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Institute of Transport Studies, University of Leeds , Leeds, UK.

Working Paper 117

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Published paper

Mackie, P.J. and Garton, P.M. (1979) *The Financing of Local Transport*. Institute of Transport Studies, University of Leeds, Working Paper 117

Working Paper 117

August 1979

THE FINANCING OF LOCAL TRANSPORT

by

P.J.Mackie and P.M.Garton

Simultaneously produced as Discussion Paper No.81
from the School of Economic Studies, University of
Leeds.

*Working papers are intended to provide
information and encourage discussion on
a topic in advance of formal publication.*

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THE FINANCING OF LOCAL TRANSPORT

P.J. Mackie and P.M. Garton

I. INTRODUCTION

Administrative responsibility for expenditure on transport is divided between central and local government. Central government is directly responsible for expenditure on motorways and trunk roads, and indirectly through the nationalised industries, for expenditure by those industries. Local government is responsible for expenditure on local transport: capital, including construction and improvement of roads, parking facilities, traffic management and public transport investment and current, including highway maintenance, public transport revenue support (bus services in all counties, local rail services in the Metropolitan counties only), and concessory fares.

The finance for local transport comes from three sources: income from charges for transport services - bus fares, car parking charges, etc., local rates and Central Government grants and loans. Of the grants, rate support grant (RSG) is the main source of grant aid, whilst transport supplementary grant (TSG) is intended to supplement that aid, especially for authorities with high transport budgets relative to their population.

The sources of income and pattern of expenditure by local government in Great Britain has been as follows:

1971-72
1972-73
1973-74

Transport charges
Local rates
Central Government grants

Source: Department of Transport, 'Transport Statistics for Great Britain', 1974.

	<u>£m. current prices</u>	
	<u>1972/3</u>	<u>1973/4</u>
Total expenditure by <u>local authorities</u>	<u>11945</u>	<u>14869</u>
of which: Current	8847	10733
Capital	<u>3098</u>	<u>4136</u>
<u>Current Income</u>		
Rates	2420	2682
Grants	3542	4422
Other Income	<u>2210</u>	<u>2660</u>
	<u>8172</u>	<u>9764</u>

Source: Report of the Committee of Inquiry into Local Government Finance [1], Tables 21, 25.

Leaving aside housing subsidies, grant aid to local authorities in England and Wales was distributed as follows in 1976/7:

	<u>£m.</u>	<u>£m.</u>	<u>Nov. 1975 prices</u>
			<u>%.</u>
Relevant Expenditure	10461		
Of which Local transport	1078		
Total grant at 65 $\frac{1}{2}$ %	6852		100
Less supplementary and specific grants:			
Transport Supplementary Grant	285		
Other	646	931	14
Rate Support Grant	5921		86
Of which			
Domestic Element	640		
Resources Element	1716		
Needs Element	3565		

Source: Tables 12, 45. Report of the Committee of Inquiry into Local Government Finance.

Specific grants thus comprise 14% of total grant, Transport Supplementary Grant (TSG) being the second largest earmarked grant in 1976/7, after the police grant.

Total grant aid to local authorities (except housing subsidies and specific grants towards mandatory student awards, and rate rebates) is calculated as a proportion of 'relevant' expenditure. [2] Relevant expenditure includes all expenditure charged against the rate levy. The proportion of relevant expenditure to be financed through grants, and the form of the grants is the subject of a major series of negotiations each year between the local authority associations and the Government. For the first time in 1976, their negotiations were linked with the Public Expenditure Survey (PESC). The joint local/central government working parties in this system prepare forecasts of local authority expenditure for each service over the coming five years, and the forecasts are compared with the level of expenditure set out in the last White Paper on Public Expenditure. Then more detailed consideration is given to the first year of the plan period, and this gives an agreed total of relevant expenditure which will generally be consistent with the White Paper total. The next stage is to agree the percentage contribution to relevant expenditure by grants (65.5% in 1976/7). The amount attributable to specific grants is then deducted from the total of grant aid, and the remainder is distributed through RSG. In principle RSG is a block grant, with local authorities having discretion, within their statutory duties, over its disposition. In practice, there is pressure on local authorities to conform

to a national pattern, and an annual guidance circular is issued.

TSG is an additional grant which is specifically earmarked for local transport. The main purpose of this paper is to describe the process of allocation of TSG, and the operation of the system. First, however, we must consider the factors which gave rise to its inception in 1974.

II THE SYSTEM BEFORE 1974

For many years, local road investment was aided by grants related to particular projects - specific grants. Before 1967, there were different percentage grants by type of road:-

Trunk Roads 100%, Class I 75%, Class II 50%, Class III nothing.

Thereafter, the system was simplified. Trunk road investment was paid for wholly by central government, principal roads received a 75% grant, and other road investment received no specific grant.

Under the 1968 Transport Act, local authorities gained a variety of new powers and responsibilities. They gained greater powers over traffic management, had the duty to prepare co-ordinated traffic and transport plans, and were empowered to make fare concessions for the disabled. In the four major provincial conurbations (Merseyside, Manchester, W. Midlands and Tyneside) Passenger Transport Authorities and Executives (PTAs and PTBs) were set up.

With these new powers and responsibilities came a series of new specific grants: infrastructure grants for public

transport capital projects, with a complicated caselaw for determining the rate of grant appropriate to individual projects; new bus grants, a 50% grant on the capital costs of approved types of new buses, grants for socially necessary rail services which, in the conurbations, were to be paid for by the PTES, grants for unremunerative rural bus services, and grants for transportation studies.

By the early 1970s, this plethora of specific grants was seen to be producing an unsatisfactory result, and some witnesses to the House of Commons Select Committee on Urban Transport Planning commented adversely. [3] The main cause for concern was the potential for bias towards capital intensive solutions to urban transport problems. For example, a local authority considering the choice between road investment and subsidising public transport as a means of relieving urban congestion would be influenced in its policy by the availability of high rates of grant on road construction. The introduction of infrastructure grants was an attempt to place investment in public transport infrastructure on a basis similar to that for principal roads. These grants were initially available, at varying rates, for rapid transit and railway systems, bus stations, and vehicle control. Thus, they too tended to support major capital projects, while cheaper non-capital intensive solutions such as bus and traffic management improvements received little assistance. Moreover, areas were favoured which could effectively implement large-scale policies, while smaller towns and cities received little.

Under the 1972 Local Government Act, the new County Councils were made responsible for developing policies to

promote the provision of efficient and co-ordinated systems of public transport, and were given the power to support them financially. Thus, there was an increasing need to take decisions on the allocation of resources between different forms of transport, and to set these problems in the wider context of land-use planning. The financial counterpart to co-ordinated, rather than scheme-orientated planning, was seen to be the block grant for transport. This would remove the biases between capital and current expenditure inherent in the specific grant system, and encourage the development of comprehensive plans. The Government would be able to direct its attention more to the appraisal of such plans, and to the balance of transport programmes, and less to the details of individual projects.

III THE TPP/TSG SYSTEM

(i) Objectives

The new system of local transport grants was introduced from 1 April, 1975. The objectives are set out in a Departmental circular. [4] The new system was designed to:

1. Promote the development and execution of comprehensive transport plans by the new County Councils and the GLC;
2. Eliminate bias towards capital or current expenditure or towards particular forms of expenditure;
3. Distribute central government grant in a way that reflects as far as possible the needs of individual areas;
4. Reduce the degree of detailed supervision by Central Government over individual schemes."

In order to meet these objectives, the Government proposed to:

- (a) Replace as many of the specific grants as possible by a new unified system covering current as well as capital expenditure and public transport as well as roads. (The specific grants to be replaced were for principal roads, public transport infrastructure, rural buses and ferries, and transportation studies).
- (b) Absorb part of the money distributed in the form of specific grants into the needs element of the rate support grant.
- (c) Distribute the remainder as a transport supplementary grant for the year to each county council and the GLC, whose estimated programme of expenditure as accepted by the Secretary of State for the Environment exceeded a prescribed threshold. (The intention was to set the level of the threshold sufficiently low in the early years to allow most counties to qualify for TSG, and to fix the rate of grant close to the average of the specific grants to be replaced (about 70-75%). Over time, however, the grant rate would be reduced, perhaps to 50%, the threshold level raised, and the resources released absorbed into the needs element of RSG.
- (d) Fix a block loan sanction, on the basis of accepted expenditure.

... ..

(ii) Coverage

The exact coverage of the transport supplementary grant needed to be carefully defined. The following expenditures by county councils, or their constituent districts are eligible for TSG:-

Expenditures on

- (a) public transport (net of income), except for expenditure on new buses, which continues to be aided by the specific New Bus Grant, expenditure on concessionary fares policies, and on the provision of services for particular categories of people, e.g. school buses,
- (b) Highways, except housing estate roads, toll bridges and tunnels,
- (c) Traffic regulation,
- (d) Parking provision for cars and lorries net of income,
- (e) Road safety measures,
- (f) Freight handling facilities, but not freight operation.

