

CHARGING POLICIES FOR LOCAL GOVERNMENT:

RATIONALE, PHILOSOPHY, PRACTICE

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ABSTRACT

This thesis provides a comprehensive examination of the potential for the increased use of charges for local government services. It eschews a simplistic aggregate market-based analogy, adopting instead a service by service approach which takes full account of service objectives. It avoids an overly descriptive approach and develops its own rationale and methodology. Practice can then be considered in a situationally relevant context.

Part 1 criticises economic theory's conception of the public sector and the distorted meaning of efficiency which results. The market-based analogy has led central government policy up a cul-de-sac where increasing centralism exacerbates the fundamental problems inherent in any system of collective choice, leading to increased central-local tensions and further centralism.

Part 2 provides an overview of the use of charges by local government and reviews charging methodologies previously propounded. Besides being arbitrary, they are methodologically deficient because they are based on incomplete analysis of individual and collective interests. They assume a clear delineation can be made between the collective / objective interest and the individual / subjective interest, tax finance for the former and user charges for the latter. A new methodology is proposed which synthesises individual and collective perspectives, namely customised value added services.

Part 3 applies the new methodology to a wide range of local government services, three in-depth case studies followed by more concise consideration of other services. Provision of physical structures (roads, schools and other capital facilities) is considered as well as services to identifiable individuals (leisure and recreation, housing etc). A consistent blend of theory and practice provides a policy relevant, evolutionary, incremental approach to a selective, sensitive expansion in the use of service charges. The overriding aim is to improve equity and increase access to improved quality of service, not simply to raise revenue nor to deter or ration use.

PREFACE

"What emerges clearly from the evidence on the structure and scope of charges within the welfare state is the complete absence of any coherent philosophy about their role" (Heald 1983 page 305).

This thesis attempts to rectify that omission by developing an appropriate rationale and a coherent philosophy for the use of charges by local government. It argues that the standard neoclassical analysis is seriously deficient and its recommendations totally inappropriate for local government service provision. That led to inherently inconsistent policies being adopted, most notably the introduction of the Community Charge. It is argued that this confused market and non-market solutions in attempting to constrain public expenditure which was not only thought to be increasing faster than the capacity of the economy to finance it but was thought to grow at the expense of the wealth-creating private sector. The economic problems of slow growth of national income, rising unemployment and inflation were increasingly seen as less a problem of insufficient demand for national output (where Keynesians would advocate increased public spending) and more a problem of insufficient private supply of the means of production (entrepreneurship, investment capital, economically active labour and marketable land).

From the newly-adopted monetarist perspective (defined in its broadest terms) the problem was one of too much public expenditure and the excessive levels of taxation and borrowing that it required. Whilst both theory and evidence are inconclusive, the Conservative Governments of the 1980s believed that high taxes and high interest rates deter risk-taking by firms and destroy work incentives for people. Local government was seen a major culprit in this scenario, accounting for up to a third of public expenditure during the late 1970s. Excessive growth of local government services arose (in this interpretation) because of fundamental deficiencies in public choice mechanisms. The Government thought that reform of local government taxation and a new grant system would put a brake on local government expenditure. In the longer term, however, the progressive introduction of charges for local government services was seen as providing the most effective means of achieving accountability and imposing restraint on spending. No coherent philosophy was offered except that private markets must necessarily be better than public nonmarket provision.

This thesis provides a critical review of the conventional distinction between private and public and the implications for the use of charges for local government services. It then develops its own charging philosophy and considers its practical implementation.

First, however, it is important to clearly delineate the parameters within which the thesis must fit. No attempt is made to develop a general philosophy of governance or management. A wide range of disciplines would have to be invoked for such an approach. Instead, the thesis is built upon a background informed by economics and attempts to transcend the limitations of conventional economic theory by taking account of the situational context of local authorities and their provision of services. The thesis is not a social science synthesis of local government. Such a 'big bang' approach would be inconsistent with the operational culture of local government and pre-empted by the short term planning horizon which it employs. Instead, the thesis is non synthetic and exploratory, concerned with the potential for incremental change consistent with the current policy making framework and service environment.

It has been noted that "few economists devote much time or effort to studying the mechanisms by which economic writings and research are translated into public policy ...Economists tend to view their professional role in the governing process as that of experts separate from politics, value judgements, and other subjective and normative factors." (Nelson 1987a page 49). Much the same can be said of academic economists and the attempt to remain neutral technicians inevitably makes economists irrelevant and ultimately excluded from practical policy matters. Nowhere is this more evident than in local government. Nelson argues that, despite their claims to be neutral, economists are partisan advocates of efficiency and he argues that they should accept that fact.

Economic theory makes the mistaken assumption that social values are determined exogenously and simply have to be articulated by policy makers. More realistically, social values emerge as part of a continuous, adaptive interaction between all participants to the public expenditure process. Economists should be part of that process, acting as zealous advocates of efficiency. It is in this context that all-embracing abstract economic models attaining the utopia of general equilibrium in a single bound will inevitably fail in their practical implementation. Changes will inevitably be introduced on an incremental basis in the light of

public discussion and the outcomes actually achieved, rather than those expected by economists. Economists have to campaign for efficiency, using many of the same tactics as other interest groups. Economic approaches should be policy relevant, sequential and adaptive rather than an abstract, single-stepped mechanistic model for the achievement of allocative efficiency. 'Big bang' solutions are simply not feasible. Reforms must be introduced gradually in order to limit the damage from any unforeseen outcomes or errors in the implementation process.

Qualitative arguments are more likely to be influential than overuse of technical, quantitative models. Common sense combined with careful thinking and intelligible writing, a knowledge of institutional detail, service environment, the historical, legal, political and cultural framework, are all required in order to make relevant recommendations. In this sense, economics is more of an 'art' than a 'science' in constructing arguments that policy makers can understand and find persuasive.

It is for these reasons that the thesis avoids an overly general abstraction of reality. It simply begins by laying a few ghosts to rest, namely that public services must necessarily be provided free at the point of use simply because they are public or because equity requires it. The apparent mutually exclusive distinction between private and collective choice is found to be both false and counterproductive in policy terms. Charging for services is neither inconsistent with collective choice nor with collective provision of services. Neither does it have any necessary implications for privatisation nor for market provision.

After outlining the rationale for charges within collective choice mechanisms (Part 1), the thesis develops a coherent philosophy for charging consistent with collective solutions (Part 2). That philosophy is then applied to the range of local government services, practical implementation taking account of differing service characteristics (Part 3).

The conclusion is that the widespread opposition towards increased use of charges is misconceived, firstly because it mistakenly associates charges with market systems and, secondly, because it believes that charges are necessarily counterproductive in terms of equity. The practical examples show how charges can be used as an integral part of service delivery, securing increased access to and availability of services to those for whom they are intended.

PART 1: RATIONALE

CHAPTER 1: ANALYTICAL FRAMEWORK

INTRODUCTION

Local councillors are elected locally to spend funds raised largely by the centre and this creates tensions of dual accountability. The result has been an excessive preoccupation with the reform of both local taxation and central government grants (paid to local authorities). The aim of successive reforms has been to improve accountability in the choice and delivery of services. This preoccupation with grants and local taxes has occurred despite the fact that Conservative Governments have regarded taxes and public provision as inherently undesirable compared with individual choices facilitated by prices in private markets. Whilst official government documents openly conceded the superiority of service charges linked to individual choice over levels of consumption, further progress on the issue has been desultory (Wilson 1991). By default, the result of successive reforms has been the increased centralisation of local government financing and a progressive narrowing of the local tax base.

These developments flew in the face of almost all academic comment on the issue, the overwhelming consensus being that the cause of the increasingly severe fiscal problems faced by local government was the very narrowness of the local tax base (reviewed in Bailey 1991 and 1992). The Government's emphasis on achieving accountability through various permutations of local taxes and central finances is seriously defective because the very nature of the problem has been misconstrued. Accountability has come to be synonymous with relating payment to voting rights or service use, whether by means of one or more local taxes. Much attention has been paid to the supposed distortions of local government choices caused by the prevalence of subsidies to service users which weaken the relationship between those who vote for, those who pay for and those who use local government services. This then leads, by implication, to the need to constrain 'excessive' levels of service provision, a quest which came to dominate the public expenditure debate of the 1980s.

In contrast to the successive reforms of grant systems and local taxes, there has been a long and largely unproductive debate concerning proposals for the increased use of charging for local government services. This reflects a general suspicion on the part of service users and providers that the intention is to curtail service provision and development, an attitude enhanced since the later 1970s by the repeated

attempts to cut public spending and roll back the frontiers of the State. The expansion of local government service provision during the post war period went hand in hand with the development of the welfare state and was largely (though not entirely) predicated upon a commitment on the part of successive governments to continued use of subsidies. Proposals for the increased use of charges are seen as renegeing on the commitment to subsidy and positively exploitative of service users in expecting them to 'pay twice' for the service, through both taxes and charges. Moreover, there is a general impression that the justification for most local authority charges is simply that they are easy to collect, rather than being based on any coherent rationale intended to promote service provision.

Previous attempts to provide a coherent rationale for the increased use of service charges have been poorly received by the generality of service users and providers simply because they have been based on an analytical framework analogous with market systems. This is particularly so in the case of the use of economic theory to determine the optimal balance between subsidies and charges, the recommendation always seeming to be to increase the levels of existing charges and to introduce completely new charges for services that were previously provided at no direct cost to users. Economic theory is often viewed as esoteric if not arcane, an abstraction from reality based on a multitude of untenable assumptions within an incomplete analytical framework. Not surprisingly, it often leads to conflicting policy recommendations and such contradictions are frequently exacerbated by the value-laden stances adopted by economists themselves. Economics is not a pure, objective, clinical science (if, indeed, such an approach were appropriate to the policy-making arena) and the prescriptions of economists are no more valid than those of other interested groups.

The lack of consensus about the role of charges for public sector services is often seen as the inevitable outcome of conflicting views regarding the equitable distribution of income. That distribution is affected by the provision of free or heavily subsidised local government services as much as by the levying of taxes on earnings and expenditures or the payment of state benefits in cash. Hence, any increase in the role of charging for local government services is often criticised on the grounds that it promotes inequity since the poor are assumed to make most use of these services. Those in favour of the increased use of charges often challenge this assumption, arguing that in fact middle and higher income groups receive the greatest benefits and that such groups are able to pay for services such as leisure and recreation, public libraries, public

transport and even education.

Economists usually seek to avoid equity issues, regarding them as judgemental, and economic analysis has singularly failed to resolve the apparent tradeoff between equity and efficiency. Neoclassical economic theory demonstrates that prices in unconstrained private markets are clearly superior to non market planning systems in achieving an efficient allocation of resources. Government intervention in the form of subsidy is only required where private markets fail to achieve such an efficient allocation. In other words subsidy is only justifiable in efficiency terms in order to counteract market failure. However, society may regard such an allocation of resources as unacceptable in equity terms and hence payment of subsidy may also be determined by political considerations. Political factors seem to outweigh economic efficiency considerations in determining the extent to which subsidies are paid in practice. The scope for increased use of charges for local government services is often regarded as strictly limited simply because they are public (rather than private) services, primarily provided to promote equity or satisfy basic human rights (eg access to school education or to information). Hence, the apparent irrelevance of economic theory in the area of local government service charges arises more because of the failure to define the nature of 'public' (as distinct from 'private') than it does because of the apparent deadlock between efficiency and equity.

THE NATURE OF PUBLIC

In the literature of subjects other than economics there is a pragmatic or commonsense view of the public sector. It is regarded as the outcome of historical processes and political compromise, an evolving organic institution which has changed in response to the imperatives of national security and in the light of changing social expectations regarding the welfare state and the appropriateness of collective action in an increasingly diverse and complicated economic system. Such a pre-theoretical interpretation of the nature of 'public' is not shared by neoclassical economic theory. Instead the nature of 'public' is determined purely on theoretical grounds and becomes an accidental residual of the failings of private markets to achieve an economically efficient allocation of resources. The need for public and collective action arises out of the limitations of private allocative processes and so economics has an essentially negative rationale for government intervention which is quite distinct from the more positive approach of other academic disciplines. It also suggests that the appropriate scale of government intervention will be reduced to the extent that government

policies are successful in promoting effective competition or to the extent that 'government failure' is greater than 'market failure' in responding to the expressed demands of private individuals.

The efficiency justification for government intervention is therefore based on two interdependent parts, first that markets fail to achieve an efficient allocation of resources and, second, that government intervention corrects rather than exacerbates the degree of allocative distortion. Both of these conditions must be fulfilled for intervention to be justified; failure in just one rules it out. In general, allocative efficiency requires the greatest possible output and the greatest aggregate benefit to be derived from the finite level of resources available to an economy. This will only be the case if a set of highly abstract marginal conditions are satisfied. Namely, it must not be possible to reallocate either productive resources (such as capital and labour) or the output which is gained from their employment so as to increase the level of economic wellbeing. Any reallocation which is necessary in order to satisfy this condition can almost always be achieved within the market system simply by using taxes and subsidies as required to adjust demand and supply. This is the theoretical rationale for government intervention which is provided by economics and the nature and scope of that intervention can, in principle, be determined by such technical criteria. Hence, in this analytical framework, the essence of 'public' is that it is merely the sum of actions necessary to correct private distortions.

Such a rationale for government intervention clearly does not explain much of what governments and the public sector do. Neoclassical economic theory provides at best only a partial explanation of the need for a public sector. Similarly any economic rationale for the increased use of service charges by local government set in allocative efficiency terms is also partial. It delivers a concept of 'public' (ie those activities which cannot be efficiently provided by markets left to their own devices) but it singularly fails to deliver a pricing methodology that can be applied in the public choice context of local government. This is because the essence of 'public' is not adequately theorised.

Moreover, economic theory also requires public sector decision rules to yield the same choices as would result from the aggregation of individual preferences. In other words public sector decisions should mimic those of private markets after allowing for any of the technical measures (ie taxes and subsidies) required to cope with market failure. If voting systems fail to adequately reflect the aggregate of private wants

then government failure becomes quite profound in that it is no longer simply a question of which institutional framework (private market or public sector) can deliver a particular output at lowest social cost. Now it is question about the legitimacy of providing particular (levels of) services. The economics of both public choice and public provision suggests that collective action is something of a disaster area. Opportunism and the pursuit of self interest in a calculatively rational way means that the users and providers of public services will always seek to promote their individual interests at the expense of the collective interest. Such behaviour ultimately leads to the inefficient and excessive provision of services which are of relatively low value. This will be exacerbated by the largely random decisions resulting from imperfect voting systems. The analytical framework utilised by economic theory yields a dismal appreciation of public and an overriding preference in favour of private markets where competition and prices can be relied on to avoid or minimise such distortions.

However, it could be argued that this perspective is the inevitable outcome of taking private maximising market activity as the natural order of things and then building the theoretical rationale for government activity on that foundation. In other words markets are natural, provide the most efficient institutional framework for the growth maximising allocation of resources, and everything else is a problem. But this is historical nonsense since private markets are a much more recent phenomenon than collective action. It also makes two questionable assumptions: that the driving force which pervades all of man's activities is the maximisation of economic materialism and that scarcity is a pervasive constraint on the availability of resources required to facilitate that maximisation. However, it is arguable that welfare is not directly related to one's ownership of resources (or property rights) and that psychological, spiritual and relational (distributional) factors are of greater importance. Moreover, the notion of scarcity is cultural rather than naturally given: it is the social, political and philosophical invention of classical liberal man.

On both a world and local scale the problem is not so much one of inadequate production but rather maldistributed output. In other words capitalism is based on an accumulative dynamic constrained by scarcity leading to the bias in favour of economic growth which only the private competitive market can deliver through specialisation according to comparative advantage and cost minimisation through markets. Economic efficiency is technical, mechanistic, free of cultural and institutional context and therefore claims to be the universal positive

science of economic behaviour. In fact orthodox economics has failed to progress from a highly sophisticated technical intellectual construct towards a more comprehensive and relevant model which combines the socio/politico and cultural contexts with economic constructs (Preston 1992). The acclaimed market model is also institutional nonsense since it is not markets per se which distribute resources but rather modern corporations acting within the constraints imposed by the market system. It can be argued that large corporations face many of the same organisational problems as governments, even if they are subject to a different set of constraints. The direct comparison of government with markets is therefore methodologically invalid and leads to a distorted set of conclusions which inevitably cast market systems in a favourable light.

It is instructive to invert the conventional approach of standard public finance textbooks which almost invariably begin with a demonstration of the primacy of perfectly competitive private markets in allocative efficiency terms and then demonstrate the special and restrictive cases in which government intervention is required. An alternative approach would be to attempt to adequately theorise the nature of 'public' which would yield a clear and unambiguous definition of what activities should be undertaken by the public sector according to the set of criteria derived. All other activities could, in principle, be left for private markets to provide. The problem then becomes one of whether market systems are competitive enough to deliver such outputs in an allocatively efficient way. In this approach it is the private sector which becomes the residual. The fact that markets could provide the service by means of the price system does not necessarily mean that they should do so.

In practice it is not possible to define the essential nature of public nor to draw such a clear dividing line between public and private. Nor is it possible to adequately theorise either one. But this is precisely what the standard public finance textbook does with the result that it both distorts the whole analysis of the public sector and also results in a presumption in favour of pricing public sector services, the rationale for subsidy being highly restrictive. Moreover, the emphasis on allocative efficiency results in a largely irrelevant set of pricing recommendations simply because the promotion of allocative efficiency is not the primary objective of local government service provision. Such pricing rules are only strictly applicable to situations where both local government and service charges are merely regulatory arrangements to provide a solution to the failure of uncontrolled markets to attain allocatively

efficient configurations of production and consumption.

Use of the term 'charge' rather than 'price' implies politico/administrative rather than market control in such a way that charges (and related subsidies) secure the publicness of the service. Economic theory consistently uses the latter term and allows public sector prices only to have a role in allocative efficiency terms and ultimately advocates relating prices either to costs of provision or to benefit received from the use of public services. The economic prescriptions for charges have ignored the public choice framework within which all decisions, including those relating to charges, must fit.

The efficiency rationale would select local government for the provision of services only if the net benefits of such an option exceeded all other institutional arrangements, including national or regional government as well as the free market. For the same reasons, economists have also been preoccupied with the optimal size of local government administrative areas in attempting to gain the benefits of economies of scale (which serve to reduce average costs as the scale of output increases). This perspective may be considered constitutionally inept. Local government is not only a regulatory arrangement. It promotes pluralism, participation and public choice as well as the provision of services, the so-called '4Ps' (Young 1988). These are not mutually exclusive roles. Local government's wide-ranging responsibilities for service provision are thought to be a considerable incentive in encouraging ordinary people to actively participate in public affairs, whether for altruistic or self-serving reasons. Both motives can be accommodated within the pluralistic framework of local government and both motives emphasise the need for effective mechanisms for the expression of collective choices.

It has long been argued (by John Stuart Mill and others) that government is concerned with the discussion of public ideas whereby democratic deliberation (or deliberative government) identifies and develops common interests in order to civilise the masses, constrain selfishness and promote the public interest (Reich 1987). One of the criticisms about introduction of the Community Charge ('poll tax') was the lack of time allowed for public debate (John 1989) and this appears to be even more the case for introduction of its successor, the Council Tax. The emphasis on deliberation has been superceded within economic analysis by the idea that the pursuit of self interest can be relied on to promote the public interest through the 'invisible hand' of market forces much more effectively than deliberative democracy. These ideas were developed

during the Scottish Enlightenment by Adam Smith and others and imply a minimal instrumental (rather than deliberative) role for Government which is restricted to controlling the abuse of market power.

The prevailing view underpinning economic theory is that all individuals (in both the public and private sectors) pursue their own self interest and that the collective interest is simply the aggregate of individual interests. The Government simply has to find this out in order to maximise welfare. This narrow, mechanistic view of 'public choice' economics contrasts with the wider meaning of 'collective choice' within which tradeoffs of conflicting interests are both inevitable and possible. Public choice theory identifies a democratic defect in that voting systems necessarily fail to accurately represent the aggregate of individual choices (see chapter 2). However, such problems arise from a misrepresentation of government which is not simply a vote-counting mechanism but is rather a dialectic forum in the Socratic tradition. Ideally governments are comprised of a set of individuals who can be trusted to take the right decisions and whose decisions may not in fact correspond to the aggregate or even to the majority of individual preferences at the time the decision is made.

There is clearly a different meaning of the nature of 'public' here compared to the narrower economic meaning which allows no deliberative role. This is despite the participation of economists themselves in such deliberation and development of ideas for the pursuit of the public interest and despite the obvious deliberative roles of accomplished political leaders. There is an overdependence of economic theory on static equilibrium analysis within the mechanistic framework of public choice and a failure to recognise the dynamic and interactive development of public ideas and collective wants and needs. There is also insufficient recognition of time, place and quality in collective choice processes. In the narrow utilitarian view there is no recognition of the continuous dialogue and critical evaluation of exactly what should constitute the public interest and, for this reason, the conventional approach of economics is sadly lacking.

Time and place are important influences on the nature of public and private and they make it impossible to determine a clear, categorical definition of each sector that will stand the test of time. Instead, the boundary between public and private is both fluid and hazy, not just in terms of interest but even in terms of ownership (Dunsire et al 1988). Victorian concepts of what was properly public differ quite radically from

those of today and reflect moral and paternalistic stances as much as what the country is thought to be able to afford in terms of the supposed tradeoff between equity and efficiency. These changing perceptions of what is public have led to the rather confused state of policy for many public services. The fact is that many services currently provided free by local authorities have their origins in Victorian times and are still largely predicated by the sets of socioeconomic circumstances and morals of that period. Many of the changes to the scope and financing of the public sector during the 1980s and early 1990s reflect a different moral view of the rights and responsibilities of the individual. This has been reflected in reforms of the welfare state in general and in reforms of local government finance in particular.

Two examples illustrate the point. First, the incoherent conceptualisation of exactly what constitutes public housing, how it is to be delivered and how it is to be financed has led to the current confused state concerning the determination of council house rents. There is a proliferation of rent structures many of which arise out of the failure to clearly differentiate public from private housing. Does publicness necessarily entail subsidy? Does it also involve concepts such as the quality and comprehensiveness of housing and related services as distinct from the provision of bricks and mortar? Does it relate instead to the characteristics of people occupying or eligible for council houses? What are the implications for rental policy? A second example is the nature of public library services. They were developed at a time of very limited access to books but today books are relatively cheap, widely available and there seems to be little differentiation between the types of books in public libraries and those in private shops. Whilst there are some differences in the characteristics of people frequenting public libraries and private bookshops, there are also many similarities. Why should one institutional form make free provision whilst the other levies prices?

The very identities of public housing and public libraries are 'under threat' as the nature of publicness and privateness has changed over time. There may still be a need for public libraries in rural areas and for children's libraries everywhere in order to facilitate access to books in both cases. But do affluent adults living in urban areas well served by book shops necessarily require free public libraries in order to ensure adequate standards of literacy, access to information etc? Does everyone have a basic human right to sports facilities, to public libraries, to council housing, to public transport or to any other public service? Does such a right necessarily require such services to be provided free or heavily

subsidised? In what circumstances do people have more of a right to these services compared with a right to a job, to adequate nutrition or to an environment free of pollution?

Whilst economics can be criticised for applying an inappropriate analytical framework to the public sector at least it has a conceptually clear framework and so has avoided the current confused and at times anachronistic thinking underlying current charging policy in the local government arena. The economic framework clearly needs modification in order to be made consistent with the context of local government. For example, economic theory defines both public goods and private goods in terms of their economic, rather than administrative, characteristics of rivalry and excludability (see chapter 2). Both are seen as highly abstract extreme cases and most outputs have elements of both sets of characteristics as well as being subject to other market imperfections. The distinction is based on technical characteristics, in particular whether or not the output is marketable. This is simply a feasibility requirement in that those outputs that can be efficiently provided by the private market should be so provided and those that cannot (eg because exclusion of nonpayers is impracticable) have to be provided by the public sector, either directly as service provider or indirectly as service facilitator or enabler.

However, this a necessary but not sufficient rationale for delineating public and private. Of those services which could feasibly be marketed by the private sector what other criteria are relevant to the decision regarding which sector should provide them, if at all? Economic theory neither determines whether a particular commodity should be provided nor at what level of output (eg nuclear defence or narcotic drugs). Nor does it demonstrate which sector should provide any output. What it does say is that under special sets of circumstances an allocative system based on highly competitive markets is clearly superior to a nonmarket allocative system if the commodity is to be provided. The reason is because the former has a more effective policing mechanism for driving out inefficiency, namely the threat of bankruptcy. However, whilst there may be a presumption in favour of market systems where they are technically feasible this does not exclude the possibility of such systems being employed by the public sector. The public sector is not necessarily completely synonymous with non-market allocative systems.

Both the public and private sectors require an institutional form in order to engage in production and distribution. In the private sector it is often the modern corporation. In the public sector it is government. There

are two relevant questions, not just why does government exist but also why do firms exist? The 'invisible hand' provided by the private market requires a corporeal entity to allow it to function. The choice then becomes an empirical question about which corporation (firm or municipal) is the most efficient in terms of resource costs. This is the fundamental question underpinning the privatisation debate in that it is often argued that nationalisation is less effective at securing the public interest than is regulation of newly privatised former public utilities. This is essentially an empirical question regarding the efficiency of different institutional forms, not of market versus nonmarket allocative systems. It is argued that political interference distorted both decision making and the policing mechanism within the public sector with the result that both management incentives and the policing function provided by the threat of bankruptcy or takeover were severely distorted or nullified. There is a presumption that the transfer of property rights to the private sector will reinstate such incentives and imperatives. Even if this is not strictly true, for example where a former public monopoly becomes a private monopoly, it is argued that the latter is easier to control by means of regulation. Such a perceived need for continuing control through a regulatory framework effectively admits the continuing public nature of the industry and the need to ensure minimum standards of safety, availability of service, quality of output, acceptability of tariff structure and so on. Publicness does not necessarily require provision by the public sector.

Hence the form of institution and the mode of intervention are crucial to the public - private debate. It is not just a question of which sets of abstract criteria give a particular service publicness or privateness, it is also an empirical question regarding the efficiency of the particular alternative organisational forms which could be used for service delivery. The major public utilities such as gas, electricity and water are no less public and no more private simply because ownership rights have been restructured by privatisation. All continue to have the essence of publicness in that they are crucial to the wellbeing of the nation's citizens. The same could be said for other services such as leisure and recreation, education and health irrespective of how property rights are organised. Publicness is not the sole prerogative of a particular set of services, it is simply a concern for access and quality which goes beyond the purely selfish needs of the individual. It implies some form of deliberation about what is proper rather than simply assessing what the populace of consumers demand.

The nature of public is therefore not defined in terms of a particular set

of service characteristics (the approach adopted by economics). Nor is it defined on the basis of services being on the 'commanding heights' of the economy (a phrase used to justify nationalisation). The nature of public is not to be found in either technical or relative criteria. Rather the nature of public is the need for deliberation and reconsideration of the appropriateness of uncontrolled outcomes. On the one hand the nature of public is conceptual and abstract and crucially dependent on the particular set of socioeconomic conditions and the moral values which exist at any one point in time. On the other hand the nature of public is also pragmatic and institutional and depends on technological and organisational imperatives. Public is not simply that which cannot be private. Nor does public necessarily require a complete rejection of the market system for a particular set of services in whole or in part. Nor does public require public ownership as distinct from control. Nor does it deny the use of charges.

Hence the belief that public services are in some sense distinctive, sacrosanct and should therefore be free at the point of use has no legitimate analytical base. Rather, continued subsidy is usually justified in terms of initial endowments, ie that those people who have received services free in the past should continue to do so in the future. Or that since services have been provided free in the past they should continue to be so provided, even to future users whose circumstances may be radically different from those of previous users. Or that charging for services would in some way destroy their very publicness. Or that free services in some way promote democratic decision making, enshrine constitutional or God-given rights or are essential to the fulfilment of a meaningful life. None of these rationales has any intellectual base in terms of the nature of public. Instead they are based on custom and practice and this is the real objection to the increased use of charges, simply that the major local government services have almost exclusively depended on tax-financed support. There is of course a legitimate concern for the welfares of those service users who would be adversely affected by an indiscriminate move towards the increased use of charges. However, this does not preclude consideration of charges where they promote rather than detract from service objectives. It is those objectives (implicit or explicit) which encapsulate the nature of public, not the form in which the service is organised nor the way in which it is financed.

Individual/private and collective/public actions are not necessarily mutually exclusive. Hirsch (1976) argues that the familiar dichotomy between individual and collective provision is false because an

increasing proportion of consumption in developed economies has a public or social aspect rather than an individual aspect. The beggar-your-neighbour approach of economic liberalism leads to frustrated competition because what one can achieve, all cannot. With increasing congestion of private markets and the scramble to keep ahead of others, private behaviour loses its advantage over collective behaviour in satisfying individual preferences. Hirsch argues that self interest only operates effectively in tandem with some supporting social principle, as recognised by Adam Smith and John Stuart Mill. Such built-in restraints are derived from morals, religion, customs and education. Reisman (1990) adds sentiments, sanctions and formalisation. These serve to constrain 'free riding' by requiring individuals to obey the spirit as well as the letter of social rules and so connect individual and collective rationality.

Publicness is simply a collective concern for quality and availability of service. Whilst deliberative government denies the primacy, naturalism or superiority of unconstrained markets it does not suggest an inherent conflict between publicness and charging. What it does suggest is that the perceived conflict between allocative efficiency and equity as the descriptor of the public-private split and the consequent rejection of increased use of service charges is false. The preoccupation with efficiency and equity issues has led the debate down a cul-de-sac Rather than analysing potential local government service charges in terms of the extent to which they promote allocative efficiency or equity, it is more productive to analyse them in terms of whether or not they promote the publicness of services by enhancing quality and accessibility. This is the analytical framework adopted for the analysis in subsequent chapters. First, however, it is instructive to illustrate the enormous policy confusions which have arisen from the adoption of the neoclassical economics analytical framework and hence assess the potential contribution of the alternative proposed in this thesis.

INAPPROPRIATE ANALYSIS: THE FAILURE OF THE POLL TAX

The concept of incentives has underpinned many of the public sector reforms during the 1980s and early 1990s, ranging from taxation to social security and from privatisation to deregulation. The rationale for replacement of the local domestic property tax ('rates') by the poll tax in 1989/90 was based on both equity and incentives. The incentive component relates to the widened tax base and the incremental costs of locally determined expenditures. The poll tax attempted to make every voter aware of the costs of voting for higher levels of service provision

by requiring every resident adult to bear some of the costs. The Government regarded this as more equitable despite the predicted and well-documented impact of the poll tax on low income groups and problems of principle, practice and implementation (Midwinter and Mair 1987, Bailey 1987 & 1988b, Smith 1988c). It was argued that too many people who both used local government services and could vote for increased provision were making an inadequate or even no local contribution through the former property tax. Payment for services was neither related to their costs nor to the benefits they bestowed upon users.

Increased accountability seemed to mean reduced expenditure (Martlew and Bailey 1986 & 1988, Smith and Squire 1986, Ward and Williams 1986). The fiscal incentive of the poll tax to exercise discretion when voting was strengthened by the lump sum nature of both intergovernmental grants and of the revenues from the local business tax. This meant that voters had to bear all incremental costs arising from local discretion over service levels. However, an individual's take-up of service provision depends on the balance between personal benefits and personal costs. For those groups facing increased local tax costs as a result of the substitution of the poll tax for domestic rates there were two options (ignoring evasive nonpayment). First, they could themselves vote for expenditure reductions and also attempt to persuade the majority of other voters that a reduction in service levels, and therefore local tax, costs would be worthwhile. This would have little chance of success because any tax reduction would be so widely spread that personal savings would be small whereas service reductions would, by their nature, tend to be concentrated on particular groups of people. If voters are generally risk averse then they will be unwilling to risk a potentially substantial loss for a small certain gain. This would even apply to some services which they do not directly use themselves, namely where there is an option to use them should the need arise. Examples are school education (for voters who intend to start families in the near future), care of the elderly (for those families with ageing parents who may need care at some point in time) or police protection (for those who feel at risk).

Secondly, they could attempt to seek compensation for their higher local tax costs by seeking to increase their consumption of local government services. The demand for local government services depends on tax levels actually paid by individuals relative to both the benefit of service received and the previous distribution of tax liabilities. The redistribution of local tax burdens upon introduction of the poll ta

generally made more affluent households better off and low income households worse off than they otherwise would have been under domestic rates. This could be expected to lead to a preference for higher levels of service on the part of high income groups (since the average cost to themselves has fallen) and also a demand for better services in poorer areas (now that they are paying the same as higher income groups). Previously, property tax liabilities depended on the rental value of the property occupied by the local tax payer. Such values tend to be lower in rural areas than in urban areas and lower in deprived urban areas compared with affluent suburbs, even within the same local authority. If lower property tax payments are positively associated with lower service levels on an areal basis, replacement of that tax with a flat rate poll tax is likely to lead to demands for uniformity in service levels.

Hence, a more uniform poll tax increases (rather than reduces) the incentives for service expansion. This rather unexpected result arises because of the failure to compare the new tax system with the one it replaced within a collective or group perspective. The analysis of the 1986 Green Paper which proposed the poll tax (Cmnd 9714) was set in terms of individual/private market rather than collective/public nonmarket incentives and so, not surprisingly, it concluded that an increased coverage of local tax liability would necessarily result in increased fiscal restraint. This individualistic, market perspective also underpinned the 1986 Widdicombe report's conclusion of a lack of relationship between those who vote for, those who pay for and those who use local services (Cmnd 9797). The whole concept of group or collective behaviour was ignored and this is what made the official name for the poll tax so ironic, namely the 'Community Charge'. In fact the rationale for the tax was almost totally lacking in any concept of community or collective behaviour. Its basic premise was that people would respond to the change in tax liability much in the same way that individuals respond to changes in market prices, ie that demand is inversely related to price. This market analogy was misplaced in contradicting rather than complementing the set of incentives found in collective situations and it led to the introduction of a set of wholly inappropriate policies.

The main point being made here is that the very nature of collective choice provides a structure of incentives which will remain the same irrespective of the nature of the local tax. As long as collective financing is combined with individual and rival consumption of services any tax reform at the local level could not achieve the expenditure constraint required by central government. This applies as much to local income

or property taxes as it does to a poll tax. The rationale for the poll tax failed to incorporate this fact into the logic of its analysis. In fact, instead of widening the spread of local financial liability through the poll tax, the opposite course of action was required, namely relating extra payment to additional use of services. This policy error arose because of the preoccupation with a tax-based solution and the confusion of collective decision making with collective consumption of services. Consumption is on an individual basis irrespective of whether or not there are benefits to other members in the group.

Hence, it is not self-evident that the widening of the local tax base would necessarily lead to expenditure restraint on the part of voters. This would only be the case if those services were provided under market conditions and all decisionmaking, consumption and payment was undertaken on an individual basis. In other words the poll tax would have to be perceived as a price or charge directly related to service use rather than being seen as a compulsory flat-rate tax unrelated to take-up of services. Perhaps this explains the Conservative Government's reluctance to accept the popular pseudonym 'poll tax' and its strenuous attempts to make the official name 'Community Charge' stick.

The official view was that the payment was to be interpreted as a pseudo market price which voters were free to respond to by voting for service changes just as they would express demands for goods in private markets. Perhaps the Government lacked the courage of its own free market convictions in that, whilst it believed that only unfettered markets can promote efficiency it was not willing to risk the political consequences of the dismantling of a substantial proportion of the welfare state and its replacement with market forces. In this sense the poll tax was an unsatisfactory compromise on all counts, methodologically suspect, highly unpopular and probably non-implementable in practice. Add to this the inbuilt interests of local councillors and officers to avoid service reductions and to promote service improvements and it is most unlikely that the outcome would be spending cuts.

These problems had plagued earlier attempts to adopt pseudo market solutions based on the idea of minimum standards. This approach requires central government grants paid to local authorities to be sufficient to finance minimum levels of service provision which must be made available to the community as a whole. Thereafter, local authorities requiring higher standards must fully finance them from the local tax. This concept was introduced into the system of

intergovernmental grants during the 1980s whereby grant payments from central to local government were initially tapered (ie fell as a proportion of successive increments in expenditures) and subsequently became fixed lump-sum amounts (Bailey 1988a). Both of these grant mechanisms increased the local taxpayer cost of incremental expenditures. However, there was no attempt to formally define minimum standards; the new grant arrangements were simply grafted onto the previous system of local government finance. The only significant difference was that the poll tax spread the coverage of those incremental costs. Both sets of reforms maintained the emphasis on financial solutions.

Neither voter behaviour nor the budgeting strategy of local authorities would necessarily be changed, either as a result of the substitution of one local tax for another or because of changes to the grant system. A precondition of any successful reform of the structure of incentives is that it must change the behaviour patterns of the participants to collective decision making. The introduction of the poll tax may simply have been the outcome of frustration on the part of central government since earlier reforms of grant systems, which had also attempted to increase incremental tax costs, had failed.

CONCLUSIONS

The nature of 'public' is dependent on the particular set of values, socioeconomic circumstances and technological and organisational imperatives existing at any particular point in time. Hence, public services cannot be defined in terms of a particular set of characteristics which necessarily mean that they must always be in the public sector and that they must always be provided free at the point of use. Publicness is simply a collective concern for quality and availability of service and these characteristics, together with the perceived need for the service itself, are not immutable.

The analytical framework provided by economic theory has been seen to be seriously defective in that it only allows a passive instrumental role for government (acting as a safety net for market failure) rather than the proactive, deliberative role which accords with reality. The nature of public is determined by the failings of private activity and public and private are seen as mutually exclusive alternatives rather than as being heavily interdependent.

The overemphasis on allocative efficiency led to the mistaken attempt to apply market-type solutions to the perceived problems of the provision and financing of local government services, a failure to recognise the constraints imposed by collective choice mechanisms and a preoccupation with tax solutions. Proposals for the increased use of charges-usually take little or no account of the context and broader objectives within which local government operates. The deadlock in the charges debate is attributed to the apparent conflict between equity and efficiency but in fact the major problem is the failure to adequately theorise the nature of public. Rather than analysing potential local government service charges in terms of the extent to which they promote allocative efficiency or equity, it is more productive to analyse them in terms of whether or not they promote the publicness of services by enhancing quality and accessibility. This is the analytical framework adopted for the analysis in subsequent chapters.

The increasing complexity of markets and wider context within which they operate require more than just a laissez faire approach. The state creates and sustains markets. Politics and economics interact in modern societies. The form of this interaction requires a more detailed examination of collective choice in chapter 2.

CHAPTER 2: THE DIFFICULTIES OF COLLECTIVE ACTION

INTRODUCTION

Chapter one argued the case that local government is first and foremost a political institution and an essential part of the British democratic system. It promotes public discussion, pluralism, participation and public choice as well as providing services. Local **agencies** would only be responsible for the last whereas local **government** has all five roles. It is misguided to consider only one or two of these '5 Ps' to the complete exclusion of the others. Nonetheless, during the 1990s successive Conservative Governments emphasised the failings of local government in terms of both the claimed inefficiency in service delivery and the inherent bias towards over provision due to the failure of public choice mechanisms. This chapter concentrates largely on public choice concerns and demonstrates that, even ignoring the lack of consideration of the other '4 Ps', there were fundamental methodological flaws in the Government's analysis.

This narrow approach to the contemporary problems of local government was crystallised in the very title of the 1986 Green Paper "Paying for Local Government" (Cmnd 9714). It identified a mismatch between those who voted for, those who paid for and those who used local government services and argued that it encouraged over-expansion of service provision. Too few people paid the local tax and non-payers could vote for higher levels of service without having to bear the financial costs. The perceived solution was to make as many voters as possible pay the Community Charge which now finances all of any discretionary increases in local spending. Electors are thereby supposedly encouraged to make sensible choices about the level of local spending since they have to bear the fiscal consequences of their voting decisions.

There appear to be two conflicting analyses here. It is usually argued that private markets would tend to make inadequate provision of most local government services whilst the Government's analysis suggested public overprovision. Hence, it is necessary to briefly examine the concept of market failure before going on to look at the problems of public choice mechanisms. This analysis then develops a coherent rationale upon which a methodology for charges can be built.

THE RATIONALE FOR SUBSIDY AND PUBLIC PROVISION

As noted in chapter 1, economic analysis is often used to justify government intervention because of the failure of private markets to achieve an efficient allocation of resources. Left to their own initiative, individuals would tend to make inadequate provision of many of the services currently provided by local authorities. For example, consumers may undervalue the personal benefits of education in terms of the increased future earnings potential which it yields, the 'merit goods' case. They may also undervalue the benefits to society in terms of the increased productivity arising from a well-educated work force, the 'external benefits' case. Similar considerations apply to public libraries, proper disposal of refuse and so on. In such cases socially optimal consumption levels can be encouraged by subsidising provision of the service from general tax revenues so that service take-up increases and/or by making consumption compulsory (eg school education).

Only in a very special case should there be 100 percent subsidy of costs with zero charge. This is the case only for pure 'public goods'. These are defined in terms of their economic characteristics where it is impossible to prevent a person gaining access to the benefits of the service and where that person's use does not prevent anyone else from benefiting from it. Private goods are both excludable and rival in consumption. Examples of local public goods are said to be street lighting, information provided by public libraries, proper refuse disposal, law and order etc. In these cases no one individual has any incentive to pay for the service as (s)he can benefit freely if someone else finances its provision. But nobody else will provide it because it is impossible to recover costs through a charge.

It is conceptually possible to ensure voluntary action by means of 'assurance contracts' where individuals agree to support provision of a service on the grounds that the pledge will only be enforced if there are sufficient such promises of financial support to make the project feasible (Schmidtz 1991). The problem here is that the transactions costs involved in enforcing such contracts would be prohibitive in most cases. For example, 'free riders' understate the benefit of consumption of public goods in order to minimise payment so that it would not be possible for a private producer to draw up contracts to enforce payment prior to production of the public good. Hence, in practice, collective organisations are unlikely to form and continue to exist without an element of coercion such as compulsory local

government taxes. A rational solution is for the public good to be financed by the State from taxation.

But this analysis is insufficient. It only justifies subsidy if it is first decided that a public good is to be produced. It is solely concerned with technical reasons for market failure and leaves unresolved who actually decides upon the appropriate levels of consumption of public goods, merit goods and private goods with externalities. Moreover, the concept of public goods ignores the means by which the service is delivered. Local residents in a particular street may prefer to install decorative (rather than basic) lamp standards and to a higher level of lighting than is deemed necessary for pedestrian and vehicular safety. If such preferences are catered for then it would appear reasonable to expect the benefiting residents to contribute (in full or in part) towards those extra costs. Similarly, there may be joint provision of public and private goods which may allow the private financing of the former without distorting allocative efficiency. For example, a toll road with lighting can simultaneously recover both the costs of the road as well as those of the lighting through the toll. It would not be justifiable in allocative efficiency terms to raise a toll only for the former and require taxes to finance the latter, simply because the benefits of both are now excludable.

In addition, most local government services are not in fact pure public goods in that they have elements of rivalness (eg a congested road or park) and they are excludable in practice (eg entry to sports facilities) or in principle (eg entry to a road). Hence, according to these economic characteristics, such private goods should only be partially subsidised if an efficient allocation of resources is to be promoted. Attempts to justify the free provision of local government services on these economic, allocative efficiency, grounds are therefore misguided and demonstrate a basic misunderstanding of the theory. The appropriate level of subsidy (and therefore the balance between subsidy and charge) depends on the size of external benefits and the degree of undervaluation of personal benefit. These are difficult if not impossible to measure in practice but the greater they are, the larger is the required subsidy. Subsidies and charges are therefore complementary rather than mutually exclusive. To employ both these means of financing services does not mean that people are being unfairly asked to pay twice, a common criticism of proposals to introduce new charges for public library services.

Note that both public and private goods are defined in terms of their

economic, rather than administrative, characteristics. Whether they are in fact provided by the public or private sector is irrelevant in this context because the service is assumed to be identical whichever sector provides it. Subsidies (whether for allocative efficiency or equity reasons) do not in themselves require public provision but neither do they necessarily preclude it. The fact that the economic characteristics of a commodity mean that it is technically capable of being provided by the market does not necessarily mean that it must be so provided. It is arguable that public services are manifestly different from any form of private service. In other words, the comparison is not of one service (eg school education) with alternative forms of provision but rather two fundamentally different services (eg state and private education). In other words, there may be a categorical difference between some public and private services. Even where services are identical, it could be argued that some must necessarily be provided by the public sector (and possibly made compulsory) because of the difficulties in enforcing contracts.

Market failure is relative rather than absolute and public goods, merit goods and externalities are examples of a more general economic phenomenon, namely 'transactions costs' (Williamson 1986). These costs are incurred in attempting to establish and enforce property rights and the financial liability for use of a service. Property rights allow the owner exclusive rights to decide use of an asset, to obtain the income from it and to transfer those rights to others. The costs of fully defining and enforcing property rights would be excessive so that contracts will always be incomplete. In this sense the non-excludability and non-rivalness characteristics of pure public goods are merely more general examples of obstacles to market exchanges that discourage transactions. Hence, free-standing concepts such as public goods are unnecessary and the need to finance them fully from taxation has been challenged (Cowen 1988). The transactions cost approach does not lead to a simple rule of thumb about the means of providing and financing particular services. Some services may be more efficiently provided by the private sector and, for those remaining in the public sector, it does not automatically follow that user charges (full or part) are inappropriate.

Transaction costs may justify the provision of particular services by local government where 'bounded rationality' and difficulties of contract enforcement facilitate 'opportunism', one party to the transaction exploiting these contractual ambiguities and difficulties of

enforcement to their own advantage. Opportunism may be further facilitated by 'asset specificity'. The resources used by a supplier in the provision of an output may be highly specific and so not easily redeployable. This causes the seller to become heavily dependent on continuing purchases by the buyer in order to recover the costs of the original investment. It may also cause the buyer to become highly dependent on a single supplier. Hence the two contracting parties become locked into a bilateral exchange. However, contractual mispecifications and ambiguities will encourage opportunistic behaviour on both sides, leading to joint losses.

This encourages internalisation of market functions within the modern private corporation in order to ensure property rights and to avoid opportunism. Modern corporations are therefore efficient 'governance structures' for highly idiosyncratic and recurrent exchanges where the human and physical assets used in production of the service are very specialised and transaction-specific. Markets are best suited to non-specific, standardised, one-off or short-term transactions involving little uncertainty and where property rights can be clearly established by the legal system. Hence transactions costs economics shows the limitations of the 'invisible hand' in promoting pursuit of self interest through an unplanned market system. The modern private corporation is a planning mechanism and, where transactions costs are high, private interest is best served by the collective interest within the modern corporation. Of course, some private corporations, may be formed primarily for uncompetitive reasons and the extent of transactions costs is an empirical question. Nonetheless, high transactions costs will lead to market failure even if the output is a private good.

The transactions cost perspective suggests that local government is also an efficient governance structure for particular services. There are certainly many examples of bounded rationality, asset specificity, difficulties in defining property rights and scope for opportunism in many of the services currently provided. Bounded rationality occurs where the individual and societal benefits of eg education are unquantifiable. Asset specificity occurs in the form of highly trained labour (eg police officers or teachers) and highly specific assets (eg land-fill sites for refuse). Property rights in the form of entitlement to levels and quality of service are rarely specified (eg admission of infants to nursery schools or a given standard of secondary school education). The extent of transactions costs is therefore crucial in ensuring the availability and quality of services. Hence, the concept of

transactions costs interacts with the nature of public (discussed in chapter 1) to provide the rationale for public provision rather than simply subsidisation of private provision.

The transactions cost rationale also suggests that some services should not be provided in-house at all because the market is a more efficient governance structure. Compulsory competitive tendering and the contracting out of cleaning, catering, refuse collection, grounds maintenance and other similar services can be justified in transaction cost terms because these services display little in terms of asset specificity, bounded rationality, indefinable property rights or bilateral exchange. Indeed, where services are not categorically different in the public and private sectors, whole services may be more efficiently provided by the private market, eg some sports, leisure and recreation facilities. Technical arguments are, of course, an insufficient explanation of the services currently provided by local government in that the actual framework of provision is more the outcome of political, historical and institutional factors, underpinned by equity (rather than by technical) issues.

FRUSTRATION OF THE PUBLIC INTEREST

Whilst subsidy and public provision are often seen as the solution to the problems caused by market failure, the payment of subsidy and in-house provision of local government services creates a further set of problems. These relate to the frustration of the public interest due to distortions caused by intergovernmental transfers and other implicit subsidies, due to behavioural problems and due to collective decision making problems.

(1) DISTORTIONS IN SUBSIDY SYSTEMS

The rationale for subsidy is the supposed tendency to undersupply services. However, the precise way in which the subsidy is paid is important because it may encourage excessive service provision. Central government pays grants to local authorities in order to stimulate provision and to equalise the cost of a given standard of service provision for affluent (high taxable resources and low need to spend per capita) and deprived (low resources/high need) authorities. However, it creates a quandary for a central government wishing to constrain spending. Since it reduces the **average** local taxpayer cost, it may overstimulate the provision of services (an income effect). The perceived solution during the 1980s, was to increase the local taxpayer

contribution towards **incremental** expenditures (a price effect) in order to avoid open-ended grants whilst still achieving relative equalisation at the differing levels of expenditure determined by local authorities themselves. Initially, these marginal grant rates were usually positive (ie more spending attracted more grant but at a diminishing rate) but they became increasingly negative (ie grant was withdrawn for overspending against centrally assessed need to spend). This brake on local spending was supplemented by a separate system of expenditure targets based on actual spending in the previous year, expenditure above which led to punitive grant reductions. These penalties effectively destroyed the equalising nature of the grant system (Bailey 1985 and 1988a and NAO 1985).

The result of these complex grant mechanisms was that there was no clear, simple and stable relationship between increased spending and increased local taxes. This link was destroyed by changing marginal grant rates, grant penalties and also by cuts in the overall share of grant in the aggregate of local government spending. Moreover, creative accountancy flourished as local authorities tried to avoid grant penalties by redefining accounting costs (see chapter 4). Hence the local tax payer-voter was left with no clear perception of the true local tax costs of increases in service provision.

Besides problems created by the subsidy system operating through intergovernmental grants, the Conservative Governments of the 1980s took the view that the main problem was the implicit subsidy of many voters caused by the incomplete coverage of the local tax. The former property tax necessarily created a lack of relationship between those who vote for, those who pay for and those who use local services. Only householders were legally liable to pay domestic rates and about a third of those received full or partial rebates during the mid 1980s. Moreover, local business financed more than half of total rate income on average and yet had no business vote. Hence, the whole system of local government finance was riddled with subsidy from both national and local taxes. There was arguably an in-built tendency for local electorates to vote for ever higher levels of local government spending in the belief that someone else would pay for it. This bears a close resemblance to the thesis that progressive tax systems have historically led to excessive public expenditure at all levels of government because of the "method of taxation that encourages the belief that the other fellow will pay for it", namely the rich (Hayek 1979 page 52).

The Government's solution was to remove this irregular pattern of subsidy by requiring every adult to pay local taxes and make tax bills reflect local spending decisions. "Local accountability depends crucially on the relationship between paying for local services and voting in local elections...In addition to bringing the tax base more closely into line with the electorate, however, the new arrangements must also ensure that taxpayers can see a clear link between changes in their authority's expenditure and the corresponding changes in local tax bills" (Cmnd 9714 paragraphs 1.52 and 4.3). This required reform of the whole system of local government finance. The domestic property tax was replaced by the Community Charge. Business rates were nationalised, converted into an assigned revenue and paid to local authorities as a fixed lump sum. Grants also became fixed lump sum payments, replacing the earlier system of marginal grant rates. Hence, equalisation was to be achieved only in terms of a fixed level of spending.

Virtually all voters now bore the financial burden of voted-for increases in spending since the Community Charge rebate and exemption schemes were very limited indeed. This provided a financial incentive for voters to be better informed about budgetary options since the cost of being inadequately informed was the higher local tax bills caused by politicians attempting to appease pressure groups upon whom they depend for votes. However, the only way in which changes in local spending can be clearly linked to changes in local taxes is if they raise 100% of the revenue required to finance total spending, as distinct from incremental expenditure. Grants will inevitably change from year to year due to changes in the aggregate share of grant, in the measurement of expenditure need (eg as demographic and socioeconomic circumstances vary), in the method of expenditure needs assessment and because of the interaction with the local tax (Bailey 1989). Distorted signals to local taxpayer-voters are inevitable under any grant system and the local tax payer contribution will be bound to vary irrespective of changing service standards.

Moreover, given the small proportion of total income derived from the poll tax, any relatively small shortfall of grant or business rate revenues had magnified 'gearing effects' on tax levels (Bailey 1991). For example, if an authority raised 20% of its income from the Community Charge, a combined fall of 1% in central revenues (if, say, inflation of local authority costs was underestimated) required a 4% increase in the tax if spending was to be maintained. Similar gearing

effects occurred if the Government underestimated a local authority's need to spend. If the same hypothetical authority chose to increase its level of expenditure, then even a tripling of the local tax only increased total current spending by 40%. This gearing effect will remain in place under the Council Tax and creates too strong a link between voting and local taxes, tightly drawn budget limits serving to excessively restrain public spending because each category must compete with other public expenditure programmes (Le Grand 1991). Alternatively, such restraint may continue to be frustrated by behavioural and decision-making problems.

(2) BEHAVIOURAL PROBLEMS

The view that Governments (national or local) are protectors and promoters of the 'public interest' is rather too idealistic. The various parties to the public expenditure process may pursue their own self interest at the expense of the public interest. This behavioural problem would be limited if there was a competitive market created by local municipalities where individuals are free to move to that authority providing the preferred package of local taxes and service outputs (Tiebout 1956). There would have to be stable differentials in local tax and expenditure packages amongst a large number of local authorities which are fully appreciated by readily mobile households and which local jurisdictions attempt to attract in order to minimise the average costs of service provision.

However, local tax and expenditure packages are a relatively small influence on residential location (compared with say availability of employment, family ties etc). Moreover, diversity of local tax and expenditure packages has been limited by the equalising objectives of the various intergovernmental grant systems and there is a strong national government influence on local expenditure (both totals and mix). Such diversity is further constrained by the high gearing between local expenditure increases and local tax levels described above. Furthermore, popularity of particular authorities may lead to rising property values, choking off such relocation (Oates 1969). This would particularly restrict movement of the lower income groups, as would the general lack of transferability of tenancies within in the public rented sector and the very small size of the private rented sector. Not surprisingly, there is little evidence to support the Tiebout hypothesis of municipal competition (McKay 1985, Stein 1987).

It is clear that competition between British local authorities is very limited and cannot be expected to provide the equivalent of the private market policing mechanism which roots out inefficiency and self-serving behaviour contrary to the objectives of the organisation. Any organisation, whether in the public or private sectors, will tend to displace or dilute its primary objectives. Behavioural theories of the firm recognise organisational slack, firms operating at less than full efficiency once a satisfactory level of profits has been achieved (Cyert and March 1963). Such behaviour is facilitated by the separation of ownership and control which allows company managers to pursue their own self interests at the expense of profits and of shareholders' dividends (Williamson 1964). Self interest may be promoted by maximising growth (Marris 1966) or sales revenue (Baumol 1959), especially if personal reward is dependent upon 'empire building' (more staff, higher turnover etc).

Similarly, the theory of bureaucracy suggests that public sector bureaucrats may pursue their own self interest rather than either following the orders of politicians or simply acting in the public interest (Tullock 1965, Downs 1967, Niskanen 1971). Loss of control within the private firm has its parallels within the public organisation. Politicians and higher officials often lose touch with the service output due to the intervening pyramidal structure of responsibility and control. Control becomes attenuated, creating organisational slack which leaves lower tier bureaucrats to pursue their own self interest once some minimum acceptable level of performance has been achieved.

Organisational slack is increased if employees are difficult to sack and where promotion prospects are not adversely affected by poor performance, especially when performance is difficult to measure and objectives are not clearly specified. In such cases bureaucrats can simply take things easy or go in for 'empire building', expanding one's own area of responsibility or department for its own sake irrespective of whether or not it improves services to clients (Blore 1987). Hence bureaucracies tend to become larger and, since bureaucrats themselves have votes, they can acquire sufficient political power to guarantee self preservation and self interest.

The perceived solutions are **supply side measures** such as value for money, performance review, efficiency studies and the opening up of in-house provision to competitive forces (eg competitive tendering)

in order to constrain the pursuit of self interest by bureaucrats. However, these approaches are not categorically different to the status quo since the service concept remains the same and so any failures of collective decision making remain. Such failures would compound these problems caused by a lack of competition in local government.

(3) DECISION-MAKING PROBLEMS

Decision making problems arise because of errors and biases in demand articulation. Demand for private sector outputs is backed by payment but most public sector output is not sold. Hence, voting mechanisms are used as an alternative means of demand articulation. However, voting systems face a number of technical and behavioural problems. They do not gauge the intensity of preferences and there are problems inherent in moving from a set of individuals' ranked preferences to a consistent set of social preferences (Arrow 1959 and 1963, Black 1948). In the real world majority voting, vote trading and compromise (eg when voting for 'packages' of policies) may reduce such problems but choice between packages of services may itself be very limited. Moreover, voters are known to be poorly informed about the alternative tax, expenditure and other policies offered by local (and national) political parties. Given the costs and effort required in obtaining knowledge it is quite rational for the voter not to bother to be well informed when voting (Downs 1957 pages 207-278), especially when the effect of his or her vote on personal well being is insignificant (Tullock 1967 pages 100-114). It is questionable whether voters are better informed about the Community Charge than about the domestic property tax (Cullis et al 1991). Whilst having a general ignorance, the voter's knowledge may be heavily biased in favour of his or her special interests (eg pressure group propaganda against closure of a particular school), undervaluing the interests of other voters and those of national and local taxpayers (whether individuals or businesses) who ultimately bear the financial costs. This imbalance between benefits and costs is argued to lead to excessive levels of public services (Buchanan and Tulloch 1962).

The importance of these criticisms is reduced if voters elect 'packages' of politicians whom they can trust to promote the collective/objective interest. This is the antithesis of the individual/subjective interest with which the public choice debate is concerned. However, single member (national or local) constituencies with just one 'all singing, all dancing' representative is a myth simply because the elected member cannot keep in touch with all constituents (Meadowcroft

1991). There is then a related problem that local authorities may not always act in the local public interest. Deficiencies in demand articulation and lack of competition may allow local politicians to act opportunistically, seeking to increase their chances of re-election and political survival. Furthermore, bureaucrats are also voters, are perhaps more likely to vote than other citizens, and may themselves be local politicians. Both bureaucrats and local politicians may therefore pursue an individual/subjective interest, expanding local services beyond the level required by the collective/objective interest.

