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### **Published paper**

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April 1989

**THE IMPACT OF CENTRAL GOVERNMENT POLICIES  
ON LOCAL AUTHORITIES' TRANSPORT EXPENDITURE  
AND PROVISION SINCE 1979**

SUMMARY REPORT

Ian Sanderson

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## 1. Introduction

The past decade has witnessed an increasing degree of tension in relations between central and local government as successive governments have sought to assert greater control over local authorities' expenditure and activities as part of wider economic and political programmes. Most attention has focused on attempts to control local government expenditure in the context of macro-economic policies but in more recent years financial controls have been supplemented by legislative measures affecting the fundamental role and responsibilities of local authorities. Indeed, some commentators have argued that the measures introduced by the Conservative governments since 1979 represent a fundamental restructuring of central-local relations such as to constitute a threat to the future of local government.<sup>1</sup>

Within the broader context far-reaching changes have been made affecting the financing and provision of local transport services and facilities. Taken together, these changes have fundamentally re-structured the basis upon which local authorities provide for the transport needs of their areas. Our research has focused essentially on the effects of this re-structuring with the primary objective of assessing the impact on local authorities' transport expenditure and outputs and on their approach to addressing local transport problems and needs.

Of particular interest to our research are changes which have been made to the Transport Supplementary Grant (TSG) system. TSG was introduced in 1975/6 as a block grant to support both current and capital expenditure on roads and public transport thus supplementing Rate Support Grant (RSG) in respect of current expenditure and authorities' borrowing in respect of capital expenditure.<sup>2</sup> TSG was seen as providing the new county councils with the means to undertake their responsibilities for integrated and co-ordinated planning of public and private transport. However, following the election of the Conservative government in 1979 there was an increasing degree of conflict between central and local government over the nature of the outputs, and the expenditure consequences of, such integrated and co-ordinated planning, especially in London and the metropolitan areas. As part of a wider programme to bring local authorities' transport spending under control and more into line with the Government's transport policies and objectives, the TSG system was reformed in 1985/6, grant support being restricted to capital expenditure on roads deemed to be "of more than local importance".

A specific objective of our research, then, has been to assess the implications of this reform of the TSG system for local authorities' ability to address effectively their transport needs. However, it is clear that this reform must be examined in the context of a wide range of measures introduced since 1979 which have affected local government finance in general, and the financing of local transport expenditure in particular. Thus, relevant legislative measures include the Local Government Planning and Land Act 1980, the Local Government Finance Act 1982, the Rates Act 1984, the Transport Acts of 1983 and 1985,

the London Regional Transport Act 1984, and the Local Government Act 1985. Indeed, these measures can be seen as part of the Conservative government's broader economic and political programme embodying the objectives of reducing the role of the public sector and, conversely, providing the conditions for a flourishing and profitable private sector.<sup>3</sup> Recent legislation to reform the systems of local government finance and to impose compulsory competitive tendering upon local authorities in respect of certain services can be seen as representing a strengthening of this programme.

From such a perspective we are presented with a complex analytical task. In particular, it is extremely difficult to isolate the effect of any one measure, such as the reform of the TSG system, from the effects of the broader systems for control of local authorities' current and capital expenditure. In addition, the situation is complicated by the abolition of the GLC and metropolitan counties and the deregulation of local bus transport. We have not attempted, in fact, to undertake a comprehensive assessment of these latter measures but rather to assess their impact relative to the changes in finance of local transport expenditure.

Our research programme has comprised three main stages. The first stage involved a review of relevant changes in central government policies and financial control mechanisms over the past decade in order to identify major research issues. The second stage focused on these issues in an analysis of trends in local authorities' transport expenditure relative to the Government's spending plans and provision over the period since 1979/80, which attempted to identify impacts of central government policies and controls for more detailed examination. The third stage undertook this more detailed examination on the basis of information provided by a small sample of English local authorities selected to represent a range of socio-economic and political contexts.<sup>4</sup> During this stage we focused on two main areas of local transport expenditure: firstly, capital expenditure on the construction and improvement of local roads since the reform of the TSG system in 1985/86; and, secondly, expenditure on the maintenance of local roads over the period since 1979/80. In both cases we were concerned to assess the implications of the reform of the TSG system in the context of broader systems for central government control of local authorities' spending, and to assess the implications for the ability of local authorities to address effectively the transport problems and needs of their areas.

The purpose of this paper is to summarize the findings and conclusions of our research.<sup>5</sup> In the next section we review changes in central government policies and expenditure controls of relevance to local transport and we examine the record of government control of local transport expenditure since 1979. Section 3 summarises the analysis of roads capital expenditure and Transport Supplementary Grant since 1985/86 and section 4 the analysis of local road maintenance. Finally, section 5 discusses the main findings and conclusions of our research.

## 2. Changes in Government Policies and Expenditure Controls

### 2.1 Early Experience with Transport Supplementary Grant

Transport Supplementary Grant (TSG) was introduced in 1975 following the reorganisation of local government to promote the concept of comprehensive and integrated local transport planning which had been behind the 1968 Transport Act.<sup>6</sup> TSG was intended to promote a more rational and effective use of resources than had been achieved by the previous system of specific grants. In particular, it was designed to achieve four objectives.

- i. To promote the development and execution of comprehensive transport plans by the new county councils and the GLC;
- ii. To eliminate bias towards capital or current expenditure or towards particular forms of expenditure;
- iii. To distribute central government grants in a way that reflects as far as possible the needs of individual areas;
- iv. To reduce the degree of detailed supervision by central government over individual schemes.

TSG was paid to local authorities as a supplementary block grant to 'top up' resources provided through Rate Support Grant (RSG) and could be used at the discretion of local authorities to support both current and capital expenditure on highways and public transport. All county councils had to submit annual bids for TSG in Transport Policies and Programme (TPP) documents which placed such bids in the context of authorities' transport policies and a proposed five-year programme of expenditure.<sup>8</sup>

In a review of the operation of the TSG system up to 1979 Mackie (1980) concluded that in comparison with the system of specific grants which it replaced, it had been relatively successful in meeting three of the above objectives but had failed in terms of ensuring the allocation of resources on the basis of need.<sup>9</sup> Mackie also pointed out deficiencies arising from the annual basis of TSG settlements and the lack of longer term financial guidance, and was critical of the degree of central government intervention in local decision-making on the grounds that it blurred responsibility for local decisions, reduced the scope for learning from diversity in local government, and discriminated against authorities which pursued open policy differences with central government.

To a large extent the failure of the TSG system to ensure resource allocation on the basis of need was due to the change in economic conditions in the mid 1970s. The original purpose of TSG was to encourage higher spending to meet certain transport objectives and, as an unhypothecated grant, it strengthened local authorities' autonomy and discretion. However, as public

expenditure restraints were imposed following the Labour Government's recourse to the IMF in 1976, the major concern of central government was to achieve control over local authority spending. The result was a growing tension, not to say conflict, in central-local relations, specifically between, on the one hand, interests in the central state concerned to control local spending and, on the other hand, interests in the local state concerned to preserve local autonomy and discretion.

In such a context of increasing tension in central-local relations a conflict of interests developed within the TSG system. The interest of central government was now to encourage transport plans which were economical in their demands on resources.<sup>10</sup> However, in a situation of competitive bidding for limited resources, it was not in the interests of any one authority to develop a 'good cheap plan' since they would risk thereby foregoing TSG altogether. On the contrary, it was in the interests of local authorities to submit high expenditure bids to attempt to maximise their share of TSG. With the development of such a conflict of interests the credibility of the TSG system as a rational resource allocation mechanism was increasingly undermined.

The period since the election of the Conservative Government in 1979 has been characterised by an escalation of conflict in central-local relations. To an increasing degree the interest of central government in achieving tighter control over local government spending has come into conflict with the interest of local government in retaining as much autonomy and discretion as possible in relation to expenditure decisions. This conflict has been manifested in new legislation affecting local government which "... has been passed at an unprecedented rate."<sup>11</sup> In the next section we review briefly the main legislative and other measures which have been introduced by the Government and which have affected the scale and pattern of local authorities' transport expenditure and provision.

## 2.2 Changes in the System of Local Government Finance

Several commentators have referred to the significant increase in central government control over local authorities which has been achieved through changes in the system of local government since 1979.<sup>12</sup> The Conservative Government elected in May 1979 quickly addressed the objective of reducing local government spending, using exhortations to local authorities to reduce their budgets by 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.<sup>13</sup> As it became clear that such reduction would not be forthcoming and that certain authorities were 'overspending' by a significant amount, the Government focused increasingly on the inadequacies of the Rate Support Grant (RSG) system for controlling both local government spending in general and specific high spending authorities in particular.<sup>14</sup>

In this context the Government introduced the Local Government

Planning and Land Act 1980 which reformed the procedures for controlling local government current and capital expenditure, and introduced a competitive and commercial regime for local authorities' Direct Labour Organisations (DLOs). As regards current expenditure, a new system was introduced for distributing 'block grant' between authorities and for controlling their total spending, replacing the former RSG system which was seen as rewarding high spending. The aim of block grant distribution is equalisation between authorities in terms of both need to spend and resources i.e. 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.

This system is based upon two essential features.<sup>15</sup> 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, the latter being expressed as a function of the number of 'clients' for the various services (or units of service required), and the unit cost of service provision, adjusted to take account of special factors affecting the cost of provision (eg population density, social problems). Secondly, an assessment is made of the extent to which each authority can finance its GRE from its own rateable resources. In order to equalise differences in rateable resources between authorities a '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' of expenditure (approximately GRE + 10%) the slope of the GRP schedule increases (the 'taper') in such a way as to have a large impact on higher spending authorities.

As regards capital expenditure, the 1980 Act replaced the previous controls on borrowing (via 'loan sanctions') with controls on authorities' actual 'prescribed' expenditure in any year, however financed. Following submission of expenditure proposals to the relevant Government departments, authorities are provided with 'block capital allocations' for each service. Initially there were five service blocks: housing, education, transport, social services and other services; in 1984 a sixth block for Urban Programme spending was added. Authorities are free to aggregate these block allocations to cover expenditure according to their own priorities, and there is a 10% 'carry over' provision from year to year. Also authorities may supplement their allocations with proportions of their capital receipts which are prescribed by the Secretary of State (broadly, 20% of housing receipts and 30% of non-housing receipts in any one year). A 'cascading' principle applies such that the prescribed proportion of receipts can be used in the first year and the same proportion of what remains in each subsequent year.

Therefore, authorities can gain spending power in any one year from capital allocations for that year, from up to 10% 'carry over' from the previous year and from prescribed proportions both of in-year capital receipts and of receipts accumulated from previous years.<sup>16</sup>

Since the implementation of the above approaches to control of current and capital expenditure in the financial year 1981/82, the Government has introduced various additional measures primarily aimed at increasing the degree of central control over authorities' current expenditure. Following early difficulties in achieving the desired reductions in local government expenditure the Government's 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 was applied retrospectively to 1981/82 and operated each year until it was discontinued in 1986/87. It was not an integral part of the block grant system but rather was 'grafted on' to attempt to tighten up expenditure controls.<sup>17</sup> Authorities' expenditure targets or 'guidance' were not derived from GREs but were designed simply to achieve volume reductions in total expenditure from previous years, reflecting the Government's public expenditure plans. Authorities which spent in excess of their targets suffered a reduction in block grant in accordance with a schedule of penalties which became more severe as the percentage overspending increased. Moreover, the severity of the penalty schedules increased over the years 1981/82 to 1985/86. Following severe criticism of the effects of the target and penalty system by the Audit Commission (1984) and the House of Commons Public Accounts Committee (1985) it was replaced in 1986/87 with a modification to the basic block grant system which resulted in negative marginal grant rates with accelerated grant reductions for authorities exceeding the 'threshold' level of expenditure.

Notwithstanding the effect of the target and penalty system some authorities continued to resist the Government's efforts to control spending by compensating for loss of grant through rate increases. 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.<sup>19</sup> Following re-election, the Thatcher Government legislated in the Rates Act 1984 to impose limits on the rates of either specified local authorities ('selective rate limitation') or all local authorities ('general rate limitation'). The Government introduced the selective scheme in 1985/86 in respect of 18 authorities (including the GLC, two metropolitan counties and nine London boroughs) whose expenditure was considered to be "...excessive having regard to the general economic conditions".<sup>20</sup> Since then, 31 authorities have been 'rate-capped' at some time, seven London boroughs having been designated every year.

