

Charging ahead:

Should government
charge for more?

Talking Points

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Introduction

But the fiscal gap could also be reduced in another way – through more charging. This Talking Point publication examines the case for central government charging for more of its activities. In a recent publication on this topic, we commented that:

“

The use of charging by government has so far received little attention and yet this is an area where Britain raises less revenue as a percentage of GDP than comparable OECD nations such as Australia and Canada.¹

The Government is faced with the dual challenge of implementing public service reform and reducing the fiscal deficit, while continuing to provide key public services in the face of ever rising public demand. The Coalition has taken steps to reduce the fiscal gap through the spending cuts announced in the 2010 Spending Review, and the rise in VAT.

Additionally, charging can support the government’s reform agenda, for instance by supporting market development and changing people’s behaviour.

Indeed the Government has already expanded the scope of charging, for example, public transport fares and university tuition fees, whilst local government has been charging for various services for many years.

But charging could be taken further. Serious consideration needs now to be given to the greater use of charging across the whole of central government.

¹ PwC’s Public Sector Research Centre’s ‘Time to choose: Decision-making in an age of fiscal austerity’. 2010

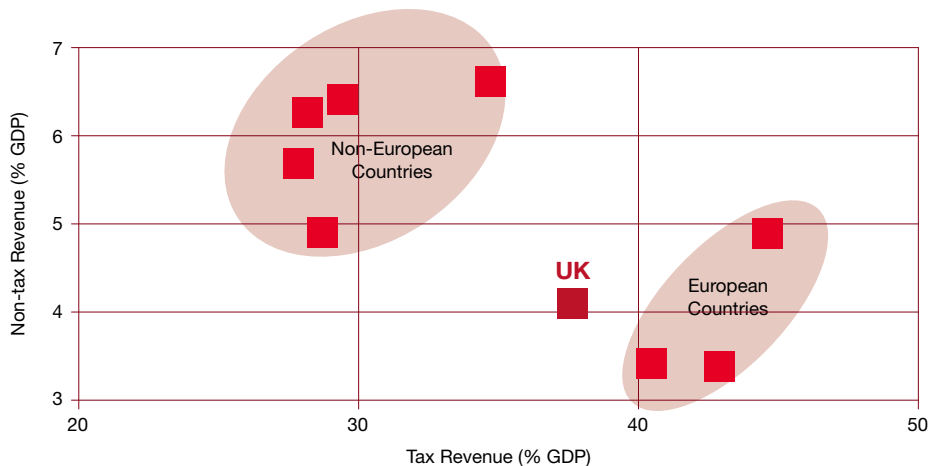
Why consider more charging?

Compared to other OECD countries, the UK raises a comparatively small percentage of total revenue from non-tax sources.

Figure 1 shows that, were the UK able to generate levels of non-tax revenue comparable to the non-European countries shown, an extra 1.9% of GDP could potentially be raised.

While the reasons for this difference in non-tax revenue do need to be explored in more detail, illustratively this would fill half of the fiscal gap.

Figure 1: Charging in other OECD countries



What is charging?

When we use the term ‘charging’, we are referring to items that are paid for directly by the user. Of course, nothing is free – citizens and businesses pay for government services through taxation if not through charges.

Citizens and businesses are already charged for many government services, as demonstrated in **Table 1**. These are not exhaustive lists, but they do give some idea of the areas where charging is already in place.

However, there is no consistency in the current approach. For example, many citizens pay at the point of use to see a dentist, while GP appointments are covered by general taxation. Similarly, there are often large differences in the amount different local councils charge for services. For instance, purchase of a memorial bench costs £575 in one South West local authority, but £1338 in another authority in the South East.

In the Midlands excess waste removal costs £17.50 in one authority, but in another London authority the charge is £73.50. Even within London itself the amount local councils charge for bedbug treatment ranges from £20 to £76.

There are also significant differences between the extent of charging by central and local government. Central government uses charging much less, but is not clear why this is the case.

Table 1: Examples of services for which citizens and businesses are charged:

Health	Education	Central government	Local government & transport
<ul style="list-style-type: none"> • Dentist • Opticians • Hospital car parks • Prescriptions • TV in hospital 	<ul style="list-style-type: none"> • Additional tutoring • School trips • After school clubs • School uniform • Nurseries • Tuition fees • School text books • School dinners • Transport to school 	<ul style="list-style-type: none"> • Royal Mail • Information/data • Passport applications • Immigration applications • Court fees and appeals • Protection of pension schemes 	<ul style="list-style-type: none"> • Congestion • Waste • Library fees • Planning applications • Parking • Leisure Centres

* All of the services listed are charged for in some circumstances, although some are provided free in certain areas, or to people who are exempt.

What might charging achieve?

There are, of course, many reasons for charging.