The principal exclusion, other than those mentioned above, are expenditures on airports, harbours and canals. Outside the PTE areas, the main source of support for local rail services is the direct grant from Central Government to British Rail; expenditure on new stations is, however, eligible for TSG.

(iii) The Financial Details

One of the key differences between the specific grant system and the new system is that whereas the specific grants were payable on work already carried out, TSG is paid on future planned expenditure. It is, therefore, important to set out

in some detail the way in which the system works.

Decisions on the allocation of TSG and loan sanction are made annually in the context of the RSG negotiations and "have regard both to national resource constraints and to the progress a county council is making towards formulating and implementing suitable comprehensive policies to meet the transport needs of its area" [4.7]. Each County Council and the GLC submits to the Department an annual document containing a statement of its transport policies and a costed programme giving effect to them - its Transport Policies and Programme (TPP). The TPP^s contain

- (a) Detailed estimates of expenditure for the following financial year.
- (b) A 5 year expenditure programme which is rolled forward annually, the first year of which provides the basis for grant and loan sanction calculations
- (c) A provisional statement of transport objectives and strategy for 10-15 years.
- (d) A statement of past expenditure and physical progress, and the extent to which the programme is meeting the objectives and policies underlying it.

The TPP/TSG system is only a part of the general land-use and transport planning framework. The 1972 Local Government Act divided the planning process by giving strategic function, to be outlined in Structure Plans, to the new counties, and tactical functions (e.g. local planning and development control) to the new districts. These structure and local plans form the wider framework for the TPP^s, and interact with them. Thus, transport policies must have regard to wider planning, environmental and social objectives, whilst local and structure

plans must recognise the resource and other constraints on the implementation of transport policies.

The TPP, then, contains a costed programme of expenditures for the forthcoming financial year, vulgarly known as a 'bid'. These bids are not formulated in a vacuum. For the second, third and fourth rounds of the system, counties were issued with expenditure guidelines, and were asked to prepare 5 year programmes which corresponded with the upper and lower limits of the guidelines. More recently no formal guidelines have been issued, but counties have been made aware of the trends in the overall level of resources likely to be available for local transport.

The TPP bids are the raw material of the allocation process. The main role of Central Government is to consider the competing claims for resources, and to determine how the available resources are to be allocated.

The allocation identity can be expressed in the following way:-

$$\text{TSG going to county } X = \frac{\text{Total accepted expenditure for county } X - \text{threshold for county } X}{X \text{ Rate of Grant.}}$$

The Department must define values of the total accepted level of expenditure, the threshold, and the rate of grant, such that, in toto, the amount of TSG awarded corresponds with what is available. In principle, any or all of these variables could be adjusted in order to meet the overall resource constraint; in practice, the Department has operated mainly by varying the level of accepted expenditure. It has set of grant rates for different types of expenditure, and has also set of grant rates for different types of expenditure. It has also set of grant rates for different types of expenditure. It has also set of grant rates for different types of expenditure.

The level of accepted expenditure is the amount of expenditure from each county which the Department decides to accept for grant purposes. If the Department decides not to accept sufficient expenditure to enable a county to undertake the whole of its proposed programme, the county may decide to supplement the expenditures from other sources (e.g. the rates) or more likely, to reduce the scale of its programme.

The threshold is the level of expenditure above which expenditure becomes eligible for TSG. The original intention was that the threshold would be defined in such a way that only counties with greater than average need to spend on transport would qualify for TSG. The transport programmes of the remainder would be supported through RSG [5]. By the time of the issue of the departmental circular, there had been a change of mind, and the threshold was to be set at such a level that most counties would qualify for TSG. This important change of approach was probably influenced by a recommendation of the Select Committee Report on Urban Transport Planning [6] that the threshold should be set at a low level so as to secure adequate scrutiny of counties' transport programmes.

The threshold has, except in the first year of the system, been defined as a sum per head of population. The details are as follows:-

-continued as

Normal Threshold

1975/6	Estimated expenditure on highway maintenance in 1974/5 + £2.897 per head of county population at June 1973.
1976/7	£9.4174 per head of county population at June 1974.
1977/8	£9.4686 per head of county population at June 1975.
1978/9	£9.992 per head of county population at June 1976.

An alternative 'safeguard' threshold also exists.

The purpose of this is to ensure that counties with large amounts of previously committed expenditure receive grant on the whole of that expenditure, where otherwise they would not. The categories of expenditure included in the safeguarding arrangements are highway and public transport capital schemes over £½ million, and the contractual obligations by metropolitan counties (through their PTES) to grant aid for loss-making rail services (not 1977/8 or 1978/9). Since 1978/9, a third threshold ensures that the whole of shire counties' expenditures on support for rural bus services receives TSG, where otherwise it would not do so. Counties, therefore, receive grant on the difference between their total accepted expenditure and whichever is the lowest of the thresholds. For example, for the financial year 1978/9, West Yorkshire M.C.C. received TSG of £11.621 million. This was determined as follows:-

£m. 1976 prices

1. Total accepted expenditure	37.362
2. Safeguarded capital exp. included in above total	Nil
3. Threshold	
(a) Normal	20.763
(b) Safeguard	37.362

Of the two thresholds, (a) is the lower and has accordingly been used in calculating the allocation of TSG.

Accepted Expenditure	37.362
Less Normal threshold	20.763
Accepted Exp. above threshold	16.599
T.S.G. at 70.008% of Accepted Expenditure above threshold	11.621

It will be appreciated, from the above, that the way in

which the Government determines the combination of accepted expenditure, threshold and grant rate which is consistent with a given overall level of resources will have a marked effect on the distribution of grant between counties.

(iv) Borrowing Arrangements

In addition to qualifying for TSG, capital expenditure on transport may be financed by borrowing. In recent years, 40-50% of capital expenditure has been loan financed. This borrowing has to be sanctioned by central government, and local authorities receive details of the loans which they are authorised to raise at the same time as the award of TSG is notified to them. Loan sanction is available for land acquisition (subsidiary sector), for road projects of over £½ million works cost and all public transport capital

projects (key sector), and for road projects of less than £½ million (the locally determined sector).

Each county council is awarded block borrowing approval for a stated amount in the key sector. Essentially, the Government takes a view of the likely content of each county council's programme, and estimates the amount of accepted expenditure which is likely to be devoted to schemes which fall in the key sector. Broadly speaking, borrowing approval is given on the element of key sector expenditure which is not grant financed. Thus, if the whole of key sector capital expenditure falls above the threshold, and if the rate of TSG is 70% then approval would be given to borrow the remaining 30% of key sector capital expenditure. A detailed explanation of this and other cases is given in the relevant departmental circular [7].

County councils may transfer part of their key sector borrowing approval to a district council or councils in their area in order to finance key sector transport schemes of those councils. For metropolitan counties, the block loan sanction also includes the estimated amount of PTE borrowing which they expect to authorise.

The subsidiary sector covers expenditure on land and existing buildings for any scheme eligible for TSG. Borrowing for expenditure in this sector is not subject to an overall limit. An annual total borrowing limit is fixed for the locally determined sector by the Secretary of State; this is

L. 1980-1981 programme of expenditure for the year 1980-1981.

then distributed by formula between authorities. Borrowing in this sector finances capital expenditure for all purposes and not just transport, and local authorities have discretion as to its allocation between uses. If they wish to undertake small projects to a greater value than their LRS loan, these must be financed directly from rate revenue.

(v) Timing

The preparation and submission of the Transport Policies and Programme (TPP) and the resulting allocation of TSG constitutes a rolling programme of work, with formal and informal interaction between central and local government at all stages. The main events for the year are set out in the following table:-

Year 0 (December)	Allocation of TSG for the coming financial year (Year 1).
Year 1 (Jan.-March)	Preparation of programme for coming year in the light of grant award. Integration with overall county budget.
Year 1 (Feb.)	Publication of Government Public Expenditure White Paper containing projected allocation of resources to Roads and Transport for the following financial year (Year 2).
Year 1 (March)	Receipt of transport expenditure guidelines or guidance, from Department of Transport Regional Controller's Office.
Year 1 (April-June)	Preparation of TPP. Consultations with District Councils, operators etc. Progress through Committees to Council. Decisions on priorities.
Year 1 (July)	Submission of finalised TPP document to Department of Transport. Subsequent discussions with Regional Controller.
Year 1 (Autumn)	Reconciliation of competing claims by Department of Transport.
Year 1 (December)	Decision letter from Regional Controller's Office announcing allocation of TSG to individual counties for the following year (Year 2).

Thus, although the TPP document contains a five year programme, the main focus of the TPP/TSG system is on the year ahead. One facet of the arrangements is that counties do not know until December what resources they will have available for transport in the following April.