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' is indicative of a significant shift in the balance between central control and local autonomy and discretion in relation to expenditure decisions. The Government's recent legislation to reform the grants system and replace domestic rates with a 'community charge'- in the Local Government Finance Act 1988 - can be seen as the logical extension of a programme arising from the concern to curb high spending authorities and with the impact of local authority rates. A recent analysis of the impact of this legislation sees it as part of "...the reality of a tightening rein of central government control over local government's spending power and political voice."<sup>21</sup> The Government is also proposing to introduce reforms of the present system of capital expenditure control to coincide with the introduction of the community charge in April 1990. These reforms would also tighten central control over local authorities' spending via more specific controls on individual authorities' borrowing and use of capital receipts.<sup>22</sup>

### 2.3 Other Legislation Affecting Local Transport Provision

There have been other legislative developments which have played an important role in the Conservative Government's programme for local government within the context of the broader economic programme of fiscal restraint, cuts in the burden of public expenditure and taxation, increased competition, deregulation of markets and privatisation. The primary measures of relevance to our discussion are the Transport Act of 1983 and the Local Government and Transport Acts of 1985.

The context of the 1983 Transport Act was provided by the increasing concern on the part of the Government about the recalcitrance of some local authorities in the face of the Government's attempts to control their expenditure. The main 'offenders' from the Government's point of view were Labour controlled authorities in London and the provincial metropolitan areas. A particularly important area of contention between such authorities and the Government was expenditure on public transport revenue support, with authorities such as the GLC and South Yorkshire and Merseyside MCCs providing levels of subsidy significantly in excess of the Government's plans. In 1982/83 spending on revenue support by the GLC was 81% in excess of the Government's provision; the equivalent figure for the metropolitan counties was 70%.

In the face of such resistance to broader expenditure controls, in particular to block grant penalties, the Government resorted to specific legislative provisions, in the context of legal confusion which had arisen out of the contradictory judgements following legal challenges to the low fares policies of the GLC, Merseyside and West Midlands metropolitan county councils.<sup>24</sup> The stated purpose of the 1983 Transport Act was "...to provide a

more stable basis for public transport planning and subsidies in the Metropolitan Counties and London."<sup>25</sup> The Act provided for subsidies to be paid by Passenger Transport Authorities (PTAs) only on the basis of the Secretary of State's approval of their plans. The Secretary of State had the power to designate a maximum permissible level of grant in the form of a 'Protected Expenditure Level' (PEL); any authority exceeding its PEL would be open to challenge in the courts.<sup>26</sup>

In effect the 1983 Act provided the Government with an additional legislative basis for controlling local authority spending. According to Loughlin (1986), the Government was thereby 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.<sup>27</sup> He argues that the concept of 'fiduciary duty' was used illegitimately to mask economic and political objectives because the concept is anachronistic, representing the incursion of a private law concept into a public law arena and is ambiguous and unworkable in relation to determining appropriate behaviour of local authorities.<sup>28</sup>

The Government claimed that the 1983 Act was successful in helping to restrain expenditure on public transport revenue support in the metropolitan areas.<sup>29</sup> However, although the Government cited evidence of a substantial reduction in budgets in the metropolitan areas from original plans, and there was a real terms reduction in expenditure in the metropolitan counties after 1982/83 (Figure 1c), there remains a question mark over the effectiveness of this legislation. The main problem was that with PELs the Government introduced a normative measure of expenditure which was not consistent with the 'traditional' measures of provision in the Public Expenditure White Paper and 'accepted expenditure' for TSG support. Thus, in 1983/84 the total of PELs exceeded the Government's specific provision for revenue support by some £135 million on the grounds that:

"... past failure to tailor services to demand, inefficiency in operation and in some cases too low fares means that it will not be practicable to bring revenue support to the Passenger Transport Executives and London Transport in line with the Government's plans immediately."<sup>30</sup>

However, as a result of this discrepancy the Government accepted for TSG support a level of spending on revenue support in 1983/84 which was also in excess of the provision in the Public Expenditure White Paper as shown in Figure 1a. In previous years TSG accepted expenditure had been equal to or less than specific provision but the introduction of PELs resulted in the Government providing grant support for 'over-spending' on revenue support by the GLC and metropolitan counties. This situation attracted the attention of the House of Commons Transport Committee which expressed its concern about the "... apparent irrelevance of the measures contained in the 1983 Transport Act ..." and commented:

"... 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 ..."<sup>31</sup>

More recently Mackie (1987) concluded that "... the protected expenditure levels appear to have had only a limited effect ...", partly because no legal action was taken against those authorities which exceeded their PELs (South Yorkshire and Merseyside MCCs).<sup>32</sup> Other authorities which remained within their PELs in effect received Government sanction, and some TSG support, for overspending relative to the Governments expenditure provision. In the light of these effects it is possible to conclude that the 1983 Transport Act was a rather perverse piece of legislation.

One reason why no legal action was taken against metropolitan authorities which exceeded their PELs may have been the impending demise of the GLC and metropolitan counties. Following the local elections in May 1981 all these authorities came under Labour control and several of them subsequently figured prominently in the Government's list of 'recalcitrant overspenders', with expenditure on public transport revenue support being an important element in their conflict with the Government. Thus, on the introduction of expenditure targets and grant penalties in 1981/82 the metropolitan counties were budgeting collectively to overspend their targets by some 19% compared to a national (England) average of less than 6%.<sup>33</sup> The GLC and South Yorkshire and Merseyside MCCs were among those authorities selected for 'rate -capping' in 1985/86 on the grounds that their total expenditure in 1984/85 exceeded their GRE by at least 20%. In South Yorkshire spending on public transport revenue support constituted some 42% of the authority's total budget for 1984/85 and was approximately six times the level accepted by the Government for TSG purposes.<sup>34</sup>

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.<sup>35</sup> 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 these authorities had resulted, it was maintained, in conflict, uncertainty and 'heavy and unnecessary burdens on ratepayers'.<sup>36</sup> In summary, the Government argued:

"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 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."<sup>37</sup>

The Local Government Act 1985 provided for the abolition of the GLC and metropolitan counties in March 1986 and from that date

their responsibilities were taken over by the metropolitan district councils (eg highways) or by 'joint boards' of nominated members from the district councils. In the event the main services (eg public transport, police, fire, waste disposal) became the responsibility of new joint authorities/boards whose members are nominated, not directly elected. This has resulted in severe criticism on the grounds that it has made the system more complex for the public to understand, not simpler as the Government has argued, reduced the scope for co-ordinated decision-making and reduced local accountability.<sup>38</sup> A study by Coopers and Lybrand found the Government's other justifications for abolition wanting.<sup>39</sup> For example, it was concluded 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 in metropolitan areas, and Government priorities for certain services (eg police).

The main issues highlighted by the Government in their abolition proposals - high levels of spending and conflict with central government policies - have been at the heart of the changing nature of central-local relations over the past decade, and the abolition of the GLC and metropolitan counties can be seen as consistent with, indeed an integral part of, the Government's programme to restructuring those relations. Flynn et al (1985) 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 ... as a further important step along the road towards a completely unitary state within which a single set of policies are pursued."<sup>40</sup>

Following the abolition of the GLC and MCCs, central government control over public transport expenditure and policies in the metropolitan areas was enhanced by subjecting the joint Passenger Transport Authorities (PTAs) to precept control for the first three years of their existence. The Secretary of State designated maximum expenditure levels (ELs) for each PTA and this system replaced the PELs of the 1983 Transport Act in 1986/87. In London, responsibility for public transport had been taken away from the GLC in June 1984 by the London Regional Transport Act which established London Regional Transport (LRT) as a nationalised industry subject to direct control of the Secretary of State. Consequently, in 1986/87 the Government had direct control over about 80% of total expenditure on public transport revenue support in England. As Mackie (1987) concludes: "A substantial loss of local control, accountability and discretion has therefore occurred in the metropolitan areas."<sup>41</sup>

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 undertake competitive tendering in respect of supplementary services which they wish to secure but which remain unprofitable.<sup>42</sup> However, there were 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, which took effect in October 1986, all 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 objective. Thus, although concessionary fares schemes for the elderly, disabled and young people are permissible, general low fares policies to provide benefits for low income people generally are no longer possible. Moreover, it is now difficult for authorities to plan public transport services with respect to the objectives of minimising the social costs due to private vehicle use in urban areas.<sup>43</sup>

Therefore, it is possible to see, in the legislative measures which we have considered in this section, consistent themes derived from the Government's approach to local government within the context of a wider programme to reduce the scope of the public sector and its expenditure, increase competition, reduce state regulation of economic activity, and improve conditions for the profitability of the private sector. The primary feature of the Government's approach to local authorities has been the desire to enhance central control: control over levels of local spending in line with central expenditure plans; control over the distribution of local spending in line with central plans and policies; and control in terms of eroding the power of local authorities to challenge and frustrate central government policies. This provides the context of the Government's reform of the TSG system which we can now consider in more detail.

#### 2.4 Reform of the Transport Supplementary Grant System

We have seen that by the time of the election of the Conservative Government in 1979 the TSG system was already subject to criticisms as a basis for national resource allocation. During the next half decade the system came under increasing pressure in the context of the Government's broader programme of measures to achieve tighter control over the level and composition of local authorities' expenditure. Fundamentally, the problem can be seen in terms of an increasing degree of incompatibility between the purposes of the TSG system and the approach adopted by the Government to the control of local government spending. There were two aspects to this problem. First, as we argued above in section 2.1, the original purpose of TSG, to promote expenditure in relation to certain transport objectives, conflicted increasingly with the Government's concern to reduce the level of local authorities' expenditure. Second, the role

of TSG as an unhypothecated grant in protecting local authorities' autonomy and discretion in relation to the priorities for local transport expenditure, provided the basis for increasing conflict between local and central government over the composition of local transport spending. In a sense, in the context of the Government's objectives and policies for local government in the early 1980s, TSG had become something of an anachronism representing an obstacle to the achievement of central control over local transport expenditure particularly in London and the metropolitan areas.

The problem was highlighted by the House of Commons Transport Committee in their annual examination of the Government's public expenditure plans.<sup>44</sup> In their reports of 1980 and 1981 the committee commented on the severity of the cuts being imposed by the Government on local transport expenditure and focused on two features in particular: first, the failure of local authorities to achieve cuts in public transport revenue support in line with the Government's policies; and, second, significant underspending by authorities on road capital programmes. The Committee was critical of the role of TSG in promoting this imbalance by providing local authorities with the "... freedom to transfer central government support for local transport expenditure ... from capital to current expenditure."<sup>45</sup> They argued for a reform of the TSG system to provide an incentive to local authorities to achieve planned capital expenditure targets.<sup>46</sup>

In coming to this view, it would appear that the Committee was influenced by submissions on this matter by the British Road Federation (BRF) which was highly critical of the TSG system on the grounds that it provided local authorities with the discretion to use TSG as they wished regardless of the balance of current and capital expenditure in 'accepted expenditure'. Therefore, the BRF argued, TSG was being used to support overspending by authorities on revenue support, particularly in London and the metropolitan areas, at the expense of capital expenditure on roads. Moreover, the BRF argued that the shire counties faced particular difficulties because the system for allocating TSG left them with a relatively high proportion of capital expenditure to be financed by borrowing with debt charges having to be accommodated in revenue budgets which were subject to severe constraint due to the operation of expenditure targets and grant penalties. The BRF proposed, therefore, that TSG should be restricted to capital expenditure with all local authorities' current expenditure on transport receiving support through block grant.<sup>47</sup> This proposal was explicitly supported by the House of Commons Transport Committee in 1984.<sup>48</sup>

In October 1984 the Government announced its decision to restrict TSG support to capital expenditure on highways and traffic regulation from 1985/86. The Government's rationale 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."<sup>49</sup>

Therefore, from 1985/86 TSG was no longer available to support any current expenditure nor capital expenditure on car parks, non-road freight facilities, and public transport (the latter now being eligible only for grants under section 56 of the 1968 Transport Act in respect of large projects). Compensating arrangements were made to provide block grant support for all current expenditure on local transport.<sup>50</sup>

This reform of the TSG system can be seen as consistent with the Government's evolving priorities for local transport expenditure. The two principal themes were, firstly, the need to "... contain revenue support to public transport ..." and, in particular, an unwillingness to support generalised low fares policies and, secondly, the need to promote roads capital expenditure, particularly on by-pass schemes to cater for heavy lorry traffic and provide relief to towns and villages.<sup>51</sup> The reform can also be seen as enhancing the degree of central government influence over local transport priorities in relation to roads capital expenditure, particularly in London and the metropolitan areas. However, the reform of the TSG system should be seen as a component of a broader programme, also comprising the 1983 and 1985 Transport Acts and the 1985 Local Government Act which had significant implications for the level and composition of transport expenditure in the major conurbations.