Charging can change behaviour

Charging has the potential to nudge people towards the 'right' behaviour. For example, if people were asked to pay for GP appointments, as happens in Sweden, they may be less likely to miss their appointment, or book unnecessarily.

Thinking twice about using GPs in Sweden

In Sweden, appointments with GPs are charged for. It costs £15 to see a GP (with a £90 annual cap), and an additional £2.50 if an appointment is missed by the patient. A refund is given if the GP is more than 30 minutes late.

Charging has encouraged people to think more carefully about how to manage their health needs, but has not put them off accessing healthcare.
www.vardguiden.se

Charging can reduce public spending

Government charging is also able to reduce public spending by lowering or shifting demand, if fewer people use a service because they have to pay. Road user charging in Singapore demonstrates this point well. Of course, this has its disadvantages as it may exclude people who have lower incomes, or place too large a burden on individual businesses.

Road user charging in Singapore

Before a person can buy a car in Singapore, they must bid for a Certificate of Entitlement (COE). The number of certificates is deliberately limited, therefore reducing the number of cars on the road.

On top of this, car owners are charged for using the roads. An Electronic Road Pricing (ERP) System charges different prices for using different roads at different times of the day automatically as vehicles pass under gantries. This charge shifts demand, as road users take cheaper routes, or travel at cheaper times where possible.

The COE and ERP were designed to reduce demand for using Singapore's roads, therefore decreasing congestion, and has been successful in doing so.
www.lta.gov.sg

Charging can raise revenue

As we saw in our comparison with OECD countries, charging has the potential to raise a significant amount of revenue. The Identity and Passport Service is one example of a central government agency using charging for this purpose to cover its costs.

British passport applications

The Identity and Passport Service (IPS) charges for passports in order to raise revenue. £77.50 is charged for a passport application. It is also possible to pay more for an enhanced service. Customers can use the check and send service at the Post Office which costs £8 and can also pay to have their application fast tracked – £35 for a one week service, or £52 for one day.

IPS does not make a profit from passport applications, but aims to break even.
www.ips.gov.uk

Charging can be fairer than tax

Charging can be seen as fair, in the sense that those who use a service more pay more, as illustrated by the Eurovignette case. However, it might be considered unfair if people cannot afford to pay, or they have no choice over the need for services – in these cases exemptions need to be considered.

The Eurovignette

The Eurovignette is a certificate purchased by heavy goods vehicles using motorways and toll highways in Eurovignette countries. The cost is £7 for a day and up to £1364 for a year.

Revenues help to offset the money spent on motorway/highway maintenance. This might be considered a fair method of charging, as those who use the roads more pay more towards their upkeep.
www.eurovignettes.eu

Charging can support market development

In addition there are a variety of reasons to charge related to market development.

Choice: Charging can support increased consumer choice, for example by giving people decision-making power over their level of consumption and the configuration of their service. This is one of the reasons behind the use of personal budgets in social care.

Encouraging markets: Charging provides a revenue stream which can make new business models feasible and diversify the risk to private and voluntary sector providers, as it means they are not relying solely on the government to pay for service provision.

Contestability and competition: The Government wants to encourage greater choice and competition, and allowing providers, such as universities, to charge different amounts for their services is one way of doing this. Increased competition and contestability could then drive down costs and improve quality by promoting innovation.

What does the public think?

A key input to the decision as to whether to charge is whether the public accepts the rationale for charging. We had the opportunity to test the public's attitude in a Citizens' Jury² last November.

A key finding was that the Jury was, in general, supportive of charging. This may have been partly because of the expertise and new information to which they were exposed. Expert 'witnesses' presented to the Jury, to develop their understanding of the current fiscal climate and the rationale for charging. This meant jurors saw charging as a way to deal with the fiscal deficit. The Jury also felt it could be used for other reasons such as creating behavioural and cultural change, which jurors believed is essential if we are to achieve a long term vision of a better, fairer UK.

It therefore appears that when members of the public are provided with clearly communicated information, given time to understand and clearly consider different options, they can be more supportive of charging than might otherwise be expected by policy makers.

Obtaining support for road user charging at the Citizens' Jury

The Citizens' Jury demonstrated that the public can be supportive of charging if the right 'deal' is offered, and if they understand it. This might mean introducing road user charging, coupled with lower fuel duty and lower car tax, for example.

