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Published paper
THE IMPACT OF CENTRAL GOVERNMENT POLICIES ON LOCAL AUTHORITIES' TRANSPORT EXPENDITURE AND PROVISION:

1. Review of Changes in Government Policies since 1979

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References
1. Introduction

1.1 Background

The period since the mid-1970s has witnessed increasing interest and controversy in relations between central and local government as successive governments have sought to assert controls on local authorities' activities as part of wider economic and political programmes. Most attention has focused on attempts to control local government expenditure in the context of the macro-economic management of the economy, but in recent years, financial controls have been supplemented by legislative measures which have raised issues of a 'constitutional' nature (cf. Loughlin (1986)). Indeed, some commentators have argued that the controls introduced by the present Conservative Government since 1979 represent a fundamental re-structuring of central-local relations such as to constitute a threat to the future of local government (see Rhodes (1984) p 261).

A considerable amount of work has been undertaken to examine the implications of changes in the system of local government finance in terms of their effect, firstly, on local authority spending, secondly, on management and organisation within local authorities, and, thirdly, on relations between central and local government. This last aspect has received particular attention, especially through an SSRC-funded research initiative in the early 1980s in which the issue of central-local financial relations figured prominently (Goldsmith, 1986). Moreover, in this context there have been developments in the theory of the state, particularly the relationship of the 'local state' to the 'central state', deriving from the study of changes in central government financial controls (Martlew, 1983; Goldsmith and Villadsen, 1986).

Clearly, the study of such changes will provide insights which will be valuable, firstly, in relation to the development of our ideas about the role and status of local government within the wider economic and political system and, secondly, in relation to the development of future policies for local government finance. To date, it would appear that most of the work in this area has focussed on aggregate spending by local authorities or classes of local authorities (e.g. shire/metropolitan/London authorities) and work on specific services has concentrated on such services as housing and education. It is considered, therefore, that an examination of the effects of changes in central government financial controls on local authorities' transport expenditure and provision will provide a valuable contribution to this area of study.

1.2 Changes in the Transport Sector

Of course, there are specific features of the financing of local transportation expenditure which differentiate it from other local authority functions and which complicate the analysis. Roads and transport take up some 7% of total current expenditure by local authorities in England and about 19% of capital expenditure (H M Treasury 1987, p. 365). Since 1974 local transport expenditure has been supported by the Transport Supplementary Grant (TSG), originally devised as a block grant to
support both current and capital expenditure on roads and public transport and, as such, supplementing Rate Support Grant (RSG) in respect of current expenditure and local authority borrowing in respect of capital expenditure (Department of the Environment, 1975). Since the financial year 1985/86 TSG has been payable only in respect of capital expenditure on road schemes of more than local importance, local transportation current expenditure now being supported, like other local authority services, by block grant.

Other changes in central government controls have been introduced affecting the financing of local public transport. Following the Lords' declaration that the GLC's 'Fares Fair' policy was illegal, the Government took steps in the 1983 Transport Act to limit spending by the GLC and Metropolitan Counties on public transport revenue support. In 1984 the Government took over direct control of London Regional Transport from the GLC. Subsequently, the GLC and the Metropolitan Counties were abolished and strict precept control was imposed upon the successor Passenger Transport Authorities in the provincial metropolitan areas. The final complicating factor in respect of local public transport is the deregulation of local bus transport and the requirement for authorities to introduce competitive tendering for non-commercial services, pursuant to the 1985 Transport Act.

These changes are in addition to those introduced in respect of the general system of local government finance, in particular the Block Grant system for supporting current expenditure and the system of capital expenditure control, both deriving from the Local Government Planning and Land Act 1980, and subsequent modifications to these systems, most notably the scheme of targets and grant penalties which operated from 1981/82 to 1985/86, and the 'rate-capping' scheme introduced from 1985/86. Clearly, then, since 1979 there have been a large number of changes in the financial system which will have affected local transportation expenditure. Each will have had differential impacts on current and capital spending, and on the various components of such spending. Identifying the nature of these impacts will be difficult due to the multi-dimensional character of the problem.

1.3 Scope and Methodology

The scope of the study will be restricted to attempting to assess the effects of changes in systems of financial control; we do not intend to attempt to analyse the effects of the abolition of the Metropolitan Counties nor of the deregulation of local bus transport. In effect, we shall attempt to 'control out' the impacts of these changes. The basic objective of the study will be to identify the effects of changes in central government policies and powers in respect of local government finance on local authorities' transportation expenditure and on their ability effectively to tackle local transport problems and to meet local transport needs. Based upon these results we will attempt to identify implications for policies towards the financing of local transport and for our ideas about central-local relations.
The methodology of the study can be described in terms of three main stages. The first stage is a review and examination of the system of local government finance in general and, within this context, of the system of financing local transportation expenditure. This review will cover the major changes introduced since 1979 and commentaries on, and critiques of, the system in the context of more general work on central-local relations.

Following on from this, the second stage will comprise an analysis of trends in the level and pattern of local government transportation expenditure during the period since 1979 comparing actual expenditure firstly, with central government plans and provisions and, secondly, with the expenditure aspirations and needs of local authorities (as far as indicators of the latter can be obtained). The relationship of this analysis to the major changes in government policies and controls will provide a first level of insight into the effects of such changes and will indicate areas for more detailed examination.

This more detailed examination will be undertaken in relation to information from a sample of local authorities, and the in-depth analysis of the impact of government controls on such local authorities' transportation expenditure and provision and on their ability to tackle effectively local transport problems and to meet local needs, will constitute the third stage of the study.

1.4 Outline of the Report

This report relates to the first stage of the study. The next section presents a brief review of the nature of the fiscal relationship between central and local government and of theoretical issues in this area. Section 3 presents a description of the system of central government financial control over local authorities, the main changes since 1979, and discusses criticisms which have been levelled at the system. Section 4 focusses in more detail on the system for financing local transportation expenditure. Section 5 concludes the report by summarising the main issues of relevance for the next stages of the research.
2. **Local Government Finance and Central-Local Relations**

2.1 **Introduction**

Local government plays a very important role in the economic, social and political life of the country. Local authorities' spending accounts for just over one quarter of total UK public expenditure (Planning Total) and represents about 10% of GDP (H M Treasury 1987, p. 355). However, this represents a decrease from the position in the mid-1970s when local authority expenditure represented over 30% of the public sector and accounted for some 15% of GDP (Boddy 1984, p 232). Therefore, over a period when total public expenditure has grown in real terms, the role of local government in the public sector has declined while the share of central government expenditure has increased.

This trend is explained by the focus of successive governments since the mid 1970s on controlling public expenditure in general and local government expenditure in particular. This concern originated in the economic crisis which followed the rapid escalation of oil prices in 1973/74: a reduction in public expenditure was part of the price which the Labour Government had to pay between 1976 and 1979 for IMF assistance. In this context, the Treasury sought to regain firm control over public spending and a particular pre-occupation with local authority spending arose for two reasons. Firstly, the degree of local autonomy enjoyed by local authorities reduced the effectiveness of central control instruments. Secondly, resistance by central government departments to cuts in their budgets (and, indeed, pressures to increase some budgets as the economic crisis deepened) tended to 'displace the cuts outwards from the centre'; in other words, it was easier for the Treasury to cash limit local authorities than to argue with other Cabinet Ministers (Wright, 1982, p. 18-24). The election of the Conservative Government in 1979 reinforced this process and local authorities were placed under increasing fiscal pressure.

2.2 **A Theoretical Perspective**

The interpretation of this approach by central government to controlling local government spending requires reference to theories about the nature of central-local relations. Annex 1 summarises briefly some recent theoretical work on central-local government relations. Here, we state in outline terms an approach deriving from Martlew (1983) which can provide a context for our analysis.

This approach focuses on the 'structural constraints' on state action, and the 'hierarchical relationship' between central and local government and relates these to 'institutional interests'. Thus, the state can be seen as embodying a variety of interests which compete and conflict with one another and these interests are related to the requirement of the state, firstly, to promote capital accumulation through its various roles and activities and, secondly, to protect the accumulation process by controlling the fiscal demands of state activities and services (Martlew op cit, p. 129). Tension or conflicts between the 'institutional interests' within the state apparatus arises from the contradiction between, on the one hand, pressures to increase
state spending (both to assist capital accumulation and to provide the welfare services needed to maintain political support and legitimacy) and, on the other hand, pressures to control demands on the state budget (to ensure that private accumulation is not undermined). These tensions or conflicts provide the structural constraints on state action and express the dominance of interests related to the promotion and protection of capital accumulation (ibid, p. 130-1).

More specifically, such conflicts between 'institutional interests' and mediated through central departments of the state and, via their control, local authorities. On the one hand, the various central spending departments undertake activities and provide services to support private sector accumulation, to reproduce the labour force and to provide welfare services, with various of these activities and services being the main responsibility of local government within parameters set by the central departments. On the other hand, interests related to controlling state spending so as to ensure that it does not undermine private accumulation, are embodied mainly in the Treasury (ibid, p. 132-3). Within this framework local government can be seen as playing a role in the provision of services to support capital accumulation, labour force reproduction and to support a level of welfare provision sufficient to maintain the legitimacy of the state, subject to structural constraints deriving from the balance of institutional interests within the state. Moreover, local government can be seen as playing an important additional role in maintaining the political legitimacy of the state in that it fragments and tends to mask responsibility for the provision of services and therefore absorbs and disperses political opposition which would otherwise focus entirely on the central state (ibid, p. 132).

This provides a conceptual basis for examining central government financial controls on local government. We shall now examine briefly the general arguments put forward for such controls before looking at the changes which have taken place since 1979.

2.3 Central Government Financial Control of Local Authorities

Within the structure of the British political system, local authorities are viewed as statutory corporations dependent upon statutory authority for power to act. This is judicially enforceable through the doctrine of ultra vires. Since local authorities are elected bodies there is a tradition of vesting enabling powers in them in broad discretionary terms, but the most significant powers contain provision for central government control or supervision over the manner in which those powers are exercised (Loughlin 1986, p. 176). Central government has a wide range of powers and controls available (financial, administrative, technical, legal) but financial controls are perhaps the most important in the relationship between central and local government.

The argument which asserts the need for central government to control the activities of local government for the purpose of overall macroeconomic management, is associated most closely with the Treasury and can be interpreted (following the framework outlined in Section 2.2. above) in terms of the institutional
interest embodied in, and mediated through, the Treasury related to the need to protect private capital accumulation from upward pressures on state spending. However, a full explanation is likely to be more complex because it is clear that local government is not simply the 'agent' of central government and embodies an important degree of political autonomy and discretion.

The argument for central government financial control of local authorities as part of the overall management of the economy has been promoted forcefully by the Treasury since the shift in macroeconomic policy initiated by the economic crisis and the IMF intervention in the mid-1970s (Meadows and Jackson, 1986; Boddy, 1984). The argument has been re-stated and developed by the Conservative Government since 1979 as part of its monetarist policies and receives a recent exposition in the 1986 White Paper 'Paying for Local Government' (Department of the Environment, 1986).

"Because Governments are responsible for the overall management of the economy, they have to be concerned with the amount of local authority expenditure, borrowing and taxation. Local authority borrowing has implications for the public sector borrowing requirement (PSBR), the rate of monetary growth, and interest rates. Local authority current expenditure, whether it is financed by local or national taxation, affects the overall burden of taxation in the economy and the balance between public and private sector output.

Since 1979 the Government has been committed to reducing inflation and setting the foundation for sustained economic growth. The rate of monetary expansion had to be curbed, and public borrowing had to be reduced so as to ease the pressure on interest rates. Higher local authority borrowing would have made it harder for the Government to achieve these objectives.

The Government has also sought to reduce the size of the public sector in order to allow reductions in the level of taxation and more freedom for individuals and firms to choose which goods and services they wished to consume."

( Ibid, paras 1.13 - 1.15)

In general terms, then, central government's case for controlling the activities of local authorities is based on the contention that their spending has contributed to excessive growth in the money supply, has increased inflation and interest rates, and has had an adverse impact on the private sector by 'crowding out' private economic activity and by placing an excessive burden on industry and commerce via non-domestic rates (Meadows and Jackson 1986, p. 65; Boddy 1984, p. 229).

However, this case has been subjected to several criticisms which cast severe doubts on its validity. The critique focuses on the 'crowding out' thesis which comprises two main elements. First, 'direct crowding out' occurs when public spending displaces private sector consumption or investment without any intermediate
changes in interest rates, prices or exchange rates i.e. there is a direct shift in resources from the private to the public sector. Work by Meadows and Jackson (1984) has found that real resource consumption by local authorities has declined since the early 1970s and that there is no evidence to support direct crowding out either in the capital or in the labour market. Secondly, 'indirect crowding out' occurs when increased public spending places upward pressure on interest rates by increasing demand in the financial markets, thus suppressing private spending. Again, Meadows and Jackson find no evidence that local authority borrowing for capital expenditure (i.e. contribution to PSBR) has placed any undue strains on financial markets, particularly in view of a decline in local authority capital spending in real terms, and conclude that a possible small contribution to increase in money supply via bank borrowing has probably had little effect on inflation (ibid, p. 79-84).

On the question of the impact of non-domestic rates on economic activity critics point out, firstly, that rates constitute only a very small proportion of industrial costs (c. 2-3%) and, secondly, that they represent a payment for goods and services which benefit industry and commerce directly or indirectly (Meadows and Jackson op.cit, p. 84-5; Boddy 1984, p. 231). Moreover, the impact of rate increases on inflation is likely to be relatively small even assuming that they are passed on in full by firms in higher prices and that they influence the wage bargaining process (Meadows and Jackson op.cit, p. 85-6).

Consequently, there would appear to be little empirical foundation for the argument that central control of local authorities is crucial for the achievement of macroeconomic objectives, beyond the case for controlling borrowing. On rational economic grounds, then, it is difficult to see the justification for the measures for detailed control of local authority expenditure which have been introduced by central government since the late 1970s, even in terms of the monetarist theories which have been prevalent since that time (cf. Boddy 1984, p. 233). It may be, therefore, that this rational macroeconomic argument to some extent disguises the real purposes of control. Based upon the theoretical discussion in Section 2.2 above two possible themes are suggested.

The first theme derives from the contradictory pressures within the state on the one hand to increase spending to support capital accumulation, reproduction of the labour force and 'safety net' welfare services and, on the other hand, to control the state's fiscal demands, especially during periods of economic recession. Pressure to control and cut back public spending will inevitably produce conflict over where cuts should be made and such conflicts will be resolved in the light of the balance of institutional interests within the state apparatus. Within central government, the cuts can be directed to particular departments and programmes in the context of the Public Expenditure Survey process and associated cabinet-level negotiations. However, local authorities traditionally have discretion to decide on relative spending priorities between services so central government has less influence over where cuts are made at the local level. It is possible, therefore, that the changes in control measures since the late 1970s can be
interpreted in terms of an attempt by central government to influence the distribution of local authority spending in terms of its relation to the capital accumulation process while being seen to remain within 'acceptable' parameters of central interference with local autonomy in order to retain legitimacy. The second theme derives from the role of local government in maintaining the political legitimacy of the state and from the wider political objectives of the Government. Thus, measures to control and reduce local government spending can be seen as part of a broader political and ideological programme involving the rolling back of the public sector, freeing market forces, privatisation and tax cuts (cf. Boddy 1984, p. 233). Local authorities have been subjected to a wide range of measures since 1979 besides direct financial controls including the requirement for competitive tendering, the requirement to sell council houses, legal limitation of public transport fare subsidies and the abolition of the GLC and the Metropolitan Counties. Boddy (op cit, p. 235) argues that such "... cuts, controls and privatisation represent an attack on the political and ideological principles of collective provision of goods and services to meet social need." The aim of combatting 'socialism' has been stated frequently by representatives of the present Conservative Government. Therefore, it is possible to interpret financial control measures in terms of the pre-occupation since 1979 with 'high spending' local authorities, invariably seen as 'socialist' authorities. Moreover, by placing the spotlight on local authority 'overspending' and 'profligacy' central government is able to deflect political opposition to its policies and measures and may also be able to legitimise the introduction of new measures on the grounds that they are required to overcome the deficiencies of local government. These factors are, perhaps, reinforced by what Greenwood (1982) calls the 'cultural disdain' for local government in Britain which is widely seen as 'low politics' and, therefore, ripe for criticism and control (cf. Page 1986, p. 133-4).