This is analogous to the scenario described by Galbraith (1967, 1969 and 1973) whereby the distribution of power, rights and economic resources reinforce producer power within the planning system, allowing control of nominally competitive markets and ensuring the survival of existing firms. Large national and multinational corporations can even shape consumer preferences to their own ends by advertising. This is the 'inhospitality thesis' whereby the increasing concentration of business activity is interpreted as an anticompetitive strategy rather than being the outcome of transactions costs. In this context, local authorities are equivalent to the large corporations shaping consumer preferences through political propaganda, distorting voting behaviour to encourage oversupply of services. This is an inhospitality thesis in that it is a negative view of the deliberative role of government.

There are several possible solutions to these **demand side** problems. First, reform of the voting system, replacing majority voting with proportional representation as a way of protecting the interests of people who are always in a minority. Voters could also be better informed, for example through larger electoral assemblies and annual elections to single-tier local authorities (to strengthen the connection between voters and their political representatives) or by single issue voting (referenda). However, as noted earlier, it is simply too expensive (in terms of time and effort) for voters to become knowledgeable on all issues and they may simply prefer to trust politicians to make the right decisions. Hence, in order to minimise circularity between officers and politicians, limits have been set on the ability of higher tier local government officers to hold local political office in order to limit the potential self-indulgent feedback between bureaucracies and politicians. In addition, various legislative measures have been taken to limit local authorities' use of 'political propaganda'.

PROBLEMS OF COLLECTIVE CHOICE

The foregoing analysis assumed that local government does in fact promote the public interest and, whilst there are problems of self-interest-on the part of politicians, bureaucrats and voters which necessarily conflict with the public interest, the limitation of such conflict is feasible by means of the measures outlined above. Market solutions are still eschewed and there has been no detailed discussion of the role of service charges as part of the reform of local government finance. This section sets the collective context within which financial reforms must operate and argues that it is simply not possible for local collective choice mechanisms to secure the public interest on their own.

The benefits of most local government services tend to be focused on the recipient whereas payment (whether rates, poll tax or local income tax) is spread over all taxpayers in the authority. This is in addition to any focusing of benefits on particular subgroups in society such as the middle classes (Bramley et al 1989, Le Grand and Winter 1987, Pampel and Williamson 1989). Whilst on average a local income tax may be more successful than a poll tax in equating the benefits of service use to ability to pay it ignores both the existence of coalitions within socioeconomic groups and the freedom of individuals to increase their consumption of many subsidised services (eg sports, libraries and museums). It will be seen that this spatial locality of service provision serves to qualify the argument that public expenditure will tend to be insufficient on the grounds that whilst the benefits are diffuse the tax costs are salient. Many local government services have an element of rivalness or congestion in use and localities or groups of people may be more successful in capturing benefits which are diffuse to the individual. In some cases payment may also be focused on particular subgroups which differ from those receiving a disproportionate share of the benefits. An even spread of voting rights and a relatively high voter turnout of service recipients and/or a mismatch between voting rights and liability for tax payment will both tend to qualify the argument about insufficient public expenditure.

In addition, it is arguable that collective decision making at both the national and local levels in pursuit of communal interests at the local level will result in a suboptimal level of service provision even if every participant in collective decision making contributed to the tax

costs of those services and even if all participants were fully and equally represented in the collective decision making process. This conclusion will be shown to be valid whatever the system of national and local taxation and irrespective of whether or not the tax liability is related to ability to pay. This conclusion will also be shown to apply as much to the distribution of collective goods provided as it does to the total level of provision. In fact these two aspects are interdependent and it will be argued that the collective nature of local and national decision making procedures lead to problems at the distributional level which in turn leads to problems at the aggregate level.

The collective is not a perfect alloy of individual interests. Each member of a group has both common and purely individual interests. However, the political, administrative and technical makeup of local government serves to heavily repress the expression of individual needs and preferences. This is reflected in the frequent complaints about excessive and insensitive bureaucracy which occur simultaneously with a general and overwhelming support (revealed in successive opinion surveys) for what local government stands for and the services which it delivers. This apparent contradiction can be explained by the dual nature of people's requirements both at the individual and collective levels. For example, whilst an individual may have a high regard for the general level of educational provision provided by his or her local authority (whether in its own right or in terms of the likely alternative arrangements that would be provided by the private market) there may be dissatisfaction concerning the particular set of arrangements for family members. Similar contradictions may also exist for other services such as police protection, cultural and recreational services, infrastructure such as roads and public transport facilities, refuse collection and disposal etc.

The cause of the problem is that members of the group have interests in common with other members but also interests which are different from those of others in the organisation. If one individual requires a higher standard or level of service provision than is collectively provided then (s)he must persuade other members to increase provision. Since those other members must also bear the costs of service improvements they will presumably only agree to this course of action if the cost to themselves (in the form of higher taxes) is less than the benefit received. Assume that service levels and tax costs are in accordance with voters' preferences under the current 'first past the post' system of electoral representation. A number of individuals will be in receipt (either directly or indirectly) of a higher standard or level

of services than they desire but must nonetheless pay taxes to support those services. Similarly, there will be other individuals who would prefer a higher level of service provision than is collectively provided but who are constrained by their inability to persuade other voters to expand services.

Hence, in any collective organisation there will be a constant dialogue over the appropriate aggregate level of collectively provided services. Some will argue that service levels are excessive, others that they are insufficient and the largest group will be content with the overall provision. If both the largest group and the group which would be satisfied with a lower level of services are resistant to tax increases then the wishes of the group preferring higher standards of services will be frustrated. There will therefore be an incentive for them to engage in political lobbying in order to change the preferences of the other members of the collective organisation and/or to increase their influence and representation within the political and administrative machinery to redistribute services in their favour. This can be achieved in terms of spatial preference, suitable if this minority resides in one or more discrete areas within the local authority, or in terms of characteristics eligible for preferential treatment (e.g. age, sex, ethnic origin, housing, marital or income status, family characteristics etc.).

Such internal conflict is a necessary adjunct of pluralism, participation, public deliberation and public choice. It is heightened the greater the social heterogeneity of the collective organisation and the more influential the services provided by local governments are in the everyday lives of members of the group. If it was thought desirable to reduce the level of internal conflict then either the local government administrative boundaries should be redrawn in order to make encompassed populations more homogeneous and/or major services should be taken out of local government. The latter course of action would only serve to transfer the conflict to national level.

Seeking greater social homogeneity, would imply smaller local government areas which, for example, would separate affluent suburbs from areas of multiple deprivation, city areas from rural ones, one ethnic group from another and so on. However, this would compound the problems inherent in grant systems described above and the historical trend has been towards larger local authorities in terms of both area and population. Increasing size partly reflects the potential for cost savings and other efficiency gains (as urban structure

and service technologies change) and is partly in accordance with a generalised objective to encourage social integration and tolerance of diverse cultures and social attitudes. In other words local governments are not self-forming, but are rather fashioned by historical precedents (which may be largely inappropriate to modern requirements), by administrative feasibility, by political influence and by national government's requirements.

Given that there is rigidity in the composition of local governments then social heterogeneity will persist. This gives rise to a set of conditions leading to the formation of 'distributional coalitions' which seek to obtain the largest possible share of the organisation's output for their members. Olson (1965, 1982 and 1986) suggested that such coalitions exist at national level and that they serve to reduce wealth creation by imposing social costs on society if only because crowded agendas and bargaining tables prevent rapid and efficient adaptation to changing conditions. Moreover, the jealous guarding of group interest means that institutional sclerosis sets in.

Local government is itself a set of distributional coalitions in that the greater part of its income comes from central government so that there is an incentive for it to seek increased resources from national taxation. Similarly, an individual local authority has an incentive to seek to increase its own proportion of total central government grant at the expense of other authorities. Both of these behavioural responses will occur irrespective of any reduction of national income (due to disincentive to work effects) resulting from higher national taxation required to fund central government grants. This is because the authority is so small in relation to the economy as a whole that any reduction in national income which it bears itself will generally be much smaller than the increase in benefit from any redistribution of income in its favour.

Hence, local authorities are consistent with Olson's observation that the great majority of special interest organisations redistribute income rather than create it. The majority of their income comes from central government suggesting that there will be a tendency for them to overemphasise the redistributive aspects and ignore any resultant inefficiencies. This effect will be greater the smaller the average size of local government units and this suggests a need for larger local (or regional) governments, not in order to achieve any economies of scale or other such technical efficiency savings but rather to minimise these unwelcome outcomes of the distributional battle.

The major part of redistribution at the local level is through service provision rather than through differential local taxes. Hence, there is an incentive for subgroups within a local authority to seek to increase their share of service provision which is paid by the generality of local and national taxpayers. Given the largely non-voluntary nature of 'membership' of a local authority (in that people generally do not vote with their feet to choose a local authority inhabited by people with similar preference patterns) each local government area will contain a number of distributional coalitions, potentially as many as there are discrete sets of preferences. As in the last case, there is therefore an inbuilt incentive for service expansion and redistribution as an inherent outcome of the collective nature of decisions combined with rivalry in service use between groups. The impact may, however, be constrained through a series of debates (eg concerning the public interest), compromises and vote trading.

Olson argues that distributional coalitions in the private sector more often fix prices and subsidies than quantities. This is because prices are inherently variable in response to unfettered market forces of supply and demand and coalitions seek to restrain such variability in order to stabilise their environments. However, in the public sector, 'prices' in the form of tax payments are largely fixed in that common rules apply regarding liability to pay (eg a local property or poll tax) and payment does not vary directly or immediately with the individual's consumption of (say) local government services. Hence the incentive here is to seek either to vary the level of output or to change its distribution within a given tax cost. As already noted, voters will resist increases in service levels if the cost to themselves are greater than the extra benefits received. A minority of residents would prefer higher standards but have to accept the collectively determined standard. Attempts to achieve a redistribution of services in favour of their coalition members are constrained by ultra vires rules, by statutory duties imposed on local authorities (even if ill defined), by budget constraints and by resistance from those groups who would bear the costs of any redistribution in favour of other groups. Hence, attention tends to focus on the distribution of incremental expenditures and much attention is paid to annual budget changes which are usually small in relation to the overall budget total.

No coalition of largely self-interested people will be willing to see a

cut in its service provision even if the balance between costs and benefits has deteriorated and resources could be more fruitfully employed elsewhere in promoting the authority-wide collective interest. This is because any reorientation of services (such as the closure of schools in areas losing population of the relevant age groups) would see a reduction in the benefits accruing to this group but no change in local tax liability. Hence the ability of a local authority to adapt to changing socio-economic conditions is severely constrained by characteristics which are inherent in any system of service provision which requires a fixed financing commitment on the part of individuals (whether poll tax, property tax or local income tax).

Tests of Olson's theory relate to its explanation of economic growth differentials (Olson 1982, Mueller 1983, Cameron 1988, Dow and Howlett 1991). It is perhaps not surprising that the results are not all in agreement with each other since Olson's explanation rests almost exclusively on domestic factors, namely distributional coalitions and assumes that distribution and growth are mutually exclusive (pure redistribution being a zero-sum game). However, these results are not particularly relevant in this context of local (rather than national) distributional matters. Of course, taxation at the local level could have disincentive effects which impinge on growth. The Conservative Governments of the 1980s argued that locally high non domestic rates drove business out of high spending local authorities but both the theory and evidence are weak (Bailey 1988c). Moreover, in that domestic rates are not directly related to income the disincentive effects will be negligible. Indeed, there is a positive incentive effect for a lump sum poll tax if it is regarded as a tax unrelated to consumption of local authority services.

It would be an exaggeration to regard society as wholly comprised of self serving groups. Individuals are likely to be concerned with wider issues, for example relating to the environment and future generations. Moreover, the outcomes of a particular group's action will depend both on its influence relative to other groups (in part a function of size) and the extent to which governments react to group preferences (as distinct from electing a group of politicians who can be trusted to make the right decisions). Olson appears to be an unreconstructed pluralist of an earlier age who makes the neoclassical assumptions of well informed, calculatively rational behaviour seeking welfare maximisation which were criticised in chapter 1. However, the logical deductive nature of his theory is undeniable and

corroboration in the local government arena comes from studies which have demonstrated considerable inertia in the spectrum of service provision and which can be interpreted as protecting entrenched interests. For example, whilst there are significant costs of maintaining spare capacity in services facing declining client numbers, particularly education, there has been considerable resistance to closure of surplus schools (Bailey 1982a, 1982b, 1984, Cameron and Bailey 1987).

Inertia in the provision of local services is inherent if they are solely or predominantly tax financed. This is in contrast to a market system of service delivery where a reduction in consumption is almost invariably matched by a reduction in liability to pay. In other words there is an offsetting benefit in terms of reduced payment which may counter-balance the loss of benefit. This market characteristic serves to make consumption patterns much more flexible. Of course, such flexibility may not always be a desirable characteristic in public services such as care of the elderly or educational provision. A considerable element of continuity may be desirable in order to allow people and communities to make long term decisions about service take-up. However, much the same could be said of similar purely private decisions, for example when making choices about which energy system (gas, electricity, oil etc) to install for space heating purposes. Many decisions have long term consequences in both the public and private sectors and the former cannot claim any exclusivity in this respect.

THE FAILURE OF PUBLIC CHOICE

It is often claimed that local government spending is out of control. The conventional explanation is that the problem has arisen because of excessive and distorted subsidies and because of behavioural and decision making problems. It is argued that grant mechanisms encourage excessive service provision by making services seem cheaper than they really are, exacerbated by a widely held belief among voters that someone else will pay for increasing service levels. Voting mechanisms are said to fail to provide the outcome desired by the aggregate of voters and this allows local bureaucrats and politicians to pursue their own self interest at the expense of service client, their self-serving behaviour being protected by a lack of competition.

However, the whole framework of public choice is too narrow, is based on a false premise and its conclusions are largely irrelevant.

First, it ignores the fact that equity criteria are important determinants of the levels of subsidy for particular services (Le Grand 1982). Second, whilst narrow economic rent-seeking on the part of voters, bureaucrats and politicians may have some truth its consequences should not be carried to extremes, especially since research suggests that voters are likely to have a broad conception of the public interest (Miller 1986, Game 1984 and 1988). Third, the concern with technical reasons for the failure of the local public choice mechanism on the demand side is misplaced if it is not in fact concerned with producing the aggregate of individual/subjective preferences. It may instead be concerned with the election of a group of politicians who can be trusted to promote the collective/objective interest. Moreover, a collective/objective interest does not completely rule out an individual/subjective interest or vice versa; they are complementary rather than mutually exclusive. Fourth, it assumes that there is a clear dichotomy between public choice and private choice and that the latter is necessarily superior to the former. Such choices are necessarily interdependent and so it is rather simplistic to draw strong policy conclusions based on a clear divide between collective and personal, public and private, choice.

The multifarious attempts to introduce competition, to promote value for money and to limit the discretionary power of local bureaucrats and politicians cannot realistically be expected to ensure market-type outcomes. Similarly, the anticipated increase in local accountability brought about by the poll tax was predicated on the assumption that it is in fact a charge and so will introduce a market-type mechanism into local public finance: demand for services has to be backed by willingness to pay. This is, however, a non sequitur; the Community Charge is not a charge in the usual sense of the word since payment is compulsory and is not dependent upon the receipt of services. It is a tax and so perpetuates the fundamental problem of collective choice in that payment is widely spread whilst benefits tend to be concentrated. The same point would apply to a local income tax on its own or in combination with a property tax. In fact there seems little to choose between a domestic property tax and the Community Charge in this respect. The major causes of the contrasts between the old and new systems of local government finance (pre and post 1990) arise not from the reform of local domestic taxes but rather from the changes to the systems of central government grants and local business taxes described above.

CONCLUSIONS

The local public choice debate in Britain has come full circle with the proposed reintroduction of a revised domestic property tax (the Council Tax). This is the result of a logical inconsistency in the theory. The search for an optimal local tax is based on a chimera. The logical inconsistency could only be avoided if each person formed his own local government and there were no collective goods. This is the hypothetical (and impossible) scenario of economy-wide perfect competition, in which all markets trade purely private goods. The poll tax was an attempt to force those who vote for more spending to pay the consequences. It was hoped that either local authorities would automatically change their budgeting behaviour in fear either of the electoral consequences or of the impact on those on low incomes. Alternatively, it was hoped that they would be forced to do so through a change of voter behaviour when disenchanting voters (who felt that they were being asked to pay too much for service increments) mount a campaign for cuts in budgets.

It is unlikely that such a tortuous procedure could achieve the expenditure reductions sought by central government. Nor is it the best way of achieving improved accountability. The fundamental problem is that collective financing of incremental expenditures is combined with a large degree of exclusivity and rivalness in service provision, simply because local services tend to be provided for particular areas or groups within the authority. This creates a set of incentives which encourage the formation of distributional coalitions and a tendency towards over-expansion of services. This explanation of excess provision can be compared with the conventional economic argument that there will be excess demand for services provided free at the point of use. Such a demand side explanation is too simplistic in that it ignores the decision making mechanism by which the service is supplied. The analysis of distributional coalitions within a collective choice framework provides a coherent means of integrating both demand and supply side factors relevant for the provision of local government services.

Reforms of local government finance have not recognised the fundamental problem posed by distributional coalitions. Indeed, to the extent that they have increased the dependency of local government on central government grants, they have exacerbated the problem. Reforms have been based on the premise that there is some combination of local taxation and national subsidies that can achieve

an optimal level of provision for collective goods. In fact this premise is false, has led to a fundamentally flawed analysis, which in turn has led to the introduction of inappropriate policies.

Local discretionary increases in services do not necessarily have to be completely financed by the local tax. The key question currently facing local public choice is how to devise a system of local government finance which accommodates the complimentary areas of collective/objective and individual/subjective interest such that the achievement of service objectives is promoted. Sole reliance on either a tax or a charge is inappropriate. Suggestions that the local tax is now such a relatively small proportion of local spending that it may as well be abolished are based on expediency rather than on a coherent rationale for the financing of local government. Such a rationale must be set within the framework of incentives inherent in collective choices. There is scope for reducing the relative inflexibility of tax financed service provision by creating a structure of individual and group contributory financial incentives which are consistent with community-wide objectives. Such an incentive structure would also serve to accommodate the wants of those groups whose preferences diverge from the collectively determined mix of service provision as long as they are not inconsistent with community wide-objectives. Part 2 develops an appropriate methodology which can underpin such financial reforms.

PART 2: PHILOSOPHY

CHAPTER 3: THE CURRENT ROLE OF SERVICE CHARGES

INTRODUCTION

There is a wide variety of charging practice amongst local authorities. Charges are sometimes used simply to raise cash in order to cover crude accounting costs, particularly important where these costs are used for grant calculation purposes. Other reasons for charging may include the need to achieve financial targets or required real rates of return on assets, to avoid large scale borrowing, to reduce demand, to shift priorities, to cover marginal costs, to check abuse of services, to meet statutory requirements, or simply to be symbolic (Parker 1976). Hence, the pattern of charges cannot be explained by economic efficiency requirements nor by political differences but instead by "historical inheritance" (Rose 1990 page 297), by the "chaotic agglomeration of charging policies" (Judge and Matthews 1980 page 1) or by the promotion of the political interests of dominant coalitions through political extortion etc (Wagner 1991). These multifarious reasons for charging seem to be both practical and eclectic. In comparison, the reasons for not charging (ie for subsidy) appear to be much more consistent and comprehensive (ie to promote both equity and access to service).

Since local government finance is usually discussed in net expenditure terms the role of charges is often not fully appreciated and there is a general belief that revenue from this source is negligible. In fact revenue from all charges exceeded income from domestic rates in the mid 1980s. Nonetheless, any discussion of charges for local government services must recognise the fact that the majority of income comes from a combination of local government taxes and intergovernmental grants. The availability of finance from taxes (both central and local) and the way in which the grant system operated in the past both served to constrain the use of charges by local authorities. It was only during the 1980s that this set of incentives changed and began to encourage local authorities to make greater use of charges. However, this was not the result of a specific decision to change the philosophy underpinning service charges. Rather it was the residual outcome of an expenditure control system which first sought to encourage then rein back local government spending.

Whilst there is interaction between finance and expenditure, local budgets are primarily expenditure driven (Elcock et al 1987 and 1989). At a practical level local governments are there to provide services, to

spend (rather than raise) money for the benefit of local people and business. In past public expenditure planning systems, spending determined finance rather than vice versa. Services were planned in real, volume terms (eg numbers of school teachers) and both central government grants and local taxes were determined almost by default. Despite central government's introduction of cash limits in the late 1970s and its switch to cash (rather than real expenditure) planning in the early 1980s, local authorities still thought in terms of levels of service. They sought to increase, or at least maintain, service levels as far as possible during times of financial stringency caused by cuts in the real values of central government grants, resulting in average rate bills rising faster than inflation. Much the same occurred under the Community Charge, central government repeatedly criticising local authorities for spending more than it thought appropriate. The high gearing of the poll tax seemed to have little impact in restraining local expenditures and, at least until the sharp increases in non-payment of the poll tax during the early 1990s, revenue raising was almost incidental. The philosophy underpinning local government expenditures (expansion of the welfare state or a preference for public provision) was much more apparent than that (if any) providing the basis for local revenue raising.

CENTRAL NEGLECT OR LOCAL DISCRETION?

The preoccupation with central government grants and local taxes is reflected in the lack of a comprehensive uniform national policy on the use local authorities should make of charges. Charges are rarely required by national legislation; more often they are proscribed by law. Where charges are allowed, national legislation has become increasingly enabling since the 1980 Local Government Planning and Land Act. The Conservative Government's policy has been to abolish central controls unless there are strong arguments to the contrary, allowing local authorities maximum discretion whether to charge at all and, if so, what levels of charges and related subsidies to introduce. It believes that that it would be neither practical nor desirable (in terms of local accountability) to introduce standard charges and hopes that this will result in charges more properly reflecting differences between authorities in the cost of providing a service. Whilst the 1989 Local Government and Housing Act gives the Secretary of State power to lay regulations to introduce charges for services its impact depends on how those powers are subsequently used. The regulations can specify maximum and minimum charges, the scales of charges and the rules on which they are to be based (eg covering costs or achieving a specified return on capital).

Charges may not be introduced for education in schools (but see chapter 8), for the core public library service (see chapter 6), for fire fighting, for electoral registration, for the conduct of elections or for police functions (except for the removal and immobilisation of vehicles).

The 1986 Green Paper "Paying for Local Government" suggested the introduction of "a requirement for local authorities to have regard to a statutory code of practice in reviewing and determining user charges, or the possibility of intervention by the auditor where authorities fail to review charges properly" (Cmnd 9714 paragraph 7.4). However, the statutory code of practice has not been implemented to date and so there is still considerable discretion at the local level. Indeed, "the Government's most important contribution to the development of local charging policies is to establish a clear financial climate within which local authorities can judge the correct balance between communal and specific user charges" (paragraph 7.7). Other than exhorting authorities to make increased use of charges, the Conservative Government provided no consistent methodology according to which charges could be introduced consistent with service objectives.

This created a danger that increasingly strong incentives for local authorities to raise charges lacking clear and consistent objectives were likely to lead to more rather than less inconsistency both between and within local authorities. Numerous examples are already available (Parker 1980) and the 1986 Green Paper itself pointed to the marked differences between English authorities in the proportion of their rate fund revenue expenditure financed by fees and charges. However, it is invalid to make sweeping generalisations about charging practices given the lack of comprehensive detailed information about charges in individual authorities. Some account must be taken of local authorities' individual circumstances (eg urban or rural, socioeconomic mix etc) and data must also be standardised (eg charge per given time period for use of a sports facility). Concessionary charges, differential pricing (eg for peak and off peak useage), reduced charges for specific users (eg senior citizens) etc, must all be taken into account.

Nonetheless, disparities in charging practice are confirmed or corroborated by other studies (Cmnd 6453, Harris and Seldon 1976, Seldon 1977, Coopers and Lybrand 1981, Bovaird 1981, Prest 1982, Banham 1986, IPF 1987, Blair 1991, SSC 1991) and by the service analyses in the following chapters. Such disparities are not peculiar to the UK, similar patterns being evident in other countries (eg Mushkin 1972, Bird 1976, BMR 1980, Bird and Slack 1981 and 1983, Ridler 1984, Kitchen 1984,

McCready 1984, Getz et al 1986, White 1987). Whilst the term 'user pays' is commonly used in other countries, the usual British terminology refers to 'sales, fees and charges'.

'Sales' includes all sales of items (eg local history pamphlets, local planning documents etc) other than capital assets and includes sales to other local authorities. 'Fees and charges' include payments made for goods and services and rents (but not council house rents). Licence fees have usually been set (or at least required) by central government in the past but the 1985 White Paper "Lifting the Burden" (Cmnd 9571) committed the government to relax unnecessary licence controls as part of a policy designed to reduce bureaucratic intervention on business. Licences are required for activities such as entertainments (cinemas, theatres, gaming etc), property developments (building warrants etc), environmental health (slaughter houses etc), consumer services (cafes, tattoo and massage parlours etc), trading standards (inspection of weights and measures), street trading, marriages and even dogs (poorly enforced). They are intended to regulate activities and fees often do not even cover the related administrative costs. Charges are specifically levied to raise revenue and local authorities usually have considerable discretion over their imposition and levels (eg bus fares, hire of squash courts, car parking etc). Maximum amounts have sometimes been set (as used to be the case for school meals) and statutory requirements to charge have sometimes been imposed (eg for collection of trade refuse).

Central government estimates that there are about 600 individual services for which fees and charges are levied by local authorities and only about 100 of these (mainly fees) are set directly or indirectly by central government through regulations or national agreements. This lack of central direction in charging policy is in strong contrast to its increasingly interventionist stance on grants, on local taxes and on both totals and distribution of local expenditures. The lack of information regarding income from charges has been noted elsewhere (Rose 1990) and the new public expenditure planning total specifically "excludes that expenditure which local authorities finance or determine for themselves" (Cm 441 page 2). Whilst central government is clearly concerned with local tax levels and the expenditures they help to finance, the Public Expenditure Analyses pay little or no attention to income from charges (see Table 1 page 55).

This makes it difficult to get a comprehensive national overview of local government's use of sales, fees and charges. This is further complicated at the local level by the division of expenditures into three separate

accounts, the Rate (now Revenue) Fund, Trading and Housing Revenue Accounts. This division reflects the development of services at different times in the past, the need for financial probity and the different funding mechanisms used for particular types of services. However, such fragmentation obscures a clear overview of both expenditures and finance, especially given the incompatibility of their esoteric definitions of expenditure (eg gross, net, allowable, revenue, current) which often mean little to councillors, let alone the mythical 'man in the street'!

Revenue/Rate Fund services account for just over four fifths of total local authority current expenditure and include the major services provided by local authorities, namely education, personal social services, leisure and recreation, services which are primarily financed by national and local taxes. Trading services are expected to be financed primarily from charges but they account for only about 2 percent of local government current expenditure and have usually received subsidies from the rate fund. They include public passenger transport, cemeteries and crematoria, harbours, ports and piers, markets, slaughter houses, aerodromes, corporation estates, civic halls and theatres etc. Housing accounts for the remainder of current expenditure (17 percent) and it is council house rents paid into the Housing Revenue Account which have accounted for the largest single source of revenue from charges but even here substantial subsidies come from central government grants and (in the past) from Rate Fund contributions.

It is clear then that the services which have been accepted as offering the greatest scope for charging are in themselves only relatively small proportions of expenditure. Whilst these small proportions of self-financed expenditure are equivalent to substantial reductions in local tax levels, even if they became fully self financing the vast bulk of expenditure would still be financed by central and local taxes. Hence any substantial increase in the use of charges must necessarily apply to Revenue Fund services as well. It has been suggested that charges could be increased to as to completely replace rates (Beasley 1980). Promoters of the local welfare state have objected to such proposals, even calling for greater use of subsidy for trading and housing services as well. The philosophy in both cases is simply one of fiscal substitution.

THE DECLINING ROLE OF FEES AND CHARGES

Concern about the declining proportions of expenditure funded by sales, fees and charges was voiced by the Layfield Committee in 1976 (Cmnd 6453). That proportion fell from nearly 10 percent of rate fund

expenditure in 1969/70 to 7 percent in 1973/4, rising marginally to 8 percent in 1979/80 (Cmnd 8449). This partly reflected the growth of services such as education and personal social services which make relatively little use of charges. Trading services as a whole covered 96 percent of their expenditure in 1966/67 but only 83 percent in 1975/76 and 65 percent in 1979/80, the other third being cross subsidised from the rate fund. The proportion of local housing expenditure covered by rents fell from more than 70 percent in 1966/67 to less than half in 1977/78 and fell further to 38 percent in 1979/80.

There has been a lack of political will by both national and local politicians which is itself linked to the continuation of legislative constraints against charging. The last Labour Government accepted the proposal by the Layfield Report that the role of fees and charges could be increased and proposed a joint review of charging policies (Cmnd 6811 and Cmnd 6813). However, the incoming Conservative Government accepted the limitations for Education, Law and Order, Highways and Personal Social Services which together account for approximately 70 percent of current rate fund expenditure (Cmnd 8449). Radical ideas such as education vouchers (with possible top up payments) were considered then abandoned. Only Local Environmental Services were thought to offer considerable scope for charging (Coopers and Lybrand 1981).

Local politicians were aware of the possible electoral consequences of widespread adoption of charging and were understandably reluctant to embark on new (and largely untested) methods of finance. Such reluctance was reinforced by the fact that it was easier to raise extra revenue through the long established system of local taxation. Rate poundages could be increased at will until the 1980s. Furthermore, the 'open-ended' nature of the former 'resources element' of the Rate Support Grant meant that (for an individual authority) higher rate poundages also called forth increased grant payments from central government.

Moreover, to the extent that property values were positively correlated with income and that poorer people both received rate rebates and made most use of services, then increasing rate poundages rather than service charges was regarded as promoting a more equal distribution of income (in cash and in kind). The impact on national taxpayers was of little importance to individual local authorities (cf distributional coalitions). Besides, there was a general belief that national taxes were more progressive than local taxes and that they experienced fewer anomalies

than local taxes (eg where low income elderly retired householders sometimes occupied highly rated properties).

PRESSURES TOWARDS INCREASED USE OF CHARGES

During the late 1970s and (in particular) 1980s there were mounting pressures on local authorities to make increased use of fees and charges. First, central government adopted powers enabling it to directly control rates levied by local authorities. This was a response to the increasing dispersion of local property tax rates consequent upon local authorities trying to maintain expenditures as the real value of central grants fell (Bennett and Fearnough 1987). These so-called 'rate capping' powers were first used against 4 Scottish authorities in 1983/84 and were applied for the first time against 17 English authorities in 1985/86. They have been used in subsequent years to greater or lesser extents, now being Community Charge capping. Hence, for some authorities at least, it was no longer easier to raise extra revenue through local taxation than through charges and the threat of capping had a similar effect for others.

Second, the operation of the Rate Fund grant system provided increasingly strong incentives to raise extra income from charges rather than from the rates. Previously authorities raising more revenue from sales, fees and charges (rather than rates) could actually lose grant because net expenditure was reduced, so reducing the accounting base on which grant was paid (Gibson 1980). However, the mechanics of the grant system were later modified with the result that charging incentives became reversed (Gibson 1983). Certain major city authorities could now gain more than a pound in extra central government grant for every extra pound raised from charges (Bailey 1985). Such grant gearing arose because 'overspending' (upon which any reductions in grant were based) was defined in terms of net expenditure and led to losses of grant through negative grant tapers and/or grant penalties. Such losses could be reduced by increasing income raised by sales, fees and charges in order to reduce net expenditure and so reduce 'overspending'. Other financial measures were also taken, most notably creative accounting (see chapter 4).

Although in a different form, such charging incentives continued under the new Revenue Fund grant system introduced along with the Community Charge. The grant total for an individual authority is fixed at the start of the grant year and does not alter subsequently in response to what is spent. Hence the full burden of any variations in an authority's spending from the level of centrally assessed need to spend

falls on the Community Charge. The same outcome arises from any cuts in grant either as centrally assessed need to spend is deemed to have fallen or if central government makes inadequate provision for inflation in cash limited grants. In general, the Community Charge accounts for such a small proportion of income that only relatively small increases in spending or small cuts in central government finance lead to large proportionate increases in the Community Charges for many authorities (this 'gearing effect' is explained in chapter 2). Hence the incentive to raise an increasing proportion of income from fees and charges remain under the new system and this has been augmented by the increasing recognition that it is not necessarily the case that services are predominantly used by poorer groups.

A third factor promoting the increased use of service charges is the introduction of compulsory competitive tendering (CCT) for an increasing range of local authority services and activities. CCT now applies to direct labour organisations, refuse collection and street cleaning, cleaning of buildings, vehicle maintenance, ground maintenance, catering services, sports centres etc. Local authorities have to apply separate current cost accounting procedures to present provision and compare in-house services with private sector alternatives, making the results public (DOE 1985). The respective Secretaries of State in England, Scotland and Wales also have powers to set financial targets for each category of work. The separate identification of costs is a prerequisite for increased use of charging and is likely to encourage greater use of service charges (see chapter 8 for examples).

These various developments halted or reversed the trend towards declining proportions of expenditure funded by fees and charges identified earlier. For Rate Fund services in England and Wales, whilst the proportion of revenue from sales remained almost constant during the decade as a whole around 1.3 percent, the percentage from fees and charges rose from 6.9 percent in the early and mid 1980s to 7.0 percent in 1986/87 and further to 7.2 percent in 1987/88 (CIPFA 1990). Gross rents (ie including Housing Benefit payments) financed 47 percent of Housing Revenue Account (HRA) costs in England and Wales in 1980/81 rising to 65 percent in 1989/90. Scotland raised 18 percent of its revenue income from sales, rents, fees and charges in 1989/90 having risen from 13 percent in 1980/81. The figure for Rate Fund services rose from 4.7 percent in 1980/81 to 5.9 percent in 1989/90 whilst that for housing rose from 49 percent to 58 percent respectively (Scottish Office 1984 and 1991a).

Contrary to these rising trends for the Rate Fund and Housing Accounts, the proportions from sales, fees and charges for trading services continued to fall to 59 percent in England and Wales in the early 1980s, only just regaining its 1979/80 figure of 65 percent in 1988/89. The figure for Scottish trading services fell from 48 percent of total revenue income in 1980/81 to 34 in 1989/90 (Scottish Office 1984 and 1991a). The comparison is complicated by the inclusion of water and sewerage in Scottish trading services. Water supply accounted for 45 percent of all Scottish trading services expenditures in 1989/90 and was financing an increasing proportion of costs from charges (27 rising to 48 percent 1980/81 to 1989/90). However, sewerage accounted for 42 percent of expenditures in the latter year and raised only 3 percent of its income from charges. Transport undertakings accounted for 7 percent of expenditures and were financing a falling proportion of costs from charges (92 falling to 90 percent). Changes for the other Scottish trading services (which only accounted for 6 percent of expenditures in 1989/90) were as follows: ferries 27 falling to 20, harbours and ports 90 (1989/90 figure not available), airports 68 (1989/90 figure not available), road bridges 98 falling to 94, slaughter houses 49 rising to 60 percent.

Hence, the most notable impact of pressures to increase charges was on council rents. Close comparison of HRA figures over time and with those for Scotland is not strictly valid because of changes in the definition of the HRA relating to 'ring fencing' (see chapter 5). Nonetheless, there was a dramatic increase in unrebated rents for council housing from £6.40 in April 1979 to £20.64 in April 1989 (CIPFA 1989). In Scotland the increase was from £4.90 to £18.83 over the same period (SDD 1990).

These increases in nominal cash rents were also significant in real terms. Based on April 1975 (=100), average unrebated council rents in England and Wales had risen to 353.6 by April 1984 compared with the Retail Price Index (RPI) at 270.9 and mortgage interest repayments at 304.0 (CIPFA 1984). Thereafter, with removal of legal constraints on making profits on council housing, growth was dramatic. By 1983/84 20 percent of English housing authorities were making a surplus on their HRA (and subsidising their Rate Fund), 37 percent had reached breakeven, whilst of the remaining 43 percent only a minority exceeded an annual deficit of more than £100 per house (Audit Commission 1984a). Average unrebated rents continued to rise in real terms during the late 1980s, by 11 percent in the last three years of the decade (CIPFA 1990).

By 1984/85 total revenue from sales, rents, fees and charges over the

English Rate Fund, Trading and Housing Revenue Accounts amounted to £5,250 million. This was 15 percent greater than the yield from domestic rates, having been equal to them in 1981/82. Just over half of this income came from Rate Fund services, a third from rents and a seventh from trading services. Of this education accounted for a third of such income accruing to the Rate Fund. School meals and milk accounted for another 9 percent, personal social services 14 percent, recreation 7 percent, highways and transport 6 percent, town and country planning 5 percent, police and housing advances 4 percent each, refuse collection and disposal 3 percent, cemeteries and crematoria 1 percent and other services the remaining 14 percent (Cmnd 9714).

By 1988/89 sales, fees, charges and rents accounted for 15 percent of the total revenue income of authorities in England and Wales, up from 12 percent in 1979/80 (DOE 1981 and 1991a). Charges were growing faster than expenditure since this rising proportion was based on a rising real total of current expenditure. Nonetheless, the proportions of expenditure covered by sales, fees and charges remained low, most notably for the services which raised the largest shares of such income. Education only covered 7 percent of service costs, social services 11 percent, local transport 13 percent, local environmental 12 percent, law and order 9 percent, libraries museums and galleries 6 percent. School meals charges covered 39 percent of costs in 1988/89, planning and economic development 33 percent and leisure and recreation 20 percent but each service only accounted for 7 percent of total income from sales, fees and charges (DOE 1991a).

An analysis of Scottish data reveals a breakdown broadly similar to that for England and Wales, both for the relative importance of individual services and for the main revenue raising components within each service. Again the main source of income from fees and charges is education raising 23 percent of that for all services, dominated by further education and school meals which together account for 89 percent of education charges (Table 2 page 56). A notable difference from the English situation is that planning and economic development is next in importance at 19 percent, raising revenue from a variety of sources including charges for planning applications, provision of maps, rents for industrial workshop units etc.

Leisure and recreation and social work each raise 13 percent of fees and charges income for all services. As in England, the former is dominated by charges for sports facilities and swimming pools which, together with entertainments and parks and open spaces (eg allotments), account for 88

percent of income for this service. However, there are also charges for use of community centres, caravan sites, tourist publicity materials etc, countryside amenities and other recreational services. Care of the elderly (mainly residential) accounts for 81 percent of fees and charges income for social work services (similar to England) and income is also raised from care of physically and mentally handicapped adults, children, adult offenders etc.

Roads and transport account for 8 percent of all income from charges, of which car parking and road maintenance account for 88 percent. There are also charges for road lighting, transportation surveys etc. Environmental services accounts for 6 percent of all services' income, cleansing raising half of this, followed by burial grounds and crematoria, public conveniences etc. Police accounts for the bulk of law, order and protective services charges (eg crowd control at football matches) and there are also minor charges levied by the fire service (eg pumping out water from flooded premises). Hardly any income is raised from libraries and even less from museums and galleries. The 'other services' group is dominated by building control (eg charges for building warrants) but charges are also levied for the registration of births, deaths and marriages (eg marriage licence fees) etc. All this is similar to the situation in England and Wales and, for all services, some charges are internal to the public sector, for example district courts, collection of non domestic rates and of the Community Charge.

CONCLUSIONS

It is difficult to obtain a comprehensive overview of service charges because of their sheer number, the fact that they are spread across many services and several accounts and because there are often differences in accounting conventions both between different authorities and between different services within individual authorities. Many charges are for rather technical or peripheral services that are not germane to an authority's policy stance (eg rents for allotments) and therefore receive little detailed attention from councillors and committees. However, many are of considerable importance in social terms (eg residential and day care of the elderly) and there is a general reluctance to use charges where they clearly impinge on equity issues, especially if the levels of social security benefits provided by central government are regarded as inadequate. Moreover, local authorities are sensitive to the criticism of monopoly exploitation in cases where no alternative provision is available for users who consider the charge too high.

Charges have evolved on a piecemeal basis and are likely to continue to do so in the future. Whilst retaining reserve powers, the Government appears both to be reducing what little control it had and to be reluctant to encourage deliberation about a charging philosophy appropriate for all services. Perhaps this doesn't matter if charges remain a relatively small source of income, especially for those personal services which are a major component part of the British welfare state. However, the increasingly strong incentives for local authorities to increase the proportion of revenue from charges creates an urgent need for a coherent philosophy to be developed. All that the Government is willing to advocate is that, where levied, charges should be related to costs. This is a very partial philosophy in that it has no clear concept of public and it does not promote accessibility to and quality of services. Relating charges to costs suggests that the Government perceives charges and taxes as mutually exclusive, a separation criticised in chapters 1 and 2. The need for a coherent philosophy was recognised in the opening quotation in the preface and the next chapter attempts to develop one.

Table 1: Financing of Local Authority Expenditure in the UK (1989/90)

	£ million	Percent
Total Expenditure ¹	56,210	
Total Income ¹	56,210	
Financed by		
Grants in AEF ²	16,100	28.6
Other Grants ³	11,060	19.7
Rates (net of all rebates) ⁴	20,780	37.0
Trading surpluses, interest and dividends ⁵	2,090	3.7
Rents ⁶	3,150	5.6
Borrowing ⁷	1,320	2.3
Other receipts ⁸	1,710	3.0
Total	56,210	100.0

Source: Cm 1520

Notes:

- 1 These figures are net of income from fees and charges but not from rents (see note 6).
- 2 Aggregate External Finance refers to the Revenue Support Grant and Specific Grants.
- 3 This includes Housing Subsidy, Housing Benefit Subsidy, the grant supporting mandatory student awards etc.
- 4 Community Charge for Scotland; rates elsewhere in the UK.
- 5 Surpluses from trading account services, interest on bank deposits and local authority mortgages etc.
- 6 Notional profits from local authority council houses.
- 7 From central government.
- 8 Accruals adjustments, balancing items etc.

Table 2: Sources of Income from Fees and Charges (Scotland 1989/90)

Service	Percent of Total	Main Components	Percent of Charges
Education	23	Further Education School Meals	57 32
Planning & Economic Development	19		
Leisure and Recreation	13	Sports & Swimming Entertainments Parks & Open Spaces	57 17 14
Social Work	13	Elderly	81
Roads and Transport	8	Parking Road Maintenance	50 38
Environmental	6	Cleansing Burial/crematoria	50 22
Law, Order and Protective	4	Police	89
Central Admin.	4		
Libraries, museums and galleries	1	Libraries	80
Other	9	Building Control	34
Total	100		

Source: Scottish Office (1991a)

CHAPTER 4: A COHERENT PHILOSOPHY

INTRODUCTION

Most advocates of the increased use of service charges see them as an **alternative** to collective action in that they are intended to replicate free market forces and are part of an overall strategy to roll back the frontiers of the state. They argue that those services which people are unwilling or unable to pay for should be run down whilst those services which could cover costs by charging should logically be transferred to the private sector. Many goods have at least some limited collective characteristics but, according to this view, that does not necessarily require them to be provided by the State nor to be heavily subsidised by tax revenues. The analysis in chapter 2 showed that only in the extreme and rare case of pure public goods could complete public financing be justified in efficiency terms and that even that is subject to some qualification. A strictly limited range of subsidies could be paid in support of particular services but these would have to be explicitly justified in market failure terms. Any problems concerning ability to pay could be accommodated by means of national transfer payments such as social security.

This scenario is the logical outcome of an overwhelming emphasis on economic efficiency to the complete exclusion of the institutional, constitutional and liberal democratic context of local government. In that sense it is a highly blinkered approach to local government as a regulatory response to the problems caused by market failure, as noted in chapter 1. Moreover it takes the view that government failure is likely to be of greater significance than market failure, in particular because the former accumulates over time due to political, institutional and bureaucratic rigidities (see chapter 2). In contrast, it is held that market failure is less significant than government failure simply because the market (unlike government) has its own policing mechanism so that, sooner or later, inefficient private firms will ultimately cease production as they lose markets to new low cost firms. Whilst corporate power may constrain these market forces, the public sector has no such threat of bankruptcy or takeover so that inefficiencies are more likely to persist and accumulate.

Chapter 1 showed that it is misleading to imply such a clear distinction between the public and private sectors when in fact there is a considerable area of overlap. In that sense the economic comparison is

simply too simplistic. Moreover, that analysis of inefficiency is exclusively based in market terms and is in sharp contrast with both the institutional explanation of inefficiency (based on transactions costs) and the more general political economy explanation based on Olson's distributional coalitions (chapter 2). Such coalitions exist in all areas of society, both public and private, and are not exclusive to government activity. To focus one's attention on government failure is seriously defective in policy terms and has served to promote a false rationale for the introduction of charges for local government services. Rather the failure is one of collective choice where compulsory payments are levied over all members of the group but improvements in service delivery are focused on only a small proportion of group members. This is inherent in any system of joint financing and applies not just to taxes but also to charges which are effectively compulsory irrespective of the amount of an individual service consumed, for example flat rate water charges.

This is not to deny that there may be scope for efficiency improvements but rather to point out that the immediate introduction of charges is not an effective way of achieving efficiency savings. Their more immediate effect is simply a redistribution of income either in cash terms (if demand is unaffected) or in kind (if demand collapses) or a combination of both. Efficiency cannot be improved at a stroke. Moreover, introduction of charges may simply lead to a reformation of distributional coalitions in much the same way as changes in market conditions can lead to a redistribution of corporate power and influence without actually destroying it. In other words an approach which is based simply on a reorganisation of services consequent on a redistribution of the pattern of financial liabilities is not likely to be successful in the longer term in correcting the failures inherent in collective decision making.

Hence the most appropriate approach is to tackle the problem at source rather than be diverted by the largely false analogy with market forces. The real question is how to counterbalance the unresolvable problems which are inherent in any situation of collective choice, namely how to prevent distributional coalitions distorting the spectrum of service provision in their favour. This effectively boils down to a question of how to modify the structure of incentives which arise when incremental benefits are concentrated but incremental payments are more widely spread over the group as a whole. This relates to both the central-local government level and the sub-local authority level.

THE LEGITIMACY OF USER CHARGES

Some writers oppose all charges whilst others oppose all taxes. "It is impossible to read its (The Institute of Economic Affairs') pamphlets without being struck by the extent to which charges are deemed to be good and taxes bad ... Much of the current advocacy of charges rests on the proposition that the services in question should not be in the public non-market sector, indeed often that they should not be in the public sector at all ... Many socialists and social administrators, stung by this attack on the fabric of the welfare state, are tempted to respond by claiming that all charges are bad and all taxes good ... (there is a) prevalence of crude pro and anti-pricing views..... **What emerges clearly from the evidence on the structure and scope of charges within the welfare state is the complete absence of any coherent philosophy about their role**" (Heald, 1983, page 305, emphasis added).

Promarket groups emphasis the potential of charges in contributing to improved economic efficiency. Prest (1982) pointed to the sharp contrast between the economic theory of pricing and the lack of its application in practice. He noted that charging for local authority services in Britain remains a Cinderella. The economic theory is already well developed. The constraint lies in its practical implementation. The economic theory of (marginal cost) pricing "remains a viable and useful goal at which to aim. (However) ... there is no absolutely good or absolutely bad system but only a choice of imperfect possibilities. Which system is better in a particular instance is fundamentally an empirical question, though unfortunately one where we simply do not have the relevant information ... (Nonetheless) ... if the economist does not stress efficiency, no one else is likely to do so either" (Bird 1976 pages 39, 41 and 42).

Economic theory supports setting user charges equal to the extra (marginal) costs of service provision. The appropriate levels of subsidy for particular services where there are public good, merit good and externality characteristics are said to be matters of fact rather than of value judgement. It is therefore possible in theory to determine the amount of subsidy required where external benefits occur so that an optimal level of service provision is encouraged. In fact the new efficiency criteria are much more precise and, because of that, more difficult to implement in practice. Unless perfect competition is all-pervasive throughout the economy then it becomes necessary to adjust the prices for all goods and services so as to mimic the efficient allocation

of resources that would have occurred under endemic marginal cost pricing. This requires account to be taken of the interrelationships between substitutes and complements and the impact of price changes on real incomes and therefore on demands for goods and services (Baumol and Bradford 1970, Feldstein 1972). For example, where the demand for a commodity is highly sensitive to changes in both price and income but is insensitive to price changes for other goods (ie has no substitutes or complements), then only a small departure of price from marginal cost is required. The data requirements for such an approach clearly impose insuperable problems and it implies such all-pervasive government intervention in pricing policy (in both the public and private sectors) that it would be unacceptable in practice. It is now recognised that marginal cost pricing is not an efficient pricing rule but simply a way of recovering costs: it is a concept not a pricing policy.

Much has also been made of the need to limit local authorities' monopoly powers whereby lack of competition in the provision of a service effectively gives an authority leeway to exploit service users through unnecessarily high charges. Differences in the extent to which local authorities exploit their monopoly power would also lead to inconsistencies in an uncoordinated introduction of charges. For example, it is feared that charges for essentially the same service may vary widely between authorities and that this diversity would be magnified by any extension of charging. There may also be inconsistencies in charging practices within (as well as between) authorities. The danger is that development of charging policy on a selective and incremental basis, and using poor data relating to costs, benefits and demands, would lead to different approaches to covering costs and to potential conflict between services. For example, charges for public transport may be set to cover all costs whilst, at the same time, the authority may be seeking to reduce congestion in its city centre. These policies will conflict to the extent that high transport fares encourage people to use private transport. Higher fares together with increased congestion may also have the longer term effect of loss of business to city centre shopping facilities.

Many people object to charging for local authority services as a point of principle, in that market systems take no account of either a person's need for service or their ability to pay. Moreover, political control is reduced by a market system. Political parties still prefer to coerce the individual on public expenditure issues rather than allow for private choice. It would be possible to implement private choice by administrative means. For example, actual and potential service users

could be asked what their requirements are for various services. This already happens for tenants' groups in public housing and for library outreach programmes to inner city ethnic groups in many authorities. However, the main limitations of this approach lie in the initiative to consult always having to be taken by the local authority, the problems of reaching potential as well as actual service users, the time taken and finance required to achieve any radical restructuring of service provision, the bias towards expansion (rather than contraction) of services and the possible conflicts between public and private choice.

Past Conservative Governments have stated that, where possible, consumers should be free to choose whether to pay for a service or not. Hence, in principle, charges are preferred to compulsory local taxes. Furthermore, the 1986 Green Paper states that "charging has benefits in terms of efficiency as well as accountability... local people can see what they are getting for what they are paying... Realistic charging policies help to improve the efficient use of resources... Effective pricing policies help to make more explicit the extent of the subsidy that is provided and to whom" (Cmnd 9714 paragraphs 7.3 and 7.6). There was already a vocal lobby in favour of increased charging prior to 1986 (Harris and Seldon 1977). Briefly, they argue that where there is a dominant element of a private good in the supply of the service (ie where the benefit of service provision is largely restricted to the consumer) then in principle it is more appropriate and efficient to charge rather than cover the costs by subsidies from national or local taxation. This is because charging avoids excessive and unwanted provision and also avoids overconsumption of the subsidised or free good or service. Charging should also make costs more explicit and therefore should lead to better decision making. This raises questions about the nature of benefits and costs.

THE NATURE OF BENEFITS

Output, consumption and therefore benefit received are all difficult to identify and measure. For example, what are the outputs of the education and police services? Output measurement has not progressed significantly since the early 1970s. Indeed, local authorities are much more input-orientated than output-orientated. Many so-called measures of output are in fact intermediate output measures (eg numbers of places in residential accommodation or pupil-teacher ratios). This caveat often applies to private services as well. Some services are more susceptible to output measurement, eg tons of refuse, gallons of water, passenger miles and so on.

However, even when output can be measured this is not necessarily the same as consumption. Except where service take-up is made compulsory (e.g. education), there is a distinction to be made between the service being made available and it actually being used. Significant overcapacity could occur where local residents value the service less than the local authority supplier. Overcapacity is evident in many areas including council housing, public libraries, sports facilities, passenger transport etc. Some of this is due to peaks in demand causing temporary off-peak surpluses (e.g. for buses outside the rush-hour) but this may partly reflect a lack of differential charging between the two periods which could be used to encourage people without fixed routines to use services in periods of slack demand. For example, pensioners could be charged a higher price for peak than for off-peak use of swimming pools, golf courses, buses etc. Such charging differentials would help to smooth out variations in the time-pattern of demand and so reduce excess capacity.

Overcapacity may also be due to falling populations in old urban areas, especially for services with high fixed costs and where there had been no capacity constraint leading to excess demand (e.g. water and sewerage). Alternatively poor service standards may be the cause of surplus services (e.g. badly designed and maintained council housing). Whatever the cause of excess capacity, output is not necessarily the same as consumption. Moreover, consumption is not always a good measure of benefit received. For technical services such as refuse collection, transit and water supply it may be reasonable to assume that benefit per unit of output is equal for all users. However, for services such as education, police and fire protection such an assumption would probably be invalid. For example, the benefits per unit of education can be expected to vary between different social and ethnic groups. In other words, different volumes of inputs, outputs and consumption may be required in order to achieve a given unit of benefit for these groups.

It is therefore necessary to measure benefit rather than output or consumption. However, these major services may have merit good characteristics which lead to under-valuation and so rule out charging according to benefit. Moreover, once payment is linked to users' valuations of services (say in response to a questionnaire) there is an incentive to understate personal valuations so as to reduce payment for services (the 'free rider' problem). Lack of ability to pay may also cause benefits to be underestimated even without such free rider incentives. On the other hand, use of expressed demand for subsidised services will tend to exaggerate valuations because of the problems of distributional coalitions discussed earlier. The local authority could itself try to make

some assessment of the benefit of service provision to users but, once again, this would be subject to the supply side failings of public choice mechanisms. Local politicians and bureaucrats may value services more highly than the actual recipients of those services. It is also not clear what the benefits of some services will be prior to their consumption by individuals (eg public library information services).

A distinction has to be made between net and gross benefit. These will be the same where the service is delivered to the home, e.g. water and sewerage, meals on wheels, council housing and refuse collection. However, where the individual has to travel to the service facility (e.g. a sports centre, library or museum) then the gross valuation will exceed the net valuation by the value of travel costs (i.e. the fare plus the value of time spent travelling). Demand for a service depends partly upon proximity to users (Losch 1954, Bennett 1980, Sharpe and Newton 1984). Charging in relation to net benefit is very problematical. Furthermore, experience with discriminatory fares for rail travel suggests that they are only practical for broad groups of users and even then can lead to complex fare structures and confusion and resentment on the part of consumers (Trotter 1985). Resentment would be greater the larger the differentials and the less their relationship to need for the service, to the income levels of users and to the costs of providing the service. Where true valuations can be obtained, and where public services are valued more highly than the costs of their production, then benefit based charges may lead to unacceptably high levels of profits. This is most likely for pure public goods (where unlimited consumption is available from a given output), for pseudo public goods like public parks (where exclusion is difficult) and for private goods with significant positive externalities.

THE NATURE OF COSTS

Whereas the Government's rationale for the Community Charge was that it reflected the benefits of service provision more accurately than did domestic rates (a questionable assertion), its rationale for charges is that they are able to reflect costs more accurately than are local taxes. The major practical problem in this respect is that local authority cost data is grossly deficient. Accounting costs are influenced by esoteric practices such as straight-line depreciation (where the book value of an asset is reduced by equal amounts over its estimated lifetime) and accelerated depreciation (Frenckner 1990). The latter practice would require higher charges (equal to accounting costs) than the former and both have to make assumptions about the lifetimes and terminal values of capital

assets. Hence accounting data is not sacrosanct.

Capital costs will also be affected by any excess capacity caused, for example, by falling population. This is the case for many older central city authorities which have underused schools (Bailey 1982a and 1982b), spare network capacity in water supply and sewerage, surplus council houses etc. Hence costs are spread over a smaller output so that unit costs rise. If charges are based on costs then they also will increase. It may be thought unfair to charge users for costs for which they are not responsible. For example, central government's calculation of subsidy for council housing assumes an occupancy rate of 98 percent and if the actual rate is less than this then rents will be higher as a result. The alternative would be to cover such costs by national or local taxes; but taxpayers could also disclaim responsibility for these costs! Someone has to pay but it may be thought more equitable for national taxes to compensate such authorities (and their residents) for the costs of decline.

The problem here is that there is no precise mathematical relationship between demographic decline and rising unit costs (Cameron and Bailey 1987). Service provision is dynamic rather than static and such local authorities have used decline as an opportunity to both rationalise and improve provision of major services. Hence it becomes difficult to disentangle non-discretionary from discretionary costs. Indeed such a conceptual distinction may not even be possible. In new development areas extra capacity in water and sewerage systems is usually built in at the planning stage. If the expected future development does not occur then again spare capacity will push up costs. In effect future users of the service and/or future taxpayers are having to bear the risks of speculative developments. It may be more equitable to make private developers bear such risks through a system of development charges (see chapter 7).

It is evident that the concept of costs is not clear and immutable. There is scope for considerable flexibility in the definition of costs which are relevant for charging policy. Despite first impressions of the tangibility of costs and the intangibility of benefits, there is no such sharp distinction between them. Concern has often been expressed about the falling proportions of expenditure or costs financed by charges (chapter 3). The presentation of such figures is commonplace in public finance textbooks and other writings. However, these figures are largely irrelevant: they are proportions of expenditure or income; they are not proportions of 'costs' despite widespread use of that term. This is because local authority accounts, and the national figures derived from

them, are not measures of economic costs.

Such figures merely identify sources and uses of funds in various accounts. There is little use of depreciation accounting and little attempt to adjust fixed asset costs to take account of inflation (for example the use of historic rather than current replacement costs for assets such as council housing, schools, other buildings, land, etc.). There is also little assessment of 'opportunity costs', ie the value of an asset in its next best alternative use. This is a measure of the true (economic) cost of using an asset for one particular purpose rather than another. This concept is particularly relevant to the recent discussion about appropriate levels of council house rents. It is argued that rents should be set in relation to these conceptual costs rather than simply being sufficient to cover the financial requirements of the housing service (see chapter 5).

Overhead charges such as for central administration are often not allocated to individual services. Loans pooling favours services with (say) the most recent debt at high real interest rates since they are charged the lower average pool rate incurred on past borrowing. Hence, there is a lack of proper identification of costs for individual services. Even within a service costs are often not identified. Many authorities have paid little attention to costs when rationalising education provision, even at the level of the individual school, simply because costs (of, for example, sixth-form provision) have not been identified and measured (Bailey 1984). More recently the use of 'creative accounting' techniques to avoid or minimise central government grant penalties has served to highlight the irrelevance of local authority accounts in identifying the true (economic) costs of service provision. These techniques include payments to and deductions from special funds (operating outside the penalty system) when penalties were low and high respectively, the similar use of balances from one year to the next, the capitalisation of revenue spending, the rescheduling of debt payments over longer time periods, selling municipal assets and leasing them back etc (Elcock et al 1989). The 1986 Green Paper states that such practices "mislead local electors about the true costs of the services provided for them" (Cmnd 9714 paragraph 7.18).