The Jury were supportive of road user charging being implemented in this way, even though it meant that on average they would pay more overall. It would mean that those who used the roads more would pay more, and infrequent users would save money, which they felt would be fairer.

http://www.pwc.co.uk/eng/issues/dealing_with_the_deficit.html

After lengthy discussion around what should be charged for, when and how it would be fair to charge, the Jury arrived at the following criteria that they felt would need to be considered in order to establish a fair charging system for most services:

- 1. Proportionate across society – both in terms of income levels and also across individuals, businesses and other organisations.**
- 2. Protecting the vulnerable and those unable to care for themselves.**
- 3. Providing opportunities to pay for premium services to generate additional revenues.**
- 4. Providing clarity and transparency of information.**
- 5. Relating charges for non essential services to level of use, where possible.**
- 6. Using revenue from charging for a service, at least in part, to improve that service.**
- 7. Flexible with a variety of methods of 'paying'.**

² As part of our contribution to the debate on the tough decisions being faced by government in dealing with the deficit, PwC commissioned BritainThinks to convene two sessions of a Citizens' Jury. The participants were given time to absorb information, work with experts and deliberate in order to develop informed recommendations. The second Jury meeting in November 2010, looked at the Jury's reactions to the Spending Review, and focussed in detail on some specific policy issues, including charging (PwC's Public Sector Research Centre's 'Spending Review 2010: The Jury's Verdict', November 2010).

Challenges for charging

Charging for publicly provided goods and services raises a number of challenges that must also be considered. The solutions will depend on the reasons for the introduction of a charge.

Who will be charged and what for?

Public bodies need to find a way of charging that is fair, in that the most vulnerable in society are not excluded from services. Consideration will also need to be given to how the load should be spread across society.

Aside from issues of fairness, there are practical issues to consider when deciding what to charge for. Government must be able to clearly define the elements of a service for which to charge, so that there is no uncertainty over when a charge should be paid. There is also a need to select services for which consumption can be limited to those who pay (and those who are exempt from the charge).

What should the pricing structure and price level be?

The private sector uses all sorts of different models for charging. Mobile phone operators offer the choice of pay as you go and contracts with various bundles available. Budget airlines charge a price for a basic service and add charges for additional services. Government has a similar range of options, but more complex objectives that go beyond profit maximisation.

The pricing structure and level will depend on the purpose of the charge. If the government wants to raise revenue, the price must be set high enough to do so. If the aim is to reduce demand or nudge behaviour, then the price will need to be high enough to affect consumers' choices. Obviously though, this is constrained by considerations of fairness.

It is important to get the answers to these questions right. As the example of the day care centre in Israel shows, charges can have undesired consequences if not implemented correctly.

Setting the price level too low: Late fees for childcare in Israel

Day care centres in Israel introduced charging for parents if they were late to pick up their children. If parents were late they were charged \$3.

Charging was intended to reduce the number of people who were late to pick up their children.

However, attaching an economic cost to being late actually increased the number of parents who arrived late because they were happy to pay the fine (at that price), and no longer had the moral incentive of not wanting to feel guilty for being late.

Steven D. Levitt & Stephen J. Dubner, *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* (2005)

How will the charge be collected?

For every service for which a charge is levied there needs to be a mechanism for collecting money efficiently, and ensuring that those who are exempt or receive a discount do so in a straightforward way.

These mechanisms must be administratively easy to implement and not so costly as to negate the benefits of charging. Where some parts of a service are already charged for, such as paying for holiday vaccinations at the doctor, this might be relatively easy. However, where charging is new to a service, implementation may then not be so straightforward.

Conclusions

Charging could be used by government, not only as a means to raise revenue, but also as a means to help achieve other public service reform objectives. In our view:

1. Central government should actively consider charging more.

The current default position of most government departments is not to charge. There must be a move away from this. Of course there are important trade-offs and complexities, and not everything can or should be charged for, but the idea should not be dismissed without proper consideration.

2. Government needs to engage with members of the public to persuade them of the merits of charging.

It is often assumed that the public will not support charging. However, the Citizens' Jury showed that when members of the public are provided with clearly communicated information and given time to deliberate, they can be more supportive of charging than might otherwise be expected.

Our experience also demonstrated that offering the right 'deal' is very important. Similar considerations will apply where business or voluntary organisations may be charged for services.

3. Where there is a case for charging, or charging more, it is critical that thought is invested upfront, so that the charge is implemented in a way that works. There are a number of questions that need to be considered, including:

- Who will be charged and what for?
- What should the pricing structure and price level be?
- How will the charge be collected?

These are complex issues that need careful consideration before going ahead with charging, to ensure it achieves the desired effect. Still, if implemented correctly, charging could make a significant contribution to government's reform agenda, as well as helping to reduce the fiscal gap, and so needs to be more seriously considered than it has been to date.

About PwC

PwC has been helping government and public sector organisations locally, regionally, nationally and internationally for many years. We work with organisations across such sectors as diverse as health, education, transport, home affairs, criminal justice, local government, housing, social welfare, defence and international development. Our government and public sector practice comprises some 1,300 people who provide a range of consulting, assurance, tax and other advisory services sharing their thinking, experience and solutions to develop fresh perspectives and practical advice for our clients and their stakeholders.

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