The Potential of Local Authority Income – Power to Charge

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Local Government Income

- A long-term problem with LG income
  - local government dependent on only one tax
  - cost of services has risen faster than rates/community charge/council tax could bear
  - council tax is very visible and not at all stealthy
  - local government costs rise faster than local tax can be increased
  - central government unwilling to risk reform
  - no evidence public is enthusiastic either

Councils now depend heavily on Whitehall grants

- In late 19th century, grants were less than 5% of all income
- Gradual increase throughout early to mid 20th century
- By 1976, RSG = 66% of income
- After poll tax, AEF = 80% of income
- ‘Gearing’ now distorts link between spending and local taxation

Local tax capping

- Introduced by the Thatcher government in the mid-1980s
- Abandoned by the Blair government after 1997
- Re-introduced by the present government
- Limits the growth in tax to c4% per annum
- RSG also now rising slowly
  - and ‘damped’

Fees and charges have grown

- Relatively and absolutely…..
- Although there are services where charges cannot be levied, there are others where there is significant freedom
  - education - charges largely impossible
  - social services - charges often possible
- Councils have been able to increase income from fees & charges

Good reasons for fees & charges

- As a significant income source for councils
  - reducing pressure on council tax
- To provide services to a higher level than would otherwise have been the case
  - eg, improved highways funded by parking charges
- To provide services that might not otherwise have been provided at all
  - eg, leisure centres, swimming pools

Good reasons for fees & charges

- To allow ‘market signals’ to reach councils
  - eg, where the public really wants discretionary activity, and where it doesn’t
- To stimulate entrepreneurial activity within ‘public goods’, esp trading services?
  - seek new services where the public would be willing to pay, but where individual action unlikely
- To allow councils to take advantage of rising personal incomes

Good reasons for fees & charges

- To send signals about behaviour
  - eg, encourage people to waste less or to use their cars efficiently

Problems with fees & charges

- Increases are monopolistic
- Public may feel they are being made to pay for a service already paid for by tax
  - NB waste charging, road pricing
- May be regressive
  - though this effect can be reduced
- Like council tax, they are visible - and often impossible to avoid

Problems with fees & charges

- Income less secure and predictable
  - subject to changing economic conditions and trading success
- Trading risks being seen as unfair by private companies
  - which it may be….

Freedom to set fees and charges

- Yes and No…..
- Yes
  - TfL fares, congestion charge
  - Most charges for local services
- No
  - Council house rents
  - Some planning fees etc
- Freedom linked to councils' freedom to use resources more generally

Future uses and constraints

- Charging will continue to grow relatively and absolutely
- Growth should exceed real earnings increases
- Constraints will emerge as the public ‘feels’ more charges, especially during downturn/recession
- Central government may come under pressure to regulate or control charges

The ‘new economic order’

- Local government will almost certainly have to fund a larger proportion of local regeneration etc investment from now on
- Possibility of aligning use of charges with borrowing to deliver improvements via borrowing
- Councils may be able to exploit their reputation for servicing debt

Conclusions

- Fees and charges are an important part of local government's income
- There is a good case for fees & charges and trading
- But, they need to be used responsibly
- Public needs to appreciate why they are being used
- Politicians will have to explain this….

Conclusions

- Growth inevitable and could be used for behaviour-changing
- Again, need to explain and handle with care
- Fees & charges and trading could offer LG greater autonomy
- This, final, reason is a powerful argument for creative use of such sources….

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