Against this background it is now possible to examine in more detail the changes in the system of local government finance which have been introduced since 1979. In Section 3 we shall look at the changes to the system in general and then, in Section 4, at the system for financing local transportation expenditure.
3. The System of Local Government Finance

3.1 Introduction

As indicated earlier, many commentators have referred to the significant increase in central control over local authorities which has been achieved via the changes in the system of local government finance since 1979 (cf. Travers, 1986; Page, 1986; Meadows, 1985). Certainly, there has been a reinforcement of the trend evident prior to 1979 in the Labour Government's response to the economic crisis. The Conservative Government elected in May 1979 quickly addressed the problem of reducing local government spending, using extortations to local authorities to reduce their budgets for 1979/80 immediately by 3%, and to plan for 1980/81 on the basis of a 5% reduction from the previous Labour Government's plans (Meadows 1985, p. 147). As it became clear that such reductions would not be forthcoming and that certain authorities were 'overspending' by a significant amount, the Government focussed increasingly on the inadequacies of the Rate Support Grant system both for controlling local government spending in general and for controlling particular high spending authorities in particular (ibid; Travers 1986, p. 82-4; Gibson 1982, p. 16-17).

In this context, the Government introduced the Local Government Planning and Land (No. 2) Bill in 1980 which contained proposals for a new block grant system and for a new system of control over capital expenditure. Since 1980 the block grant system has been subject to several modifications which have added to its complexity while the capital expenditure system has undergone fewer changes. The next section deals with the block grant system, describing the public expenditure planning system of which it is a part, perceived problems in the rate support grant system which it replaced, the basic system introduced in the 1980 Act, subsequent modifications and developments, and discussing the criticisms which have been levelled at the system. We then deal in a similar way with the capital expenditure control system.

3.2 The Block Grant System

3.2.1 Rate Support Grant and Public Expenditure Planning

Since the mid-1970s the determination of the level of grant support for local authority current spending has been undertaken increasingly in the context of the broader central expenditure planning process through the Public Expenditure Survey Committee (PESC). The PESC system involves negotiations between the Treasury and central spending departments to produce spending plans for the next financial year, and outline intentions for the two subsequent financial years, which are announced in the Chancellor's Autumn Statement and subsequently published in more detail in the Public Expenditure White Paper (Bennett 1982, p. 70-2). In the context of these plans the Government determines provisional figures for local authority total expenditure and Government grant towards that expenditure after consultations with the local authority associations in the Consultative Council for Local Government Finance (CCLGF) (House of Commons Public Accounts Committee 1985, Appendix 1).
The planned total of Government Grants to local authorities is the Aggregate Exchequer Grant (AEG). As a proportion of local authority total relevant expenditure in England and Wales AEG has declined from a peak of 66.4% in 1975/76 to 44.3% in 1986/87.

'Relevant expenditure' for grant purposes is virtually all revenue expenditure chargeable to local authorities' Rate Funds. Specific and Supplementary Grants represent the first call on AEG. Specific grants are paid to support services where the Government wishes to have an influence over the way in which money is spent by local authorities or where local authorities act essentially as agents for central government. The largest specific grant is for police forces which accounts for more than half the total. The major supplementary grant in respect of transport is paid to assist local authorities with highway capital schemes of more than local significance (see Section 4 below). Specific and supplementary grants together represented 24.8% of the planned AEG for England and Wales in 1987/88; their importance has increased in recent years the equivalent proportion in 1980/81 being 16.4% (H M Treasury 1980, 1987).

The balance of AEG net of specific and supplementary grants represents the amount available for payment of Rate Support Grant (RSG) to local authorities. The first charge on this balance is the Domestic Rate Relief Grant (DRRG) which reimburses local authorities in full for revenue foregone due to the granting of relief to domestic rate payers. The level of such relief is prescribed by the Secretary of State and currently provides that domestic rate poundages must be 18.5p in the pound lower than those of businesses. DRRG represented 5.2% of the planned AEG for England and Wales in 1987/88. The remainder of AEG (i.e. RSG-DRRG), which is treated as a cash limited provision, is available for distribution to local authorities as 'Block Grant' towards their expenditure generally. This represented 70% of the planned AEG for England and Wales in 1987/88.

3.2.2 The Reform of Rate Support Grant 1981/2: Block Grant

The concept of Block Grant was introduced in 1981/2 as a new approach to distributing grant support between individual local authorities. Prior to 1981/2 the distribution methodology was based on the distinction between the 'resources element' of grant which represented a 'resource equalisation' component designed to compensate local authorities with a low rateable value per head, and the 'needs element', representing a 'needs equalisation' component designed to compensate local authorities with high expenditure needs. The overall aim of the system was to ensure that all local authorities should be able to charge similar rate poundages if they spent at the level of their assessed needs (Bennett 1982, Chapter 4).

However, in the context of their concern to reduce local authority spending and the difficulties experienced achieving such a reduction (particularly for certain 'recalcitrant' authorities), the Conservative Government elected in May 1979 came to regard the then existing RSG system as seriously deficient. The perceived problems related to the control both of total local authority spending and of the spending of particular local authorities who were defying the Government's policies (cf.
Travers 1986, Chapter 8). Two particular drawbacks in the system were highlighted.

The first problem arose from the approach to resource equalisation which compensated an authority with a low rateable value per head on the basis of the actual rate poundage levied by that authority - the higher the rate levied the higher the resources grant received. Therefore, high spending authorities received more grant but, because the total of grant was cash limited, the grant for all other local authorities was correspondingly reduced. In the Government's eyes, therefore, low spending authorities were being penalised for the benefit of high spending authorities - precisely the reverse of the situation which it wished to bring about (Department of the Environment 1986 para 4.13; Greenwood 1982, p. 51-2; Page 1986, p. 127).

The second perceived problem arose from the approach to needs equalisation which compensated authorities for unavoidable differences in their spending per capita due to socio-economic and physical factors. This involved the use of multiple regression analysis to select and weight social and economic indicators which correlated with the broad pattern of actual local authority spending. Now there have been extensive criticisms of the use of multiple regression analysis in this way (cf. Bennett 1982, p. 86-102) but the Government's major concern arose from the fact that if a group of authorities with similar characteristics (e.g. London authorities, metropolitan authorities) increased their spending this would be interpreted by the regression analysis as evidence of a greater need to spend in these authorities. Therefore, such authorities would be rewarded with higher needs grant allocations again, in a cash limited context, at the expense of other authorities (Department of the Environment 1986, para 4.14).

The new block grant system was introduced in the Local Government Planning and Land Act 1980 and was intended to overcome these perceived deficiencies. The Government justified the new system on the grounds that it would be "... fairer and more accessible..." and "... much more logical and defensible ..." (ibid, para 4.15). Other commentators have emphasised the objectives of controlling local authority spending and, in particular, high spending authorities (Greenwood 1982; Page 1986; Martlew 1983). The block grant system, like that it replaced, is concerned with equalising between authorities in terms of both need to spend and resources, the basic principle being that of rate poundage equalisation. That is, the aim of block grant distribution is to ensure that, regardless of differences in their spending needs and rateable resources, all authorities of the same type are in a position to finance a comparable standard of service for the same rate poundage.(1)

(1) Full descriptions of the block grant system are provided in the annual Rate Support Grant Orders, Department of the Environment (1986 Annex 13), Audit Commission (1984), House of Commons Public Accounts Committee (1985 Appendix I) on which this discussion relies.
The system is based upon two essential features. First, a 'grant-related expenditure' (GRE) is determined for each authority which is an estimate of the overall cost to an authority of providing a common standard of service taking into account variations in local circumstances and needs. An authority's total GRE is built up on a service-by-service basis in terms of a formula assessing the need for spending as a function of the number of 'clients' for the service (or units of service required) and the unit cost of providing the service, adjusted to take account of special factors affecting the cost of provision (e.g. population density, social problems). The sum of GREs for all authorities is calculated to be consistent with the Government's overall spending plans for services (i.e. relevant expenditure allocated to services excluding specific and supplementary grants).

Once GRE's have been set, the second feature of the system comes into play, which measures the extent to which an authority can finance its GRE from its own rateable resources. In order to equalise differences in rateable resources between authorities 'grant-related poundage' (GRP) is calculated which specifies a common rate poundage which all authorities of the same type are assumed to levy for spending at the level of GRE. Each class of local authority has a GRP schedule which specifies a GRP for levels of spending above and below GRE in such a way as to increase the assumed rate yield for authorities spending above GRE and to decrease it for those spending below GRE. Above a certain 'threshold' level of expenditure, the slope of the GRP schedule increases (the 'taper') in such a way as to have a large impact on higher spending authorities.

The system is described in some detail in Annex 2; the following represents a summary outline of the formulae for block grant distribution:

\[
\text{Block Grant} = \text{Total Expenditure} - (\text{GRP} \times \text{Rateable Value} \times \text{Multiplier})
\]

For total expenditure below threshold:

\[
\text{GRP} = \text{GRP}^* + \frac{x \times (\text{Total Expenditure} - \text{GRE})}{\text{population}}
\]

For total expenditure in excess of threshold:

\[
\text{GRP} = \text{GRP}^* + \frac{x \times (\text{Threshold}^*) + y \times (\text{Total Expenditure} - \text{GRE} - \text{Threshold}^*)}{\text{population}}
\]

where GRP* is the GRP for spending at GRE by class of authority
Threshold* is the amount (# per head) by which threshold exceeds GRE for the relevant class of authority
x and y represent the marginal increases (in pence) in assumed GRP for every # per head increase in spending below and above threshold.

Multipliers are used to effect various adjustments as designated by the Secretary of State.
It is evident, therefore, that for the same level of spending in relation to GRE, an authority with a low rateable value will receive more block grant than an authority with a high rateable value. Indeed, if the rate income which the prescribed GRP would produce exceeds an authority's total expenditure, that authority will receive no block grant. If an authority spends at a level above GRE its assumed GRP is increased and block grant correspondingly reduced. In the above formulae, the slope of the GRP below and above the threshold is represented by \( x \) and \( y \). Up to 1986/7 the threshold was set at GRE plus 10% and the values of \( x \) and \( y \) were 0.6p and 0.75p respectively. Consequently, authorities spending above threshold suffered a reduced increment of block grant (see Annex 2).

The basic block grant formula above incorporates the use of multipliers which adjust an authority's grant entitlement for various reasons, primarily to prevent large changes in grant entitlement from year to year due to changes in GRE calculations ('Safety nets' to limit losses; 'caps' to limit gains). Multipliers are also used to effect resource adjustments in respect of the London authorities.

### 3.2.3 Criticisms of the Block Grant System

Before going on to consider developments and modifications of the block grant system since its introduction it is appropriate to discuss the main criticisms which have been directed at the basic system. First, local authorities reacted to the system with the charge that it represented an unwarranted extension of central government influence and control over local authorities and, in particular, an attack on Labour-controlled councils (Greenwood, 1982, p. 57-8; Bennett, 1982, p. 127). Second, the system involves a large number of decisions which are largely political but these are disguised behind claims of objectivity and rationality; the assessments of GRE, GRP, the threshold term and the tapering multiplier are largely political choices by the Secretary of State (Bennett op cit; Hepworth, 1984, p. 60-2). Third, the Government does not provide local authorities with forward projections of grant support and this inhibits longer term planning by authorities thus adversely affecting their effectiveness (Audit Commission, 1984 p. 12-16). Fourth, the cash limit on block grant and the 'close-ending' requirement (see Annex 2) means that an authority's grant entitlement can change during the course of a year since it is affected by the spending decisions of other authorities; this increases the uncertainty for authorities (ibid. p. 18-21). Recognition of this problem has led the Government to abolish close-ending adjustments from 1987/88 (Department of Environment, 1987, p. 18).

The fifth criticism concerns the needs equalisation element of the system through the calculation of GREs. The fairness of the equalisation process depends crucially on the reliability of GREs as objective measures of the cost to each local authority of providing services to a common standard. However, there are many problems in the determination of GREs deriving from sparse and out-of-date information, the extent to which factors used reflect needs and the use of value judgements. Frequent changes are made to methodology and data used producing volatility in grant entitlements which exacerbates the uncertainty experienced by
local authorities. Multipliers are used to moderate such changes in grant entitlement but such multipliers detract from the equalisation objective (Audit Commission, 1984; Department of Environment, 1986, Chapter 4, House of Commons Public Accounts Committee 1985).

The sixth area of criticism concerns the resource equalisation element of the system through the GRP schedule which embodies "... an immense complexity of decision" (Bennett, 1982, p. 128). In particular, there is the division of relevant expenditures between levels of local government and the setting of the threshold and taper determining the loss of grant to 'overspending' authorities. A further criticism of the resource equalisation process is that the transfer of resources on the basis of rateable values per head penalises high rateable value areas excessively because average domestic rateable values do not reflect accurately the ability to pay for local authority services particularly in view of the lack of a revaluation in England since 1973 (Department of Environment 1986, paras. 4.19-4.25).

Overall, the system has been criticised for being excessively complicated and difficult for local authority members and officers to understand. In particular, the Audit Commission found that the uncertainties in the system had discouraged authorities from effective financial management and had encouraged the build-up of special reserves and balances and the development of 'creative accounting' (Audit Commission 1984). However, the criticisms of the Audit Commission relating to the basic block grant system were intensified in the consideration of modifications made to the basic system after its introduction in 1980/81, in particular the system of expenditure targets and grant penalties.

3.2.4 Expenditure Targets and Grant Penalties

Following early difficulties in achieving expenditure control the Government, in the Local Government Finance Act 1982, introduced a system of expenditure targets and grant penalties and abolished the power of local authorities to raise supplementary rates or precepts. The target and penalty system operated for the financial years 1981/2 to 1985/6. It was not an integral part of the block grant system but rather was 'grafted on' to attempt to tighten up expenditure controls (Greenwood, 1982, p. 63-4; Smith and Stewart, 1985). Authorities' expenditure guidance or targets were not derived from GREs but were designed to achieve volume reductions in total expenditure from previous years and were related to the Government's public expenditure plans. Authorities spending in excess of their targets suffered a loss of grant in accordance with principles outlined by the Secretary of State in the annual Rate Support Grant Report. The grant adjustment was effected by setting the multipliers in the block grant formula (cf. p. 12 above and Annex 2) at greater than 1 for authorities exceeding their targets thus effectively increasing their GRPs in accordance with a schedule drawn up by the Secretary of State which increased the severity of the grant penalty as an authority's percentage overspend increased. Moreover, the severity of penalties experienced by authorities for a given percentage overspend increased over the years 1981/2 to 1985/6.
For example, in 1981/2 the grant loss for an authority spending 5% over target was equivalent to a 9p rate; in 1985/6 this had increased to 42p. This loss of grant (known as 'holdback' or 'penalty') was in addition to reductions due to the tapering of the GRP schedule above threshold in the block grant system (Hepworth, 1984, p. 308-9; Travers, 1986, p. 125-30).