Most local authority services are amenable to a proper identification of costs. This is especially so where there is no time dimension to demand. For some services, however, the situation is more complex, namely where demand varies by time of day or week. This is often the case for leisure and transport facilities. For example, if there was an increase in demand for bus travel by peak period (rush hour) commuters then cost

to the local authority of increasing output (passenger miles) includes the capital costs of new buses, parking facilities etc, and also the running costs of extra labour required, fuel costs, and so on. By contrast an increase in demand in an off peak period would involve no extra capital costs since spare capacity already exists and is lying idle, for example the large numbers of buses parked at garages during the day between the morning and the evening rush hours. In this case cost just equals the extra running costs. Hence, costs of increased provision may vary by time of day and, ideally, charges should take account of the time dimension of demand and the cost consequences of meeting it.

Such a peak/off peak differential charge may cause problems for services with relatively high fixed costs. If it leads to a sharp decline in peak demand creating significant excess capacity then unit costs will rise and the charge would have to rise further. Hence a phased introduction of differential charges is advisable, as would also be the case for a sharp increase in the differential. This problem would be less likely to occur if there was already excess demand (rationed by queuing or by administrative means) or if demand was insensitive to the charge. However, there may be considerable consumer resentment against such increases in charges so again a phased introduction would be desirable on public relations grounds.

Where the time pattern of demand is insensitive to differential charges (say because of fixed daily routines for commuting or for water consumption), then there will be no immediate impact on costs. In the longer term, however, relatively higher peak period charges would be more likely to limit overall demand growth and smooth out the time pattern of demand. Administrative measures such as hose pipe and sprinkler bans or changes in working and school hours are likely to be more effective in the short term and would be complemented by such charging policies in the longer term. Many local authorities do in fact have higher charges for peak period users of leisure facilities (eg squash courts) and public transport services (Stirling 1985). A proper relation of charging to costs would identify costs per service, for example for each route rather than for the network as a whole. Cross-subsidisation between profitable and unprofitable routes is endemic.

INCREASED RELIANCE ON MARKET FORCES?

There is clearly a need for substantial improvements in the type and quality of information concerning both the benefits and the costs of service provision. It is people's perceptions of them which determines

their demand for incremental services. Whilst this is true for both the public and private sectors there is more attention paid to equity and need for service in the former. All a private firm has to do is survive but local authorities have a wider set of objectives and a radically different system of accountability. Much greater attention is paid to what is proper, fair and socially acceptable in the collective/objective context in which local government operates. The 'public interest' implies a distinction between collective/objective (or real) and subjective/individual (or perceived) costs and benefits. It means that the conditions for perfect consumer rationality are not present and this serves to question the legitimacy of user charges. Likewise, no system of taxation can deliver a framework that matches objective costs and benefits with subjectively perceived ones.

It is difficult to foresee what effects completely new charging practices would have on both service provision and take up. The 1986 Green Paper specifically recognised that "provision of public services cannot, of course, be governed only by market pricing considerations" (Cmnd 9714 paragraph 7.6). An earlier Committee of Enquiry into local government finance had concluded that "it is possible to envisage a radical change in the policies for financing local services which could rely much more on charging people for the individual benefits they enjoy". However, this would "require a substantial redistribution of income. It would also involve a radical change in the role of local government in providing public services. We do not believe such a change could be contemplated except as part of a deliberate national policy applied to other publicly provided services as well as to local government services, not least because the required redistribution of income would be a government responsibility". (Cmnd 6453 chapter 9).

Pragmatic considerations require charges to fit within the institutional framework of local government and within the particular service delivery characteristics of individual services. Hence, unrestrained market forces are eschewed: they must be tempered by collective choice mechanisms to promote (rather than obstruct) service objectives. Private choices must be consistent with the social objectives of local services and facilitate participation and pluralism as well as public choice. A blanket approach to charging would therefore be inappropriate. The previous chapters cast considerable doubt on the appropriateness of a simplistic application of economic theory to the financing of local government services. However, before attempting to establish a coherent philosophy for the use of service charges, it is instructive to review alternative proposals for the determination of appropriate charges and levels of

subsidy, some of which make use of economic theory. It will be shown that they are based on incomplete rationales because of the failure to recognise the limitations of collective choice mechanisms.

POPULAR CHARGING METHODS

Two broad separate approaches are distinguishable, each with its own variations. Charging methods based directly on costs include three main variants. 'Variable cost charging' attempts to cover all running costs which vary with use or provision of the service. No contribution is required for fixed capital costs or overheads. Possible examples are meals-on-wheels services to the elderly or use of swimming pools. 'Partial overhead charging' sets charges to cover all variable costs and a proportion of fixed costs. A possible example is squash courts which require dedicated enclosed space unsuitable for use by general open-hall activities such as badminton or 5-a-side football. The choice about the appropriate proportion is either a conscious political decision or is the largely arbitrary outcome of financial pressures. The same proportion could apply uniformly over all chargeable services or it could vary according to service characteristics. 'Full cost charging' sets charges to cover all fixed and variable costs so that no subsidy is payable in support of the relevant services. A possible example is golf where municipal courses are specifically provided at a lower standard than of private clubs in an attempt to make provision more widely available to less affluent groups and where, consequently, only full cost recovery should be achieved rather than profits.

Charging methods not directly based on costs include two main variants. 'Going rate charging' sets charges at the same levels as other local authorities offering the same services at comparable levels or standards. It does not take into account any differences which may exist between authorities such as differences in costs, in client groups or in location of the facility relative to where users live or undertake other complementary activities. It may be based on some idea of inter-jurisdictional equity, ie that this authority's residents should be provided with the same sorts of services as residents in neighbouring authorities and at comparable charges. Alternatively it may simply be an attempt to compete where facilities in different authorities serve the same urban continuum. An example might be a badly sited sports centre which was simply built where land was currently available without regard for the location of facilities already existing in a neighbouring authority. The 'demand oriented charging' method sets charges at levels which different groups of users are willing to pay, often judged by reference to

private sector alternatives. Possible examples are charges for leisure centre activities (sauna, solarium etc), business information services provided by major municipal reference libraries and collection and disposal of industrial trade wastes. This method may lead to substantial losses or (more likely?) to considerable profits. In turn, losses and profits would result in considerable (probably unidentified) cross subsidies between different facilities and between different groups of user.

All or a combination of these methods may be followed by individual authorities depending on service objectives or simply on traditional practice. Each method may have to be modified in the light of policies on concessionary schemes for particular types of service user. However, a prior choice has to be made regarding which services are chargeable and which should continue to be fully financed from local taxes and intergovernmental transfers. Only once this latter decision has been made can the appropriate charging method be considered and this is the most contentious decision of all. Without it one need not worry about the financial impacts on both individual service users and the wider local community. In practice the decision whether to charge or not is not clear cut and a number of approaches are now considered.

ALTERNATIVE PROPOSALS FOR CHARGING POLICY

(1) Service Categorisation

The 'categorisation of services' approach seeks to define services as 'need', 'protective', 'amenity' or 'facility' services. The 'need' services would be wholly financed from taxation and so free at the point of use whilst the 'facility' services would be wholly financed by charges. In between these extremes, the 'protective' and 'amenity' services would be financed by a combination of taxes and charges, income from subsidies exceeding charges for the former and the reverse for the latter. This is essentially the same as the 'distribution of benefits' approach which assigns services to "categories defined in terms of the degree to which benefits fall to users or the community.....Services benefitting the community exclusively are funded by general revenues, and services benefitting users exclusively are funded 100 per cent by user charges. In between are three categories: services from which the community benefits more than users; services where the benefits are equal; and services from which users benefit more than the community. These three categories are to be funded by user charges to the proportion of 25, 50 and 75 per cent respectively" (Smith, 1986, page 84). Both approaches are based on public good, private good and externality characteristic. They are oversimplistic as well as essentially arbitrary and subjective in

that they are based on practitioners' impressions of the nature of benefits derived from individual services. No specific account is taken of service costs or of the characteristics of service users. Nor is there any comprehensive philosophy relating to the promotion of availability and quality of service delivery, aspects of particular relevance to policy makers, practitioners and users of services.

(2) Subsidy by Default

An alternative approach is to fully charge for services unless there are good reasons to the contrary. This approach is based on a presumption in favour of charging so that subsidies are only paid by default. It was followed by Layfield (1976), by the Joint Working Group in its 1979 report to the Consultative Council on Local Government Finance, by Glasby (1981), and by the 1986 Green Paper. Good reasons to the contrary relate to control of access, to the acceptability, incidence and administrative cost of charging, to the nature and extent of benefits, to ability to pay, to demand and cost factors and, finally, to efficiency and effectiveness. Whilst broader than the 'distribution of benefits' approach, it is still not based on a coherent philosophy about the role of charges in the provision of local government services. It assumes that the service must be provided at a particular level or mix and that the only question to be resolved is the way in which it is to be financed. In other words, the decisions relating to supply and finance are seen as independent of each other rather than as part of an integrated decision making process. The financing and provision of local government services are, of course, inextricably linked but somehow charges (unlike taxes) are seen as incidental, if not inimical, to the public expenditure process. This leads to a disjunction in decision-making. For example, it assumes that charges will not be used where collection costs are too high in relation to the revenue raised without first questioning whether the service should be provided or, if so, at what level and for which particular service mix.

(3) Minimum Standards

If central government was concerned to ensure minimum standards coercion could be achieved by legislation. In practice there is no such clear distinction between national control and local autonomy but rather a complex mixture of pressures and influences and a wide but largely undefined element of local discretion (Bailey 1988a). Such an approach would therefore require a radical change in current practice but conceivably the collective/objective interest could be financed by taxation (local taxes plus equalising intergovernmental grants); thereafter charges could be used to finance discretionary increases in service provision. This would remove unnecessary obstacles to

individual rationality and provide a rational and consistent framework for accountability. However, it is methodologically suspect in that it assumes a clear delineation between collective/objective and individual/subjective interests. Moreover, it leaves little role for local government in that such a scenario would only require a local agency receiving a lump sum from national and local taxes, thereafter pursuing output maximisation subject only to the income constraint imposed by individuals' willingness and ability to pay charges.

(4) Basic and Nonbasic Services

Rather than specifying minimum standards for each service (in aggregate and for each component) different services and/or their components could be classified as basic (and therefore provided free) and nonbasic (and therefore chargeable at full cost). This approach is already adopted for some private services, eg the tendency of commercial banks to provide free basic cheque accounts ('core' service) but thereafter charge for 'non-core' services such as direct debits, 'stops' on cheques etc. It assumes that there are some service components which are germane to the service and others that are not essential. This is probably not even valid in the banking example, since it is largely by historical accident that the core service is free; it is certainly questionable for public services. It is less precise than the minimum standards approach in that it does not seek to guarantee a particular standard, neither for basic nor for nonbasic services. It has been proposed by the Government in respect of public library services (see chapter 6). The main problem is in terms of securing agreement about the categorisation of services since there are no clear principles upon which such a distinction can be based. The result is a largely arbitrary subdivision which pays little heed to the way in which services are supplied and used.

There are quite radical implications for the encouragement of access under both the minimum standards and basic services approach. They provide no rationale for the provision of services above the minimum level or for non basic services other than that they will be provided if and only if they can be wholly financed by charges. Besides discouraging higher standards of service provision (in aggregate or by component), they are not even designed to encourage takeup of basic or minimum services other than the hope that free services will be used to capacity. There is not necessarily a proactive role for councillors or for management.

Whilst an explicit decision has to be taken regarding the minimum standard of service, the basic standards approach simply categorises

services as either basic or non basic, leaving unresolved the standard to which the former will be supplied. The standard of nonbasic services would be determined by the willingness to pay of service users but that willingness may itself be constrained if the basic and nonbasic services are effectively in joint supply or if awareness of the latter's availability is dependent on prior use of the former. Hence, there is no allowance for interaction between the basic free service and the charged for non basic service, nor between any minimum and user-derived higher standard. Decision making criteria for each category are assumed to be fundamentally different: arising out of the political process in the minimum/basic case and out of a market approach in the higher standards/nonbasic case.

It is not self evident why such a dichotomy should be necessary, not even as a result of severe resource constraints. It assumes that the political and market resource allocation processes are mutually exclusive and cannot operate jointly and simultaneously in determining the particular standard for a particular service. In that sense it is not an organic process but rather a disjointed one which fails to integrate a variety of decision making procedures in a dynamic interactive process.

(5) Customised Value Added Services

A coherent philosophy would be to levy charges on value-added services where there is substantial real discretion on the part of service users to themselves customise the levels and mix of service outputs. This is distinct from the other approaches in that it does not require definitions of minimum standards nor of basic and non basic services, nor an assessment of the balance of benefit between the individual user and the community. It is incremental in approach and relates to the development of both new services or variants of existing ones, but only those that are specifically designed to be providing customised value added services at the discretion of the individual user. It is a demand side approach to service provision which can complement the other supply side methodologies as necessary. Three examples will be used to illustrate the proposal and all are developed in considerable detail in the following chapters.

First, a local housing authority could offer its tenants a restricted range of refurbishment possibilities. This range would include the standard thought acceptable by the local authority but, in addition, tenants could choose from (say) several other options providing a higher standard of refurbishment provided that they agreed to pay a premium on top of the collective rent schedule. This is effectively a heavily constrained service

menu where tenant choice is severely limited by the authority but, nonetheless, is not completely circumscribed by collective decision making. The service is not fully customised to each individual's set of preferences and there may need to be some minimum number of tenants choosing each available option in order to avoid unnecessarily high costs. Hence the collective base of certain decisions may simply be devolved from the authority-wide level to the estate or block level.

Second, public libraries could offer a range of services which individuals would be at liberty to customise at their own discretion. An example would be the choice between the manual but free use of reference material in print form compared with the charged for use of computer-based information search facilities. The charge would be justified because of the customised value-added nature of the service in terms of the convenience (including time saved) by the user and the extra costs (eg staff time dealing with the enquiry) imposed on the library service by the unrestrained choice of the user. In other words the library authority would make the service available in terms of providing the indivisible aspects of service delivery but thereafter it would be up to individuals to make what use they wished of the service provided that they were willing to pay the extra costs that they directly impose on the service as they take advantage of the added value component. In this example, the menu of service options is limited (as for the housing example) but not the total consumption of each item because the discretion regarding take-up of additional units of service rests with the individual.

Third, developers of commercial, industrial or housing construction projects could be charged for the cost of the customised value added component arising from the local authority's provision of infrastructure. The cost of facilities such as schools, roads and sports centres is currently financed by borrowing and is repaid over time by local taxes etc. An explicit infrastructure charge paid by developers would ensure that existing residents and businesses do not have to bear an unfair proportion of the costs of new development through their payment of the local (property) tax. The infrastructure charge bears the additional costs, net of the discounted present value of the existing debt charges to be paid by new residents or new businesses. (The present value of future revenues is less in cash terms than the future sum because it can accumulate interest in the interim). This procedure also ensures that new residents and businesses do not pay more than these growth-related costs and so avoids them subsidising existing residents and businesses.

There are many other detailed examples of the customised value added

approach in later chapters. Note that in these examples there is no assessment of the relative balance of benefit nor necessarily any prescription of an appropriate minimum level of service. Nor is the availability of alternative private sector supply a necessary or sufficient condition for charging. Such choices are usually very restricted and the charge would therefore be largely compulsory. For example, council tenants often have little real alternative to public renting and would effectively be the victims of monopoly exploitation. Moreover, the nature of many public services is different in kind from those in the private sector. Hence, the existence of a private alternative is not sufficient to justify the adoption of a full user-pay philosophy. Instead the deciding factor is the individual's own assessment of the customised value added component (rather than that of the local authority) and it is the individual's take-up of such services which effectively determines the balance between collective and individual financing for each service.

In general the charge covers only those costs which can be clearly related to the individual's use of the service. In this sense charges related to the customised added value of services whose take-up is at the discretion of the user are comparable with the economists' prescription of short run marginal cost pricing. Fixed costs which are related to service levels determined by the outcome of the local political process would be covered by taxation. This is justifiable since the service is made available by and for the community as a whole and therefore it is justifiable that there should be communal financing. However, where individual take-up of the service is discretionary it is reasonable to set charges which recover additional costs without making profits. Costs would be the full economic costs discussed above. Hence this methodology integrates economic and political concepts relating to service delivery. The key points are firstly, that this charging methodology changes the structure of incentives without destroying the nature of the service and, secondly, that only those services would be provided which are consistent with broader service objectives.

Criticisms of the Customised Value Added Approach

(1) Charging for services must necessarily be rejected since it is part of the market system which is antithetical to public provision. This proposal is not part of a free market system in that the local authority would only decide to provide such a service if it was consistent with broader collective interests. It would not therefore be customer-led in the free market sense and is consistent with an enabling role for local government.

(2) Charges would lead to a reduction in service availability for those who could not afford or did not wish to pay. This criticism incorrectly assumes that all services are chargeable and are used by such groups in sufficiently high numbers as to cause significant problems. Many charges are set so as to confer benefits on deserving or needy groups, but local authorities have paid little or no attention to just what level of subsidy is being provided per unit of output and who actually consumes those units of output (made evident in chapters 5 to 8). There is evidence that the main beneficiaries of rail transport subsidies (paid by both central and local government) are people with high (rather than low) incomes (Collings and Welsby 1980). Similarly there is evidence that many other services are also used more heavily by more affluent groups (Bramley et al 1989). Hence the provision of free services is an inefficient way of targetting subsidy to low income groups, nor does it facilitate choice.

(3) Charges would limit choices available to all service users. Choice is often restrained already by rationing service takeup (eg a limit on the number of public library books that can be borrowed). A charge related to the customised value added nature of service could serve to promote service improvements especially during a period of budgetary constraint. The alternative outcome is that public services will become ossified and users will opt out in preference for private sector provision or simply not avail themselves of any service at all. Hence, by default, public services will become increasingly unpopular and choice increasingly limited.

(4) Such choices are largely theoretical for low income groups depending on the adequacy of the national social security system. The same criticism applies to many private goods and services which may be more influential in their lives than local government services (eg fuel and sports facilities respectively) and whilst choice will be more limited for low income than for high income groups this is not a reason for denying choice completely through monolithic municipal provision.

(5) The local taxpayer would ultimately bear the cost of failure if the demand for value added services was insufficient. There is an element of collective risk taking but that is already the case for new service variations and it is endemic to innovative service delivery. Risk could be reduced if lessons could be learnt from the experience of other local authorities.

(6) It effectively adopts the existing standard as the minimum and then charges for all service increments so that it is no different from the minimum standards approach. Not all service improvements are or could be customised to the wants of individual users, for example road improvement schemes or improvements in educational provision. Customised value added improvements of service could be charged for irrespective of the particular balance of public and private interest and irrespective of any particular service level. There would be no "objective" split between public and private financing based on any particular set of criteria. The split would instead be determined by the interaction of collective and individualistic interest whereby individuals would be free to improve on the collectively provided standard within any constraints set down by the local authority. These constraints could be in the form of a menu of service possibilities with limited or open-ended consumption levels depending on the nature of the service and its particular set of objectives.

(7) It is merely tinkering at the margins because it only applies to service increments and there will still be a tendency to overprovision since there is still a predominance of collective financing. The response is that it is probably unrealistic to believe that there is a panacea to the problems of collective choice, only a counterbalancing of incentives towards distributional coalitions. A free market solution is methodologically invalid but so is unlimited subsidy. Moreover, provision is not synonymous with takeup, eg where there is low utilisation of capacity. Takeup can be encouraged by customising the service at the margin so that it yields added value to the individual user.

(8) Customised value added services could lead to exclusivity of use. This would be the case, for example, where a senior league football club came to an agreement with the local authority for an area of previously open park grassland to be fenced off and a higher quality of turf provided (possibly along with changing facilities etc.). The club would then pay for this customisation of service in that it would cover the costs involved but only those in excess of the cost of maintaining the general open parkland. The Canadian evidence is that such improvements in quality of service increase takeup (see chapter 8). However, the criticism is that the service is then made exclusive to club members and the general public becomes barred from entry to the facility. This is in fact already the case for club use of leisure and other facilities and yet the collective subsidy often bears the cost.

(9) Public services will increasingly come into direct competition with private provision. For example, the hire of popular films on video cassette from public libraries at subsidised rates could be criticised for its unfair competition with private retail outlets. Similar criticisms could apply to private information brokers in competition with public library information services, public and private passenger transport, rental housing, residential care of the elderly, golf courses etc. There is certainly some justification for this argument and it behoves public libraries and other public services to reconsider whether such developments are consistent with their wider objectives. If market solutions for public services have been rejected then it would be inconsistent for service development to be market led in an uncontrolled fashion. However, in most areas of public service provision there is little direct competition between public and private provision and complementarity rather than substitutability is more often the case. An example is the provision of information services by public libraries and by private information brokers. Both are growth areas but are often differentiated in the type of information provided. A local authority may specialise in providing information of relevance to small firms or emerging industries in its area, a specialism that private information brokers may not find profitable. The public and private service may be complementary rather than mutually exclusive.

Advantages of the Customised Value Added Approach

(1) Such charges are not the outcome of an anti-government, pro-market sentiment of unconstrained market forces. There is still a large element of collective choice consistent with the community interest in adequate levels of service provision.

(2) It recognises the interaction of individual and collective choices. They are not mutually exclusive and, indeed, can be complementary in terms of promoting the collective interest. It addresses the problems of collective decision making outlined in chapter 2 without going for such radical reforms that the very nature of local government would be brought into question.

(3) It provides a long term solution to some of the problems inherent in collective choice situations. "The surprising tendency for the 'exploitation' of the great by the small" (Olson 1965 page 35) applies both in terms of individual local authorities seeking to exploit the national taxpayer (through central government grants) and in terms of distributional coalitions within individual local authorities attempting

to do likewise at the local service distribution level. Political-administrative arrangements such as lump sum grants and local tax capping are unsuccessful limits on local government spending. Ultimately central government has to compromise to achieve a political solution, increasing grants to reduce local taxes below what they otherwise would have been and basing capping criteria on local budgets rather than on its own assessment of need to spend at the local level. This involves a large degree of circularity, in that higher grants allow higher budgets which in turn allow higher local taxes before capping comes into play. At best such measures are only short term solutions and at worst they encourage 'rent seeking' activities. The administrative, financial and political costs of the poll tax are a case in point, considerable effort being invested in agitating for extensions to exemptions and rebates. Any long term solution must involve a restructuring of incentives such that there is a change in the balance between the costs and benefits of additional service consumption, increasing the individual rather than collective cost of discretionary increases in service takeup. The poll tax and the variants of the property tax emphasised the latter; this proposal emphasises the former.

(4) The liability for charges is incurred voluntarily as an integral part of social policy and of the institutional framework within which local government operates. It is consistent with the overall framework for the financing of local services and is not restricted to an assessment of the balance of private and social costs and benefits by local politicians or bureaucrats.

(5) It would make services more attractive to users and so encourage service takeup. Whilst acceptable at the aggregate social level, the collectively determined makeup of service may not be attractive to the individual user. This is because, by its very nature, collective provision is pitched at some conglomerate of user preferences which often bears little resemblance to the dispersion of actual user wants. This leads to the fairly frequent complaints about bureaucratic insensitivity and the excessive uniformity and blandness of service provision. Public sector services often become stigmatised as unattractive and non-innovative, in direct contrast to private services which emphasise customer orientation through product differentiation and marketing. This difference may be more symbolic than real but it is the users' (rather than provider's) perception of service that is important in giving the service appeal and encouraging use.

Shortage of finance is a symptom rather than the cause of the problem in

that public services are usually tailored to some notional (even fictional) set of characteristics of 'collective user', neglecting the obvious point that collectives are comprised of individuals and it is 'individual user' who actually uses the service. Hence spending more money on the service does not address the fundamental problem that services are not responsive to individual/subjective needs. Bureaucrats cannot be expected to be aware of all individuals' sets of preferences and voting systems are incapable of expressing them (see chapter 2). There is no such thing as 'the public library service' or 'the council housing service' but rather a composite of differing service aspects, whose nuances change over time and space. Subtle differences in the way in which the service is presented can have considerable impacts on the way the service is perceived by users, even if they do not change the overall collective character of the service.

How can these nuances be fashioned? Questionnaires are one possibility but suffer from standard problems of bias and representativeness, are particularly costly and do not guarantee the reflection of users' desires in service outcomes. The same criticisms apply to consultative groups of service users which may act as distributional coalitions because they exclude the potential users that any service reorientation may seek. So, whilst such methods could be used in certain cases, they are not a complete solution to the problem and can be complemented by charging for customised value added services.

Implementation of Customised Value Added Charges

This policy could be adopted immediately for all new service developments as appropriate. It could complement existing charging rules. The case studies in the following chapters discuss implementation in detail so only general points are made here. A prior requirement for choice of charging policies is the specification of clear and comprehensive objectives for each service together with a detailed knowledge of the context in which the service operates. Charging policy must fit within those broader service objectives which may include expansion, increased availability and improved quality of the service. Charging can only be judged to be efficient and effective in terms of service objectives.

Whilst some extension of charging may be seen as a way of relaxing the present financial constraints upon local authorities it should be noted that less revenue than expected is usually forthcoming from new or higher charges. This is because of the changing behaviour of both

consumers and professionals, rising service costs, and the increasing number of exemptions from charges within dependent age groups (children, the elderly, the disabled, low income groups, etc) which constitute between 40 and 50 percent of the population and even higher proportions of service users.

Bovaird (1981) recommended inflation proofing charges, regular monitoring of service useage in response to changing charges and the use of charges to stimulate off peak demand and/or reduce peak demand (eg for leisure facilities) but only where there is no resulting decline in revenue. Bovaird also recommended the establishment of a mechanism in the budget cycle whereby charging policy and objectives are re-examined on an annual basis. This is similar to Hepworth (1984) who notes that, without such an annual review of charges, subsidised facilities may continue to be provided long after the real need for them has ceased to exist. Coopers and Lybrand (1981) came to broadly similar conclusions in their study of local environmental services. Lunden (1982 page 471) argues that "charging fees and accounting for costs require a very conscientious approach to user-orientated services and to public relations".

There is a danger that the current emphasis on costs to the exclusion of benefits (since output is difficult to measure) will seriously undervalue local authority services. The charging philosophy advocated here avoids such undervaluation by integrating revenue raising and expenditure within a coherent policy framework.

CONCLUSIONS

Advocates of charges argue that the theoretical and practical arguments against increased use of charges are over-emphasised and that in the majority of cases collection costs should be covered, that many private goods freely traded on the market also have external effects, that income maintenance is the province of central rather than local government, that underutilisation of fixed assets means they should not be renewed when they wear out, and that low charges in support of other objectives are an inefficient way of achieving them (eg demand for bus travel is simply not very responsive to fare levels and structures). Charges would also allow less scope for organisational slack, for growing bureaucracies, for political manipulation of voters by politicians and reduced consequences arising from the failure of voting systems.

However, charging will only be appropriate where there is considerable

choice whether to consume additional increments of the service. This is the case because, firstly, it may be considered unethical to impose charges where choice did not exist and, secondly, improvements in the use of resources and in management procedures require services to adapt their outputs (both level and mix) to the freely expressed demands of service clients. If use of the service is compulsory (e.g. school education) then a charge is singularly inappropriate since it effectively becomes a tax subject to all the criticisms of collective choice.

The rationale for charges for customised value added services is that they restructure incentives in two ways. First, the collective provision and financing of services which are predominantly rival in consumption tends to encourage the formation of distributional coalitions which have a strong incentive to seek higher levels of service provision because benefits are concentrated on themselves whilst costs are borne by the generality of taxpayers. Charges for customised value added services would serve to limit such increases. Second, in that services do become more tailored to the needs of the individual user, they will gain added value and appreciation of them will increase. There will therefore be a greater incentive to use them. These are not contradictory incentives, one appearing to reduce use, the other increasing the value of service and therefore its takeup. Customised value added services would only relate to new service developments and so a charge related to those service improvements would not reduce service use, in fact it would increase it on at least a part self-financing basis.

Given that there may be some subsidy paid in respect of such services, the speed at which they could be introduced would depend in part on the extent to which the charge covered full costs. However, in a period of constrained budgets, their introduction would be faster than if no such private finance was forthcoming. The possibility that local authorities may put too much emphasis on the development of such services at the expense of other services that therefore become starved of finance is a management issue that can be resolved by clear policy guidance.

Giving public services greater customised value added attributes can only improve the public's appreciation of them. The continual criticism of public services is a positive management tool in the right circumstances but there appears to be some justification for believing that the at times excessive criticism of public services arises out of the failure of collective choice rather than as a result of the inefficiencies of public sector managers. Whilst the Conservative Governments of the 1980s emphasised the role of voter incentives in introducing the poll tax,

its analysis of the problem of local government spending has been partial in that it ignored incentives faced by subgroups of service users whose local tax payments were unaltered by redistribution of service provision in their favour. This led to a misdirection of policy, emphasising pseudo market solutions to the neglect of other reforms which are more likely to promote service improvements. Too often service rationalisation has become synonymous with service reduction and this has generated considerable suspicion on the part of service users and providers.

The customised value added approach has the potential to persuade users of the benefits arising from rationalisation via customised value added service improvements, even though charges go in tandem with them. Collective and individual interests are not necessarily mutually exclusive and the relevant policy problem is how to achieve an optimal mix of collective and private incentives in the provision of public services. The purpose of the following chapters is to illustrate just how that policy problem can be addressed for the whole range of local government services in Britain.

PART 3: PRACTICE

CHAPTER 5: COUNCIL HOUSE RENTS

INTRODUCTION

Whilst two thirds of houses are owner-occupied (CSO 1991), local authorities still have a stock of 5.5 million dwellings and council housing is the dominant form of tenure in many metropolitan district councils. Any discussion of rental policy has to take account of varying local circumstances and recognise the interaction of housing and social policies (Clapham et al 1990). Housing policy covers public and private rental and the owner-occupied sector and involves a large number of public and private agencies besides local authorities.

Housing is also important in terms of social welfare programmes on a number of grounds. First, because of the high proportion of households' incomes and expenditures for which it accounts (Ermisch 1984 page 6.). Second, its historical links with public health programmes (Malpass and Murie 1987). Third, its modern day relevance to the inner cities, still with high proportions of old, decaying, low amenity dwellings (Murie and Forrest 1980). Fourth, the less favourable circumstances of council tenants, on average being characterised by relatively low incomes and low socioeconomic group status, relatively high dependence on income-maintenance benefits, and relatively high proportions of both single parent families and large families (Audit Commission 1986a page 33). Fifth, the distribution of tax subsidies available to owner occupiers and of rent subsidies to council (and other) tenants (Le Grand 1982 pages 82-105).

Hence, there are clearly many potential dangers in adopting a piecemeal, tenure-specific approach to rental policy. Proposals for council rent policy may conflict with other objectives in this and other tenures. Nonetheless, much of the formulation of housing policy and many of the forms in which it is implemented are strictly not within the remit of local authorities. Attention must necessarily focus on their particular roles and responsibilities whilst avoiding analytical fragmentation and an overconcentration on financial arrangements (Malpass and Murie 1987 pages 313-314). In particular, there is no single prescription for measures to deal with all the problems of council housing. Problems are continually changing in a dynamic context and it is important to see local authority housing in perspective and to adopt realistic objectives and programmes. The 'housing crisis' is not solely restricted to local authorities and their potential role in addressing it has increasingly been brought into question as other agencies have seen their roles expanded

(eg housing associations), as council house sales have progressed and as the balance between tenure-specific subsidies has been altered. Local authority provision is not now (and probably never was) seen as a panacea to all housing problems.

Even with the current movement towards residualisation of local authority housing and an increased emphasis on the enabling and facilitating role, local authorities will continue to be responsible for a considerable stock of housing and the immediate issue that they must face is one of how to improve management procedures, overcome or at least ameliorate local housing problems and improve tenant satisfaction.

The structure of rents in a local authority is one of a number of important management tools but one that has arguably not been used to its full potential in the past. The search for an appropriate rental policy requires a brief examination of financial arrangements for council housing. Alternative rent structures and popular rules for rental policies can then be examined. A new rent policy can then be proposed, taking account of the influence of subsidy systems and recognising the status quo as the starting point upon which any reform must be based.

FINANCIAL ARRANGEMENTS FOR COUNCIL HOUSING

Local councils have been free to determine their own rent levels for all but two of the last 70 years. Their housing is financed separately from other services through the Housing Revenue Account (HRA) and rents account for about two thirds of income (Kearns and MacLennan 1989 page 19). Government subsidies have been paid into the HRA since the mid 1930s. Local authorities could also subsidise their HRAs from their General Rate Fund which received government grants for other services as well as income from local taxes (the rates). This Rate Fund Contribution (RFC) to the HRA was used to balance the HRA after receipt of central government subsidies and after rent levels had been decided. Levels of both rents and RFCs were therefore interdependent.

Since 1970 subsidy systems have been increasingly used to influence (i.e. raise) local authorities' rent levels consistent with the move towards market rents. Subsidies assumed annual increases in local contributions from rents and the RFC before funding any deficit against expenditure. However, the balance between rents and the RFC was essentially a local decision. During the 1980s high RFCs could lead to loss of grant to the General Rate Fund (GRF) so that, in combination with HRA deficit subsidies, central government was able to exert a very powerful

influence on rent levels (Bailey 1985) . In the early 1980s they rose much faster than prices in general but then fell in real terms after 1984, subsequently rising again during the late 1980s (see chapter 3).

These variations occurred largely because most authorities had 'gone out of subsidy' on the HRA by the mid 1980s and almost a third were transferring HRA surpluses to their GRFs (allowed since 1981). Central government had assumed that reckonable income (mainly from rents) had increased so fast that it overtook reckonable expenditure (mainly loan charges and repairs and maintenance). Once central government ceased paying subsidy to a local authority it largely lost its influence on rents. A large proportion of this reduction in Exchequer subsidy was, however, offset by increased payments of national rent rebates which shifted the balance towards personal/household subsidies, away from 'bricks and mortar' subsidies and, at the same time, reduced central government's leverage on rent levels.

The 1989 Local Government and Housing Act brought all but two authorities back 'into subsidy' and therefore brought rents under central government control once more (Maclennan and Williams 1990, Ward 1990). This was achieved by subjecting the HRA to a 'ring-fence' (as from 1990) serving to completely detach it from the General Fund's finances. RFCs to the HRA are no longer allowed so that the only sources of income now comprise rents net of rebate and the new HRA Subsidy. This replaced the earlier Housing Subsidy, RFCs and the rent rebate element of Housing Benefit Subsidy so that it now includes both income-related and general elements. The income-related element accounts for the largest part of the HRA Subsidy and is financed by the Department of Social Security, being paid directly to local authorities rather than indirectly via the tenant. The ring-fence also means that transfers from the HRA to the General Rate Fund (now the General Fund) are no longer allowed until the HRA can balance without any Exchequer Subsidy at all. (In the late 1980s about 24 authorities had made transfers from the HRA to the old GRF whilst still receiving Housing Subsidy).

In the Government's opinion "tenants will thus be given clear signals about the performance of their council's housing operation" (DOE 1988a page 7). However, the ring-fence includes the cost of wardens for sheltered housing, the administration costs of dealing with waiting lists and homelessness, the costs of maintaining streets, lighting, shops etc, so that it is not a true landlord account (Warburton 1991). It is not self-evident why council tenants rather than the generality of local taxpayers

should bear these costs and face the rent distortions which result. Central government's assumptions about rent increases and subsidy are designed to reduce disparities in rent levels between authorities in given geographical areas. The Government can also make assumptions about expenditure on management and maintenance. Any notional surpluses will have to be transferred to the new General Fund (regardless of the real balance) to benefit local taxpayers, who now pay the Community Charge (Deacon 1988).

ALTERNATIVE RENT STRUCTURES

There are a number of ways in which the structure and/or levels of rents can be determined. Objections to them are based on both principle and pragmatism.

1. Relating Rents Directly to Income

This would be equivalent to imposing a tax and therefore subject to the methodological criticisms of chapter 2. It does not constitute a rent structure.

2. Free Market-Based Rents

Rent determination could be left to the free market so that the rent commanded by a particular property would be the same irrespective of its tenure (ie public or private). However, a narrow market-based approach to rents is inappropriate. Local authority housing cannot be expected to approximate free market conditions; nor indeed does owner-occupation or private renting. Market mechanisms cannot simply be imposed upon a system of non market allocation. This approach would be based on assumptions that belie decisions to provide and regulate housing. Tenants with full consumer powers may not be competent to make socially acceptable decisions.

It would also fail to properly recognise the nature of the service in that tenants already use the service, have statutory rights to continue to do so and often have no alternative but to remain in council housing. Local authorities also have a statutory duty to provide accommodation for applicants who are both homeless (as defined by law) and in a priority group (eg a family with children). Whilst central government believes that rents should not be subsidised by local tax payers and should bear more of a consistent relationship to market values and tenants' incomes, it nonetheless accepts that rents will frequently be below market levels.

3. Cost-Based Rents

Cost-based rents would be primarily determined by the amount of outstanding debt to be paid on the historic cost of dwellings. Hence, by historical accident, the rent of a 40 year old property would be less than that of a recently constructed one. Such a discrepancy is not equitable and, in practice, debt is typically pooled over large numbers of houses so that the outstanding debt for individual houses is simply not known.

4. Use-Value Rents

Use-value rents would reflect the benefit of occupation. This raises the question of who should judge benefit, housing officers, councillors or tenants? Benefits could be proxied by private sector rents for comparable properties but practical problems arise. First, rent controls for private sector tenancies distort private sector rents. Second, it is difficult to find comparable properties since most private rented dwellings are predominantly of pre 1914 construction, usually of low standard and concentrated in poorer inner city areas (Cmnd 6851 Table 2, page 142). Third, current value pricing would provide a less distorted basis for choice only if it was also applied to the owner-occupied sector. This "would probably involve the taxation of notional income from beneficial occupation; an amount related to the difference between outgoings actually incurred and the current market rental" (Cmnd 6851 page 35). There is no such tax at present.

5 Fair Rents

Rents could use the 'fair rents' system applied to the private sector. Again, who judges what is fair? Besides, the 1988 Housing Act abolished this system for new tenancies with housing associations and private landlords. Furthermore, there were many criticisms of the method used to determine fair rents, particularly the use of scarcity factors to reduce rents below the levels that would reflect local shortages of supply.

6. Points Systems

Points systems rents reflect the physical characteristics (e.g. numbers of bedrooms) of the property. However, they tend to ignore spatial location and neighbourhood attributes which are probably more important in determining current values. These points systems have also tended to operate within the constraints of balanced Housing Revenue Accounts (HRAs) rather than reflecting current market values.

7. Rents Based Upon Rateable Values

These were meant to reflect the net annual rental values of properties

(i.e. gross rent minus maintenance and insurance costs etc). Rateable Values (RVs) had the advantage of being independent, readily available, easy to use and they took account of dwelling characteristics (eg size, quality and location). However, RVs reflected professionals' assessed valuations rather than the valuations of tenants themselves, there were severe data problems caused by a shortage of rental evidence (Cmnd 6453 page 435) and it was questionable whether they could legitimately be applied to the very different public rental sector (Webster 1979). Not surprisingly, research found little correlation between RVs and dwelling characteristics. Like a points system, they only determined relative rents consistent with the average rent required to balance the HRA once subsidies had been determined. Rateable values were abolished in 1990 and the Council Tax will only use broad valuation bands, probably of little use for rent setting purposes (DOE 1991b).

8. Rents Based on Capital Values

Central government has called for rent differentials which reflect the value or popularity of properties (DOE 1988a paragraph 18). This is effectively the same as saying that rents should be based on capital values and the evidence is that they (and therefore regional characteristics) already outweigh local political hue in determining rents (ADC 1990). Local authorities could assess the capital values of their dwellings using the right to buy sale values (before discount). However, lack of a free housing market may distort capital values and, whilst they could be used to determine rent relativities for dwellings, they cannot themselves determine the actual rent to be charged. Furthermore, market-based approaches have already been dismissed in principle.

9. An Alternative Capital Value Approach

Another approach, related to capital values, is to charge a rent based on economic criteria (hereafter referred to as an 'economic rent') whereby council housing is treated like any other investment. Each council house or flat must earn a return at least equal to that which would have been earned if the capital used to provide the dwelling had been used elsewhere. If that were the case then they should be allowed to secure additional investment where required in order to achieve market equilibrium (Whitehead and Kleinman 1988). Freedom to invest in council housing yielding relatively high equimarginal returns is unlikely given the recent history of capital expenditure control (Audit Commission 1985). Once again, this approach is questionable in principle and there are serious practical difficulties.

Such a rent is a measure of the real economic cost of the dwelling, ie the

goods and services that have to be given up in order to build and maintain it. It therefore differs from the accounting costs derived from the HRA. First, the HRA uses historic costs for capital debt rather than the current resource cost of construction. Second, no allowance is made for depreciation. Third, whilst repairs and maintenance costs are based upon current values the backlog of repairs means that the accounting figures grossly underestimate the true costs. By the late 1980s an estimated 85 percent of council dwellings were in need of repairs costing £22 billion in England alone (Audit Commission 1986a, Cowie 1988). Fourth, the original costs of land purchase may differ from free market values because of the local authority's own planning constraints, compulsory purchase powers, redevelopment costs etc. Fifth, debt is pooled on old and new dwellings leading to considerable cross-subsidisation and making costs per dwelling almost impossible to calculate.

The net effect of these accounting deficiencies is that HRA figures significantly underestimate the true economic costs of council dwellings. A precise definition of an economic rent would be that it "is approximately the economic capital value, reduced by the discounted value of the dwelling at the end of its life, multiplied by a real rate of interest, plus administrative costs plus a function of present and future maintenance costs" (Grey et al 1981 page 23. See also Ermisch 1984 page 36).

Whilst conceptually clear, this measure of rent suffers from severe data problems in its determination. First, data on capital values may be poor. Second, the final value of the dwelling is unknown so that depreciation allowances can, at best, only be informed guesses. Third, the lifetime of the dwelling is uncertain and depends upon levels of repairs and maintenance, as well as obsolescence due to location and standard. Fourth, the real interest rate (used as a proxy for what the capital used to build the dwelling could have earned if invested elsewhere) is difficult both to define and predict. In particular, the interest rate may be endogenous to the public expenditure process (eg if public sector borrowing, in part to finance construction of council houses, puts upward pressure on interest rates) or to monetary policy.

These criticisms do not invalidate the concept of an economic rent. It is better to have crude approximations of an analytically precise concept than precise measures of an irrelevant one. For example, the true rent subsidy to council tenants is the difference between the economic rent and the actual rent, not the cash subsidies entering the HRA or paid as

Housing Benefit and it appears that rents are often only about half full economic costs (Audit Commission 1986a page 58). Nonetheless, the severe data problems encountered in determining economic rents only allow a very crude aggregate assessment of rent (and subsidy) levels. Rent determination at the level of the individual house or estate cannot be implemented on the basis of a simple formula and there is a danger of becoming bogged down in detailed arithmetic.

This approach implicitly assumes that the pattern of rents based upon capital values would replicate the pattern of rents produced by a freely operating rental market. This can be questioned on two grounds. First, tenants (unlike landlords and owners) do not take potential capital gains into account when expressing their demands for rental properties since their interest is in the consumption, rather than the investment value of housing. Second, if both rents and demand were positively related to capital values, then demand would counter-intuitively rise with higher rents. "The concept of economic rent is an analytical tool, and not necessarily a basis for setting rents for each household" (Grey et al 1981 page 21).

10. Rents Based on Target Rates of Return

A simpler approach would be to require average rents to earn a target rate of return on the current capital value of council stock (King and Atkinson 1980). The target could be modified by the need to take account of the relative treatment of different tenures, the relationship between housing costs and income and any non-pecuniary returns, although some writers argue that such 'externalities' are probably not very large (Grey et al 1981 page 128). Such adjustments greatly exacerbate the data problems already referred to for the last proposal which is based on the same questionable principle. Moreover, given the considerable degree of monopoly power of many inner city housing authorities, the achievement of such a target would not in itself indicate efficiency in that exploitative rents could cover unnecessarily high costs to ensure the required rate of return.

Requiring such a return on existing stock will not in itself increase efficiency. The aggregate economic benefits (tangible and intangible) derived from that stock will remain unaltered. The new requirement will only lead to a redistribution of the benefits derived from occupation of council dwellings. Calculations suggest that a 5 percent rate of return would require increases in rents ranging from 1.7 percent to 329 percent in individual authorities (Kettlewell 1989 page 8). There may be other valid reasons why council rents should be increased in real terms (eg

because a low rent policy is an inefficient way of targetting subsidies to those households most in need of financial assistance), but a sudden increase in economic efficiency is not one of them. Such a required return could only increase economic efficiency for new investments in council housing. Bygones are bygones; past investments (and the benefits derived from them) are irreversible. The problem of economic efficiency now relates less to the size of the existing stock itself than to its correct level of maintenance, in particular whether the returns to society to be derived from an adequate maintenance and rehabilitation programme are greater than the economic costs involved.

11. Rents Based on Agreed Service Levels

Significant characteristics of local authority housing are its collective nature and the opportunities for respecification of services (both levels and types of service) and eligibility for service consumption. Hence there is considerable scope for negotiation between tenants and their local authorities over rents and services based upon non-market decision-making procedures and objectives. The local authority would continue to make collective decisions about the overall collective housing service (within the constraints imposed by the HRA), with agreed rent differentials financing specific housing services. Points systems could still be used within estates to take account of size of dwelling (number of apartments etc).

Hence this proposal is a modification of any existing rent structure. As for any hybrid rent policy, it is necessary to determine the rationale and links between each element (Kleinman and Whitehead 1991). The rationale derives from the customised value added approach (chapter 4). The linking factor is that it allows progressive and cumulative change to the rental structures currently in use. It would not lead to an immediate radical restructuring of rents. A radically new rent structure would require various transitional arrangements or dampening schemes to avoid large overnight adjustments to relative rent levels. Hence it is unrealistic to assume that immediate solutions to current rent problems are available. Such arbitrary transitional adjustments are unnecessary for this proposal. It is a liberalised rent setting procedure rather than a completely new rent structure. However, it could eventually become the predominant influence on rent levels as rents adjust to the costs related to tenant choice and as past debt relating to initial construction is eventually paid off.

It differs from the third option above in that the costs associated with tenants' preferences would be clearly attributable to specific properties on

individual estates. It incorporates administrative and collective preference criteria, with demand for particular estates continuing to be restrained by non-market allocative criteria (eg needs-based points systems, queuing on waiting lists etc) rather than by a rent free-for-all. Tenants have the opportunity to pay for customised value-added services in addition to those deemed appropriate on an authority-wide basis. This recognises the durability and security of tenancies. However, there are objections in principle as well as considerable practical problems. These are discussed in detail after an examination of popular rent setting rules and of rent structures actually adopted.

POPULAR RULES FOR RENTAL POLICY

A number of dubious policy rules have been advocated at various times:

(a) No Profit Rules

A basic tenet of long standing is that council housing should not be run at a profit. However, 'profit' is defined in terms of the HRA which has already been argued to be a very poor guide to true costs, given its historic cost basis. The result is that the HRA will record a profit prematurely.

(b) Low Rents to Protect Low Income Tenants

Despite introduction of the national system of rent rebates in the early 1970s many councils still perceive a need to protect low income tenants from high rents. About 60 percent of council tenants receive rent rebates (DOE 1988a page 2) but estimated take-up rates are poor, 90,000 of the 300,000 people entitled to Housing Benefit not applying for it (NAO 1989). However, the solution is to encourage take-up levels rather than to reduce local authority rents, especially when take-up is lowest amongst private rental tenants. It is a common misconception that all council tenants are poor. Whilst they are poorer on average than owner occupiers there is in fact a great disparity in levels of affluence within each group.

(c) Charge Affordable Rents

An arbitrary (but oft-quoted) definition of affordable rent is that not more than 20 percent of a household's income should be committed to payment of rent. However, an open-ended rent subsidy may be regarded as undesirable in encouraging under-occupation of dwellings or in financing excessively high rents for particular properties. Hence, there are limits on the payment of rebate. On the other hand, some local authority tenants are probably paying rents in excess of market rentals for

delapidated housing.

(d) Higher Rents are Pointless because of Rebates and Arrears

It is sometimes argued that it is pointless to increase council rents because over half of the increase is simply funded by the public sector itself (through benefits) and because arrears have been funded by other tenants since 1990 (rather than from local taxation as was previously the case). This argument denies a management role for rents, is probably only valid during periods of high unemployment and ignores the criticism that low rents benefit all tenants irrespective of income. Low rents are a particularly inefficient way of targetting assistance to those most in need. Claims that high rents simply lead to increased rent arrears (5 percent of the annual rent bill in 1989/90) assume that rent levels are the prime determinant of whether or not a household falls into arrears. In fact there is little evidence to support this rather simplistic view.

Whilst a comparison of arrears for the various public and private renting sectors and mortgagors reveals that the incidence of arrears is greatest for local authority tenants, this difference is not explained by differences in income nor by levels or rates of increase in housing payments, recently greater in both cases for owner occupiers (Berthoud and Kempson 1992). The greatest influences on rent arrears are the method and frequency of payment, the type of household and the type and popularity of the area. Weekly or fortnightly collections involving direct contact between landlord and tenant and a rent book (which makes clear impending arrears) are more successful than payment of rent through post offices; single parent and unemployed/sick householders are more likely to fall into arrears and can be adversely affected by changes in Housing Benefit regulations; arrears are greater in urban areas and on unpopular estates; about two thirds of arrears cases owe less than four weeks rent (Duncan and Kirby 1983, Audit Commission 1984b and 1989a, Accounts Commission 1991).

(e) The Same Subsidy Levels for all Tenures:

It has been argued that the real level of housing subsidy should be the same for a particular household irrespective of its choice of housing tenure (Grey et al 1981 page 51, Ermisch 1984 pages 12-13 and 50-52). Subsidies have become increasingly concentrated on owner occupation both in terms of tax relief (on mortgage interest payments and on capital gains) and grants to encourage the repair and improvement of the existing stock of private houses. By the mid 1980s such tax relief was valued at over £6 billion whilst total public spending on housing was

less than £3 billion. (Housing Benefit, a rent subsidy, accounted for another £3 billion). However, the wider objectives of housing policy have required differential housing subsidies between tenures, geographical areas, and households of varying economic viability, for example to increase owner occupation, labour mobility and incentives to work respectively (Malpass and Murie 1987 chapter 5).

Whilst such differential, tenure-specific subsidies have been criticised for not being related to needs, eg of poor pensioners, women and ethnic minorities (Merrett et al 1991), it would be counter-productive for local authorities to seek to negate national housing policies. Moreover, since council rents are not set on a house-by-house basis, there would be a risk of severe distortions in subsidy levels between council tenants themselves.

RENTAL POLICIES IN PRACTICE

Local authorities face a statutory requirement to balance their HRAs and this has focussed councillors' attention on annual rent rises. The RFC has been used where necessary, particularly by large urban authorities and especially those in London. Rents are determined on a collective rather than individualistic basis and it is easier to justify largely standardised rents (per house type) than highly differentiated rent structures. The latter would vary according to the physical location of the property (and its accessibility to places of work, leisure, shopping etc), the standard of amenities supplied to the area (transport, shops, schools etc), the social characteristics of the area (social, economic and racial mix) and so on.

Besides the obvious difficulties in trying to quantify such benefits, they are themselves influenced by local authorities' own decisions, for example regarding infrastructural investments and tenancy allocation procedures. Restricted tenant choice in household location throws into question the desirability and validity of matching rents and benefits of occupation as judged by the local authority rather than by the tenant. Indeed, there is clear evidence that urban housing authorities are themselves partly responsible for near housing monopolies because of their unwillingness to release land for private sector housebuilding (Nicholls et al 1980).

Hence, in practice, rent pooling has been the norm whereby rents on older properties are more than sufficient to cover their historic costs and the resulting surpluses are used to subsidise newer properties where

broadly similar rents are insufficient to cover current costs. Similarly dwellings in 'more desirable' areas have broadly similar rents to those in 'less desirable' areas, rationing taking place via waiting lists (queuing) rather than by differential rents.

These accountancy/administrative approaches to rent policy and allocation of tenancies have been used in preference to rents based on economic principles or market criteria, which are either not understood by councillors and housing officers or which are seen as singularly inappropriate in a non-market system of housing provision. Political judgement has been preferred to mechanistic formulae.

Whilst such rental policies tended to limit rent differentials within individual authorities they led to wide diversity between authorities. By the early 1970s there was considerable and unjustifiable variation in average rents between authorities. Subsidies were inequitably distributed both between authorities and between tenants in any one authority. Rents and subsidies bore little relation to costs, quality or popularity of dwellings or to the incomes of tenants. Furthermore, council rents were increasingly falling behind private sector rents based upon fair rent criteria. Council rents rose by 39.2 percent on average between 1982-1983 and 1988-1989 compared with increases of 56.1 percent for housing associations and 69.8 percent for private landlords (Aughton and Malpass 1990 page 23). In 1989 the average council rent was about £20 per week compared with assured tenancy rents for housing associations of about £44 per week (Rayner 1989 page 17). Such discrepancies have long been the case (Black and Stafford 1988 page 54).

Some authorities faced low costs on their HRAs because their council building programmes had finished some time ago whilst other authorities were still continuing to build and/or face high debt charges in periods of rapid inflation. The no profit rule prevented rents rising in the former group while authorities in the latter group (with high ongoing costs) were not so constrained. A low rent plus high RFC would be partly the outcome of political choice and partly due to local housing circumstances combined with rising costs. The combination of historic cost accounting, a no profit rule, local rent pooling and general subsidies to the HRA led to an increasingly untenable situation.

These inconsistencies suggest that rents should be based upon independent criteria rather than being the residual outcome of subsidy arrangements and accounting conventions. The need for subsidy would then depend on the extent to which rent income is insufficient to cover

expenditure. Subsidies (rather than rents) should be calculated on a deficit basis. Moreover, the individualistic nature of rent rebates has led to growing pressures for greater rent differentials between properties consistent with attempts to introduce market forces and to encourage council house sales where renting becomes relatively expensive compared with owner occupation.

CAVEATS FOR A NEW RENTAL POLICY

Any new system of setting rents must not exacerbate current management problems. These include housing of the wrong type, a deteriorating stock, increasing homelessness combined with unlettable properties, unrealistic pricing signals, weak management and dissatisfied tenants (Audit Commission 1986a pages 5-6). Piecemeal and isolated proposals are unlikely to be successful and are more often counter-productive.

Take, for example, the suggestion that unpopular 'difficult to let' council estates should have their rents reduced to encourage the filling of vacant tenancies. This is a misconception in that such estates may be easy to let but only to households with a lower number of 'points' on the waiting list and who have no other option available because of low incomes, unemployment or social problems. Often termed 'dump estates', difficult to let areas become socially polarised, being tenanted with 'problem households' (DOE 1980). This tendency in part reflects the greater choice available now that the housing shortage has been overcome. Unpopularity is more closely associated with the social prestige of estates than their physical characteristics (SDD 1976 paragraph c.18 page 85) and hence circularity exists whereby council lettings policies and increased tenant choice lead to social polarisation and increasing unpopularity in a downward spiral.

The demand for housing does not simply depend on its price and the housing market is not a unitary one. As a commodity, housing is multi-faceted, varying in size and quality, its geographical location, the neighbourhood in which it is located and so on (Robinson 1979). Information is imperfect and decisions to buy or rent are made infrequently. These considerations call into question the adequacy of neoclassical demand analysis as a predictor of housing choices (Maclennan 1982 page 58). Hence, a cut in rent for difficult to let properties is unlikely to have an appreciable effect in drawing in 'higher status' households. In fact it may worsen the situation if housing officers, councillors and even tenants' groups use lower rents as a

justification for reduced repairs and maintenance, postponed rehabilitation and renovation programmes etc. Physical and social deterioration may interact to exacerbate the original problem. Rental policy has been counter-productive in such a case, reinforcing unpopularity rather than reducing it. It must be consistent with the tenancy allocation rules adopted by local authorities.

Councillors find it easier to defend a fairly flat rent profile rather than one that is steeply graded, probably for reasons of horizontal equity (Bramley 1991). Tenants are likely to be hostile to a sudden restructuring of rent profiles (especially the losers), particularly where they have little choice within the allocation of tenancies and where there has been no change in local amenities. They are unlikely to be sympathetic to concepts such as economic returns, and there will be strong feelings of inequity if rents for very similar properties vary simply because of their location within the authority. Whilst private housing markets have quite clearly stratified submarkets, tenants (and councillors) think in terms of a unitary collective council housing market.

A RENTAL POLICY BASED ON AGREED SERVICES

The context into which a new rental policy must fit is that of an organisation operating in a broadly non-market situation, where:

- (a) choice is not based solely upon individual preferences and is constrained by a number of collective decision-making processes, eg council allocation policies;
- (b) the demand for housing is highly segmented (eg elderly groups prefer ground floor dwellings, not high rise flats and ethnic groups prefer areas free of racial harassment);
- (c) entry barriers exist in terms of eligibility criteria;
- (d) tenancies are granted for life, irrespective of changing housing need;
- (e) the service has to be provided over the medium to long term;
- (f) the nature of the service is amenable to respecification;
- (g) the infrastructure (ie dwellings) must be maintained in good order;
- (h) management structures are often decentralised;
- (i) tenants' groups increasingly participate in decision-making.

These characteristics require rejection of both theoretically rigorous or formula-based solutions and experimentation with rents. It is a misconception to assume that such methods are used in markets for commercially traded goods. A more appropriate approach is for housing

authorities to ask tenants about their preferences for different types and standards of housing services and the rent levels that go with them. In this way some priority is given to housing needs as expressed by tenants themselves rather than politically- or administratively-perceived needs being imposed upon them by their local authorities.

There is some evidence that whilst service deliverers and tenants may agree on broadly stated objectives there may be widely differing opinions on standards (Skilton 1990). This may be the case if councils' own assessments of desirable service levels are revised downwards in the light of perceived resource constraints. Alternatively local authorities may be providing for general needs rather than for the particular mixes of needs demanded by subsets of tenants. This highlights the distinction between collective/objective and individual/subjective needs (chapters 2 and 4).

There may be more policy choice than first appears, given councillors' preoccupation with constraining rent increases. Some local authorities may be failing to provide as high a level of housing services as some (if not all) of their tenants are prepared to pay for. Studies have found feelings of powerlessness and frustration amongst many tenants who find difficulty in expressing their needs and aspirations to their local authorities (eg Grieve et al 1986, Skilton 1990). Hence the need to adopt and extend the principles of community involvement in housing management generally and rental policy in particular.

Rental policy should have a broadly collective foundation (eg the pooling of housing renewal, repairs and maintenance costs over all rents, rather than attributing them to individual properties) whilst allowing for differentiation in both rental structure (eg size of house) and service provision. This is a two-tier collective decision-making process, the overall scale and characteristics of the housing service being decided at an authority-wide level, supplemented by individual tenant or group decision making at the neighbourhood level. Services for which separate charges would be levied in addition to rent would be those goods and services which owner occupiers would have to pay for (or provide themselves) in addition to mortgage payments. The definition of such services may not be indisputable but, in general, choice of service would relate to both the internal and external environment. Separate charges for the internal environment would be levied for the cleaning of windows and internal fitments, kitchen and bathroom refurbishment, installation of central heating, double glazing, alarm and television aerials, electrical rewiring (including more sockets),

new front doors etc. These charges could be settled as one-off payments or paid as regular additions to the rent, depending on the longevity of the improvement, tenant choice and Housing Benefit regulations. However financed, they would be separately accounted for and would be available to individual tenants.