To summarise, county councils receive guidance as to the level of resources likely to be available in the following financial year. They develop programmes of expenditure for the coming 5 years, the first year of which constitutes a bid. Central Government reviews the bids in relation to the resources available for local transport, and determines the accepted expenditure for each county, the threshold, and the rate of grant. These together in turn determine the distribution of Transport Supplementary Grant.

IV THE OPERATION OF THE SYSTEM

(i) The overall level of resources

The climate within which the system has operated has been one of reductions in public expenditure. Figure 1 shows the trend in the level of total accepted expenditure and TSG year by year in real terms.* Total accepted expenditure and TSG both fell by about 30% between 1975/6 and the low point in 1978/9. This trend, of course, was not expected or intended.

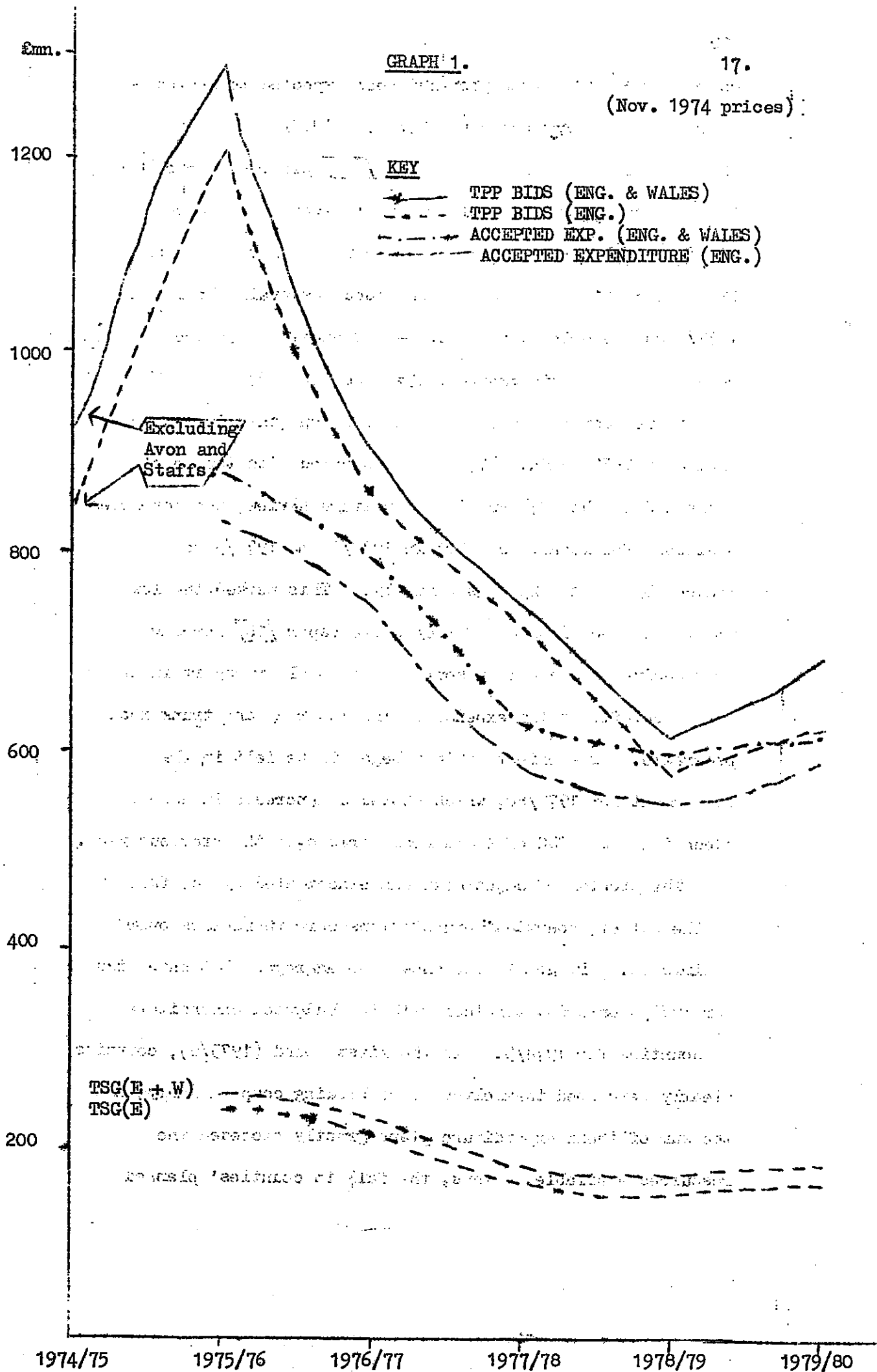
In the 1975 Public Expenditure White Paper [8] expenditure

* Footnote: All expenditures converted to November 1974 prices using the revaluation factors employed by the Department of Transport.

GRAPH 1.

17.

(Nov. 1974 prices)



on roads and local transport had been expected to increase by 1% in real terms between 1975/6 and 1978/9. However, the next Public Expenditure review [9] provided for a 10% real reduction in local transport expenditure between 1977/8 and 1978/9. A further reduction of not more than £14 million (1976 prices) in the resources available in 1977/8 was made in July 1976. The Chancellor announced a further reduction in his statement of 15th December 1976, together with a continued moratorium on new construction (this in fact ran from July 1976 to May 1977). As compared with the levels envisaged in the 1975 Public Expenditure Review, the resources available for local transport in 1977/8 and 1978/9 were reduced by 16% and 25% respectively. This marked the low point, and the Transport Policy White Paper [10] foresaw a progressive increase in resources for local transport in later years, chiefly at the expense of the motorway and trunk road programme. The effect of this began to be felt in the settlement for 1979/80, which showed an increase in accepted expenditure and TSG of 4% in real terms over the previous year.

The problem of adjustment was exacerbated by the fact that at the outset, counties' expectations were themselves over optimistic. Figure 1 also shows the aggregate TPP base bids for 1975/6 onwards, together with the budgeted expenditures of counties for 1974/5. In the first round (1975/6), counties clearly perceived themselves to be bidding competitively, and the sum of their expenditure plans greatly exceeded the resources available. Thus, the fall in counties' planned

expenditure has had to be even more dramatic than the fall in accepted expenditure; total TPP bids fell by over 50% in real terms between 1975/6 and 1978/9.

The main lesson to emerge from the first round of the system was that in the absence of guidance, there was nothing to prevent counties' bids from being unrealistic in aggregate, with the consequence that much of the planning would be wasted. Some indication of priorities was also required, so that central government could see what expenditures lay at the margin of the programme. Accordingly, for the second round, counties were asked to put in a five year programme based on government guidelines (upper and lower) for each county, derived from the total resources expected to be available and divided between counties on a crude formula basis. To conform with the lower guideline, many counties had to suppress expenditure; the difference between the lower guideline or "base" programme, and the upper guideline, or "preferred" programme would give some indication to the Government of the content of the programme as a whole at the margin.

Most counties were prepared to comply with the guidelines, so that the level of planned expenditure in total in later years corresponded well with the guidelines. Unfortunately, the cuts in public expenditure meant that by the time of the expenditure settlement in December, the guidelines of the previous March had become unrealistic, and even counties' base bids could not be accommodated in the second and third rounds. This led to some disillusionment, and by 1978/9,

many counties did not deem it worthwhile to submit a preferred programme.

As a result, for the 1979/80 round, the guidelines were replaced by a less rigid system. Counties were given a table indicating the likely trend in aggregate expenditures on local transport; it was then for counties to put forward their proposals. These are divided into two parts:-

(a) Current and Committed Capital Expenditure.

This part covers the county's total estimated current expenditure, and its forecast expenditure on capital schemes started before the settlement year.

(b) New Capital Expenditure

This is a statement of the additional resources required to finance expenditure on all new capital schemes which counties wish to start in the five year period. There is no upper limit as such. Councils are asked to rank key sector schemes in order of priority, and if possible, to indicate for the settlement year, the basic block of spending on LDS schemes which they expect to allocate before dealing with their top priority key sector schemes.

In summary, the cuts in public expenditure have placed a strain on the system, by requiring continuous adjustment of plans as resources were squeezed. Yet, this adjustment did take place; by 1978/9, the base levels of planned expenditure did more or less coincide with the total expenditure the Government was able to accept.

It was, however, necessary to make some adjustments to the system.

(ii) The Distribution between Counties

We may now consider the way in which the resources have been distributed. We begin by considering the distribution of bid and accepted expenditure and TSG between the main groups of counties - the Metropolitan Counties, the English Shire Counties and the Welsh Counties.