Critics have argued that the effect of target and penalties was to increase the complexity and uncertainty of the system and to undermine and distort its basic rationale while failing to achieve their basic objective of achieving control over local authorities' spending. In particular, the Audit Commission investigation referred to above found that targets and penalties produce 'perverse incentives' for local authorities to play the system and manage grant levels by building up excessive balances (Audit Commission 1984). The use of expenditure targets which differed from GREs tended to undermine the rationale of the system which was built around GREs as supposedly objective measures of the need to spend (ibid; House of Commons Public Accounts Committee 1985, para 15-23). Finally, the evidence suggests that the target and penalty system, far from restraining local authorities' spending, actually encouraged authorities to increase their spending. This was because, given the expectation of increasingly severe penalties from year to year, it was in the interests of authorities to spend up to target in any year to maximise grant and even to spend over target in order to attempt to generate a higher base-line for subsequent targets when penalties would be more severe (ibid. para. 18; Smith and Stewart, 1985).

Following the recommendations of the Audit Commission and the House of Commons Public Accounts Committee, the Government discontinued targets and penalties from 1986/7 and replaced them with a modification to the GRP schedule in the basic block grant system. The taper on the GRP schedule above threshold was increased so that authorities spending above that level lost block grant. In effect, referring to the formulae set out above (p. 12), the values of x and y in the GRP formulae were increased to 1.1p and 1.5p respectively (see also Annex 2).

3.2.5 'Rate-Capping' 1984

The other major development relative to central government control of local authority current expenditure is the introduction of 'rate-capping' in the Rates Act 1984. This measure reflects increasing concern by the Conservative Government at continued 'overspending' by certain local authorities and also concern about the impact on rates of such spending (Travers, 1986, p. 145). It was clear that, in relation to these concerns, there was a deficiency in the control system since reductions in central government grant were tending to 'work through' into rate increases as local government expenditure continued to increase. Therefore, the Conservatives' manifesto for the 1983 General Election contained proposals to limit rate increases by local authorities and also to abolish the GLC and Metropolitan Counties which were seen by the Government as the worst offenders in terms of 'profligate overspending' and as major obstacles to the achievement of control over local government expenditure (Travers op cit, Chapter 9).
Following a White Paper which indicated that the existing rating system would be retained for "... the foreseeable future..." the Government legislated in the Rates Act 1984 for powers to impose limits on the rates of either specified local authorities ('selective rate limitation') or all authorities ('general rate limitation'). The Government introduced the selective scheme in summer 1984 designating 18 authorities (including the GLC, two Metropolitan Councils and nine London Boroughs) for rate-capping in 1985/6. Authorities spending below GRE or less than £10 million (index linked from 1985/6) are exempt from the selective scheme but any other authority can be selected whose expenditure is considered by the Secretary of State to be "... excessive having regard to the general economic conditions" (Department of Environment, Rate Limitation Reports 1984-6). In 1985/6 'excessiveness' was defined in relation to expenditure targets, but has subsequently been defined in relation to increases in spending over previous years. Once selected, authorities are given 'expenditure levels' (ELs) for the following year and a rate limit is calculated on the basis of the EL, block grant entitlement and levels of reserves. Authorities can appeal for a redetermination by the Secretary of State and this can result in an increased, reduced or unchanged EL (Department of Environment 1986, Annex B; Travers, 1986, p. 158-64).

Over the four years of operation of the selective scheme (1985/6 to 1988/9) 31 authorities have been designated at some time. Of these 13 have been included in more than one year and 9 in all four years (7 of which are London Boroughs) (Department of Environment, 1984-6, Rate Limitation Reports). In the first two years of the scheme two authorities (Lambeth and Liverpool) failed to set a legal rate and councillors in these authorities have subsequently been surcharged and disqualified (Travers, 1986, p. 164-7). Apart from this the general picture has been reluctant compliance by the predominantly Labour-controlled authorities involved although the evidence suggests that most authorities have been able to continue to increase their spending (ibid, p. 172-6). One reason for this is that many of the authorities involved are Metropolitan Districts and London Boroughs (10 out of 12 in 1986/7 and 16 out of 20 in 1987/8) and, following the abolition of the GLC and Metropolitan Counties, the Government tended to treat such authorities leniently in order to moderate rate increases in these areas so as to justify abolition (Travers, 1985).

It is possible to see the Government's rate-capping powers (in conjunction with the abolition of the GLC and Metropolitan Counties) as a logical extension of its concern with local authorities' spending which has moved progressively from the objective of controlling local government expenditure in general to an increasing focus on controlling particular 'high spending' authorities. The progression of measures through the introduction of the block grant system, the super-imposition of the system of targets and penalties, the abolition of the power to raise supplementary rates and precepts and the introduction of rate-capping indicate an increasing degree of central control over local authorities. The proposed reforms of the grant system and replacement of domestic rates by a 'poll tax' can again be seen to follow logically from the concern with high spending authorities and with the impact of local authority rates.
However, before considering these proposed reforms it is necessary to complete the picture of changes in financial controls on local authorities since 1979 by considering capital expenditure.

3.3 Capital Expenditure

3.3.1 Introduction

In general terms capital expenditure covers expenditure on fixed assets and stockbuilding. More specifically in a local authority context capital expenditure covers the purchase and construction of new buildings, roads and other structures, major renovation and improvement works, the acquisition of land, vehicles, plant and equipment, and the making of grants and advances for similar purposes including mortgages. Also included are the capital value of assets acquired under financial leases, property leased for more than 20 years, property sold (or leased out) and leased back, and all vehicles leased for more than one year. Nevertheless, there is no hard and fast distinction between capital and revenue expenditure and there are variations between authorities in respect of the classification of certain items of expenditure (e.g. purchase of small equipment, repair and renewal expenditure) (Audit Commission 1983 Appendix A; Department of the Environment 1986 Ch 6; H M Treasury 1987 p 420).

Local authority gross capital spending in 1985/6 totalled £6.2 billion. Since most capital expenditure is financed by borrowing the Government exercises close control on the grounds that such borrowing contributes to the Public Sector Borrowing Requirement (PSBR), and control of the latter is necessary in the context of the broader macroeconomic management of the economy as a whole. The Government's stated objectives for a control system are, firstly, that it should provide effective Government influence over aggregate levels of local authority capital expenditure and borrowing; secondly, that it should promote the Government's aim of reducing the size of the public sector by encouraging asset sales; and, thirdly, that it should provide a sound basis for local authorities' forward planning of capital programmes and for the focussing of resources on needs (Department of Environment, 1986, para 6.8).

3.3.2 The Reform of the Capital Expenditure Control System 1981/82

A major reform of the control system for capital expenditure was introduced by the Local Government Planning and Land Act 1980 which established the basic system which is operative at the present time. Prior to the financial year 1981/2 control was exercised indirectly via a 'loan sanction' system which limited local authorities' borrowing to finance capital spending. Such spending was classified into three categories (Audit Commission, 1985). Firstly, the 'key sector' included major capital items in the main services (e.g. housing, education, transport, police) for which specific approval was required. Secondly, the 'subsidiary sector' included expenditure on land for key sector projects and on slum clearance and housing renovation grants for which general consent to borrow was given by means of circulars. Thirdly, the 'locally determined sector' included all other
capital schemes and was covered by block borrowing approval from which all capital expenditure not financed by other means (e.g. from capital receipts, revenue contributions, capital funds, repairs and renewal funds, capital grants) had to be met. Local authorities were free to determine priorities within this sector and there was a 10% flexibility from year to year.

The Government became unhappy about this system of control for two main reasons. First, there was a lack of precision and some unpredictability in the timing of the impact of borrowing approvals on PSBR. Second, as the importance of non-loan finance in capital expenditure increased (e.g. Capital receipts, repairs and renewals funds, grants from other authorities) so Government influence over such expenditure declined. Thus, between 1974/5 and 1981/2 the proportion of total local authority capital expenditure in England funded from borrowing decreased from 84.3% to 50.8% (Travers, 1986, p. 138-9; Watt, 1982, p. 91; Department of Environment, 1986, para. 6.9).

This system was replaced in 1981/2 by a new system which limits the amount of actual expenditure in any year, however financed. The Government issues local authorities with allocations for each year relating to service blocks. Initially there were five blocks: housing, education, transport, personal social services and other services; in 1984 a sixth block for Urban Aid was added. Allocations are issued following the submission of expenditure plans by authorities to the relevant central departments and authorities are also provided with indications of likely allocations for future years to aid forward planning (although these are not binding). Authorities are allowed flexibility, firstly, by unlimited virement between blocks within the total limit; secondly, by carrying forward from one year to the next up to 10% of a year's total allocation; thirdly, by supplementing allocations from capital receipts and profits from trading undertaking (within rules set down by the Secretary of State); and, finally, by transferring any part of their allocations to other local authorities (Audit Commission 1985, Appendix A).

However, the Government has taken steps to reduce this flexibility and increase control over gross capital spending by placing limits on the amount of capital receipts which authorities may apply in any one year. For example, for 1983/4 authorities were restricted to the use of 50% of receipts from the sale of houses and 50% of non-housing receipts; these proportions have subsequently been reduced to 20% and 30% respectively, although certain 'non-prescribed' receipts can still be used in full. However, a 'cascading principle' applies to the use of receipts such that the prescribed proportion can be used in the first year and the same proportion of what remains in each subsequent year (ibid).

3.3.3 Criticisms of the System

The system for capital expenditure control has been subjected to serious criticisms, notably as a result of an investigation by the Audit Commission (1985). First, the system is deficient in the Government's own terms because it has failed to achieve the objective of controlling capital expenditure in relation to
broader public expenditure planning. After initial underspending, local authorities' capital spending, in both gross and net terms, has been in excess of planned levels in each year since 1983/4. The Government has therefore cut back the national total of allocations but an important reason for the overspending has been the large amount of capital receipts accruing to local authorities from the disposal of assets, particularly from the sale of council houses. Hence, as indicated above the Government has acted to control the application of capital receipts. However, the effect of these measures has been to reduce the scope for directing allocations to areas of greatest need and to reduce the incentive to dispose of surplus assets (Department of Environment, 1986, para. 6.15-6.17; Audit Commission, 1985, p. 11-15).

The problem relates to the conflicting nature of the Government's objectives for the system (outlined above p. 17). In attempting to achieve objectives which are not mutually consistent the Government has made the system highly complex and subject to short-term corrective measures which has increased the uncertainty faced by local authorities in their planning of capital expenditure and produced inefficiencies in the implementation of capital programmes (Department of Environment, 1986, para. 6.18; Audit Commission, 1985, p. 16-24). The problem is exacerbated by the short-term focus of the system which makes it difficult for authorities to plan ahead with any confidence (ibid, p. 37-40).

The Audit Commission also found that the system imposes significant constraints on local flexibility and autonomy:

"... central government officials, operating with inevitably limited and often out-of-date information, and lacking detailed local knowledge cannot be expected to be better judges of local needs and priorities than members accountable to the local electorate".

(op. cit., p. 37)

The degree of central control exercised means that local authorities lack the incentive to tap new sources for capital funding. This arises, in particular, from controls on the use of capital receipts but is exacerbated by controls on revenue expenditure which can both inhibit certain types of capital spending (due to their revenue implications) and reduce the scope for funding certain types of capital expenditure from revenue (ibid., p. 37, 41-5). This means that local authorities have less autonomy and flexibility to determine local priorities and to direct resources effectively to local needs. This objective is clearly subordinated to that of controlling capital spending in accordance with national cash limits and the result has been a rundown in capital assets due to the inadequacy of capital investment in, for example, roads, schools and renovation of council housing (ibid., p. 24-32).

The Audit Commission concluded that the weaknesses inherent in the present system represent "... serious obstacles to securing local economy, efficiency and effectiveness" (op. cit., p: 47). They made various recommendations for reform including a 3-5 year
planning horizon, adequate provision for depreciation of fixed assets, encouragement for authorities to rely less on borrowing to finance capital spending, less central involvement in local programmes, continued incentives for authorities to dispose of under-utilised assets and a simplification of the system particularly the relationship between revenue and capital expenditure (ibid., p. 49). The Commission also suggested that some relaxation of present controls may be necessary and local authorities have argued more forcefully for fewer controls arguing that controls on revenue expenditure should be sufficient for the Government's purposes and, failing that, controls only on new borrowing for capital finance (Department of Environment, 1986, para. 6.20). However, the Government has re-asserted its intention to retain controls on capital spending and has considered reforming the system so as to improve the degree of control over gross expenditure. This would be achieved by specifying the amount of capital receipts that authorities were permitted to use in any year and providing for a limited supplementing of capital expenditure from revenue (Department of Environment, 1986, paras. 6.19-6.51). These proposed reforms have not been implemented pending the reform of the wider system of local government finance, but the Government has taken steps recently to prevent local authorities circumventing the present controls using 'innovative' devices such as advanced and deferred purchase (or 'covenant') schemes.

3.4 Conclusion - Further Proposals for Reform

This review of changes in central government controls on local authorities' expenditure, both current and capital, since 1979 has demonstrated the concern of the Government to achieve an effective system of control and has indicated that this concern has been underpinned by both economic and political objectives. It has also indicated, that the degree of control actually achieved by central government has been far from complete and local authorities' spending has not fallen totally into line with the Government's plans. However, the Government has developed new proposals for radical changes in the system of local government finance and these proposals can be analysed in terms of the extent to which they enhance the Government's prospects of increasing control over local authorities' expenditure.

The central argument underlying the Government's proposals relates to 'local accountability' (Department of Environment, 1986). It is argued that the present system for financing current expenditure involving block grant and domestic and non-domestic rates, with a significant proportion of people being exempted from paying domestic rates, fails to promote accountability of local authorities to the local electorate and encourages high spending by authorities (op. cit. Chapter 1). Basically, it is argued that authorities have little incentive to control spending, firstly, because a significant proportion of marginal increases in spending falls on non-domestic ratepayers who do not have a vote and, secondly, because a large proportion of people who do have a vote are exempted from any contribution towards increased spending (or pay only a proportion) due to the rate rebate scheme. Moreover, the burden on domestic ratepayers due to increased spending is less in areas with low rateable values due to the resource equalisation mechanism in the block
grant system (ibid.). The implication of the Government's argument is that councils in northern urban areas are only weakly accountable to their electorates and that this explains the concentration of 'overspending' authorities in such areas.

The stated intention of the Government's proposed reforms then, is to establish a clearer and more direct relationship between the spending behaviour of authorities and the change in tax burden on local voters (ibid., para. 1.54). The proposals comprise three main elements. First, domestic rates are to be replaced by a flat-rate 'community charge' (i.e. poll tax) to be levied on all adults (i.e. persons aged 18 years and over); all adults within a local authority area will face the same charge. Second, non-domestic rates will be changed from a tax levied at variable rates by different local authorities into a uniform national business rate which will be index-linked with the proceeds distributed to local authorities on an equal amount per adult basis. Third, the grant system will be simplified with the conversion of the present block grant system into two lump-sum grants: a 'needs grant' to compensate for differences in assessed spending needs per adult between authorities; and a 'standard grant' providing an additional contribution from national taxation towards the cost of local services, again distributed on a per adult basis. Moreover, needs assessment will be undertaken on the basis of a simplified approach to assessing GREs (Department of Environment, 1986; Gibson, 1987).