The Government's rationale for the reform of the TSG system emphasised the role of local authorities' discretion over the use of TSG in generating the problem of imbalance between local expenditure and central plans. However, it is clear that the effect of local discretion must be assessed within the context of the broader framework of central government controls on local authorities' expenditure. Therefore, the Government's rationale can be criticised for neglecting the role of those broader expenditure control systems.

Indeed, the role of TSG in local transport expenditure declined between 1979/80 and 1984/85 due to a reduction in the total amount of grant of 21% in real terms, with its proportion of total relevant expenditure declining from 28% to 18%. Therefore, over this period there was an increase in the relative importance of factors relating to the operation of the broader systems for controlling current and capital expenditure. In particular, the reduction in the role of TSG was particularly marked from 1982/83 to 1984/85 when constraints on expenditure due to the operation of the system of targets and penalties became increasingly

severe.

Our analysis indicates that these broader expenditure control systems played an important role in generating the problem of underspending by local authorities on roads capital expenditure during the early 1980s. However, perhaps the first point to make is that the 'problem' was not a serious one. Thus, taking roads and car parks together, the only significant underspend was in 1981/82, the first year of the new capital control system when, as the Government acknowledged, authorities were adjusting to the new system.<sup>52</sup> Looking at roads alone, the degree of underspending in 1983/84 and 1984/85 (7% and 6% respectively) cannot be seen as constituting a major problem given the size of the total programme.

Moreover, in accounting for this degree of underspending, two aspects of the broader expenditure control systems are relevant. First, restraints on current expenditure imposed through targets and penalties impacted upon capital expenditure via debt charges to revenue accounts. We found evidence of this effect on authorities' roads capital expenditure particularly amongst shire counties, many of whose targets in 1983/84 and 1984/85 were set below GRE. Second, under the new capital expenditure control system introduced in 1981/82 the Government set capital allocations somewhat below the level of provision to allow for the use by authorities of capital receipts accumulated from sales of land, buildings etc. However, the aggregate assumptions made by the Government did not reflect the relatively disadvantaged position of non-housing authorities. Since the authorities with the major transport responsibilities were non-housing authorities there was something of an inherent tendency in this system towards underspending against the provision for transport capital expenditure.

Nevertheless, part of the problem must be attributed to the exercise by local authorities of discretion in determining expenditure priorities within the framework of the broader expenditure control systems. Thus, while authorities were underspending relative to provision for roads capital expenditure, there was significant overspending on, for example, education and social services. Therefore, within the constraints set by central government, local authorities could have given higher priority for available resources to roads at the expense of other services. However, the failure of local priorities to match central government assumptions is to some degree inherent in a system which embodies the principle of local autonomy and discretion in various respects. That the Government saw a 'problem' in the discrepancy between local priorities and central plans indicates an unwillingness to see that discrepancy as the price which must be paid for a political system in which local discretion is meaningful. It also indicates the inadequacy of the expenditure control systems in terms of providing the Government with the degree of control over local authorities necessary to ensure the conformance of local expenditure priorities with central plans and policies.

The Government's reform of the TSG system can be understood in this context as a move to reduce the 'degrees of freedom' open to local authorities to develop expenditure priorities in conflict with central plans. The Government's stated rationale can be criticised on the grounds of the declining influence of TSG relative to the broader expenditure control systems and, therefore, of its limited role in generating the problem as perceived by the Government. This 'problem' would have existed even in the absence of TSG, arising from the political priorities of the GLC and metropolitan counties, in favour of expenditure on public transport and, in general terms, the interaction between factors relating, on the one hand, to the exercise of local discretion and, on the other hand, to the operation of the systems whereby central government sought to control local authorities' spending.

## 2.5 Government Control of Local Transport Expenditure

During the period since the reform of the TSG system transport expenditure by local authorities has fallen much more into line with the Government's plans and priorities. This is primarily due to a substantial reduction in expenditure on public transport by local authorities since 1984/85. Thus, whereas spending on public transport revenue support and capital investment constituted 31% of total local authority transport expenditure in 1984/85, the equivalent proportion in 1987/88 budgets was only 15%. An overspend in 1984/85 of some 80% relative to the Government's plans had been transformed into a budgeted underspend in 1987/88 of about 19%.

In explaining this trend we have to consider the impact of the whole range of measures reviewed above: the impact of PELs; of abolition of the GLC and metropolitan counties; of deregulation of local bus services; of targets and block grant penalties; of rate-capping; and, in the context of all these measures, of the reform of the TSG system. However, the effects of all these factors are interrelated and difficult to isolate; in this section we present a broad overview of trends since 1984/85.

There are two main factors in the explanation of trends in local public transport expenditure. The first is the transfer of responsibility for most public transport in London from the GLC to central government through the establishment of London Regional Transport (LRT) as a nationalised industry under the 1984 London Regional Transport Act. The Secretary of State assumed full control over the finances of LRT in 1985/86; for 1984/85 the budget agreed by the GLC was used to fund LRT even though it was in excess of the Government's provision. This transfer resulted in a 41% reduction in real terms in current expenditure on public transport under local authority control (73% for capital expenditure) (Figure 1a). Under direct government control revenue support for LRT has been more than halved in real terms since 1985/86 while capital investment has been increased significantly in line with the Government's objectives of increasing the attractiveness and efficiency of the

system and thereby promoting increased revenue and higher productivity (ie improving the prospects for the system to operate commercially).<sup>53</sup> There is some irony in this increase in capital expenditure in view of the fact that the level of expenditure approved by the GLC in 1984/85 represented an overspend relative to the Government's plans of some 11%.

Since 1985/86, then, expenditure on public transport under local authority control has been dominated by the provincial metropolitan areas. The second main factor in the analysis, therefore, is the abolition of the metropolitan counties, with the GLC, in March 1986. As indicated earlier, responsibility for public transport in the provincial metropolitan areas passed to the 'joint board' PTAs which were subject to strict expenditure limits and precept control by the Secretary of State, and which received direct capital allocations to cover public transport investment. As a result the degree of central government control over local public transport expenditure was increased further; in 1986/87 the Secretary of State controlled over 80% of current expenditure and most capital expenditure. In the metropolitan areas budgeted revenue support expenditure by the PTAs in 1987/88 was down by 37.5% in real terms from the 1985/86 outturn of the metropolitan counties, and was only some 12% in excess of the Government's provision (GRE) compared with over 70% in 1985/86 (Figure 1c)

The above two measures represent a political change of considerable significance: the abolition, in the country's major conurbations, of direct control over public transport by elected local councils. Outside the conurbations there were no such fundamental changes but, then, the shire counties collectively had consistently underspent the Government's provision for public transport revenue support since 1979/80 (Figure 1d). The principal measure of relevance to trends in these areas is the deregulation of local bus services in October 1986, following the 1985 Transport Act, which requires all local authorities to submit to competitive tendering all services needing support to supplement those provided on a commercial basis. The main effects of this measure will be reflected in expenditure from 1987/88 onwards but the Department of Transport has estimated that some 37% of the total reduction in expenditure on revenue support between 1985/86 and 1987/88 (budgets) is attributable to bus deregulation with the remainder due largely to the abolition of the metropolitan counties.<sup>54</sup> This would imply that the abolition of the metropolitan counties has reduced revenue support expenditure in the metropolitan areas by a quarter since 1985/86, while deregulation is responsible for most of the 16% reduction in real terms in such expenditure since 1985/86 in the shire areas.

However, the effects of deregulation in the shire areas must be considered in conjunction with the impact of the reform of the TSG system, which discontinued TSG support for expenditure on public transport and required such expenditure to 'compete' with the full range of other services in the framework of general expenditure controls. Of particular relevance here is the

replacement of the target and penalty system in 1986/87 with a modification to the block grant formula which results in an actual reduction in block grant entitlement as expenditure increases, and an accelerated rate of reduction for authorities exceeding a 'threshold' of about GRE + 10%. In addition, of course, authorities risk 'rate-capping' if their expenditure gets much above this 'threshold' level. This broader system of expenditure restraint is likely to have contributed to the reduction in revenue support expenditure in the shire counties, given the range of pressing demands from other services such as education, social work, police and fire. Thus, the GRE for revenue support was reduced by 14.4% for the shire counties in 1987/88 reflecting the savings from deregulation expected by the Government. Nevertheless, these authorities budgeted some 19% below GRE suggesting that revenue support expenditure tends to 'lose out' somewhat in the competition for resources which are heavily constrained by the Government's broader expenditure controls (Figure 1d).

With expenditure on local public transport services under greater control and substantially in line with its plans, the Government's attention has focused increasingly on expenditure on local roads. In recent years, statements of the Government's transport objectives have placed greater emphasis upon the development of the country's system of national and local roads with a particular stress on benefits to industry and business traffic and the promotion of economic growth.<sup>55</sup> We discussed in the previous section how the reform of the TSG system can be seen as reflecting this broader policy shift being designed to encourage local authorities to construct and improve roads 'of more than local importance' which complement the system of national roads, and which authorities might not otherwise give high priority. We also indicated that this reform was implemented in a context of underspending by local authorities on roads capital investment relative to the Government's plans.

In an analysis of recent trends in expenditure on local roads, both capital expenditure on construction and improvement, and current expenditure on maintenance, the implications of the reform of the TSG system are of central importance. However, such implications must be examined in the context of other important changes. First, as in our previous discussion of public transport expenditure, the effect of the abolition of the GLC and metropolitan counties must be considered. In this case, however, the relevant functions were devolved to the borough/district councils and, as a result, priorities for expenditure on road construction, improvement and maintenance have to be decided in the context of a wider range of services including education, housing, social services and community and leisure services.

Other important changes have been made to the general systems for controlling local authorities' current and capital expenditure. As regards current expenditure, as we have seen, the target and penalty system was replaced in 1986/87 by a grant penalty system which was built into the block grant formula and which resulted

in a loss of block grant as expenditure increased. The main change affecting capital expenditure was the reduction of capital allocations in 1987/88 to allow for the use by authorities of their accumulated capital receipts as well as in-year receipts. The requirement for the Government to use aggregate assumptions in adjusting capital allocations placed those authorities with below average receipts at a disadvantage in terms of cover for capital expenditure.

Therefore, since the reform of the TSG system road maintenance has essentially had to compete 'on equal terms' for scarce resources with a wide range of local authority services all of which face pressing demands for additional spending in a context of expenditure restraint. In particular, with the abolition of the GLC and metropolitan counties maintenance expenditure in the conurbations became subject to much greater competition from other services. In contrast to the picture for public transport revenue support, the Government has increased provision for spending on road maintenance significantly since 1985/86 reflecting "...the high priority the Government gives to maintaining the local road network" <sup>56</sup> and "... the Government's continuing commitment to ensuring that roads are kept in a satisfactory condition."<sup>57</sup> However, although local authorities have increased their spending on road maintenance, the increase has not been sufficient to match the Government's plans resulting in a significant underspend - some 12% on 1987/88 budget data (see Figure 2).

A similar mismatch between local authority expenditure and the Government's spending plans exists in the case of roads capital expenditure - an underspend of some 24% on 1987/88 estimates. Since the reform of the TSG system part of this expenditure - that relating to roads 'of more than local importance' - has been eligible for TSG at the rate of 50% while that relating to purely local works must be financed wholly by normal sources of capital finance (eg borrowing, receipts etc). In fact, local authorities' expenditure did increase in 1985/86 and 1986/87 thus eliminating the previously persistent underspend. Therefore, in 1986/87 roads capital expenditure was in excess of the Government's plans for the first time since the introduction of the new capital control system in 1981/82 (Figure 3). This could be seen as evidence of some degree of success for the new TSG system in promoting investment in larger road schemes 'of more than local importance', evidence which is supported by DTp data on road scheme starts since 1984/85.<sup>58</sup> However, the significant underspend arose in 1987/88 as authorities' expenditure declined in spite of an increase (17% in real terms) in the Government's provision.

In the case of both road maintenance and road construction expenditure the Government has argued that the underspending problem has arisen because local authorities are not according such expenditure sufficiently high priority.<sup>59</sup> On the other hand, local authorities would tend to emphasise the impact of the Government's restraints on their expenditure and the role of features of the expenditure control systems. We will present the

findings of a more detailed analysis of this issue below but at this stage we can provide a general outline.