Tenants' groups could choose to pay for external services for a close, block or wider area but this would only include those services not normally financed by local taxation. Hence, they would exclude normal refuse collection and disposal services and street lighting and cleansing but would include:

- (1) external decoration,
- (2) the cleaning of communal areas and staircases,
- (3) the heating and lighting of communal areas,
- (4) resident caretakers,
- (5) increased security (eg entry-phone installation),
- (6) premises in vacant dwellings or shop units exclusively for the residents of the close, block or scheme (eg nursery and children's play facilities, clubs and associations etc),
- (7) enclosure of open decks and staircases,
- (8) floodlighting of courtyards and car parking areas (to deter crime and vandalism etc),
- (9) rubbish skips, conveniently sited and frequently emptied,
- (10) improved maintenance of grounds and gardens.

Given their communal nature, such services would be financed by additions to the rent but clearly and separately accounted for. At the very least "rent levels should be set to provide a return which adequately supports repairs and estate management services" (Grieve et al 1986 page 8). Tenants (individually or in groups as appropriate) could then decide upon a menu of housing services subject to them being partially or wholly self-financing through higher rents or one-off charges. These housing services would not include normal repairs and maintenance.

Versions of such an approach are already followed in isolated cases. Glasgow District Council is introducing a system using a basic lease at a basic rent with the option of a number of additional services which require additions to the basic rent. There is a possibility of confusion here with basic and non basic services. However, the approach is different in that it allows the housing service to be customised to the requirements of individual tenants or discreet groups of tenants. The housing authority does not specify particular levels of service. Instead it

distinguishes between the collective / objective and individual / subjective aspects of the service.

The fact that the additional services are housing-related (rather than personal services such as laundry and food), and are included in the rental payment, means that they are eligible for Housing Benefit. Hence there is no distinction between those who receive benefit and those who don't. Eastbourne District Council has a similar scheme which includes structural alterations such as the removal of internal walls and the formation of a second water closet (IOH 1990). It appears that the majority of former tenants who buy their council houses make such improvements, suggesting that there is a considerable pent-up demand for them. This is probably the case even though buyers are not representative of tenants as a whole. The former are predominantly older, usually in full-time skilled manual or white collar occupations, often with adult offspring still at home and with more than one wage earner in the household (DOE 1988c). There is no evidence to suggest that this group have a different set of preferences from tenants, more likely simply the opportunity and incomes to effect such improvements.

Some of these measures would provide employment within the community (eg cleaners and caretakers) and possible support community enterprise initiatives (McArthur and McGregor 1989). They would also help to restore pride of place, particularly in high rise and multi-storey developments to which some of these measures may be most suited. They would not address other problems caused by insufficient general funds for routine repairs and maintenance, stigmatisation and social isolation but would encourage more personalised management and help foster community spirit.

CRITICISMS OF THE AGREED SERVICES APPROACH

(1) It is invalid to concentrate on rents and local authorities to the exclusion of other housing issues and sectors. This criticism was recognised in the introduction to this paper and has been addressed as far as possible. Ultimately though this criticism is a recipe for doing nothing and fails to recognise the division of responsibilities within housing policy.

(2) The agreed services approach is little more than tinkering with the existing system. It is certainly not a fundamental reform because it is based on conventions already dismissed for the other rent policies (eg the use of historic costs) and so perpetuates current problems. It has

already been noted that there is no panacea. At worst, this proposal is justifiable in that it is the best of a bad bunch which includes the status quo. At best, it recognises the non-market, collective, administrative and other characteristics of the service and is an attempt to improve standards and tenant satisfaction. It liberalises tenant choice whilst allowing for continued regulation with respect to construction, habitable state, agencies, subsidies and direct provision.

(3) The proposal will not work because Housing Benefit officers have powers to decide if rents are excessive and, if they rule that negotiated rent increases are not eligible for rebates, the majority of tenants will effectively be excluded from the scheme. This remains to be seen, is not inevitably the case and depends on the clarity of guidance given to rent officers and the treatment of extra payments in the rent (as in the Glasgow example). For example, higher rents due to service charges (for cleaning etc.) may not be eligible for rebate but that part reflecting housing costs (potentially the greater part) could be.

(4) Rent rebates will tend to blunt net differentials in rents between estates, distort tenants' choices, and so limit the success of the new policy. This is inevitable as long as the need for such income maintenance is accepted but limited to the extent that Housing Benefit will not automatically fund all of such voluntary increases in rents.

(5) Limits on rent rebates could lead to higher quality estates occupied by families and low quality estates occupied by non family groups or 'problem' households. This is an extreme case and is perhaps unlikely in practice. In estates where childless couples and young single people are in the majority there may be less support for such initiatives because such groups are more likely to prefer cheaper rents in order to save money. This may partly be because they are less likely to be eligible for rent rebates and other state benefits than are family and retired households. Such communities may also be more transient so that the benefits of higher service levels are less attractive in the short term. The main factor would appear to be the authorities' allocation policies for flats and houses.

(6) Significant rent differentials could arise within (as well as between) authorities. This would not be a problem if it reflected tenant choice and a clear policy of stock improvement.

(7) It is not possible to ensure that preferences expressed by tenants' associations are fully reflective of those of all tenants within their area.

This criticism applies already to all issues about which tenants' associations are consulted (not just rents). Various mechanisms could be used to prevent domination by a minority whilst at the same time avoiding forced participation. Final decisions (as distinct from initial consultations) could be based on door-to-door surveys. Tenants should not have to participate to get a decent service but free-riding would have to be avoided. Individual households strongly opposed to the collective decisions could be given enhanced priority for transfer to other estates but would otherwise be bound by the collective decision. Criticism that some tenants impose their will on others who are thereby forced to pay higher rents irrespective of their wishes applies to public sector decisions in general and is an inevitable consequence of collective decision making.

(8) The extra money would be lost to other services financed from the General Fund through transfer of HRA surpluses. A legally binding tenancy agreement would prevent this.

(9) Legally binding tenancy agreements would be very difficult to implement. Enforcement of tenancy agreements is already an overriding priority for tenants (Skilton 1990 page 13) and so legal issues need to be addressed irrespective of any rental agreements. Here, local authorities would have to set distinct cost and other parameters within which tenants are free to choose internal design, kitchen layout etc. The merits of this proposal would be reduced if authorities set over-restrictive parameters because of fears of excessive demands or that the propriety of legal agreements could be challenged by their auditors. Nonetheless there is clearly a need to distinguish between the legal rights of tenants (as collective customers) and the statutory duties of local authorities.

(10) Rent increases could not immediately meet the high costs of improved standards. Consistent with existing practice, the extra rent revenue could be used to finance loan charges associated with the capital expenditures required for such improvements. Revenue costs (eg of improved cleaning and caretaking services) would be financed from rents on a pay-as-you-go basis.

(11) Debt charges would vary with interest rates so rents would have to vary. This would be avoided if rent payments were related to an expected long term average rate or if local authorities continued their current loans pooling arrangement.

(12) It would be unfair to expect rents to finance improvements that would or should be made anyway. The proportion of such extra costs to be funded from higher rents could be less than 100 percent if, for example, the local authority took a conscious decision to upgrade its entire stock to a certain standard. Residents on particular estates could be given the opportunity to improve that standard even further. This approach allows for decision-making at more than one level.

(13) Housing authorities will inevitably define the existing level of service as the maximum level of collective service and expect rent increases to fully finance all subsequent improvements. This is unlikely given the wider financial arrangements for the HRA and the authorities' own policies concerning standards and rents. Furthermore, this proposal does not require definition of a minimum standard of service (nor of a basic service) but rather a distinction between authority-wide decisions to improve the housing service and decisions at individual tenant or estate level. It is a misconception to see council housing as simply bricks and mortar for which a minimum standard can be easily defined (eg wind and water tight). The physical fabric is merely the instrument through which the service is delivered.

(14) There will be too great an emphasis on rents to the neglect of other initiatives. Rent structure is probably the most important management tool which a housing authority can use to help meet its housing objectives and has been neglected in the past.

(15) Cuts in government subsidy are already forcing rents up so much that tenants will simply not be able to finance any discretionary increases related to service level. This argument loses force as more authorities go out of subsidy. Such rental agreements may also forestall compulsory transfers of notional 'profits' from the HRA to the General Fund under direction from the Department of the Environment. In other words, the choice may be between higher rents for improved services and higher rents for no such improvement.

(16) Economies of scale would be lost for rehabilitation, repairs, and so on. This depends on the minimum areal level for tenancy agreements (house/flat, street, block or estate) for particular housing services and such cost factors could be taken into account when determining the areal level for agreements. However, the larger the collective the less the value of this initiative because tenant choice becomes more restricted. In practice, economies of scale may quickly be exhausted to the extent that

large rehabilitation programmes experience management diseconomies.

(17) It will be difficult to manage different types of service, for example those for incoming tenants to a particular block or estate. This problem will be reduced the smaller the collective decision making area because more choice will be available to prospective tenants.

(18) The approach will not be suitable for mixed tenure estates (ie where council house sales have been significant) because all dwellings will benefit. The relevance of this criticism is limited, however, since it would only apply to environmental improvements, not dwelling-specific improvements, and is more applicable to estates comprised of houses rather than flats, sales of the latter having been much less than for the former (DoE 1988c).

(19) The scope for such improvements would be limited by over-restrictive capital allocations imposed on local authorities by central government and which limit the amount of borrowing which they can undertake. This is indeed the case during a period of public expenditure constraint but it does not entirely prohibit housing authorities taking the initiative and introducing customised value added services gradually.

(20) Involving tenants in decision making is less an opportunity for them to express their preferences than it is an opportunity for the council to socialise the tenants into the the problems of the local authority. Whilst participation is double-edged, this argument cannot justify abandonment of consultation and its force is limited to the extent that residents are willing to pay for improvements in service.

IMPLEMENTATION OF THE RENT STRUCTURE

Any substantive restructuring of rent must recognise the existing rent profile and likely tenant responses to changes in structure. In particular, it is not appropriate to test consumer reaction on a trial and error basis by experimenting with rent structures to see what happens. In practice the housing stock may be highly segmented so that demand is insensitive to rent differentials. The complex nature of housing means that such experiments may result in reduced household formation rates, multiple occupation and generally increased densities, rather than a reshuffling of individual households between existing houses.

There would be fairly major implications for the way in which services are administered since takeup may not be evenly spread throughout an

individual council's housing stock, nor over the financial year. Councils would have to guarantee timely delivery and quality of the service. In the Glasgow case, four pilot projects were set up to see how the system would work in practice. Changes in rent structures and differentials can only be introduced gradually. Meanwhile other aspects of the housing service (allocation policies, rehabilitation programmes etc) are likely to be simultaneously changing tenants' responses and it would be extremely difficult to separate out all the other influences on, say, transfer requests. Furthermore, councillors are unlikely to sanction experimentation fearing greater likelihood of adverse than of welcome outcomes.

The customised value added approach is only one factor influencing rent structure. More generally, computer simulation can assist the process of selecting viable rent structures. It requires data on incomes, housing and household characteristics etc. Data collection is not costless and the balance between the extra costs and benefits of additional data has to be continually borne in mind. The simulation has to be constrained within the financial exigencies of the HRA but could adopt differing levels of areal aggregation, for example at district or estate level. The aim of such an exercise would be to see how far policy delegation of local rent structures can be made consistent with overall objectives.

The end result of the simulation must not be a rigid structure covering all properties and all relevant considerations. There must be some room for a qualitative input to the model to reflect the state of the local housing market, equity considerations or operational factors. Furthermore, there must be room for change as the scope and quality of data change over time. There must also be scope for local flexibility in rental contracts to allow for different levels of service depending on tenants' wishes at the local level. The housing authority would have to carry out a customer attitude survey to gather information on likely tenant reaction to such proposals. It would also have to cost alternative service contracts. Such contracts would clearly widen the range of housing service 'packages' which tenants could purchase. Rent and cost information would distinguish between authority-wide decisions and decisions by tenants as individuals or as groups at (say) estate level. This initial presentational device would be educational for tenants and get them used to thinking in terms of flexible standards over which they could later be given some control.

The customer attitude survey would use standard questionnaire techniques to record details of household structure, incomes, particular

requirements and future intentions. Questions would cover address, type of dwelling, number of apartments, number and details of residents (age, sex and occupation), place of birth (on the estate, in the city or elsewhere), whether employed or unemployed (and, if the latter, for how long and future job prospects, if any), household income, including receipt of social security benefits and pensions, rent paid and whether regarded as too high or too low, health status of residents, period of residence in the dwelling and the locality, previous tenancies, reasons for previous and, if desired, future moves (eg medical, marital, social, family, lack of or too much space, change of tenure, employment, neighbour problems etc), action taken (application for transfer or purchase of council house, looking elsewhere for a house to purchase etc), preference for the existing council dwelling to be upgraded (fixtures and fittings, size of rooms, heat and sound insulation, actual and desired method of heating), external facilities (play areas, car parking, social centres etc), willingness to pay for improved or additional internal and external housing services.

CONCLUSIONS

A rental policy based on agreed services incorporates a customised value added element at the discretion of tenants as individuals or groups. It is not a particularly radical proposal in that it can be grafted onto the rent structure currently in existence in each local housing authority and will only slowly lead to any significant restructuring of rent profiles. Hence change would be cumulative and gradual, allowing councillors and housing officers to gain experience (learning by doing) and allowing tenants to get used to the idea of more control over housing services.

Such a policy would also be consistent with the existing framework of central government influences on rents through the subsidy system and also consistent with any moves towards relating rents to current capital values of dwellings, to private market rents and to levels of household earnings. It would also complement council house sales in that council properties are made more desirable as places to live. Indeed such a rental policy is likely to promote achievement of these other objectives in that rent differentials will increasingly reflect differences in the popularity of estates and the values of their dwellings.

It represents a feasible step in the right direction rather than a radical once-for-all change in rent policy. It recognises the potential problems caused by initial service endowments, promotes collective consumerism and simultaneously liberalises rental policy. It acknowledges that

housing officers do not necessarily know best. Housing standards will be allowed to move with demand rather than just with supply. The latter is being increasingly constrained by limits on new building, on use of capital receipts and on contributions from national and local taxes. In this respect it goes against residualisation of council housing but is otherwise consistent with what is happening more generally. For example, it is consistent with the increasing acceptance of Housing Benefit as a welfare payment rather than a housing subsidy.

The absolute level of rent will still be heavily dependent upon the state of the HRA. This will reflect the average age of the housing stock, levels of expenditure on repairs and maintenance and the levels of HRA subsidy paid by central government. The latter will depend upon government requirements regarding rate of return or the balance of subsidy between the public and private sectors. Hence, the 'agreed services' proposal will not be the sole determinant of rents but its relative importance would increase over time. Nor is it a panacea to all the current problems of council housing. It is simply one management tool amongst many and certainly cannot rectify the current situation of a gross lack of funding for repairs and maintenance. However, it must be recognised that this lack of finance is partly attributable to low rent policies.

The proposal is practical, intelligible to councillors and tenants alike and complements other measures aimed at making the service more accountable and responsive to the needs and demands of tenants. In particular it complements an increasing emphasis on community involvement, management agreements about housing services and responsibilities and self-help initiatives in particular neighbourhoods. A more responsive rental policy could complement rather than replace non market mechanisms to the benefit of the service as well as its users. Whilst the level of collective service decided at the local authority scale is financed from both rents and national taxes, customised value added services decided by tenants could be wholly charged for in the form of rent premiums.

The customised value added approach is also consistent with any decision to abolish the HRA completely and replace it with a 'property account' and a 'services account'. It clearly recognises the conceptual distinction between a service charge and a bricks and mortar charge, a distinction crucial for the future development of council housing.

CHAPTER 6: CHARGES FOR PUBLIC LIBRARY SERVICES

INTRODUCTION

Any discussion of library financing, including user charges, must recognise two fundamental characteristics. First, libraries are an integral part of the cultural, recreational, educational, business and government milieus in modern societies. Second, the diverse nature of modern public libraries ranges from major municipal reference libraries to modest local lending libraries. Proposals to increase the role of charging must therefore be discussed in the context of the wider aspirations of the library service.

Historically, the objectives of public library provision have been concerned with both educational and recreational aspects of literature whether in print or such non print formats as records, film, audio tape etc. The emphasis has traditionally been on serving the community through individual library users who use those services on a purely voluntary basis. Hence a public library has to provide for a wide range of demands from the community and its service objectives are accordingly wide-ranging, diffuse and rather vague.

Holdings of library materials are not solely dictated by the current demands of library users. Public libraries usually maintain a broad-based, balanced collection of library materials, some of which may be used very infrequently or not at all, but the librarian may be judging future as well as current needs or deciding what ought to be available in the interests of the community. The range and diversity of material will vary from branch to branch within a public library system. This discussion refers to the system as a whole, including the main or central reference and lending libraries and their branch networks but any recommendations for charges will necessarily have different implications for individual libraries depending on their range of service provision.

According to Cultural Trends (published annually by the Policy Studies Institute) over half the adult population claimed to have read more than 10 books in 1988 and the Euromonitor Book Readership Survey suggested that reading rates are fairly static. However, a Sunday Times/MORI survey conducted in December 1987 found that whilst a fifth of adults had not read a single book in the previous year, a third of adults make no use of public libraries at all and almost another third

visit less than once a month. For those that do use libraries, the General Household Survey (GHS) results show that the overwhelming use is for book borrowing (compared with looking at reference books, newspapers etc) and the Public Lending Right (PLR) Office data reveals that 52 percent of loans are fiction, 7 percent literary non-fiction, 14 percent children's books and the rest general non-fiction, including 'do it yourself' (DIY), sport and travel.

The GHS data also shows that reading rates are fairly constant across age groups but are noticeably lower for women and the skilled, semi-skilled and unskilled manual social classes. PLR data also reveals an accelerating long term decline in the number of books borrowed from public libraries (a fall of 10 percent during the 1980s as a whole but 4.5 percent in the last year). This is confirmed by CIPFA's Public Library Statistics series which reveals a fall in the number of books issued per head of population fell from 11.9 in 1979-80 to 10.4 in 1988-89, a period during which the number of new titles doubled. Hence, whilst reading rates may be holding constant, libraries seem to be losing market share. This is occurring despite increased overall spending on public libraries, increased additions to their stock and an improving stock turnover rate (Martyn et al 1991). This is not necessarily because of restricted library opening hours and closure of branch libraries since the number of service points in residential care homes and hospitals is increasing. Instead, it appears to be because of increased book buying and competition from other pastimes like TV and video. It could also be due to other changes like the growth of out of town shopping complexes, too far away from libraries which tend to be visited whilst on shopping trips or other activities (Stevens 1991).

THE ECONOMIC RATIONALE FOR SUBSIDISED SERVICES

There are a number of supposed justifications for subsidising library services. Librarians often quote the need to serve the public good as defined in everyday terms. The economic reasons for subsidy have been variously described as arcane, semantic obstacles to developing a consensus over the broader definition of the public good (Josey 1987 pages 12 and 35). In this sense the economist's contribution is seen as sterile and contrary to the interests of public libraries. However, economic theory can be used to justify subsidised, if not completely free, library services and it would be premature to dismiss them out of hand.

First, reference has already been made to the community aspects of library provision. It is generally argued that in providing a service to the

individual, library provision also benefits the community as well in raising the level of literacy and knowledge of users which in turn provides a better educated labour force required for modern productive activity. Hence, the benefits of library provision are said to be much greater than the costs (Library Association 1987). However, the magnitude of these 'external benefits' is subject to dispute, given the difficulty of measuring them in practice. Indeed some library use may have little if any external benefit, eg use of library fiction books for light reading (recreation) or consulting DIY type materials.

The nature and size of any such community-wide benefits will vary depending on the user and the type of material used. However, it is not possible to predict the use to which information will be put and therefore its level of external benefits. Indeed, claiming that the recreational use of books has little if any external benefit is open to dispute. For example, it has been argued that reading Agatha Christie is not merely recreational but also an exercise in developing literacy and an appreciation of a work of art, much in the same way as reading classics such as Jane Austen etc. (Smith 1981).

Without an accurate account of public, as well as private, benefits it is not possible to determine by how much public library users should be subsidised from tax revenues. Whilst it may be agreed that external benefits do exist, and therefore library users should be encouraged by subsidy, it is not possible to conclude that the service should be completely financed through subsidy.

A second supposed justification for subsidising library services is the low incomes of users. However, not all library users have low incomes so that the 'low incomes' argument would not necessarily justify complete subsidisation. Third, services with the 'public good' characteristics of non-excludability and non-rivalness require full subsidy since users cannot be compelled to pay. However, it is possible to exclude non-members (eg as done by private libraries) and use of, say, a book precludes another person's use of that book at that time. However, information in its broadest sense does display characteristics of non-excludability and non-rivalness in that it is non-depletable and so can be used many times (Library Association 1987).

This public goods argument is rather simplistic in policy terms since, the British Government does not have an information policy per se but rather an economic policy that embraces information policy (Allan 1990). The method of financing information services (whether by taxes or

charges) is only one of a myriad of relevant factors including national security, censorship, privacy (data protection), changing information technologies, commercial interests, copyright, broadcasting and the media. The 1980s saw the commercialisation and commodification of tradeable government information within a deregulated, privatised context. Her Majesty's Stationery Office now has to cover its costs and earn a specified return on net assets in competition with other publishing companies for government work. Various cost cutting exercises have led to the cessation of publication of whole tranches of information, to the transfer of substantial responsibility for publication back to department of origin, to new and higher subscription charges at commercial rates, to the increasing cost of information only available in machine readable formats and so on.

Commercialisation is not necessarily an infringement of the principle of freedom of access to information since free access does not necessarily require use without charge. In fact what is required is an information infrastructure that allows access by the majority of the general public. Otherwise information will effectively be restricted to an elite of people already knowledgeable about both the sorts of information available and how to access it, or restricted to an exclusive clique of business users who can afford to pay information specialists to get the information for them. Moreover, both the current 'free or fee' debate regarding the provision of information and the public librarians' (self-perceived) role of protectors of the truth are severely qualified by the increasing unreliability of government statistics. Examples during the 1980s relate to the National Health Service ('new beds' figures ignored closed wards and income from prescription charges counted as new spending), unemployment (the definition of which was adjusted 24 times in 10 years, all but one reducing the total figure) and public expenditure figures (privatisation revenues were treated as negative expenditure). Statistics can be 'massaged' into advocacy statistics supporting a particular point of view and official interpretations of them slanted so as to be 'economical with the truth'.

Clearly, the 'fee or free' debate for information provision by public libraries has to be seen in a much wider context since other ongoing changes may be more influential than charges in determining accessibility. Suffice it to say that some aspects of library services may have public good characteristics but this does not provide a rationale for the complete subsidisation of all library services.

Fourth, information may be a merit good whereby the individual

undervalues the personal benefit of consumption of that library service, ie one doesn't appreciate the true value of information needed to make rational decisions until one has it. Hence consumption should be encouraged through subsidy but, again, this does not justify complete subsidisation of all library services.

Fifth, if library provision demonstrates economies of scale (ie unit costs fall as the scale of output increases) then an economically efficient pricing policy (price equal to incremental cost) will fail to generate sufficient revenue to cover total costs. Hence subsidy would be required but only sufficient to cover the ensuing deficit as distinct from total costs. Moreover, it is difficult to determine to what extent economies of scale exist in the provision of library services. Output is difficult to measure (it could be books issued, answers provided to library users' enquiries etc) and larger libraries offer different services (and therefore a different output) such as holdings of reference and archival materials, bibliographic services etc (Van House 1983).

A final argument for subsidy is that of option value. Provision of library services allows everyone the option of using those services at some future time. In holding a store of information (eg archives) a library maintains the option for future users to use that information and hence is of value to them even if they do not currently make use of the service. However, the concept of option value is not peculiar to public libraries and could also be claimed for private services (eg scheduled airlines). Hence, its justification for subsidy is open to question and, once again, it cannot justify full subsidisation of library services.

THE CASE AGAINST USER CHARGES

It is argued that charges would have an irreparably damaging effect on public libraries and their users by reducing use, narrowing the concept of public libraries, destroying all the external benefits and so harming the educational and cultural development of society (Library Association 1979 and Koefoed 1981). This criticism has a number of separate arguments most of which assume a charge-for-everything approach. This would be most inappropriate for the reasons already discussed. Nonetheless, a critique of these arguments will serve to highlight many of the potential pitfalls which must be avoided.

(1) Charges would reduce use.

An extreme view is that the population's need for library services must be fully satisfied. However, the same cannot be said of other goods and

services, even food (Crompton and Bonk 1980). Moreover, a Social Trends survey showed that of those reading a book in 1990, 38 percent bought it and only 32 percent borrowed it from the public library (CSO 1992). This was a reversal of the situation in 1981, the rest being gifts, borrowed from friends etc. Whilst people are now more likely to buy a book than borrow it from a public library, borrowings of adult fiction remained very popular (over 17 million issues in 1989/90) and the borrowing of childrens' books rose by more than 40 percent during the 1980s to more than 8 million issues in 1989/90. Hence, charges could discourage intellectual curiosity, actively discourage the infrequent and reluctant user (particularly illiterate adults), deter chargeable adults from using the library and so effectively reduce access for their young children (who need accompanying to the library). However, these fears are based on a simplistic 'before-and-after' basis for the current array of service provision. This views library services from a static viewpoint.

Except in very special circumstances, it is undisputably true that a given service which was previously free will experience reduced demand if a charge is suddenly levied. However, the fall in demand may only be temporary, returning to near former levels after an interval of time as the idea of charges is accepted. Furthermore, it is highly unlikely that only charges will change. Charges are most likely to be implemented at a time of service reorganisation or expansion, for example where a new service is being introduced and part financed by user charges. In this 'with-and-without' basis of comparison it is clear that charges do not necessarily reduce usage of the service. Library services should be seen in a dynamic rather than static context.

Hence, it is not self-evident that the introduction of charging on a selective basis will have an irreparably damaging effect on public libraries and their users. Indeed in certain cases quite the opposite effect may be achieved and the correct identification of such cases is crucial. Revenue from appropriate charges could be used carefully and positively to widen (rather than narrow) the concept of the public library; new services could provide positive outlets for curiosity.

(2) Charges deny freedom of access.

Here, access to information and ideas and the culture should be regarded as a right in a mature society to which every citizen has a right regardless of ability to pay. However, supplying a service does not guarantee use (Drake 1984). Freedom of access has become confused with free provision. For example, an American study showed that only 3 per cent of respondents used a library to obtain information on their most

important problems (Crompton and Bonk 1980) and another study ranked libraries ninth among a variety of information sources (Drake 1984). The main problem here is seen as the amount of time that must be spent in the library seeking out the desired information and it is the time input, rather than any charge, which serves to inhibit use of library facilities. Hence a faster customised library service with a charge may be more attractive than a free but slower self-service.

Moreover, where duplication of book titles on the shelves is inadequate due to financial constraints their availability free of charge is notional rather than real (Ronnie 1984). In this case charging a book rental for popular titles would finance not just increased duplication of titles and therefore increased accessibility but also, in reducing financial constraints, facilitate provision of a full range of quality material.

The decision not to offer a service unless it can be provided free may effectively deny the public access to the service because of lack of an alternative private supplier or because of the higher user charges in the private sector. Hence, the opposition to user charges on 'morality' or 'right of access to information' grounds is viewed with scepticism (Rettig 1981). In practice a blanket non-charging policy may be worse than a selective charges policy on precisely these grounds.

(3) Charges discriminate against low income library users.

The evidence suggests the contrary, libraries redistributing income, or income in kind, from the poorest to the more affluent people in the community (Skrzeszewski 1985 and Gell 1979a). Library users are predominantly the educated middle class, middle income people in white collar, professional and managerial occupations. On the other hand, the contrary argument that it is unfair to ask all residents to contribute to the costs of a service used by a minority of the population is not valid either (see the external benefits argument discussed above).

(4) Libraries would concentrate on chargeable services.

This criticism assumes that charges are just a means of raising additional revenue to overcome financial constraints and displays a misunderstanding of the (limited) role of chargeable services within the totality of library services. Charges also have a management role including promoting the desired array of service provision, promoting efficiency and purposively directing service provision to particular groups. Willingness to pay may indeed be used as one of several management guides to adapting services more to the needs of individual service users. Such changes in service orientation and higher standards

may be welcome, requiring management to be more flexible and adaptable to users' wants, and more conscious of service costs and developments. That libraries increase the efficiency and standard of charged-for services is surely a point of merit rather than of criticism.

For example, there is evidence that librarians provide a higher standard of service once a charge is imposed, spending more time and effort with individual library patrons. In particular, where charges are levied for computer based reference services and depend on on-line connect time with a computerised database, librarians spend more (non-chargeable) time before and after the on-line search and less (chargeable) time at the on-line computer terminal. This minimises charge costs to the client (Neilsen 1987, Cooper and DeWath 1977). The response that charges result in librarians undertaking more clerical work so that they are less responsive to the totality of service demands suggests a reallocation of purely clerical duties to lower grades of staff.

(5) The social costs are greater than the social benefits.

In reducing library usage whilst library costs remain largely fixed, charges will lead to a net loss of social benefits (Waldhart and Bellardo 1979, Rice 1979, Taylor 1980). This is also said to apply to charges for non residents' use of services (Hicks 1980). However, this criticism presupposes widespread use of charges for services with significant external benefits. It is much less valid where charges are used in a more limited way for services yielding predominantly private benefits.

(6) Raising finance is seen as anti-professional.

To argue that charges encourage mindless imitation of business procedures and distort library services (Blake and Perlmutter 1977) is a rather blinkered approach to the problems of the public sector in general and libraries in particular. To regard libraries as being above such mundane matters as finance and politics is naive in the extreme. A more tempered comment is that too much managerial and professional effort will be devoted to fringe or ancillary activities to the detriment of the core library service, again a management problem relating to the allocation of duties between professional and clerical grades.

(7) Library users are being asked to pay twice.

Paying both the local tax and charges is said to be effectively paying twice for the service (Berry 1976, Stoakley 1977). This illustrates a misunderstanding of the economic rationale for subsidies. Subsidies for external benefit or merit good considerations are complementary with charges rather than inherently exclusive of them. Only pure public

goods require 100 per cent subsidy on efficiency grounds (see chapter 2).

(8) There is no long term financial gain to the library.

Increased revenue from charges may lead to a withdrawal of tax financed support in the future so that there is no net gain. This could be claimed for other services as well but loss of such revenues certainly does not provide libraries with much incentive to make more use of charges. However, this criticism is based on narrow accounting terms. As already noted, charges have a management role including promoting the desired array of service provision, promoting efficiency and purposively directing service provision to particular groups.

(9) Library costs are so small that charging is unnecessary.

Public libraries in Britain accounted for only about one percent of public expenditure (15 pence per head of population each week) in the late 1980s and revenue from charges would, at most, only be a very small fraction of that. This criticism is said to have greater import due to the risk of deleterious effects (Stoakley 1977). However, at a total cost of almost £500 million, even a 5 percent cost recovery rate through charges would raise £25 million, a not inconsiderable sum. Moreover, the claim of smallness could be made on behalf of many other services provided by local government which, considered together, impose significant financial demands on limited resources. Indeed, it seems to be precisely the small 'Cinderella' services which are among the first services to be cut during periods of financial stringency, most notably after introduction of the Community Charge (Brown and Spiers 1989). There have been frequent reports for libraries of branch closures, reduced opening hours, staff vacancy freezes, large cuts to book funds, cancellation of periodical subscriptions and newspapers and closure of business information and other 'non-core' services (Library Association 1991a). These points are qualified, however, by the points made in the introduction to this chapter.

(10) Charges would destroy interlibrary co-operation

No library is self sufficient in satisfying the needs of its users and so relies on other library networks as part of an 'access rather than a holdings' policy (Library Association 1988). Hence, it is claimed that charges would seriously undermine the complex network of interlibrary cooperation because charge and exemption criteria would differ between libraries. In particular, levying a charge for a book obtained free from another library could undermine the interlending system in Britain and destroy the national character of the service. The importance of this criticism depends on the particular services to be charged for and may

not apply to all services.

(11) Charges would lead to widespread proxy borrowing.

There would be on-lending from exempt to chargeable groups or within chargeable groups to avoid charges. This would only apply to lending services and, even then, may not be particularly important. However, it does recognise that people will seek to avoid charges and that revenue from them is almost invariably less than initial estimates.

(12) Charges would cause manifold administrative problems.

For example, in deciding eligibility for exemptions how is a student defined and what about individuals undertaking informal self-study programmes? Administration of charges leads to higher administrative expenditures, especially on staffing (LAMSAC 1983). However, such problems exist for other services (eg sports facilities) and should not be used as a volte-face to deter further consideration of charges.

(13) Charges would hinder the publishing industry.

Reduced library usage would lead to libraries reducing their purchases of books. However, the publishing industry argues that it is precisely free provision of books which reduces their markets. Alternatively charges could lead to a situation where authors' claims for a proportion of income from book rental charges would be irresistible and would open the door (in the UK) to the operation of a public lending right entirely funded by local authorities. This only applies to books, not all library services.

(14) Free libraries are a highly political issue.

It is claimed that the declared intention to introduce library charges can lose elections (Berry 1982). This is doubtful to say the least. Faced with the competing demands on public funds by other local authority services, libraries are likely to be lower down the list of spending priorities than other municipal services such as law and order, fire protection etc.

CURRENT PROPOSALS FOR CHARGING POLICY

Various proposals for charging policy have been put forward by the Government, by library practitioners and others:

(1) Basic and Non-basic Services

In its 1988 Green Paper "Financing our Public Library Service" (Cm 324, February) the Government suggested libraries could be asked to

distinguish between basic and other library services. These would be free and chargeable respectively. This is similar to earlier distinctions between fundamental and peripheral activities (Gell 1979b) and core and non-core services (see above). This approach has already been criticised on methodological and other grounds (see chapter 4).

The Government suggested that own-income (£21.6 million in 1985/86) could be more than doubled (to £50 million), rising from 5 percent to about an eighth of total library costs without damage to the basic service. A large part of this increase would come from charges for non-basic services, although experience elsewhere suggests that this is rather ambitious. For example, whilst American libraries have levied small scale charges for more than a century (McMullen 1978), "despite an intensive search, we were able to locate only one library system that recovered more than 10 per cent of its total costs from fees and only one other that approached a 5 per cent recovery rate" (McCarthy et al 1984 page 30). Nonetheless, American interest in library user charges has increased due to sharply increasing costs, attempts to reorientate services to the specific needs of individual users, heavily constrained tax finance and the growth of the private sector information industry. Hence it is argued that fees are slowly becoming an accepted fact in the library world with the increasing realisation that library services are not free (Dougherty 1979 page 123).

Early evidence for the UK suggests that during the 1980's decade as a whole, the proportion of revenue raised from charges more than doubled in Scotland from 2.6 to 5.7 percent of total expenditure with a lesser increase in the UK as a whole (Midwinter and Vicar 1991, Martyn et al 1990). Hence, charges were already increasing before the Government's recommendations regarding charging policy. Moreover, it was clearly not proposing a radical 'charge for almost everything' approach as advocated in the past (Herbert 1962, Ilseric 1963, Harris and Seldon 1976). Rather it attempted to increase the role of charging on a more discretionary basis by defining a free 'basic' library service, with the hope that library authorities would choose to charge for 'non basic' services at full cost. This poses a problem in that the library budget is usually a significant understatement of the true costs involved in providing library services (Staves 1980). For example, besides salaries, true costs include building maintenance, charges for heating and lighting, use of the computer centre, materials, business services, building asset costs, administrative overheads etc., all at current rather than historic cost. However, an improvement in cost information is required anyway in order to improve management procedures.

The statutory requirement for a free basic public library service is set down in the Public Libraries and Museums Act 1964 in recognition of individuals' needs for access to information and literature consistent with the functioning of a modern society. However, whilst the basic service is to be free, "it has never been a basic principle that all public library services should be provided without charge" (Cm 324 paragraph 1.8). Indeed, the 1964 Act specifically allows libraries to charge any person not living, working or in full-time education in the area and to charge residents for use of non print items (including printouts from an electronic database), for notification of the availability of reserved items, for late returns, for supplying book catalogues etc, and for any facilities in excess of those ordinarily provided.

In addition the 1988 Green Paper suggested charges for new services such as a premium book-subscription service (for newly published novels and biographies which are available on demand), for services supplied by specialist libraries or by subject trained librarians, for consultancy services (eg on family genealogy, local market research, background research for a book) etc. The basic service would remain free to users in order to "provide individuals with access to literature and information which will enable them to play their part in the country's cultural, political and economic affairs; and to promote reading at a time when there is much justified concern about educational standards and literacy" (Cm 324 paragraph 1.6).

Consistent with these laudable objectives, it proposed that the basic service should comprise the borrowing of print materials and provision of reference services for people living, working or in full-time education within a library authority's area. Charging could be used to finance all other services. However, the Library Association argued that "it is not sensible for example, to suggest that information provided from the hard-copy version of a reference book should be free, whilst the same information coming from, say, the electronic compact disc version would be charged for". (Library Association 1988 paragraph 65).

There are two criticisms of this argument of identical service: it cannot be applied to all non print materials and it is misleading in perhaps suggesting identical results for the patron's own manual search of reference books and trained staff providing a computerised information retrieval service. The latter is likely to provide a more comprehensive, higher quality service than the former so that the service isn't in fact identical. Furthermore the costs incurred by the library are likely to be

considerably greater for computer hardware and software, staff training etc., compared with the hard copy reference tool. When the library user has the choice of service mode and quality, and where costs vary as a consequence of that choice, then it is not unreasonable to require some (not necessarily full) payment.

However, the Library Association is correct in pointing out an inconsistency in the Government's distinction between print and non print materials in that information is increasingly being published only in non print formats. Hence, by default, the coverage of free basic services would shrink and an increasing proportion of services would be charged for. This outcome would be technology-driven rather than based on a comprehensive charging policy and would appear to be inconsistent with the laudable objectives referred to in the 1988 Green Paper. Not surprisingly, the Green Paper and subsequent legislation were criticised for showing no comprehension of the ethos of public libraries, for reflecting a turn of the century attitude towards them and for missing the opportunity (after a period of comprehensive and well informed debate) to redefine the service in the light of new technology (Regan 1990).

The Government's view is that the subsidisation of chargeable services from grant and rate revenues is at the expense of the basic service. In other words, given constrained public finances, they are mutually exclusive and rival. By contrast, the Library Association see many of these non basic services as complementary to basic (print and non print) lending services, so adding to the value of basic provision. It also regards the attempt to distinguish between print and non print materials as unhelpful. The Association's view is that, in addition to the borrowing of print materials and provision of general reference services, free services should also include the lending of new novels and biographies, video tapes, compact discs, other non print items, the inter library loan system, the provision of subject-specific assistance and expertise and any other services which library professionals consider contribute directly to the educational and cultural functions of the library or which relate to the social economic and recreational needs of library users. These could include children's story-telling sessions, meetings, exhibitions, events etc, and especially those tailored to the needs of disadvantaged groups, the mentally and physically handicapped and ethnic minorities. "The question of charges should be left to the discretion of the appropriate librarians when determining their local priorities" (Library Association 1987 page 145).

The only area of agreement seems to be the validity of charges for "publication programmes, client specific information services, consultancy, and the organisation of conferences and other special events" (Library Association 1987 page 144). Even here, however, the Library Association does not necessarily recommend full cost charging and free provision is preferred where user-related additional costs are low. This is the case for example for end-user direct database searching on CD-ROM disks, which provide a service comparable to online database searching via an intermediate (librarian) searcher. In the latter case the library's costs are a direct function of time taken so that marginal cost is high for on line searching. CD-ROM disks are leased at fixed cost so that the marginal cost of use is near zero. In this case the Library Associations' preference is for a free information service whereas the Government's preference is to charge the user.

A summary by the Office of Arts and Libraries of responses to the 1988 Green Paper revealed an overwhelming opposition to charging for traditional library services but a limited acceptance of charging for fee-based research services, publishing and value-added services (which provide extra benefit to the user in terms of speed of delivery, convenience or evaluative commentary). In addition the Green Paper's proposals for only a free basic service were criticised by the Library and Information Services Council as grossly limited and in sharp contrast to the comprehensive service required by the 1964 Act (LISC 1988). The Government's response was to adopt the alternative approach of specifying those services for which charges can be made rather than specifying free basic services and allowing charges for all other (non basic) services. The former approach should serve to limit the scope for charges much more than the latter.

The 1989 Local Government and Housing Act allows the Arts Minister to make Regulations authorising charges for other specified services in addition to those allowed in the 1964 Public Libraries and Museums Act. This use of subordinate legislation to amend existing statutory powers has been described as bad practice (Cunningham 1988). It is envisaged that the borrowing of books, journals and pamphlets and reference use of materials by local residents will remain free. Discretionary charges (possibly up to a prescribed maximum) will be allowed for items which are damaged or which become the property of the borrower, for late returns, and for use of non-print materials and computers. Charges for assistance given by library staff would only be allowed for specialist services such as information from an electronic data-base, research and evaluation, 'personal librarians', and postal services for non-written

materials. Staff time will be chargeable for reference services which take more than half an hour.

Neither of the alternative approaches advocated by the Government and the Library Association are based on a coherent rationale for charges. They are essentially piecemeal in that they are in part technology driven (ie free print versus chargeable non-print), in part a response to financial constraints (ie free peripheral services are at the expense of main services), in part based on the size of extra costs imposed on the library by users (eg the lower user-related costs of CD-ROM compared with on-line computer systems) and in part a defensive reaction (by the Library Association) to essentially arbitrary proposals (by the Government) for increased use of charges. Neither approach adopts a rationale that is consistent with the wider remit of public libraries. The same criticism applies to the following proposed methodologies.

(2) The Eclectic Approach

This approach is more discriminating in that it weighs the advantages and disadvantages for each particular service (Casper 1978, 1979). This is similar to the 'distribution of benefits' approach but both are essentially arbitrary and piecemeal and neither gives any guidance on how to determine the actual level of charge if one is deemed appropriate (see chapter 4). Besides, the question is not just about the appropriate balance between the use of subsidy and charges. A prior requirement of a system of library charges is an intelligent valid foundation supporting it (Fikes 1978). In particular, charges should be consistent with service objectives. Hence, other writers have stressed the need for an economically viable theory of access (Prentice 1979) and, in particular, a better understanding of the impact of charges on access to information (Waldhart and Bellardo 1979).

(3) Minimum Standards / Unattributable Costs

A more comprehensive charging methodology had already been suggested prior to the Government's Green Paper (Linford 1977). First, libraries should generally not charge for use of materials, facilities or services which are made available for general use, or for which patron-specific 'out-of-pocket' costs are not incurred or cannot be identified. Second, any charges to patrons should be limited to those for materials, facilities or services provided for primary or exclusive use by individual patrons and for which patron-specific costs are incurred by the library. Third, libraries should provide, at no charge to patrons, a reasonable level of service which can be said to be fair and effective for most patrons. Fourth, any charges to patrons should be limited to patron-

specific costs beyond the subsidised minimum established by each library. The Government's amended proposals are quite close to Linford's criteria in many respects.

The first of these criteria would appear to entirely exclude charges for library cards and for entrance (A1 and A2 in Table 3 page 136). The second of these criteria would appear to exclude anything but nominal charges for the lending of materials (B3 to B12 in Table 3) since they are only temporarily available for exclusive use by individual patrons (ie whilst out on loan) and the only patron-specific costs incurred by the library are general wear-and-tear costs. Hence a nominal flat-fee could be justified but a study by Leicestershire County Council (reported in Taylor 1976 pages 286-290) suggests that administrative costs would be sufficiently high to make such charges impractical. If exclusive use whilst on loan was seen to be a problem the period of loan could be shortened in preference to a charge being levied. The third and fourth criteria would appear to justify some level of subsidy but also permit charges related to costs for most other services (categories C,D,E and F in Table 3).

A survey on behalf of the Library Association (as part of its response to the 1988 Green Paper) revealed that the vast majority of libraries already charge for the loan of cassettes, records, compact discs, videos, pictures, and computer software. However, there is a wide variation in the levels of charges (Bartlett 1988). Only a minority charge for audio-visual hardware, slides, playsets, toys, music scores, on-line information searches, Prestel, or for non-residents' use of the library. Fines and reservation charges are used by all libraries (Kennington 1991).

The components of total income from charges are fines and fees 38 percent, material hire 9 percent, specific grants 7 percent, lettings 5 percent, ticket sales 1 percent and 'other' 40 percent (CIPFA Public Library Statistics 1988). Over half of library authorities have set up trading or suspense accounts to hold income from sales of publications and withdrawn stock, hiring records etc., photocopiers and library shops and coffee bars. More than four fifths of authorities say that they reinvest earned income in the library service, often including service expansion. However, only 40 percent have a formal policy on income generation and three fifths of those are not fully implemented (Kennington 1991).

The problem with Linford's criteria for charges is that they are to be based on the excess of costs over some vague idea of minimum standards for services which fit the other criteria of clearly identifiable

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The problem with Linford's criteria for charges is that they are to be based on the excess of costs over some vague idea of minimum standards for services which fit the other criteria of clearly identifiable

patron-specific costs. Minimum standards have already been criticised on methodological grounds (chapter 4). Financial constraints could result in the existing standard being adopted as the minimum with the result that expansion of library services would have to be largely financed by users irrespective of the wider community benefits. Individual/subjective interest would override, rather than complement, the collective/objective interest. Hence, Linford's patron-specific cost criteria are necessary but not sufficient for a coherent library charges policy.

(4) Ad hoc Guidelines

An advance on the patron-specific costs and minimum standards rationale is the set of guidelines has proposed by the British Library (Smith 1988a). These state that charges for information are only appropriate where: (1) the most appropriate sources have already been exhausted, (2) considerable search time is required, (3) specific costs are incurred for online time etc, (4) indepth analysis is required and, (5) urgency is paramount. These are still rather ad hoc and require essentially arbitrary decisions about 'appropriate sources' and 'considerable time' etc. In addition, the concept of minimum standards implied here (but made explicit by Linford) is unnecessary.

(5) Revenue Categorisation

Yet another approach has been advocated. The Library Association suggested four categories of service, namely profitable, self-financing, partially self-financing and loss-making (Norton 1988). The Association left it up to local authorities to determine local priorities without (perhaps surprisingly) making any recommendations of its own. This rationale appears similar to the distribution of benefits approach already criticised above. Moreover, most authorities appear to have no relevant cost data to aid such a classification (Kennington 1991). Indeed a model costing system has only recently been developed (CIPFA 1987). Currently only broad averages are readily available showing that 51 percent are staff costs, 19 percent books and similar materials, 11 percent buildings, 9 percent central establishment charges, 7 percent debt charges and 3 percent other services (CIPFA Public Library Statistics Actuals).

A COHERENT RATIONALE AND METHODOLOGY

Library authorities could be tempted to follow a 'pick n mix' option for the charging rules outlined above since they are based on arbitrary criteria. The philosophy adopted here is that charges are meant to be

complimentary with (rather than mutually exclusive of) collective decision-making procedures. Hence, charges should be set to actively promote the objectives of library provision. The fact that charges are administratively feasible is not sufficient to justify their use. Nor does willingness to pay for a service necessarily mean that public libraries should supply it, eg if it is not consistent with library objectives.

A more coherent pricing policy is to charge for services specifically designed for the convenience of individual users and which therefore actively promote take-up of library services deemed to be in the collective/objective interest. Such charges would be avoidable without foregoing access to normal library services. Charges for time-saving services have been suggested (Van House 1983) to make libraries more accessible to the extent that many people are deterred from using libraries simply because they "don't have the time" to do so. For example, a library user using reference material could copy out by hand the relevant information. Alternatively that information could be photocopied if the user wished to save time and effort. It is reasonable to charge the library user for the costs of photocopying and possibly, over and above those costs, charge in relation to the benefit gained (approximated by charges levied for private sector photocopying). In fact, the 1956 Copyright Act requires libraries to charge for photocopying.

A more general concept is that a charge would only be appropriate on the value added nature of the service (Biddiscombe 1988). The concept of value added is not restricted to time saving facilities and could apply to any service which makes library use more convenient or effective for the individual. However, this methodology is still deficient in that it justifies a charge for any service which attempts to make libraries more accessible to the public and, to that extent, it will be seen as counter-productive by library authorities. It is not clearly distinct from the 'basic versus peripheral services' debate in that the latter are often intended to encourage take-up of the former precisely by adding value to them (eg categories C, D and E in Table 3).

A truly coherent philosophy is that charges should only be levied for customised value added services where the individual user is free to decide upon use of the service and where an alternative non-customised service is available. The charge would relate to the costs incurred in customising the service as long as they are directly attributable to the individual user. This customised value added principle can best be illustrated by applying it to a range of library services.

(1) Library Membership

No charge could be justified on these criteria since there are no customised, value added, user-specific costs. Non-residents' use of the library does have some added value in terms of convenience, eg because the library is close to their place of work and therefore more convenient to use than libraries in their own areas. However, the service is not customised and there are no clearly identifiable costs incurred by the library as a consequence of such membership. Whilst such a charge has been advocated on equity grounds, being set at the average contribution by local tax payers to library services and rising in line with that contribution each year (Bassnett 1981) and appears to be acceptable (Leckie 1980), experience suggests a substantial decline in non residents' use of facilities (WLB 1981, LJ 1982). This outcome may be contrary to library objectives.

(2) Book Reservation

Library users could be charged to cover the administrative costs of reservations and for any subsequent mailing costs if postal notification is used to inform the user of availability of reserved items. This service is purely for the convenience of the user in terms of reducing waiting time (waiting for other library users to finish with the items and to gain priority over other potential users of those items) and dispenses with the need to visit or telephone the library to see if the material is available. Non staff costs are clearly attributable and it is administratively feasible to recover them if users buy stamped reservation cards and fill in the details themselves, as already happens in many libraries.

Library authorities already charge, three quarters charging between 25 and 40 pence, another fifth between 41 and 50 pence, with none other charging less than 17 pence or more than 62 pence (Jones 1992). There could also be a charge for (clerical?) staff costs if these were readily calculable but no additional charge can be levied for obtaining or lending the book. The 1988 Green Paper proposals for charges for interlibrary loans and for a premium book subscription have been abandoned. However, reservation charges have been criticised as a backdoor premium book subscription service in that the maximum allowable fee of £1.50 (Hansard 8 February 1989, column 991) will effectively exclude low income library users from access to popular books (as well as disadvantaging those with access to only small libraries).

(3) Extended Loan Periods.

Fines for overdue items are not normally defined as a charge on the basis that they are meant as a deterrent because, in retaining the item, the user

is imposing a cost on other library users in reducing the availability of the item and increasing their waiting time. However, it may be possible to redefine fines as a rental charge payable by library users who wish to retain an item for a period in excess of the standard loan period. An extended loan is effectively a customised service at the discretion of the user and can be seen as a positive (rather than a negative) tool of management. However, user-specific costs would be difficult to identify and possibly insignificant relative to the costs imposed on other library users. Hence, any charge would be essentially arbitrary and would have to be justified in terms of prevention of abuse, as at present. The Library Association argues that there is little scope for a substantial increase in this source of income since overdue charges have frequently already been raised so much that further increases would only serve to deter the return of library materials.

(4) Increased Borrowing Facilities

Many of the same comments for extended loan periods apply here in that there is a customised, value added component but costs are difficult to establish. Moreover, length of loan period and number of borrowable items requested are probably positively related.

(5) Rental of Items in Heavy Demand

Where an item is in particularly heavy short-term demand by adults (eg a popular work of fiction) the library may feel unwilling to commit scarce funds to purchasing multiple copies of the title, particularly when it may be purchased at commercial bookstores and when its value is obviously primarily recreational, for example newly published novels and biographies. In such a case the library could purchase multiple copies which would be for rental (as distinct from the usual free loan).

There is clearly an value-added element and costs (eg of extra purchases) are identifiable. However, the service is not customised to a particular user and such a charge would be difficult to justify to library users, probably leading to resentment and concern over equity and ability to pay issues. A probably more acceptable rationing mechanism would be simply to reduce the length of the loan period for these newly published items so that a smaller stock with higher turnover can be maintained.

New Zealand is often quoted as a successful example of such a system, in operation since the late 1950s. About eight percent of library stock is rental stock, comprised of adult fiction, prints, videos, cassettes etc. Rental books must have the potential to be borrowed at least 20 times a year with receipts expected to equal two and a half times the value of the book within three years. Charges more than cover administration costs

and produce income between 13 and 36 percent of total expenditure on books. This is effectively the premium book subscription service described in the 1988 Green Paper but dropped in the subsequent Regulations. However, New Zealand libraries differ from those in the UK in that they are not a statutory service, they have their origins in the subscription libraries of a sparsely populated country and they are now completely locally funded from the rates. The notable similarity to the UK situation is the strong vocal lobby in favour of a free public library service (NZLA 1989).

(6) Interlibrary Loans (ILLs)

This is clearly a value-added service in that it saves the user's time by avoiding the need to visit other libraries in search of the item. The majority of people appear to visit only one library (Stevens 1991). Full cost charges would be between £4.50 per item for materials obtained within a library system and up to £9.00 for items obtained from other libraries (Smith 1983, adjusted to 1988 prices), resulting in fears (noted earlier) that the service would collapse. In particular, it is possible that a library that does not charge will be unwilling to lend to one that does so that the relatively small sums that could be raised are simply not worth the risk.

However, it is precisely because of the increasing costs of this service that charges have been advocated (DeGennaro 1980). The tradition of free ILLs was based on the moral obligation that librarians felt to share their resources with other libraries and so increase accessibility to users. A free ILLs service was feasible as long as it was voluntary and as long as the volume of requests was limited, largely by the inefficiencies of traditional manual location, request and delivery systems. However, computerisation of ILLs location and communication functions through OCLC and other online networks and the growing use of online bibliographic search services have greatly increased the demands on the service, ILLs increasing at a significant rate (LJ 1980, Martyn et al 1990).

Requests for ILLs are now received from distant libraries with little affinity to the lending library and which are in competition with the library's own users for use of materials. Hence charges for ILLs may be necessary to compensate the lending library for the cost of the service, to ration demand (rather than by administrative means) and to measure the value of the service. If the service is highly valued then user charges will remove financial constraints on ILLs and increase accessibility to the service user by financing expansion of the service (Prentice 1979). There could be problems due to variations between libraries in the levels of

charges (referred to above) but nominal charges for ILLs are already implemented in certain cases so as to cover postage and other costs.

(7) Photocopying and Microform Copying Services

Reference has already been made to the use of charges for photocopying which clearly has added value and readily identifiable costs. It is customised by the user on a self-service basis and he or she retains exclusive use of the photocopy. It saves the user the time required to copy the information by hand. Microform copying, unlike photocopying, is usually not on a self-service basis and so the charge should be higher to cover the labour costs involved.

(8) Computer-Based Reference Service

The public library profession feels that it has a responsibility to ensure an information service comparable with those provided by corporate libraries and information brokers (Felicetti 1979, Buckle 1980, Maranjian and Boss 1980, Kibirige 1983). Professional staff provide the computer-based reference service (eg bibliographic enquiry) compared with a largely unsupervised use of printed reference manuals by the user. Hence, there is added value from a quicker service to a higher standard, providing more sophisticated access to a larger database. The online search is highly customised, being tailored to the user's precise needs. There are also significant and clearly identifiable costs in terms of both staff time required to undertake the search and the charge from the search service vendor (which provides the database) to the library (DeWath 1981). Moreover, business uses these services for commercial purposes and so should accept user charges (Leckie 1980). The question is not whether to charge but rather how much to charge (Cogswell 1978, Drake 1984). Of even greater importance is the nature of information provided to local firms, particularly in terms of market niche and the business profile of the library catchment area (Bakewell 1987, Roberts and Wilson 1987, White 1990). It is of critical importance that such information be provided at the time required since it is rapidly perishable, information provided too late is useless (Walker 1988).

However, as already noted, charges are opposed precisely because online databases will progressively replace print resources. Further improvements in technology may actually reduce the cost of what are today considered relatively expensive services so that current high costs should not be used as a justification for charges. In addition, such a charge sets a precedent which, once accepted, could see the widespread introduction of charges in tandem with technological advances. For example, the current technology of remote on-line information services

requires the presence of an intermediate (librarian) searcher between the database and the end user and so costs are charged on an individual search basis. However, the development of end-user direct searching using databases held on laser discs increasingly allows access within the library free of direct charge from the database vendor. Some databases are already available in both these formats (as well as in print), for example "British Books in Print" is on CD-ROM and DIALOG respectively. Use of the former is similar to the general public's free use of libraries' own online public access catalogues. This example illustrates the increasing comparability between information held on a remote database, on a laser disc and in the printed form.

Hence a charging policy based on early technological imperatives could result in an unintended but increasing barrier to access and it has been argued that such services should be incorporated into the generality of free public services (Huston 1979, Kranich 1980, Knapp 1980). As noted earlier, information is arguably a public good to which every citizen has a right of access, regardless of ability to pay. However, whilst information does have many of the attributes of a public good, copies of computer printouts are like private goods so that a charge can be justified (Buckle 1980). In other words, there is a distinction between information itself and the form in which it is delivered (King 1979). Indeed, the Library Association emphasises provision of free access rather than of free personalised documents or services.

Charges for this service are already used by almost three quarters of publically-supported libraries in America (Lynch 1982b), based on a combination of principle and pragmatism. Public funds usually finance the start up and overhead costs of making the service generally available (eg costs of computer terminals and manuals, staff training and telephones) whilst charges cover the direct or variable costs related to the individual user's request (vendor bills, cost of communication, connect time and offline printing). However, only a minority also charge for the searchers' time, despite the variable nature of this cost at the instance of service delivery. Charges for direct costs are accepted in that they do not 'exploit' the user, ie the charge is related to cost not demand. Pragmatic justifications for charges were that the service was initially viewed as an add-on facility where costs were uncertain and for which only limited general finance was available. Libraries were much more willing to cover the predictable fixed overhead costs of training fees, terminals and manuals from their operating budgets (Lynch 1982a). The service expanded rapidly because of the users' willingness to pay for the improved service. The same scenario appears to be developing in the

UK (Hyde 1988).

Relating charges to the costs directly imposed by the user may be acceptable for bibliographic databases, but it is arguably inappropriate for numeric databases which constitute more than half of all databases and which contain information that can be used directly rather than simply providing bibliographic references which require further searching by the user. In this case information is being sold and should be charged for, not connect hours (Jaervelin 1986). Such charges would be a function of demand and relate to benefit received rather than to cost. Charges levied by independent, private sector information brokers could be used as a guide in determining levels of charges (Redican 1990). This is realistic given that half of the commercially available databases are in the field of science and technology (Huston 1979). In some cases value can best be added to basic public information resources by joint enterprise between public libraries and private commercial information brokers. This will usually involve some form of charging to provide the private firm with a return on its investment (PUPLIS 1987).