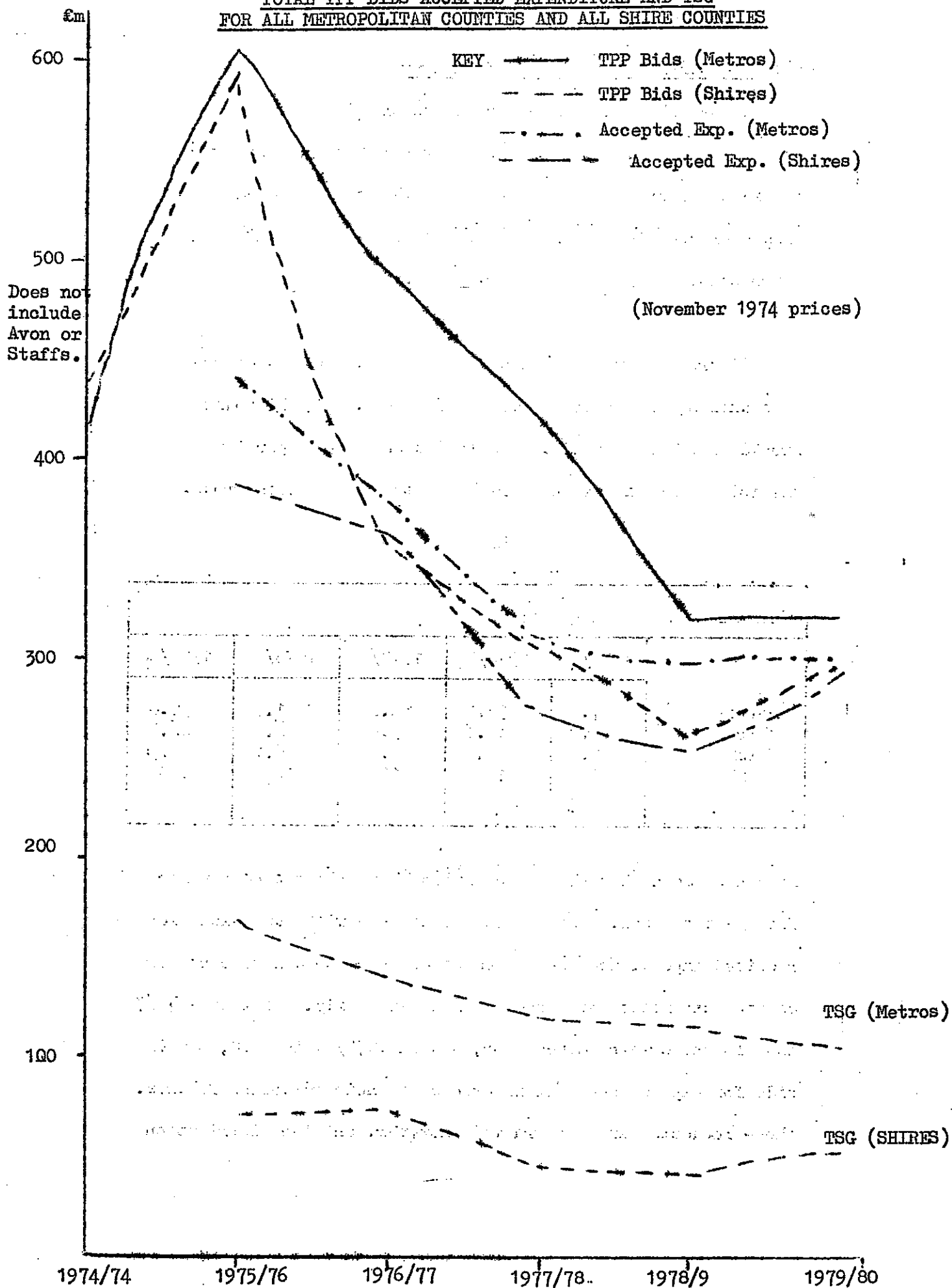
Figure 2 shows the principal trends for the three groups of counties, and Table A gives a detailed county by county breakdown of the figures. Table 1 shows the proportions of the total base bid expenditure accounted for by each group.

TABLE 1

TPP BIDS (%) (BASE BIDS)					
	1975/6	1976/7	1977/8	1978/9	1979/80
Metros	47.0	55.1	54.6	51.9	50.0
Shires	46.0	40.1	39.8	42.0	42.7
Welsh	7.0	4.8	5.6	6.1	7.3
TOTAL	100	100	100	100	100

It can be seen that these proportions have fluctuated considerably from year to year. Given that counties - with four exceptions - received expenditure guidelines based on a standard amount per capita, one might have expected more stability. But in 1976/7, the GLC and Greater Manchester, and in 1977/8, the GLC, put in bids for expenditure well in excess of their guideline figures. These requests were not granted, however, and the distribution

TOTAL TPP BIDS ACCEPTED EXPENDITURE AND TSG
FOR ALL METROPOLITAN COUNTIES AND ALL SHIRE COUNTIES



of accepted expenditure shows a much more stable pattern.

TABLE 2

ACCEPTED EXPENDITURE (%)					
	1975/6	1976/7	1977/8	1978/9	1979/80
Metros	50.3	47.8	49.5	49.8	47.2
Shires	44.3	45.9	43.6	42.5	45.4
Welsh	5.4	6.3	6.9	7.7	7.4
TOTAL:	100	100	100	100	100

Accepted expenditure in real terms, and the proportion of the base bid which was accepted each year, is shown for each county in Tables B and C.

When the share of TSG taken by each group is set out an interesting point emerges. Whereas the Metropolitan Counties as a group have accounted for roughly half of the bid and accepted expenditure, they have taken two-thirds of the TSG.

TABLE 3

TRANSPORT SUPPLEMENTARY GRANT (%)					
	1974/6	1976/77	1977/8	1978/9	1979/80
Metros	67.4	61.2	66.3	66.3	60.7
Shires	28.2	31.7	24.8	23.2	29.5
Welsh	4.4	7.1	8.9	10.5	9.8
TOTAL	100	100	100	100	100

The explanation for this is that Metropolitan Counties have had

a higher amount of expenditure per head of population accepted than Shire counties. Since TSG is only payable on expenditure accepted above the threshold, this has a gearing effect on the proportion of grant received by the Metropolitan counties.

Thus applying the figures for 1976/7 we find the following:

$$\text{TSG} = \frac{[\text{Accepted Exp./head} - \text{threshold value}]}{\text{Population} \times \text{Grant Rate}} \times$$

$$\text{TSG METROS} = \frac{[(£20.08 - £9.4174)(18.857\text{m})]}{.7} = 140.74\text{m.}$$

$$\begin{aligned} \text{TSG SHIRES} &= \frac{[(£13.19 - £9.4174)(27.5788\text{m})]}{.7} \\ &= £72.83\text{m.} \end{aligned}$$

We shall return to this gearing effect and its possible justification in Section V below.

Finally, the successful performance of the Welsh counties as a group should be noted. Their share of accepted expenditure and TSG has risen consistently, and their budget has remained roughly constant in real terms over the period.

(iii) Distribution between Heads of Expenditure

We now examine the changes which have taken place in the content of the local transport programme. Table 4 shows the proportions of the counties' base bids, year by year, which were for road construction, other road expenditure, public transport, capital projects, and public transport subsidies. [11]

TABLE 4. PLANNED TPP EXPENDITURE
ON DIFFERENT HEADS. %.

	Road Construc- tion	Other Road Expendi- ture	Public Transport Capital	Public Transport Subsidies	Total
<u>METROS</u>					
1975/76	27	27	22	24	100
1976/77	19	29	19	33	100
1977/78	10	32	22	36	100
1978/79	11	35	28	26	100
1979/80	16	34	27	24	100
<u>SHIRES</u>					
1975/76	54	41	2	3	100
1976/77	34	57	2	7	100
1977/78	29	60	1	10	100
1978/79	24	67	1	8	100
1979/80	28	62	1	9	100
<u>WELSH</u>					
1975/76	55	39	2	4	100
1976/77	27	66	1	6	100
1977/78	32	55	1	12	100
1978/79	29	60	1	10	100
1979/80	39	52	1	8	100
<u>TOTAL</u> <u>ENGLAND &</u> <u>WALES.</u>					
1975/76	41	34	12	13	100
1976/77	26	42	11	21	100
1977/78	19	44	13	24	100
1978/79	18	50	15	17	100
1979/80	23	47	14	16	100

As we have seen, total accepted expenditure each year was less than the sum of the base bids by counties. Before commenting on the distribution of planned expenditure, therefore, we should consider the way in which the programmes have needed to be

adjusted to conform with the available resources. Originally, the intention was that the Government would accept a certain amount of expenditure, and the counties would then have discretion to determine their final programme. This remains the formal position, but progressively the Government has indicated the way in which it expects the resources to be allocated between expenditure heads. In the words of a senior government official at the time,

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..... [12]

Table 5 shows the ratios of accepted to bid expenditure by expenditure head for Metropolitan and Shire counties.

