work this year on how the balance of funding could be shifted away from over-dependence on central government grants, while at the same retaining mechanisms for equalization.

When exploring the possibilities to optimise income generation through fees and charges, councils must be ever-mindful of the ability of citizens to pay. Decisions about charges for specific services should not be made in isolation, but as part of holistic charging strategy that understands the wider financial pressures that citizens face and local services with which they interact. Segmentation and mapping of the population by customer groups will be important in avoiding hitting certain people with an ill-thought-out, disproportionate and unfair new cumulative bundle of charges.

Some local authorities might wish to ensure local revenue neutrality, where every additional pound raised through differential fees and charges will mean a pound less raised locally through council tax. Others may wish to

use revenue generated through differential fees and charges to help protect specific local services.

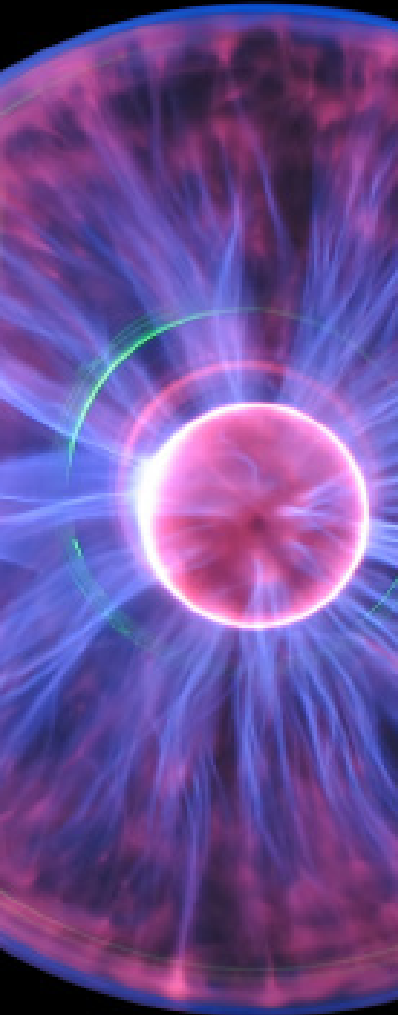
Crucially, we must shift power so that local authorities no longer operate based on top-down prescriptions from Whitehall, but engage with, respond and answer to their residents in a far more meaningful manner. An approach that allows differential fees and charges will give local communities far greater scope to think about how services are paid for and delivered in their area, as well as how this can be done in a much fairer and more sustainable way.











**Overall local government is facing a funding reduction of 28% over the next four years. Councils must urgently negotiate a new service settlement with their local residents. The fundamental role and purpose of each local authority must be urgently rethought and the relationship between every council and its citizens redefined.**

Limiting the parameters of these local conversations to decisions about service trade-offs and a service transfer from the public sector to the voluntary sector risks angering, alienating and, ultimately, failing many people. Rather than local authorities simply ceasing to provide specific services, citizens should be given the option to pay for that service, if they want to use it, in a fair way.

In this report we call for new freedoms to allow innovative new frameworks for fees and charges so that communities can navigate their way strategically through the period of severe council funding reductions and prevent sharp and avoidable cut-offs in service provision.