Such arrangements are predicted to lead to the formation of a regional 'super-league' of very large libraries acting as switching centres to promote access, rather than simply being based on a traditional holdings approach. Electronic libraries will provide users with increasingly sophisticated data bases and recover costs through telephone charges etc. Remaining local libraries will revert to social centres, strengthening the cultural and intellectual life of their communities (Martyn et al 1990). These predictions have been questioned because of the increasing emphasis on competition rather than cooperation, on charging rather than public funding and given limited funds (Library Association 1991b). Whatever the outcome, such developments illustrate the need to adopt charging policies which can fit into a dynamic service environment.

CONCLUSIONS

The rationale suggested in this paper would be to charge where customised value added services are provided for the personal convenience of the library user. Charges would only cover those variable operating costs directly attributable to the user, not the fixed or overhead costs of making the service generally available. Hence, the bulk of services would remain completely free at the point of use and, even where levied, charges could not fully finance services. However, revenue from charges could support provision of a wider range of partially subsidised, personalised services compared with a much

reduced number of fully subsidised services. The alternative to not charging for such services may be no service at all. Hence charges can be used to further the objectives of public library provision in terms of facilitating the provision of a full range of modern library services, not being restricted to a narrow range of traditional services due to lack of finance.

The proposed charging rationale is an example of an economically viable theory of access. Charges and subsidies are complementary rather than mutually exclusive. They both have a role within a non-market system of allocation. Charges could also distinguish between categories of user for example business and commercial users, private individuals, societies and clubs (eg booking rooms for meetings), the elderly, the unemployed, students etc, in order to take account of priorities for different user groups gaining access to library services.

Such an approach to charging policy would be efficient where costs and benefits incurred by individual library users are of a predominately private nature. Charges can also serve as a management tool, indicating which customised value added services are demanded. In this way the library, the individual and the community all benefit. The library has increased funding to finance expansion (assuming revenue from charges is retained by the library and is in addition to tax-financed support); the individual can choose from a wider array of library services and the community benefits from having a progressive dynamic library service and all the external benefits that it entails.

At the moment, computerised reference and information services are the most promising source of additional revenue from charges. The other options discussed are unlikely to raise much revenue in excess of administrative costs. In the future, however, the increased use of charges appears to be inevitable as traditional library delivery systems are replaced by new formats. For example, the development of document delivery systems allows the instantaneous provision of copies of journal articles on demand and the direct costs can be passed on to the user. Also, as computer-based bibliographic services expand, libraries will be able to justify passing on the data base and operating costs to the user. If such costs are not passed on the library will find it cannot afford the increasing costs of developing information series and delivery systems, particularly if tax-based finance remains constrained. Revenue can also be raised from other ventures such as publishing, library shops etc. There may be implications for payment of value added tax in such cases.

In practice the choice may not even be between a slowly growing tax-financed service and a more progressive tax and charge financed service. Even if public libraries make no changes in present operations and policies, use is likely to continue to decline over the long term. Libraries must continue to be innovative and progressive in service provision to increase the productivity of library users' time through provision of specialised and personalised services which can justifiably be part financed from user charges. The increasing sophistication of reference services, in terms of their range and automation, provides users with a much improved service at a greater monetary cost but at a reduced non-monetary cost (ie time) than earlier service delivery methods. Reducing library costs by shifting activities from library staff onto individual users is not a feasible long term solution to constrained tax finances. It will merely lead to a deterioration of library patronage, particularly for information services, leaving public libraries concentrated on the traditional functions of lending, archiving and holding out-of-print items.

During the 1980s many authorities made cuts to library budgets, forced on them by the previous grant penalty system and by the Government capping local taxes in a number of authorities. These measures deprived authorities of precisely the money for growth. Given their constrained resources, the Government may have to provide pump-priming funds or seed-corn money (such as the Public Library Development Scheme) before new kinds of information and other services can be developed. Poor public library services are more a result of constraints on public expenditure than they are of absent market forces. The judicious use of charges for customised value added services can lead to service improvements but they are not a panacea for the current problems of public libraries.

The major fault in the 1988 Green Paper was its concentration on the narrower financial aspects to the exclusion of how to improve the public's appreciation (and therefore use) of the public library service. This is more a problem of marketing the library service by developing stronger links with the local community. The main problem faced by most public libraries is simply how to get more people into the library in the first place. If they don't come, deciding whether or not to charge them is irrelevant.

The customised value added charging rationale still leaves many questions of policy and practice to be resolved by librarians and councillors but it is based on a coherent and consistent rationale which

takes due account of the wider objectives of the library service. It is certainly a more methodical and sophisticated approach than the arbitrary and simplistic one of labelling services as basic or non basic, peripheral or mainstream. That approach provides no rationale for identifying individual services where a mix of charges and subsidies is appropriate, nor for determining the precise levels of charge and subsidy. The customised value added approach does provide such a rationale, necessary for consistent decision making.

**TABLE 3: LIST OF SERVICES THAT MAY BE CHARGED FOR
DEPENDING ON LEGISLATION**

A. Access to the use of services	1. Library card 2. Entrance (turnstile charge)
B. Lending of materials	3. Books (rental & subscription) 4. Periodicals and pamphlets 5. Films 16 mm and 8 mm 6. Video tapes 7. Art prints and paintings 8. Sound recordings 9. Sheet music 10. Toys and games 11. Film strips and slides 12. Multi-media kits
C. Access to information, material and search services	13. Reservations and/or notification 14. Interlibrary loan 15. Computer based reference service 16. Manual reference service 17. Bibliographies
D. Lending of audiovisual equipment	18. Projectors 16 mm and 8 mm 19. Screens 20. Overhead and slide projectors 21. Record and cassette players
E. Copying services	22. Photocopying 23. Microform copying 24. Printing from data bases 25. Typewriters
F. Programming and use of buildings	26. Programs and events 27. Meeting rooms and auditorium

Source: Bassnett (1981)

CHAPTER 7: CHARGES FOR LOCAL INFRASTRUCTURE

INTRODUCTION

Local governments in England and Wales are the primary providers of local roads, school buildings, fire and police stations, parks and other physical infrastructure for community services. The major exceptions are water and sewerage, health care, electricity, gas and railways. Scottish local authorities also have statutory responsibility for water and sewerage facilities whereas these functions were taken over by the English and Welsh water boards in 1974. The boards were subsequently abolished by The Water Act 1989 and they have since been privatised.

British local authorities are statutorily required to provide these types of infrastructure to service both new developments and the wider community. They are also responsible for administering the current system of spatial planning which serves to regulate land use so as to avoid or minimise the undesirable aspects of urban development (eg factories in the middle of housing areas). However, the two-tier structure of local government in Scotland, Wales and in the non-metropolitan areas of England means that responsibilities for planning and for provision of relevant infrastructure are generally not coincident. They are combined in the single-tier Metropolitan Districts but most new urban development occurs outside these old conurbation areas. The relevance of this administrative disjuncture will become apparent later.

The provision of infrastructure can be funded from one or both of public finance (central and local taxes) or private finance (a charge paid by private individuals commensurate with the benefit received or costs incurred). In Britain payment on a collective (public) basis through a local property tax has seemed the most appropriate means of funding in the past, drawing payments from successive generations of users of that infrastructure. The bulk of finance comes from borrowing and local authorities use their revenues from local taxes and central government grants to repay the ensuing debt over the expected lifetime of these physical assets. In this way future users of infrastructure pay for it rather than placing the whole financial burden on the current generation of taxpayers. This arrangement achieves inter-generational equity and smooths out the financial lumpiness of infrastructure investments.

The increasing complexity of urban development, expectations for rising standards of urban infrastructure and higher real rates of interest on debt

have led to long term tendencies for infrastructural costs and expenditures to rise (Kirwan 1989). In addition, the 1980s saw increasingly sharp restrictions imposed upon British local authority capital expenditures and borrowing. Fiscal stress became endemic (Rose and Page 1982, Bailey 1991). As a result local governments increasingly looked for new sources of finance for capital expenditures in addition to the local tax (property tax then poll tax). Such events are not confined to Britain and indeed occurred in many other Western developed countries. However, the recent reform of the system of local government finance in Britain makes such a search more urgent.

A property tax relates payment of local taxes to the capital or rental values of premises (industrial, commercial, residential etc). Relative capital values relate, at least in part, to the levels and quality of infrastructure provided by local government and the users of infrastructure pay rates (property tax) which help finance the payment of debt charges relating to that infrastructure. However, with abolition of domestic rates in Britain and their replacement by the Community Charge that link is broken. Now (with limited rebates and exemptions) all adults resident in an authority pay the same amount of poll tax. Whereas in the past residents of inner city or rural areas (which are often poorly serviced in terms of infrastructure) may have faced lower rate bills, they now pay the same amount in poll tax as residents in more affluent (better serviced) areas within their authority.

Likewise, the Uniform Business Rate also breaks the link between the provision of infrastructure for commercial and industrial developments and payments of non domestic (business) rates. These payments (deriving from the rate base and rate poundage, both of which are now determined by Central Government) are distributed equally amongst all authorities on a per adult head basis. Hence an individual local authority providing infrastructure for business receives no direct return from that investment. Poll tax payers will have to bear the financial burden of their local authority's economic development initiatives. This situation will continue under the Council Tax proposals.

User charges for local infrastructure are being increasingly used in other countries as an explicit charge on new development, even where property taxes are still in use. In Britain the situation is somewhat confused, there being little use of explicit charges per se but an increasing, though sporadic, use of a hybrid payment (in cash or in kind) which combines an infrastructure charge with a local tax on the rise in

land values arising from the granting of planning permission. It is therefore referred to as 'planning gain'. In attempting to clarify the situation in Britain, and to establish a proper role for infrastructure charges, it is instructive to make use of international comparisons, drawing on the useful insights provided by the North American experience.

One should be aware of differences in institutional and other contexts when making such comparisons and many will be noted during the subsequent analysis. Most obvious are the significant differences in the structure, functions and financing of local government in Britain and North America (Karran 1988, King 1988 and McReady 1988). In particular a more extensive system of intergovernmental grants exists in Britain. Since this is largely population-based, it is arguable that central government bears a substantial part of the capital costs of land development. By comparison, local government in the USA is much more independent of State and Federal government and grant is often paid in respect of specific projects. Thus infrastructure costs may bear more heavily on local government in the USA than in the UK. However, mention has already been made of financial restraint and reforms in Britain which serve to inhibit capital expenditures and the fact is that, despite grants, a substantial part of such expenditures are financed by local taxpayers. Hence, British local authorities may be justified in charging for infrastructure.

Any such justification depends on the perceived role of the planning system. This will itself determine the the legislative framework and therefore the balance between the public and private financing of infrastructure. A socialist society may seek to use the planning system as an instrument of social policy forcing private finance to provide social infrastructure. A capitalist state may use public finance to provide the infrastructure essential for private profit. A mixed economy may use both sources of finance, the precise mix between taxes and charges depending on the political hue of national or local government and the extent to which the existing tax system can be used to make adequate funds available from the desired sources. Hence, it is necessary to distinguish between a land tax and an infrastructure charge before applying the customised value added philosophy of chapter 4.

A BRITISH LAND TAX?

The granting of planning permission by an authority can result in a huge

increase in the market value of a piece of land. Examples are a site previously used for agriculture but now to be used for a hypermarket or a site previously allocated for housing but now available for office construction. Local authorities (not always the planning authority) also provide considerable inputs of infrastructure which further adds to the value of a development site. Hence developers stand to make considerable profits. A part of these profits will be paid as tax revenues to central government but they provide little or no direct benefit to the local authority undertaking the infrastructural expenditures.

The relevant policy distinction is whether to tax the increase in land values resulting from planning permission (referred as a betterment tax) and/or to charge for the infrastructure costs incurred by local authorities consequent upon development. North American practice is based upon the latter concept, as is apparently the case in Ireland (O'Sullivan and Shepherd 1984 page 515, Nowlan 1984 page 108). As will be seen later, the current use of planning gain in Britain often confuses the two concepts. First, however, it is instructive to consider the possible use of a land tax in Britain before looking at the North American practice.

A tax on the rise of land values not attributable to improvements by the proprietor has been advocated for centuries, for example by Ricardo, J S Mill and Henry George (George 1966). Prior to 1947 (since the Middle Ages) it was a widely accepted principle in Britain that local authorities could charge landowners for the costs of providing infrastructure. However, the post 1947 attempts also to tax increases in land values consequent upon the granting of planning permission caused controversy and inhibited development (Parker 1965 pages 55 and 65). In recent years a betterment tax was attempted spasmodically up to 1985 through betterment levies and development land taxes.

Problems of site valuation resulted in the tax being regarded as an arbitrary fee subject to haggling between developer and district valuer (Turvey 1953a page 308). Similar problems had been experienced before 1947 when attempting to tax betterment resulting from specific infrastructural improvements as distinct from the general rise in land values (Clarke 1965 page 76). The other means by which betterment can be recovered also face considerable practical problems in their implementation. These include 'recoupment' (Turvey 1953b), land nationalisation and 'site value rating' (Clarke 1965, Foster et al 1980 page 458). Today capital gains tax is the only national tax on such gains.

Even if such difficulties could be resolved a local betterment tax would create significant resource disparities amongst local authorities. These would not be related to costs but rather to pressures for development (eg in the South East) and to general underdevelopment (eg in parts of the North). A national pooling of tax revenues would be necessary to ensure adequate infrastructure standards. This would be little different from the current pooling of other national taxes and their distribution to local authorities through the grants system except that a new set of complex rules would be required. (Such geographic inequities also apply to the current use of planning gain and there is no attempt at equalisation).

Hence a national betterment tax would seem more appropriate than a local one. Furthermore such a local tax presumes that the existing taxation of betterment is insufficient whereas the Conservative Governments of the 1980's took the view that tax levels in general have been too high and further that "the obligation of land-owners and users to pay tax on development profits is met through the general arrangements for the taxation of individuals and companies" (DOE 1988b paragraph 25). Moreover, the customised value added philosophy only relates to charges not taxes. The latter have already been criticised because of the incentives they create for distributional coalitions (chapter 2).

PLANNING GAIN IN BRITAIN: THE LEGAL ISSUES

The term 'planning gain' is used to describe a situation where developers build capital facilities (eg roads) and then dedicate them to the local authority. There has been considerable recent discussion about the uses and abuses of planning gain in Britain with considerable emphasis upon legal interpretations of planning law as set down in the 1947 Town and Country Planning Act and subsequent amendments. See for example Barton (1989), Burnett (1989), Burton (1989), Byrne (1989), DOE (1983, 1988b and 1989), Fordham (1989), Lichfield (1989) and Moore (1989).

Various definitions of planning gain have been proffered, one of the more intelligible ones being that "planning gain is the practice by which local authorities persuade developers to carry out work or provide amenities not required for their own schemes" (Simpson 1984, page 7). This is not necessarily the best nor the most precise definition but too much sterile legal discussion has focussed on what constitutes a

planning gain. It would be more productive to investigate the appropriate role of voluntary planning agreements based on notions of sustainable development including conservation, reducing pollution, recycling etc. (Elson 1990). Planning agreements are more in step with the real world of negotiation based on an articulated policy concept and consistent with the increased emphasis on the enabling role of British local government.

Nonetheless, under present British law, local authorities would probably be acting illegally (always, of course, subject to a Court decision) if they sought to impose non-planning conditions on the granting of planning permissions. This has generated much legal debate about the propriety of the various parties taking the initiative in seeking planning gain. If planning gain is offered voluntarily by a developer (as part of a 'Section 52 Agreement', which does not form part of the planning consent) it is legal. If it is actively sought by the local authority against the wishes of the developer it is (probably) illegal. However, the very nature of bargaining makes it virtually impossible to be sure that any gain was obtained unfairly by the local authority as the price for permission.

Allegations of bribery (developers 'buying' planning permissions by offering to build, say, a by-pass not related to the development in question) and of municipal extortion (local authorities requiring such a donation in-kind before granting planning permission) are commonplace. This debate arises because the Courts have a more limited view of the planning system than the agencies for whom it operates due largely to the individualistic, private, conception of land ownership rights (Loughlin 1981, 1982, 1985). Whilst land is indeed privately owned, powers to develop it have been nationalised since 1947. The key distinction is between voluntary agreements (in which the Secretary of State has no involvement) and appeals over conditions etc., (where the Secretary of State has a quasi-judicial role).

The increased use of planning gain in Britain dates from the early 1970's and reflects not just financial constraints but also the removal of ministerial consent for such agreements, the property boom, an increasing focus on negotiated development control rather than regulatory adjudication, etc (Jowell and Grant 1983). Local authorities often face financial constraints which serve to retard development of land for which planning permission would otherwise have been available. Such a legitimate delay is specifically allowed by the Scottish Courts under the so-called "Grampian Conditions" (Wakeford 1990 page 204). One way round the problem is to require developers to make

finance available in advance of the development, the money being progressively refunded as the site is occupied. This approach is used by Grampian Regional Council for sewerage infrastructure (Rowan-Robinson and Lloyd 1988 page 144).

Alternatively if the developer offers to build, say, a bypass to relieve congestion that would have been created by the development in question then, in avoiding the delay caused by the local authority's financial constraint, development can be brought forward and profits realised sooner. Planning gain is therefore often advantageous to both parties and claims of bribery and extortion are grossly exaggerated. This raises the question as to the legitimate scale of planning gain and the role of infrastructure charges within it. Heap and Ward (1987) argue that local authorities must exercise discretion reasonably and in good faith. They should not abuse their monopoly powers to grant planning permissions. In other words planning gain should continue to be used on a voluntary basis as necessary to expedite development. It would remain simply a revenue raising mechanism without an underlying philosophy or authoritative objective.

Given the increasingly severe financial constraints faced by local authorities the rising interest costs and the increased complexity of urban development this option hardly seems feasible. It is also probably ultra vires in that some local authorities are using planning gain as a land tax, for which they lack authority. Almost half of local authorities attribute the increased use of planning gain to reductions in local government finance and it is used most frequently by county councils in East Anglia and the South East where development pressures and infrastructure costs are greatest (Johnston 1990).

A MARKET-LED SYSTEM?

Any form of regulation has its own in-built inefficiencies and it has been argued that a market-led system of land development may be preferable to a planned system (Evans 1988). Auctioning planning permissions has been advocated as both fair and efficient (Pennance 1967, Mather 1988) and this would be consistent with a return to market-led urban growth (Barnekov et al 1989, page 26). Indeed, in its extreme form, planning gain involves the sale of planning permission but this is usually seen as an abuse of the planning system.

Infrastructural costs and negative externalities (such as increased

congestion) could be bought out by use of a reserve price in the auction. Compensation could be paid to those people adversely affected by the development (Evans 1988). The auction price could be more closely related to market criteria and benefit than would be the case for planning gain. However, auctioning would only be effective if the local development market was competitive, so that collusion between developers could be avoided when bids were being made. Collusion would occur if developers agreed not to put in competitive bids but rather agree to share out available land and structure their bids accordingly. Whilst the extent of such collusion is an empirical question, market sharing is fairly common even when such incentives are weaker. Auctioning development rights also involves the confusion of an infrastructure charge with a local betterment tax since they will coalesce in the single payment (already rejected).

INFRASTRUCTURE PAYMENTS

The British context is one of a private but regulated land development market with a planning system that has both collective and individualistic characteristics. Hence the policy choice concerns the balance between public and private sources of finance. Drawing on current North American experience there are two possibilities:

(1) SPECIAL ASSESSMENTS

They are used in the USA to finance **improvements** of local streets, lateral sewers, water systems and sidewalks above basic standards and of benefit to specified properties. They are not used to finance general community-wide expenditures such as schools. Nor are they used to finance **new** infrastructure being provided for the first time. Nor are they a tax, since they are not applied at uniform rates over property in general. They must be approved by, say, referenda, voters having the choice to forego infrastructural improvements if they judge the costs to be greater than the benefits.

Basic and minimum standards have already been rejected on philosophical grounds (chapter 4). The practical drawback is that, if approved, the current generation of voters in the locality in question commit their successors to ongoing payments without necessarily considering whether or not they (or indeed the national or local economy) can bear the cost. Such logic underpins the present macroeconomic controls of local government spending in Britain including controls on the use of authority-wide tax-financed

infrastructure. By comparison user charges leave individuals free to respond given their own budget constraints.

The use of special assessments is in fact very limited. For example for all US cities special assessments provided only 1.5 per cent of own source general revenue in the early 1980s, although they did account for just over 6 per cent of cities' construction expenditures (Snyder and Stegman 1986 page 19). Where they are used the special assessment payable per property is usually assessed on a crude rule of thumb basis, usually front footage or acreage of properties since these determine the lengths of street, sewer and water lines, etc., and therefore their cost. Hence, the approximation is between cost and financing rather than between benefit and financing.

The limited use of special assessments dates from the 1930's Great Depression. People (and businesses) simply could not afford to pay these annual tax liabilities during a period of mass unemployment and reduced demand. This led to widespread defaults and foreclosures on special assessment tax liens coincident with a collapse in bond markets. Thereafter, it became the norm for developers to meet increasing proportions of the infrastructure costs associated with their developments (Wakeford 1990 page 191).

Similar liquidity problems would apply today, although Shoup (1980) argues that these could be overcome by combining special assessment with tax deferral (at market interest rates) whereby owners of residential properties would pay them when they sell the benefited property or die, whichever occurs first. This is comparable with recent proposals for the deferral of payments of a reintroduced local property tax under a future UK Labour Government. In holding a large portfolio of deferred assessments, city authorities could receive a predictable flow of repayments by which to amortise the debt on their issues of special assessment bonds used to finance the cost of the infrastructure. However, there appears to be little likelihood of even limited use of special assessments in Britain in the foreseeable future.

(2) EXACTIONS AND DEVELOPMENT FEES

These fiscal devices are levied on developers to recover the cost of **new** infrastructure required by new developments. They are not used for the taxation of betterment. Exactions are payments in-kind whereas development fees are payments in cash. The distinction between exactions and development fees is often blurred with the terms being

used interchangeably in many texts. In North America development fees are also known by other terms, often related to the point in the development process, for example impact fees, infrastructure fees, occupancy taxes, connection fees and lot levies.

The distinction between payments in cash and in-kind is not particularly helpful for analytical purposes except that it may be useful in establishing a rational nexus between the permitted development and the infrastructure demanded (see below). The monetary value to both the developer and the local authority is the same, the final choice depending upon administrative convenience. Henceforth, the term 'development charge' will be used generically.

In the **USA** development charges have been increasingly used as a flexible solution to current problems (Smith 1987). "Although developers may feel that a fee amounts to catastrophe, American cities, counties, states and even the federal government seem to feel that not to fee is tantamount to atrophy" (Porter 1984 page 34). Indeed the use of development charges is often supported by developers themselves as a way of obviating the possibility of moratoria on development, due to a city's lack of funds to finance necessary infrastructure, and as a means of leverage of that infrastructure to ensure the steady development of their land. Hence development charges tend to be most commonly used in communities undergoing the most rapid growth, generally on the fringe of urban development (Porter 1984) and as many as half of all US residential builders pay them (Stegman 1987). Their use is highest in Southern and Western States, particularly in the so-called Sunbelt, and in expanding suburbs of large metropolitan areas.

A similar situation exists in **Canada**, Ontario's growing regional municipalities making the most extensive use of development charges. Municipalities have been steadily reducing long-term borrowing by financing a growing proportion of capital expenditure from internal sources (40 per cent of total capital revenues in the mid 1980's). These are mainly prepaid special charges, subdivider contributions and development charges.

VARIATIONS IN THE USE OF DEVELOPMENT CHARGES

The use of development charges is subject to considerable variations throughout North America and it is necessary to highlight these in attempting to assess their suitability for use in Britain and to illustrate

the policy questions that must be addressed. The USA example focuses on the narrower legal issues addressed by many States whilst the Canadian case study concentrates on the wider policy debate in one particular Province.

(1) USA

Development charges vary in terms of requiring provision of off-site as well as on-site infrastructure. The term 'on-site infrastructure' is used to describe those roads, water and other facilities constructed on the area being developed or on immediately adjacent areas, as required to make connection with existing systems. The term 'off-site infrastructure' is used to describe arterial roads, schools, fire and police stations, parks etc., whether they are built on the area or not.

Charges for roads, sewer and water systems, street lighting, etc., have been consistently upheld by Courts in all US States where they are on-site or immediately adjacent to it. There has been less consistency by the Courts in upholding charges for these facilities off-site, as well as for parks, schools, libraries and various other public buildings. However, since the majority of off-site payments are privately negotiated between the developer and city authority, information is difficult to obtain and is limited to court cases and specific case studies (Bauman and Ethier 1987, Cervero 1988).

The lack of a clear legal framework in the USA led to a profusion of legal analysis (Nelson 1987b). Where allowed by law, development charges must meet the reasonableness standard. "Three tests of reasonableness have emerged: (1) whether the need for the new infrastructure is specifically and uniquely attributable to the new development; (2) whether there is a reasonable relationship between the public need and the conditions imposed on the developers, and (3) whether the exaction or fee would be used to the benefit of residents of the new development" (Snyder and Stegman 1986 page 56). These conditions are referred to as the rational nexus criterion. In addition, following three Supreme Court cases during 1987, the law allows exactions which 'substantially advance a state interest', as distinct from a private one. This has been seen as strengthening the rational nexus criterion (Siemon and Larsen 1987) which has been further developed to take account of impact fees and linkage (Delaney et al 1987) and has been analysed in greater depth by Nicholas and Nelson (1988).

These tests of reasonableness have a close parallel in the planning policy guidance issued by the British government to local authorities. Planning

gain agreements are deemed to be reasonable only if the infrastructural facilities are needed to enable the development to proceed, or payment relates to those facilities, or planning permission could not be given without it (eg adequate car parking space), or to secure an acceptable balance of uses. Furthermore, such in-kind or cash payments must be fairly and reasonably related in scale and kind and also a reasonable charge on the developer as distinct from being financed by national or local taxation. "The essential principle is that the facilities to be provided or financed should be directly related to the development in question or the use of the land after development" (DOE 1988b paragraph 26).

As will be seen later, the fairly narrow American and British legal perspectives contrast sharply with the much more broadly based Canadian view of the legitimate scale of development charges. Moreover, the nature and scope of planning agreements actually being reached in Britain exceed government guidelines. They are often not necessary to enable the development to go ahead and provide wide-ranging off-site benefits such as playing fields, community halls, free sites for schools and libraries, low-cost housing, nature reserves, managed woodlands etc (Elson 1990). Such agreements also seem to fail the USA's rational nexus test in not being specifically and uniquely attributable to the new development.

The requirement that the need for new infrastructure must be specifically and uniquely attributable to the new development places considerable demands on American cities to justify the development charge. Extensive studies must be undertaken to determine the precise impact of each development upon a city's infrastructure including road, water, sewage and other systems. Charges for roads are particularly difficult and complex to calculate and account for the bulk of study costs. The road network is an open system, and demand for and use of roads originates outwith as well as within new developments. Hence, strictly speaking, it is invalid to levy development charges other than on a regional basis. Within an urban area, for example, suburban residents will make use of inner city roads to a greater extent than inner city residents make use of suburban roads. There will also be other patterns of intra-city and inter-city traffic flow depending upon locational patterns for residential, commercial and industrial developments. Development charges require complex traffic impact modelling to determine even crude cost implications of new development.

Whereas a local road network forms part of a wider open system, water,

sewage and drainage systems are closed systems. Hence it is easier to estimate costs imposed by new development and development charges can be determined for individual zones. The costs of central facilities such as reservoirs and sewage treatment plants can be shared over all development within the area served by the system. Cost allocation for new developments could be through front footage or numbers of fixtures (residential), acreage or numbers of employees (commercial) or determined individually according to known use (industrial). Development charges for other infrastructure such as parks, police, fire, school and library services, are usually determined by assuming that new residents will be provided with facilities comparable to those of existing residents. There is certainly no attempt to prevent existing residents using the new facilities nor new residents using old facilities but such services are generally area-specific as a matter of practicality.

In practice the lack of exactness in these cost estimates leads to considerable negotiations between city authorities and developers over the size of development charges. Payments in-kind require the most extensive studies because the developer is required to actually build the infrastructure. Payments in cash are more flexible in requiring less detailed research and relieving developers of further responsibility once the charge is paid. Rational nexus may be easier to identify for the former.

Charges based upon formulae or statutory criteria are more certain than those determined by negotiation, they apply uniformly to all developers and, in being financed by borrowing, developers can gain tax relief on interest payments as well as on the charge itself. They also guarantee that infrastructure will be provided for new development in a timely manner. However, such standardised charges are less likely to reflect true costs and so may lead to economic inefficiency and inequity. Nonetheless, even where developers feel that they are being unfairly burdened with development charges, they will pay them if they believe these excess costs are less than the costs of litigation and of the delay involved (cf a similar outcome in Britain if planning gain is abused).

(2) ONTARIO, CANADA

The current legal basis for such charges is contained in the general provisions of the 1983 Planning Act (MMA 1986). There is some ambiguity in the drafting of the Act in terms of the respective powers of the Minister and the municipality in deciding the financial and other requirements to be met by developers. There is also a lack of definition

as to which municipal services can be legally financed from development charges. Nonetheless there is a surprising similarity with the USA in that, the overwhelming emphasis is on development charges to the exclusion of taxing the increase in land values due to government expenditures or permissions (Amborski 1983 page 11).

A survey by Watson and Associates (1985) found that some regions and some municipalities do not levy development charges, for example Metropolitan Toronto (the largest regional authority in Ontario in terms of population) and some of its local municipalities. However, most do use uniform on-site development charges and four fifths of municipalities also require additional off-site capital contributions from developers where they relate directly to the development in question. But even here there is variation, with different municipalities including different services such as abutting arterials or boundary roads, connections, access, oversizing sewer and water extensions and so on. Hence uniform on-site charges are combined with off-site specific charges which vary between municipalities.

Furthermore, the majority (but not all) of regional municipalities also include a development charge to cover a proportion of the costs of infrastructure for police and fire stations, libraries, administrative buildings etc whilst only a minority of non-regional municipalities do so. Only just over a third impose development charges on commercial and/or industrial developments.

There may be clearly defined reasons for such disparities. For example, some municipalities may not levy charges because they have no new growth in their administrative areas. Others may have decided not to levy such charges on industrial and commercial developments because it is already much more heavily property-taxed than is residential development, because it does not place such significant demands on all municipal services as does residential development, and because they do not wish to deter economic activity and hence prosperity by imposing charges.

Notwithstanding the possibility of such rational reasons for discrepancies in municipal practices, the general impression left by the Watson and Associates (1985) survey is that many of these discrepancies have arisen for no other reason than that their systems have evolved along differing and essentially arbitrary lines. Such arbitrary variations in municipal practices are not new. Boadway and Kitchen (1984)

summarise the results of a 1978 survey within the region of Waterloo which found an extreme variation in the development charges levied on standardised lots within 12 Ontario cities.

There is general agreement that '**hard services**' should be financed from development charges but considerable dispute regarding the legality of so financing '**soft services**'. Hard services refer to water, sanitary sewer, storm, road and utility infrastructure whose installation is a prior condition of development. Soft services encompass all other municipal capital works including community centres, police and fire stations, libraries, administrative buildings and so on. Within the hard service category there are two alternative approaches to cost calculation. Developers favour a site-specific or marginal cost approach whereby they provide directly or through development charges for only those growth costs specific to the site in question. The municipalities favour a uniform development charge based on the average cost of infrastructure per unit of development.

Under the site-specific approach the development charge could not be levied so as to cover the ongoing debt charge implications of past capital expenditures. This would be so even when infrastructural capacity in excess of the needs of the then current population had been installed by the municipality. The justification for this stance is that such excess capacity constitutes 'sunk' costs which are not directly attributable to current growth. Advocates of the uniform charge approach such as the Ontario Municipal Board (OMB) argue that such excess capacity is usually installed specifically to accommodate future growth and that it is efficient to create short-term excess capacity for indivisible infrastructure such as water and sewage treatment plants, etc. Hence all new developments should contribute to such costs whether sunk or not.

Furthermore, they bring closer the date at which excess capacity will be exhausted and hence impose a need for additional capital works in the future. In effect, the using up of existing excess capacity is a growth related cost. Similarly, a uniform charge is favoured by the OMB because otherwise new residents enjoying the same standard of services would pay widely different development charges based entirely on their proximity to a trunk sewer, sewage or water treatment plant and so on. In the OMB's view this would substitute geographical accident for equity, providing an economic bonus to some and a loss to others.

The AMO also rejects the developer's attempts to exclude soft services

from development charges. "While there was a time in the distant past when municipal services consisted of only sewer, water and roads, this is no longer the case. An urban municipality is now faced with real, non-discretionary costs related to a number of other services, ranging from solid waste disposal facilities and police and fire divisional buildings to parks and recreation facilities, day care facilities and health service facilities. AMO believes that the costs to provide these capital facilities to new development are indeed growth-related costs" (AMO 1987 page 10). On this basis, even theatres, art facilities and museums' capital costs are eligible for inclusion in development charges. "The lack of additional recreational and cultural service within a new development ultimately results in over-burdening such services in other areas. In new development areas these facilities are important not only to the taxpayers but also to the developers"(AMO 1982 page 6).

However, because they are confined to growth-related costs, the AMO accepts that development charges cannot be used to provide services beyond the standard which presently exists in the municipality. Nor can they be used to upgrade the level of services for the whole community or to provide services which do not already exist in the community. (AMO 1987). On the grounds of equity, new residents must not be asked to pay twice. This can be achieved by discounting development charges by the present value of that part of future local tax payments which relate to existing debt charges (see Table 4 page 170).

Development charges recover 100 per cent of costs for hard services (sewers, water and roads) but lower percentages for other services. AMO recommends a cost recovery of 90 per cent for solid waste facilities, divisional police and fire buildings and equipment, and transit, and 75 per cent for community centres, arenas, libraries, major parks, health centres, day care, homes for the aged and so on. Whilst apparently arbitrary, the AMO justifies these lower percentages on the grounds that such brand new facilities (provided as a result of new development) are above the existing standard of (older) provision and, hence, it would be appropriate to require the existing community to provide 10 to 25 per cent of their capital costs. Developers argue that the 90 and 75 per cent proportions are too high.

The interests of developers are represented by the Urban Development Institute (UDI) who argue that development charges "are, in fact, not a problem of municipal finance as much as an indication of the inappropriate boundaries within Metropolitan areas" (UDI 1981 page 18). According to this view, boundaries should be widened so that industrial

and commercial assessment at the core is available to offset residential costs which may be burdensome on the periphery. However, recognising the inflexibility of administrative boundaries, the UDI "has always taken the position that development should pay its fair share of municipal costs and that new development should not create a burden on the financial base of any municipality. On the other hand, the Urban Development Institute strongly objects to lot levies being used to subsidize the general tax base" (UDI 1981 page 3).

The UDI has supported the use of development charges for hard services for specific developments but not for soft services. Moreover, it criticises the emphasis on costs. "Surely lot levies in a particular municipality should be related to the net financial impact of overall growth" (UDI 1981 page 16). This would take account of revenues, as well as costs, accruing from development. The UDI is presumably referring to property tax revenues from any industrial and commercial development related to new residential developments. It has already been noted that development charges can be discounted to prevent double or multiple payment by new residents. However, the UDI logic would strictly require a much more comprehensive 'fiscal impact analysis'. Such an analysis is "a projection of the direct, current public costs and revenues associated with residential or non-residential growth to the local jurisdiction(s) in which this growth is taking place" (Burchell and Listokin 1978 page 1). This approach includes both operating and capital costs but both the AMO and UDI have agreed to the exclusion of the former in calculating development charges.

LESSONS FOR BRITAIN

The main lesson to be drawn from the foregoing analysis is that a clear and definitive charging philosophy is required which distinguishes between charges and taxes and which clarifies the types of infrastructure for which charges can be levied. In turn, this would clarify the legal framework. Other lessons are that charges should be determined on the basis of objective criteria, a considerable amount of information is required for the estimation of costs which will nonetheless be subject to considerable margins of error, national and local government must have clearly articulated policy stances underpinning negotiated or uniform charges and, finally, the debate will continue in the light of changing economic circumstances irrespective of any administrative guidelines issued by the British Government.

As is the case in USA and Canada, development charges could be used in Britain to recover the infrastructure costs incurred by local authorities whilst not seeking to tax betterment. It is precisely because development charges are related to costs and not to the rise in land values attributable to planning permission and infrastructural provision that the Association of Municipalities of Ontario rejects developers' accusations of profit sharing. Such a rationale also makes irrelevant the distinctions between infrastructure which is on-site and off-site (or hard or soft) and between payments in cash and payments in-kind.

In the British context, it has been argued previously (Loughlin 1981, page 76) that it is legitimate for a local authority to seek to recoup infrastructure costs from the increase in land value but not legitimate to seek to recoup betterment arising from the existence of the planning system itself. This distinction recognises the political nature of decisions regarding betterment taxation and the sharing of windfall gains between developers and the State. It also provides a clear cost-recovery rationale for a local development charge and is consistent with a national government preference for the increased use of service charges by an enabling system of local government.

In Britain, such a charge would require much clearer legislation allowing local authorities to require developers to contribute to off-site infrastructure costs. This then begs the question as to the calculation of such development or infrastructure charges (eg whether for both hard and soft services) and this in turn depends upon the perceived role of the planning system. It is important to emphasise that the legislative framework cannot be established independently of the model (explicit or implicit) of the planning system.

MODELS OF THE PLANNING SYSTEM

Various models of the planning system have been outlined: Brindley, Rydin and Stoker (1989) identify six whilst Healey (1989) identifies four. A cruder typology (using only three models) is sufficient in this context (Loughlin 1981).

(1) The architectural/engineering model takes a narrow view of the planning system in seeking the orderly arrangement of physical resources according to set rules. Planning is essentially a technical activity operating within a clear and precise legislative framework.

(2) The social cost model is based upon rules combined with professional judgement and seeks to minimise the social costs of development. Excessive nuisance can be caused by traffic congestion, noise, excessive residential densities, incompatible uses etc. The planning system seeks to incorporate such negative externalities into the decision-making process and so achieve an efficient spatial form.

(3) The social needs model seeks not just allocative efficiency but also seeks to promote a redistribution of resources to achieve distributive equity. The planning system becomes another tool of social policy, emphasising social processes rather than spatial form and being non neutral in its application.

There are elements of all three models within current practice and the dividing lines between them are not as clear cut as first appears. The particular emphasis depends in part on the political hues of national and local governments. In Britain the social cost model may be the best approximation overall, in that the planning system seeks "to secure economy, efficiency and amenity in the development and use of land" (Cmnd 9571 paragraph 3.3).

Opponents of planning gain emphasise the architectural and engineering approaches and concentrate on physical infrastructure. Some British local authorities appear to be adopting the social needs model when they seek to direct planning gain to particular deprived groups or areas (eg provision of parks or other recreational infrastructure). This is similar to the situation in the USA where some municipalities make use of a fiscal device known as "housing linkage fees". They are imposed on downtown office development and the revenues are used to finance low cost housing for low income groups (Connors and High 1987, Kayden and Pollard 1987, Nelson 1988).

British local authorities are increasingly incorporating planning gain in their formal local plans, requiring developers to make broader contributions to community facilities (Healey et al 1992). This is particularly significant in that community facilities account for a fifth of the infrastructure required for greenfield sites (Meikle et al 1991). It suggests a shift over time to the social needs model and illustrates how the lack of a philosophy underpinning planning gain leads to policy drift. Currently it appears that development charges should be restricted to a cost-recovery role and operate within the social cost model. Infrastructure charges are therefore neutral in that they do not have a

redistributive role beyond relating payment to costs incurred by local authorities. Over three quarters of developers accept that planning gain has a legitimate role in planning agreements but such acquiescence is probably in terms of cost recovery rather than taxation of development profits (KPMG 1990). Nonetheless, a poorly conceived system of cost recovery charges could be non-neutral in practice and it is necessary to consider efficiency and equity issues in more detail. The North American experience is illustrative once again.

EFFICIENCY ISSUES

The American and Canadian experience has made clear the neglect of efficiency criteria in the determination of development charges. This is probably because of the preoccupation with legal issues and an emphasis on simply raising revenue. In some cases, municipalities do not even state the purposes for which charges are levied. "On the whole, none of the extensive Ontario experience with lot levies appears to show any obvious influence of the enormous economics literature on the efficient pricing of public services" (Bird and Slack 1984 page 222). Indeed, "most efficiency claims for development fees are groundless" (Snyder and Stegman 1986 page 31). This is because they do not influence use of the infrastructure once it is provided so that roads and water, etc., may be overused or overconsumed in just the same way as when their infrastructure is financed by taxation. Other measures will also be required, for example metering of water consumption. Bearing this caveat in mind, a number of separate issues can now be considered.

(1) Incremental costs

In general, user charges related to long run marginal costs will improve efficiency if externalities are absent (but see chapter 4). Where externalities do exist they can be accommodated in planning decisions rather than through charges for infrastructure costs. Hence charging developers the incremental costs of infrastructure stimulates efficiency by encouraging use of low-cost areas (already provided with infrastructure) within the city in preference to areas outwith the existing infrastructural system. Alternatively, efficiency is achieved if developers are willing to pay to develop presently unserved areas.

The development charge would also have to reflect the sensitivity of infrastructure costs to density of development. The most sensitive capital costs are those for water supply, storm drainage and sanitary sewers (Downing and Gustely 1977 page 85). For example, in the USA

the capital costs of sanitary sewers are 11 times greater for low density single family housing than for high rise apartments (Downing 1981 and 1984). This cost differential will not be so great in Britain because the USA has a much lower density of development than the UK.

(2) Impact on Housing Consumption.

Development charges may increase the relative cost of housing and lead to its underconsumption. This depends upon the extent to which it is already subsidised through tax relief etc and similar criticisms can also be made of property taxes (now abolished in Britain for housing) and planning gain (still in use in Britain). Developers may reduce the size of building lot or house, reduce building standards, or reduce amenities in response to the development charges so that the total cost per house is held constant.

In this case, housing will be underconsumed as a result of less spacious (or lower amenity) dwellings being available than otherwise demanded. However, in practice, planning and building regulations may serve to limit increases in density and reductions in standards. Alternatively, to the extent that development charges are passed on to buyers, fewer people will be able to afford to buy housing. This applies to both existing and newly built dwellings since higher prices for the latter will increase demand (and therefore prices) for the former. This effect will be greater the larger the share of newly built houses within the total housing market.

(3) Impact on the Rate of Development

Development charges may influence the rate at which land is developed and be inefficient in terms of land useage. The impact on the development industry depends upon market conditions and particularly the responsiveness of supply of and demand for the development product. It has been argued (Wiltshaw 1984) that planning gain (or development charges) does not require enormous profits or economic rent. If demand is largely insensitive to price and if capital cannot easily be substituted for land in the development process then imposition of a planning gain requirement (or development charge) will not discourage development. This will be reinforced if the share of land in development costs is low and if there are few more profitable occupations for the factors of production used by the development industry itself.

Reduced demand for housing will clearly slow down the rate of

residential development in the area levying the development charge. This depends on the homogeneity of the local and regional housing markets. The more alike are the various housing areas, the less able developers will be to raise prices since consumers can switch to areas of lower-priced housing where (say) infrastructure already exists and where development charges are therefore lower or simply not levied. In this case developers will have to bear all or part of the cost of development charges for land they already own. In the long run, however, they will probably bid less for new areas of land given that the development charge reduces its residual value and there seems to be some evidence from Scotland in support of this hypothesis (Rowan - Robinson and Lloyd 1988 pages 126 and 136). The result is that landowners may bear most if not all of the burden of the development charge. Hence the supply of land suitable for residential development may be reduced.

This tentative conclusion is based solely upon a priori analysis. In the British case there is simply no detailed empirical work relating to the incidence of charges for infrastructure (Hodge and Cameron 1989). In the USA there is some evidence that developers react to high development charges by redesigning their residential sites for more affluent buyers (who may be less responsive to higher prices), possibly because landowners set unrealistically high asking prices (Nelson 1988 page.125). In addition, the lower densities and therefore higher infrastructure costs per acre in the USA may restrict the supply of land much more than is the case in Britain. This is likely because the density differential will cause a marked difference in the proportions of land value attributable to development gain (lower in the USA, higher in the UK?).

Hence it may be invalid to assume that the British and American experience will necessarily be the same, especially in terms of the magnitude of any impacts on the pace of development. Nonetheless, similar qualitative effects can be expected. For example, unrealistically high book valuations are also said to exist for many inner city sites in Britain (even those owned by public sector agencies) again restricting the release of development sites (Grant 1990 page 35). However, such restrictions caused by development charges and by landowner idiosyncrasies are perhaps negligible compared with that restriction imposed by the British planning system itself, a problem recently addressed by central government (Cmnd 9571 and Cmnd 9794).

Suffice it to say that lack of information about market site and behavioural characteristics creates considerable uncertainty regarding incidence. Whether developers pass the burden of the development

charge forward (to the house buyer) or backwards (to the landowner) and/or bear some of the burden themselves, the pace of development will most likely be slowed down as long as the charge is an additional payment (ie that part not offset against tax liabilities) over and above normal housing costs. If not, then it implies that developers were not making maximum profits from their developments before the charge was imposed.

There are likely to be strong cyclical and spatial variations since much will depend on the state of the national, regional and local economies. In periods and areas of rapid economic growth the pace of development (and the derived demand for land) is unlikely to be significantly affected by the imposition of development charges. Charges will have a greater impact where and when such growth is sluggish .

This analysis assumes that there are no other restrictions on the supply of land. If, however, the planning system itself acts as a constraint then the imposition of a development charge may actually increase the amount of land available for development. This would be the case where the inability of local authorities to provide the necessary infrastructure (due to financial constraints) leads to rejection of planning applications as premature. In such a case the payment of a development charge will remove the financial constraint and allow development to proceed. The constraint arises not simply just in terms of building roads, water and sewerage systems etc, but also in terms of the necessary land acquisition which accounts for between a quarter and a third of the overall development area (DOE 1972 paragraph 39).

The local authority may have to pay the full market value for such land, a value that is inflated by the very infrastructure that the authority has yet to provide. The local authority (and its taxpayers) are in effect subsidising new developments and in this sense really are 'paying twice'. Two components of the rise in land value may be distinguished: first the rise due to the planning permission itself and, second, the rise reflecting the expectation that infrastructure will be provided as a consequence of that permission. The separate quantification of these two components is possible using case studies. For example, the proposed private new town greenfield sites where British housebuilders have recently offered to provide all infrastructure at their own expense in order to gain planning permission in parts of southern England's green belts. The market value of these sites would then reflect only the first of the two value components. This information could then be used to deflate the

payments made by local authorities for land necessary for provision of infrastructure. This proposal would itself require new legislation and face many practical problems. A system of charges based on costs has greater clarity. Moreover, some of this 'double payment' may already be discounted under compulsory purchase compensation rules (Rowan - Robinson and Lloyd 1988 page 48). Despite this, local authorities still have to raise substantial amounts of finance for provision of infrastructure and so charges are justifiable.

(4) The Need for Negotiation

The economic factors discussed in the previous section illustrate the need for local authority discretion over whether to levy a charge (ie it should not be compulsory to do so) and for negotiation between local authorities and developers to discriminate between development projects and assess their responsiveness to charges. Hence variations in charges between authorities would seem to be inevitable reflecting local circumstances and differing practices.

Such negotiations are commonplace in the award of discretionary funding under regional policy and urban initiatives in attempting to determine the minimum amount of public subsidy necessary to encourage the project to go ahead. Negotiations over costs also provide developers with essential site-specific information (not available in local and structure plans) required for their developments to go ahead. They also promote local authority coordination where, as in Scotland, the lower tier gives planning permission but the upper tier provides the infrastructure. Hence it is clear that criticisms of the current practice of secret negotiations over planning gain would not be valid for development charges.

Legislation should specify which types of infrastructure could (or could not) be charged for. It could also specify a maximum charge. However, it would not be appropriate to specify a predetermined scale of charges. For example, a 'leap-frog' development (ie one that jumps across agricultural and/or countryside areas) leaves an undeveloped greenfield site between the new and existing developed areas. If the local authority provides sufficient infrastructural capacity to meet the needs both of the leap-frog development and subsequent infill development it then runs the risk of the infill development not taking place.

In other words the authority and its local taxpayers bear the risk and the financial consequences of no further development. It would therefore be

appropriate to charge the leap-frog developer for the cost of oversizing water and sewerage capacity etc, possibly reimbursing some of that payment if and when the subsequent infill development takes place, subject to a time limit. This already occurs to some extent in Scotland where sewerage authorities already have powers to charge for such excess costs under the 'reasonable cost yardstick' (Rowan - Robinson and Lloyd 1988 page 38). As an alternative to reimbursement by the local authority, the private developer could recover these costs through use of 'ransom strips' of land alongside, say, a road which the developer has financed. These narrow strips of land are sold at high prices, hopefully at least sufficient to recover over-sizing costs incurred by the developer.

Negotiation would be essential, as would be an improvement in the evaluative skills of local authority officers. A phase-in period would also be required whereby pre-zoned land would have to be developed within a given period or otherwise pay a charge. Imposing development charges in overcongested areas would have much the same effects as payment of subsidies towards development in economically depressed areas and could therefore complement existing urban and regional policies to move population and economic activity back into declining cities and back out of the South East of England.

(5) Dangers of Overdesign

Improved efficiency will be compromised if development charges lead to over-design of infrastructure such as roads and sewage treatment plants as city authorities attempt to minimise the annual maintenance costs which they must bear as opposed to the initial capital costs financed by developers. There is evidence that Scottish local authorities are requiring higher standards for estate roads in order to achieve such savings (Rowan - Robinson and Lloyd 1988 page 83). Similarly, to the extent that local authorities share experience of development charges and adopt standardised methodologies for their calculation, charges will become standardised despite differences in costs between cities and differences in the responsiveness of the development industry to such charges. This would be inefficient in that charges would not reflect actual costs for each location and development industry characteristics.

(6) Impact on Planning and Other Services

The use of development charges may cause inefficiencies to arise in planning and service delivery. There is a danger that cities will substitute the willingness of developers to pay charges for sound land use planning as the basis of efficient development decisions. This pitfall

is also shared by the current system of planning gain. Also, the earmarking of development charges for specific purposes is likely to create inflexibility in the budgetary process and inhibit an authority's ability to meet its community-wide objectives from a constrained financial base. What began as an incremental source of finance could serve to impose inefficiencies and rigidities in the budget as a whole. This is as much a problem of central government restrictions (such as the failure to increase grants in line with inflation and selective poll tax capping) as it is of development charges.

Conclusions Regarding Efficiency

Ensuring the efficient use of resources within the urban spatial structure is not easy. Potential problems will have to be addressed whether or not development charges are explicitly allowed in Britain. The achievement of efficiency through development charges is not automatically guaranteed but a properly designed system of charges could improve efficiency compared with the current situation based on planning gain.

EQUITY ISSUES

By relating payment of development charges for infrastructure to benefit received it is argued that equity is increased. Furthermore, in making new development pay for itself, it is argued that existing residents are not being unfairly asked to subsidise new residents in areas of rapid urban growth. This is also the justification for special assessments and exactions. In practice, however, inequity may actually be increased by the injudicious use of development charges.

(1) Who Pays?

A major drawback is caused by lack of knowledge about who actually pays the development charge because the legal incidence and the economic incidence of development charges will almost certainly differ. As already noted the economic incidence can be on the buyers of housing, on the developers, on the original landowner, or shared by all three groups. It is difficult to determine the incidence of development charges without detailed empirical studies of individual localities because market structures vary between areas. Hence if it is not known who ultimately pays development charges it is not clear whether equity has been improved (Nicholas 1987, Siemon 1987, Huffman et al 1988). However, this problem also relates to property taxes, especially those paid by businesses able to pass them on (Bailey 1988c) and an uncertain incidence of development charges should be compared with the known

regressive impact of the poll tax. At least there is an element of choice in paying development charges but none at all in paying a compulsory tax.

(2) Gainers and Losers

The indiscriminate use of development charges could lead to windfall gains for established residents and place an unfair burden on new development. Existing residents receive benefits from infrastructure provided by previous generations of residents and it would seem reasonable on the grounds of intergenerational equity for them to reciprocate. If, however, new residents bear all the costs of new infrastructure then existing residents receive a windfall gain. This will be even greater if new development more than pays for new infrastructure under a form of municipal extortion. By comparison new residents are subject to double payment if they pay both the development charge and the property tax. Hence new residents are paying for both new and existing infrastructure. As already noted such potential inequity can be avoided by reducing the development charge by the present value of existing debt charges which new residents will be expected to finance in the future through their payments of local taxes.

If such an adjustment is not made then residents of new or recent developments are likely to argue that, since they have effectively paid for their own infrastructure requirements, they should not be asked to contribute to the renewal or upgrading of infrastructure elsewhere in the city. However, these new or recent residents will have created deficiencies elsewhere in, say, the road system (in terms of capacity or wear and tear) such that it would be unfair to exclude them from such continuing obligations. The collective nature of provision and financing has to be recognised.

Even after such adjustments some existing residents may still benefit to the extent that development charges lead to increased house prices on both new and existing houses. Existing owner-occupiers will therefore receive a windfall gain. However, existing tenants of rented accommodation receive no such windfall gain. Indeed their rents are likely to rise reflecting higher house prices, with the result that they incur a financial loss. If these tenure groups are of high and low household incomes respectively, then this outcome would appear to be contrary to generally accepted income redistribution objectives.

Landowners and new house buyers are generally not represented in the negotiations between local authorities and developers and hence may be required to bear an inequitable share of the burden of development

charges. As already noted, they don't have to sell land and buy houses but housing demand in particular may either be unresponsive to higher prices or positively correlated with them (investment value). A further inequity is that American cities often require substantial payments from large developments but none at all from small developments. This is because of the high cost of determining the impact of new development on infrastructure requirements and which therefore make it uneconomical to undertake impact studies for small developments. This therefore discriminates unfairly against large developers and associated landowners and new house buyers. Similar criticisms have been made against the current system of planning gain where community groups are likewise excluded from negotiations, have little influence on the nature of community benefits and are subject to a public relations exercise after decisions have already been reached between the developer and local authority (Marsh 1989 page 12).

New developments and new city residents are not in fact synonymous. About 80 per cent of new American houses are sold to people already in the community - those moving house, siblings of established residents and so on (Stegman 1986). Such intra-city movers will already have contributed to city infrastructure through the property tax but now they are required to make additional payments to cover development charges. In this sense they are being asked to pay a disproportionately high share of new infrastructure costs relative to intercity movers and may also subsidise non-moving residents' infrastructure renewal costs through the property tax. But in another sense they are either making way for newcomers moving into existing housing or leaving the parental home so that there is still a growth-related cost which has to be financed.

Conclusions for Equity

As with the initial conclusions regarding efficiency, a closer look at the main equity issues has revealed that the situation is much more complex than first appears. Problems are eased where infrastructure can be added incrementally such as streets, water and sewage lines. However, other infrastructure is lumpy such as reservoirs, water and sewage treatment plants, major transportation facilities, etc, and usually involves provision of short term excess capacity. This may exacerbate any inequity, for example where some new residents pay for the excess capacity whilst others receive a 'free ride'. Hence "while the transition from public to private financing may sound seductively simple and nearly costless, in practice it is anything but" (Stegman 1986 page 5). Peiser (1988) outlines a methodology for the calculation of equity-neutral

charges but Connerly (1988) argues that they are bad social policy because of their effects on housing cost and availability. Linkage fees are similarly criticised for their adverse effects on employment (Huffman and Smith 1988).

IMPLEMENTATION

New or amended legislation would be required to clarify the legal situation regarding planning gain and to achieve a conceptually clear and logical distinction between taxing betterment and charging for the infrastructural costs incurred by local authorities. Simply issuing revised guidelines would probably not be sufficient to avoid confusion. The types of infrastructure that can be charged for should certainly include hard services (roads, etc), both on site and off-site, which are directly attributed to that development. There should also be a charge for soft services (school buildings etc) required by major residential developments, though perhaps not such a charge for non-residential (business) developments.

Infrastructure charges are already being introduced by other sectors. Mention has already been made of the 1989 Water Act. The private water authorities in England and Wales have powers to charge new customers not just for connection to the system but also for the cost of the infrastructure (mains pipes, reservoirs, pumping equipment and sewage works). This is similar to the North American practice described above and could conceivably be used as a model by British local government, subject to all the caveats about efficiency and equity noted above. In particular, there have been complaints (reported in the press) about the levels of maximum charges (£1000 for supplying water to new houses and a similar charge for sewerage), about levying the same standard charge (based on off-site **average** costs) irrespective of the nature of the (domestic) property and about charging for each dwelling in a block of flats rather than charging just once for the whole block.

The announcement in August 1990 that the Government is reconsidering the future role and functions of local government in Britain (eg abolition of local education and housing authorities) will affect implementation. These events demonstrate that the particular types of infrastructure that could be charged for by local authorities depend upon the structure and functions accorded it by the national government. Differences in structure and functions (as well as finance) between countries help to explain variations in the use of development

charges and so one particular system of charges cannot simply be transferred from one country to another. Local government functions are not fixed and immutable. Furthermore, land development has capital cost implications for other public sector services such as health care. Hence it seems logical to extend the use of development charges to all newly provided public infrastructure. The charges levied by the private water authorities are not different in principle from similar charges levied by the public sector.

The use of development charges could be made administratively easier by another proposal to abolish the second tier of British local government (eg the non-metropolitan county councils). This would merge planning and the remaining functions for a given area into a single authority, so removing the need for time-consuming negotiations between authorities. In this case development charges could be fairly easily accommodated within the existing administrative and local framework of urban government in Britain.

A phased introduction of development charges would be necessary to avoid severe disruption of the development industry. The danger is that, where development charges are feasible, local authorities will go too far in exploiting this source of revenue, especially given that such private financing does not count against an authority's capital allocation as set by central government. The experience in America and Canada has served to highlight potential problems and practical solutions.

CONCLUSIONS

Development charges for new infrastructure have long been advocated as distinct from a betterment tax. They are already being used explicitly in other countries and implicitly in Britain as part of planning gain. They offer considerable potential as a additional source of local revenue in Britain by which to finance new capital expenditures. They could be used to substantially supplement, if not completely replace, the use of debt-financed expenditure with a 'pay-as-you-go' basis. They would not be used to finance replacement costs.

To many observers, the overwhelming advantage of introducing a system of development charges would be that they could relieve many of the current administrative and economic constraints on capital expenditures. They would allow growing urban authorities to divert existing sources of finance to maintenance (rather than expansion) of

existing infrastructure. Older, declining urban centres would probably make little use of development charges and, indeed, continue to offer subsidies to encourage relocation on brown field sites in city cores. The use of development charges by local authorities on growing urban fringes and in prosperous regions would serve to reinforce the effects of subsidies in authorities with declining local economies. Such authorities could possibly make more use of special assessments but these may be politically unpopular and hence offer little potential in practice.