TABLE 5. ACCEPTED EXPENDITURE/BID EXPENDITURE

	Road Maint.	Other Current	Capital	Public Transport Subsidies	Total
<u>Metros</u>					
1975/6	-	-	-	0.93	0.73
1976/7	0.97	-	-	0.47	0.76
1977/8		0.99	0.73	0.56	0.74
1978/9		1.05	0.79	1.00	0.93
1979/80		1.03	0.69	1.00	0.87
<u>Shires</u>					
1975/6	-	-	-	0.67	0.64
1976/7	0.94	-	-	1.17	1.02
1977/8	-	1.01	0.72	0.84	0.90
1978/9	-	1.03	0.83	1.08	0.98
1979/80	-	1.01	0.89	1.03	0.98

Road Maintenance has taken an ever increasing share of the budget as resources have been squeezed. For England and Wales as a whole, the share has increased from a third to a half of total planned expenditure. Nevertheless, expenditure on maintenance and lighting has not been immune from cuts. In a statement of July 1975 [13] the Minister suggested that a cutback of 15 - 20% in expenditure, compared with what would have taken place, over a 3 year period 1976/7 - 1978/9, should be made. Then, in the Transport Policy White Paper, a further cut of 5% was called for by the end of the decade. The first of these cutbacks appears to have been implemented by the counties; the total bid for 1978/9 was about 15% below that for 1976/7, and the bids have been accepted in full by the Government (Table 5).

Nevertheless, it is clear that many county surveyors have serious misgivings about the cuts and have warned that the day of reckoning is nigh. [14]

The brunt of the reduction in aspirations has been borne by capital projects. Counties have responded to cuts in resources primarily by abandoning or postponing new capital projects, especially road construction projects. Thus, the bids for local road projects for England and Wales for 1978/9 came to little more than half of those for two years previously.

Moreover, the Government used reduction in capital expenditure as the main means of bridging the gap between the sum of the base bids and the level of expenditure which they could accept (see Table 5). This included a complete moratorium on new capital starts between July 1976 and May 1977. Public transport capital projects maintained a more even share of the budget, but

only because the two major projects - the Jubilee line in London and the Tyne and Wear Metro - were already committed. The bids by other counties for such expenditure fell off dramatically from £45 million in 1976/7 (November 1974 prices) to £11 million in 1979/80 (November 1977 prices). It is clearly true that in the local transport sector, the least painful form of adjustment to reduced circumstances has been to postpone or abandon new capital projects.

Bids for revenue support for local rail services in Metropolitan Counties have generally found favour, and the accepted expenditure for this head has been about 6% of total accepted expenditure in these counties, and more than a fifth of their public transport revenue support. By contrast, the bus revenue support programme has enjoyed a chequered career. In 1975, prior to local government reorganisation, local authority support for buses was running at about £13 million. In the circular setting out the arrangements for the first year's submissions [15], the Department adopted a modestly positive attitude to revenue support for buses:

In their early years, TPP's will be regarded as an opportunity for exploring the practical application in particular circumstances of policies designed to favour public transport, and to help develop criteria for evaluating revenue support measures.

By the end of the year, this measured approach has been overtaken by events. Counties had paid substantial sums from the rates, principally to hold down fares, and subsidies for 1974/5 were expected to reach £85 million (November 1973 prices). The

Government therefore decided that revenue support payments had

to be separately identified and decided to accept £102 million for 1975/6, compared with a bid of £110 million (November 1973 prices). But it made clear in the following year's circular [16] that revenue support for buses and underground was to be reduced by a half in real terms within three years. When, in the event, the sum of the county bids for bus revenue support for 1976/7 came to £146 million (November 1974 prices) it responded by accepting only £86 million, the cuts falling wholly on the Metropolitan Counties. This pattern was repeated the following year when the initial bids of the Metropolitan Counties (£150 million at November 1975 prices) were regarded as excessive. Negotiations followed and the counties "with one exception, agreed to reduce their proposed spending to levels which were consistent with the reduced overall provision for local transport" [17]. The exception was South Yorkshire, which as a result had no expenditure accepted except for some continuing capital works which the Government had already agreed to support. Even the reduced level of expenditure necessitated a transfer of resources from capital to current expenditure, but the level of expenditure accepted for revenue support had been reduced by a third in real terms compared with two years previously.

During 1977 the Transport Policy White Paper [10] was published, and policy towards public transport was amended. The level of support for public transport was

not to be reduced further, but there would be a modest shift of £15 million or so towards the rural services. For the first time, the aggregate bids of the Metropolitan Countries were not regarded as excessive and the Government was able to accept the whole of the base bid for revenue support for 1978/9, and again a year later.

The Shire Counties' experience has been rather different in that the Government has attempted to encourage some of these counties to provide a higher level of support for bus services than they intended so as to avoid drastic cuts in service levels outside the urban areas. Thus, in 1975, the Government invited Shire Counties to revise their bids upwards: about half responded, and almost the whole of the revised bids were accepted. But whereas a sanction - not accepting all the proposed expenditure - exists against those authorities who wish to spend too much, there is no obvious course of action available where authorities wish to spend less than the Government thinks desirable. The Government has introduced the third threshold, to ensure that the whole of Shire Counties' accepted expenditure on public transport subsidies qualifies for TSG. It has also resorted to tactics, which run counter to the spirit of the system (see Section V (iii) below). It has introduced the Public Transport Plans. But it has not, so far, secured the compliance of certain authorities, most notoriously Oxfordshire, with its own wishes.

Though the foregoing should give an overall impression of the trends in local transport expenditure over the last five

years, we thought it was important to look in detail at the fortunes of a number of authorities. We examined bid and accepted expenditure in four counties - West Yorkshire, Greater Manchester, Cheshire and Oxfordshire - and the details are given in Table D and Figs. D1 - D8. The national picture is closely mirrored. Greater Manchester and to a lesser extent, Cheshire and West Yorkshire put in over-optimistic bids for 1975/6. Subsequently, the level of accepted expenditure was closer to the base bid, though in no instance was the whole of a base bid accepted.

The trends in the pattern of expenditure also conform to the national picture. The increasing share of road maintenance expenditure, and the squeeze on capital expenditure - road construction in all counties, and Greater Manchester's railway projects - emerge very clearly.

To summarise, the introduction of the new grant system has coincided with difficult times. The brunt of the adjustment has been borne by real reductions in capital expenditure on local transport, and in subsidies for public transport. Only in the last two rounds has something approaching stability been achieved. The difficult environment has had two effects. The discretionary element of expenditure has been smaller than that envisaged when the system was planned, but the element remaining has been all the more precious. Central government has felt impelled to intervene in the allocation between heads of expenditure in a way not apparently intended at the outset. Whether the pressure to intervene would have been greater or less had resources been more freely available is a moot point.

(iv) Out-turn

The allocation of expenditure is not the end of the story. Counties still have to determine their final budgets and undertake the expenditure programme. Indeed, since TSG is awarded to counties on the merits of their programmes, the out-turn of expenditure is of considerable interest. For it is an essential part of the process that the outcome is monitored and compared with the plans. In this way, Central Government can satisfy itself that broadly the planned programme has been carried out, and that discrepancies between planned and actual expenditures are not the result of the execution of different policies from those on which the grant was awarded. This is a difficult task because of the need to judge intent, and because of the time lapse involved. The time lapse presents problems in two respects. Between the submission of the TPP and the execution of the programme, events may have changed sufficiently to dictate a different balance to the programme from that originally envisaged. Secondly, the TPP is submitted at a price base of the previous November - 2 years out of date by the time the programme is carried out. If relative prices of different parts of the programme change, considerable information will be required to determine what has happened to real output. In what follows, a single inflation factor has been used to bring the out-turn of expenditure and the expenditure plans to the same price base. No allowance has been made for differential inflation by type of expenditure. We have examined the out-turn of expenditure for the year 1976/7, and the analysis is at November 1974 prices.

It is over-simple to compare bid levels of expenditure with the out-turn because the level of accepted expenditure may be quite different from the bid, and may cause counties to revise their budgets downwards. For 1976/7, however, accepted expenditure was reasonably similar to base bid levels, at least for the shire counties. This group of counties had 101.6% of their base bids accepted, while Metropolitan counties had 77%

accepted. Of the 39 Shire counties, 22 had 100% or more of their base bid accepted, another 13 had 90-100%, and the remaining 4 had 84-90% accepted. The Metropolitan counties had lower proportions accepted, ranging from 68% for the GLC to 96.5% for West Yorkshire. The broad picture, then, is that with the exception of a few of the Metropolitan counties, authorities

had sufficient expenditure accepted to enable them to carry out all or nearly all of their base programmes.

Table 6 shows a comparison between the total levels of bid and accepted expenditure and out-turn for the English counties.