In broad terms, it is evident that the problem of underspending by local authorities on roads expenditure relative to the Government's plans can be explained in terms of two sets of factors. On the one hand, local authorities' expenditure decisions clearly are influenced heavily by the framework of expenditure controls implemented by the Government to restrain the level of local government expenditure and to influence this distribution. There are features of these control systems which can be seen as contributing towards the problem. As regards current expenditure on road maintenance, the increase in expenditure provision in the Government's plans between 1985/86 and 1987/88 (20% in real terms) was not matched by an equivalent increase in the resources permitted to local authorities by central government. Thus, the contribution of block grant to local authority relevant expenditure decreased from 35% in 1985/86 to 32% in 1987/88. The road maintenance GRE (central to the distribution of block grant) was increased by only 14.5% in real terms over this period. In 1986/87 the system of negative marginal rates of block grant was introduced so that as authorities' expenditure increased, their block grant decreased. From 1985/86 the prospect of rate-capping faced authorities with total expenditure significantly in excess of GRE. Therefore, the Government's framework of expenditure control provided a climate of restraint.

As regards roads capital expenditure the most significant feature of the system of capital expenditure control was the approach, introduced by the Government in 1987/88, to accommodating the spending power derived by authorities from accumulated capital receipts. Since the Government has to make aggregate assumptions in setting capital allocations authorities with below average receipts find themselves disadvantaged in terms of actual spending power. Since housing represents the main source of receipts while relatively few derive from transport, many shire counties in particular are disadvantaged by this approach and therefore face difficulties in supplementing their roads capital allocations sufficiently to make expenditure consistent with the Government's provision.

Nevertheless, in order to explain the problem fully it is necessary to refer to a second set of factors relating to the behaviour of local authorities within the parameters set by the Government's expenditure control systems; specifically, their approach to setting expenditure priorities between competing demands from the full range of their services. Notwithstanding the influence of central government controls and restraints local authorities do have considerable discretion in setting expenditure priorities. As regards road maintenance, it is clear that, in the absence of TSG support, authorities are not according it the degree of priority desired by the Government relative to, for example, education and social services, expenditure on which tends to be in excess of GRE. Given the discretion which authorities have in the use of capital

allocation and receipts it would appear, again, that authorities are not assigning the priority to roads programmes that the Government would like to see. However, it would appear that TSG support is helping to sustain expenditure on roads 'of more than local importance'; it is expenditure on purely local facilities which, in the absence of TSG support, is tending to suffer.

Therefore, the analysis of the issue of central government control over local authorities' expenditure must focus on factors relating, on the one hand, to the framework for central control over local government expenditure and, on the other hand, to the behaviour of local authorities in terms of exercising their discretion within that framework to determine expenditure priorities. It is the interaction between these two sets of factors which must be analyzed in explaining particular outcomes. We now proceed to our analysis of local roads expenditure. The next section covers capital on road construction and improvement while in section 4 we deal with road maintenance.

### 3. Roads Capital Expenditure and Transport Supplementary Grant

Since 1985/86

#### 3.1 Introduction

We have seen that the degree of discrepancy between local authorities' expenditure on roads and the Government's spending plans has recently become larger than at any time during the past eight years since the introduction of the present expenditure control systems. As regards capital expenditure on local road construction and improvement 1987/88 estimates indicate a 24% underspend relative to the Government's plans. This significant underspend has developed in the context of the reformed TSG system, which was designed specifically to promote roads capital expenditure by local authorities in order to overcome persistent underspending in the early and mid 1980s. This suggests problems with the effectiveness of the system from the Government's point of view. However, it is important also to look at the problem from the local authorities' point of view and assess the extent to which the system is permitting them to address effectively their local transport problems and needs.

In this section we first discuss briefly the Government's objections and policies for roads and the mechanisms for financing total roads expenditure; this is followed by a summary of our analysis of the operation of the TSG system in the context of the broader capital expenditure control system since 1985/86 and the implications for local authorities' ability to meet local needs. Finally, we conclude with a discussion of some issues arising from the analysis.

#### 3.2 Government Policy and the Financing of Local Roads

Recent statements of the Government's policies for roads stress a commitment to sustaining a high level of investment in roads.<sup>60</sup> The general policy objectives relating to this commitment are:

- a) to provide, or promote the provision of, a road network which yields an adequate return on investment and maintenance costs in terms of benefits to industry and other road users, with full regard to safety and environmental considerations;
- b) to promote the effective use of the road system in ways which procure a reasonable balance between the conflicting needs for movement, safety and the environment.<sup>61</sup>

The Government's objectives for national roads stress, firstly, the promotion of economic growth through reduced transport costs; secondly, the improvement of the environment by the removal of through traffic (especially lorries) from unsuitable roads in towns and villages; and, thirdly, the enhancement of road

safety.<sup>62</sup> As regards local roads, the objective is "... to meet growing business and other traffic and so reduce costly delays and accidents; and ... to provide safe and convenient facilities for cyclists and pedestrians, and to improve the environment."<sup>63</sup>

It is clear that the Government places considerable emphasis upon "... the importance attached to roads in aiding economic growth and increasing the competitiveness of industry through reduced transport costs."<sup>64</sup> In supporting local authorities' roads capital expenditure the Government gives priority to those roads which are defined as being 'of more than local importance' because they carry significant amounts of longer distance through traffic and therefore complement the national network. Since the importance of such roads extends beyond individual authorities the Government has concentrated TSG since 1985/86 to support capital expenditure on them.<sup>65</sup>

The purpose of TSG is "... to encourage local authorities to build or improve through routes that might not otherwise have high priority, in terms of purely local considerations."<sup>66</sup> Support for such schemes can, therefore, be related to the Government's priorities firstly, to assist economic growth by reducing transport costs and, secondly, to improve the environment by removing through traffic from towns and villages.

TSG is provided to local authorities on the basis of annual bids submitted in their Transport Policies and Programme (TPP) documents which outline highways and traffic management capital programmes to meet the needs of their areas.<sup>67</sup> These programmes contain proposals for schemes which are considered to be 'of more than local importance' (ie eligible for TSG) also proposals for expenditure on items not eligible for TSG (eg works of mainly local importance, vehicles plant, machinery and depots for road works).

The Secretary of State for Transport decides the amount of each authority's bid to accept for TSG support and grant is paid at a rate of 50% of this 'accepted expenditure'. TSG is paid ostensibly as a block grant in respect of the accepted programme as a whole but all 'major' schemes (with a total cost of £1 million or more) are 'named' and monitored by the DTP to ensure that actual expenditure on them is in line with estimates. 'Minor' schemes (costing less than £1 million) are not named and are accepted for support in an undifferentiated minor works block.

The Secretary of State also specifies capital allocations to cover expenditure by each authority on roads, such allocations providing 'spending power' and borrowing approval to finance capital expenditure. Each authority's allocation is sufficient to cover TSG accepted expenditure plus an amount to take account of other (TSG-ineligible) expenditure. This amount is also decided by the Secretary of State on the basis of the TPP submission.

However, since 1987/88 capital allocations have been set lower than the Government's planned total expenditure on local roads

because of the spending power accruing to local authorities from accumulated capital receipts.<sup>68</sup> Current legislation does not permit account to be taken of variation between individual authorities in terms of the actual receipts available and authorities' allocations are set on the basis of aggregate assumptions about the availability of receipts to supplement borrowing. Therefore, authorities with low levels of actual receipts can find themselves with inadequate spending power to cover their roads capital programmes.

Such programmes can be broken down into various components in terms of the source of spending power. The first component is the programme of expenditure accepted for TSG support. This expenditure is covered fully by an authority's roads capital allocation and supported by TSG at the rate of 50%. Normally, the main element will be expenditure on 'named' major works which is monitored closely by the DTP and therefore, in effect, represents a 'first call' on capital resources. The minor works element of accepted expenditure is not subject to the same detailed scrutiny.

The second main component of roads capital programmes is expenditure which is not eligible for TSG support. This expenditure can be covered by the capital allocation remaining after TSG-eligible expenditure has been accommodated. However, if an authority's roads capital allocation is inadequate to provide full cover then additional spending power is required. The two possible source of such spending power are, firstly, the virement of capital allocation from other service blocks and, secondly, the use of capital receipts up to levels prescribed by the Government. The potential for allocating such spending power to roads programmes will vary between authorities both because of differential availability of capital receipts and because the scope for the application of the available receipts and the virement of other services' capital allocation to roads expenditure will depend on local political priorities.

In view of the fact that TSG-eligible expenditure will normally have 'first call' on authorities capital allocations, it is evident that the Government's approach to setting allocations since 1987/88, which allows for assumed availability of accumulated capital receipts, renders the non-TSG element of capital programmes vulnerable in authorities whose actual receipts do not match the assumptions. Clearly, this has potential implications for the ability of authorities to address local transport needs because this non-TSG element includes schemes which are directed specifically at such local needs and problems. This includes smaller road improvement schemes and traffic management measures, accident remedial measures, facilities for cyclists and pedestrians and for parking and public transport. Moreover, the availability of resources for such schemes is of some considerable importance to the ability of authorities to develop co-ordinated strategies for the effective management of traffic throughout their areas.

### 3.3 Resource Provision and Local Needs

The analysis of resource provision for local road construction and improvement is subject to the problem of limited timescale since the reform of the TSG system in 1985/86. In that year there were clearly many uncertainties about the new system and the following year brought the disruptions due to the abolition of the GLC and metropolitan counties. This measure resulted in a net transfer of resources to the successor authorities as illustrated in Figure 4.<sup>69</sup> This was also reflected by a regional shift in the balance of resources in favour of the North as shown in Table 1.

Since 1986/87 there has been a relative shift in resources back to the South of the country, primarily to the Outer London area where several major road schemes have made heavy demands on TSG resources. This has been at the expense of other authorities whose share of resources has declined. The Inner London boroughs have suffered reductions in both TSG and capital allocations. The shire counties have experienced a significant real reduction in capital allocation, although TSG has increased, while resources for the metropolitan districts have remained roughly constant in real terms since 1986/87 (Figure 4).

Table 1     Distribution of Transport Supplementary Grant and Roads Capital Allocation - Regions - 1985/86 to 1988/89

Figures in percent	Transport Supplementary Grant				Roads Capital Allocation			
	85/6	86/7	87/8	88/9	85/6	86/7	87/8	88/9
North	25.4	28.9	27.7	26.3	25.1	27.9	27.1	26.3
Midlands	20.3	18.4	17.7	17.4	18.9	18.1	18.5	17.4
South	54.0	52.6	54.7	56.2	56.0	53.9	54.5	56.3

Notes:

North = North, North West and Yorkshire and Humberside

Midlands = East Midlands and West Midlands

South = East Anglia, Greater London, South East and South West

In order to assess the extent to which resources have matched authorities' needs at an aggregate level we have compared the distribution of resources between authorities with their TPP bids, which represent authorities' own assessments of their needs.<sup>70</sup> Following substantial changes in 1986/87 in which the metropolitan districts and Inner London boroughs have experienced the greatest reductions in the proportions of their assessed needs met by TSG and, in particular, capital allocations. Indeed, there is evidence that the larger urban authorities amongst the metropolitan districts have suffered a greater-than-average reduction in both TSG and capital allocation relative to their bids suggesting that the 'inner conurbation' authorities will face particular difficulties in addressing their problems and needs through roads capital expenditure unless they can apply their capital receipts to such expenditure. The shire counties have 'held their own' in terms of TSG but their capital allocations have also met a declining proportion of their bids. On the other hand, the Outer London boroughs have benefitted most as both TSG and capital allocation have increased as a proportion of their assessed needs.

The combination of increasing 'accepted expenditure' for TSG-eligible schemes and declining roads capital allocation has resulted (given that TSG-supported expenditure has 'first call' on capital allocation) in a reduction in the amount of capital allocation available to authorities to cover non-TSG expenditure. From Figure 4 it can be seen that all classes of authority have been affected by the change in the Government's approach to allowing for accumulated capital receipts in 1987/88. The effect on authorities' non-TSG roads programmes will depend firstly, upon their ability to viro capital allocation from other service blocks and, secondly, upon their ability to apply capital receipts to roads expenditure.

Our analysis suggests that the shire counties have experienced particular difficulties because, in general, they are not able to generate capital receipts on a sufficient scale to compensate fully for the reduction in capital allocations. This is firstly because transport does not generate capital receipts on a substantial scale and, secondly, because the shire counties do not have responsibilities for housing, the major source of receipts. Thus, whereas transport constitutes 34% of capital payments by the shire counties, capital receipts make up only about 10% of their total capital spending power.<sup>71</sup> The imbalance between classes of authority in terms of transport expenditure and capital receipts is shown graphically in Figure 5. Further, there is an imbalance between shire counties in terms of their ability to generate receipts, particularly between those in the South (and especially the South East) which have benefitted from escalating land and property values, and those in the North of the country.<sup>72</sup>

This imbalance can be seen as intensifying the effect of the relative shift in TSG and capital allocation away from the North and in favour of the South since 1986/87, as discussed above. The implications for authorities' ability to meet their needs for

roads capital expenditure are illustrated by, for example, Cheshire County Council which, amongst our sample of authorities, has indicated severe difficulties in financing its roads capital programme.