Nonetheless, there is also a clear and widely accepted rationale for the debt financing of capital expenditures based on both equity and efficiency grounds. Uncertainties concerning interest rates on debt and administrative constraints imposed on the issue of debt instruments do not negate these efficiency and equity aspects of debt-financed infrastructure. Whilst there is merit in, and scope for, the correct and judicious application of development charges they are only one of several sources of finance for capital expenditures on infrastructure. The relevant policy question concerns the appropriate mix between use of taxes and charges for local infrastructure. The use of one does not completely preclude use of the other. This balance will be influenced by decisions about which types of infrastructure can be charged for and by the nature of local taxes.

A local property tax does have many inherent advantages as a source of finance for capital expenditures. Whilst development charges are a cost-related payment, the property tax is more closely related to the benefits received from local infrastructure as reflected in property values. Because development charges are a one-off payment, there is more financial risk associated with any under-estimate of incremental costs compared with the annually adjusted rate of property tax. There is also more local accountability for the latter, through public discussions during both the annual budgeting exercise and periodic elections. The development charge is set during confidential negotiations. Furthermore, the property tax also finances both new and existing infrastructure, whereas development charges finance only the former. Finally, development charges can be easily reduced by the present value of future property tax payments relating to existing infrastructural debt so that the two forms of payment are compatible in their implementation.

A carefully designed system of development charges offers considerable

improvements compared with the present system of planning gain in Britain. Infrastructure provision is distinct from the other services examined in this thesis in that it is not a direct tool of social policy, for example the provision of roads or water and sewerage. Nonetheless, the way in which it is financed does have social implications, as does its spatially specific nature since that influences use (eg sports centres and museums).

The use of development charges has been made more justifiable by recent reforms to the financing of local government in Britain, which break the direct links between use of property and payment to the local authority for infrastructure serving that property. This is the case for both payers of the poll tax and of non domestic rates.

Given the constraints of space, this chapter has not addressed the taxation of betterment in any great detail. This essentially requires a political resolution of a centuries-old argument. Nonetheless, it has to be recognised that planning officers work in political institutions, some of which have attempted to tax betterment through planning gain. There is a clear conceptual distinction between charges for infrastructure and taxation of betterment. Adoption of the former would in turn require a decision about the legitimacy of the latter. These two issues are inseparable in practice and a decision has to be made in order to avoid the current confused state of affairs relating to planning gain. The recommendation is that development charges should be imposed at local authorities' discretion, subject only to a general enabling power and a cost recovery basis. Taxation of betterment should continue to be restricted to national government which is itself responsible for the nationalisation of property development rights and relevant planning legislation. That tax (ie capital gains tax) is used *inter alia* to finance local government service provision generally.

Relating infrastructure charges to specific developments and reducing them by the present value of existing debt charges effectively relates the charge to the customised value added attributed to the site. The collective/objective interest is secured through both the planning system and through the collective financing element of the local tax. The individual/subjective interest is secured by allowing development which is consistent with planning requirements, by providing infrastructure to meet the needs of development and by levying a charge in accordance with costs. The availability and quality of infrastructure is promoted to the extent that development is brought forward by removal of a binding resource constraint. There has been no requirement to

specify minimum standards nor basic and non basic infrastructure since these are irrelevant to the customised value added philosophy. The reference points are the model of the planning system currently in use and the excess of infrastructure costs over the collective provision for payment of existing infrastructural debt. This achieves equity within and between generations of local taxpayers (distributional coalitions) and emphasises the integral nature of collective and individual choices.

TABLE 4: CALCULATION OF DEVELOPMENT CHARGES IN THE REGIONAL MUNICIPALITY OF PEEL, ONTARIO, CANADA

(1) **Solid Waste Disposal**: each additional resident in Peel generates an extra 0.4 tons of solid waste per year. Each ton requires 1/25,000 of an acre of landfill site costing \$60,000 per acre to acquire and develop.

(2) **Hospitals**: calculated assuming the provincial standard of 3.5 beds per 1,000 population and using current construction costs.

(3) **Regional Roads**: a judgement is made of the proportion of growth-related road works which are due to residential development.

(4) **Sewers and Water**: the costs of plant expansion made necessary due to growth are allocated to the residential sector based upon its share of total water consumption. The costs for the arterial distribution network are apportioned on the basis of the proportion of developed acreage devoted to residential purposes.

(5) **Police**: the standard is one of officer per 675 people and 175 officers per divisional building, leading to one building per 118,125 residents.

(6) **Day Care Centres and Homes for the Aged**: calculations similar to (5).

Note: Once per capita costs have been derived, levies for residential units are calculated on the basis of assumed occupancy rates for three categories of residential properties distinguished by floor area. Development charges are then reduced by the present value of existing debt charges to be paid by new residents (via mill rates, sewer rates and water rates) in the future. The charges are adjusted twice yearly based on a construction cost index. This procedure is more objective than the 'ad hocery' used by Scottish local authorities, eg when attempting to judge a balance of benefit (and therefore financing) between public and private sectors of a road scheme related to a particular development (Rowan-Robinson and Lloyd 1988 page 81).

CHAPTER 8: OTHER SERVICES

WATER AND SEWERAGE

Development charges for the capital costs of water and sewerage services have already been discussed in chapter 7. The emphasis here is on other forms of charge related to their running costs. As already noted water and sewerage services are both local government functions in Scotland but in England and Wales there are now 10 private water and sewerage undertakings and 29 private water-only companies. Specific attention is paid to the regulatory framework in England and Wales only in so far as it is relevant to the subsequent analysis. This approach is valid because, whilst price cap regulation sets an overall limit on increases in charges, it does not dictate a particular tariff structure (Herrington and Price 1987, OFWAT 1991).

There are many similarities between the water and sewerage services, the latter being almost the reverse flow of the former. There is a broad similarity in terms of cost structures and charging characteristics. If charging for water consumption reduces demand, there will clearly be knock-on effects for the sewerage service. This may affect the ability of both services to cover costs and so joint supply relationships must be recognised. There are also links between water supply and the fire service.

At first sight it may seem difficult to incorporate any concept of customised value added in the provision of water and sewerage services simply because of the high proportions of fixed costs in total costs, because of the lack of a clear relationship between liability for payment and consumption of service and because of the statutory duty to supply potable water irrespective of what the water is used for (eg drinking or flushing toilets). However, there are ongoing and substantial changes in both services which provide a unique opportunity to incorporate customised value added service charges which will complement the other criteria for charges as well as promoting service objectives.

Alternative Charging Methods

(1) Rateable Values

In the past, charges for both services were based partly on the rateable values of properties and this is still largely the case for domestic consumers in England and Wales although the 1989 Water Act prohibits

the use of rateable values in England and Wales after the year 2000. This charge is simply the product of a tax rate (water and sewerage rate poundage) applied to the rateable value of the premises so served, effectively a tax methodology.

To the extent that rateable values reflect the benefit of provision of these services then such a charging framework relates payment to benefit. However, the major disadvantage is that it does not relate payment to use of service, to the costs of provision, to quality of service, nor does it provide any incentives to avoid wasteful use of water. Indeed, the distribution of bills will differ depending on whether capital values or rental values are used as the basis for rateable values because, inter alia, "more expensive houses would be likely to have relatively higher assessments (under capital values)" (Cmnd 6453 paragraph 76).

If water and sewerage are considered a utility industry in much the same way as gas or electricity then charges appear more appropriate than tax finance and ability to pay issues could be dealt with in the same way. The advantage of rateable values prior to 1974 was that such a billing system was cheap to administer in that the same system was used for financing other local government services. Indeed, despite the 1974 separation of responsibility, local government continued to collect charges on behalf of the water authorities on the same basis. This arrangement ended with the replacement of the rates by the Community Charge but the private companies in England and Wales can still make use of the (ageing) system of rateable values at much cheaper cost than devising their own system.

(2) Charges Based on Number of Residents

The Scottish system of Community Water Charges currently charges for both water and sewerage on the basis of the number of adults resident in each household, coincident with liability to pay the poll tax (John 1989 pages 12 and 74). It utilises the Community Charge register, so economising on data collection, but experiences many of the non collection problems of the poll tax as well as being subject to the same criticisms as rateable values. In particular, it ignores use of water by children and teenagers under the age of 18. The poll tax is to be replaced by the Council Tax or some other form of property tax so that this charging option will soon cease to be available.

(3) Charges Based on Other Housing Characteristics

Charges could relate to the physical characteristics of the property such as floor area of house and/or garden, whether detached, semi-detached or

terraced etc (Thackray 1990), diameter of the service pipe, number of rooms (in total or just bedrooms), the number of water using appliances (possibly including outside taps, hosepipes and sprinklers) etc. There appear to be few advantages for these options, case law would be required to define 'a bedroom', most are expensive to administer (existing powers of entry may need extending for inspection) and they are not demonstrably more accurate than rateable values in terms of service use.

(4) A Fixed Standing Charge (Licence Fee) per Property

Most domestic consumers in England and Wales still pay a charge based on rateable value plus a standing charge. The major advantages are the revenue certainty for the supplier and the administrative simplicity, subject to adequately defining a 'chargeable unit' (eg within bedsit or subdivided properties). However, it is unrelated to costs, benefits, use, volumetric supply, quality of service, need to encourage economies or ability to pay. The level of charge is essentially arbitrary (depending on the definition of fixed costs) and so varies widely (OFWAT 1991). It also ignores distance-related costs and so tends to favour low density housing far from the treatment facilities and existing network. This favourable treatment tends to become capitalised into house prices and encourages urban sprawl (Downing 1973 and 1984, Downing and Gustely 1977, Gustely 1978).

(5) Metering and Charging in Accordance with Volume Used

Metering is already extensively used for nondomestic users but only for about 2 percent of households in Britain. Metering is required for new domestic properties in England and Wales, if only because no rateable value exists. Optional metering is generally available for older properties and is more attractive the higher both the rateable value and therefore the bill derived from it. With metering, charges would be more closely related to volumetric use of both the water and sewerage services therefore encouraging economy in use. Limited trials appear to have shown that total domestic use falls by 10 to 15 percent upon introduction of metering (Bird and Jackson 1966, Warford 1966, Jenking 1969, Rees 1973 a&b, Herrington 1973, Phillips and Kershaw 1976, Thackray et al 1978, WSA 1990). The proportionate reductions in peak use may be much greater, easing what is a critical supply constraint in some areas.

Such reductions may depend on the precise structure and levels of tariffs (which vary by area) but it appears that any metered rate has an immediate impact on demand irrespective of whether it is rising, declining or constant with increasing consumption (Kitchen 1986 pages

47-48, Loudon 1984). The probable explanation is that metering of itself (as distinct from the nature of the charge) is perceived by consumers as leading to higher bills than flat rate or average cost payments, even if this is not the case.

Regional differences in the extent of external water use (garden watering, swimming pools etc) may also be important in that external use is probably more sensitive to metering than is internal use. In addition, other immediate and longer term water savings will probably arise as consumers attend to minor leaks and dripping taps more quickly and with the development of more water efficient appliances.

It is often argued that metering would be too expensive to introduce relative to both resource savings and bills. However, such conclusions only relate to accounting costs for water companies and users. Since reductions in water use yield cost savings for the treatment of foul sewage, such meter installation costs would effectively be halved where both services are supplied jointly. Moreover, accounting cost analyses ignore wider environmental costs and concentrate on short term perspectives. Where demand is approaching a capacity constraint, meter installation costs may be cheaper than the capital expenditures required to build new reservoirs, the associated land and distribution network costs and the subsequent sewerage costs. Hence the timing of the installation of meters is crucial (Loudon 1980).

Objections to metering on the grounds of costs are also set in a static context whereas the resulting change in incentives can be expected to have longer term dynamic effects on both services. Hence, in practice, the question is not whether to introduce metering but rather when to do so. The time horizon will be much shorter for authorities experiencing rapid demographic and economic development than it is for those experiencing decline simply because capacity constraints will be more immediate for the former than for the latter.

Metering also provides essential management information, for example regarding the extent of water loss (as much as a quarter) due to mains leaks in the distribution network, a problem which is increasing as the network ages and as maintenance programmes are insufficient. Meter reading costs could be reduced by joint readings with other utilities' meters but, ultimately, computerised systems using telephone networks may allow automatic and continuous monitoring of consumption. This will allow charges to take account of the costs imposed by peak demands by time of day (a morning peak), week (a Monday peak) and by season

(eg due to summer lawn watering by domestic users, seasonal fruit washing by canning companies, tourist influxes in holiday resorts etc).

(6) A Trade Effluent Charge

Whilst water metering provides a useful indicator of sewerage disposal for the domestic sector, a separate trade effluent charge is used throughout Britain for the non domestic sector. The Mogden formula (OFWAT 1991) takes account of both volume and (at least partially) strength of effluent. However, the charge does not encourage location in the least cost area (ie where there is existing spare capacity) nor does it specifically take account of environmental costs. Even if such a premium were added to the charge it would not eliminate effluent completely since it will often be cheaper for the firm not to fully treat its own effluent (Beckerman 1990). Similar outcomes are likely to arise from any polluter-pays tax on agricultural fertilisers, pesticides and herbicides which pollute water supplies. Hence, the polluter-pays principle is not a cure-all for pollution and the water consumer will inevitably have to bear some of the costs of ensuring pure water. In particular, the trade effluent charge should relate only to the costs incurred in excess of treatment of the average strength of domestic sewage (customise value added). The 1990 White Paper on the environment (Cm1200) promised studies of charging systems which take full account of the costs of pollution. Progress is reviewed in Cm 1655.

(7) Infrastructure Charges

Various types of infrastructure charges could be used to recover capital costs for renewal/upgrading and for new construction. Infrastructure charges are now allowed by law and have the potential to improve both efficiency and equity. They would reduce the levels of standing charges and so allow a closer link between volumetric use and bills. However, there may be a tendency for services to overuse infrastructure charges to finance service expansion, resulting in double payment on the part of some users. Acceptance of the principle of a separate infrastructure charge makes unnecessary the emphasis on finding a unidimensional charge that is capable of recovering both (supposedly) fixed and variable costs. Infrastructure charges are extensively discussed in chapter 7 so, whilst recognising the interrelationship between the two types of charge, the subsequent discussion will be restricted to periodic bills.

(8) A Combined Charge

There is no single charge that is ideal in terms of simplicity and comprehensibility, providing the right incentives to both suppliers and users of services, being fair and equitable, reflecting benefits or costs etc.

The traditional economic option is a two-part tariff including a standing charge to cover fixed system capital costs and a running rate set at marginal cost to regulate consumption (Bird 1976). In practice, however, various combinations of metered rates, standing charges, infrastructure charges etc are used, the emphasis varying between countries and between water and sewage authorities in any one country (OFWAT 1991). Such variations in tariff baskets may partly reflect costs but more often they seem to be the rather arbitrary outcomes of historical and statutory constraints.

A sewerage surcharge can quite simply be 'piggy-backed' onto the water charge, irrespective of whether the latter is a flat rate or metered rate etc. Given that sewage treatment is generally more costly than provision of potable water, it will tend to more than double the original water bill and so magnify any reduction of water consumption caused by metering. Hence, if estimates of price and income elasticities of demand are being undertaken, cross elasticities of demand must also be used so as to recognise the complementary nature of the two services. If not, then inaccurate and potentially grossly misleading estimates (of the sensitivity of demand to price) will be made.

The Incidence of Charges

Water and sewerage have traditionally been supply (rather than demand) orientated and dominated by an engineering approach to service provision. Consequently the structure of charges is often viewed as simply a way of recovering the inescapable costs of supply. What is demanded must be supplied. However, different charging structures can have profound effects on the balance between various groups of users. The residential share of user charges is highest when the charge formula includes a large flat rate component; the commercial share is largest when the user charge is based on property values; the industrial share is largest if the user charge is based on sewerage strength or volume (Johnson 1969). Within the industrial sector, the chemical industry bears a particularly heavy burden if the user charge is based on the biochemical oxygen demand of sewerage. Within the residential sector, a tariff basket with a relatively high standing charge will bear most heavily on low income and low consumption households. Infrastructure charges also affect the share of costs.

Customised Value Added Criteria

Customisation requires service to be available in the quantities and

qualities required by users and also requires changes in use of the service to be directly related to changes in bills. Such ideals must necessarily be qualified by service characteristics and feasibility. Quality includes such characteristics as the potability of water, adequate pressure and availability at all times of year, the convenient and safe disposal of resulting sewage and industrial effluents etc. Quality standards for both water supply and sewage disposal are increasingly being influenced by the European Commission and, together with the considerable backlog of maintenance and investment expenditures, this will cause substantial increases in water and sewerage bills in the next few years. Water will have to be free of various pollutants and it will become illegal or expensive to simply dump untreated or partially treated sewage into the sea and rivers (monitored by the Department of Agriculture and Fisheries, by the National Rivers Authority and by the 7 Scottish River Purification Boards).

The joint provision of water and sewerage creates difficulties in separating joint overheads such as administration and interest payments. These are in addition to the standard accounting problems of current versus historic cost accounting which are more salient for such capital intensive services. It is also important to distinguish costs directly attributable to use and those independent of use. Bearing these caveats in mind, it appears that almost a quarter of sewerage costs are related to highway drainage, almost a quarter to properties and other (impermeable) surface drainage and just over half to foul drainage (OFWAT 1991).

Private companies in England and Wales are prohibited by the 1989 Water Act from charging highway authorities for drainage costs but in Scotland they are effectively internalised by local government since it largely has responsibility for both services. This inconsistency is important since run off from roads is increasingly polluted and increases disposal costs as a result. It is perhaps more acceptable if the general taxpayer bears such costs but questionable were it the water user (rather than road user) who pays.

Individual user customisation will necessarily relate to initial installation of facilities and the subsequent use of services. Within the constraints of simplicity and practicality, it can be implemented through a combination of charges. **Infrastructure charges** can recover costs related to the installation of new capacity (including impermeable surface drainage costs), a consequence of individuals' location decisions. A flat rate **standing charge** can be justified to recover the costs of meter

readings and repairs, billing, repairs of service connections, and other customer-related costs not related to volumetric use. **Incidental charges** related to costs could be justified for the testing of meters, water shut-off, use of water for construction purposes, change of occupancy and therefore of billing details, hydrant usage, thawing of pipes, and so on. These charges would clearly relate to specific customers' needs and are therefore consistent with the customised value added concept.

After making allowance for income from these charges (including infrastructure charges), remaining costs would be recovered through **metered rates** which would then be a true consumption charge. This would recognise that all costs are variable in the long run simply because they are related to demand growth. The metered rates would be the **domestic rate** and a **trade effluent rate**. they could both be adjusted by an **environmental costs premium** to take account of costs imposed by disposal of sewage and the land-hungry nature of reservoir and water catchment facilities, with all the implications for natural and other habitats.

The metered rates could rise, fall or remain constant. The first variant may be most efficient where increased use leads to a shortage of capacity and so new investment would be required. This would be justifiable even if infrastructure charges recovered capital costs because they only relate to new developments and do not allow for environmental costs. The last variant may be justified where greater use spreads high short term fixed costs over a larger output and there is no capacity constraint in the foreseeable future. The intermediate case may be most efficient where costs are constant over all realistic rates of use. Problems may still arise in that an averaging of metered rates causes cross subsidy between peak and off-peak use, daily, weekly or seasonally. This may be dealt with in the future as metering technology improves (eg electronic metering by time of use or dual flow meters which register relatively faster as the rate of flow increases).

The Government's proposal for Scotland is that domestic charges be based on the Council Tax property bands adjusted by the single person discount (Scottish Office 1991b). This would be totally inappropriate on the basis of the preceding analysis. Property values could be used in a restricted way to recover certain operating costs in that they relate very broadly to the size of the area to be drained and they are administratively cheaper than any other system of property assessment in that they already exist. The disadvantage is that there are significant exceptions to the association between drainage area and rateable values, including

high rise flats at one extreme and warehouses and car parks at the other. They also do not take account of the level of pollution in run off. Furthermore, domestic rateable values are to be banded and therefore inaccurate as a guide to use and costs. In the latter case, administrative costs are a very small proportion of total (system and environmental) costs.

A property tax could be justified to generate revenues to cover the cost of fire protection since property values relate to fire protection requirements much more than to actual use (Kitchen 1986 pages 35-36). However, it would add to the complexity of the charge with little resulting benefit. Besides similar comments about complexity, no separate licence fee would be required for hosepipes, sprinklers or swimming pools if metering were universal. Flat rate charges for such uses provide inappropriate incentives and, besides, bans on use of hosepipes etc during periods of water shortage deny use at the very time they are most required.

Implementation

To the extent that many industrial and commercial premises are already metered, the main impact of metering would be on households' consumption. There would also be a redistribution of bills between households. A phased introduction of metered prices will therefore be necessary to avoid radical shifts in liability overnight. Phasing will also be necessary because any reduction in use (for both the water and sewerage services) will lead to higher costs per unit of output due to the relatively high short term fixed costs related to network capacity. The standing charge component may have to be relatively large to start with, the running rate gradually accounting for an increasing proportion over time until the correct balance was achieved.

Not all users could be metered at once so discrimination (ie the rebalancing of charges unrelated to costs) between metered and unmetered users as well as between domestic and nondomestic users should be avoided as far as possible. This could be achieved by reference to rateable values, retaining the existing balance between sectors and even within the domestic sector until metering was complete. This proposal is constrained by the fact that metering could take up to ten years, a period commensurate with the expected lifetime of water meters. The rateable value banding proposals for the Council Tax could be used as a guide for the phased introduction of metering if (as seems likely) larger domestic properties in a given authority make greater use of water

(more occupants, larger gardens to water) than smaller properties. The single person discounts proposed for the Council Tax could also be used to adjust interim bills pending full introduction of metering.

A high proportion of revenue from metered rates will make revenues more sensitive to annual fluctuations in consumption causing financing problems for suppliers. Hence, a water rate stabilisation fund will be required to prevent erratic changes in water rates from year to year. Customer relations would be improved if running rates were increased at the start of periods of lower consumption. In southern areas of Britain this is likely to be the winter whereas in Scotland it is likely to be the summer since summer lawn watering is rarely necessary but winter bursts and leaks are more likely in the colder north. Similarly rates should be increased on a regular basis (in line with costs) in order to avoid infrequent but large rises in bills.

Conclusions

It is clear that the concept of customised value added services can be incorporated into the tariff structure for water and sewerage. It implies a radical change in the way water and sewerage services are financed in Britain, suggesting a reversal of the current situation which does not relate bills to use and which recovers a large percentage of revenue through fixed standing charges. Infrastructure charges, metering, incidental charges and a small standing charge can all be justified in terms of customised value added service, all are practical and cost effective in areas facing capacity constraints. It has to be acknowledged that the problem of recurring water shortages in areas such as the south and east of England is as much a problem of demand as it is one of supply.

Proposals for a national piped water grid, for the transfer of water by river and canal systems (from Keilder and Mid Cambrian sources to the South East), for increased river abstractions, for bringing water by ship, for towing icebergs from the Arctic and for seawater desalination plants are all part of the supply-side engineering approach upon which the industry has been built. The British response to water shortage on a previous occasion was to appoint a Minister for Drought (in 1976), as likely to solve the problem as 'praying for rain' (another supply-side measure). Suggestions by the Minister that two people should share a bath (a demand-side response) caused a moral maelstrom. Fortunately it started to rain immediately!

ROADS AND TRANSIT

With the exception of London, local government has primary responsibility for transport in urban areas. Major reforms during the 1980s saw abolition of the Metropolitan Counties and the Greater London Council. The 33 London Boroughs now have virtually no responsibility for public transport (London Transport and British Rail being independent) and are also subject to increased control over their local highway responsibilities by the Department of Transport (via designated roads, statutory traffic management guidance etc). In the other six English conurbations, the constituent Metropolitan Districts have joint single tier responsibilities for public transport (via Passenger Transport Authorities) and individual responsibilities for local highways (but not for trunk roads and motorways which are the responsibility of the Transport Secretary). Similar arrangements exist for the Non Metropolitan Counties and Districts in the rest of England and Wales and in the Regional and District Councils in Scotland. Deregulation and privatisation of bus companies and services has taken place throughout Britain subsequent to the 1985 Transport Act, again with the exception of London.

Hence, there is a multiplicity of agencies and authorities which have responsibility for the planning, formulation and implementation of passenger transport. Such divisions of responsibilities create a danger of fragmented and uncoordinated approaches to strategic transport policy, exacerbated by the differing administrative mechanisms for the financing of capital expenditures on roads and on the various modes of public transport. Whilst there are national, regional and local interrelationships, as well as public and private interactions, attention necessarily focuses on local government transit responsibilities if only because there are clear transport patterns in their areas for journeys from home to work, to shopping facilities etc.

The deregulation and privatisation of bus services was in part an attempt to reverse the relative and absolute secular decline in bus passenger transport (DTp 1991). Statutory and planning constraints had supposedly limited the ability of bus operators to customise their services to what the travelling public wanted (routes, types of service, vehicle, frequency and waiting time, reliability etc) at fares they could afford. It became easier for new operators to establish services free of control by established interests and routes became subject to competitive tendering. However, after allowing for changing employment and car ownership patterns etc, early evidence suggests a further decline in bus patronage (AMA 1990).

By 1989 cars, taxis and motorcycles accounted for 86 percent of all passenger transport (GB Government 1992). A possible explanation of the decline in use of buses is the impact of increasing traffic congestion on the quality of bus services.

The Problems of Congestion

Almost any road journey (public or private, car or bus) in an urban area is nowadays subject to considerable delay due to congestion. Congestion causes many indirect costs including the costs of extra time spent travelling (both people and goods), pollution, accidents etc. Delays impose considerable costs on industry and commerce (CBI 1989). An estimated two thirds of car journeys are of between one and five miles, the highest contributors to pollution because the engines don't have time to warm up. Car exhausts are now the main cause of urban pollution, as well as contributing to acid rain and global warming (Cm 1200, Cm 1655). Seventy percent of fatal casualties occur in urban areas.

The Department of Transport estimates traffic growth of between 83 and 142 percent by year 2025 on the questionable assumption that the road network could be expanded sufficiently (ACC 1991). Such growth is likely to more than offset technical improvements in car exhaust systems (eg catalytic converters) and also measures to reduce accidents (eg traffic calming measures such as culs-de-sac, street chicanes, 'cell' systems, road width constrictions, 20 mph zones, speed humps, etc). Reducing congestion is therefore not a policy in itself but rather a means by which other policies can be promoted. Such reductions yield time, fuel and pollution savings, reduce accidents and remove a major constraint on local economic development.

It has been argued (DTp 1991) that congestion is particularly disruptive for bus services since they operate on fixed routes and so cannot divert or easily manoeuvre in order to avoid traffic jams. Ultimately bunching of buses occurs as they are leap-frogged by cars at bus stops. Increasing unreliability of service results which is particularly disruptive for people with fixed schedules (eg fixed times to arrive at work). Such people have to allow for the maximum (not average) delay that they are likely to face and increase their expected journey times accordingly. Arriving early on occasion is no consolation for arriving late on others. Hence, use of cars is more popular the greater the need for punctuality and reliability. Surveys of passenger attitudes consistently rank reliability ahead of cost, frequency and speed (Jones 1991). On the other hand, the most frequently cited reason given by motorists for not using public transport

is that they do not like having to wait for a bus or train, followed by the assertion that it takes too long to get to one's destination and, further, that fares are too high (NEDO 1991a). Reliability and inconvenience also feature strongly.

Hence, congestion in itself is not very effective in dissuading individuals from use of their car simply because bus services are even more adversely affected in terms of reliability and journey times. Perhaps this explains why an increase in journey times is less effective than an increase in petrol prices in encouraging use of public transport (Jones 1991). And yet it is the growth in the use of cars, their underoccupancy and their extensive use of road space which causes the deterioration in the quality of bus services. The reaction towards higher petrol prices suggests that the argument that making public transport more expensive relative to the car would simply promote car use should be reversed: ie make driving relatively more expensive.

Conventional methods of minimising congestion are limited in scope and are unlikely to provide an adequate response in the future. Initiatives have included higher and more widespread parking fees (meters or 'scratch and display' schemes) and more vigorous campaigns to deter illegal parking. Both are resource intensive and the latter is of limited effectiveness if illegal parkers regard occasional parking fines as a form of charge rather than as something immoral or anti-social. They will be willing to incur such financial payments until the probable cost (the fine multiplied by the probability of receiving a ticket) is considerably in excess of parking fees. Hence fines will not completely eliminate the congestion caused by illegal parking. Wheel clamping and/or removal of such vehicles (together with a fine) are likely to be more effective in terms of the inconvenience caused to the offending motorist but again is not a complete solution. Similar reservations apply to other attempts to reduce congestion and accidents. Red Routes (effectively peak period, no stopping, urban clearways) are subject to problems of enforcement and may simply shift congestion to areas where policing is reduced in order to allow concentration of resources on these particular routes.

Charging for Congestion

The core of the problem is not so much how to deregulate and privatise commuter journeys, nor what particular tariff structure is the correct one for each transit mode. The crucial issue is how to charge for the congestion caused by all road users simultaneously with optimal pricing

policies for public transport, otherwise the results are likely to be counterproductive for transport policy. Note that the literature uses the term 'price' inappropriately since it is usually referring to an administered charge.

The efficient pricing of private transport has tended to be neglected or at least underemphasised, if only because it has been largely impractical in the past. However, recent technological advances have made this proposal much more feasible. Options include the traditional toll booth concept, purchase of a special licence to enter the centre of the city (area licencing), electronic road pricing using electronic number plates (ENP) attached to vehicles and read by roadside equipment and pre-paid plastic 'smart cards' inserted in a meter controlling car ignition. All are capable of being highly flexible and selective by time, location, transport mode, vehicle type etc., but the first three require considerable initial investments in physical infrastructure and in central billing and monitoring respectively (Hau 1990, Thompson 1990). The smart card system works by preventing the vehicle being restarted (once parked after the monetary value of the smart card has been exhausted) until the smart card has been electronically 'refilled' at petrol stations. Exceptions can be made where thought appropriate for emergency and public service vehicles, for cars used by disabled people etc.

Whilst technically feasible, road or (more accurately) congestion charging is highly complex and various schemes are being researched at Newcastle University. Trials in smaller cities such as Cambridge (Thorpe and Hills 1990) are likely to be more politically acceptable at first. Bearing this caveat in mind, estimates by the Chartered Institute of Transport suggest that costs would include £300 million for in-car electronics (£50 per car), £100 million for road-side equipment and running costs of £80 million a year. However, road pricing in London alone would bring in at least £600 million a year. Moreover, international and UK experience suggests significant reductions in peak hour traffic as a result of such measures, if civil liberty issues (ie recording people's movements) are not pre-emptive (Hurdle 1990).

Congestion pricing must be part of a transport package aimed at genuinely and significantly improving choice of transport mode and improving accessibility to the city centre. It must not simply be seen as a measure of 'last resort' (the Government's view, probably because of potentially adverse political impacts). It is not derivative of an anti-car philosophy because it does not attempt to dissuade ownership of private cars but rather encourage more selective, discriminating use of them. It

is an attempt to adopt a 'level playing field' for private and public transport, it is complimentary to the other measures described above and has support from local authorities in many big cities in Europe and the Far East, if only because to do nothing is not a realistic option. It should be emphasised that the valid comparison is not 'before and after' congestion pricing but rather 'with and without', ie what would happen if nothing was done or if some other policy had been implemented.

There is increasing public concern over urban and other environmental issues and an increasing recognition that, whilst cars are often an indispensable part of modern lifestyles, something has to be done about traffic congestion. Surveys have shown that there is most support for policies which provide alternatives to travel by car without directly restricting car use and that foremost amongst these are improvements in public transport (Jones 1991). Road pricing in congested central city areas is supported by up to two thirds of the population (especially in London) and by many organisations but only if the revenues were to be reinvested in public transport, improved roads etc.

Support is higher amongst socio-economic groups A, B and C1 than amongst C2, D and E, possibly because the first three groups may believe that their employer would pay along with the company car (NEDO 1991b). Some people may also support improved public transport in the belief that others will use it, so reducing congestion and therefore reducing their own journey times by car. In other words increased investment in public transport (including heavily subsidised or free fares) on its own will not encourage a significant switch from car to bus because it makes car use more (rather than less) attractive. If anything the opposite is the result, so perpetuating the very problem it was designed to reduce.

It is often argued that since the combined receipts from vehicle and petrol taxes more than cover the cost of building and maintaining the road system that car users already pay their way and hence it would be unfair to ask them to pay twice. However, existing charges on car users are ineffective in selectively controlling use. Vehicle excise duty and car tax do not affect use of cars once purchased. Fuel duty (a tax) on petrol affects all journeys, not just those at peak times in urban areas. They may pay their way in financial terms but they do not cover the full economic costs of congestion, accidents and environmental costs. Moreover, the intention of congestion pricing is not to raise revenue per se in that it does not charge for use of all roads at all times but rather only particular roads at particular times.

The objective of transport policy is to improve access to the city (for work, shopping, social and cultural activities etc) at all times of the day and particularly during the rush hour. In that existing road networks leading to and within cities are often used at full capacity already and the scope for further road building is limited by physical, planning and financial constraints (as well as increasingly limited by public opinion) then the only practical policy to increase road capacity is to price congestion in order to both finance improvements in public transport and encourage the switch to public transport by car users (Goodwin 1989). Payment can easily be avoided or minimised by either not travelling by car in chargeable peak periods or by using public transport. In contrast, this is not the case for a compulsory poll tax on city centre employees, usually justified in much the same way as similar proposals for the financing of water and sewerage services. Congestion pricing is therefore a cost reduction (rather than revenue raising) exercise. It restructures incentives towards more economical use of the road network. It is also a more comprehensive policy than attempting to reduce congestion by more stringent policing of parking regulations (transferred to district councils under the 1991 Road Traffic Act).

All vehicles would be subject to the charge unless specifically exempted: commercial vehicles, taxis and buses as well as private cars. Cars account for up to 80 percent of vehicles on the road (DTp 1989). In some cities, taxis disproportionately contribute to congestion by continuously cruising in search of customers. Goods vehicles contribute to congestion in terms of both the rapid growth of commercial traffic (a 30 percent increase in London 1985 - 1990) and, in particular, because of their loading and unloading patterns.

In general the average payment per passenger would be lower the greater both the carrying capacity and the occupancy ratio of the vehicle. Hence, it would have more of a deterrent effect on cars than on buses. However, in major cities such as London, 80 percent of cars in the centre are company cars and so there will be little or no incentive to avoid congestion if drivers' companies pay the resulting bills. Other world cities such as Singapore charge company cars at twice the rate of private cars (Hamer 1991). Nonetheless, the result is still likely to be that company cars would continue to predominate in the city. The charge could also take account of vehicle size (and therefore how much road space it occupied) and weight (road maintenance and reconstruction costs being exponentially and positively related to axle load).

Given their highway responsibilities, it is the local authorities who will collect the income raised from congestion pricing and they should be placed in a transport fund (not a road fund). Objections against the hypothecation of taxes (eg by the Treasury) do not apply here since the finance is raised from a charge not a tax and local authorities already retain parking fees and use them for transport expenditures. Transport improvements would include not just more of the same buses but also minibus dial-a-ride services for disabled people, improved bus design (increased comfort, more doors and low boarding platforms to reduce boarding times at stops), bus priorities at road junctions, designated bus and cycle lanes, environmental improvements for pedestrians (including the pedestrianisation of roads), trams (now called light rail rapid transport systems) etc. There are currently tram projects/schemes in 40 urban areas including Newcastle, Manchester, Sheffield and Birmingham.

Other measures would include the pre-purchase of tickets, behavioural incentives such as the encouragement of staggered working hours and increased use of flexi-time, car pooling and taxi sharing etc. The balance between regulatory and charging policies and the precise mix within each category may vary from area to area in that it will have to be tailored to local public needs and perceptions. However, it is clear that there is considerable potential for major cities to levy a congestion charge, liability for which would depend on the extent to which individual travellers wished to customise added value to their choice of transit mode (eg car or bus and time of travel).

Transit Fares

Fares should preferably bear some relationship to the level and quality of service consumed, be politically and publicly acceptable, reasonable in terms of the impact on disposable incomes of users, easily understood by users and bear some relationship to costs and to funds available from non fare sources. This appears to be a self-contradictory and largely unattainable list of conditions. A much higher frequency of (say) bus service against a down-market image would lead to low carrying ratios (seats miles occupied versus those available), higher costs and either unacceptably high fares or unacceptably high subsidies.

No amount of experimentation with transit fares can resolve the problems caused by congestion. Advocacy of free fares on the grounds that they will increase bus patronage and are only a transfer cost (not a

real economic cost, unlike further road building) is misguided (Ward 1991). Higher subsidies result in higher national or local taxes which in turn may cause disincentive to work effects so that there may be a real cost after all. Furthermore, free fares are insufficient in themselves to encourage a switch from cars to bus if the quality of service remains inferior. Authorities with cheap fare policies (eg London and Sheffield) have also pursued progressive transport policies seeking to improve the reliability and frequency of service and the latter is likely to be more effective in attracting use by new groups of passengers, as distinct from increased use by socio-economic and demographic groups already using buses.

Private cars, rail, underground and buses tend to serve different markets. Bus and coach travel fell as a percentage of all travel (billion passenger kilometers) from a quarter in 1961 to a sixteenth in 1990 (CSO 1992). As a broad generalisation, buses are now mainly used for predominately local journeys not related to work, by low income groups, women and children, teenagers and the elderly, groups which lack access to cars and alternative transport modes. Such characteristics make bus services a politically sensitive issue with considerable emphasis on the need to ensure adequate service levels at prices they can afford to pay. Local authorities still have responsibility for concessionary fare schemes but the pressures of the Community Charge and limited government grants have led to increasing difficulty in maintaining them (Davis and Leach 1991).

A conventional economic analysis of transit financing would cover the economic justifications for subsidies and for discriminatory fares, for example higher peak period fares compared with the off-peak period (Frankena 1982). Subsidies are usually justified on the efficiency grounds of significant positive externalities (eg reduced congestion) or on equity grounds in terms of the characteristics of the users of public transport (particularly low incomes).

Glaister and Collings (1978) examine the case of a public transport organisation facing a fixed subsidy (or minimum profit) constraint but thereupon maximising the total number of passenger miles weighted for redistributional purposes. They compare this with the classically correct prescription of marginal cost pricing. Whilst they find that price distortions may result (due to differing price responsiveness of demand amongst certain categories of traveller) they conclude that the resulting welfare losses may be relatively insignificant and that the advantages may, in practice, outweigh the drawbacks. Furthermore, such an

operational rule would appear to be readily acceptable to those who administer the service. Other research suggests that there is considerable scope for cross-subsidy from profitable to unprofitable routes so as to facilitate maximisation of passenger miles (Viton 1980) and that public transport services can be produced at lower cost jointly than separately (Tauchen et al 1983).

However, Bird (1976) argues that most existing subsidies do more harm than good because they are not based on efficiency criteria, but rather on the difference between operating costs and revenues. There is no reason why only deficit services should be subsidised nor why all deficit services should be subsidised. With regard to fares, he argues that "the problem is not so much inadequate price discrimination, as it is incorrect price discrimination" (Bird 1976 page 70). Gallagher and Ircha (1985) support this view, finding that those highly dependent on transit and least able to pay lose from cross-subsidisation.

Subsidies can relate to capital or revenue expenditures. Non-uniform capital subsidies may be required in order to meet the full range of objectives for transport policy but any bias towards capital subsidies will be limited by the approval procedure for capital expenditure subsidies. Revenue subsidies could be fixed at a constant amount per passenger carried or determined by competitive tendering for particular routes. The first would result in the most uncertainty (varying in line with passengers carried) but it would encourage service expansion. The danger with subsidy formulae is that they become entrenched and, as circumstances change over time, the subsidy paid may become divorced from its original purpose. Ideally, all subsidies should be made explicit if only for accountability reasons. However, some subsidies will be implicit or hidden, for example the lack of peak and off-peak fares causes cross subsidisation from off-peak users to peak period users. Some estimate of rider characteristics is required so as to calculate the subsidy necessary to fund concessionary fares.

In a competitive situation the cost perceived by the user of public transport should not be more than that of car travel. The latter relates primarily to petrol costs since the major part of other costs is borne irrespective of whether the vehicle is used or not (eg depreciation, insurance and car tax). This may seem to indicate higher subsidies in order to make bus travel more attractive in cost terms. However, opinion polls suggest that it is not reductions in fares that will encourage people to use buses rather than cars but rather improvements in the reliability and level of service, including reductions in overcrowding,

particularly in London (Jones 1991). The perceived cost of (say) bus travel is not just the fare but also walking, waiting and travelling time plus a reliability factor. Hence, riders travelling by choice (i.e. those who have access to a car but prefer to use transit) "are probably less sensitive to the fare levels than to the other factors, i.e. service levels" (OUTA/CTI 1987 pages 4-10).

Bearing all these points in mind, the basic choice is between a flat rate fare and fares related to distance travelled. A fare structure based on flat rate fares may seem unfair since virtually everybody is paying at a different rate per mile travelled. However, if most short distance journeys are within the city centre then the increased choice of routes, the greater capacity of service and the more frequent service could justify higher fares for short inner city journeys. This may conflict with political preferences for lower fares for poorer inner city residents but it does qualify the usual argument that short distance inner city travellers are subsidising longer distance (and presumably more affluent) commuters.

The flat fare strategy is easy to administer and enforce but becomes more inequitable the larger the transit operation and the greater the variation in journey length. Flat fares also suffer from the disadvantage of the necessary across-the-board increases which tend to discourage use of the transit system by short distance and occasional travellers. Fare-by-distance fares can lead to anomalies and inequities caused by short journeys just overlapping two fare zones. The two-zone system avoids many of the problems associated with short or cross town trips across boundaries. Fares by distance are much more feasible using modern technology in closed systems such as a subway (station-to-station) travel using stored value tickets where magnetic readers calculate the distance travelled and subtract the appropriate fare from the ticket value.

A premium or extra fare could be charged for any service provided that is over and above the regular service, eg express bus operations that provide a reasonable travel time savings over regularly scheduled services, dial-a-bus type pick-up service, park-and-ride services (where the fare covers parking). This fare strategy has potential for wider application in large and medium sized cities. An express premium service is in effect a de facto distance-based strategy, since only from the farther out areas would it be possible to achieve significant time savings. The charge would include a special premium pass or a cash surcharge on the regular fare or pass and is very simple for drivers to enforce. The disadvantages are that such a strategy requires long routes and the

transport authority may still have to provide the regular service at the regular fare for those who do not wish to pay the premium service fare. There could also be some negative reaction to giving premium service to the suburbs at the cost of improvements to the central city.

Monthly passes are usually offered at a discount in recognition of the steady use of the system by the user. However, the pass actually confers benefits to the user in terms of boarding simplicity, payment facility etc., such that it may be unnecessary to discount the price of the pass significantly. It would also seem reasonable to avoid heavily discounted passes being used in the high cost peak periods since journeys in these times are less responsive to price changes as they have to be made.

Non Fare Sources of Income

Industrial, commercial and residential development could contribute towards transit's capital costs and ongoing maintenance costs. Development charges for provision of new infrastructure encourage coordination of transit projects and land use and also relate development charges to expected benefits. Whereas development charges are more suited to growing areas, special assessments can be used in established areas where service improvements are being made (see chapter 7). Service charges are most suited to commercial developments with integrated transit facilities built above the subway stations, contributing to continuing capital maintenance costs of the station in particular and the transit system in general. They would not, however, be used to reduce fares per se.

In addition, increases in property tax revenues accruing from the increases in property tax assessments specifically caused by the transit investment could be reserved to pay for public investment in a designated transit project or for transit improvements in a specified area (Lambert and Wright 1986). This is particularly suitable for fixed transit facilities such as subways and tram systems but less suited to conventional bus routes unless service was guaranteed. The main problems for all these options are the political and legal acceptability, the uncertainty of revenues forthcoming and the reduced flexibility in the annual budgeting process caused by such assigned revenues.

Conclusions

An integrated transport policy is required, pursuing a needs-based (rather than problem solving) approach, incorporating environmental, special

needs and efficiency criteria, coordinating different transport modes and utilising a range of funding options. Infrastructure charges can be used along with tax-financed subsidy, income from fares and from road/congestion charging. The transport fund could be used to part finance the building of more small commuter railway stations by British Rail, park and ride schemes from city ring roads, the subsidisation of commuter fares on the railways, on light rail transit and on underground schemes. A preoccupation with fares and/or subsidies is misguided and achievement of a significant shift from private to public transport in cities is crucially dependent on further progress on congestion charging. This, together with the fare schemes discussed above, is consistent with the customised value added rationale in that the quality of public transport is likely to improve as a consequence. The use of private cars in congested urban areas is a form of customised value added for which it is legitimate to levy a charge. Without such a radical approach, increasing financial constraints are likely to jeopardise service objectives for public transport. Indeed, cuts in concessionary fares were reported in 1992 for the West Midlands by the transport executive 'Centro'.

REFUSE COLLECTION AND DISPOSAL

The term 'refuse' refers to municipal solid waste which includes the contents of households' dustbins (18 million tons annually) and trade waste (12 million tons annually) from supermarkets, offices and other commercial premises (Lees 1990). It excludes industrial waste (disposed of by private sector contractors), clinical wastes burned by hospitals in their own incinerators (800 in 1991) and waste water (disposed of by sewage companies). There is considerable competition in the industrial wastes market, many firms having diversified from the extractive and road haulage industries, but few handle domestic wastes. Hence, the handling of municipal solid waste is predominantly undertaken by local authorities which control three quarters of the service (FT 1991).

About 90 percent of municipal solid waste is buried in 4000 licenced landfill sites (rubbish tips) in the UK. A tenth is burned but only 6 of the 34 local authority incinerators recycle refuse as heat for buildings or as electricity (generated by steam), the UK being far behind other countries in converting municipal waste into energy (Porteous 1990). Hence most refuse is simply dumped or converted to waste heat. Only one percent is directly recycled, rising to 5 percent if office waste and heat recovery from incinerators is included (Cooper 1990). There is also great potential for methane to be collected from old landfill sites and used for heating

purposes as part of energy (rather than materials) recovery.

The nature of waste has changed quite radically over the last 30 years reflecting a variety of developments. The proportion of coal ash in domestic waste has fallen sharply since the 1956 Clean Air Act but paper and plastics waste has increased reflecting their use for packaging (Coggins et al 1991). Paper and cardboard now accounts for about a quarter of domestic waste by weight, kitchen (vegetable) waste about 30 percent, metals, glass and textiles a tenth each, dust/ashes and plastics about 7 percent each and the rest is other waste. Inclusion of trade waste increases the proportions of paper and cardboard (to about a third) and decreases the rest accordingly.

Current Charging Systems

Local authorities are not allowed to charge for the collection and disposal of household waste (as defined by law) but are empowered to charge for trade waste. In only a very few cases do authorities charge households for special services such as for additional refuse sacks (after the first one or two free ones), for separate uplifts of bulky domestic refuse or for the bins themselves. Hence, the residential refuse service is almost entirely tax financed, either from local taxes or from the grants to local authorities financed by national taxes. At the local level poll taxes, property taxes and any people/property surrogates, such as the number of bedrooms in each house, are subject to many of the efficiency and equity problems already discussed in respect of the water and sewerage services.

Many authorities, especially the larger urban ones, have a separate charge for non domestic refuse but all appear to make allowance for the domestic element of mixed domestic and commercial properties such as hotels. Many also allow a free bin as for domestic properties (NCT 1985). In this sense the charge is for levels of service in excess of that provided to domestic taxpayers who account for almost 90 percent of refuse collection customers. However, there is only a weak link between collection charges and costs if only because of lack of accurate information (Coopers and Lybrand 1981). Most authorities don't even weigh the waste they collect, let alone calculate the opportunity costs of the land and capital assets they use.

Some authorities require service users to buy the easily recognisable trade refuse bag or (increasingly) wheeled bin for a price that covers normal collection and disposal costs. A 1990 survey by Glasgow City

Council's Department of Cleansing found that many councils in England and Wales set charges (exclusive of VAT) which vary directly with bin size (8 sizes) varying from less than £1.00 for the 120 litre size to over £6 for 1100 litres. Some levy extra charges for Saturday uplifts and some apply concessionary rates for schools. All the Scottish councils contacted charge for the cost of the bin but provide a free uplift thereafter.

These prepayment systems (or others like vouchers and coupons) reduce administrative costs and directly relate payment to additional use of the service. Some authorities also charge for the provision of skips used for the uplifting of trade wastes. Disposal costs vary widely between authorities depending on the availability of dumping sites or the costs of incineration and this (together with the factors already mentioned) explains the wide array of charges per bin or sack (NCT 1985). Trade refuse charges are not normally levied on residential homes, educational institutions (schools, universities etc), hospitals and other medical centres, churches, youth organisations etc.

Theoretical and Practical Considerations

Economic theory clearly demonstrates that correctly charging for the full private and social costs of refuse is required in order to achieve the economically efficient level of waste generation (Bird and Slack 1983). Refuse collection is a mixed good with positive externalities whilst disposal is a pure public good so that subsidies (partial and full respectively) can be justified in economic efficiency terms (Gueron 1972). However, tax-financed subsidies and non marginal charges (including infrastructure charges - see chapter 7) do not encourage economy in the generation of refuse because payment becomes insignificant or fixed. Income effects (arising from the reduced disposable incomes of payers) are likely to be very limited given the relatively small proportions of such payments in terms of firms' total production costs and households' budgets.

Where charges are levied consideration has to be given to their composition. Charges could be structured so as to encourage direct delivery by private refuse disposal companies to landfill stations rather than to intermediate transfer stations (which collect and compact refuse in special transporters for delivery to landfill sites). They should also be set so as to build up reserves in order to finance future accounting costs including periodic capital expenditures on sites and equipment and so give service users a guide to costs likely to be incurred in the future. They should also pay regard to the wider social and environmental costs,

eg pollution from incinerators and landfill sites in the form of leakage of toxic gases, odours, chemicals, dust, smoke, litter, etc. Charging systems based on the 'polluter pays' maxim would provide some incentive to reduce production of refuse.

The problem with refuse charges is that they encourage illicit dumping. Traders unwilling to pay a charge (eg those arguing that because they have already paid business rates they are being asked to pay twice) often simply dump their rubbish on the pavement knowing that the local authority will ultimately have to take it away in order to fulfill its wider environmental duties, keeping land free of litter. Other forms of avoidance include dumping refuse in the bins of adjacent properties, in council skips intended for bulky domestic refuse, in nearby litter bins, round the corner, in laybys on the edge of the city, in the council's own civic amenity site or on any open piece of ground. Whilst the 1990 Environmental Protection Act has given district authorities powers to impose fines for littering it is often difficult to trace the culprit (Phillips 1990).

Besides illegal dumping, the introduction of customised value added services is made difficult by other factors. At least 90 percent of customers (both residential and business) appear to be satisfied irrespective of the collection method, although a substantial minority do perceive scope for improvements (Accounts Commission 1990). The standard of service for refuse collection relates to frequency of collection (usually weekly), convenience to the customer (backdoor collection rather than kerbside pickup) and care in handling the waste. Frequency and size or numbers of bins (all possibly alternatives) seem to be of greater importance to younger, larger households and to those in flats rather than houses. Quality of service is also affected by the type and capacity of refuse container (ie plastic sack, traditional bin or wheeled bin). Finally, certainty of collection and cleanliness (ie avoiding spilling rubbish from sacks or bins) are also important.

Such preferences could be expected to change if charges related to costs were introduced. For example, backdoor collections are about a third more costly than kerbside pickup because the longer walking distances require larger crews (Accounts Commission 1990, Audit Commission 1984c). Regular additional collections would only be feasible on a neighbourhood basis and even then would be extremely costly given the inverse relationship between the average weight collected per visit and the number of visits per week. Collection more than once a week would also suffer from scheduling problems caused by the combination of

domestic and trade refuse collections in some areas, the uneven number of days in the week and the greater amount of refuse discarded over weekends (Feldman 1972). Furthermore, demand for extra collections would have to be permanent given the need to hire more workers and buy more collection equipment. Hence, decisions about the method and frequency of collection is inevitably largely a matter for local political choice, especially regarding the domestic sector. In contrast, disposal is increasingly becoming a matter of national (indeed international) political choice, discussed below.

Implications of Increasing Costs and Current Reforms

The UK Government has introduced major ongoing reforms which will combine with increasing costs to have profound implications for charging policy for both refuse collection and disposal. Substantial periodic capital expenditures are required to replace worn out physical plant, tractors, compactors, etc. Local authorities are having both to pay increasingly large amounts for landfill acreage as suitable sites become used up (especially the West Midlands, Hampshire and North East England) and as the pressure on land for urban development increases (especially the South East). There is not any absolute shortage of holes in the ground (eg old quarries) but rather a relative shortage of socially and environmentally acceptable ones, the 'NIMBY' syndrome (Ehrman 1990).

Increasing amounts also have to be spent to make landfill sites conform to European Community Landfill and Groundwater Protection Directives etc. They must have an impermeable base (either a natural waterproof clay or other base or an artificial polyethylene skirt) so as to prevent polluted liquids from seeping into watercourse, etc. Inevitably, some leakage does occur and the National Rivers Authority now has powers to charge for leachate pollutants from land fill sites which find their way into water courses. Incineration of all refuse is not a feasible alternative simply because a large proportion is noncombustible. However, the claim that the direct operating costs per ton are many times higher for incinerators than for landfill has been criticised for ignoring the costs of transporting waste (often over long distances) to landfill sites and ignoring current depreciation, land and maintenance costs (Porteous 1990). For example, liquid leachates and methane gas have to be pumped out or collected for as long as 30 years after the landfill site is capped.

In the past, waste collection and disposal was sometimes a joint

responsibility (London boroughs, metropolitan districts and Wales) or sometimes separated (shire districts and counties respectively) with various voluntary (Wales) or statutory (Greater Manchester, London and Merseyside) groupings. Waste Collection Authorities (WCAs) have been statutorily required to use compulsory competitive tendering (CCT) for contracts since the 1988 Local Government Act and can only use their own workforce if they are the cheapest.

The 1990 Environmental Protection Act applies a complementary policy to Waste Disposal Authorities (WDAs) by transferring this function to Local Authority Waste Disposal Companies (WDCs) by April 1993. The latter inherit the landfill sites and incinerators of the WDAs and operate as 'arms-length' companies (in terms of the Local Government and Housing Act 1989), having to earn a specified positive return on assets in competition with private sector companies for the disposal contracts offered by district councils under the CCT system. However, many of the WDCs have too few sites to be viable and, combined with a lack of finance, the likely outcome is either sale of existing sites to private companies or joint ventures with them (FT 1991). In addition their shares will be tradeable so that there is a strong likelihood of progressive privatisation.

The supposed benefits are speedier decision making, unrestricted boundaries and increased access to finance, all blending with the expertise and assets of local government refuse disposal operations (Coopers and Lybrand 1981). Commercial imperatives and/or the imposition of a required rate of return will provide increased incentives to adopt market-based charging policies for refuse disposal.

In addition, the WDAs have been accused of inadequate standards of regulation for their own sites, excessive standards for private sites and unfair competition by using hidden subsidies to artificially depress gate prices at their own sites. For example, transport costs could be concealed under a separate transport budget. The separation of regulation and operation under the 1990 Act is intended to avoid this claimed conflict of interest where a local authority is responsible for both the disposal of waste and the regulation of disposal activities. Whilst these changes have been criticised as ideological dogma, there being no evidence of shire counties abusing their dual role (Reeds 1989), they will provide an incentive for WDCs to increase disposal charges and they will in turn be passed on to WCAs with obvious knock-on effects for their costs and charging policies.

Such incentives may be further increased by the Conservative Government's plans to vest waste regulation responsibilities in a national authority (probably combining with Her Majesty's Inspectorate of Pollution and part of the National Rivers Authority to form a national environmental protection agency). This is intended to achieve more uniform national standards of regulation and so a more 'level playing field' for competition between WDCs and private companies than supposedly achieved by the multiplicity of local Waste Regulation Authorities (shire counties in England, districts in Wales and islands or districts in Scotland).

In addition to having to pay higher disposal costs, the continuing pressures on WCAs caused by limitations on local taxes may encourage them to externalise many of the refuse collection costs that were previously internal to a local authority. For example, council tenants have usually been provided with a bin free of charge, the Cleansing Department financing bins through an internal recharge to the Housing Department. Privatisation could cause such a charge to be directly levied on owner occupiers and private tenants and consequently on council (and other social) tenants. Similar outcomes are possible for other services such as homes for the elderly. Indeed, it is not self-evident why privately run or self-governing (opted out) residential homes, schools, colleges, universities and hospitals should not pay directly for the service. This observation is more pertinent than previously since national non domestic rates can no longer be regarded as a local tax but rather a source of revenue indistinguishable in purpose from the Standard Grant element of the Revenue Support Grant.

The Inadequacy of Sole Dependence on Charges

Whilst much attention has been paid to the potential cost savings to be achieved by more efficient collection and disposal methods, much greater savings are to be achieved by reducing the amount of refuse to be disposed of in the first place. Collection and disposal charges are only one policy measure amongst many aimed at reducing the volume of waste generation. At the national level, central government could encourage recycling of waste by imposing lower rates of Value Added Tax on products which use recycled materials in their product or packaging and/or impose resource taxes on certain raw materials. This could be supplemented by legislation making compulsory deposit and return schemes (eg for bottles), labelling schemes (providing information on recycled contents), restrictions on packaging etc.

The European Community has already issued various Directives on recycling (in part for environmental purposes and in part to standardise regulations for barrier-free trade within the Single European Market) but there are difficulties enforcing them. The 1990 Environmental Protection Act requires local authorities to produce recycling plans as from August 1992 and the 1990 White Paper "This Common Inheritance" (Cm 1655) foresees a quarter of household waste being recycled by the year 2000 (ie half of that which is recycleable). This will be encouraged by the requirement that local authorities responsible for waste disposal will have to pay those who collect waste a rebate (recycling credit) for waste that is recycled and so saves them the cost of disposing of it in landfills or incinerators.

The public debate required for the success of recycling and waste reduction is a legitimate educational function in accordance with the deliberative role of government. However, the increasing emphasis on recycling initiatives (eg bottle banks and similar repositories for ferrous and aluminium cans, plastics etc), whilst creditable, is merely a continuation of the traditional supply-oriented engineering approach to service provision in that it does not attempt to reduce the amount of waste initially disposed of by businesses and households. Rather it seeks to reuse waste in productive ways instead of simply dumping or burning it (AME 1991).

There is a danger that participation in recycling initiatives may simply encourage greater production of waste materials in that people and businesses feel even less need to economise on use of scarce environmental resources. It is in this respect that the most effective measures would be a combination of waste collection and disposal charges (directly related to the volume and/or type of refuse), resource taxes, recycling tax reliefs and statutory limitations on packaging materials.