In the proposed system, authorities would receive a fixed sum at the start of the financial year comprising the needs and standard elements of grant and a portion of national business rate income. This allocation from central government (which is likely to constitute about 70-80% of revenue for most authorities) will be invariant with authorities' spending levels; income from the poll tax will make up the remaining required revenue and the full cost of marginal increases in spending (and the full benefit of marginal decreases) will be felt by local domestic taxpayers. There will be a 'gearing effect' from marginal increases in spending to increases in the poll tax which will depend on the proportion of an authority's total spending supported by the central government allocation; many authorities will find that a 10% increase in spending will require something like a 50% increase in the poll tax. Since this tax is levied on a simple per capita basis and since it is likely that all adults will have to pay at least a 20% contribution (following the Social Security Act 1986), it would appear that lower income people will lose out significantly from the Government's reforms.

There will also be an inter-regional redistributive effect due to the ending of the resource equalisation mechanism in block grant based on rateable values. Thus, authorities with relatively low rateable resources (mainly in northern England) will lose out while those with high rateable resources (mainly in southern, eastern and central England) will gain. This effect will be magnified to the extent that the spending of authorities in northern England (particularly in urban areas) tends to be high relative to GRE and non-domestic rates are above the national average; consequently, they will lose out in allocation of the uniform business rate. However, safety nets will be applied to moderate these changes and spread their impact over a period of
years (Department of Environment, 1986, Ch. 5).
If implemented these proposals are likely, therefore, to have two major implications. First, they should serve to constrain the spending of local authorities, particularly those in the northern urban areas which have proved to be the most difficult to control under the existing system of local government finance. This would serve the interests of the Treasury in controlling state spending in order to promote capital accumulation and would undermine the political challenge to the Government from Labour-controlled councils in these areas.

The second main implication will be a re-distribution of the burden of financing local government spending. Areas in southern, eastern and central England will gain mainly at the expense urban areas in northern England. The main groups to benefit will be business and commerce in high rate poundage/low rateable value authorities (mainly in the north) and higher income people who will gain both from the replacement of domestic rates by the poll tax (i.e. especially in high rate poundage authorities) and from the abolition of resource equalisation on the basis of rateable value (i.e. especially in high rateable value regions). These changes will benefit the process of capital accumulation by controlling business costs and increasing disposable incomes for the better-off, and there are political implications in terms of the patterns of political support amongst such groups. The main losers will be lower income people particularly in northern urban authorities with high rate poundages and low rateable values.
4. The Financing of Local Transportation Expenditure

4.1 Introduction

Local authorities play an important role in the provision of transport infrastructure and services, accounting for over half of the Department of Transport's total budget. Within total local authority spending, transportation accounts for a relatively modest proportion of current expenditure (about 7%, the main components being road maintenance, public transport revenue support and concessionary fares) but a more significant proportion of capital expenditure (about 19%, mainly on road construction and improvement) (HM Treasury 1987, Table 3.8).

Historically, there is a long tradition of special central government financial assistance to local authorities for transport expenditure over and above the general support arrangements which have existed in various forms since 1929 (Bennett, 1982, Ch. 3). The basis for such 'specific' and 'supplementary' grant arrangements has been the argument that part of transport expenditure undertaken by local authorities is of more than purely local significance and that central government has an interest in ensuring the continuity of good standard facilities between local authority areas linking the national road network and public transport system (Department of Environment, 1975, p. 103). Relatively close links have developed, therefore, between central and local government in respect of the financing of local transportation expenditure and this relationship is of considerable interest in the context of the wider development of ideas about central-local relations.

At the outset it is worth considering briefly the stated objectives of the Government for local transport. As regards expenditure on local roads the objectives are to enable local authorities within cost-effective limits, to maintain and improve their roads:

(a) to meet growing business and other traffic and so reduce costly delays and accidents; and

(b) to provide safe and convenient facilities for cyclists and pedestrians, and to improve the environment.

As regards local public transport the objectives are:

(c) to promote the provision of convenient and reasonably priced public transport at lower cost to the taxpayer by encouraging competition between operators in both the public and private sector;

(d) to enable provision by authorities at their discretion for the support of socially necessary local bus services and for transport concessions for elderly and disabled people, and for children and young people in full-time education;

(e) to provide for authorities to meet the needs of publicly owned bus companies for externally financed investment.

(Department of Transport, 1987)
These objectives have evolved as part of the present Government's broader approach to economic and social reform and clearly reflect concerns with reducing the cost of the public sector, and increasing competition and the role of the private sector, and indicate a priority to the needs of business within public sector provision. Thus, the major transport aim of the Government is to "... increase consumer choice, and efficiency, by policies to increase competition and to decrease the role of the public sector". (ibid. para. 1). The degree of change in approach from the previous Government can be illustrated to some degree by comparing the above transportation objectives with those set out in the Labour Government's 'Transport Policy' Green Paper published in 1976, which were:

(a) to maintain a safe and efficient transport system which provides good transport facilities at lowest cost in terms of the resources used;

(b) to give high priority to the social welfare aspects of transport, and in particular to the public transport needs of those without access to a car;

(c) to protect and relieve the community from the unwarranted impact of transport on the environment;

(d) to secure the efficient use of scarce resources, notably energy;

(e) to leave as much freedom of choice as possible to both users and to democratic decision;

(f) to ensure that the changes ahead are accomplished in the context of full trade union involvement;

(g) to recognise the need to restrain public expenditure and in particular to confine subsidy to the areas of greatest need.

(Department of the Environment, 1976, Ch. 3)

These objectives do indeed reflect the concern of the Labour Government in 1976 with restraining public expenditure in the context of the IMF assistance to deal with the economic crisis of the mid 1970s (see above, Section 2.1). However, certain points of contrast with the present Government's objectives can be highlighted. First, the concept of 'lowest cost in resource terms' has been replaced by 'lowest cost to the taxpayer' indicating greater concern to reduce public spending and a conviction that resource consumption is a matter for the market and not for planning. Second, within public provision priorities have changed away from social welfare considerations and towards efficiency, cost-effectiveness and providing for the needs of the economy. Third, with the change of perspective which has elevated the role of the market above planned provision for social needs, the concept of 'need' has changed from one referring to socially-mediated standards of provision to one based on demand exercised in the market. Fourth, the 'corporatist' approach based upon consultation with the trade unions is no longer in evidence; this is consistent with the tendency of the present Government since 1979 highlighted by
Rhodes (1984) towards less consultation in policy making and more 'direction'.

These broader changes in policy and ideology provide the context in which changes in the system of finance of local transportation expenditure should be studied. In this section we review the main features of this system and how it has evolved over time, consider various criticisms which have been made of the system, and outline other developments since 1979 which have a bearing on local authorities' approaches to local transportation expenditure and provision.

4.2 The TPP/TSG System

4.2.1 The Reform of Local Transport Finance

Prior to 1974 a significant proportion of government financial help towards local authorities' transport provision was provided in the form of specific grants. The most important was the 75% grant towards the cost of building or improving principal roads but there were also infrastructure grants for public transport capital projects, new bus grants, grants for unremunerative rail services, rural bus and ferry grants and grants for transportation studies following the 1968 Transport Act. Financial assistance for other local authority transport expenditure (e.g. for road maintenance and administrative costs) was provided through the Rate Support Grant (House of Commons Expenditure Committee, 1973, para. 115-9, Department of Environment, 1973).

By the early 1970s there was mounting concern about this "... plethora of specific grants" (Mackie, 1980, p. 188) and particularly about the potential for bias in decision-making towards capital-intensive solutions. Such bias was seen as likely to be particularly important in urban areas, as witnessed by large urban motorway and rapid transit schemes, and to be resulting in serious misallocations of resources (Foster, 1973). Moreover, the system of specific grants was seen as inconsistent with the concept of comprehensive transport planning which had been behind the 1968 Transport Act and which the Government wished to promote (Department of Environment, 1973; Mackie, 1980, p. 188). Finally, the system involved too much detailed central supervision and control over individual schemes (Department of Environment, 1975, para. 5).

Consequently, in a context provided by the reform of local government, through the Local Government Act 1972 (implemented in 1974), a new approach to financing local transport expenditure was seen as necessary in order to provide the new County Councils with the means to undertake their new responsibilities for integrated and co-ordinated planning of public and private transport in the wider context of land use planning (ibid., para 6; Mackie, 1980). The approach adopted involved a supplementary block grant to 'top up' Rate Support Grant provision in respect of transportation expenditure, this supplementary grant to be paid on the basis of plans submitted by County Councils for scrutiny by the Department of the Environment (Department of Environment, 1975, para. 10-13).
The new system was introduced in 1975/6 with the following objectives:

1. To promote the development and execution of comprehensive transport plans by the new County Councils and the GLC;
2. To eliminate bias towards capital or current expenditure or towards particular forms of expenditure;
3. To distribute central government grant in a way that reflects as far as possible the needs of individual areas;
4. To reduce the degree of detailed supervision by central government over individual schemes.

(Mackie, 1980, p. 188).

The basis of the system was that the bulk of financial assistance from central government for local authority transport expenditure, previously distributed in the form of specific grants, would be partly absorbed into the needs element of rate support grant (RSG) and partly distributed through a Transport Supplementary Grant (TSG) payable to those authorities which satisfied the Secretary of State that their transport needs were not adequately covered by RSG. All County Councils were required to submit statements of Transport Policies and Programmes (TPPs) each year to the Secretary of State setting out their transport policies, detailed proposals for expenditure in the next financial year, an expenditure programme for five years ahead and a broader strategy for the longer term, and a statement of progress in implementing policies and meeting objectives. After examining the TPPs, and in the light of the resources made available for local authorities in the public expenditure planning process (cf. Section 3.2 above), the Secretary of State decides on each authority's 'Accepted Expenditure' (AE) for the next financial year. TSG is then paid as a proportion of the amount by which AE exceeds a 'threshold' which represents the level of financial support through RSG (ibid.; Department of Environment, 1973; Hepworth, 1984, p. 64-6).

In formal terms the system can be expressed as follows:

\[ TSG_i = [AE_i - (t \cdot P_i)] \cdot r \]

where TSG\(_i\) is the Transport Supplementary Grant awarded to local authority \(i\);
\(AE_i\) is the accepted expenditure for local authority \(i\);
\(P_i\) is the population of local authority \(i\);
\(t\) is the threshold per capita;
\(r\) is the rate of grant.

For example, the relevant figures applying to West Yorkshire County Council in 1978/79 were as follows (Mackie and Garton 1979 p 12-13):

<table>
<thead>
<tr>
<th>(AE_i)</th>
<th>(P_i)</th>
<th>(t)</th>
<th>(r)</th>
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<tr>
<td>£37.362 million</td>
<td>2.078 million</td>
<td>£9.992 per capita</td>
<td>0.70</td>
</tr>
</tbody>
</table>
Therefore, the TSG awarded to WYCC was:

\[ TSG_i = [37.362 - (9.992 \times 2.0780)] 0.7 = 11.62 \text{ million} \]

It can be seen that the amount of TSG received by an authority is a function of its accepted expenditure, the value of the threshold, and the rate of grant. The values of these variables had to be adjusted by the Secretary of State so that the total TSG distributed conformed with the total finance available, which was a cash-limited sum deriving from the Government's public expenditure provisions. The value of the threshold was particularly important because it determined the balance of finance for local transport between Supplementary Grant on the one hand and RSG (in respect of current expenditure) and borrowing (for capital expenditure) on the other. The lower the threshold the greater the degree to which authorities' transport expenditure would become eligible for TSG and therefore subject to the scrutiny of the Secretary of State. Constraints on the total resources available for TSG could then be accommodated by adjustments in the rate of grant. In practice, the system was implemented with a threshold set sufficiently low such that most counties would qualify for TSG in order to ensure detailed scrutiny of authorities' policies and programmes by the Secretary of State. TSG was then provided in the early years at about 70-75% of AE above threshold (Mackie 1980, p 188-9; Mackie and Garton 1979, p 8-13).

In the new system as introduced in 1975/6, TSG covered both current and capital expenditure on public transport, highways, traffic regulation, parking provision and freight handling facilities. (Expenditure on new buses, concessionary fares, toll facilities, airports, harbours and canals was, however, excluded.) TSG was a block grant towards the whole 'accepted' programme (i.e. not tied to specific items) and the block loan sanction approved by the Secretary of State to cover the capital portion of AE was similarly unhypothecated.

4.2.2 Critique of the TPP/TSG System

In the early years of the new system the Government issued financial guidelines for each authority within which they were to prepare alternative programmes, these guidelines being based upon the Government's broader public expenditure plans as set out in the annual Public Expenditure White Paper. Therefore, notwithstanding the Government of the day's stated intention that "... more responsibility for planning transport to meet local needs should be devolved to local government ..." (Department of Transport, 1978, para. 2) there was, in fact, a significant degree of central influence and control deriving from financial guidelines, central scrutiny of TPPs and decisions on thresholds and accepted expenditure. This control related essentially to two sets of interests. The first set was associated with the Treasury's drive to control public spending from the mid 1970s onwards which tended to contradict an important element in the logic of TPP/TSG system as originally devised relating to the encouragement of higher expenditure to meet certain objectives. The second set of interests was expressed in national transport policy considerations as mediated through the Department of the Environment and, from 1977, the Department of Transport.
The controls deriving from the above interests created conflict and tensions between central and local government and revealed deficiencies in the system. The basic underlying issue is that of central government control versus local government autonomy and discretion in decision-making. As indicated earlier (see Section 3) developments in central-local government financial relations since the mid 1970s can be analysed in terms of the tension between, on the one hand, interests concerned to increase central control over local authorities and, on the other, a deep-seated tradition of 'local democracy' in which a significant degree of local government autonomy is seen as having 'constitutional' status. This tension is expressed in the following justification of central control via the TPP system put forward by the Department of the Environment in the early days of the system:

"... government ... needs to ensure that it can exercise its proper responsibilities in the planning of local transport. Its role thus becomes one of providing the broad resource and policy context within which local discretion is exercised; overseeing the means by which authorities assess local needs and satisfy them by solutions which represent value for money; and exercising a co-ordinating role in the integration of national and local transport plans and in the securing of specific national transport policy objectives. The reconciliation of this role with the safeguarding of local government's independence cannot always be achieved by relying solely on exhortation and advice."

(Department of Environment, 1975, para. 25)

From this analytical perspective it is possible to identify a particular underlying problem in the TPP/TSG system. As indicated above the system was developed in a context when the promotion of national transport policy interests was an important consideration producing an orientation towards developing expenditure programmes in accordance with such interests. This is reflected in the discussions of the House of Commons Expenditure Committee (1973) in respect of the achievement of effective sanctions to implement national policy through the control mechanisms available to the Department of the Environment (ibid. paras. 131-47). However, the economic crisis in the mid 1970s resulted in the subordination of central government departmental interests to Treasury control over public expenditure. Therefore, in the context of the TPP/TSG system, the emphasis changed, with the promotion of national transport policy objectives being subordinated to the control of local transportation expenditure. Thus, in their evidence to the Layfield Inquiry into local government finance in 1975, the Department of Environment stated that:

"In the current circumstances the need to encourage transport plans which are economical in their demands on resources now looms larger than the original wish to encourage higher transport expenditure in particular cases."

(Department of Environment, 1975, para. 15)

This change in the balance of interests within central government
produced implications for the way in which the TPP/TSG system worked and for relations between central and local government. If restraint of local transportation expenditure was to be achieved, local authorities should develop low-cost transport plans. However, such plans would result in expenditure bids more likely to fall below the threshold value and therefore, not attracting TSG. From the standpoint of any one authority, if other authorities were submitting relatively high bids in an attempt to maximise TSG entitlement, then it would not be in the interests of that authority to develop a 'good cheap plan' and thereby risk foregoing TSG altogether (ibid.). Therefore, to some extent high expenditure bidding is inherent in the system but this is clearly not consistent either with the objective of controlling expenditure or with the objective of directing resources effectively on the basis of need. Moreover, this feature of the system is a source of conflict between central and local government because, from the latter's standpoint, the credibility of the system, as a rational resource allocation mechanism relative to explicit needs and objectives, is undermined.