However, there is another dimension to the problem which relates to the relative priority attached to roads expenditure by authorities when considering the use of prescribed capital receipts which are available and the virement of capital allocation between service blocks. Thus, overspending by local authorities in recent years on education, social services and environmental services (eg planning and economic development) indicates a relatively high priority for such services in authorities' resource planning. Indeed, a large proportion of the shire counties' capital receipts accrues from education and environmental services and authorities, in general, clearly do not find it feasible to transfer such receipts, or capital allocation cover, to roads expenditure.

In the metropolitan districts and London boroughs this issue of relative priorities between services in the use of available resources is of even greater significance. These authorities do have access to capital receipts on a substantial scale by virtue of their responsibilities for housing and, indeed, a wide range of other services (Figure 5). Therefore, they are somewhat better placed than the shire counties to compensate for reduced capital allocations since 1986/87. The abolition of the GLC and metropolitan counties has improved the potential for the application of capital receipts to highways expenditure in these areas by devolving the highways function to authorities with a wider range of services. However, our analysis suggests that this potential is not being realised in practice and that the metropolitan district authorities are experiencing some difficulty in assigning high priority to highways expenditure relative to other services. There would appear to be three main reasons for this difficulty. First, a reluctance on the part of Housing Committees to surrender spending power from receipts because of the serious housing problems experienced by metropolitan authorities. Second, a problem in assigning high priority to roads expenditure by these authorities relative to their other 'traditional', long-established services (such as education, social services, housing, leisure and community services) which face heavy demands for increased expenditure due to the range of economic and social problems in these areas. Third, the magnification of these effects by the reductions in capital allocations for those other services.

The situation in Sheffield perhaps typifies the metropolitan authorities:

" Although anxious to find and implement solutions to the various transportation needs within the city, the council regards problems related to housing and education, for example, as more pressing. As a result, it decided to adopt a highways capital programme ... which is marginally less than the highways capital allocation."<sup>73</sup>

The problem for all authorities is exacerbated by the restraints exercised by the Government on revenue expenditure through the block grant system which constrain the expansion of capital programmes via the impact on debt charges. As discussed earlier, authorities have faced, since 1986/87, a negative marginal rate of block grant as their expenditure increases, with the rate of reduction rising sharply above a 'threshold' of about GRE + 10%, and with the additional threat of rate-capping for expenditure much above this level. For example, in 1987/88 if Cleveland County Council had spent their 'threshold' of GRE + 9.5% the grant penalty would have risen to £1.23 so each pound spent would have cost local ratepayers £2.23.<sup>74</sup> This forces authorities to consider very carefully the revenue consequences of capital programmes although our analysis suggests that this factor is, in general, subsidiary to the effect of the capital expenditure control system (and the response of authorities to the determination of expenditure priorities) in explaining recent trends in roads capital expenditure.

We have attempted to assess the implications of these trends for authorities' approaches to addressing their local transport problems and needs with reference to our sample of local authorities.<sup>75</sup> Our analysis suggests that, on the whole, local authorities are displaying a commitment to the TSG system with expenditure on TSG-eligible works more than matching 'accepted' level: 22% in excess in 1987/88 in our total sample (see Figure 6). However, this excess arises primarily from expenditure on TSG-eligible minor works indicating a discrepancy between the perceptions of the Government and local authorities as to the need for such expenditure and, more particularly, as to the appropriate balance between the major and minor components of total expenditure accepted for TSG support.

Whilst the Government might gain satisfaction from this picture as regards the operation of the TSG system, it is clear that local authorities are facing problems financing non-TSG elements in their roads capital programmes. For such expenditure, much depends on the ability of authorities to supplement their roads allocation. Indeed, most of the 'overspending' on TSG-eligible works is accounted for by authorities which are able to supplement their allocations. Even in such authorities we found that non-TSG works suffered and the situation was worse in authorities unable to apply capital receipts or vire allocation to roads expenditure. The result has been a severe restraint on the ability of authorities to direct resources at specifically local transport problems and needs through roads capital expenditure. From our analysis of selected local authorities we have obtained a general picture of the type of highways capital works which are experiencing the most serious restraint in the present circumstances and of the nature of problems and needs which are therefore not being addressed as effectively as they

otherwise might:

1. Major structure re-conditioning and improvement of roads funded from capital

Authorities which have applied for TSG in respect of such works on roads of more than local importance have tended not to be successful. The funding of such works on all roads has therefore had to rely on the non-TSG proportion of capital allocation or capital receipts and has been subject to restraint where such sources are limited, resulting in a growing problem of failed roads and a requirement for higher revenue spending on maintenance.

2. Schemes for the construction and improvement of local roads

Many authorities have some relatively large schemes not eligible for TSG which must be accommodated in the non-TSG portion of capital allocation, supplemented where possible from other sources. There is evidence of authorities having to delay the implementation of highly cost-effective schemes directed at local traffic, environmental and safety problems, and designed to assist local economic development.

3. Minor works programmes

Such programmes comprise relatively low cost works directed primarily at traffic management, environmental and safety problems, usually providing very cost-effective solutions but subject to cuts when non-TSG resources are constrained. Particularly badly affected within such programmes are facilities for cyclists, facilities and schemes to improve the effectiveness and attractiveness of public transport, bridge reconstruction and repair works, and the replacement and improvement of street lighting.

4. Car parking facilities

Since 1987/88 capital allocation for such facilities has been provided only in exceptional circumstances and this makes it more difficult for authorities to secure appropriate parking facilities since the presumption is that these should be funded from trading profits or capital receipts, or provided by the private sector. Many authorities are sceptical about the scope for providing the necessary facilities from receipts and about the prospects for private sector provision and see threats to commercial development of town centres and to their ability to formulate integrated and co-ordinated transport strategies dependent upon control over parking.

Certain other areas of concern on the part of local authorities emerge from our analysis. First, there is some concern about the burden of advance works and acquisition costs in respect of TSG-eligible schemes not achieving 'early conditional acceptance' since such costs must be borne fully by the non-TSG element of

capital allocation or capital receipts, but are necessary in order to demonstrate commitment to a scheme and therefore enhance its prospects of eventual acceptance for TSG support. Second, there is also some concern about the impact on authorities' Direct Labour Organisations of restraints on smaller schemes and minor works programmes which are not providing sufficient work to maintain a constant workload in an environment of competitive tendering.

A final area of concern relates to the availability of resources to finance road schemes which are important in the promotion of local economic development. One aspect of this concerns the availability of finance to ensure progress of road schemes attracting EEC support (from the European-Regional Development Fund) so that grants are not jeopardised. Another aspect concerns authorities' ability to implement schemes which provide access to areas with prospects for industrial and commercial development. Many authorities formulate their highways programmes in the context of broader strategies for local economic development/regeneration and restraints on resources for non-TSG works have produced concern about the prospects for schemes to assist economic development objectives. This has led certain authorities to take up the issue of partnership with the private sector where such schemes provide clear benefits to developers.

#### 3.4 Effectiveness and Distributional Issues

Arising from our analysis we identify a number of issues upon which we can make certain observations. These issues relate to two basic concerns: first, the effectiveness of the Government's system for supporting and controlling capital expenditure on local roads; and, second, certain considerations relating to equity or distributional implications.

As regards effectiveness, we can consider first the local authorities' viewpoint. On the whole, local authorities appear to be displaying a commitment to the reformed TSG system with bids exceeding the available resources to a significant degree and expenditure on TSG-eligible schemes exceeding the level accepted by the DTp for grant support. It would seem, therefore, that local authorities are obtaining sufficient benefits for local road users and communities from TSG-supported schemes to make locally-borne costs worthwhile from their perspective. However, there are specific complaints relating, for example, to the timescale of eligibility of costs for grant support and there is evidence that, from the local authorities' point of view, inadequate support is given to minor works. Moreover, the lack of grant support for capital expenditure on structural reconditioning and improvement of roads can be seen as an issue requiring consideration by the Government.

Clearly, many local authorities are having severe problems with the operation of the broader capital expenditure control system and, in particular, with the treatment of capital receipts in the

distribution of capital allocation. Inequities in spending power arise at the level of individual authorities and we shall return to this below. There are also implications for effectiveness because authorities facing severe restraints are unable to implement relatively high priority local schemes whereas those with above average capital receipts will be able to include schemes lower down their priority lists. The Government's system for capital expenditure control should provide all authorities with the spending power which enables them actually to meet those needs in their TPP submissions which are sanctioned by the DTP. The present approach does not achieve this but the Government has plans to reform the system of local authority capital finance from April 1990 so as to come closer to this aim. We will return to this issue in section 5 below.

We have seen that it is programmes for non-TSG works which have suffered most in those authorities unable to supplement their roads capital allocations substantially from capital receipts. Such works are directed at specifically local problems and needs and are traditionally of particular concern to local elected members. We have no evidence to suggest that the restraints on such works due to the operation of the combined TSG and broader capital expenditure control system are creating sufficient frustration to provide the basis for a 'backlash' against TSG schemes. However, this could always be a danger so long as some authorities continue to feel unfairly treated by the system.

The restraint on non-TSG expenditure raises two specific concerns in terms of effectiveness. First, there is evidence that cuts in expenditure are bearing heavily on less 'visible' elements in authorities' highway programmes such as repairs to structures and replacement of street lighting. This can result in higher future capital costs and higher revenue spending meantime. Second, as we have argued previously, restraints on minor works programmes combined with the exclusion of cover for car parking from capital allocations reduce the ability of authorities to develop strategies for the effective management of urban traffic.

Turning to the Government's viewpoint on effectiveness, in relation to TSG support, the fact that authorities' bids for TSG exceed the available resources to a significant degree provides the element of competition for grant which is seen by the Government as important in ensuring that the available resources are used effectively. However, this test of effectiveness is confined within the consideration of alternative road schemes which are eligible for TSG; it assumes a given level of resources for such schemes in total. It is also important to consider effectiveness in a wider sense, in relation to possible alternative uses for those resources - alternative types of road schemes, alternative transport investment, use for other non-transport purposes etc. In other words, it is important to consider opportunity costs. In the context of our study we can say little about this broader issue. What we can do is make some observations in relation to the question: How effective is TSG support in achieving the objectives and securing the benefits as designated by the Government for the TSG system?

In this regard we can refer briefly to two main issues. The first issue concerns the extent to which the reformed TSG system is promoting the implementation of road schemes which would not otherwise have been realised. Many of the schemes put forward to date by local authorities for TSG support will have been in their forward programmes prior to the reform of the TSG system. It can be presumed, therefore, that, given adequate resources and sufficient priority from the local authority, such schemes would have been implemented even in the absence of the reform of the TSG system. Such implementation would have been on the basis of a purely local perspective on benefits for local road users and communities and many would have been commenced but for the restraints on local authorities' capital expenditure (exacerbated by revenue expenditure restraints via debt charges).

Since the stated objective of the reformed TSG system is to promote the construction of roads of more than local importance that local authorities would not otherwise give high priority, doubts arise about the effectiveness and necessity of the decision to reform the system to the extent, firstly, that many of the schemes subsequently implemented were already planned prior to the reform and, secondly, that previous delays in implementation were attributable to broader restraints on capital expenditure. The other important consideration is the role of local authorities' own priorities. To the extent that such priorities played a role in implementation delays prior to reform of the system, and that the reformed system has encouraged authorities to give higher priority to major road schemes, the effectiveness of the decision to reform the system is enhanced. Support for this effect is provided by recent progress with some large schemes in London although the abolition of the GLC is also an important variable. Therefore, we would pass a rather 'mixed' verdict on the operation of the reformed TSG system to date. However, it is not really possible to consider the effectiveness of the TSG system in isolation from the broader system for the control of local authorities' capital expenditure. Due to restraints deriving from the latter, progress with the implementation of major road schemes 'of more than local importance' has been achieved at the expense of smaller schemes with substantial local benefits. This raises questions about effectiveness defined from this broader perspective. In particular, the achievement of objectives embodying non-local benefits is being promoted at the expense of the achievement of objectives which relate more to purely local traffic, environmental and safety objectives. The implications for effectiveness depend upon the relative priority assigned to these two sets of objectives and herein lies the source of divergence between governmental and local authority views. The Government's main interest is in promoting the improvement of the national network of major roads to obtain 'strategic' benefits whereas the local authorities' main interest is in improving facilities to obtain local benefits. This brings us into the realm of distributional issues to which we will return below.