TABLE 6

£m. November 1974 prices

	Bid	Accepted	Out-turn
Metropolitan counties	492	379	330
Shire counties	358	364	283
Total: England	850	743	613

Actual expenditure on local transport failed in aggregate even to match accepted expenditure, let alone the level of the bids.

Table 7 shows where the discrepancies arose between accepted expenditure and out-turn by head of expenditure:-

TABLE 7

	Highway Mainte- nance	Public Transport Revenue Support		Capital	Other Current	£m TOTAL
		Bus	Rail			
Metros	-16.5	41.6	-4.2	-69.4	-0.7	-48.5
Shires	- 6.2	- 8.1	0.1	-66.5	3.3	-80.7
TOTAL:	-22.7	33.5	-4.1	-136.4	2.6	-129.2
England						

- indicates underspending;

+ indicates overspending.

The two obvious features are that bus revenue support in the Metropolitan counties was overspent by £41. million, or 72% and that the already truncated capital programme was underspent by £136 million, no less than 40% of accepted capital expenditure.

In order to look more closely at the first of these points the bid, accepted and out-turn figures are set out for each Metropolitan county.

From Table 8, it can be seen that four of the Metropolitan counties had out-turns which exceeded their bid level of expenditure, and five of the seven showed no indication of adjustment of policy to meet the lower accepted expenditure figures.

TABLE 8

	Bid		Accepted		Out-turn	
	Bus	Rail	Bus	Rail	Bus	Rail
GLC	82.0	17.0	37.274	-	57.559	-
GMC	8.84	7.8	4.258	4.99	5.704	3.552
Merseyside	6.2	4.8	3.337	4.61	8.222	4.152
S. Yorks	5.6	1.2	2.532	1.15	5.42	-
Tyne & Wear	2.92	2.2	1.093	1.31	5.108	1.524
W. Midlands	8.66	4.69	5.236	2.53	10.897	1.781
W. Yorks.	4.74	4.00	3.797	2.69	6.231	2.113
TOTAL:	118.96	41.69	57.527	17.28	99.143	13.122

In both Metropolitan and Shire counties, underspending of the capital budget was general, often by over 50%. Only two counties, Dorset and Staffordshire overspent, and apart from Cleveland, GLC and West Yorkshire, no other county spent more than 75% of its capital budget. Further details of the out-turn, county by county, for 1976/7 are given in Tables E, F and G.

As a final exercise, the out-turn of a single county, West Yorkshire, was examined in detail, in order to determine how the underspending occurred. West Yorkshire bid for £39.68 million, had £38.31 million accepted, and actually spent £34.81 million, a shortfall of £4.87 million on the base bid. The main elements in this were underspending on capital projects of £4.05 million, and on revenue support for rail services of £1.89 million, counterbalanced by overspending of £1.49 million on bus revenue support. The shortfall on capital expenditure is clearly a major

problem for most counties, and as we have seen, West Yorkshire was more successful than most in 1976/7 in spending its capital budget. The detail of the out-turn of West Yorkshire's capital programme in relation to the plans illustrates the nature of the problem.

TABLE 9

DISCREPANCIES BETWEEN PLANNED AND OUT-TURN EXPENDITURES
IN WEST YORKSHIRE M.C.C.'s CAPITAL PROGRAMME, 1976/77.

I OUT-TURN EXCEEDING BID

<u>(i) Items not bid for in TPP</u>		<u>(ii) Items bid for where out-turn exceeds bid</u>	
<u>(a) Projects over £½m.</u>		<u>(a) Projects over £½m.</u>	
	£m.		£m.
M606 Bradford Motorway Light-		Elland by-pass	.121
ing & Crash Barriers	.051	Highways started	
Bradford Interchange Bus Dep	.808	before 1/4/75	2.197
" " Bus Station	1.061		
Advance works	.041	<u>(b) Projects under £½m.</u>	
<u>(b) Other capital expenditure</u>		Highways started	
Consultants	.543	before 1/4/77	.276
Land for projects started			
before 1/4/75	.113		
	<u>2.617</u>		<u>2.594</u>

TOTAL excess expenditure on projects
where out-turn exceeds bid = £5.211

II BID EXCEEDING OUT-TURN

<u>(i) WORKS</u>		<u>Projects under £½m.</u>	
<u>Projects over £½m.</u>			
Leeds/Bradford Urban Traffic		Highway expenditure	
Control	.192	eligible for TSG in	
Newgate Diversion, Pontefract	.108	1975/6	.081
Commercial St. by-pass, Brighouse	.149	Highways started in	
Ings Rd. roadworks, Wakefield	.201	1975/6	.831
Bradford Central Area Compre-		Projects starting before	
hensive Traffic Mngmnt. Scheme	.186	1/4/77:	
Aire St/Bridge St. Castleford,		lighting capital	.096
Bridge and roadworks	.322	traffic management	.145
Armley Link Rd., Leeds, Phase I	.106	car parking	.034
A650 Tong St., Westgate Hill			
Improvement, Bradford	.499		
Dewsbury Bus Station	.200		
Kirkstall Workshops	.250		
Highway expenditure eligible			
for TSG in 1975/6	.924		
Bus expen. eligible for TSG 75/76	.843		
	<u>3.980</u>		<u>1.187</u>
<u>(ii) LAND</u>		<u>(iii) OTHER CAPITAL EXPENDITURE NOT</u>	
		<u>ARISING FROM ABOVE PROJECTS</u>	
<u>(a) Projects over £½m. eligible</u>		Land in advance	.665
for TSG in 1975/6	.254	Land Compensation Act	1.025
<u>(b) 1975/6 starts not eligible</u>		Statutory Blight	.217
for 1975/6 TSG, 1976/7	1.932		
1980/1 starts			
	<u>2.186</u>		<u>1.907</u>

II TOTAL UNDERSPENDING = 9.260

NET UNDERSPENDING (II-I above) = 4.049

Table 9 shows that the actual content of the capital programme for 1976/7 was rather different from what had been envisaged in the TPP when it was submitted a year earlier. The discrepancies are largely accounted for by slippage. The projects for which the out-turn exceeded the bid were late being completed, while those for which the bid exceeded the out-turn were either not started at all in 1976/7 or had a much lower rate of expenditure than had been anticipated. The moratorium on new capital starts must have had an influence here, but the magnitude is impossible to determine.

A number of conclusions would appear to follow. The content of the programmes actually carried out can - for whatever reason - be substantially different from that on which the Government based its accepted expenditure decision. The size and phasing of the programme can also be different. This has a number of serious implications for the working of the system which are taken up in the next section.

V CRITIQUE

In this section of the paper, we consider the functioning of the TSG system against the objectives set out in Circular 104/73 and discuss possible alternatives to the present system. First, however, we consider some "teething troubles" which have, to a greater or lesser extent, been overcome.

- (i) Teething troubles
- (a) Unrealistic bids

In the first round of submissions, despite government warnings, counties regarded the system as one of competitive bidding for TSG.

Hence the sum of the bids was unrealistically high compared with the available resources. This, together with the absence of a statement of priorities in many of the submissions, meant that the value of the TPP's as planning documents was limited. For there was little indication of the effective choices at the margin of the local transport programme. Therefore, one of the main aims of the Government in the second and subsequent rounds was to ensure that, in aggregate, the bids were realistic, and that some statement of priorities was made. As we have seen, five-year expenditure guidelines were introduced, and the bids subsequently bore a closer relationship to the available resources. Indeed, it was because the guidelines themselves became unrealistic as public expenditure was cut, rather than a refusal on the part of the counties to comply with their guidelines, that the base bids could not be accommodated, and the preferred programmes seemed so superfluous.

(b) The problem of single year planning

The first round of TPP's presented expenditure programmes for the year ahead only. This was all that could reasonably be expected given the short time available to prepare the TPP's and the recent creation of the authorities and their new powers. The inadequacies are obvious - in any one year perhaps 90% of expenditure is already committed, and any new capital projects commit further expenditure in later years. Furthermore, those counties with a coherent strategy would not be able to demonstrate in a single year that their programme corresponded with their policies. So it was sensible from the second round onwards, to

move to a five year rolling programme basis. Two problems remain. The first is that of making forecasts of current expenditure particularly on highway maintenance and public transport revenue support for a five year plan. There is no difficulty in writing down a certain sum of expenditure for each of five years, the problem is to progress beyond that to the formulation of a genuine plan for current expenditure as well as for capital expenditure. The Public Transport Plans required under the 1978 Transport Act should help this process, but genuine planning of highway maintenance seems to be a thing of the future.