Conflict deriving from central government pressure to control the level of expenditure has been exacerbated by trends towards greater central control over the distribution of expenditure arising from 'national policy' considerations. Of importance in this respect are interests mediated through the Department of Environment and, since 1977, the Department of Transport. Mackie (1980, p. 201) quotes a senior government official's rationalisation of this aspect of government control:

"... the Department, responding to national considerations, is bound to seek to influence local authorities to ensure that expenditure is consistent overall with the PESC provision."

The conflict between central and local government has been most evident in the field of public transport policy (Mackie, 1980; Mackie and Garton, 1979). In the first year of the system, local authorities received positive guidance in relation to public transport revenue support measures but this was quickly overturned in the context of the Government's response to the economic crisis with the decision in 1975 that bus and underground subsidies were to be reduced by 50% in real terms within three years. However, the review of policy, published in the 1977 Transport Policy White Paper, resulted in a further revision, with a renewed commitment to public transport; only a small reduction in subsidies in metropolitan areas was now proposed and there would be a modest increase in support for rural services (Department of Transport, 1978, 1979). With the election of the Conservative Government in 1979 the direction changed again with an increasing degree of scrutiny being placed on revenue support expenditure (Department of Transport, 1981, 1982). Authorities were required initially to justify revenue support proposals more rigorously and the Government indicated that it was not prepared to accept proposals for subsidies intended to implement generalised low fares policies (op. cit. 1982, para. 10).

The Government's policy on public transport revenue support
brought it into serious conflict with local authorities in London and the metropolitan areas. In 1977/78 South Yorkshire County Council's revenue support proposals found disfavour with the Labour Government, but the latter's response was to accept only a small amount of expenditure for TSG, allowing the Authority discretion to finance its policy from rates if it so wished. However, the Conservative Government's approach in 1982/3 was more draconian. Following the successful legal challenge by Bromley Borough Council to the GLCs 'Fares Fair' policy, the Government introduced the 1983 Transport Act which gave the GLC and Metropolitan Counties 'Protected Expenditure Limits' (PELs) for revenue support, such that expenditure above the PELs would be open to legal challenge (Department of Transport, 1983). The concern to reduce spending on public transport subsidies, particularly in the metropolitan areas, can also be seen as an important factor in the Government's modifications to the block grant system (especially the target and penalty system), introduction of rate-capping and, eventually, abolition of the GLC and Metropolitan Counties (see above section 3.2). This concern to reduce local authorities' spending on public transport revenue support is consistent with the interpretation of Government policy since the late 1970s as directed at both reducing the overall burden of state spending on capital accumulation and re-ordering the composition of state spending so as to give higher priority to programmes assisting the process of capital accumulation and lower priority to programmes assisting social welfare.

These developments will be considered at greater length in the next section but meanwhile it is appropriate to consider other criticisms which have been directed at the TPP/TSG system and reforms to the system which have been introduced since 1979. As regards other criticisms, the review by Mackie of the operation of the system up to 1979 points up various drawbacks in addition to those referred to above (Mackie, 1980; Mackie and Garton, 1979). In particular, he points to deficiencies arising from problems of forecasting revenue expenditure, the annual basis of TSG settlements and lack of longer term financial guidance and the absence of an objective basis for demonstrating need and ensuring that resources are allocated to meet priority needs. He is also critical of the degree of central government intervention in local decision-making on the grounds that it blurs responsibility for local transport expenditure decisions, it reduces the scope for learning from diversity within local government, and it discriminates against authorities with open policy differences with central government compared with those who operate 'through the back door' (Mackie, 1980, p. 198-202; Mackie and Garton, 1979, p. 37-51).

4.2.3 Towards Reform of the TSG System

On taking office in 1979, the Conservative Government retained the TPP/TSG system subject to a simplification in the procedure for submitting TPPs such that full TPPs were required only when changes in problems and policies made them necessary while, in intervening years, only summaries of changes and amendments and their relationship to policies, were required (Department of Transport, 1980). However, during the early 1980s, there developed criticism of the system and the way it was operating in
the context of the Government's broader approach to local government finance. The main forum for these criticisms was the annual consideration of the Government's expenditure plans for transport, as presented in the Public Expenditure White Paper, by the House of Commons Transport Committee, the first of which was undertaken in 1980 (House of Commons Transport Committee 1980-87).

In their reports on the 1981 and 1982 Public Expenditure White Papers, the House of Commons Transport Committee commented on the severity of the cuts being imposed by the Government on local authorities' transport programmes and focused on two features in particular: first, the problems faced by local authorities in achieving cuts in public transport revenue support; and, second, significant underspending by local authorities on transport capital programmes relative to allocations under the new system of capital finance (see above Section 3.3). The Committee related these two problems in the following terms:

"In view of the fact that local authority support for bus operations, in consequence of the phasing out of the New Bus Grant, will soon represent the only direct form of public subsidy for local bus services other than rebate on road fuel duty, the ability of local authorities to at least maintain the level of subsidy to bus operators is clearly crucial, in many cases, to the continued operation of many local bus services, and in most non-metropolitan areas the local bus services constitute the only public transport services of any consequence."

(op. cit., 1981, para. 33)

"Against the background of a significant cut-back in their expenditure programmes for transport, local authorities have ... been faced with increased demands for support from public transport operators whose financial position has deteriorated, partly as a result of the recession and consequential loss of traffic."

(op. cit., 1982, para. 44)

"The possibility that local authorities may feel free to make a choice in favour of public transport subsidies, with consequent further reductions in total capital expenditure, is heightened by their freedom to transfer central government support for local transport expenditure, under the present Transport Supplementary Grant arrangements, from capital to current expenditure, regardless of the projected balance of expenditure shown in County Transport Policies and Programme bids."

(op. cit., 1981, para. 33)

The Committee therefore expressed dissatisfaction with the way in which the TPP/TSG was working because it failed to give local authorities an incentive to achieve planned capital expenditure targets. They expressed the view that the system should be reformed so as to provide such an incentive whilst ensuring
It would appear that, in coming to their views on the need to reform the TPP/TSG, the Transport Committee was increasingly influenced by the submissions on this matter by the British Road Federation (BRF). In 1983 and 1984 the BRF made submissions to the Committee outlining criticisms of the system, primarily on the grounds that it contributed to capital underspend by local authorities, and proposing reforms to redress this problem (British Road Federation, 1983A, 1984). It is appropriate to consider the BRF's criticisms in more detail.

The BRF argued that during a period (1981-83) when the Government had been concerned to restrain local authorities' current expenditure whilst increasing the provision for capital expenditure, local authorities' response had been to continue to increase current spending whilst reducing considerably capital expenditure (BRF, 1983B, p. 3-4). In part, the problem was seen as due to the cuts in Government grant and the operation of the block grant/penalty system making local authorities reluctant to incur additional interest charges on their current accounts which would accrue from borrowing to finance capital projects. However, the main fault was seen to lie in the TSG system due to the lack of correlation between the level of TSG awarded and the balance of current and capital expenditure in 'accepted expenditure' and due to the discretion of local authorities to use TSG as they wished once it was awarded. In the context of the Government's broader financial controls, therefore, capital expenditure was suffering particularly in the Shire Counties which were left to finance a higher proportion of capital spending by borrowing than were the GLC or Metropolitan Counties (ibid., p. 7-8).

The BRF proposed that TSG should be retained but should be applicable only to capital expenditure, with all local authorities' transport current expenditure receiving support through block grant. They proposed that standards for public transport provision and road maintenance should be drawn up to ensure the protection of these items of current expenditure. The Government should provide an indication of likely future levels of TSG in order to encourage better forward planning by local authorities. Also, interest charges on borrowing for capital spending should be disregarded from relevant current expenditure and, therefore, from block grant abatement calculations, and tax changes should be introduced to reduce interest costs faced by local authorities (ibid., p. 8-14).

In their 1984 report on the Public Expenditure White Paper, the House of Commons Transport Committee (1984) explicitly supported the proposal to restrict TSG to capital expenditure and also proposed that the Government should give a firmer commitment to local authorities in respect of the capital allocations for road construction likely to be available in future years. In October 1984, a Department of Transport circular announced the Government's decision to restrict TSG payments from 1985/86 to capital expenditure on highways and traffic regulations. The reason for this decision was stated as follows:
"TSG was intended to support local transport expenditure generally. But in recent years authorities have spent more on transport revenue expenditure (particularly on public transport revenue support) than provided in the Government's public expenditure plans, while they have underspent the provision for transport capital expenditure. The Government wishes to concentrate the extra support provided through TSG on highways capital expenditure which is of more than local importance, in particular investment on roads which form part of the primary route network of major through routes, important urban roads, and bypasses and relief roads which relieve communities of the effects of heavy through traffic."

(Department of Transport, 1984, para 2)

Therefore, from 1985/86 TSG was no longer available to support any current expenditure nor capital expenditure on car parks, the provision of facilities for handling freight to be carried otherwise than by road, and facilities for public transport (the latter now being eligible only for grants under S56 of the 1968 Transport Act in respect of large projects). Compensating arrangements were made in block grant to provide support for all current expenditure on transport via RSG (ibid. paras 3-7).

This reform of TSG can be seen as consistent with the Government's broader policies in relation to the control of local government expenditure, being designed explicitly to help in the control of local authorities' current expenditure on public transport revenue support (which relates mainly to 'social welfare' objectives) while promoting capital expenditure on roads, especially those of 'more than local importance', which can be seen as promoting the Government's stated objective of providing benefits to 'industry and other road users' (cf. Department of Transport 1987, p. 16; see also above section 4.1). The reform renders the larger part of local authority transport expenditure subject to tighter control within the context of the block grant system while providing the Government with a greater degree of control over the distribution of local transportation expenditure. Therefore, the reform is consistent with the broader thrust of policies designed to promote capital accumulation both by restraining public expenditure and by influencing its composition in favour of that contributing to the well-being of the private sector at the expense of that contributing to social welfare objectives.

In fact, the evidence suggests that the problem of local authorities underspending on highway-related capital expenditure may have been exaggerated. Table 4.1 presents data from the Government's Public Expenditure White Papers on capital expenditure provisions and outturns in England between 1981/82 (the first year of the reformed capital control system) and 1986/87. The underspend on the total of local authority capital expenditure declined from 12% in 1981/82 to 2% in 1983/84 while overspending occurred in 1984/5 and 1985/6. Provisional figures for 1986/7 indicate a small underspend but this could change since outturn figures usually exceed provisional. Taking roads and car parks together, the only significant underspend was in 1981/82, the first year of the new system when, the Government
has acknowledged, authorities were adjusting to the new system (cf. Department of Environment 1986 para 6.16); since 1984/85 there has been a slight overspend. Spending on roads alone has indeed been consistently below provision, but the margin of between -2% and -8% since 1982/83 can hardly be seen as a drastic problem.

The discussion in section 3.3 above indicated some difficulties which local authorities have faced under the system of capital expenditure controls introduced in 1981/82, particularly due to the short-term focus of the system, the constraints on local flexibility and autonomy and frequent changes in direction by the Government to attempt to correct perceived over- or under-spending. In addition, controls on revenue expenditure, and grant penalties for over-spending, have affected capital spending because of the revenue implications of capital projects (cf. running costs and debt charges). These difficulties notwithstanding, the main problem for the Government on capital spending since 1983/84 has been one of controlling overspending and measures have been taken, for example, to limit the application of capital receipts in any one year, in addition to the overall reduction in the provision for capital expenditure. Thus, between 1983/4 and 1986/7 the provision for local transport capital expenditure was reduced by 22%; the total capital allocation was reduced by 17%, implying a reduction in the assumed application of capital receipts of 79%. In every year from 1981/82 to 1985/86 total capital expenditure on local transport in England exceeded the capital allocation, the underspending against provision up to 1983/84 being due to the shortfall of actual capital receipts applied to local transport against the amount assumed by the Government. In the light of these considerations, the problem of discrepancy between expenditure outturns and provisions would appear to have been somewhat overstated and, in any case, such discrepancies can be seen as unremarkable in the context of the control system as it currently operates.

In a submission to the House of Commons Transport Committee in the context of the consideration of the Government's 1985 Public Expenditure White Paper, the Association of County Councils was indeed critical of the Government's focus on controlling overspending when there was an underspend on local highways:

"... roads projects are still subject to the same paraphernalia of 'voluntary restraint' and tightening control over capital receipts, control mechanisms which simply tend to exacerbate the underspending. Revenue targets and grant penalties further inhibit capital expenditure."

(Association of County Councils 1985, para 11)

It is instructive to bear in mind the wider policy context in which the reform of TSG took place and, in particular, the other local transportation reforms introduced in the 1983 and 1985 Transport Acts and the changes to the structure of local government implemented in the 1985 Local Government Act. Underlying these reforms was the concern on the part of the Government, in particular, to reduce expenditure on public transport revenue support by local authorities, especially those
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<tr>
<td></td>
<td>a</td>
<td>b</td>
<td>c</td>
<td>a</td>
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<tr>
<td>Out-turn</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Road only</td>
<td>308</td>
<td>-</td>
<td>384</td>
<td>416</td>
</tr>
<tr>
<td>Roads &amp; Car Parks</td>
<td>322</td>
<td>374</td>
<td>-14</td>
<td>409</td>
</tr>
<tr>
<td>Public Transport</td>
<td>234</td>
<td>282</td>
<td>-17</td>
<td>234</td>
</tr>
<tr>
<td>Total Transport</td>
<td>622</td>
<td>703</td>
<td>-12</td>
<td>727</td>
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* 1986/87 Out-turn figures are forecasts

in the metropolitan areas, such expenditure being a significant element in the perceived profligacy of the metropolitan councils which figured prominently in the Government's argument for their abolition. These measures will be considered in more detail below but first it is appropriate to look briefly at criticisms which have been made of the reformed TSG system as it has operated since 1985/86.

4.2.4 Criticisms of the Reformed TSG System

In fact, a major criticism of the reformed TSG system which has been made by representatives of authorities in the metropolitan areas, is that it has resulted in a significant transfer of resources away from those areas thus reducing the ability of metropolitan authorities to address their transport problems and needs. This criticism has been made by West Yorkshire County Council (1985) and the Association of Metropolitan Authorities (1987). Firstly, it is argued that the restriction of TSG to roads of 'more than local importance' introduces a bias towards large schemes outside urban areas (particularly by-passes) and against smaller schemes to improve traffic management and safety on busy urban roads of the type which constitute a significant component of the highway programmes of metropolitan authorities.

Secondly, the metropolitan authorities are concerned that the exclusion of investment in public transport facilities from TSG militates against the integrated assessment of public transport and highways solutions. Grants under S56 of the 1968 Transport Act are available only for schemes of exceptional merit and large enough for the costs to be spread beyond local users and rate payers; within the PTAs there will be new public transport infrastructure projects which would have been eligible for TSG but which will not attract S56 grants. Concern about the effect on public transport investment has also been expressed by the House of Commons Transport Committee (1985 para 36):

"Public transport contributes to the overall transport infrastructure of the country and we regret that progressively it is being viewed purely as a trading service and not as a suitable candidate for government investment."