The second main issue in our discussion of effectiveness concerns

the Government's emphasis, in their objectives and policies for roads, upon the role of roads investment in assisting economic growth and, in particular, in reducing burdens on industry through lower transport costs. Effectiveness in the use of resources therefore depends to a significant degree upon the extent to which road schemes actually produce benefits related to these objectives. This is a complex issue, the full consideration of which is beyond the scope of our analysis. However, from research studies published to date there would not appear to be much support for arguments for effectiveness in this respect.<sup>76</sup> Nevertheless, such research does not provide an adequate basis for firm conclusions and there is certainly a case for more work in this area.

A particular aspect of this issue arises from consideration of the balance of resources between TSG and non-TSG schemes. This concerns the relative benefits to industry, and to the promotion of economic growth, of investment in major roads forming part of the PRN, as against investment in local roads providing access to the sites which actually generate and attract commercial and industrial traffic. Research conducted in inner urban areas of London and Leeds has highlighted the importance to firms of local traffic problems, and the implication of this work is that any benefits to industry from improvements to the major road network might be jeopardised if problems exist with local access to sites of industrial and commercial activity.<sup>77</sup> This is likely to be particularly relevant for industry in inner city areas. Whilst many TSG-supported schemes are designed to improve access from the motorway and trunk road network to major sites of industrial and commercial activity, there is nevertheless an important role to be played by non-TSG highway schemes in improving local access for business traffic, especially in large urban areas. However, restraints on resources for non-TSG programmes, particularly in those authorities with below-average capital receipts, potentially undermine this role although additional resources are available under the 1982 Industrial Development Act for authorities in 'Assisted Areas'.

Therefore, attention needs to be given to two questions. First, what are the relative potential benefits to industry and the economy from major schemes eligible for TSG support on the one hand, and from the type of local scheme which does not attract TSG support on the other? Second, given the Government's objectives for road investment, does the system for supporting and controlling local authorities' roads capital expenditure promote the right balance of resource allocation between these types of schemes? Our analysis suggests that there are grounds for arguing that the present circumstances faced by local authorities do not result in adequate resources to tackle the local dimension of this problem. A further important question, beyond the scope of our analysis, concerns the balance between investment in national (motorways and trunk roads) and local roads in terms of effectiveness in achieving overall roads objectives.

We indicated above that the assessment of effectiveness

necessarily raises distributional issues because of the need to determine relative valuations and weightings of different types of benefits which accrue from roads investment. Because of differences in interests and values embodied in the perspectives of central and local government, which produce differences in priorities, we cannot expect to achieve a consensus on effectiveness from these two perspectives. Thus, the distribution of benefits from schemes which fulfil the criteria for TSG support will be significantly different from that characterising local non-TSG schemes and the 50% grant support from the Government relates specifically to the benefits accruing to 'non-local' users and communities. If priority is to be given to the needs of business and commercial traffic, longer-distance private car commuters and to communities experiencing the intrusion of through traffic, then it is likely that effectiveness in resource use will be enhanced by promoting TSG schemes. There remains then a question as to whether or not a 50% grant from the Government ensures an equitable balance between the burden on local ratepayers and the level of benefits accruing to local road users and communities. If, on the other hand, a perspective is adopted which gives priority to solving local traffic and environmental problems and to the needs of local public transport users, cyclists and pedestrians, then it is likely that effectiveness in resource use would be enhanced by achieving a transfer of resources from TSG to non-TSG schemes. This would be reinforced to the extent that it was felt that a 50% central government grant for TSG schemes did not 'compensate' local ratepayers adequately for non-local benefits.

A further distributional issue raised by our analysis relates to regional trends in resource allocation for roads investment. Recent trends indicating a shift in resources towards the south of the country may be a temporary phenomenon due to the peaking of expenditure on the large Outer London schemes. On the other hand, they may reflect an inherent tendency for resources to be attracted to areas experiencing growth in economic activity and traffic levels since the case for investment is demonstrated more soundly within a cost-benefit framework in such a context. With an increasing emphasis on demonstrable economic and environmental benefits, areas of lower growth could face a more difficult task in making the case for resources. Much depends on the extent to which roads investment can be justified as a basis for generating future growth in economic activity and upon the evaluation of such justifications relative to those which demonstrate the role of roads investment in accommodating and assisting existing growth in economic activity.

The implications of this issue for inequalities in economic well-being are difficult to assess. Much depends upon the question discussed earlier of the extent to which investment in roads is, in fact, an important factor in promoting and assisting economic growth and the ways in which this occurs. A better understanding of this relationship is clearly of importance to the consideration of the extent to which roads investment could and should be an element in any regional policy designed to combat any danger of a 'vicious circle' of decline in northern and

peripheral regions while controlling a 'virtuous circle' of growth in the southern 'heartland'.

A final aspect of this problem derives from the unequal distribution of spending power from capital receipts due to the ability of authorities in the south to capitalise on high land and property values. This inequality can be seen as reinforcing the regional imbalances in resource allocation discussed above.

#### 4. The Maintenance of Local Roads

##### 4.1 Introduction

There is growing concern about the condition of local roads in this country. Indeed, expressions of concern about deteriorating roads have been emanating for several years from local authorities and their associations, from organisations representing road users and from members of Parliament. For example, in 1983 the House of Commons Transport Committee reported on an enquiry into the road maintenance issue and concluded that

" ..there is real cause for concern about the present condition of the network of non-principal and unclassified roads, and ... necessary remedial work is being prevented by financial constraints ... We believe that there is an urgent need for some increase in the funds available for local road maintenance."<sup>78</sup>

However, although there is some degree of consensus on the facts of deteriorating local road conditions, this is not matched by consensus on the causes, and, therefore, the solutions. The House of Commons Transport Committee has focused on the level of central government funding.<sup>79</sup> The Government, on the other hand, has placed the blame on local authorities for failing to accord road maintenance sufficiently high priority for the resources which are available.<sup>80</sup> The British Road Federation has attributed the problem to the "... complex and unsatisfactory system of local government finance" and to the state of central-local relations.<sup>81</sup>

Our aim is to examine the relative influence of these factors in the explanation of the apparent inability of local authorities to meet their road maintenance needs to 'satisfactory' standards and, on this basis, to draw conclusions on how the problem might be overcome. Our particular concern is to examine the impact of changes in the financing of local road maintenance, in the context of the broader systems for central government control over local authority expenditure and, in particular, the effect of the reform of the TSG system in 1985/86 which discontinued support from this source for road maintenance.

We discuss first, and briefly, the nature and scale of the road maintenance problem, identifying the main factors responsible for deteriorating road conditions. We then analyze the record of local government in responding to the road maintenance problem in the context of changes in central government policies and controls attempting to identify the main reasons for the inability of local authorities to maintain their roads to satisfactory standards. Finally, we discuss an approach to addressing the problem and for achieving a reversal in the trend of deterioration in local authority roads.

#### 4.2 The Scale of the Road Maintenance Problem

It is clear that local authorities face a problem of some considerable magnitude in achieving an improvement in the condition of their roads. A substantial backlog of maintenance work has built up over the past decade or so due to inadequate treatment in the face of continually increasing needs. Our analysis covers the period since the beginning of the present decade but it should be stressed that road conditions at the turn of the decade had already been affected by cuts in maintenance expenditure during the latter part of the 1970s introduced as part of the broader programme of cuts in local government spending.

A number of factors are responsible for increasing the demands upon local authorities in terms of road maintenance work. The length of public local road requiring maintenance increases continually with urban development. Delays to new road construction due to restraints on capital expenditure increase the requirement to patch and repair existing roads. The amount of traffic using local roads is growing constantly but of particular significance is the growth in heavy goods vehicles which cause the greatest damage to roads, on average in proportion to the fourth power of their axle loadings. It has been estimated that by 1986 the burden on public funds due to the wear caused by heavy commercial vehicles to roads and bridges had reached some £600 million per annum.<sup>82</sup>

The work of the so-called statutory undertakers (eg Gas, Electricity, Water, Post Office, British Telecom) is an important factor, these organisations having statutory powers under the 1950 Public Utilities Street Works Act (PUSWA) to excavate the highway and footways to install or gain access to their services. The number of excavations has been increasing and local authorities have voiced serious concern about the standard of reinstatements. Such concern led to a recent review of the 1950 Act by the Horne Committee<sup>84</sup> and the Government has acted on the Committee's recommendations by issuing a new Code of Practice for the work of the statutory undertakers. However, there is still some concern, particularly about the implications of privatisation of the former public utilities and the resulting pressures to reduce costs on excavation works.

Severe winter weather also places an additional maintenance burden on local authorities through snow-clearing and gritting operations but more importantly through the damage to roads caused by frost penetration which seeks out weaknesses caused by inadequate surface treatment, heavy goods vehicles and utility excavations. During the past decade harsh winter weather has been experienced in 1978/79, 1981/82, 1984/85 and 1985/86, all of which imposed considerable frost damage on local roads and an additional financial burden on local authorities.

The growing use of traffic management and regulation measures, particularly in urban areas has produced an increased requirement for maintenance of 'street furniture' associated with such

measures. Comprehensive traffic management strategies have concentrated wear on certain roads, often minor link roads not suited to the task. The situation has been aggravated by capital expenditure restraints which have delayed new construction and improvement schemes resulting in an increasing public concern about environmental and conservation standards, about public safety and crime, and about improved facilities for disabled people, has added to the demands placed upon local authorities in terms of road maintenance work.

While the need for maintenance work has increased, the cost of undertaking such work has also escalated significantly. Of particular importance have been increases in the cost of factor inputs, particularly labour, materials and energy which together constitute the major component of total maintenance costs. Taking into account inflation in such input costs, as measured by the DTP's 'Maintenance and Lighting Price Index'<sup>85</sup>, local authorities would have had to achieve substantial increases in efficiency to attain expenditure levels consistent with the Government's spending plans. Given that important elements of materials and energy costs are beyond the control of local authorities pressure has been placed on labour costs resulting in labour force reductions.

An additional important element in the response of local authorities to expenditure restraints has been a reduction in the quantity and quality of work output. Routine or cyclic maintenance (ie grass cutting, sweeping, gully emptying and traffic sign maintenance) has tended to be reduced to minimum levels consistent with safety requirements while planned programmes of structural maintenance have been sacrificed to 'problem solving' approaches involving more localised patching and surface dressing. Local authorities have warned that such trends are resulting in the storing up of expensive problems for the future.

Indeed, there is a considerable amount of evidence from both National Road Maintenance Condition Survey (NRMCS)<sup>86</sup> and local authorities' own surveys which indicates a deterioration in the condition of local roads since 1980, particularly on principal and unclassified roads in urban areas and unclassified roads in rural areas. Based upon this survey evidence it is clear that a substantial increase in maintenance work is required to arrest this deterioration let alone to achieve an increase in standards to what would be widely regarded as 'satisfactory' levels. Local authority estimates suggest that a significant increase in expenditure is needed, particularly on structural maintenance; the Audit Commission recently estimated that an increase of £200 million per annum is required in structural maintenance expenditure simply to arrest deterioration and hold the network at its present standard.<sup>87</sup> On a total estimated national expenditure on structural maintenance in 1987/88 of some £660 million the required increase is 30%. However, this estimate does not allow for any increase in expenditure on cyclic maintenance (which many authorities would argue is necessary) nor for any improvement in the standard of the highway structure.

In fact there are powerful economic and safety arguments for sustaining good standards of maintenance for local roads. The main economic argument is that failure to maintain the structure of highways to adequate standards can result in substantially greater cost in the future when major reconstruction is required at an earlier date than would otherwise be the case. As regards safety considerations, reduced standards of structural and cyclic maintenance increase the risk of accidents, with cyclists and motorcyclists particularly vulnerable to carriageway defects. These arguments are supported by evidence of considerable public dissatisfaction with the present state of the country's roads, both in national polls and in local authorities' surveys.

Therefore, it is clear that there is a problem of inadequate maintenance of local roads; local authorities have not been undertaking sufficient maintenance work to address growing needs and problems to acceptable standards. Of course there will always be dispute about what constitutes 'acceptable standards' and how this should be determined but, this aside, the problem can be seen in terms of three questions. First, is the Government allocating sufficient resources to local road maintenance and do central government expenditure controls allow local authorities to direct sufficient resources to road maintenance? Second, within the framework of central government controls, to what extent does inadequate maintenance expenditure arise from the exercise of discretion by local authorities in the determination of priorities for available resources between their various services? Third, to what extent are the resources actually allocated by local authorities to road maintenance used effectively and efficiently in meeting defined needs? Our analysis attempts to provide some answers to these questions.