The second problem is that, though the planning is now on a medium term basis, the finance is not. TSG is still determined only for the year ahead, and only three months in advance. In principle, this might produce serious problems - counties might commit themselves to capital schemes in prosperous years only to find that the finance to complete the schemes was not available - at least from central government sources - a year or two later. In practice, if central government gives a county sufficient TSG and key sector loan sanction to enable a large scheme to be started, this must effectively involve a commitment to that scheme subsequently. However, the truncated timescale may well help to explain the amount of slippage on capital projects. New capital starts may be "pencilled in" for the following year in the TPP, but a genuine commitment to the projects may not be possible until the grant settlement is known. By that time, the procedures to be gone through (contract letting etc.) may make it difficult to start projects on time. A further

difficulty may arise in relation between counties and public transport operators. Counties may say that they are unable to finalise their commitment to public transport support until the TSG settlement is known, which leaves the operator on a hand-to-mouth, year-to-year existence. The main intention of the Public Transport Plans is to secure a greater degree of commitment by counties to an agreed plan.^[18] This gives operators greater financial certainty in the short term, while providing a formal framework for policy review in the medium term.

(ii) The System and its objectives

As we say in Section III, the four aims of the new grant system as outlined in Circular 104/73 were to promote comprehensive transport planning, to distribute grants in a way which reflects the needs of areas to eliminate bias between forms of expenditure, and to reduce detailed supervision over individual schemes. We begin by considering the extent to which the system has succeeded in ensuring that resources are distributed in a way which reflects need.

(a) Need

There is no doubt that the grant system has the potential to ensure that resources are distributed according to need. The Government could accept more expenditure from "needy" authorities than from others, and these authorities would receive correspondingly more grant. Indeed, as we have seen, the Metropolitan counties as a group have had higher amounts per head of population accepted than the Shire counties, and, via the gearing effect referred to on p. 24 have received a large share of TSG.

However, this picture is slightly misleading. The discrepancy between the Metropolitan and Shire counties is mainly the result of the high accepted expenditure in two counties, GLC and Tyne and Wear. Table 10 shows the accepted expenditure per head of population for each county for 1976/7. In addition to the above-mentioned, West Yorkshire, Staffordshire, Hereford and Worcester, North Yorkshire, Cleveland and Northumberland stand out as having above average accepted expenditure per head in that year. But overall the picture is one of surprising uniformity.

TABLE 10

ACCEPTED EXPENDITURE PER HEADIN ENGLISH COUNTIES, 1976/7

Accepted expenditure per head (November 1974 prices)	No. of counties
£9 - £10	2
10 - 11	2
11 - 12	9
12 - 13	9
13 - 14	4
14 - 15	6
15 - 16	4
16 - 19	8
Over 19	2

NOTE: Further details are given in Table H.

This uniformity may have been the product of the expenditure guidelines. These were based on a sum per head of county popula-

tion, with four exceptions - GIC, Tyne and Wear, N. Yorkshire and Northumberland - where special needs were acknowledged. It counties put in base bids which corresponded with the lower end of the guideline range, and if central government accepted expenditure roughly pro rata, then a relatively uniform picture would emerge. At all events, the main reason for abandoning the guidelines was that they constrained counties in an inappropriate way from putting forward the programmes which they thought were needed.

What is at issue here is the ability of local government to identify "need" in their policy documents, and of central government to respond in the allocation of accepted expenditure.

While the allocation between counties might in a general way reflect differences of need, it is not based on any explicit demonstration of this. Indeed, though the Department illustrates in its guidance circulars the kind of planning process which should be followed [19], the way in which need itself is to be measured is less than clear.

One possible approach to the problem is to equate the demonstration of need with the returns which counties could obtain on their programmes. Under this approach, expenditure would be accepted on the basis of the merits of the programmes as measured by the returns offered. The difficulty here is that the progress which has been made towards objective evaluation by counties of their expenditure programmes has been limited.

There are good reasons for this. Evaluation of local road projects is only in its infancy, and poses different problems from those of trunk road appraisal. Many of the outputs -

benefits to industry from provision of distributor roads, improved driver comfort, local environment effects -- are hard to measure, and harder to value. Evaluation of the public transport revenue support and highway maintenance programmes requires detailed specification of the costs and outputs of alternative programmes; studies of this kind appear rarely to have been attempted even within Transportation Studies.

Finally, the trade-offs need to be made between the disparate elements, and a programme determined. Much work remains to be done before much analytical content is injected into this process.

Even if precision were possible, the efficacy of this approach would rest upon the ability of all counties to identify their problems and develop solutions which offer good returns. If certain authorities have the advantage in terms of available expertise, tradition of project development and so on, then they may be able to devise programmes with high returns, though other counties have greater underlying needs. One solution to this is to attempt to measure, by a set of standard indicators, transport conditions in each authority. Counties with apparent problems could then be encouraged to see whether cost-effective solutions existed. Very little progress, however, appears to have been made along this line of inquiry.

Given the difficulties which lie in the way of analysis, it is inevitable that the system contains a large subjective element, both in the development of programmes by counties and in the allocation process at national level. Much rests on

the ability of the Department's officials to identify "need" subjectively, presumably in terms of what are considered to be attractive projects or programmes.

This raises a serious question about the form of the grant system. If accepted expenditure per head is relatively uniform across counties, and if the objective of ensuring that expenditure reflects need cannot easily be secured, might it not be better to revert to a formula based system in which grant would be distributed according to such factors as population and road mileage? Admittedly, the very major projects such as the Tyne and Wear Metro could never be accommodated within such arrangements, and would require special aid to support them. But otherwise, could not much of the paraphernalia of the TPP/TSG system be done away with? We return to this question in the final section of the paper.

(b) Bias *See changes in spending in different regions*

The objective of eliminating bias between forms of expenditure has largely been achieved. All forms of expenditure attract grant at the same rate at the margin, so the element of false incentive to spend in particular ways is much reduced. The fiscal distortions which remain are minor compared with what went before. There is the question of the loan sanction arrangements in the key and locally determined sectors. Since transport projects have to compete with other projects in the locally determined sector, demand for LDS loans seems to be keener than that for key sector loans. This can create a position where counties are unable to carry out smaller projects which they would

rank higher than larger projects which they are able to fund from the key sector. It also creates an incentive to ensure that where projects are borderline in cost, they fall in the key sector. The second question is that of the key sector loan sanction itself. The preferred method of financing major capital projects is from TSG and key sector loan sanction. The limit on the key sector loan sanction might prevent counties from undertaking their desired programme. The Department is well aware of their problems; in the letter notifying counties of the settlement for 1978/9, they sought to introduce an element of flexibility into the loan sanction arrangements:

Where, despite the above arrangements, authorities experience difficulty over borrowing to finance accepted capital expenditure, the Department will consider applications:

- a) for transfer of key sector loan sanction from an authority which has not set all its loan sanction to an authority which needs extra loan sanction,
- b) by authorities which wish to use loan sanction in the key sector for expenditure which would normally fall in the locally determined sector, or vice versa.

(c) Control

Behind the characteristics of the new grant system in 1974

lay a particular view of the respective roles of Central and Local Government. It was acknowledged that the specific

grant system had produced too much detailed central control over

individual projects. The Department's interest was to be

switched to "strategic questions of resource allocation and thus

to the overall size, balance and composition of programmes." [4]

It is not correct, therefore, to suggest that the original intention was to effect a complete transfer of control over the level and pattern of spending on local transport from central to local government. Had this been the intention, the attractions of a formula based system, leaving local government discretion over how, and whether to spend on transport, would have been considerable. Instead, the accepted expenditure system gave responsibility for the development of a coherent programme, and for the ultimate determination of the composition of the programme to local government, while retaining the ability of central government to signal its approval or disapproval of the counties' proposals by accepting a greater or smaller amount of expenditure for grant purposes.

There are two questions - why was a complete transfer of responsibility from central to local level not felt to be appropriate, and what can be said now about the respective roles of central and local government in the light of experience?

The first of these questions has been discussed at length in the Government's evidence to the Layfield Committee [20].

Here it is made clear that the desire for an appropriate degree of central government control over the disposition of local spending on transport has had a strong influence on the design of the TSG system. This desire is supported in the paper on the following grounds:

- (i) the need for local transport plans to fit in with each other and with broader national plans

(ii) "...the complexity of the issues involved, the fact that local authorities had not, generally, until the recent reorganisation of local government had any responsibilities for the planning of public transport, and the wish of central government to exercise a strong influence over the way in which local authorities assess value for money, particularly in major urban areas."

Commenting on the objections to incorporation of the specific grants within RSG, the Department said:

The background at the time was that local authorities had over the previous ten years consistently spent less on public transport infrastructure in urban areas than the government thought desirable. They had also given a lower priority than the government felt appropriate to public transport and to the techniques of managing the level of traffic in urban areas by parking and traffic management policies. Progress on transport planning in the conurbations, including the carrying out of transportation studies and the setting up of PTE's to co-ordinate public transport services had been achieved largely by stimulus and financial support from central government. In rural areas too, counties had been slow to develop policies for the support of public transport.