The third criticism from the metropolitan authorities relates to the compensating arrangements in the block grant system for the financing of highway maintenance and public transport revenue support. It is argued that such arrangements are inadequate to sustain transportation current expenditure in the metropolitan areas at a level required to meet needs (West Yorkshire County Council, 1985). As regards road maintenance, the House of Commons Transport Committee (1986) has expressed concern about the national situation. Thus, the Government increased the maintenance component of GRE in 1986/7 by 15% as a 'signal' to local authorities to increase expenditure in this area but the level of block grant was the same in cash terms as in 1985/86 (i.e. was reduced in real terms). The Committee considered, therefore, that the loss of TSG had not helped authorities to address the problem of deteriorating road conditions and actually recommended that the Government reconsider the use of TSG for road maintenance (ibid. para 47). As regards public transport revenue support, block grant arrangements for the metropolitan
areas have been affected by the PELs imposed by the 1983 Transport Act and the precept limitations imposed upon PTAs following the abolition of the Metropolitan Counties. The result of these provisions has been a significant reduction in expenditure on revenue support in the metropolitan areas, in accordance with the Government’s wishes. Thus, between 1982/83 and 1985/86 support for public transport services in the metropolitan areas declined by about 15% in real terms compared with some 13% in shire areas. Whereas overspending in relation to Government provision for revenue support was 95% in 1983/4, this had been reduced to 28% on 1986/7 budgets. This situation is attributed by the Government primarily to the system of PELs and precept controls in the metropolitan areas (Department of Transport, 1987, p 37; see below section 4.3.2).

Detailed analysis of available financial data will be required to determine the relative impact of the reform of the TSG system on expenditure in different programme areas in different types of authority and this will be undertaken in the second stage of the project. At this stage it is possible to indicate in broad terms the constraints imposed upon expenditure in the metropolitan areas. Thus, according to Department of Transport figures, between 1984/5 and 1985/6 total budgeted current expenditure for the metropolitan authorities on transport increased by 0.1% in cash terms compared with an increase of 3.1% in the shire areas; the respective figures for roads current expenditure were -9.5% (mets) and +2.6% (shires) and for public transport support -3.6% (mets) and +2.6% (shires). As regards capital expenditure the comparison between 1984/5 provisional outturn and 1985/86 allocations also indicates pressure on the metropolitan authorities; for roads and car parks the mets show a decrease of 27% while the shires show an increase of 4% (the respective figures for public transport capital being -14% and +39%) (Department of Transport 1986, Tables 5-6). The change in the distribution of TSG between different types of authority is shown in Table 4.2 below; these data indicate a relative shift in favour of the shire counties due to the reform of TSG in 1985/6 although the metropolitan areas and London have increased their share somewhat in more recent years.

| Table 4.2 |
| Distribution of TSG by Type of Authority |
| 1984/5 to 1987/8 |

<table>
<thead>
<tr>
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<th>1984/5</th>
<th>1985/6</th>
<th>1986/7</th>
<th>1987/8</th>
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<tbody>
<tr>
<td>London Authorities</td>
<td>35.4%</td>
<td>17.4%</td>
<td>19.7%</td>
<td>21.5%</td>
</tr>
<tr>
<td>Metropolitan Authorities</td>
<td>26.5%</td>
<td>18.2%</td>
<td>22.9%</td>
<td>22.6%</td>
</tr>
<tr>
<td>Shire Counties</td>
<td>38.1%</td>
<td>64.4%</td>
<td>57.4%</td>
<td>55.8%</td>
</tr>
<tr>
<td>Total TSG</td>
<td>£400m</td>
<td>£160m</td>
<td>£164m</td>
<td>£180m</td>
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Source: Rate Support Grant Reports 1984/5 to 1987/8
Finally, it is worth referring briefly to certain criticisms which have been made of the broader system of capital expenditure controls as it affects local authorities' transport expenditure; these criticisms echo those discussed in section 3.3 above. Thus, the Association of Municipal Engineers (1987) argue that the system of annual grant allocation militates against medium-term planning in respect of highways programmes, a criticism which figured prominently in the Audit Commission's (1985) study. The AME also suggests that capital expenditure on roads suffers relative to other programmes because it is more difficult to evade the controls in roads programmes. A further argument, taken up by the House of Commons Transport Committee, and referred to in section 4.2.3 above, is that roads capital expenditure also suffers in the distinction drawn by the Government between net capital allocations on the one hand and gross capital provision on the other, the latter incorporating an assumption about the application of capital receipts (deriving from the sale of assets) to various block programmes. It is a matter for individual authorities to determine priorities between programmes for the use of capital receipts and it has become clear that, in general, transport programmes are not being augmented by receipts to the degree assumed by the Government:

Highways do not generate large capital receipts themselves, and those services which do, e.g. education, tend to want them used for their own purposes."

(Association of Municipal Engineers, 1987, para 2.2)

The HoC Transport Committee (1987) has commented, therefore, that if capital provisions for local roads are to be met "local authorities will have to give roads a high priority when allocating the receipts" (ibid, para 22).

As indicated above it is important to consider the reform of the TPP/TSG system in the context of broader legislative measures introduced by the Government in recent years and we shall now consider briefly the main measures of relevance.

4.3 Recent Legislative Developments

4.3.1 Introduction

The primary measures of relevance to our discussion are the 1983 Transport Act, the 1985 Local Government Act and the 1985 Transport Act. These measures, in turn, should be seen in the context of the Government's wider approach to economic, political and social reform which, as we have seen, is dominated by a primarily economic programme of fiscal restraint, cuts in the burden of public expenditure and direct taxation, privatisation and reductions in the degree of regulation to which enterprises are subject. In this programme, policies towards local government have assumed an important role involving: restraints on expenditure; measures to influence the distribution of local authority spending between services, in particular towards those which provide most direct support to the productive sector; measures to privatise certain local authority services and subject others to competition from the private sector and 'economic pricing' of outputs; and measures to assume greater
central control over certain discretionary areas of local authority activity.

It has indeed been argued that..."new legislation affecting local government has been passed at an unprecedented rate" (Loughlin 1983, p. 283). The first major piece of legislation introduced by the Conservative Government following their election in 1979 was the Local Government, Planning and Land Act 1980. In addition to the reforms of the system of local government finance which we discussed above in Section 3, this Act introduced competitive tendering for local authority Direct Labour Organisations (DLOs), and required DLOs to account separately for their work and to achieve a prescribed rate of return on the capital they employ. This Act also required authorities to publish information about their finances in the form of an Annual Report and Accounts. Other legislation has included the Local Government (Access to Information) Act 1985, which provided for public access to council meetings, reports and other documents, and the Local Government Act 1986 which placed restrictions on the form, style and content of publicity material that local authorities may produce, particularly with respect to material which might be considered likely to influence public support for any political party. This latter measure represented an initial response by the Government to the findings of the Widdicombe Inquiry into the Conduct of Local Authority Business which recommended several changes affecting the respective roles of councillors and officers in local government (Widdicombe, 1986).

4.3.2 The 1983 Transport Act

The context of the 1983 Transport Act was provided by the increasing concern on the part of the Government to restrain the spending of local authorities, in particular, a relatively small number of "recalcitrant high-spenders" which included several London authorities and certain labour-controlled authorities in the provincial metropolitan areas. A particularly important area of contention between such authorities and the Government related to expenditure on public transport revenue support, with authorities such as the GLC and South Yorkshire and Merseyside Metropolitan Counties providing levels of subsidies significantly in excess of Government plans. As discussed in Section 3.2 above, the system of expenditure targets and grant penalties and the abolition of the power of authorities to levy supplementary rates in the 1982 Local Government Finance Act were motivated by the increasing concern of the Government to curb spending in the 'recalcitrant' authorities.

However, it was the legal challenge in 1981/2 by the Conservative-controlled London Borough of Bromley to the GLC's low fares policy for public transport (which occasioned a supplementary rate precept demand) which represented the most significant development in relation to transport policy. The House of Lords found the GLC to be ultra vires under the 1969 Transport (London) Act which was interpreted as requiring London Transport to be operated on 'sound business principles' with subsidies paid only to cover unavoidable deficits. This judgement therefore called into question the legality of any subsidies by local authorities for urban public transport
Subsequently, there were legal challenges to the public transport policies of Merseyside and West Midlands Metropolitan County Councils both of which proposed supplementary rate precepts. However, while the West Midlands precept was quashed, Merseyside's was declared *intra vires*, it being found under the 1968 Transport Act that an authority's power to make revenue support grants was not limited by an overriding duty on the transport undertaking to break even so far as practicable (Loughlin 1983, p. 283).

In the legal confusion arising from these cases, the Government took the opportunity to introduce the 1983 Transport Act, ostensibly "to provide a more stable basis for public transport planning and subsidies in the Metropolitan Counties and London" (Department of Transport, 1983). The Act required Passenger Transport Executives to prepare three-year plans analysing options for the development of public transport services and presenting justified proposals for service levels, fares and subsidies, indicating the benefits accruing from such subsidies. Subsidies could not be paid by the Passenger Transport Authority except on the basis of an approved plan and in the light of guidance from the Secretary of State, based upon his scrutiny of the plan. Such guidance specified a maximum level of revenue grant - a 'Protected Expenditure Level' (PEL) - consistent with "...a proper exercise of the power to make such grants..." (ibid, para 22). Authorities could provide grants above or below their PEL but any grant in excess of the PEL would be open to challenge in the courts.

Therefore, in the 1983 Act the Government was able to secure a legal basis for measures to control local authority spending. The Secretary of State took the power to be arbiter on the legality of levels of subsidies provided by authorities and thereby was able to present the imposition of constraints on authorities' expenditure as justified by a rational legal framework rather than as an outcome of controversial economic and social policies. Thus, Loughlin (1986, p. 183-4) argues as follows:

"... the Bill was promoted ostensibly to provide a clear and consistent legal framework for the payment of public transport revenue support grants whereas in fact it was designed to exploit the uncertainty in the fiduciary concept articulated in *Bromley* in the hope that this would require local authorities to comply with Government guidelines ..."

Loughlin has argued that, in fact, the fiduciary concept is anachronistic, representing an incursion of a private law concept into a public law area, is ambiguous and unworkable in relation to determining appropriate behaviour of local authorities, and is essentially being used by the Government to mask its economic and political objectives (Loughlin, 1983).

Using the powers conferred by the 1983 Act, the Government has claimed some success in reducing overspending by local authorities on public transport revenue support (Department of Transport 1987, para 37; also see Section 4.3.4 above). As Table 4.3 indicates, total expenditure on revenue support in England has remained relatively constant in cash terms between 1983/4 and 1986/7 (a decline of 13% in real terms) and this picture applies
in both the metropolitan areas and shire counties. The degree of overspend relative to the Government's provision has declined significantly from 95% in 1983/84 to 28% in 1986/87, this overspend being due entirely to the metropolitan authorities. However, this 'success' is due primarily to the increase in the Government's provision over the period - an increase of 50% in total and of 92% for the metropolitan authorities - rather than to reductions in actual spending.

Table 4.3

<p>| Public Transport Revenue Support in English Metropolitan and Shire Authorities (excluding London) |
| 1983/4 to 1986/87 (#mill cash) |</p>
<table>
<thead>
<tr>
<th>1983/4</th>
<th>1984/5</th>
<th>1985/6</th>
<th>1986/7 (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Outturn Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metropolitan Areas</td>
<td>262</td>
<td>266</td>
<td>257</td>
</tr>
<tr>
<td>Shire Counties</td>
<td>91</td>
<td>94</td>
<td>89</td>
</tr>
<tr>
<td>Total</td>
<td>353</td>
<td>360</td>
<td>346</td>
</tr>
<tr>
<td><strong>2. Expenditure Provision</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metropolitan Areas</td>
<td>90</td>
<td>128</td>
<td>150</td>
</tr>
<tr>
<td>Shire Counties</td>
<td>92</td>
<td>95</td>
<td>97</td>
</tr>
<tr>
<td>Total</td>
<td>182</td>
<td>223</td>
<td>247</td>
</tr>
<tr>
<td><strong>3. Protected Expenditure Level</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>220</td>
<td>227</td>
<td>206</td>
</tr>
</tbody>
</table>

(1) Provisional figures; (2) Not available; (3) Not applicable.


The actual impact of PELs between 1983/84 and 1985/86 is difficult to assess. The sum of PELs for the Metropolitan Counties in 1983/84 exceeded the Government's expenditure provision of some £130 million reflecting "... the difficulties of adjusting rapidly to more balanced policies ..." (H M Treasury 1983, p. 30). In total the PELs represented a reduction from 1982/3 outturn of nearly 20% but the eventual 1983/4 outturn for the Metropolitan Counties was almost treble the Government's provision and exceeded the PELs by 19%. Nevertheless, the 1983/84 outturn did represent a reduction in real terms (of 3.6%) from 1982/83 and also represented a significant reduction from the Metropolitan Counties' original plans (H M Treasury 1984, p. 45). For 1984/85 both provision and the PELs were increased, the latter still being significantly in excess of the former reflecting "... the difficulty of quickly bringing GLC and metropolitan public transport in line with the Government's
policies" (ibid, p. 47). The 1984/85 outturn for the Metropolitan Counties was about double the Government's provision and exceeded the PEL by 17%; again, a slight real terms reduction over the previous year (c. 2%) was achieved. In 1985/86 the Government was still referring to problems in bringing the Metropolitan Counties into line (H M Treasury, 1985, p. 105) and the sum of PELs, although slightly reduced from 1984/5, exceeded provision by 37%, the latter itself having been increased from the previous year (by 17%). However, outturn expenditure in 1985/86 by the Metropolitan Counties once again exceeded provision (by 71%) and the sum of PELs (by 25%), although it represented a small reduction in cash terms from the previous year.

Therefore, although expenditure on public transport revenue support in the metropolitan areas was restrained over the period 1983/84 to 1985/86, when PELs operated, (most notably in relation to original plans), authorities in these areas were still considered by the Government to be significantly 'out of line' in policy and expenditure terms in 1985. As Mackie (1987, p. 108) argues "... the protected expenditure levels appear to have had only a limited effect." A major reason for this is that no legal action was taken against those authorities which exceeded their PELs (South Yorkshire and Merseyside) while most Metropolitan Counties were able to contain expenditure within their PELs (ibid). In fact, the House of Commons Transport Committee (1984, paras 31-2) stated its concern about the "... apparent irrelevance of the measures contained in the 1983 Transport Act ..." arising from the discrepancy between PELs and the Government's expenditure provisions:

"... we find it most peculiar that the Government should appear to be sanctioning a level of expenditure which is totally at variance with its own targets as laid out in the White Paper and accepted under the TSG procedures" (ibid).

Indeed, if the Government was primarily concerned to reduce overspending in relation to the PEWP expenditure provisions, then the establishment of PELs under the 1983 Act can be seen to have confused the issue and, in fact, to have frustrated the Government's objective to some extent. This is because the designation of PELs in excess of provision resulted in 'acceptance' of expenditure for TSG purposes in excess of the PEWP provisions. In outlining the role of TSG in supporting expenditure on revenue support in the context of the provisions of the 1983 Act, the Government referred to PELs rather than provisions:

"The Government is not ... prepared to grant-aid the protected expenditure levels in full, and the revenue support expenditure for the metropolitan areas accepted for Transport Supplementary Grant will be less than the total of the provisional protected expenditure levels under the legislation."

(H M Treasury 1983, p. 30)

Therefore, in 1983/4 and 1984/5, before the reform of TSG; the Government grant-aided expenditure on revenue support by the
Metropolitan Counties in excess of its own expenditure plans. For example in 1983/4 Accepted Expenditure on revenue support in these authorities was £169.1 million compared with the PEWP provision of £90 million; in 1984/5 the respective figures were £164.8 million accepted against £128 million provision.