Conclusions

It has been seen that there are considerable problems in attempting to customise the refuse collection and disposal service to individual consumers. This is particularly ironic for the collection service since output and standards of service are relatively easy to measure. A minimum standards approach is implicitly adopted by those authorities which levy an additional charge for trade refuse services in excess of those provided to domestic users (ie for additional bins or sacks and/or increased frequency). The additional service therefore relates only to

volume rather than to type of refuse in that authorities will only collect municipal solid wastes. It is the private contractors who effectively customise the service in handling industrial and toxic wastes.

Problems of route organisation and cost mean that decisions about the method and frequency of municipal collection is inevitably largely a matter for local political choice, especially regarding the domestic sector. Nonetheless, the radical and far reaching changes in the organisation of both the refuse collection service and the disposal industry are likely to have profound implications for the role of direct service charges. These will not necessarily be inconsistent with the customised value added rationale if they more closely relate standards to charges. Proper disposal yields value added environmental benefits, the higher costs of which can legitimately be recouped by charges based on the 'polluter pays' maxim.

The financing system for local government has been inimical to a comprehensive review of how best to finance refuse collection and disposal. The administrative distinction between current and capital expenditures and the perceived necessity of making provision of further waste disposal facilities has meant that it has been easier in operational terms to gain central government approval for borrowing to purchase sites and equipment than to question the supply side, engineering philosophy on which the service is based. This is likely to continue under the revised structure of the industry if only because of the perceived necessity to dump whatever waste is produced and given that borrowing is usually the favoured means of financing capital expenditures simply because it spreads costs over time.

Ideally, waste collection and disposal charges should be directly related to the volume and/or type of refuse and operate as part of a much wider refuse containment policy which also includes resource taxes, recycling tax reliefs and statutory limitations on packaging materials.

MUSEUMS AND GALLERIES

There is no national museums policy ('museums' henceforth refers to galleries as well). The result is a rather confusing spectrum of fragmented provision, funding mechanisms and responsibilities and a wide variety of public and private museums. Besides the so-called 'national museums' (the Natural History Museum, the Science Museum, the Imperial War Museum, the National Gallery, the Victoria and Albert Museum and the National Maritime Museum) there are also

museums run by government departments, universities, the National Trust, English Heritage etc.

Finance comes primarily from tax financed subsidies. Central government pays revenue support grants to supplement local government taxation but there is also an assortment of capital grants from relevant Tourist Boards for one-off capital investments. Even the EC Social Fund has occasionally provided capital finance (eg for the Wigan Pier Heritage Centre). Many local authorities also pay revenue grants to independent museums. There is a similar fragmentation and diversity of funding sources for theatres and halls.

Local authorities are not statutorily required to provide museums and provision is very variable, over a quarter spending nothing at all (MGC 1991). Expenditures are discretionary under the 1964 Public Libraries and Museums Act. Rapid growth of both local authority and independent museums occurred after 1964 Act, numbers in both categories rising by over 40 percent by the late 1980s (Audit Commission 1991a, Feist and Hutchison 1989). There are now approximately 800 local authority museums in the UK generating an estimated 72 million visits, several times greater than the numbers attending football league matches (CSO 1992, SMC 1986). The same comments apply to local authorities' theatres and halls (Audit Commission 1991b).

There is no legal definition of a 'museum' but they are generally regarded as 'stewards of the nation's heritage', collecting, documenting, preserving, interpreting and exhibiting materials and information for the public's educational benefit (defined in the widest possible sense) and enjoyment both now and in the future (MA 1990). Local authority museums differ considerably from each other in terms of the nature and size of their collections which can be of purely local interest or (in some cases) of national and even international importance. They are primarily provided by district councils (both shire and metropolitan) and are usually located within leisure and recreation departments. Some fall within the remit of other committees such as education or libraries.

Objectives have evolved piecemeal and are vague, including improving the quality of life, promoting equality of access, providing informal as well as formal education, preserving the local heritage and promoting the local economy by attracting tourists and industry through creating a sense of place and identity (Myerscough 1988). Much the same can be said of entertainment and the arts, theatres and halls facilitating maintenance of the cultural heritage (rock concerts, pantomime, plays,

classical music etc).

The Museums Association (which represents over half of local authority museums) has a policy with a presumption against charging on the basis that museums are fundamentally an educational (as distinct from recreational) non-profit service. On this basis not just admission should be free but also responses to enquiries made by individual members of the public, as should exchanges between museums (cf the public library debate in chapter 6). Entrance to local authority museums has traditionally been free and 70 percent still make no charge (MA 1987). The percentages are reversed for independent museums (only 30 percent of which have no admission charges) and almost half of national museums now have entrance fees. However, like other museums, four fifths of local authority museums do have a shop or other sales point and over half of visitors use them.

An eighth of local authority museums ask for voluntary donations upon entry (usually via a prominently-sited donations box). Whilst allowing free entrance to their general collections, a further tenth raise admission charges for access to temporary special exhibitions. This 'rule of thumb' part-charging scheme appears to be based on an implicit concept of the free basic service and chargeable nonbasic service already discussed in chapters 4 and 6. It is clearly a different charging rule from that used in municipal theatres and halls where, as a very broad generalisation, local authorities try to recover running costs from admission charges but not the fixed costs of the venue. Whilst in practice subsidies are often required to cover trading account losses as well, the difference in charging rationale probably derives from the assumed greater educational value of museums compared with the (primarily) recreational value of arts and entertainment.

Where they are levied, charges for admission to local authority museums are usually nominal. In 1990/91 they were usually less than £1.00, varying between 20 pence and £4.50 (the latter being for major attractions aimed at the day tripper and tourist markets). This is less than median charges at other museums, £2 in the case of those national museums which currently charge and £1 in the case of others. Children are usually charged at half the rate for adults and other concessions are often afforded to senior citizens, students, the disabled, unemployed etc.

Net expenditure (ie subsidy) per visit to local authority museums averages £4.50 within a wide dispersion, reflecting the nature of collections, buildings etc. This compares with an estimated subsidy of

just over £3 per seat in local authority theatres and concert halls. Those local authority museums that do charge for admission recover about a fifth of their revenue expenditure from entrance fees, sales of materials (from museum shops) and catering whereas those that don't charge recover only half that. The average for all local authority museums is about 13 percent, compared with municipal theatres and concert halls which recover about 60 percent of revenue expenditure from admission charges. Only two local authority museums more than cover their revenue expenditures from charges, the Roman Baths and Pump Room at Bath and York Castle Museum, two national tourist attractions.

One argument for increased use of charges relates to the obvious success of independent museums which local authorities could try to emulate. As already noted, the independents make much greater use of admission charges compared with local authority museums, cater more for visitor preferences and emphasise display much more than local authority museums. They recover a much higher proportion of their costs (about half) from admission fees, sales of materials (from museum shops) and catering than do local authority museums (13 percent).

However, such a comparison is misleading in that independent museums emphasise recreational rather than educational and stewardship roles. The independents are usually located in holiday resorts attracting fee-paying tourists rather than local residents. They often close for the off-season and use volunteer labour whereas local authority museums are usually open all year round and use paid professional staff for conservation, warding and security. Hence, staffing accounts for a much higher proportion (about half) of local authority museum expenditures than is the case for independents. Furthermore, about 70 percent of municipal museums are accommodated in 'listed' historic buildings requiring considerable capital and maintenance expenditures. Although there are notable exceptions such as Ironbridge Gorge Museum, independent museums are generally small (both in terms of expenditures and size of stock) compared with those of local authorities. Hence, allowing for their different remits, local authority museums cannot reasonably be expected to cover as high a proportion of their costs from charges as do the independents. Besides, most of the latter could not survive without the grants paid to them by local authorities.

A second argument in favour of increased use of charges is the affluence of many of those visiting museums. People in professional and

managerial occupations make relatively more visits to museums than those in manual and unskilled occupational groups (CSO 1990) and could reasonably be expected to pay. At present they are effectively subsidised by the poorer socioeconomic groups whose taxes subsidise a service of which they themselves make little use.

The counter argument is that attendances fall dramatically upon introduction of admission charges, hence deterring access. This may, of course, be an explicit intention of charges for those national cultural institutions which are excessively congested by tourists. For example, Ely cathedral Cambridgeshire, St George's Chapel Windsor and both St Paul's Cathedral and Westminster Abbey London all charge for admission to all or part of their buildings and for all or part of the week in order to regulate the enormous volumes of visitors and to raise finance for maintenance. Falls in numbers of visitors induced by the charges were positively acceptable but people tended to stay longer and spend more money in cathedral shops. However, congestion is hardly a problem for most local authority museums.

Evidence from those national museums which recently introduced admission charges suggests a 40 percent fall in the number of visitors, followed by a slow recovery (Feist and Hutchinson 1989, House of Commons 1989). There appeared to be little fall in the number of tourists but a fall in the number of those Londoners under 20 years of age who do not qualify for a discount. Hence, both the total and the composition of visitors is likely to change as a result of the admissions charge.

Such a fall could be expected to be exceeded for many local authority museums whose displays are of only local rather than national importance and, consequently, where visitors are predominantly local residents rather than tourists or day trippers. Any subsequent recovery would also appear less likely. However, the officially published figure of a 40 percent fall is probably a significant exaggeration of the actual fall since attendance figures had previously been based on estimates which made no allowance for repeat visits and the fact that some visitors may have been counted more than once (eg where there are multiple entry points). Regular visitors may visit less frequently but spend longer when they do (eg if charges discourage short visits during workers' lunch breaks). Those who are most easily dissuaded by charges may be not really interested in the collections and displays (although museums might think that they should be). Clearly more reliable information on changes in the total and composition of visitor numbers is required

before firm conclusions can be reached about the impact of charges.

A change in the composition of visitors may be a specific policy objective and this will depend on the structure of the charge. For example, it might mean that typically a tenth of visitors enter free (school pupils or all persons under age 18?), half pay the reduced rate (students, pensioners and the disabled?), and only about 40 percent pay the full charge (all other visitors, tourists, non residents?). Alternatively, perhaps a third of visitors might fall into each category. In addition free admission could be allowed one day per week outside the peak period. Concessions could be withdrawn or modified for special exhibitions or extended on particular days of the week in order to attract particular groups. There could also be group discounts for otherwise fully chargeable adults, season tickets (giving unlimited access for a given period, encouraging repeat visits by local residents and multiple visits by tourists to all a local authority's facilities in a short period). Such a charging policy would be designed to improve access amongst prioritised groups. The charging structure would obviously have to be reviewed in the light of experience.

The subsequent recovery (if any) after introduction of admission charges will be influenced by the extent to which visitors see for themselves the improvements financed by the charges. They are more likely to be accepted if the income were to be redirected towards improving the presentation of displays, so improving the quality of the service, rather than being used to finance basic running costs such as staff, repairs and maintenance etc. It is in this respect that income from charges is very significant at the margin, especially since salaries and other 'fixed' costs are such a high proportion of total costs. Ideally, the admission ticket and other publicity material should state clearly the level of subsidy still being received by the visitor and the use to which the extra revenue raised by admission charges will be put.

Whilst charges should ideally be part of a wider policy aimed at increasing access for all groups, other constraints on access should not be ignored. Extension of opening hours during evenings, weekends and public holidays to match people's leisure hours is often required, as is increased use of outreach programmes aimed at particular socio-economic and racial groups. The fact that some national (as well as independent) museums make use of admission charges suggests that their deterrent effect is influenced by the quality and nature of the service provided and by the type of visitor. Hence, to claim that charges necessarily restrict access is a gross oversimplification of a much more

complex issue.

There appears to be more scope for charging where collections are not just of purely local interest and where day trippers and tourists are in the majority. Local authorities may not know the composition let alone the total of visitors. Many have often not counted the number of visitors and are even less likely to have monitored their socio economic and demographic composition. They should do so, if only to see whether or not service objectives are being fulfilled and certainly should do so before introducing entrance fees.

Introducing or increasing charges will also require museums to consider the type of exhibition (topic and whether permanent, temporary or visiting), the type of other services offered to visitors (eg information, catering and retail outlets), the types of visitors they are trying to attract (local residents, schools, tourists, families, ethnic and minority groups), market research and promotion, competition from other museums in adjacent areas, concession schemes and 'free' days etc. Different museums in the same local authority may have different charging schemes even though the local authority has a single policy on charges. For example, a museum catering mainly for tourists will have a different set of charges than one catering mainly for local people. Similarly the timing and incidence of temporary specialist exhibitions will cause charges to vary between museums in the same authority.

The fact that most local authorities have blanket policy against charges irrespective of the nature and location of their museums is clearly of questionable merit in this context. If admission charges were introduced, museum staff may feel obliged to pay more attention to visitor requirements than when entrance is free so that service orientation may be quite significantly affected. In the past, staff training concentrated on curatorial expertise rather than marketing and career structures have tended to be confined to museums rather than there being interchange with sports centres etc. However, the current emphasis on CCT and management reforms in the latter may have knock-on effects for the management of museums with further implications for charging policy.

Hence, there is greater scope for use of charges where they finance an added value element for visitors. Together with the preceding discussion of the differences between municipal, national and independent museums, this suggests that charges cannot be expected to cover infrastructural costs or the costs of maintaining and managing collections of purely local interests. Many buildings and (in particular)

collections are already badly neglected and deteriorating due to lack of finance. Tax financed subsidies will still be required to meet the bulk of costs. However, the educational value of collections can be recognised in the structure of admissions charges and generally they would only be levied on special exhibitions of popular interest.

Whilst not advocating a Disneyworld approach, the recreational value of exhibitions should not be ignored. That is likely to depend on the degree of value added service customised to the needs of target groups and for which a charge can reasonably be levied as part of a wider policy to attract more people into museums and galleries. It is certainly a more justifiable approach than the rather arbitrary current distinction made by part charging institutions between collections (access to which is free) and special exhibitions (for which an admissions charge is levied). This crude split between basic and nonbasic services does nothing to promote service improvements for visitors and nothing to dispell the (often unfair) claim that most local authority museums are 'worthy but dull'.

A DIGRESSION ON SERVICE CONGESTION

This foregoing recommendations on museums charging policy need to be refined by taking account of the impact of congestion on the quality of service. Congestion is also often a problem for sports facilities and so the following analysis makes use of examples for both services.

It is often suggested that changes in participation by income group reflect high income elasticities of demand for certain activities (squash, golf etc) and low income elasticities for others (fishing, swimming etc). However, if preferences for congestion avoidance are positively correlated with with income then high income groups will prefer non congested activities such as squash and golf and avoid busy swimming pools, popular fishing waters and crowded parks. The effects of income and congestion aversion are difficult to disentangle in practice but, in both cases, the imposition of a charge will favour the high income groups. Not just are they able to pay the higher fee, they are also willing to pay it since it reduces congestion of the facility. If they are less price responsive and more averse to congestion than other users then the higher charge will actually increase their use of the fixed capacity facility (McConnell 1988, Daniels 1987, Harrington 1988).

Once again, this result suggests that standard neoclassical demand analysis has to be qualified by the nature of the commodity, ie where there is interaction between users on a particular recreational site. The

simple maxim that higher prices reduce demand is inadequate. In this case, whilst latent demand does fall, the higher admission charge actually increases demand for use of the site by particular groups. Price increases will normally reallocate use of a site in favour of high income groups if demand is income elastic but this is reinforced by the heterogenous preferences for congestion. Such preferences explain the change in the mix of users if a uniform charge is implemented quite separate from the usual emphasis on ability to pay. It also explains why behaviour and use patterns are not drastically altered when charges are introduced for admission to wilderness areas (Leuschner et al 1987). Presumably users are predominantly from congestion-averse high income groups, willing and able to pay for the solitude of wilderness areas which (by definition) are not congested. Heterogenous tastes for congestion qualify the standard results that the use of free open access recreational facilities will be greater than the optimum (where fee equals marginal cost of congestion) as does the availability of many such facilities in the area (Freeman and Haveman 1977, De Meza and Gould 1985).

If income is positively correlated with willingness to pay for reduced congestion, if income elasticity of demand is positive and if the marginal utility of income falls then heterogenous tastes for congestion increase the optimal fee whilst equity considerations diminish it (Coly 1985). This result provides a theoretical justification for the reluctance of local authorities to use admission charges to ration entrance to congested facilities. Local authorities usually take the view that it is more egalitarian to allocate use of a facility by congestion than by price rationing. This is the usual policy where congestion leads to queuing. It is advantageous in equity terms even if the admission charge is the same for all irrespective of income since the cost of waiting (in terms of income or value of time foregone) is higher for affluent groups than for those with low incomes. The single charge translates into many different money-equivalent prices, progressive in relation to income. However, the disadvantage in efficiency terms is that there is a deadweight welfare loss of economic potential. Rationing by price (rather than by ordeal) diverts use of time into other economically productive activities and has the practical advantage that it raises revenue whereas queuing doesn't.

A further equity problem occurs where the revenues raised from admission charges are used to customise the service for the particular needs of users: the facility becomes both less congested and more exclusive. Low income groups would have gained more benefit from a

congested but free (or heavily subsidised) facility but are now excluded from it so benefiting relatively few high income users. This outcome would appear to be inequitable. However, queuing and other manifestations of congestion ultimately lead to degradation of the service so that such non price rationing is not even in the interests of prioritised groups over the longer term for services where demand is increasing faster than their provision. This result may also be thought inequitable in that service standards deteriorate over time. Clearly, a balance has to be struck.

In practice the charging structure usually differentiates between different groups of user with the result that more affluent adults are expected to pay more than other groups. However, if there are heterogeneous preferences for congestion and if concessionary charges fulfil the usual service objective of increasing service takeup then it necessarily creates an inherent conflict. If concessionary users are so stimulated to use the service that they create congestion this will in itself drive away congestion-averse affluent groups on whom the local authority is depending to generate most revenue. Hence, expectations of significant revenue will be dashed. If previous users of the public service are driven to private sector alternatives where charges are significantly higher it suggests that a factor other than sensitivity to price is the cause of the switch. Higher quality is often claimed for private services although this is generally not demonstrable in a technical sense for directly comparable services. It may be demonstrable, however, in terms of congestion: a non technical aspect of quality.

This suggests that a charging policy which simply attempts to make affluent users pay more than 'needy' groups is particularly inappropriate (in terms of usual service objectives) where service takeup is voluntary and where the service is subject to congestion. This is generally not the case for a household's occupancy of a council house, for its use of the refuse disposal service, nor for its use of the water and sewerage services. It can occur for public library services and perhaps helps to explain the survey finding (noted in chapter 6) that readers are now more likely to have bought the book than (expected) to have queued for the public library copy.

Congestion becomes more pervasive for certain forms of transit infrastructure, particularly city roads, reinforcing the earlier conclusion that company cars would tend to predominate under a system of congestion charges and explaining the apparent acceptability of congestion charging in that payers would expect to face less congested

roads as other road users are diverted to public transport. The equity issue is resolved by using the revenues to finance public transport improvements for all travellers, by definition those who were not sufficiently affluent or congestion-averse to incur congestion charges. However, the equity issue is more difficult to handle in the case of sports facilities because the local authority is not providing an alternative service for the less affluent to use. If it levies a uniform charge it drives away the very groups who are regarded as making insufficient use of the service. If it introduces concessions which increase participation rates for target groups then congestion drives away the very source of revenue which it seeks.

It is in this context that attributing customised value added aspects to such services is crucial. If there is a tradeoff between congestion and other aspects of service quality then the latter must be improved in order to compensate for the former. Retaining payers by improving customer service (eg the standard of displays and exhibits in museums) would appear to be acceptable to all service users and providers and is the justification for the service retaining the revenues raised from charges as net additional income. It also suggests that not only should there be one or two free days a week for needy groups but that there should also be one or two days where only those who pay the full charge will be admitted, concessions being cancelled. In the museums example the latter would apply to both main collections and special exhibitions. In this way both sets of users benefit from an improved service, value added being customised to their particular preferences for congestion as well as a general improvement in the standard of exhibits.

Care must be taken in choosing the particular days on which full and concessionary charges will be in force so as to avoid conflict with access objectives. One suggestion would be to have the free days some time in the week so as to target those who are not working and hence can be assumed to face difficulty in paying the charge (the unemployed, pensioners, disabled) and have the fully chargeable days at weekends (to target those who are working and are therefore presumably able to pay). Sophistications would include extending full charges to non residents (tourists and day trippers?), to lunchtimes and evenings and extending free weekdays during school holidays. In this way equity can be made more consistent with economists' advocacy of peak load pricing.

In conclusion, it would appear that local authorities' concern to provide the same standard of service to all groups for equity reasons is inappropriate where there are heterogenous preferences for congestion

aversion. That would only lead to a deterioration of the standard of service (basic or minimum?) and so deter rather than increase service takeup. The achievement of service objectives does not require uniformity in standard of service in such cases.

SPORTS

Like museums, local authority sports facilities are part of the extensive leisure and recreation service. Despite the considerable involvement of the private sector and the fact that virtually all local authorities do in fact charge for many of their own sports services, it is often argued that they should be provided free. The rationale is that recreation is a basic human need and should be freely and equally available to all. Much the same could be said of food, clothing and housing but these goods and services are certainly not provided free. There are, of course, the usual equity and efficiency arguments for subsidy, for example ability to pay issues and the positive externalities arising from improved fitness and health, but these do not justify completely free provision to all users (Gratton and Taylor 1985 and 1991, Cook 1991).

District and London Borough councils account for the bulk of local authority sports expenditures and these are discretionary under the 1976 Local Government (Miscellaneous Provisions) Act. Most authorities set charges (and related subsidies) that they believe will encourage use. Estimates suggest that, on average, charges cover less than a quarter of the debt charges and running costs of outdoor facilities and less than half those for indoor facilities (Audit Commission 1989b). Despite these levels of subsidy (and the increasingly determined efforts by councils to broaden service takeup through outreach programmes etc) it is known that the majority of adults do not regularly participate in sporting activities. Those that do are predominantly young, white, male and middle class groups, with low participation rates for women, older people and ethnic minorities (Sports Council 1988).

Nonetheless, there has been a general increase in both rates and frequencies of participation in sports activities. During the 1980s, notable increases occurred for outdoor activities including walking, athletics (particularly jogging, marathons and fun runs) and cycling (on both road and 'mountain' bikes). There were increases for men's indoor activities such as snooker, billiards and pool, swimming, squash, gymnastics and athletics whilst keep fit and yoga experienced the greatest increases for women. However, rather than subsidy being the major factor, the more general promotion of healthy lifestyles and TV coverage of certain sports

(eg snooker and tennis) seem to be the most influential factors stimulating increases in general participation rates. Indeed, it is notable that the most heavily subsidised activities have experienced either a fall in participation rates or the slowest rates of increase. For example, the number and proportion of women participating in outdoor sport has fallen and there have been much smaller increases in participation for traditional outdoor team sports (eg soccer and rugby) than for primarily solo (or at least non team) indoor activities. Hence, the effectiveness of subsidy on its own in stimulating the takeup of sporting activities appears to be limited.

Moreover, it is not necessarily the case that most of the increase in participation rates took place in the subsidised local authority sector. The General Household Survey (GHS) is the source of participation data only for those aged 16 and above (ie it excludes educational and community provision for children) and it does not show where activity takes place. Since rates are highest for the wealthier socioeconomic groups, it is possible that the largest increases in adult participation took place in private venues such as health clubs, golf clubs and tennis clubs, outdoors away from local authority facilities (eg road running, jogging and cycling) or even informal individual activities in the home (eg women's callanetics and yoga). For activities such as swimming, where private provision is almost nonexistent (except for hotel pools and seasonal outdoor swimming), conclusions from the GHS data predominantly apply to local authority provision but elsewhere there is a dearth of unambiguous data. In only a few cases do local authorities count the number of attendances at facilities, rarely do they monitor the socioeconomic, demographic and racial profile of users and in even fewer cases are they able to say whether those visits are lots of different people attending infrequently or a relatively few people making multiple visits.

It is notable that the largest increases in participation rates revealed by the GHS have occurred for activities which are primarily solo requiring low personal, capital, social and continuing commitments (unlike traditional team sports). Many can be easily engaged in from home without use of formal facilities, particularly the outdoor activities (jogging, cycling, walking) and certain indoor keep fit activities such as weight training (witness the recent boom in availability of home 'weights sets') and callanetics amongst women (training videos for home instruction being available). Perhaps this reflects the increasing emphasis on personal health for which people are increasingly willing to incur costs. This has come during a period of increased real incomes for

many and changes in fashion in leisure and sport. However, the claimed increase in leisure time is misleading in that working hours actually increased slightly during the 1980s for those in work (increased overtime), rather it is holidays which have lengthened. Indeed, increasing proportions of women are working full and part time, only the unemployed have an abundance of spare time but simultaneously experience a severe lack of financial resources.

Sports and recreation facilities are provided (often incidently) by a whole series of public sector agencies such as the Countryside Commission, the Nature Conservancy Council, The National Trust, the National Rivers Authority, universities and polytechnics etc. The private sector makes provision not just through health clubs and leisure centres but also through company sports grounds and (again incidently) through the privatised water companies' reservoirs and open moorland (sailing, walking etc). The voluntary sector's role is also considerable. It is estimated to spend twice as much as local authorities in revenue expenditure and have 6.5 million members in 150,000 registered sports clubs covering 100 or so different sports (Sports Council 1986). It provides coaching for school children and is aided through Urban Programme and Sports Council funds. Nonetheless, care must be taken not to underplay the role of local authorities in making provision for sporting activities. They have a long tradition in providing facilities, have an important role in providing specialist facilities and are arguably still uniquely equipped to promote access to sport, through schools, tertiary colleges, adult education, the youth service and community provision. The early emphasis on mass participation sports and land intensive uses (soccer/rugby winter, tennis/cricket summer) shifted during the 1970s and early 1980s towards more individual activities in capital intensive indoor venues (eg aerobics and weights). The number of sports centres (often incorporating swimming pools) increased from 20 in 1972 to over 1700 in 1990 and, clearly, a large part of the increasing demand for indoor activities is supply led by local authorities themselves.

However, the frequency of outdoor participation far outstripped that for indoors and would appear to have mostly not used local authority facilities. Whilst there have also been substantial increases in the provision of municipal sports pitches, athletics tracks and country parks, it would seem that increasing participation rates substantially reflect demand side factors. Of course, demand and supply side factors interact and local authorities have recently made great efforts to target subsidies to particular groups such as women, the elderly, low incomes etc (Glyptis

and Pack 1988). The problem here is that the impact on the socioeconomic profile of participants has simply not been monitored and there is a glaring lack of information, not just about who participates but also about the resulting health benefits and exactly what is available in a given area.

The sports 'market' is both highly fragmented (between the private, public, voluntary, formal and informal sectors) and highly segmented. There are clearly subgroups of users, differentiated by socioeconomic group and sex, but also by age (bowls being popular with the elderly, skateboarding and sail/surf boarding with the young), by region (golf in Scotland, cricket in England), by type of household (single person, single parent, family), and by ethnic group. Occupational restructuring, changing economic activity rates for women, ageing demographic bulges, differential regional economic growth rates, increasing ethnic diversity and changing family and household structures are often magnified at district level where provision is made (eg deprived inner cities and affluent suburbs). There may also be subgroups of sports, within which activities are highly interdependent with respect to price but between which there is little or no substitutability (eg squash, badminton and tennis in one group, running, cycling and swimming in another). Seasonal factors are also important for certain activities, eg outdoor swimming and the annual post Wimbledon tennis boom.

The foregoing demonstrates the need both to take account of non local authority provision of sports facilities and to recognise factors influencing participation rates other than supply side factors and charges. It suggests that blanket subsidies intended to increase participation at municipal venues may be ineffective. They may simply divert an increased proportion of a fixed level of activity from other sectors without stimulating participation amongst under-represented groups. For example, Indian women may have a cultural aversion to 'pop mobility' classes, heavily subsidised or not, but may be willing to attend Asian dance classes. A blanket subsidy tends to benefit most those groups who already use the facility and whose participation would increase as a result of further subsidy. Hence more affluent groups are likely to benefit disproportionately. Continuing progress towards more active management styles is needed to replace the traditionally passive style. The latter was a natural outcome of the tendency to appoint as managers people qualified in physical education rather than management. This is now changing.

Rather than making their own direct provision local authorities could

play an enabling role, encouraging and supporting provision by the non-profit private and voluntary sectors. Councils could grant funds to clubs and community groups to expand total provision through partnership. This is a particularly cost effective way of stimulating participation, Toronto being a notable example (Goldy 1979, CoT 1982). However, such developments are constrained in Britain because the business rate is payable by the voluntary, non-profit making sector. Local authorities have discretionary powers to give relief to such clubs but are only allowed to offset 75 percent of that relief against their contributions to the national non-domestic rate pool. They therefore lose rate revenues if they give relief to clubs. Whilst this situation jeopardises attempts to increase the contribution of the voluntary sector to sporting activities it may still be the most cost effective way of stimulating participation. However, the subsequent analysis will necessarily concentrate on direct provision by local government.

The 'Price' of Sport

The cost incurred by participants is not just the admission charge (eg to swimming pools) or the hourly charge for courts and gymnasia etc. It also includes the cost of equipment (eg golf clubs, racquets, snooker cues), the cost of travel to the venue (the fare or vehicle cost) and the value of time involved (both travelling and participating). The relative importance of these factors varies service by service. For example, the opportunity cost of time taken to access materials may have greatest relative weighting for visits to public libraries in that there may be no intrinsic value in searching for library materials and the net time cost spent travelling is probably low (visits to public libraries often being combined with shopping trips), admission is free and no equipment is required. Similar considerations apply for visits to museums except that average travel time will be greater (since they are fewer in number than branch libraries) and time spent viewing exhibits certainly does have intrinsic value: it is an end in itself. Higher equipment costs can be added in the case of sports and higher travel costs for visits to country parks.

Whilst these factors are not unique to the public sector (for example, shopping trips to retail superstores on the edges of cities), failure to take account of them has led to seriously misleading assessments of the influence of admission charges on service takeup. Generally the lower the local authority charge as a proportion of the total cost of attending a facility, the less sensitive demand will be to a change in that charge. Changes in other components of the total 'price of sport' may be much

more influential but are largely outwith the control of local authorities. Attendances will also be influenced by the weather (at outdoor facilities), changing incomes (eg recession), site promotion and special events (Bovaird et al 1984).

The general belief that demand falls when the admission or hire charge ('posted price') rises is also oversimplistic, being based on an incomplete price model which takes no account of price expectations. Users' reactions to a change in price are dependent on the 'reference price', ie the charge which a user expects to pay. That will be influenced by contextual variables such as the previous history of charging for use of the facility, its location, the type of service available, knowledge of the degree of subsidisation etc. In practice, it is not possible to model reference prices with any accuracy but the concept does provide a rationale for administrators' preferences only to charge for new services since the reference price for previously free services is likely to be zero. This emphasises the importance of attributing value added to the service so that quality improves if a charge is to be introduced. For example, the reference price may be influenced by the degree of congestion of open access facilities, congestion averse high income groups being willing to pay a higher charge if congestion is reduced.

It appears that reference prices increase substantially when information is provided on the level of subsidy per user (McCarville and Crompton 1987). That research also showed that user knowledge of the cost of commercial alternatives is a lesser influence on the increase in reference price than is knowledge of subsidy. This is probably because the private sector service is regarded as different in kind (eg private health clubs are less congested, more exclusive and have more luxurious decor than municipal sports centres). Nonetheless, full cost recovery appears to be more acceptable amongst users for those facilities which are comparable with commercial provision by the private sector such as golf, squash, sauna and solarium (Whitehouse and Gerlach 1991). These results are not conflicting since full cost recovery in the public sector precludes profits with the result that reference prices will still be lower in the public than in the commercial sector. For example, municipal golf recovers 95 percent of costs but average charges for a round of golf are still only about half of those for private clubs (IPF 1987, Price 1991).

The concept of reference price emphasises the importance of improving accounting procedures to accurately identify the cost of providing the service, the level of subsidy per user, the prices charged at alternative venues (both public and private sector), etc. It serves to qualify the

generally held belief that marketing is synonymous with commercialisation and exploitation, a belief which goes a long way to explain why even the most basic 'sales' information is simply not available (eg the numbers and composition of users and the costs of individual activities), why sports facility staff have rarely been trained in management procedures and why local authority decision making structures for leisure and recreation are so inflexible (Smith 1988b).

Charging Frameworks

At the risk of some oversimplification, a number of distinct approaches to charging for sports activities can be distinguished, all of which are currently being used to varying and confusing extents, even within individual authorities.

(1) The Pragmatic Approach.

The basis for setting leisure and recreation charges is often historic and/or based on what neighbouring authorities charge. Both of these approaches assume that charges were previously set correctly (either back in time or by the other authorities), that demand and cost conditions do not vary between different local authorities and that none of the other factors which influence demand has changed since. This is almost invariably not the case and demonstrates the inadequacy of the committee-based approach applying across-the-board annual increases in charges, usually equal to the rate of retail price inflation. It also brings into question annual surveys of charges for sports facilities undertaken by the Scottish Sports Council and the Institute of Public Finance. Indeed, such surveys may be counterproductive because they ignore differing demand and cost conditions, encourage copycat charging and provide no incentives to managerial responsibility. These outcomes do nothing to encourage access through locally sensitive charging structures. The resulting narrow range of charges combines with differences in operating costs and debt charges to cause a much greater dispersion in the range of subsidy between individual local authorities (Audit Inspectorate 1983, Audit Commission 1989b).

The pragmatic approach favours introduction of additional charges only for new activities such as water slides, health and fitness suites, etc. This is said to be acceptable because there is no historical expectation that new activities will be free or heavily subsidised. Whilst this is partial recognition of the reference price concept it is divorced from the conditions facing individual sports facilities and it ignores all the other factors included in 'the price of sport' discussed above. The resulting

spectrum of charges and related subsidies will merely be the outcome of historical accident, only coincidence making it consistent with broader objectives relating to maximum participation or targeting subsidy for equity or efficiency purposes. The users of new facilities will increasingly cross subsidise the users of historically free activities for no reason other than that they were provided by the authority at a later date.

(2) The Evolutionary Approach.

Under the 1988 Local Government Act, almost all non educational sports facilities have become subject to Compulsory Competitive Tendering (CCT) as from 1992. Unlike other areas of council activity also subject to CCT, income generation is of major importance for sports facilities and local authorities face an increasingly severe conflict between their social and financial objectives for sports. Local authorities are still able to decide what facilities to provide, their opening hours and charging policies (including concessions). Explicit guidelines and social objectives will have to be clearly set out in the contracts awarded by local authorities and actual outcomes rigorously monitored. However, community-wide social objectives are broad and vague and performance measurement against objectives is often haphazard. This creates the possibility of opportunism which, being combined with bounded rationality and asset specificity, is likely to lead to high transactions costs suggesting that this service should in fact be provided in-house (see chapter 2). The focus of CCT is on inputs, to the neglect of outputs and accessibility and so it is possible that there will be undue emphasis on cost control and revenue generation. Indeed, it is unlikely that councils will want to take detailed control over all activities since this will deny the advantages of management flexibility.

The Amateur Swimming Association is already concerned that some sports centre managers are replacing club instruction with their own courses at a cost several times greater than the club rate. There is also an increasing tendency for private activity-coaches to hire gymnasia at the nominal local authority rate (about £10 per hour) then charge participants at aerobics, callanetics and other sessions as much as the market will bear (about £3 each for say 30 participants), retaining the difference (here, £80) as a fee. Another example is higher charges for use of the municipal sports centre's weights gym supervised by private coaches compared with a lower fee in the unsupervised gym or session. These arrangements afford the managers more control over costs since they avoid the local authority having to provide its own staff and there appears to be little deterrent effect on service takeup because of the added value compared with unsupervised use. Nonetheless, the composition

may change as a result.

Where local authorities allow the contractor a financial incentive to market the facility through some form of income sharing option there is likely to be a reorientation of service provision in favour of chargeable activities. For example, it is virtually impossible to make a profit out of swimming pools and 'traditional' sports centres (which only have a narrow range of sports activities). Swimming pools have only covered a fifth of costs from charges in the past and sports centres have barely covered a third (Coopers and Lybrand 1981). The Central Council for Physical Recreation (CCPRE) calculates an average deficit of £200,000 a year on swimming pools in 1990.

A possible exception to the rule is Newcastle City Council's Eldon Square sports centre which was the only one in the UK where revenue from charges covered its operating costs in the early 1980s. However, more than half of revenue came not from participants but rather from people using the bar and restaurant facilities (Coopers and Lybrand 1981). This was obviously influenced by the size and location of the centre, being an integral part of a major city centre shopping complex and offering 'up-market' activities such as squash, sunbeds and sauna.

The use of sports centres for profitable non sporting activities such as dog shows, antiques fairs and craft exhibitions in sports centres is increasingly being seen as a means of cross subsidising unprofitable sports activities. Such events generate finance from sponsorship by commercial companies and profit-based admission charges. Whilst cross subsidy may increase participation for some activities this approach also encourages dilution of service objectives with possibly less priority for heavily subsidised target groups and a contraction of provision for minority sports which require space and equipment.

(3) The Minimum Standards Approach.

This provides free services up to a minimum level or quality, charges being levied for all services provided above the standard (Waters 1982). For example, a local authority may decide that the minimum standard for outdoor activities is the provision of open land with natural grass or other cover as appropriate. Individuals and groups would be free to use such facilities at their own initiative, there would be no restrictions on access and no charge levied. On this basis subsidy would fully cover departmental costs incurred to design and develop the initial system, the initial capital costs and subsequent maintenance costs.

However, organised clubs may not be satisfied with such provision because of the inadequate standard of turf or pitch quality. Dedication of an improved facility only for club use would avoid congestion and deterioration due to heavy use. Hence, in providing a standard of service above the community-wide minimum for exclusive use by clubs, charges would be levied to cover the extra costs of senior level league sports (single purpose) pitches for field hockey, cricket, rugby and soccer. Such costs relate to the control of access and the maintenance of league quality turf (irrigation, mowing, reseeding, etc.), the provision of goal posts, nets, appropriate flags, pitch markings, floodlighting, changing facilities (including toilets and showers) and any provision for spectators. The same approach could be followed for other outdoor venues dedicated for use by clubs such as golf and lawn bowling as well as for indoor club facilities such as badminton halls and swimming pools.

The charge would only cover those costs in excess of those incurred in providing the minimum standard. They are more likely to be well received by user groups where there are obvious benefits in terms of better quality facilities. This could lead to an improved relationship with the local authority, especially in terms of having an effective say on the quality of service. However, charges could be so high as to deter access by all but the most affluent, a group already over-represented in sports. It could also be contrary to service objectives. For example, lower standard municipal golf courses are often provided for precisely those groups who cannot afford to join clubs.

In practice, the costs of providing and maintaining football and other pitches in public parks are often not charged to the sports account but rather to the park's account (on the grounds that they form part of the open space) so that no charge is made for their use for sporting purposes. In this way the minimum standards approach is already adopted by default in certain cases. However, as already noted (chapter 4), this approach is methodologically invalid because it assumes a clear delineation between collective/objective and individual/subjective interests. Lack of clarity in what minimum standards actually means could lead to charges being progressively introduced and restructured on an ad hoc basis and in ways which conflict with broader service objectives.

(4) The Basic Services Approach.

Rather than defining a minimum standard for all facilities, this approach defines basic services and provides them completely free to the

user. All other (non basic) services are charged for at full cost. Free basic services might include outdoor and indoor running tracks, all-purpose pitches, parks and swimming pools. Non basic services might include provision of badminton and squash courts, weights rooms and everything not specifically defined as a basic service. However, can such a clear delineation be drawn between basic and non basic services and, if so, should local authorities necessarily provide the latter? Is the boundary between basic and non basic services fixed or variable over time? Would there be a tendency to classify as basic those services where high collection costs make admission charges uneconomic (eg public parks), all other chargeable services being charged for? Should charges simply cover costs or provide a profit to cross subsidise basic services? What standard of service should be adopted for both basic and non basic services?

A useful example is the current move away from sports centres per se to leisure centres. Pools in the latter are more for leisure than for 'serious' swimming in that they make use of waves, flumes, waterfalls, whirlpools, jacuzzis etc and the decor is sometimes evocative of a sub tropical paradise (eg the London Borough of Croydon's Water Palace and Bracknell Forest District Council's Coral Reef Waterworld). One can question whether these are legitimate public services that should be provided free or heavily subsidised, or even provided at all. Public provision would be justified if leisure were an end in itself or if the facility was designed to improve the quality of life in order to attract business investment into the area (eg the Doncaster Dome centre) or if it was otherwise intended to stimulate the local economy (Peida 1991). If, however, the intention is to improve physical fitness and encourage sporting excellence then it would be misguided to make free provision of leisure pools where one can do almost anything except swim.

Many authorities want to develop such facilities which they regard as a continuation of their long history of provision of leisure and recreation facilities. This is of course a legitimate policy decision but it becomes increasingly difficult to argue that access to water plumes and jacuzzi is a basic necessity of life which must be provided free or heavily subsidised to the consumer! Basic standard swimming pools are not provided free to all simply because service objectives require concessions to be targetted on particular groups. However, admission charges are certainly lower at around about £0.50 compared with Croydon's Water Palace charging £4 per per child in 1990.

Besides the methodological criticisms (see chapter 4) this approach is too

simplistic in policy terms and too sterile in attempting to make such a clear distinction. As in the library example (chapter 6), it is arguable that many non basic services attribute added value to basic services. In that local authorities are adopting an increasingly broad definition of leisure and recreation services, leisure pools are simply a further development of swimming pools which in practice have promoted both serious swimming and fun water-based activities (even just 'splashing around'). Similarly, sports centres are increasingly being recognised as community, social and leisure centres in the widest of recreational senses.

(5) The Service Categorisation Approach.

This approach sets the balance of charge and subsidy in relation to the balance between individual and community benefits from service use. It has already been criticised on methodological grounds (chapter 4). In practice very few sports and recreational services can be exclusively categorised as of purely public benefit (and therefore provided free) or purely private benefit (and therefore charged at full cost). The attempted denial of collective interests and the emphasis of individual benefit as the basis for charges for sports and recreation has been vehemently decried (Garson 1984). Indeed, it could be argued that local authorities should not provide services yielding purely private benefits. In practice most have both public and private benefits and would therefore be classified as general or mixed category services. That then raises the question as to the appropriate level of user charges which this classification system cannot resolve. It therefore provides little or no guidance for local politicians or sports managers.

(6) Charges for Customised Value Added Services

Under this approach charges would only be levied where there are clear and identifiable costs attributable to use of services by individuals or groups. Where the user imposes no such discrete costs then no charges would be levied. On this rationale there would be no charge for use of unsupervised facilities where the user simply organises his or her own use. However, club use of dedicated sports facilities clearly imposes additional costs and has added value customised to their particular needs. For example, this might include the temporary overlaying of artificial turf on an open access pitch or field to provide competition quality cover between cricket stumps. It would require periodic restrictions on access to prevent congestion and degradation of the pitch. Hence, the decision to charge would be the same as for the minimum standards approach in this case.

User charges payable by individuals would also be justified for

expendable and consumable materials and equipment used or retained by the participant, extraordinary requests, protection of property (eg lockers), exclusive occupancy and specialised instruction. In the last case the result is again the same as for minimum standards and (as noted earlier) such charges are already implemented.

Note that in neither example has it proved necessary to define the minimum standard, basic service or balance of public and private benefit. The only decision required is to charge for clearly attributable costs arising from the added value service. This would be a consistent part of a wider policy intended to increase participation rates and would not preclude discriminatory charging for both equity and efficiency purposes, for example lower charges for off-peak periods, for the elderly, the young, disabled users, low income users, etc. Special reduced rates could apply for users who frequent facilities regularly and to encourage greater family participation (eg two paying adults can bring two children free). This policy could apply in particular to non-field indoor activities such as badminton, swimming, squash, table tennis, etc.

Charges for some groups of user are required simply to target subsidy to the less affluent 'minority' groups for equity reasons. They also justify subsidy on efficiency grounds in that there are significant positive externalities to be gained arising from their increased physical fitness and improved health (which is generally poor compared with the affluent groups who already make most use of sports facilities). Hence, both equity and efficiency arguments lead to the same conclusions in terms of the need to target subsidy on those groups which are underrepresented in sporting activities.

Whilst some of the results are the same, the subsidy rules differ quite markedly from the other charging options. For example, according to the minimum standards approach all capital and operating costs would be charged for over and above those incurred in providing the minimum standard of service. Similarly, all costs of non basic services would be covered by charges. However, under the customised value added approach there would be no charge at all in respect of capital costs or other overheads since they are not clearly attributable to individual users, nor are they related to customising the service in respect of any particular user or group of users. In this sense it approximates the economist's short run marginal cost pricing rule.

All charging criteria would be subject to other considerations such as the need to regulate demand, to maximise revenue, to avoid excessive

complication, excessive collection costs and consumer resistance to a proliferation of small charges. However, whilst the minimum standards/basic services approach provides no guidance on the level of aggregation, customised value added charges necessarily require a facility-by-facility charging structure rather than an 'all-in' charge. On this basis, 'all in' charges including car parking fees would appear to be more suited to natural attractions ('something to see'). Individual facility charges would appear to be more suitable where there are both natural and man-made attractions in (say) country parks ('something to do as well as see'). This approach is already followed in many sports centres, for example those with an entrance charge payable by non participants and spectators and additional charges for use of particular facilities. This still allows the customary discounts for local residents (who pay the local tax) and could incorporate a parking charge.

Conclusions

Charges are widely and wrongly condemned for restricting access to sports facilities when in fact falling participation rates have been greatest for the most heavily subsidised outdoor activities. Increasing participation rates amongst underrepresented groups requires a much more sophisticated policy than simply increasing levels of subsidy for those services directly provided by local authorities themselves. A more effective policy would include subsidies to the voluntary sector as part of an enabling remit in recognition that the provision and use of sports facilities is highly fragmented. Moreover, access could be increased if school sports facilities were made available for community use since they would be available at the very times demand is greatest (ie evenings, weekends and school holidays). However, this may simply lead to a redistribution of a given volume of activity rather than increased access especially if the Local Management of Schools initiative (introduced by the Education Reform Act 1988) tempts schools' heads to try to realise the cash potential of their facilities by charging for use. This possibility demonstrates the need for increased coordination and a reemphasis of the enabling role of local government in this increasingly diverse area.

Pressures on both charges and local finances would be ameliorated if the recreational needs of new residential areas were financed by development charges levied for the provision of parks, community centres, arenas and so on (chapter 7). This could be part of a more general movement towards joint public-private provision (eg of leisure centres in commercial developments). At present, however, if a

developer donates a sports facility to the local authority (offered voluntarily as planning gain or given in exchange for land provided by the local authority to the developer) central government counts the notional value as a capital receipt when setting each authority's borrowing limit. The larger part of capital receipts thereafter have to be used to repay debt thereby reducing local authorities' ability to increase provision by such means. Moreover, the CCPRE (representing sports governing bodies for soccer, rugby, tennis etc) has expressed grave concern about the sale of local authority recreation land for private development (Rogerson 1991). This includes former school grounds and playing fields sold as part of the rationalisation of educational provision in the light of falling numbers of school pupils and the closure of many schools. Similarly industrial closures are resulting in the loss of company playing fields and the privatised water companies are considering the sale of recreational land for development purposes.

It is clear that a preoccupation with the problems supposedly caused by charges is itself counterproductive in that accessibility to sports facilities is much more heavily influenced by other less tangible non financial factors. Charges are positively indispensable as a means of selectively improving access for underprivileged or underrepresented groups in that they facilitate the targeting of subsidies. Targeting will be facilitated by the future use of prepaid 'smart cards' which will allow users to be grant-aided directly as well as indirectly through subsidised facilities. This will require a greater variety of charging structures which will themselves be feasible since collection costs will be reduced and information regarding eligibility for concessionary charges can be stored on magnetic tape. Indeed, smart cards are capable of being used across the whole spectrum of a local authority's provision of services, not just leisure and recreation services but also bus services etc. Net additional administrative costs may not be significant since membership cards are already issued for most sports centres and there is already experience of discount cards for bus services.

However, subsidies on their own are insufficient: both policy and management have to be much more sophisticated and more sensitive to local circumstances. There is currently an ad hoc mix of charging rationales, including rudimentary versions of reference prices, minimum standards, value added services etc. There is a general lack of focus in service provision and insufficient recognition of provision by other sectors in the locality. Logos such as 'sport for all' may be appropriate in terms of total provision by all sectors but would appear inappropriate in terms of local authorities' own direct provision. More

emphasis on the enabling role is required. Nonetheless, sport serves wider objectives than just physical fitness and sporting excellence and it has to be recognised that much wider objectives are being pursued, including stimulating economic development. For example, both Birmingham (1992) and Manchester (1996) made unsuccessful bids to host the Olympic games and Manchester is bidding again for the Olympics in 2000. Sheffield hosted the 1991 World Student Games and even golf plays an important role in the Scottish tourist industry. Similar considerations apply to museums (Johnson and Thomas 1992). Any charging policy, including one based on customised added value, has to reflect these diverse objectives and circumstances, a requirement which is perhaps more binding for sports than for all other services.

RESIDENTIAL CARE OF THE ELDERLY

Of all the services considered so far this is perhaps the most complex and most controversial in terms of assessing the scope for use of service charges. Like some other services, it involves a myriad of public, private and voluntary agencies, the interaction between them being radically influenced by pending organisational and financial reforms. It also interacts with other local government departments (eg housing and transport) as well as with central government departments (particularly social security and health). However, whilst other services such as public libraries are also important in broader social policy terms, this service is at one remove from them. Provision is deeply imbued both with the emotive humanitarian and sociological aspects of caring for often extremely vulnerable elderly people and with the ideological imperatives deriving from its inescapable dovetailing with (free) health care. Residents are frequently incapable of adequately expressing their own needs and wants and are often extremely vulnerable to benign neglect or even manipulative exploitation. Rather than making their own choices regarding consumption of services, they are often heavily dependent on the decisions of others. Their quality of life can be grossly affected by obscure (seemingly technical) decisions relating to the institutional form of provision of care, how it is financed, the levels and types of social security benefits and the spectrum of charges which already exist and are likely to become more prevalent in the future.

In stark contrast to these caveats, the apparently increasing affluence of the elderly seems to lend credence to the proposition that elderly people should finance some or even all of their own care. Increasing affluence reflects rising proportions of retired people with both occupational pensions and owner occupied houses which have been appreciating in

value. The apparent psychological barriers to people paying for their own care in old age (particularly selling their own homes to finance care rather than passing their estate on to offspring) seem to contrast sharply with the increased scope for private insurance schemes paying for care in retirement as the numbers and proportions of single person retired households rise. However, the evidence about the living standards of pensioners in the 1990s is conflicting (Oldman 1991) and even if the retired are increasingly better off on average, there are still severe inequalities of income in old age, those most in need of care often being least able to finance it.

It is important to note that the vast majority of elderly people live largely self supporting lives independent of local authority care (Audit Commission 1986b). Of those in need of help, the vast bulk of care is undertaken by their immediate family (lack of State support often being a point of criticism), an estimated 3.5 million female (15 percent of women) and 2.5 million male (12 percent of men) carers (Tinker 1990). However, numbers in residential care are expected to grow given the forecasts of increases in the number of very elderly people over the next quarter century. The over 85s are the group most in need of residential care because of their frailty and their increasing numbers are a result of both an ageing demographic bulge and increasing longevity arising from improved standards of living and medical advances. Debilitating conditions such as cancer, heart disease, stroke, Parkinson's and Alzheimer's diseases often lead to periods of complete dependency late in life, sufferers requiring both medical support and help with daily living.

Conventionally residential care is differentiated from health care in that it is often concerned with 'social care' and 'respite care'. 'Social care' helps the elderly with daily living (washing, cooking etc) and is conceptually distinct from medical and nursing care ('health care') provided in nursing homes and hospitals. Respite care refers to the temporary care of elderly or disabled people in residential homes in order to give their relatives who normally care for them at home a break. Nursing homes generally take in elderly people being discharged from hospital on the grounds that their medical situation (recovery from accident or illness) has stabilised but return to their own homes would be inappropriate because nursing care is still required. Such distinctions are blurred in practice. In particular many of those in residential homes require but often lack adequate nursing care, the distinction between residential and nursing homes being criticised as a false divide (RCN 1992). In some areas an estimated third or more of those admitted to

both residential and nursing homes die or are discharged (often to hospital) within twelve months; only 7 percent return home (SRC 1989).

Residential care of the elderly falls within the group of Personal Social Services provided by county councils, metropolitan districts and by Scottish regional and island councils. These services also include residential care for other groups (eg children and disabled or mentally ill adults under the age of 65), support services providing day care services outwith the recipient's home (day nurseries, adult training etc), and community care services delivered to the home. Community care refers to a 'hotch-potch' of services (home helps, meals on wheels, aids and adaptations, telephones and alarm systems etc) primarily intended for elderly, physically disabled and mentally ill or handicapped people not in residential care (Elder-Woodward 1987). Income Support payments rose from less than one percent of gross expenditure on core services (ie excluding administration etc) for community care to almost a quarter during the 1980s (Cm 849).

It is usually the relatives of prospective residents who initiate entry into a home, guided by professionals (medical practitioners, social workers etc). This, together with the heavy reliance of most residents (generally over half) on State funds and the great dearth of information about the availability and costs of various types of care, means that a market system based on freedom of choice is simply not a realistic option. There are also significant medical risks in moving elderly residents from one home to the next in search of the best deal. The nature of both the service and the client heavily qualifies any movement towards market type approaches.

The Current Situation

Almost all of the personal social services raise income from charges but, unlike domiciliary and day services for all groups of clients where charges are discretionary (but sometimes subject to a 'reasonable' caveat), local authorities have a statutory duty to charge for the full economic cost of residential care of the elderly provided under Part III of the National Assistance Act 1948 (and the 1948 Social Work (Scotland) Act), where residents can afford to pay. As a result, residential care of the elderly has long raised between three quarters and four fifths of such income whilst accounting for only about a quarter of gross expenditure (Judge 1980, Glennester 1985 and Table 2 page 56) and despite the fact that there were six times as many elderly people receiving community care as received residential care during the mid 1980s (Audit Commission 1985).

This rather puzzling situation derives from a symbolic rationale, a (minimum) charge supposedly breaking the historical link with the 1834 Poor Law Amendment Act tradition of free accommodation for destitute paupers (Parker 1976). Charity was (and still is) assumed to have very negative connotations and residential care is still often regarded as a last resort by relatives and professionals despite the positive views of many residents themselves (Foster 1991). The national social security system has ensured ability to pay, effectively financing the minimum charges levied on residents, reputedly a relatively poor and homogenous group of frail old people with higher levels of physical handicap and mental confusion than those in private homes (Laming et al 1984, Lewis et al 1987). This link between State benefits (including pensions) and minimum charges has resulted in a relatively small variation in the range of charges between authorities (in comparison with charges for home helps, meals on wheels etc), especially since relatively few have been required to pay more than the minimum (Judge and Matthews 1980).

The primary determinants of the level of charges in local authority homes are therefore statutory requirements and the generosity of State benefits. Local authorities could raise substantially more if pensions, Income Support and Housing Benefit were paid at higher levels; or if (contrary to service objectives and almost certainly in breach of statutory duties) they only admitted the affluent elderly, refusing to accept potential residents dependent on social security (as do some private homes). If benefits are index linked to retail price inflation rather than to the (usually) greater rise in earnings, then income from charges will fall as a proportion of costs. This is because labour costs are the major component of the total costs of residential care (Gibbs and Smith 1989, Price Waterhouse 1990). Another important influence on costs (and, by implication, the extent to which they are covered by charges) is the size of the home, larger homes of between 40 and 50 beds securing maximum economies of scale (Bland et al 1989). Most homes are smaller than this.

In 1991/92 the Department of Social Security (DSS) paid £160 Income Support towards the weekly cost of each residential home place and £255 for each nursing home place for those elderly people who qualified for maximum benefit by having capital assets of less than £3,000 (£16,000 being the capital cut-off above which benefit was not payable). In addition, a personal allowance of £11.40 was paid to Income Support claimants for expenditures on newspapers, toiletries etc. Many private (commercial) residential homes charge more than the DSS figure, four

fifths charging between £165 and £250 (ADSS 1992). In such cases 'topping up' payments are either made by the resident out of the personal allowance (possibly admissible for entertainment and hairdressing but not intended for accommodation), by relatives or by charities. Controversial though this is, private homes are also increasingly charging for essential items such as medical dressings, diabetic foods, physiotherapy, incontinence pads, chiropody, transport to hospital etc (ADSS 1992).

A survey of voluntary homes found a wide range of charges, caused by variations in the care needs of residents, in the pay and conditions of staff, in the use of volunteers, in the age of buildings (and associated repairs and maintenance), the costs of satisfying registration requirements (eg adapting buildings), geographical location, charging policy (eg cost recovery or avoiding topping up payments) etc. Charges were frequently in excess of benefits and many homes were unable to fully cover costs which were rising due to the need to increase staff pay rates, increase staffing levels, rising building repairs and maintenance costs and the capital costs of meeting registration requirements (Peaker 1988).

The Growth of Private Residential Care

During the 1980s and early 1990s, the social security system promoted residential care rather than domiciliary community care. A special form of Income Support was available to low income residents, providing for accommodation ('board and lodgings'), care (differentiating type of care and subject to a maximum limit) and living costs. Housing Benefit was not available but Income Support was much more generous for those in residential homes than for those outside a home claiming the normal Income Support allowances and premiums. Moreover, the assessment unit for benefit payable to those not in residential care can comprise more than one person (so that other family members' incomes may reduce eligibility for benefit) whereas the resident alone is liable for accommodation charges and receives more benefit accordingly (DHSS 1984).

These arrangements were criticised as a perverse incentive, funding mechanisms and Government policy being contradictory and unclear (Audit Commission 1986b). They encouraged the growth of residential care when other forms of domiciliary community care in the person's own home would have been both more appropriate and considerably cheaper. However, local authority provision was heavily constrained

both by the penalties for increasing spending built into the Revenue Support Grant system (Audit Commission 1986b) and by an assessment of need (however crude), which restricted eligibility. A similar scenario existed for voluntary sector residential homes. For private homes, however, there was no formal assessment of need and people could enter them almost at will (rather than being guided by health or social services practitioners).

Hence, whilst the number of **places** in local authority residential homes grew only very slowly during the 1980s, from about 112,000 in 1980 to 118,000 (108,000 in England and Wales and 10,000 Scotland) in 1990, the estimated the number of **places** in private homes quadrupled, reaching 204,000 beds in 11,500 registered private residential homes plus 138,900 beds in 5,200 private and voluntary nursing homes in England and Wales (MJ 1991, ADSS 1992). Allowing for possibly higher vacancy rates in private homes, the private sector is now more than twice as big as the local authority sector. Social security support for people in private and voluntary residential care and nursing homes increased from £10 million in 1979 (12,000 claimants) to £1,625 million in 1991 (220,000 claimants) (HC 421).