#### 4.3 Local Authority Responses to the Road Maintenance Problem

Our analysis of trends and patterns in local authorities' road maintenance policies, expenditure and outputs relative to the Government's expenditure plans and provisions focuses on the period since the introduction of the block grant system in 1981/82 and pays particular attention to the impact of the reform of the TSG system 1985/86. This reform discontinued support from this source for road maintenance expenditure which was incorporated fully into the general block grant system in the same way as most other services.<sup>88</sup> However, we examine this change in the context of the broader system of central government controls on local authority spending and also analyze the impact of the abolition of the GLC and metropolitan counties in 1986.

As regards the period before the reform of the TSG system, the Government's primary concern over the half-decade to 1984/85 was to reduce local authorities' expenditure so as to bring it into line with central spending plans:

" Responsible pay settlements, increased efficiency and the avoidance of waste should enable local government to

maintain satisfactory levels of road maintenance ... without having to overspend the provision."<sup>89</sup>

In this context of restraint overspending had been virtually eliminated by 1984/85. However, as Figure 2 shows, this was due to a combination of two factors. On the one hand, local authorities' expenditure declined in real terms between 1981/82 and 1984/85 by 4.6% under pressure from the Government's expenditure restraints. On the other hand, the Government's provision increased in real terms following the severe reductions in 1981/82.

Nevertheless, there were two factors which undermined this 'success' from the Government's perspective, in achieving broad equality between local authority spending and central plans. First, the condition of local roads continued to deteriorate during this period, as we saw in the previous section, with the harsh 1981/82 winter being a particularly important factor. Second, the Government's expenditure plans and provision failed to match local authorities' own assessments of expenditure needs. This is illustrated in Figure 7 by the significant discrepancy between authorities' TPP bids and the level of expenditure accepted by the Government for TSG support. It is clear that in the metropolitan and shire areas local authorities were not meeting their assessed local needs; in London expenditure was closer to the level of TPP bids but this was only achieved by significant 'overspending'.

Therefore, it is clear that there was a significant problem in terms of local authorities' ability to meet local road maintenance needs and, as Figure 7d shows, this problem was greatest in the shire areas. From the local authorities' viewpoint, the Government's argument that satisfactory levels of road maintenance should be possible if resources implied by central plans were used efficiently, was seen as invalid and unrealistic. In analysing this issue we examine the impact of TSG settlements but within the context of the broader system of expenditure control, particularly the operation of the system of expenditure targets and grant penalties.

The contribution of TSG to local authorities' transport expenditure declined over this period, particularly between 1982/83 and 1984/85 when, as a proportion of total accepted expenditure (ie including capital items) it fell from 25% to 18%.<sup>90</sup> This implies a reduction in its importance to the explanation of expenditure trends relative to the broader expenditure control systems. TSG supported a larger proportion of transport expenditure in London and the metropolitan counties than in the shire areas and our analysis suggests that it may have played a part in the former areas in providing more protection to maintenance expenditure from broader expenditure restraints. Such a conclusion is supported by an analysis of the 1983/84 TSG settlement, in particular, which reduced significantly the grant to the shire counties, exposing them more to the impact of block grant penalties. Thus, maintenance expenditure in shire authorities declined by 5% in 1983/84 at a

time when they faced increased need due to damage from the winter of 1981/82 and pressures from the Government to implement schemes to relieve communities from the effects of heavy lorries (Figure 7d).

The role of TSG must be seen in the context of the operation of broader expenditure controls, particularly the system of expenditure targets and grant penalties introduced in 1981/82, which imposed increasingly severe restraints upon local authorities' expenditure over the period to 1984/85. As we saw in section 2.2 above this system 'cut across' the logic of the basic block grant system so targets did not bear a simple relationship to GREs. Authorities with expenditure above GRE could receive a target above GRE and vice versa; therefore, some authorities spending in excess of GRE were not liable to penalties whereas some spending below GRE were penalised. In fact, targets for the GLC and metropolitan counties (MCCs) were set above their GREs for essentially pragmatic reasons; however, the need to constrain expenditure to central plans resulted in targets for the shire counties in aggregate which fell progressively below GRE.

The more marked reduction in maintenance expenditure in the shire counties, and the greater shortfall from accepted expenditure, than in London and the Metropolitan areas (Figure 7) indicate that targets and the prospect of grant penalties had a significant impact, increasingly preventing authorities from spending in accordance with their assessed needs. However, we found significant variations between authorities in terms of the apparent degree of protection given to maintenance expenditure from the impact of expenditure restraints thus indicating the importance of the role of local discretion in explaining expenditure trends in the context of the impact of the Government's expenditure control systems.

The situation facing local authorities would appear to have been exacerbated by a degree of contradiction, and lack of co-ordination, between various elements of central government policy and control. Thus, on the one hand, the DTp, through the TSG system, was signalling a real terms increase in maintenance expenditure between 1981/82 and 1984/85 while, on the other hand, the broader expenditure control system (particularly targets and penalties) served to decrease local authorities' expenditure in accordance with more general Government objectives. This contradictory situation drew comment from the Associations of County and District Councils:

" A bid for increased maintenance expenditure may receive acceptance and possibly additional grant, but in the face of DoE pressure for overall expenditure cuts, the local authority could face block grant penalties on any additional expenditure."<sup>91</sup>

More specifically, such contradictions were evident in 1983/84 when the pattern of TSG allocations and targets can be seen as

inconsistent with the Government's transport policy priorities relating to the promotion of roads expenditure, neglecting in particular the needs of the shire counties to address maintenance problems aggravated by the severe winter of 1981/82, and contradicting the Government's policies for promoting roads expenditure at the expense of current expenditure on public transport revenue support.

In their response to this situation of expenditure restraint, local authorities initially concentrated expenditure cuts on routine maintenance activities in order to protect structural maintenance. However, the restraints began to affect structural maintenance work in the early 1980s with the result that resurfacing and reconstruction works were reduced and greater use was made of low cost approaches such as patching and surface dressing in spite of authorities' fears about the longer-term consequences. Maintenance on minor roads in particular suffered as authorities concentrated resources on more heavily trafficked roads. We found that some authorities (eg Cleveland County Council) did attempt to mount programmes to address the backlog of structural maintenance but were unable to allocate sufficient resources to such programmes in the prevailing climate of restraint.

Underlying these responses by authorities in terms of policies, priorities and outputs, there were also developments seeking to promote the more effective and efficient use of available resources in meeting road maintenance needs. Authorities made increasing use of technical assessment systems (eg MARCH and CHART) to provide more objective measures of road conditions and, therefore, promote more effective resource allocation. Also, concern about declining standards led the local authority associations jointly to develop a 'Code of Good Practice' for highway maintenance which many authorities have adopted.<sup>92</sup>

The Government's reform of the TSG system, discontinuing support from this source for current expenditure on road maintenance from 1985/86, was introduced in a context of declining maintenance expenditure by local authorities and deteriorating road conditions. Notwithstanding the concern about these trends expressed by local authorities, their associations, the British Road Federation and the House of Commons Transport Committee in the mid 1980s, the issue of road maintenance appears not to have figured prominently in the Government's deliberations relative to the issues of spending on public transport and road construction and improvement. In our explanation of the problem TSG plays a rather subordinate role to the broader expenditure control system, especially targets and penalties but, nevertheless, there were grounds for reservations about the impact of the loss of TSG on local authorities' road maintenance expenditure.

Thus, on the one hand our analysis has suggested that, because it played a significant role in supporting transport expenditure by the GLC and MCCs, TSG may have served to protect maintenance expenditure somewhat from the impact of broader expenditure

restraints on these authorities, notwithstanding their priorities in respect of public transport expenditure. On the other hand, we have seen that the shire counties (responsible for some 61% of local road maintenance expenditure in 1984/85) had experienced the most severe decline in maintenance expenditure because the relatively small contribution of TSG left such expenditure more exposed to the restraints exercised through the block grant penalty system. In the absence of TSG support, road maintenance expenditure would become more clearly dependent upon the Government's general controls on local authorities' current expenditure and upon authorities' approaches to determining priorities between services within the context of these controls. The House of Commons Transport Committee, in fact, expressed reservations about the implications of such a situation for future maintenance expenditure:

" It seems entirely wrong that adequate standards of road maintenance should depend upon the willingness of local authorities to exceed Government expenditure targets, a willingness which would be more constrained in the future."<sup>93</sup>

With the reform of the TSG system road maintenance became fully absorbed into the general block grant system in 1985/86, block grant support being provided for an authority's services as a whole and distributed between authorities on the basis of a formula in which GRE plays a major role. Authorities' spending on road maintenance is now subject to the same considerations as spending on most other services and dependent upon a balance of considerations relating to local perceptions of needs and political priorities, the relationship between block grant entitlement and the level of spending relative to GRE, the corresponding burden on local ratepayers and, possibly, the prospect of rate-capping.

The reservations about how road maintenance would fare in this new situation would appear to have been confirmed to some degree by the continued decline in local authorities' maintenance expenditure in 1985/86 resulting in an underspend relative to the Government's provision nationally for the first time since 1980/81. This was consistent with the continued reduction in block grant support and the increased severity of penalties for overspending targets. Of particular significance is the decline in maintenance expenditure in London reversing the increasing trend of previous years, indicating the impact of general expenditure restraints in the absence of TSG and, in particular, of the introduction of rate-capping.

The picture since 1985/86 is complicated by the abolition in March 1986 of the GLC and metropolitan counties and the replacement of the system of targets and penalties by a modification to the basic block grant system which introduced a negative marginal grant rate with the rate of loss of grant accelerated when spending exceeds the 'threshold' level (see section 2.2 above). With the abolition of the GLC and MCCs, road maintenance became the full responsibility of the borough and

district councils which have a wider range of services than the former 'upper tier' authorities. Therefore, decision making in these areas about road maintenance budgets now takes place in broader context in which a wide range of services compete for scarce resources.

Since 1985/86 the Government has increased provision for local authorities' road maintenance expenditure significantly in real terms (see Figure 2) arguing that this reflects " the high priority the Government gives to maintaining the local road network."<sup>94</sup> However, although local authorities have responded by increasing their expenditure, the increase has not matched the Government's provision, resulting in a growing underspend which, on 1987/88 budget data, had reached 12%. Underspending against GRE is particularly marked in the shire counties. Our analysis suggests that two factors are important in explaining this situation.

First, restraints on expenditure by central government have continued and have presented local authorities with some difficulties. Thus, the contribution of block grant support for local government expenditure continued to decline, from 35% of relevant expenditure in 1985/86 to 32% in 1987/88. More specifically, the increase in provision for road maintenance by the Government has not been matched by an equivalent increase in the maintenance GRE, as shown in Figure 2. This has contributed to the restraint on block grant and, indeed, it can be seen as somewhat disingenuous on the part of the Government, on the one hand, to emphasise its commitment to road maintenance on the basis of increased provision and, on the other hand, to imply through the level of GRE that authorities do not need to spend the provision in order to achieve adequate standards.

Therefore, local authorities have not been provided with the resources by central government which would allow them to achieve standards of road maintenance implied by the Government's plans. Any move to increase spending by authorities (unless at the expense of other services) results in loss of block grant, increased burden on local ratepayers and eventually the prospect of rate-capping, and in such a context of restraint road maintenance spending has suffered.

Thus, we find evidence in several authorities of planned increases in maintenance spending having to be reduced or sacrificed due to the impact of expenditure restraints. The most relevant factors, following the reform of the TSG system, are the negative marginal rate of block grant and the authority's GRE. An example of the problem is provided by Avon County Council:

" ... in assessing the overall financial position facing the County Council as a result of the Rate Support Grant, it was apparent that the County Council would lose some £36 million of grant in total between 1985/86 and 1986/87 if it spent at the overall expenditure levels proposed by Central Government in each year. This meant that it has not been possible to include ...(a real) ...increase in the

allocation to highway maintenance."<sup>95</sup>

The general local authority perspective on the problem is perhaps best summarised in a recent report to the West Midlands Regional Forum:

" The fact is that, due to the constraints placed upon local authorities' current expenditure by the Government's Rate Support Grant system, it is not possible for ... (an) ... increased level of expenditure to be achieved without a severe impact on future rate levels or reductions of expenditure in other policy areas. There is a need for the Government to revise the grant system to enable local authorities to incur expenditure on road maintenance up to the PESC provision. The operation of the current system can only lead to the continuing deterioration of local roads in the Region."<sup>96</sup>

However, there is another dimension to the problem which is suggested in the above comment and which, indeed, is emphasised by the Government in their perspective. This is the approach adopted by local authorities to the determination of priorities between their various services for the resources which are available within the framework of controls exercised by central government. We have seen that the Government's view is that adequate standards of road maintenance could be achieved if local authorities assigned sufficiently high priority to road maintenance.<sup>97</sup> Indeed, we found evidence that the degree of priority assigned by an authority to road maintenance is a significant factor influencing its ability to address road maintenance needs given the broader restraints on the total resources available. However, our analysis suggests that authorities in general face considerable difficulties in assigning a high priority to road maintenance in a context where they face pressing demands for additional resources from a wide range of other services and where any increase in total spending results in a loss of block grant.