This contradiction reinforces the conclusion about the apparent irrelevance of the 1983 Act. In fact, it is possible to argue that the Act represents a rather 'perverse' piece of legislation. As argued above, the Government can be seen to have legitimised the introduction of additional measures to control local authority spending with reference to the alleged need to clarify legal uncertainties; yet the controls introduced did not succeed in bringing the authorities in question into line with Government policy and, indeed, may have actually confounded this objective to some extent. Moreover, the Act was soon overtaken by the Government's proposals to abolish the GLC and Metropolitan Counties, proposals which were implemented in the 1985 Local Government Act. The impending demise of these authorities may be one reason why no legal action was taken between 1983 and 1985 against those which exceeded their PELs (Mackie, 1987, p. 109).

4.3.3 The Abolition of the GLCs and Metropolitan Counties

The relatively high spending of the GLC and certain Metropolitan Counties (especially South Yorkshire and Merseyside) on public transport revenue support and their resistance to the Government's attempts to 'bring them into line' with its policies in this respect, were important factors in the Government's decision to abolish these authorities. In the local elections of May 1981 four of the Metropolitan Counties experienced a change of political control from Conservative to Labour (Greater Manchester, Merseyside, West Midlands and West Yorkshire) while Labour control in South Yorkshire, Tyne and Wear and the GLC was strengthened. Subsequently, these authorities figured prominently in the Government's list of 'recalcitrant overspenders'. On the introduction of the system of expenditure targets and grant penalties in 1981/82 the Metropolitan Counties were collectively budgeting to overspend their targets by 19% and the London precepting authorities (GLC and ILEA) by 14% compared to a national (England) average of less than 6% (Smith and Stewart, 1985, p. 30). By 1984/5 the GLC/ILEA 'overspend' had increased to 29% while the Metropolitan Counties' budgets were collectively 5% above their targets (the latter 'improvement' was due more to a relaxation of targets than to expenditure restraint) (ibid). The GLC and South Yorkshire and Merseyside Metropolitan Counties were amongst those authorities selected for 'rate-capping' in 1985/6 on the grounds that their total expenditure in 1984/5 exceeded their GRE by at least 20%. We have seen that in the case of South Yorkshire expenditure on public transport revenue support was an important factor in its overspending and resistance to the Government's policies. Thus, in 1984/85 such expenditure constituted some 42% of the authority's total budget and was approximately six times the expenditure accepted by the Government for TSG purposes (SYCC Revenue Budget documents; Rate Support Grant Report 1984/5).

The Conservatives' Manifesto for the 1983 General Election included the commitment to abolish the GLC and Metropolitan
Counties and proposals were published in a White Paper 'Streamlining the Cities' later in 1983 (Department of Environment, 1983). The Government's justification for abolition referred mainly to the need for economy in the public sector and the absence of a real practical role for the upper tier of local government in the metropolitan areas. The search for a 'strategic role' by the upper tier authorities had resulted, it was maintained, in conflict, uncertainty and 'heavy and unnecessary burdens on ratepayers (ibid Ch. 1). In summary, the Government argued as follows:

"The abolition of these upper-tier authorities will streamline local government in the metropolitan areas. It will remove a source of conflict and tension. It will save money, after some transitional costs. It will also provide a system which is simpler for the public to understand, in that responsibility for virtually all local services will rest with a single authority."

(ibid, para 1.19)

The two issues of economy and conflict, therefore, figured prominently in the Government's thinking reflected in the particular concern with the "... high level of spending ..." (ibid, para 1.16) by the Metropolitan Counties, and their tendency to "... promote policies which conflict with national policies which are the responsibility of central government ..." (ibid, para 1.12). As we have argued, these issues have been at the heart of the changing nature of central-local relations over the past decade and, therefore, the abolition of these authorities, eventually implemented in the 1985 Local Government Act, can be seen as consistent with, indeed an integral part of, the series of measures introduced, particularly from 1980 onwards, to restructure those relations. Thus, commenting on the Government's abolition proposals, Flynn et al (1985, p. ix-x) argued as follows:

"The proposals should be seen as an attempt by central government to gain further control of local government ... This centralization is part of a long-term trend towards a reduction in local autonomy and should be seen together with the Rates Act 1984, which gives the government control over rate levels, as a further important step along the road towards a completely unitary state within which a single set of policies are pursued."

Indeed, the abolition of these authorities can be seen to follow logically from the Government's concern to control local authority spending, especially that related to 'social' objectives, and is consistent with the increasing focus on particular recalcitrant authorities in the reforms to the block grant system and introduction of targets and penalties and rate-capping. It also suggests the importance of the political dimension to the Government's programme for control of local government, a dimension which, we have argued, is of some considerable significance in more recent proposals for the reform of local government finance and the privatisation of local authority services (cf. section 3.4 above).
Various critiques of the Government's abolition proposals concluded, in fact, that the main justifications used by the Government were ill-founded. For example, Coopers and Lybrand (1983) found that the Government had exaggerated the degree of overspending by the Metropolitan Counties and that relatively high expenditure growth in these authorities was partly accounted for by higher inflation affecting their services, higher needs for services than in other authorities and Government priorities for certain services (e.g. Police). As regards public transport revenue support which, it was acknowledged, accounted for a large proportion of the relative volume of growth of the MCC's expenditure, it was argued that subsidies in the majority of authorities had been shown by a DTp study to be producing positive net benefits, and that independent reviews had not found that MCC passenger transport undertakings were inefficient in comparison with other transport operations (ibid, ch. 3). These findings were supported in broad terms by Flynn et al (1985). On the other hand, the proposed new arrangements, involving many services administered by Joint Boards of the lower tier authorities (especially, police, fire and public transport, together making up over half of the MCC's total expenditure) and others requiring joint committees, were criticised as reducing the scope for co-ordinated decision making, increasing the risk of conflict and reducing local accountability and control (ibid, p. 109-11). This conclusion was supported by Hampton (1987, p. 201) who argued that the new joint bodies:

"... will not enhance local accountability. Indirectly elected bodies tend to develop a corporate identity of their own which obscures the responsibility of their parent authorities, particularly when they receive precepting powers. Nor will a network of single-purpose bodies find it easy to co-ordinate services either with each other or with the services of the districts or boroughs. There will no longer be a policy forum, for example, for considering the common interests of police, transport and highway authorities. The longer-term tendency may be for the joint boards to develop into fully fledged special purpose authorities in the manner of the water authorities. In any event the abolition of the GLC and MCCs and the distribution of their major services to special purpose authorities and joint boards can only be interpreted as a weakening of the role of local government."

Therefore, the Government's case for abolition on the grounds of 'streamlining', saving money, and enhanced public understanding has been subjected to severe criticism, reinforcing the conclusion that the enhancement of central control of local government was the real objective. Following the abolition of the GLC and MCCs at the end of March 1986, central government control over expenditure and policies in the metropolitan areas was enhanced by subjecting the joint boards to precept control for the first three years of their existence, this control resulting in the designation by the Government of maximum expenditure levels (ELs) for each passenger transport authority. This system therefore replaced the PELs of the 1983 Transport Act and indeed represented a strengthening of control over public transport expenditure since the Secretary of State can now designate total permissible expenditure. The Government is using
this power to reduce expenditure on public transport in the metropolitan areas as shown in Table 4.4.

### Table 4.4

**Maximum Expenditure Levels for Passenger Transport Authorities in England 1986/7 to 1988/9 (#mill. outturn prices)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Manchester</td>
<td>80.1</td>
<td>77.5</td>
<td>74.1</td>
<td>73.6</td>
</tr>
<tr>
<td>Merseyside</td>
<td>81.5</td>
<td>76.3</td>
<td>67.7</td>
<td>49.6</td>
</tr>
<tr>
<td>South Yorkshire</td>
<td>80.2</td>
<td>51.8</td>
<td>45.7</td>
<td>31.1</td>
</tr>
<tr>
<td>Tyne and Wear</td>
<td>64.0</td>
<td>60.9</td>
<td>56.6</td>
<td>51.8</td>
</tr>
<tr>
<td>West Midlands</td>
<td>56.4</td>
<td>55.1</td>
<td>55.1</td>
<td>55.1</td>
</tr>
<tr>
<td>West Yorkshire</td>
<td>53.9</td>
<td>58.3</td>
<td>57.9</td>
<td>46.6</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td><strong>416.1</strong></td>
<td><strong>379.9</strong></td>
<td><strong>357.1</strong></td>
<td><strong>307.8</strong></td>
</tr>
</tbody>
</table>

*Source: Mackie (1987, p. 111); AMA (1987, p. 108).*

It can be seen that the ELs imply a significant reduction of some 26% in public transport expenditure in the metropolitan areas between 1985/6 and 1988/9. However, particular Authorities experience more severe cuts, notably South Yorkshire (61%) and Merseyside (39%), the successor Authorities to the MCCs which, during the early 1980s, were most 'out of line' with the Government's policies for public transport revenue support. With the Secretary of State also having direct control over the expenditure of London Regional Transport, the Government now has direct control over about 80% of total expenditure on public transport revenue support in England (1986/7 estimated outturns). As Mackie (1987, p. 110-1) concludes:

"... in 1979, the metropolitan authorities had full control over their passenger transport executives, with complete discretion as to their budgets. In 1987, local public transport in these areas is under the control of a joint board, the maximum precept level of which is set by the Secretary of State. London Regional Transport is controlled directly by the Secretary of State. A substantial loss of local control, accountability and discretion has therefore occurred in the metropolitan areas. In the shires no such loss has occurred."

#### 4.3.4 Deregulation of Local Bus Transport

The objective of reducing expenditure by local authorities on public transport subsidies also lay behind the measures contained in the 1985 Transport Act to de-regulate local bus transport, allowing competition between operators in respect of services which can be provided on a commercial basis, and requiring local authorities to employ competitive tendering in respect of supplementary services which they wish to secure but which remain unprofitable (Department of Transport, 1985). However, there are
also other important objectives behind this legislation reflecting the Government's broader programme of de-regulating economic activity and privatising public sector activity and assets. As a result of this legislation, local authorities are no longer able to undertake comprehensive, co-ordinated planning of public transport service levels and fares for the whole of their areas and this has undermined their ability to allocate resources to public transport to achieve particular social objectives. Thus, although concessionary fares schemes for the elderly, disabled and young people are permissible, general low fares policies to provide benefits for lower income people are no longer possible. Moreover, it is now difficult for authorities to plan public transport services with respect to the objective of minimising the social costs due to private vehicles use in urban areas (Mackie, 1987, p. 112-5). In general terms, therefore, the 1985 Act is consistent with the Government's broader programme for local government involving a reduction in the scope of the public sector, control of public expenditure, and the re-direction of public sector resources away from certain areas of 'social expenditure' and towards activities and services which can assist private sector profitability and capital accumulation. Together with the 1985 Local Government Act and the 1983 Transport Act it provides an important part of the backdrop against which the reforms to the TSG system in 1974 should be considered. Moreover, as we have attempted to argue, these measures in turn should be examined within the context of the Government's broader programme of reform of local government finance and measures to reduce the size and scope of the public sector.

4.4 Conclusion

Since the late 1970's, therefore, there has been a considerable change in the political and financial context in which local transportation provision is made. In the late 1970s and early 1980s local authorities accounted for nearly 60% of the expenditure falling under the central responsibility of the Department of Transport. This proportion is now down to about 50%. In the early 1980s the upper-tier local authorities in London and the provincial metropolitan areas were responsible for about one half of total local government net expenditure on transport. These authorities have now been abolished. Of the total expenditure on transport which remains the responsibility of local authorities, the proportion which is subject to decision-making by directly-elected Councils has been reduced due to the formation of public transport joint boards in the metropolitan areas comprising nominated representatives of district councils and subject to direct expenditure control by the Secretary of State.

Central government control and influence over transport spending by local authorities has been increased significantly. General financial controls have been tightened considerably since 1981 with the introduction of the block grant system and provisions for the abatement of Rate Support Grant to penalise authorities spending in excess of levels designated by the Government. Since 1985 authorities whose current expenditure is considered by the Secretary of State to be excessive can be subjected to 'rate-capping'. These provisions affect, in particular, expenditure on
road maintenance and public transport revenue support and concessionary fares. Local authorities' capital expenditure is also subject to detailed central control and this has implications for the construction and improvement of local roads, public transport facilities and ports and airports facilities. Central government influence over local transport expenditure has been increased by the elimination of Transport Supplementary Grant Support for current expenditure and the restriction of such support to major highway schemes, and with the direct control over public transport expenditure in the metropolitan areas.

In the discussion above we have considered some general arguments and evidence concerning the effects of these changes in central-local relations on the ability of local authorities to address effectively local transport problems. This discussion provides the context for the more detailed analysis of these effects and in the next section we summarise the particular issues upon which it is considered the analysis should focus.
5. **Research Issues**

In view of the time and resources available it will be necessary to focus on a limited number of issues in the next stages of the study. Moreover, in the selection of issues there are two particularly important considerations. First, the Government is proposing to replace the block grant system in the context of wider reform of the system of local government finance which also involves the abolition of domestic rates. This limits the practical usefulness of in-depth analysis of the workings of the current system. Second, the radical changes which have occurred in the provision of local government services in London and the metropolitan area introduce major complications to the analysis.

Specifically as regards local transportation expenditure, the main change affecting all English local authorities with transport responsibilities was the restriction of the scope of TSG from 1985/86 onwards to capital expenditure on roads of more than local importance and it is considered that the analysis of the implications of this change should constitute a major focus of the research. However, in order to evaluate this development fully it will be necessary to undertake the analysis in the context of the wider operation of the block grant system and capital expenditure controls. Only by examining how local authorities' transport expenditure and provision has been affected by features of the broader system of local government finance will it be possible to draw meaningful conclusions about the implications of the reform of TSG.

Therefore, in the next stages of the research we will endeavour to provide answers to the following set of questions.

1. **The Block Grant System**

1.1 What has been the impact of the expenditure restraints imposed on local authorities through the block grant system introduced in 1981/82, particularly grant abatement penalties, in terms of:

   a) the effect on local transport expenditure, in the areas of local road maintenance, public transport revenue support and capital expenditure via revenue implications, in comparison with the effects on other local authority services and functions;

   b) the effect on the scale of local transport problems and needs related to the above areas of expenditure?

1.2 More specifically, what have been such impacts in those local authorities which have been subjected to selective rate limitation under the 1984 Rates Act?

2. **Capital Expenditure Controls**

2.1 How has the regime of capital expenditure controls
introduced in 1981/82 operated in terms of the ability of local authorities to pursue the programmes of transport capital expenditure (particularly on road construction and improvement) which are perceived as necessary to address effectively local transport problems and needs?

2.2 What has been the effect on transport capital programmes compared with other local authority capital programmes?

2.3 What has been the effect on trends in transport problems and needs faced by local authorities?

3. **The TPP/TSG System**

3.1 Within the context of the broader system of local government finance, to what extent did the TPP/TSG system, prior to the change in 1985/86, provide local authorities with the means to meet local transport needs effectively by supporting expenditure, in particular, on (a) local road maintenance, (b) public transport revenue support, and (c) highway construction and improvement?

3.2 What has been the effect of the change in scope of TSG in 1985/86 in terms of the ability of local authorities effectively to address perceived local needs and problems through expenditure in the above three programme areas?