Being demand-led, this growth was largely outside central government's control and obviously had considerable adverse implications for the success of attempts both to control public expenditure and achieve value for money. It was primarily a result of increased numbers of claimants since national limits on the levels of individual payments meant that the system was based more on flat-rate payments than cost-related ones (Gibbs and Corden 1991). It was exacerbated as health authorities devolved responsibility for funding long term nursing care onto the social security budget. There had previously been a bias in favour of hospital care since not only was it free, relatives did not have to sell the elderly person's capital assets in order to pay charges. Hospital care then became subject to public expenditure constraints whilst social security payments were largely demand determined and so health authorities had an incentive to offload geriatric care onto private homes which were more than willing to accumulate profits.

Despite the rapid growth of the commercial sector for residential care during the 1980s, the evidence is that real economic profits have been low because many homes do not appear to charge at all for use of buildings (Gibbs and Smith 1989). Whilst it is difficult to derive accurate information, it appears that residential care homes are typically small family businesses, catering for up to 30 residents, often run by an ex-

nurse, making use of the husband and other family members in the running of the home, any mortgage loan charges for which are frequently discounted against the increased capital value of the property. Alternatively, loan charges are discounted because the home is owner occupied outright, rates of staff pay are low, hours are long, understaffing is rife and training inadequate (NACAB 1991). Only relatively recently have hotel and leisure groups begun to diversify into this area, aiming at the more lucrative top end of the market and charging fees well in excess of social security limits (Johnson 1990).

The nursing home sector grew rapidly as many health authorities reduced the number of long-stay geriatric beds, including those for mentally ill patients. This was controversial on medical grounds (regarding the suitability of care) and because of the financial implications. If an elderly person suffering from dementia or other illness is admitted to a NHS hospital treatment and accommodation is free, whereas if admitted to a residential home a charge is payable. This led to criticism of both the financial anomaly and the inadequacy of social security payments for such purposes (NACAB 1991).

The Post 1993 Scenario

The 1990 National Health Service and Community Care Act introduces funding, functional and organisational reforms throughout Britain as from April 1993. The declared shift in policy emphasis is from residential care to community care and especially domiciliary support in elderly people's own homes (Cm 849). This is widely considered to be both more cost effective and more appropriate to the needs of most elderly people who are generally thought to prefer to stay in their own homes for as long as possible. Local authorities are to become responsible for assessing individual need (in consultation with social workers, doctors, therapists, housing officers, voluntary workers etc as appropriate), designing and securing delivery of a relevant package of services consistent with the community care plans which they are required to prepare and publish. However, whilst local authorities have more of a coordinating role, the new system is still subject to many of the same criticisms as the one it replaces. Health Boards will continue to produce their own separate community care plans (probably pursuing a set of objectives different from local authorities) and public and independent residential and nursing homes remain.

Hence, disparate provision will continue as the outcome of 'pragmatic incrementalism' but said to be a major obstacle to the implementation of

rational policies (Laming et al page 79) and arguably perpetuating "organisational, financial and professional fragmentation" (Audit Commission 1986b, page 55). In particular, the respective roles of local authorities and health authorities with regard to the financing of nursing home care after 1993 are still unclear or even contradictory following the 1990 Act. Difficulties in drawing the dividing line between 'health care' and 'social care' requirements remain and lead to lack of clarity about who funds care (NAHAT 1991, Rao 1991). Different parts of the public sector have radically different interpretations of many-sided concepts such as 'enabling' (of personal development, of communal provision or of market supply?) and the 'mixed economy' of social care (Wistow et al 1992). Further substantial changes in policy and practice are needed at local level if a user-centred cost effective service is to be provided in place of responses constrained by existing provision (Audit Commission 1992).

Within residential care, the shift is towards an enabling role for local authorities, making them responsible for arm's length inspection and registration of independent (private and voluntary) homes. They will have the role of designers, organisers and purchasers of care as well as (or instead of) making their own direct provision. The earlier Income Support arrangements will cease in respect of new residents and the care element will be paid to local authorities as part of the Revenue Support Grant (RSG). Local authorities will have a unified budget from which they will finance domiciliary and residential care. This will remove the financial incentives promoting the latter and place a cash limit within which decisions regarding community and residential (including contracted commercial) care have to be made.

Part III of the 1990 Act maintains the statutory duty to charge and provides formulae for setting minimum and maximum charges as from April 1993. The maximum charge cannot exceed the cost of care, although 'cost' is subject to determination by local authorities themselves (eg based on individual homes or on the average for all the authority's homes). The minimum charge is set in relation to a 'means test' based on the Income Support scheme, ability to pay being prescribed nationally and applying to independent residential and nursing homes after April 1993.

Income Support and Housing Benefit are to be made payable to residents of non-local authority residential or nursing homes on the same basis as if they had remained in their own homes. Normal Income Support and Housing Benefit will be payable to new residents whereas in the past

They could only receive Income Support (but with the special provisions noted above). Housing Benefit will allow for regional cost differentials through an 'eligible rent' element (replacing the earlier national limits). However, Housing Benefit will not be available to residents in local authority homes with the result that councils will have to meet full residential costs in Part III homes. In contrast, local authorities will only pay for the 'care' element in independent homes since Housing Benefit and Income Support will be claimable by these residents.

Implications for Local Authorities' Income from Charges

The increased use of independent homes will counter-intuitively increase the amount of revenue which local authorities raise from charges. Under the new scheme, local authorities will enter into contractual relationships with independent providers and pay the providers' fees directly. The authority will then assess the ability of each person to contribute towards the cost of care they receive in the home and recoup some of the cost from the resident's Income Support, Housing Benefit and/or capital and income. Since the independent sector is currently twice the size of the local authority sector, over time this arrangement will lead to a huge increase in the amount of revenue raised from charges, both in absolute terms and as a proportion of total income raised from charges for the personal social services group. Furthermore, income from charges will be greater if a local authority uses independent homes than if it uses its own homes. This is because it can recoup costs from both Income Support and Housing Benefit in the former case but only from Income Support in the latter case. Hence, revenue from charges may be further increased if the local authority closes its homes or (more likely) transfers them to the voluntary or commercial sectors. Incumbent residents will be treated as existing residents subject to the pre April 1993 'preserved scheme' arrangements (which restrict eligibility to Income Support) but increasing numbers of new residents will become eligible for both sets of benefit.

Whilst income from charges will increase it is likely that the financial burdens imposed on local authorities will increase even more. Local authorities will have to finance the gap between the homes' fees and the charges they recoup from residents' social security benefits. They argue that the social security budget is already structurally underfunded for existing residents (Income Support payments being below what is actually charged by many independent providers) and fear that this is likely to continue for new residents as from April 1993 (ACC 1990). This implies that there will be insufficient provision in the RSG since the

amount to be progressively transferred (along with new residents) from the social security budget to the RSG will be equivalent to what the DSS would otherwise have spent on residential and nursing care through social security payments. This structural underfunding will be hidden since, despite recommendations that central government support for local authority expenditure should be 'ring fenced' (Griffiths 1988), it will be distributed through the Standard Spending Assessment for the Personal Social Services along with RSG for the generality of services. The rationale, as for other services, is to improve local accountability.

Local authorities also fear that private homes will substantially raise their fees once local authorities take responsibility for funding places and DSS regulations are removed. Trends towards the increased use of itemised charges (noted above) are particularly significant in this respect and charges will not be controlled since they are deemed to be of secondary importance to quality. The new inspection arrangements are only concerned with the quality of care. Whilst standards are not defined in law, only being subject to guidance by the Department of Health's Social Services Inspectorate (eg SSI 1990a and 1990b). Homes are not allowed to reduce quality in order to achieve savings. Those that do face exposure by the media, with the ultimate sanction of deregistration and closure. Hence, charges are likely to increase faster than provision contained both in benefits and in the care element contained within central government's assessment of expenditure needs. Not only will the authority be responsible for bridging the gap between the resident's income and the residential fee, it will probably be responsible for arrears as well.

Voluntary organisations may be unable to finance topping up these higher charges and be forced to withdraw their support, passing many of their clients into local authority responsibility, knowing that councils are receiving additional funds for them. Indeed, finding a place on local authority main programmes has been described as "a pinnacle of achievement" for many voluntary sector activities (Wistow 1987 page 91). Moreover, whilst relatives may be willing to top up payments to private homes which are outwith the control of the local authority at present, they may be unwilling to continue to do this once local authorities have full responsibility for assessing the needs of elderly people, placing them in a home as appropriate and paying the fee. Relatives may object to 'paying twice' for care determined by the local authority on the grounds that they have already paid local taxes. Besides, why should they pay if they know the local authority will do so? These

outcomes would serve to further increase the financial demands placed on the local authority.

In turn, this heavier burden on local authorities will interact with the increased incentive for homes to register for nursing rather than residential care. Higher rates of cost recoupment from social security for nursing rather than residential care are already leading to a drift towards the former and, for that reason, nursing home fees seem to be more in line with the DSS figure than those for residential homes (ADSS 1992). Local authorities may have to acquiesce to this trend when assessing the needs of elderly people since it will reduce the burden placed on their general finances by increasing the amount they themselves can charge residents. An increased drift towards nursing care means that unnecessarily high (and costly) levels of care will be provided, offsetting the savings brought about by the drive towards community care.

Moreover, despite central (and local) government's expressed policy preference for a shift in favour of domiciliary care, the relative reduction in the demographic group acting as informal carers (ie adult offspring of the elderly) and socioeconomic changes in the roles of women (especially their increasing participation rates in the labour force) are likely to shift the balance towards residential care, simply because of the reduced availability of carers in the future.

Conclusions

The relative importance of charges for residential care is grossly out of proportion to the size of the service in expenditure terms and this is likely to be made even more the case under the post 1993 structure. Central government policies regarding benefits (levels and types), the sectoral provision of care (NHS, local authority, independent), demographic trends (increasing numbers of over 85s) and changing socio-economic roles (women in paid employment) will probably combine together to lead to a further significant increase in this source of revenue irrespective of local authorities' own charging policies. The likely outcome is that independent residential care (including that contracted by local authorities) will continue to expand but local authorities' own direct provision is likely to be increasingly constrained by central government limits on capital spending as well as by differences in the extent to which benefits underwrite charges.

Whilst one may question the rationale for charges (in terms of their symbolic denial of charity) there is no reason in principle why benefits

could not be paid to finance more widespread use of charges for the generality of community care services delivered to the homes of elderly people. Indeed, this universality is necessary in order to avoid a continuing bias in favour of residential and nursing care.

The near universal requirement for assessments of individual's need for care and the relationship between assessment, quality of service and payment for the associated costs of care will mean that, in principle, the service is customised with attributed value added on behalf of the client. Given the dependency of the groups of elderly involved, professional assessments are bound to have more influence on the types and levels of care received than are the individual's own, self-perceived requirements. Social security benefits are not limitless and cash limits are inevitable. However, some provision for personal wants is made through the personal allowance which hopefully in future will not be required to top up accommodation fees in private homes.

So, despite the persistent furore raised by 'high' charges, 'inadequate' benefits and cases of malpractice, residential and nursing care of the elderly seems to closely approximate the philosophy of charging for customised value added services. The national social security system goes a long way in ensuring ability to pay and, rather than simply recycling funds from one part of the public sector to another, this arrangement has effectively achieved a broadly egalitarian outcome by ensuring that even the poorest and most dependent elderly people can afford some form of residential care. On a more pessimistic note, however, experience with this service suggests that even if increased social security provision was made as a prerequisite of charges (demanded by many practitioners and conceded by many advocates of charging), controversy about its adequacy would continue, negative consequences being emphasised, beneficial aspects being neglected.

EDUCATION

Education raises the largest proportion of income from fees and charges and consists largely of fees for vocational and leisure courses at Further Education colleges and charges for school meals (chapter 3). Charging parental fees for school education has long been advocated either as part of a fully privatised education service (fees being reclaimable through personal tax allowances) or as top-up payments over and above the value of education vouchers (Foster et al 1980). At the moment, however, central government remains committed to the redistributive nature of school education and its financing primarily through taxation.

Schools

Whilst the 1944 Education Act is often cited as the statutory guarantor of the inviolability of free school education, charges for particular activities have long been levied and recent legislation extends their scope considerably. The 1980 Education Act relinquished central controls over school meals charges, giving local education authorities (LEAs) control over both charges and nutritional standards. Children of parents in receipt of Family Credit lost entitlement to free school meals since benefit now includes an allowance for school meals costs. Charges subsequently increased faster than inflation, with the result that increased numbers of children now bring their own food to school or eat outwith school premises (Gibson 1981, Johnson 1990).

The 1988 Education Reform Act went further by specifying under what circumstances schools can charge for provisions other than school meals and milk. It was intended to clarify the 1944 Act in that whilst the general principle is that activities provided wholly or mainly during school hours should not normally be chargeable, schools can now levy compulsory charges on parents for a specified range of activities. The law is subject to interpretation by the Courts but in general it is intended that whilst essential items should remain free non essential items should be charged for (DES 1987). This categorisation is effectively the same distinction between basic and non basic services that is being introduced into other services such as the public library service. The methodological basis of such a distinction has already been criticised (chapter 4).

Perhaps least controversially, charges can be required for materials or ingredients used in practical subjects such as art and home economics (but only if the parents wish to own the finished item), for wasted public examination fees (where pupils fail to satisfy entry requirements or attend the examination, without good reason in both cases) and for board and lodging costs of maintained boarding schools. More controversially perhaps, charges can be levied for individual instrumental (but not group nor vocal) music tuition requested by parents, as long as it is not part of the National Curriculum or a prescribed public examination syllabus. The charge can cover hiring, insurance and teaching costs and draws a parallel with private music tuition which parents sometimes pay for themselves in order to encourage their children to further develop their artistic potential.

Most controversially, charges can be levied for 'optional extras' provided

the activity takes place wholly or mainly outside school hours and has the agreement of parents. This provision covers both day trips and overnight visits. Charges can be levied for pupils' costs relating to travel, board and lodgings, materials, books, equipment, non-teaching staff costs, admission fees, tickets, insurance and for the expenses of staff separately engaged for the activity. Non residential trips organised by the school are deemed to take place mainly outside school time if less than 50 percent of the time involved occurs during school hours (which exclude the lunch hour and travelling time outside school hours). There is a similar formula for residential visits. Hence, minor changes in the timing of trips (eg to start before or after the lunch hour) become crucial in determining schools' powers to charge (AMMA 1989) and, at least initially, the uncertainty created by the statutory formula led to a sharp reduction in such trips. Charges are also allowed for trips organised by third parties external to and independent of the school (for which teachers may not act as agents). Such trips are effectively restricted to one two week period per year by the 1981 Education (Schools and Further Education) Regulations, the maximum absence allowed for family holidays.

The LEA or the governing body (in the case of 'opted out' schools) are statutorily required to establish a charging and remissions policy before charges are introduced. At the very least, remissions policies must exempt children whose parents receive Income Support or Family Credit from the board and lodgings charges of trips within school hours or which are required for the National Curriculum. It is unlikely that LEA schools will be able to meet more than the minimum remission requirements given current constraints on their finances and opted-out schools will only be able to do so if they receive generous grant payments from central government. Moreover, the Local Management of Schools (LMS) initiative (also introduced by the 1988 Act) may actively encourage schools to maximise use of charges. LEAs were required to delegate budgets to schools in order that they manage their own finances and this can be expected to increase incentives for schools to raise extra finance from a variety of sources, namely charges, voluntary contributions and fund raising.

Whilst there may not be too much concern about the possible loss of annual school skiing trips, more generally the Sports Council is concerned about the possible curtailing of sports activities both within and outwith the curriculum and especially those held at off-site venues (Sports Council 1988 paragraph 1.68). Moreover, local museums participating in the schools museum service (which have previously

been partly financed out of the LEA's education budget) complain that this charging policy, combined with the LMS initiative, will encourage schools to pay on the basis of individual visits, per capita, per hour or per visit (MA 1990). The worst scenario would effectively end long term funding, meaning that museums could no longer employ education staff or provide special facilities in the face of such uncertain income. However, this outcome assumes that such funds are in fact allocated to individual schools whereas such funds can be retained (within limits) by the LEA (Dixon 1991). Where the LEA does maintain its direct funding to museums it may feel justified in charging admission for those schools which have opted-out of LEA control, given that they have their own finances provided directly from central government. Schools will be limited in their ability to pass charges onto pupils since the 1988 Act prohibits charging for activities necessary to fulfil the requirements of the National Curriculum.

Alternatively, schools can ask parents for voluntary contributions (without limit) under the 1988 Act in order to support the cost of educational activities, whether charges are allowed or not. This was commonplace before 1988, half of schools already using voluntary funds to contribute towards the cost of materials and equipment (Johnson 1990). Some 58 percent of parents paid for field trips, 49 percent paid for special games kit or equipment, 44 percent paid for materials for cookery, woodwork etc, 39 percent paid for pens, pencils, paper and files, and 6 percent paid for textbooks (Which? 1988). The National Confederation of Parent Teacher Associations claims that PTAs contribute over a quarter of the costs of books equipment and teaching materials in primary schools and 7 percent of those in secondary schools (Bates 1991). Of course, parents have usually been expected to supply personal sports gear (eg football boots), cookery aprons, school uniforms etc. They have always been free to provide supplementary reading materials for their children and free to make provision for their wider education outside school (eg family trips to museums and libraries or provision of educational games).

Previously, confusion regarding the compulsion or voluntarism of payments to schools was caused by the differences between LEAs in what was regarded as part of the curriculum. It is not self-evident that this confusion has been reduced as a result of introduction of the National Curriculum and the passing of the 1988 Act. The contributions are supposed to be genuinely voluntary, meaning that a child cannot be excluded from an activity if none is forthcoming from its parents. However, if voluntary contributions are made under duress then they

effectively become a charge and the scope of charges increases, *de facto* if not *de jure*. This suggests that the distinction between a charge and a voluntary contribution is not as clear cut as first seems to be the case, the way in which voluntary contributions are requested being crucial in suggesting obligation to pay. The use of both types of payment can be expected to rise during current periods of restrained school finances and also expected to cause wide disparities in discretionary resources between schools in affluent and multiply deprived areas.

There are isolated cases of councils reclaiming library books and musical instruments on loan to opted-out schools (Queensbury School, Dunstable and Small Heath Comprehensive, Birmingham) on the grounds that those items were on loan for an agreed period (now expired) and that LEAs are no longer responsible for the finances of such schools. To the extent that the Department of Education and Science (DES) does not provide compensatory funds, such combined outcomes only serve to increase the pressures to use charging powers and pressurise parents into making voluntary contributions. To the extent that the DES does compensate opted-out schools, it will inevitably be argued that such compensation is financed by diverting funds that would otherwise have gone to LEA schools, so putting pressure on them to do likewise.

More critically, the supposed clarification of the use of charges and voluntary contributions for essential textbooks has been decried as a fundamental deceit and a major departure from earlier policy and practice during periods of financial constraint not much different from those of today (CPAG 1987). The Child Poverty Action Group argues that such payments will only serve to stigmatise and humiliate the children of genuinely poor parents who will feel obliged to withdraw their children from classes where charges are levied or voluntary contributions expected. CPAG argues that schools will focus on what is saleable rather than what is of most value educationally and parents will be emotionally blackmailed into paying up.

Such developments will inevitably provide increasingly strong incentives for schools to organise fund raising activities. Besides problems concerning the ownership of such funds (the school governors' or the PTA's?) and accounting for their use (whether for travel to sports or other events or to contribute to the cost of school books, computers, etc), there are also concerns about the diversion of teachers' energies away from education (generating relatively little revenue in the process) and about the safety and exploitation of pupils

engaged in door-to-door sales. If kept within sensible limits, however, fund-raising can have educational value both in terms of the fund-raising process itself and the activities it finances (Cheng 1983).

Further Education

There also momentous changes in the provision of Further Education (FE). The 1992 Further and Higher Education Act divests local education authorities of control of FE in their areas, pays grant to FE colleges either directly or through training agencies and gives colleges control over their own budgets. At a stroke, this will take from LEAs the major component of charges within education (Table 2 page 56). Both their expenditure and their grant from central government will be reduced accordingly.

Colleges now have an incentive to expand provision of vocational courses which attract students for whom fees are paid by the Further Education Funding Council etc. LEAs will continue to receive funding to support non-vocational ('leisure') courses in 1993/94 but they are not obliged to use the finance for those purposes. They will decide to make provision in accordance with local priorities and wider resource constraints. Given their loss of statutory responsibility for FE, the relative expenditure priority of leisure classes may be downgraded by local authorities, responsibility for them being transferred from education to recreation departments. In such a case, students of leisure courses would be required to pay a rising proportion of the fee (charges being between £0.45 and £1.55 an hour in 1992), takeup and provision of leisure courses falling as a consequence. The criticism here is that it is not possible to clearly distinguish vocational (essential/basic?) and leisure (non essential/non basic?) classes. For example, conversational French may be taken for fun or for business purposes and even 'pure' leisure classes often encourage students to go on to academic and vocational courses as their confidence builds up. The administrative disjuncture in financing leisure and vocational courses has a deleterious effect on the groups of potential students most in need of provision and inhibits wider access.

Conclusions

These developments in education typify *in extremis* the worries social policy commentators have about the increased use of charges. In the most pessimistic of interpretations it would appear that the spirit of the 1944 Act is gradually evaporating. The letter of the 1988 Act fails to

synchronise with the spirit of 1944, creating considerable confusion (both for teachers and parents) regarding the legality and compulsion of particular charges or other payments and undermining the principle of free education. Even in the most favourable of interpretations, the new charging powers suggest an increasingly narrow view of education, one that is restricted to activities necessary to fulfill curricula and pass examinations. There is insufficient recognition of the role of education in promoting the wider personal development of the pupil rather than simply its contribution towards attainment of academic and vocational qualifications. Personal development, whilst often intangible, is ideally the true customised value added outcome of education. Full economic charges for non essential services combined with the statutory duty of parents to send their children to school could impose an intolerable financial burden on poor parents. This element of compulsion of service take-up means that charges would be contrary to the philosophy adopted in this thesis. What's more, the 1988 legislation enables school authorities to take legal action against parents in the civil courts for debts resulting from charges agreed by the parents or for wasted examination fees.

It is just as impossible and invalid to distinguish between essential and non essential educational activities in schools as it is to define basic and non basic categories for other services. Hence, it is not possible in practice to determine which particular books, items of equipment or activities are necessary to ensure 'adequate education'. Parents may be put under considerable pressure to pay and this sets a precedent for the financing of other items such as personal computers (increasingly an integral and costly component of teaching programmes). Even if essential books can be distinguished, how can 'adequate access' to a set book be defined? Should parental payments (voluntary or compulsory) be used to alleviate the problems caused by insufficient copies?

The use of charges as envisaged by the Conservative Government creates the strong impression of an increasingly narrow vocational perspective for school education (and similarly for further education), one of simply training pupils (and students) to jump a series of examination hurdles, success in which allows a school to progress further up a league table of examination results. Vocational relevance and examination success are both desirable and important, but within a much broader view of education as not simply a service, more an integral part of personal development. Charges are not the real issue here since in practice their extent may be severely constrained by their very unacceptability to both teachers and parents. More fundamentally, the issue is one of the wider

remit of school education and how best to encourage pupils to maximise their potential and lead fulfilling lives, both vocationally and personally.

OTHER SERVICES

Fire Prevention

This service is financed out of general revenues from grants and local taxation. A local property tax relates payment to the value of the property rather than to use of the service. Charging users for the attendance of fire fighting facilities at fires may lead to delay as the user hesitates to incur the charge, increasing both fire damage and the risk to nearby property and people. However, charges for fire protection have been suggested from time to time recoverable from insurance claims, assuming insurance cover exists (Bird 1976). Such a charge would have to recognise that fire department budgets invariably understate full costs (Pollak 1972). Alternatively charges could be levied on the basis of the risk of outbreak of fire in a particular building (Carter 1967). This would probably be controversial and assumes that risk is exogenous. It may be preferable to legislate against high risk industrial processes, controlling their use through licences etc. Furthermore, for any given level of risk, high rise buildings will require relatively high levels of expenditure on specialised fire fighting equipment. The capital costs of such facilities could be incorporated in development charges with additional annual service charges to cover operating and capital maintenance costs (chapter 7).

Police Service

It has been argued that this service is not a single public good (indivisible in its collective benefits) but instead consists of a variety of services, some with directly identifiable individual beneficiaries (Bird 1976). Indeed, private policing services are already bought and sold (eg security patrols). Whilst accepting that public and private policing services are different in kind, charges could be introduced for minor services (such as accident reports provided to insurance companies) and extra services for commercial events (eg major sporting events). In addition, development charges may be used to finance the capital costs of new divisional police buildings required by new property developments (chapter 7).

Miscellaneous Charges

Only the main services have been considered in this thesis. However, there are many minor charges including charges levied by Planning and Works Departments for processing planning applications (set to cover

costs of materials, staff time, legal fees with respect to the preparation and processing of development agreements and letters of compliance etc) charges for system maps (of roads, sewers, water lines, etc), design guidelines for engineers, contract tender documents, cutting and replacing pavements for householders, water and sewer connections, emptying septic tanks, and so on. The administrative costs involved in levying such a multitude of minor charges can be high (particularly initial start-up costs) but their introduction reflects a broader commitment to cost recovery. Such charges are not inconsistent with the customised value added philosophy used to judge charges for other services.

CHAPTER 9: CONCLUSIONS

INTRODUCTION

The conventional wisdom that local government makes little use of service charges has been seen to be only a partial description of the true situation. In fact charges raise a substantial amount of revenue (approximately the same proportion as local domestic taxes) and are widely spread throughout the full spectrum of services. The studies of services undertaken during the course of this thesis make clear the lack both of a clear rationale and of a consistent philosophy. This has resulted in a proliferation of different practices based on historical precedent, financial imperatives caused by restrained local taxes and intergovernmental transfers, administrative convenience and ideological symbolism. Charging for services has to serve many different functions in practice, including raising revenue, covering costs, the need to meet financial targets or required rates of return on assets, checking abuse of service and the need to target subsidy. In respect of the last objective, however, it appears that local authorities often lack knowledge about who actually uses subsidised and chargeable services.

The widespread opposition towards the increased use of charges is the case whether they are seen as pseudo-market prices for services whose take-up is voluntary (eg libraries, public transport and sports) or as compulsory payments not directly related to the use of or benefit derived from the service (eg refuse collection and water and sewerage). Compulsory payments are equivalent to taxes and face the same approbrium as local taxation. Complaints about flat-rate compulsory charges usually refer to the lack of a direct relationship between payment and use. Complaints about variable charges often refer to inability to pay (ie the lack of a direct relationship between payment and income) and consequently the restriction of access to service. Where charges are effectively financed by State benefits in order to ensure access to service, the outcry against their claimed inadequacy, their negative symbolism of charity and (in some cases) their inflation of private profits (eg residential care of the elderly) seems louder than ever.

These reactions help to explain the apparent impasse regarding charges. There is a general belief that local government services must be provided free to the user because they are crucial to the spectrum of subsidies (in cash and in kind) provided as part of the welfare state. Charges are usually viewed as some form of double payment and are usually

associated with a market-based approach regarded as unsuitable for the particular services provided by local authorities. The rejection of significantly increased use of charges has led to a misguided concentration on the search for an optimal local tax to solve the problems of expenditure control and an over-riding emphasis on cost control. The result has been the virtual absence of any serious consideration of revenue diversification. The emphasis on both corporate rationality and an incremental approach has resulted in the lack of strategic reviews by both central and local government and a consequent emphasis on set rules and procedures rather than on flexible innovative approaches to service provision and its financing. The general belief that introduction of charges would lead to a slump in service takeup which would be counterproductive in terms of service objectives has never been seriously questioned.

These points perhaps explain the resistance to the increased use of service charges amongst policy makers, practitioners and service users. However, they do not explain why economists have singularly failed to make policy-relevant recommendations regarding charges. It is a paradox that whilst economic advice seems so influential in the formulation of income and expenditure policies at the national level, it appears to have had virtually no direct influence on the formulation of the same policies at the local level. This cannot be because local government is relatively unimportant, since it has accounted for between a third and a quarter of public expenditures and provides services which can be analysed within the public choice area of economics. Instead, it is generally accepted that equity issues override efficiency issues at the local level. Again, this is paradoxical because it is primarily central government which determines income transfers whilst it is primarily local government which provides services (transfer and exhaustive expenditures respectively).

The conventional view is that the economist is a neutral expert adviser on matters of efficiency, providing advice to decision makers who embody social values and political preferences (see the preface). As a result, the impact of economic theory on local government has been almost solely derivative of national macroeconomic policy (whether for fiscal or monetary control) and the local level has been largely ignored until relatively recently. For example, the public choice school's analysis has been highly focused on national government perspectives with relatively little attention given to the local level. Even then it has tended to emphasise the technical failures of demand articulation via voting systems and the non-neutral behavioural characteristics of local politicians and bureaucrats. This is at such a level of abstraction that it

bears no resemblance to the practical decision-making and implementation processes, either in terms of describing the process itself or in terms of predicting outcomes. Policy makers, service providers and users therefore tend to be dismissive of the potential contribution of economic analysis at the local level arguing that the local emphasis is much more concerned with equity than with efficiency issues.

However, the most significant explanation of the paradoxical irrelevance of economics at the local level is that **it is not situationally relevant or rational to local politicians, professionals and service users.** Economics is situationally relevant at the national level because economic theory has shown what actions are required in order to achieve the objectives of national governments' policies. The fact that there is disagreement amongst economists about the validity of opposing theories for the control of inflation, unemployment, economic growth and so on, does not deny the situational relevance of those theories. However, at the local policy making level economists have clearly failed to establish the situational relevance of economic ideas and are largely ignored as a consequence.

This has resulted in a long-running diatribe on the part of service providers against the economic rationale for service charge. That rationale is always stated in efficiency terms and studiously sidesteps equity issues, arguing that income redistribution is the responsibility of central rather than local government. This disclaimer immediately makes economic prescriptions situationally irrelevant. Failure to take proper account of service objectives only serves to exacerbate the situation. In order to be situationally relevant economic ideas have to fit into an articulated policy concept and an institutional framework both of which are relevant to local politicians, practitioners and service users. Economic prescriptions based on individual/subjective calculative rationality within a free market framework fail on this count simply because the market provision has already been rejected in favour of collective provision. The latter is determined by a collective/objective assessment of need combined with administratively controlled access to services rather than a market system of access where the only controls are willingness and ability to pay. Market systems are also divorced from any political concept of democracy involving equality of voting rights. Consumer sovereignty allocates resources only in terms of the distribution of purchasing power. Hence, the individual/subjective perspective is seen as inconsistent with a collective/objective approach.

Previous analysis of the role of charges has almost exclusively

concentrated on demand-side factors, failing to integrate them with supply decisions. Private market price theory integrates both demand and supply factors. In comparison, public choice theory has failed to integrate charging policy and practice into its own analytical framework which assumes rent seeking, self serving behaviour of local politicians, bureaucrats and service users. It only gets as far as the simplistic maxim that charging for previously or otherwise free services does not buy votes or encourage service expansion. Charges integrated with service reorientation through the customised value added approach provides such an integration. However, this philosophy can only be made attractive to politicians, practitioners and users if two ghosts are laid to rest. The first is that services must be free in order to satisfy equity criteria. The second is that public services must necessarily be free, not necessarily on equity grounds but rather because they are not marketed and must be free in order to symbolise their very publicness.

Subsidy and Equity

The earlier studies of individual services showed that blanket subsidies are often very poorly targeted on the most 'needy', 'disadvantaged' or 'deserving' groups. In fact they often benefit the more affluent groups as much as or more than the target groups. The reason for such inequitable and ineffective outcomes is that subsidies are almost invariably paid in respect of facilities rather than people. This creates two distortions. First, a majority (or substantial minority) of those who actually use the subsidised facility may not be those for whom the subsidy is intended. This is possible because little or no attempt is made to ration service use on the basis of socio economic, demographic or other eligibility criteria. Examples are council housing and leisure and recreation facilities. Second, there may also be significant differences in the degree to which individual facilities are themselves subsidised. Examples are multiply-deprived 'inner city' areas where the levels and quality of services are often grossly deficient in comparison with affluent middle class suburbs. Such differences may be due to local authority boundaries being drawn too tightly so that affluent and deprived areas within the same conurbation fall within different local authorities. However, they also exist within as well as between individual authorities.

The perverse outcome of subsidising facilities is that it benefits the most advantaged groups if their takeup of services is greater than that of disadvantaged groups. This could be ameliorated if highly progressive national and local taxes were used to finance those subsidies. However, income tax only raises a quarter of total tax revenue (down from a third in

the late 1970s) and highly progressive past rates of income tax were largely symbolic in that 95 percent of tax payers paid the basic rate of tax (there are now only two rates). National insurance has accounted for about a fifth of tax revenues during the 1980s and is not payable on higher incomes (there is an upper earnings limit). Value Added Tax almost doubled its share to 15 percent by the late 1980s and, whilst not payable on unprepared food and children's clothing, it is broadly regressive in that poorer groups spend a higher proportion of their incomes compared with affluent groups. Excise duties on such items as cigarettes and beer (broadly constant at 17 percent) are also regressive due to differences in consumption patterns between affluent and poor groups. Rates accounted for a tenth of tax revenues during the 1980s and what little progressivity they had was largely destroyed when domestic rates were replaced by the poll tax. (The remaining tenth comes from taxes on businesses and on capital).

Hence, the conventional argument that local government services are an integral part of the welfare state, and so should be provided free to those whose needs are greatest, is deficient in practice. First, it makes the dubious assumption that the most needy groups are the main (if not sole) users of local government services. Second, it fails to take into consideration the distributional consequences of how those services are financed. The final redistributive outcome could be the reverse of what was intended. Pursuit of increased equity also requires a much more sophisticated managerial approach towards service delivery. It is not necessarily counter-productive in social policy terms to use charges in particular cases. Indeed, where the structure of charges is specifically designed to encourage the increased takeup of local government services by target groups they can actually promote the achievement of service objectives. This will require much closer attention to be paid to the numbers and characteristics of service users. It will also require a much more active role on the part of service providers in recognition of the fact that the provision of subsidy is not sufficient on its own to increase service takeup by prioritised groups. Initiatives such as outreach programmes are also required.

Service objectives are not solely concerned with improving the real incomes of the poorer groups. National social security systems are more influential in cash terms in this respect and it would be counterproductive to sanction changes in local government service delivery only if they clearly improved the circumstances of low income households. Such a policy would be more justifiable if it were the same individuals who remained poor indefinitely and who were

predominantly served by the public sector (eg council housing). In practice, however, there is a considerable life-cycle component in the incidence of poverty, for example in old age and at the start of family formation, as well as other temporary factors such as recession or ill health. Moreover, not all elderly or emergent family households are poor and of those that are, not all are catered for by the public sector (eg those in private and non local authority rental housing). Hence, whilst there is general agreement that there should be positive discrimination in favour of low income groups, it does not constitute a blanket constraint on innovations in the development and financing of services. That would only serve to lead to a deterioration in the standards and quality of local government services during periods of limited tax-financed revenues. Nor can it be assumed that such periods are only of short duration. It is unrealistic to assume that a change in the political persuasion of central government will necessarily lead to a major expansion in tax-financed public expenditures. Even if it did, it would not necessarily apply to the generality of local government services and it would probably involve even closer intervention on the part of central government in local affairs.

Public Means Free

An alternative argument is that local government provides services not necessarily to promote equity but rather to secure their publicness, valued for its own sake and which requires services to be free at the point of use. Given the inability to define 'public' and 'private' in terms of explicit and unique characteristics (chapter 1), it is not valid to say that public services must necessarily be free. All that 'public' does mean is that a pure market approach to service delivery cannot secure the access to and quality of services thought appropriate by society. The form of public intervention necessary in order to control market outcomes can vary. Currently the shift is away from direct provision and towards regulation. This is the case for the former nationalised industries (sale of assets), for health (internal markets and hospital trusts), for education (opting out, local management of schools, inspection), for public transport (deregulation) and for other council services through competitive tendering (eg refuse collection, cleaning and catering contracts). The differences in the form of intervention are a matter of degree rather than a categorical difference. For example, State school education will still be different in kind from private education. The shift is from government to governance. Charges were widely used by the former public utilities before privatisation and are widespread in health care as well as in local government. Public does not mean free.

Misconceived Reforms

The attempt to widen the local tax base by means of the poll tax in order to provide all voters with an incentive to vote for expenditure constraint was based on an assumption that those who paid little or no local taxes inevitably voted for more local spending. This was a highly questionable assumption for which there is little or no corroborative evidence. The benefits of increased service provision tend to occur in concentrated form in terms of geography or recipient characteristics whilst the financial costs are spread much more widely over all taxpayers (national or local). This lack of matching of the incidence of benefits and costs gives rise to a particular set of incentives whereby the beneficiaries encourage service expansion up to the point where the benefits to themselves equal the costs they incur, even though the aggregate social cost may be far in excess of the aggregate social benefit. This mismatch occurs at both the central-local level and the intra-local authority level and is endemic to any tax-based system of financing local government services. This inevitably leads to increased central government control over local government which provides services primarily financed by the centre.

In terms of the collective choice analysis (chapter 2), such a widening of the local tax base could be expected to exacerbate the mismatch between payment and benefits derived from use of services. This would be the case if higher income groups benefiting from the reduction in tax liability are disproportionately influential in determining supply. Higher voter turnout, higher representation in local bureaucracies and more effective pressure group activity by affluent groups would validate the increase in their demand for services. If demand for local government is highly income elastic at high incomes and highly inelastic at low incomes and if demand is matched by supply, then expenditure will increase. This outcome will be magnified if lower income areas demand equality of services with more affluent areas now that they are paying the same amount of local taxation. It will be further exacerbated if service use is highly segmented, more affluent groups making relatively greater use of services.

Of course the gearing effect could be expected to partially offset this outcome. This is caused by the smaller share of locally raised revenue within total income combined with the lump sum nature of centrally provided funds which serves to require disproportionately large increases in local tax levels to finance a small increase in total expenditure. However, such restraint could have been engineered whatever the local tax; gearing is the outcome of the system of local government finance as a

whole, not an inherent feature of the poll tax. The high gearing of local taxation (including that previously engineered through marginal grant rates) was assumed to approximate market demand conditions. However, this is a false assumption since it ignores the public choice framework in drawing the market analogy. The incremental cost pricing rule (price equal to long run marginal cost) recommended by economic theory relates to the individual consumer, not to the collective. The individual consumer only has discretion to 'take it or leave it' whereas the collective consumer has the opportunity to influence supply by means other than price backed by demand. The collective is composed of distributional coalitions so that, whilst everyone pays the local tax increment, benefits can be captured by particular subgroups of the collective, not just service users but also service providers. The relationship between payment and consumption is direct in the private market but disjointed in the public sector. That disjuncture was increased by the substitution of the poll tax for domestic rates.

The new system of local government finance introduced with the poll tax ignored the collective contradiction of central and local interests which arises simply because local authorities spend funds that are predominantly raised by the centre. In fact the new system encouraged redistributive activities by increasing the share of centrally raised finance. That share was subsequently further increased with the assignment of VAT revenues to local authorities in place of a proportion of the local poll tax revenues. This still did not solve the problem. The pursuit of self interest on the part of individual local authorities acting as distributional coalitions merely perpetuates central-local tensions rather than resolves them. The tighter the expenditure constraint imposed by the system of local government finance the greater the incentive for individual (or classes of) local authorities to agitate for a redistribution of central finance in their favour. **Hence, the traditional politico-constitutional argument for increased local autonomy as a necessary adjunct to democracy (in promoting pluralism, participation, public discussion and public choice) has a new theoretical foundation drawn on Olson's theory of distributional coalitions.** If local authorities raised the larger part of their own finance then there would be less incentive for them to engage in redistributive activities at the expense of central government and national taxpayers.

A mismatch between the incidence of benefits and costs at the local authority level does not require a drastic reform of the whole system of local government finance. It is methodologically incorrect to argue that the solution to the problem is either yet another radical reform of local

taxation and central grant arrangements or, alternatively, a major switch to a market system of service financing and provision using prices rather than taxes. Charges are often advocated for services above a minimum standard, for nonbasic services and for services with purely private benefits. These concepts are methodologically invalid in assuming a clear delineation between the collective/objective individual/subjective choices. Even economic theory makes no such categorical distinction. Instead it recognises how individual actions can promote the national interest through the 'invisible hand' of market forces. Furthermore, these charging methodologies are too mechanistic, allowing no further political or public choice input. They rely on the feasibility of specifying minimum standards, nonbasic services or distribution of private and collective benefits, all static concepts not integrated with the adaptive and interactive nature of service dynamics.

The methodologically correct approach is to design a set of incentives which will counterbalance these tendencies towards overexpansion. It is worth emphasising that the very justification of collective provision is that the market would fail to make socially acceptable levels of provision of many of the services currently provided by local government. Hence, a large element of collective choice is a necessary concomitant of service provision. **The practical policy problem is how to control the incentives that are inherent in collective choices, not to so radically restructure incentives that the whole edifice of collective choice collapses.**

Distorted Incentives

The past experience is that central governments tend to use administrative limitations on allowable expenditures or negative financial incentives based on grant reduction or limitation. Such measures have led to a proliferation of evasive activities. Creative accounting redefines categories of centrally controlled expenditures, either into noncontrolled accounts or from accounts where expenditure limits or ceilings have been met into accounts where such limits are non binding. Leasing arrangements use a third party (usually a finance company) to incur the capital cost of building a community facility which is then rented to the local authority. Alternatively the local authority may sell capital facilities (even their own town halls) in order to raise short term finance and then make leasing payments over a number of years. Such increasingly complicated activities are usually held up as examples of sophisticated professional financial practice. Whilst there is an element of truth in this interpretation, it could also be argued that they are essentially nonproductive activities promoted by administrative

imperatives which are the outcome of a perverse set of financial incentives.

Distributional coalitions have an incentive, not only to exaggerate the wider benefits of services which in practice serve their own particular groups, but also to understate or disguise the true costs of providing those benefits. Creative accountancy is a prime example of the latter. Hence, even though financial constraints were tightened for both local authorities and local taxpayers, it proved difficult to prevent such guile on the part of service providers. Indeed, the tighter the financial constraints the greater the incentives for such practices to be used. By their very nature, administrative controls encourage activities which seek to circumvent them. The result is a diversion of potentially productive resources into nonproductive uses. The extreme example of this would be the abolition of local government per se and its replacement by a set of local agencies. The choice between local government and local agencies is often put rather simplistically as a straightforward politico-constitutional proposition. Once again, however, economic theory has surprising and previously unrecognised relevance to this choice.

The usual economic argument for local government is that it is more efficient than central government in taking account of local preferences. Economies of scale in the provision of services are as applicable to equal sized local agencies as they are to local authorities. Application of the theory of transactions costs (chapter 2) suggests that local agencies acting under contract from central government to provide particular services to prescribed standards would act opportunistically in order to secure an increase in central subventions. This opportunism would be in addition to distributional coalition activities and facilitated by the need for information to be provided to central government by the local agencies. It would be much more difficult to secure national accountability than local accountability, especially when all decisions and all finance come from the centre. By comparison, the problems faced by local authorities when contracting out sports centres would pale into insignificance. The administrative costs of contract enforcement at national level would be enormous since local accountability would have been abolished and central government would have difficulty monitoring local outcomes. **In other words local government (rather than local agencies) is likely to be the institutional form which minimises the transaction costs of providing certain public services in accordance with local needs and preferences, another economic argument in favour of local autonomy.** The most efficient institutional form for the provision of services is

therefore an empirical question rather than a matter of ideology.

Modifying Incentives: Charging for Customised Value Added Services

Any policy proposals which further encourage distributional coalition activities or opportunistic behaviour and high transaction costs should be avoided on efficiency grounds. Policy proposals must recognise the interactive nature of individual and collective choices, in that service users are themselves part of the collective decision-making constituency. This is not the 'take it or leave it' choice provided by market determined prices which allows for no discussion of public ideas. Individual and collective choices are not necessarily mutually exclusive. The individual is not necessarily the antithesis of the collective. To regard this as so is mistaken since the collective interest is comprised of discreet individual self interests, rather than being a pure alloy of them. Whilst it may well be the case that the unconstrained pursuit of self interest may be at the expense of the collective interest in particular sets of circumstances, this does not deny the possibility that both sets of interest can be compatible at the margin or increment of service delivery if the framework of incentives is modified.

It is in this respect that charges based on the customised value added elements of services restructure incentives to redirect demand for services in ways that promote the achievement of service objectives. This is arguably more appropriate than central government's attempts to modify incentives at the aggregate level. The aggregate approach based on local taxation and the Revenue Support Grant is in marked contrast to the more selective approach of the Housing Revenue Account. However, even the HRA system is exclusively concerned with financial control rather than with quality and accessibility of service. The customised value added approach attempts to match the incidences of both the incremental costs and benefits. The individual user customises the service to personal requirements, for example a public library information service. However, such private choices would be constrained in order to be consistent with collective requirements so that not all possible self-financing service increments would be provided.

The selective use of such charges, their incremental nature, the clear value added benefits to service users and providers, their cost (rather than profit) related nature, the reinvestment of revenue in the service itself and, above all, the continuing commitment to serving the interests of service users clearly make this proposal situationally relevant. It fits into both the policy and institutional framework within which local

authorities operate. Hence, it should be acceptable at the local level in a way that the narrow, technical economic discussion concerning the efficient allocation of resources never has been.

The success of any charging rationale will depend on the extent to which it is consistent with other developments both for local government in aggregate and for individual services. The detailed examples of the customised value added charging approach (developed in chapters 5 to 8) specifically took account of the situational context of the individual services and their objectives. Whilst the same rationale for charges applies to all services, the particular set of charging arrangements has been adapted to the different circumstances of each service in order to make them situationally relevant. Hence, whilst maintaining the same charging philosophy, radically different charging arrangements have been outlined for public libraries, council housing, refuse collection, public transport, water and sewerage, sports facilities, physical infrastructure etc.

Applicability

The aim of the case studies was to set the situational context and to see how the customised value added charging philosophy can be integrated with service delivery. It requires itemised charges for discreet units of service consumption, whether in terms of materials or blocks of time (eg sports facilities). Current practices such as membership fees for audio-visual services (videos, CDs etc) entitling free borrowing of items thereafter are clearly contrary to this philosophy. In some cases, however, services have to be combined in order for the customised value added philosophy to be implemented. The water and sewerage services have to be jointly metered in order to relate the charge to volumetric use in both cases. Access to service will be improved because bans on particular water uses at particular times are avoided. Similarly, roads and transit have to be incorporated in a single policy for transportation (public and private), congestion charges financing services providing improved access to city cores. Charges for time-saving computerised information services provided by public libraries (compared with independent manual search) are consistent with the customised value added philosophy but implementation for other public library services seems limited at present. Charging congestion-averse groups at museums and art galleries allows subsidy to be redirected to priority groups provided differentiation of charge by time period is feasible. Access to service is improved for both groups.

Elements of customised value added charging already exist for sports facilities, for example charging on the basis of individual facility use and for use of dedicated facilities (in whole or in part, by time period etc). There is also considerable potential for use of this approach in council housing and for provision of infrastructure for new developments. However, in other cases the scope for implementing this charging philosophy seems limited, either being non implementable in practice (refuse collection), completely contrary to service objectives (school education) or overwhelmed by statutory requirements and professional practice (residential care of the elderly).

The customised value added charging philosophy will have to coexist with (rather than replace) other charging practices, for example prevention of abuse. Nonetheless, it adds a dynamic, policy-relevant philosophy and illustrates the positive rather than negative aspects of charging. However, there is a possibility that it will become obscured or diluted by the evident confusion of diverse charging practices which are being used in almost an eclectic 'pick n mix' approach. There are elements of minimum standards, basic and non basic services, and the distribution of benefits approaches revealed by the previous studies. Customised added value is in danger of becoming yet another option to be used as it suits local politicians and service providers, a confusion of ad hocery. Nonetheless, the customised value added charging arrangements for itemised services are based on the common logic of the inherent failure of collective action to recognise that collectives are actually comprised of individuals whose preferences differ from those of others in the group and whose interests can be promoted at the margin without necessarily being contrary to the collective interest.

Economic Prescriptions and Markets

The economists' prescription of efficient pricing failed to be implemented because of its lack of subtleness in terms of taking account of collective interests. It fails to make fine distinctions at the level of implementation or to have any delicate perceptions of the reality of service provision. Whilst it is a standard by which all other charging arrangements can be judged it is disingenious in terms of practical applicability. Like other abstract economic constructs (such as the perfectly competitive market model) it is an ideal, non implementable in practice but nonetheless a valuable benchmark against which all feasible charging arrangements can legitimately be judged. The relevant question is not whether any particular set of charging arrangements maximises efficiency because in this case all practical arrangements would be condemned as failures.

Rather, given the situational context, it is a question of whether or not the charging system promotes efficiency as far as possible. This approach to the question of efficiency recognises the constraints imposed by equity and service implementation and also recognises economists as partisan advocates of efficiency with no priority over other participants in the public expenditure process.

Such an approach has long been recognised as realistic in other areas of economic analysis. For example, the area of business studies has clearly modified economic prescriptions to take account of management and marketing realities. The public choice school has attempted to model the behaviour of nonmarket systems of resource allocation. There have also been considerable analytical developments in pricing public sector trading activities (eg the former nationalised industries) and in the efficiency of regulatory systems. However, the local government area (and especially non-trading activities) has been largely ignored, probably because it is deemed to be too problematic an area given the apparent conflict between equity and efficiency issues. The argument underpinning this thesis is that such an appraisal is too pessimistic.

Local government has itself failed to properly address the issue of service charges because it is tied into the historical context of subsidy and an excessive dependence on central government to take the initiative in financial matters. This has led to considerable irrationalities in the areas of policy and management. An all-pervasive culture of subsidy predominates decision making, irrespective of the inevitably poor targetting of subsidy to needy groups. The collective culture is ubiquitous and there is little or no recognition of individual/subjective wants, only the professional, bureaucratic or political assessment of collective/objective needs.

The debate about the appropriate role of the public sector in general and of local government in particular is seen in terms of either public decision making or the supremacy of private market decisions. The customised value added rationale demonstrates that if the structure of incentives is appropriate then collective and individual interests can be made compatible at the margins of service delivery. Collective and individual interests are not entirely mutually exclusive at all levels and mixes of service delivery. No such logic underpins the current major political and constitutional debates concerning the appropriate balance between the public and private sectors. Nowhere is there any real discussion or development of a rationale for the appropriate balance of collective and individual choice. There is only a presumption that

private choice is necessarily superior to public choice, that government failure is greater than market (or rather corporate) failure.

Private markets are divorced from any concept of democracy. It is highly misleading to claim that the market promotes democracy through consumer sovereignty. It is certainly a strange concept of democracy and is couched in terms of an individualistic, non-participative, largely passive context which is the direct antithesis of the commonly accepted meaning of democracy. This approach has biased the concept of internal markets within the public sector in that they are based on an idea of competitiveness between service providers and the hoped for cost savings. They allow little or no role for individual/subjective inputs on the part of service users because the judgements regarding the need for particular services remains in the collective/objective framework. There is no concept of customised value added and no analytical framework which allows for a real restructuring of incentives for service users as distinct from service providers. In that sense the creation of internal markets within the public sector is at best only a partial solution to efficiency problems on the input cost side. This applies as much to the reforms of the health service as it does to the restructuring of the agencies providing public sector housing. They do little in themselves to alter demand factors via collective choice mechanisms.

The rationale which has been developed in this thesis specifically for local government services has wider applicability throughout the public sector. The demise of local government through the fragmentation of services would not reduce the applicability of the customised value added concept and its relevance as one of a number of factors relevant for the formulation of a charging policy. Nor would such a development reduce the applicability of the argument that there has been too much emphasis on the search for tax solutions to the perceived problems of local authorities' provision of services. If service fragmentation is still based on tax financing or (effectively the same) compulsory flat rate charges, then there will have been no solution to the underlying problem, only an erosion of local accountability and a change in management incentives.

Neither markets nor voting systems are perfect in representing the wishes of final consumers or users. Whilst the analytical framework developed in this thesis does not remove all the failings of each system it is an improvement on the current situation. The search for a panacea is ultimately fruitless. Market solutions merely change the nature of the problem rather than providing a truly comprehensive solution. What

is required is not a radical restructuring of the system of incentives but rather a balancing of contradictory stimuli. One such means of achieving this is to charge for customised value added services.

This approach would complement other means of expressing collective choices, such as electing a group of politicians who can be trusted to take the appropriate actions on behalf of their constituents or who fulfill the function of deliberative government. It allows for the fine tuning of wants which have been sanctioned by the collective process. It is in this sense that the customised value added approach is neither promoting the use of free markets nor the abolition of political/state intervention. Strategic decisions regarding service delivery would continue to be taken by collective/objective decision making procedures but, in appropriate areas, tactical decisions regarding the actual takeup and service mix would increasingly be taken in accordance with the individual/subjective preferences of particular users. The latter would continue to be subject to non-market methods of resource allocation but there must be discretion on the part of individual users regarding the precise level and mix of services actually consumed. Furthermore, it would be inappropriate in terms of this rationale to charge for services that had only value added components; they must be customised by the individual user (in terms of quality and quantity of service), not as judged by any professional or bureaucrat.

It is at this point that the economist's efficient pricing criteria can be employed. Broadly speaking the charge should cover the costs involved in customising the value added service for the individual user. This does not require that all costs be covered by the charge, but rather only those variable costs which are clearly attributable to the individual user or special interest group (eg in the case of club use of sports and recreation facilities). For example, the public library service could continue to have the bulk of its costs financed by local and national taxes. Moreover, the capital and other start up costs of, say, computerised information services could also be tax financed. Hence the charge for customised value added information services would only cover the extra costs incurred by the public library on account of an individual actually using the service. This charging policy therefore approximates the economist's prescription of short run marginal cost pricing. In other cases it approximates the long run marginal cost pricing rationale, as in the case of charges for infrastructure.

The criticism that the revenue so gained would be insignificant displays a preoccupation with inputs and the revenue raising function of charges to

the exclusion of improvements on the output or benefit side. Such criticisms are also of short term validity since it can be expected that customised value added will promote service takeup and so revenue from charges will rise. This then leads to the criticism that either the growth of such services will divert scarce funds away from other areas or that the implementation of such initiatives will be prevented by a lack of finance. The response is that such potential diversion will have to be agreed in advance by local policy makers and, if agreed, implies that some rebalancing of service provision will be in the collective as well as individual interest. It also has to be stressed that only the adoption of a full blown market pricing philosophy will dispense with the need to take policy decisions in the collective interest. The customised value added proposal does not deny a local policy and management role in the provision of services. To do so is surely both unrealistic and situationally irrelevant.

Free markets for former local government services are, however, the logical extreme of the philosophy underpinning successive reforms of local government finance since the late 1970s. The emphasis of reforms, both to local taxation and grant systems, and the advocacy of charging are all attempts to send signals (via modified incentives) to service providers and users to change their priorities and to reduce expenditure. This is part of a more wide-ranging shift away from consensus towards rules, away from interactive levels of government towards rules imposed by the centre. Not surprisingly, local authorities have exploited ambiguities in rules governing central-local financial relations. Charging for customised value added services recognises a legitimate role for collective decision making and for consensual politics at all levels of government. It recognises the compatibility between collective/objective and individual/subjective interests provided by a non market system of allocation which encourages individual choice within collective parameters.

Implementation

The implementation of such a charging framework will obviously take time if only because of shortages of finance to cover the initial start up costs of such initiatives. However, this will allow service providers and users to become familiar with the idea and to appreciate the personal and community benefits that arise from those services where it is introduced. More innovative forms of service delivery will be encouraged with an increased emphasis on the subjective value of the service to the

individual as well as ensuring maintenance of the objective value to the community.

Such a progressive introduction of the policy also takes account of existing service endowments and financial liabilities. Surely one of the lessons of the introduction of the poll tax is that there is great resistance to changes in either or both of these characteristics. Poor groups felt that they were being asked to pay more for less; paying more than they did under the former property tax but experiencing reductions in service delivery at the same time. Hence, an immediate radical restructuring of the pattern of service benefits and financial liabilities has to be avoided if any policy proposal is to be successfully introduced. The gradual and progressive development of customised value added services does just that.

It is insufficient to argue that a policy change should go ahead simply because there is an excess of benefits over costs or because there are more gainers than losers. Service providers and users are as concerned to avoid sharp reductions in service provision as they are to secure even modest improvements. This explains the incrementalist approach to changes in service delivery and denies the voluntary introduction of radical financial reforms on the part of local authorities. On the same grounds a sudden leap into the idyll of maximum efficiency is simply not possible and will most likely be at the cost of severe disruption to the achievement of both service objectives and equity. Local authorities are not simply regulatory arrangements for the promotion of efficiency and any proposal for a new charging regime has to accept that constraint.

Unrealistic Prerequisites

A commonly stated prerequisite is that research into the likely impact of charges on service takeup should be undertaken prior to introducing charges and further that few local authorities have made such an attempt (AMA/LGIU 1991). This view of service charges originates from the simple economics maxim that it is advisable to estimate the various elasticities of demand (price, income and cross) before changing the price of the good or service in order to assess the likely impact on demand and consequently on total revenue. By contrast, such an approach is invalid for the philosophy developed in this thesis. Rather than leaving charges as a detached, independent, exogenous variables, charging for customised value added services integrates them with service provision in an adaptive and interactive process. Hence, research cannot be undertaken before deciding whether or not to charge; rather both decisions regarding

service provision and charging are undertaken simultaneously. The charge is as much a part of the service philosophy as any other form of financing (ie centrally financed subsidies or local taxation). Similarly, the conventional checklist of questions which it is often asserted must be answered before introducing charges is unrealistically strict and is rarely applied to other sources of finance. Questions are rarely asked (let alone answered) about the full cost of each service, the priorities and objectives, the intended recipient and the actual user.

Summary

It has been argued here that the introduction of charges for customised value added services can realistically fit into the existing policy, management and decision-making framework of local government. Equally important, it is also based on a coherent and logical critique of the problems inherent in any form of collective choice and provision of services. Its uniqueness lies in the blend of efficiency and equity criteria within a system of practical charging policies for local government services. Whilst retaining consistency of rationale, the proposal is capable of being moulded to suit both the objectives and the particular characteristics of individual services. In this sense it is able to accommodate equity criteria as well as allowing for differential charges based on criteria thought relevant for subsidy. Such a charging policy is positive in approach, widening rather than restricting service choices for individual users, ensuring the publicness of services rather than abandoning them to the market system.

The essential point is that charging policy has to be compatible with the institutional framework within which it is applied. Charging rules cannot be transferred unamended from market to non market systems of provision. At the very least, public choice theory has to incorporate charges within its own rent-seeking assumptions. More generally, charging policy will be fashioned by political economy, recognising the existence of distributional coalitions operating within the political system. Charges for public sector outputs will inevitably be fashioned more by political factors than by economic prescriptions. Hence, charges must be consistent with service objectives regarding access to and quality of service. They must also be capable of being determined within the interactive, sequential and incremental environment of policy making. The customised value added philosophy satisfies these prerequisites and its general applicability has been demonstrated for radically different local government services, ranging from public libraries to the financing of social and physical infrastructure.

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