The strength of these arguments (which were implicitly rejected by the Layfield Committee in their recommendation that TSG should be incorporated within RSG) has been reduced by the passage of time and by subsequent events. The counties now have experience of carrying out their responsibilities for local transport, and the resources available for local transport simply do not permit the development of a large number of major infrastructure projects. Nevertheless, it remains arguable that there are aspects of local transport policy which are of

significant national interest, and which may require the potential for central government intervention to be available. The first case is where some of the benefits of certain kinds of expenditure do not accrue to the local community, but more generally. This was the original motive for the specific grants for roads. Here, central intervention will be required to ensure that local resource allocations decisions take account of national as well as local benefits. The second case is where a national policy exists but where implementation of the policy is most sensibly carried out through local government because local knowledge is useful in securing an efficient allocation of resources. In some other areas of expenditure, the national interest is expressed in terms of statutory minima or statutory requirements, but with the possible exception of road maintenance policy, this does not seem a very suitable medium of control over the transport programme.

The nature of central government interest in the allocation of resources within the local transport budget has been the prime cause of departures from the spirit, if not the letter, of the grant system as originally conceived. It is true that, at a formal level, the actors are still playing the same parts.

Local authorities put forward their programmes, central government accepts some expenditure, and the local authorities are then responsible for determining their final programme. Even in the notorious case of South Yorkshire's public transport revenue support programme for 1977/8, the Government played it by the rules, and responded to an unacceptable programme by accepting

only a small amount of expenditure rather than by disallowing any items of expenditure.

It is difficult, however, to escape the conclusion that there has been more informal persuasion within the system on the part of central government, than was originally envisaged. This has been most evident in the field of public transport policy. The central government decision in 1975 that support for buses was to be reduced by 50% over three years, the separate consideration of bus revenue support outside the expenditure guidelines, and the announcement of the expenditure specifically accepted for revenue support all run counter to the spirit of the TSG system.

Even greater difficulties have been encountered in implementing the Transport Policy White Paper of switching resources towards rural public transport. Here, central government has had to encourage reluctant Shire counties to spend more than they wished. By 1977, the Minister was reduced to a stick and carrot approach:

I have been relatively more generous in expenditure allocations to those counties who appear to me to be observing the White Paper's priorities than to those who do not. This decision principally affects the distribution of resources for new road building and other new capital investment where counties' proposals overall amount to more than is available." [21]

These initiatives bear testimony to the difficulty of securing adherence to particular national policies when no policy instrument bearing directly and exclusively on those policies is available.

Although understandable, the extent of informal intervention

in local decision-making is to be regretted, for it carries with it a number of drawbacks.

Most significant is the blurring of responsibility for local transport expenditure decisions. Local authorities are able to claim that they are deflected from their chosen policies by central government pressure, while central government will reaffirm that local government is ultimately responsible for local transport. While, short of a federal system with local revenue raising powers, both tiers of government must be involved in the process, the balance of responsibilities is unduly obscured under the present arrangements.

The interventionist approach also presupposes that central government "knows best", and should do what it can, short of direction, to secure the correct result. There are circumstances - where mistakes are very costly, or where local government has just assumed new powers and responsibilities - where this may be appropriate. Public transport fares policy in 1975 is a case in point. But even in such a case, there

are drawbacks. The first is that the learning process within local government will be faster if the relevant decisions are seen to have been made locally. The second is that, in an uncertain world, there is a case for diversity of approach to see whether the theoretical arguments against certain policies are confirmed in real life. One only hopes that the South Yorkshire low fares policy is being scrupulously monitored.

There is also a problem of equity. The interventionist approach penalises non-conforming counties - to date, those

who openly plan to spend either too much or too little on bus revenue support. But, as we have seen in Section IV(v), there is another way in which the expenditure pattern may fail to conform with Government policy. This is where the planned programme of expenditure is acceptable, but the out-turn of expenditure is very different from the plans. Bearing in mind the difficulties of establishing intent in such cases, there should be reasonable parity of treatment between those counties which have open policy differences with the Government and those which operate through the back door. Otherwise, one is simply penalising plain speaking.

To sum up, with the exception of the provision for London and for Tyne and Wear, the system does not appear to have distributed grant in a way radically different from what would have been achieved by a simple formula based on population and road mileage. Most of the fiscal bias inherent in the specific grant system has been removed. But the operation of the system has proved more interventionist in nature than might reasonably have been envisaged at the outset. Intervention by central government carries with it certain drawbacks, and the arguments in its favour have become weaker over time.

(iv) The alternatives

If the argument for reducing the element of central control over the disposition of expenditure on local transport is a strong one, what should be done? There would seem to be two possibilities.

The first is to absorb TSG into the rate support grant. The second is to retain TSG, but to move towards the spirit of the original proposal.

(a) Absorption of TSG into RSG

The essential feature of this proposal is that one would move from a system where the grant given to counties depends (in theory at least) on the merits of their proposals to one where the grant would be independent of their plans or expenditure on transport. Instead, a series of independent factors, most obviously population and road mileage, would be used, and grant would be distributed according to a formula as part of the needs element of RSG. It might be argued that without some sophisticated factors, the objective of distributing grant according to need could not be met. However, as we have seen, the distribution of grant in practice may not be all that dissimilar from a distribution based on some simple independent factors.

Absorption into RSG would not create fiscal bias between different forms of current expenditure; however, it could reintroduce an element of distortion between current and capital expenditure. In Scotland, where broadly this system operates capital expenditure on transport is wholly financed by loans, the interest on which is eligible for RSG. In circumstances where alternative solutions to a problem involve different mixes of capital and current expenditure, this could lead to the favouring of capital-intensive solutions which will effectively be financed partly by grant.

This solution would also constitute a very marked relaxation of central control over local transport. Local authorities would not only gain complete discretion, within statutory limitations,

over the disposition of expenditure on transport, but also much more discretion over the allocation of resources between transport and other services. Moreover, the pressure for adequate evaluation of policies and projects which is inherent within the TPP/TSG system (though it may not yet have borne much fruit) would inevitably be relaxed. In our judgement, the remaining legitimate central government interest in local transport is sufficiently strong for this to be too radical a solution.

(b) Greater local discretion within the TSG system

The alternative is to retain the present framework, but to revert to the ideals of those who designed the system. This would mean creating an atmosphere of greater local discretion, and relaxing the pressure on counties to conform. Counties would continue to indicate their expenditure programmes, and particularly the expenditures (capital and current) which lay at the margin. Central government would continue to face the problem of which expenditures to accept and which not to accept.

There is a further respect in which the financial discipline underlying the present system could be strengthened. At present, the rate of TSG on accepted expenditure at the margin is 70%. In addition, counties receive grant on the remaining 30% at varying rates through the resources element of RSG. It is not easy to see why such a high expenditure-related rate of grant is justified. Just as the specific grants were held to provide too great an inducement to capital expenditure on transport, so it may be that the high rate of grant encourages proposals for expenditure of all kinds. This then engenders the need for scrutiny of the

proposals, to ensure that the resources are well spent.

If the rate of TSG were reduced, say to 50%, as originally suggested [4], and the surplus absorbed into RSG, this could simultaneously strengthen the forces for adequate local appraisal of expenditure and reduce the need for central supervision.

As with a move towards increased local discretion, a reduction in the rate of grant would mean a loss of central government control. The levels of expenditure on transport which counties would be prepared to undertake might become less predictable. It would be even more difficult than it is now to persuade reluctant authorities to undertake expenditure which the government judged desirable. This is the acid test of the repeated government statement that local decisions should be taken locally. If this instinct is correct, as it surely is, the corollary that some counties may adopt policies which are unpalatable to central government should also be acknowledged.

The issue to which this most obviously applies is that of support for loss making bus services. Some of the problems which have arisen may be attributed to the fact that cuts in local bus services are a political "soft option", since the effects on employment fall on an outside agency - the National Bus Company - rather than on the local authority itself. The new Public Transport Plans may be seen as a medium for improving the links between the counties and the bus operators, and for achieving, through a process of education, a reasonable and stable level of support for bus services. If, when the Plans are

published, some of the proposals are for levels of support which the Government regards as unacceptably low, the idea of a contract between local authorities and operators for local bus services will be in the balance. The alternative options open to central government will be to assume direct financial responsibility for local bus services, as argued by the National Bus Company [22], to move towards municipalisation of the services, or to grin and bear it. The Government response will be a good test of its belief in local discretion.

Although in some respects, the way in which the TSG system has worked has fallen short of expectations, it is right to conclude on a positive note. The new grant system is an improvement on what went before; local transport planning has been strengthened as a result. Having emerged from the traumatic cuts of 1975/6 into a more stable period, it would now improve matters further if the intentions of the scheme's founders were fully carried through.

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