The discussion in section 4 of this paper highlighted the extent to which the control of local authorities' expenditure on public transport revenue support in London and the metropolitan areas represented a major consideration in the Government's policies towards local government during the mid-1980s. Therefore, an important issue for research concerns the impact of the Government's policies on public transport provision in these areas. The examination of this issue, as already indicated, is complicated by the abolition of the GLC and metropolitan counties in 1986 and by the effects of the 1985 Transport Act. Nevertheless, it is intended that our research will produce at least some provisional answers to the following questions:

4. **Public Transport in the Metropolitan Areas**

4.1 Prior to the abolition of the metropolitan counties in 1986, to what extent did the Government's measures to control spending on public transport revenue support by these authorities (via grant penalties, rate-capping, TSG settlements and PELs) affect their ability to meet local needs?

4.2 What has been the effect of the introduction of public transport joint boards subject to 'precept limitation' by the Secretary of State on the ability of Passenger Transport Authorities in the metropolitan areas to provide public transport services to meet local needs effectively?
The approach to be adopted in the analysis of these issues will comprise two main stages. The first stage will involve the analysis of trends in local government expenditure on transport since 1979/80 which will be related to central government expenditure plans and provisions and to the changes which have been introduced in the systems for control of local authorities' spending. This analysis will be undertaken at national level, by class/tier of authority and by individual authorities and will cover the main areas of transport current and capital expenditure, referring also to relative trends in spending on other local authority services. The main initial focus will be on issues 1-3 above viz. the effects of the block grant system and capital expenditure control system and particularly, within this context, the operation of the TPP/TSG system. The detailed examination of trends in public transport provision in the metropolitan areas will depend upon the time available for the study. From this first stage of the analysis it will be possible to draw initial conclusions about the effects of central government policies and controls which will provide a focus for the second stage of the empirical analysis.

This second stage will attempt to examine in more detail the initial conclusions about the impact of central government policies and controls in the context of a small sample of local authorities selected to represent the range of problems faced by local government. The objective will be to assess in some detail the validity of the initial conclusions, the nature of the cause and effect relationships, and the implications for the ability of the local authorities to address effectively the local transport problems and needs with which they are faced. The focus at this stage will be three main expenditure programme areas viz. highway maintenance, public transport revenue support and highway construction and improvement. In these areas an attempt will be made to interpret trends in the scale and scope of problems and needs in the context of the findings relating to the effects of central government controls on the local authorities' transport expenditure and provision. Once again, it is likely that the detailed analysis of public transport in the metropolitan areas will depend upon the time available.
Annex 1: Theories of Central-Local Relations

The Importance of a theoretical context for work in this area is stressed by Saunders who argues that:

"... the question of central-local relations needs to be approached not primarily as an issue about organisation and management, but with reference to core theoretical concerns in social and political science, with questions of political power and domination, class relations, and the state. Research which remains at the level of institutional and organisation analysis, and which fails to relate this to broader theoretical issues, is in danger of 'fetishizing' the question of inter-governmental relations."

(Saunders 1982, p. 56)

Much of the theoretical debate about central-local relations has been conducted in terms of organisational analysis and in terms of a dichotomy between 'agent' and 'partnership' models (Saunders, 1984; Page, 1986; Davies et al, 1986). The traditional 'agent' model developed during a period when local government became increasingly dependent upon central government grants and therefore came to be seen as merely an extension of central government and subject to its control. However, during the 1970s this view was challenged as studies demonstrated the extent to which local factors influenced local government decision-making and, therefore, local authorities came to be seen as political systems in their own right, existing in a 'partnership' with central government.

The onset of financial stringency in 1976 and the subsequent actions by central government (revolving around the Treasury) to attempt to impose strict controls on local authority spending resulted in a re-appraisal of theory and a return to a focus more characteristic of the 'agent' model, stressing the constraints on local choice and "... the underlying weaknesses of local government in its relationship with the centre." (Page 1986, p. 124). Attention was increasingly focussed on the question of power - how dominant groups in organisations derive their power, how they mobilise available power resources, and the extent to which there are structural constraints on the power relationship between central and local government (Saunders 1984, p. 24-5).

The focus on power, and its basis in the economic, political and ideological context in which governmental organisations operate, is developed most in Marxist literature. Here the relationship between central and local government is interpreted in terms of the broader theory of the role of the state in relation to capital accumulation and the interests of the dominant capitalist classes (Dunleavy, 1984). Although there are different approaches within the Marxist tradition, two particular aspects of Marxist theories have attracted criticism. Firstly, there is a tendency to interpret the position and role of local government unproblematically in terms of the general theory of the
capitalist state and to see local government as "... the central state writ small" (Saunders 1982, p. 56). Therefore, there is a danger of 'theoretical foreclosure' of interesting questions relating to the scope and nature of local autonomy and the nature of the constraints under which the local state operates.

The second controversial aspect of Marxist theory concerns the tendency to assert that power and political conflict must be interpreted and understood in terms of class analysis and that class theories of political conflict can be applied to the analysis of local government. Critics argue that since local government is primarily concerned with 'social consumption', the analysis of power and conflict in local government must refer to 'sectoral interests' defined in relation to the mode of consumption of particular services (Saunders, 1982; 1984).

As analysis of the state and central-local relations has highlighted contradictions related to the above two theoretical issues, so 'Dual State' theories have gained in currency in the attempt to resolve them. Deriving from the above criticisms of Marxist theories, Saunders (1982; 1984) propounded a dual state thesis which conceptualises the contradictions in terms of three main dimensions. The first dimension employs the distinction between 'social investment' and 'social consumption' expenditures, between support for private sector profitability and the provision of welfare services, the central state being primarily concerned with the former, and the local state with the latter. The second dimension refers to the basis of political power and action distinguishing between the 'corporate bias' evident in central decision-making processes (whereby the functional economic interests of capital and organised labour are incorporated into such processes) and the more open 'pluralist' competitive nature of politics at the local level. The third dimension embodies the ideological contradiction between the principles of market organisation and the rights of private property on the one hand and those of collectivism and the rights of citizenship on the other. Saunders argues that the former represents the ideology of the central state while the latter provides the ideological basis for local government service provision.

Saunders argues that the dual state thesis helps in understanding central-local relations by explaining the constraints under which local government operates in terms of 'structural dominance' along the above three dimensions:

"First, social consumption functions are necessarily subordinate to social investment functions since the latter are crucial in maintaining the conditions in which production may continue. Secondly, democratic accountability to a local population is necessarily curtailed by corporatist strategies at the centre. Thirdly,
ideologies of social need take second place in a capitalist society to ideologies of private property."

(Saunders 1982, p. 63)

Saunders developed his thesis as an 'ideal type' intended to assist the development of empirical and theoretical work, recognising that it does not represent a total description of the relationship between the central and local state. Nevertheless, there have been many criticisms related to the artificiality of the dualisms propounded. For example, it has been argued that the division between social investment and social consumption is difficult to operationalise because most state expenditure is of a mixed type (Dunleavy 1984, p. 71-2; Martlew 1983, p. 128). This can be seen in the case of transportation expenditure which is directed both at assisting private sector business profitability and capital accumulation and at meeting the needs of the non-car owning local population for a 'socially defined' degree of mobility.

Moreover, the distinction between corporatist and pluralist decision-making has been criticised as too simplistic, neglecting the operation of corporatist influences at the local level and also the role of professional communities which cut across the central/local state distinction and provide "... professionally promoted 'fashions'" which constrain the operation of pluralism at the local level (Dunleavy 1984, p. 76-8). In effect the artificiality of the 'dualisms' raises doubts about the extent to which the contradictions embodied in them can provide the major basis of power and conflict in central-local relations (Martlew 1983, p. 128).

Whilst recognising that the central and local components of the state have different characteristics in terms of the dimensions identified by Saunders (viz. economic function, mode of interest mediation and ideological principle), the 'dual state' theory can be criticised as imposing an artificial analytical framework. From a theoretical point of view it is difficult to see why social and political forces regarded as relevant to the analysis at one level of the state should not be present at other levels, albeit possibly manifested in different forms, and to different degrees. From this perspective we are not dealing in 'dualisms' but in a range and variety of forms of the state the actions of which can be explained with reference to a common set of relevant social and political forces, the balance or 'mix' of which will vary in the different levels and forms of the state and over time.

Of course, progress in determining the 'validity' of competing theories does depend, to an important degree, on the interpretation of results from empirical work to test hypotheses and propositions. In our research, we will attempt to relate our findings to certain theoretical propositions about the role of local government and its relation to the central state. These propositions derive from a theoretical framework advanced by
Martlew (1983) which explains the 'structural constraints' on state action and the 'hierarchical relationship' between central and local government in terms of 'institutional interests' deriving from certain social and political forces.

Thus, the state can be seen as embodying a variety of interests which compete and conflict with one another, these interests being related to the requirement of the state firstly, to promote capital accumulation through its various roles and activities and, secondly, to protect the accumulation process by controlling the fiscal demands of state activities and services (Martlew op cit, p. 129). Tension or conflict between the 'institutional interests' within the state apparatus arises from the contradiction between, on the one hand, pressures to increase state spending (both to assist capital accumulation and to provide the welfare services needed to maintain political support and legitimacy) and, on the other hand, pressures to control demands on the state budget (to ensure that private accumulation is not undermined). These tensions or conflicts provide the structural constraints on state action and express the dominance of interests related to the promotion and protection of capital accumulation (ibid, p. 130-1).

More specifically, such conflicts between 'institutional interests' are mediated through central departments of the state and, via their control, local authorities. On the one hand, the various central spending departments undertake activities and provide services to support private sector accumulation, to reproduce the labour force and to provide welfare services, with various of these activities and services being the main responsibility of local government within parameters set by the central departments. On the other hand, interests related to controlling state spending so as to ensure that it does not undermine private accumulation, are embodied mainly in the Treasury (ibid, p. 132-3). Within this framework local government can be seen as playing a role in the provision of services to support capital accumulation, labour force reproduction and to support a level of welfare provision sufficient to maintain the legitimacy of the state, subject to structural constraints deriving from the balance of institutional interests within the state. Moreover, local government can be seen as playing an important additional role in maintaining the political legitimacy of the state in that it fragments and tends to mask responsibility for the provision of services and therefore absorbs and disperses political opposition which would otherwise focus entirely on the central state (ibid, p. 132).
Annex 2 : The Block Grant System

1. The basic block grant system can be expressed in terms of a two-stage formula (Gibson, 1982; Gibson et al, 1987):

\[
BG_i = TE_i - GRP_i \cdot GRV_i + M_i
\]

and

\[
GRP_i = GRP* + x \frac{(TE_i - GRE)}{Pi} \quad \text{for} \quad TE_i < T_i
\]

\[
GRP_i = GRP* + x \frac{(T_i - GRE)}{Pi} + y \frac{(TE_i - T_i)}{Pi} \quad \text{for} \quad TE_i > T_i
\]

where

- \( BG_i \) = the block grant entitlement of local authority \( i \);
- \( TE_i \) = the 'total expenditure' of local authority \( i \) (i.e. expenditure net of other grant receipts);
- \( GRP_i \) = the grant related poundage of local authority \( i \);
- \( GRV_i \) = the gross rateable value of local authority \( i \);
- \( M_i \) = the multiplier for local authority \( i \);
- \( GRP* \) = the GRP for spending at the level of Grant-Related Expenditure (GRE) for the class of authorities of which authority \( i \) is a member;
- \( GRE_i \) = the Grant-Related Expenditure of local authority \( i \);
- \( Pi \) = the threshold value of expenditure for local authority \( i \) (on average \( (1.10 \cdot GRE) \));
- \( x \) = the marginal increase (in pence) in the GRP schedule for every \$ per head increase in spending below the threshold \( T \);
- \( y \) = the marginal increase (in pence) in the GRP schedule for every \$ per head increase in spending above the threshold \( T \);

2. Therefore, the basic formula for the distribution of block grant provides for each authority to receive a grant equal to the difference between its total expenditure and an amount of rate income which the authority is assumed by the Government to raise from its own rateable resources. This assumed rate income is a function of Grant-Related Poundage (GRP). GRP essentially represents a rate poundage which the authority is assumed to levy at each level of total expenditure i.e. it is a form of 'tax effort function' (Gibson et al, 1987; p. 160). Authorities within the same class or tier face the same GRP function. Figure A1 illustrates the nature of the GRP function and its effect on
FIGURE A1: Examples of Grant-Related Poundage and Block Grant Schedules for an Hypothetical Local Authority

(a) Coefficient values $x = 0.6, y = 0.75$

(b) Coefficient values $x \neq 1.1, y = 1.5$
block grant at different levels of total expenditure (TE\textsubscript{i}) for an hypothetical local authority.

3. In Figure A1(a) the coefficients x and y have value, respectively, of 0.6 and 0.75, those being equivalent to the actual figures used by the Government up to 1984/85. Therefore, for spending up to the level of TE\textsubscript{i} (= 1.10 GR\textsubscript{E}\textsubscript{i}) block grant increases by £0.41 for every £1.00 increase in TE\textsubscript{i}, whereas for TE\textsubscript{i} > TE\textsubscript{1} block grant increase by only £0.26 for each unit increase in TE\textsubscript{i}. These figures are purely hypothetical, assuming that authority i has a GRE of £100 million, giving a GRP* of £1.30 and using a multiplier (Mi) of 0.9865 (of Audit Commission 1984, p. 67).

4. The multiplier (Mi) is used to modify the basic distribution formula for various purposes. A multiplier of less than 1 reduces the rate poundage or precept which an authority needs to levy to finance a given level of expenditure (i.e. increases block grant) and conversely for a multiplier of greater than 1. Multipliers have been used for the following purposes:

a) to limit the change in the amount of block grant payable to an authority from year to year due, for example, to changes in GRE methodology and data ('safety nets' to limit losses and 'caps' to limit gains);

b) to make provision in the London area to moderate the effects on ratepayers of the relatively high rateable values and to allocate a share of the costs of the Metropolitan Police to authorities bordering the Greater London area;

c) to reduce the block grant entitlement of authorities exceeding their expenditure guidance under the system of expenditure targets and grant penalties operating up to 1985/86.

5. With the abolition of the system of targets and penalties in 1986/87 modifications were made by the Government to the GRP schedules so that grant abatement penalties for high spending authorities could be built into the basic block grant formula. Figure A1(b) illustrates the GRP function with the new coefficients of x = 1.1 and y = 1.5 and the resulting block grant allocations to our hypothetical local authority over a range of total expenditure, TE\textsubscript{i}. It can be seen that this modified system represents a more severe restraint on local authorities' expenditure. Prior to 1986/87 authorities not exceeding their expenditure target (or guidance) and therefore not subject to a multiplier Mi > 1, received an increase in block grant as their expenditure increased; this was true even for those authorities for which TE\textsubscript{i} > GRE\textsubscript{i} where the target exceeded GRE\textsubscript{i}. Since 1986/87 authorities have experienced a decline in block
grant as total expenditure increases, with the rate of decline being more marked for TEi > Ti. This has provided authorities with a greater incentive to reduce total expenditure; for example, in our example (Figure A1(b), if TEi = (Ti + 10%), block grant covers 51% of total expenditure whereas if TEi = (Ti - 10%), block grant covers 69% of total expenditure.

6. Prior to 1987/88 a system of 'grant recycling' operated whereby adjustments had to be made to authorities' block grant entitlements during the year to which they applied, and after the close of the year, because the system was designed to distribute between authorities a given cash-limited sum available to cover all block grant payments. Therefore, if some authorities made significant savings during the financial year they could increase their block grant entitlement and this would reduce that available for distribution to other authorities. This adjustment process was also called 'close-ending'. However, following the Rate Support Grants Act 1987, this procedure was changed and the total block grant available is now a flexible sum being the total of the grants paid to all authorities in accordance with the distribution formula.
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