Thus, underspending by local authorities on road maintenance contrasts with general overspending on other services such as education and social services. Amongst our selected authorities maintenance expenditure tended to be lower relative to its GRE than was the case for other services. Most authorities whose total expenditure exceeded GRE budgeted below GRE for maintenance, while in those whose total expenditure was below GRE the shortfall on maintenance tended to be larger than average. The problem faced by authorities in assigning high priority to road maintenance appears to have been exacerbated in London and the metropolitan areas by the abolition of the GLC and MCCs which has placed road maintenance in a situation of having to compete against a wider range of services for constrained resources. The situation is made more difficult by the fact that the London boroughs and metropolitan districts have long-established priorities for such services as education, social services, housing and community and leisure services which are a reflection of perceptions of local needs. It is clear that these

authorities face economic and social problems of considerable magnitude and the determination of priorities for the use of limited resources to address these problems is the essential political purpose of elected local authorities in which there is a convention of considerable autonomy and discretion. It is in the interaction between local decision-making on resource priorities and central controls on the resources available to local authorities that the explanation of the problem of local road maintenance lies.

Our analysis suggests that the reform of the TSG system has had an influence on the development of the problem but at a secondary level and we have no clear evidence to suggest that the retention of the old TSG system would have altered the picture fundamentally. The influence of the reform can be seen both at the level of central expenditure control and at the level of local decision-making. As regards the former, the reform had a redistributive effect in terms of the allocation of resources between authorities. The change to allocation totally on the basis of GRE, in which road length is the main criterion of 'need', benefitted authorities with high road mileages relative to population. Therefore, larger shire counties tended to benefit at the expense of smaller and more densely populated counties and, more generally, the shire counties benefitted at the expense of London and the metropolitan areas (see Figure 7). As regards the impact on local decision making, the loss of TSG support for road maintenance has exposed it to a greater degree of competition from other services in budgetary considerations and, as we have seen, the structure of local authorities' priorities have tended to disadvantage road maintenance with very high perceived opportunity costs.

The problem in terms of resource allocation to local road maintenance is reflected in the material condition of local roads, with a continued trend of deterioration. The major area of concern continues to be the structural condition of roads and this is reflected in the priority given to structural works within the increases in spending since 1985/86, particularly on major roads. This has led to a rapid deterioration in minor roads and footways and concern about this trend has led some authorities to consider re-ordering priorities. However, in the present climate of expenditure restraint there would appear to be rather limited scope for a shift in priorities to address needs on the whole road network unless authorities are prepared to re-direct resources from other services. Our analysis would suggest that the prospects for this are limited given present patterns of needs and priorities. It is possible to see an argument for such a modification of priorities in the evidence of considerable public dissatisfaction with the state of local roads but such evidence must be considered in relation to local peoples' views on problems and needs in other services and, at the end of the day, it is for individual local authorities to determine their priorities on the basis of available evidence on needs across the whole range of their services and of local political preferences.

This brings us to the question of how the problem of local road maintenance might be addressed so as to ensure that a more adequate level of resources can be directed to the achievement of standards which are generally perceived to be 'satisfactory'. We now turn to this question in the next section.

#### 4.4 Towards a Solution to the Road Maintenance Problem

Our analysis indicates that there are two main issues which need to be addressed. The first concerns the level of resources made available by central government for local road maintenance, the basis upon which such resources are provided to local authorities, and the controls and restraints exercised by central government over local authorities' spending behaviour. The second issue concerns the approach adopted by local authorities, within this context, to the determination of priorities between various services, the allocation of resources to those services, and to ensuring that resources are used effectively and efficiently in producing service outputs to meet the needs of local communities.

In our view, an adequate approach to the problem of local road maintenance requires developments on both these fronts. To focus on one aspect alone represents a partial and inadequate response. A recent analysis of the problem by the Audit Commission does indeed address both these aspects although the emphasis tends to be more in line with the Government's perspective on the ways in which local authorities should direct more resources to road maintenance and use them more effectively and efficiently.<sup>98</sup>

We have two main reservations about the Audit Commission's analysis. The first relates to the use of the maintenance GRE to indicate desirable levels of spending by local authorities. The problem here is that GRE is not a good measure of the resources actually needed by authorities to maintain their roads to adequate standards, especially those with roads in below average condition and those in more heavily urbanised areas with special needs. Our second reservation relates to the Audit Commission's assumption that needs-based budgeting for road maintenance will necessarily result in an increase in resources for maintenance. Here, the Audit Commission abstracts the road maintenance problem from the broader problem faced by local authorities in directing adequate resources to address effectively the whole range of local problems and needs which they face. From this broader view of effectiveness needs-based budgeting requires to be introduced across the whole range of local authority services. However, this would be likely to generate justifiable demands for additional spending from many services which could only be resolved, within constrained resources, by the determination of priorities by elected members. This brings us back to the present problem of the relative priority assigned to road maintenance.

The Audit Commission's approach is, in our view, too narrow especially in relation to the action required by central government. Local authorities justifiably could expect moves on their part to 'put their house in order' to be supported by moves by central government to ensure, firstly, an adequate level of expenditure provision to meet road maintenance needs to satisfactory standards and, secondly, that the distribution of these resources to local authorities reflects more accurately their actual needs. In such a context local authorities would be expected to introduce measures to improve their effectiveness in resource allocation and to secure efficiency improvements which could release more resources for productive use in addressing their local problems and needs.

However, there remains the central problem of how 'satisfactory standards' of road maintenance are to be defined. To what extent should local authorities be free to determine service priorities and standards in accordance with local circumstances and the preferences of local communities or should minimum national standards be designated for each type of road? The Audit Commission advocates the latter course but this is a contentious issue which goes to the heart of the tension in our political system between local autonomy and central control. The point remains, however, that if the Government is to make resources available for local road maintenance on the basis of defined needs there will require to be a definition of minimum standards of maintenance and an assessment of the resources needed to bring existing road conditions up to these standards. In our view, the local authority associations' 'Code of Good Practice' provides a sound basis for defining appropriate minimum standards with local authorities being free to set higher standards at their discretion according to local circumstances and financed from local resources.

This approach could be implemented through the TPP system without an excessive degree of central direction and bureaucracy. Authorities would submit bids for maintenance resources based on assessed needs relative to the defined minimum standards. Central government would set national expenditure provision on the basis of this information and having determined a target level of improvement in road conditions in the context of a programme to bring conditions up to the defined minimum standards nationally. Resources could then be allocated to authorities on the basis of their needs either through block grant, if an appropriate 'needs factor' could be incorporated into the GRE formula, or through a supplementary grant. This issue would need to be discussed by the Government and local authority associations bearing in mind the reform of local government finance to be introduced in April 1990. It would be crucial to ensure that local authorities actually received the resources to support the required maintenance programmes. For their part, authorities would provide evidence in their TPPs of performance and progress in meeting defined needs and standards and in improving efficiency.

On the basis of such a joint approach by central and local government there would be good prospects for reversing the deteriorating trend in the condition of local roads as part of a broader improvement in the effectiveness and efficiency of local government services. However, the actual prospects are uncertain not least because of recent trends in relations between central and local government. Thus, moves towards increased central control and financial restraint have not produced a climate which is conducive to an approach to the road maintenance problem which exploits fully the potential and strengths of local government working in 'partnership' with central government.

The situation is not helped by the uncertainty generated by the planned reform of local government finance in April 1990. Since some three quarters of total local authority current expenditure will be under direct central government control in the new system much will depend on the degree of restraint exercised by the Government via grant support. If such support is restrained authorities will find it difficult to increase expenditure because of the impact on individuals via increases in the community charge. In view of the pattern of relative service priorities which our analysis has indicated as pertaining over recent years there must be some concern about the prospects for road maintenance under the new system. Such concern reinforces the case for an initiative by central and local government in partnership to reverse the trend of deterioration in local authority roads.

## 5. Discussion and Conclusion

The Conservative Government has pursued an intensive programme of legislative reform since 1979 with the aim of achieving greater control over local government expenditure and of bringing such expenditure into line with central government objectives and spending plans. This programme can be seen as part of a broader economic and political strategy to reduce the role of the public sector and, conversely, to promote a flourishing and profitable private sector. Initially, the Government was not successful in achieving the desired degree of control over local transport expenditure. During the period up to 1984 there was a considerable degree of overspending by local authorities relative to the Government's plans, particularly on public transport in London and the metropolitan counties. This can be seen as due primarily to the policies and priorities of Labour Councils in these areas, developed in relation to their perceptions of local needs in a context of economic recession, which were at odds with the Government's priorities. On the other hand, local authorities consistently underspent relative to the Government's plans for roads capital expenditure, frustrating the Government's objectives for the promotion of the construction of roads to serve commercial and business traffic.

Since 1984, however, there have been considerable changes in the level and pattern of local transport expenditure; in particular, expenditure on local public transport has been reduced and brought substantially into line with the Government's plans. This has been achieved primarily by measures to reduce local authority control and discretion over public transport provision in the major conurbations. The focus has shifted subsequently to expenditure on local roads and specifically to the problem of the recent emergence of a significant underspend relative to the Government's plans for expenditure on local road construction and maintenance.

However, of greater importance to our analysis is what this situation implies for the ability of local authorities effectively to address their local transport problems and needs. Our research has indicated that over recent years local authorities have been unable to allocate sufficient resources to local road construction and maintenance to meet their assessed needs and that this has resulted in the exacerbation of local transport problems. Therefore, in terms of the effectiveness of local roads policy there are two aspects to the problem: firstly, the failure of expenditure to conform to the Government's plans; and, secondly, the failure of local authorities to address effectively their local needs.

Our explanation for these failures focuses on the tension inherent in our political system between, on the one hand, interests in the central state concerned to achieve control over the allocation of public resources in order to achieve their promoted objectives and, on the other hand, interests in the local state concerned to preserve the maximum possible degree of autonomy and discretion over the use and allocation of

resources in the localities. More specifically then, our explanation emphasises the interaction between, on the one hand, factors relating to the capacity of central government to control local government expenditure through the framework of controls established for this purpose and, on the other hand, factors relating to the response of local authorities to the pressures exercised through this framework in the determination of their priorities for the use of resources to address the perceived problems and needs of their areas.

The Government's expenditure control framework can be seen to embody two main sources of tension. The first arises between interests within central government which have rather different control purposes. Thus, certain departmental interests are concerned to influence the distribution of resources between different types of expenditure while certain interests are more concerned to achieve control of the overall level of public expenditure. This tension is embodied in the annual deliberations of the Public Expenditure Survey Committee (PESC) and would be manifested, for example, in conflict between the DTP and the Treasury over the scale of resources for local roads expenditure. The second source of tension is the more general and apparent one referred to above between these interests of central government and those of local government in maintaining a substantial degree of autonomy from central control in order to determine local expenditure priorities in accordance with local considerations.

The problems which we have identified with local roads expenditure can be seen as arising in part from these tensions. On the one hand, the systems for central government control over local authorities' expenditure do not provide the capacity for control at the level of detail required to ensure that such expenditure conforms to central spending objectives and plans. This produces a problem of unintended consequences which is exacerbated by the conflicting interests within central government. These limits to central control are further reinforced by the principle and tradition of local authorities' freedom and discretion to determine their own priorities within parameters set by central government. Two problems arise from the local authorities' point of view. First, plans and assumptions made by central government may fail to match the reality faced by individual authorities which are, therefore, unable to deliver expenditure outputs which are consistent with the Government's objectives or adequate to meet their local needs. Second, in exercising their local autonomy and discretion within parameters of central control, authorities may choose not to deliver expenditure outputs consistent with the Government's objectives. Authorities must establish priorities based upon their perceptions of local circumstances balanced against the effects of central control and therefore must choose which local problems and needs are to be addressed and to what degree. When priorities have to be established, the sum of local decisions may not sum to the centrally determined view.

Therefore, in our view, an understanding of recent problems over

local roads expenditure must be based upon an analysis of the two basic factors of capacity for central control and the scope of local discretion. We would argue that problems have arisen in large part because, given the limits to central control deriving from tensions within central government, from formal limits to central government intervention and from a strong tradition of local discretion, the Government can be seen, firstly, as demanding too much from its control mechanisms, and, secondly, as expecting too much from local government if long-established principles of local autonomy and discretion are to be taken seriously.

The problems which have arisen over expenditure on local road construction and improvement can be understood in terms of the above framework. Thus, the Government's approach over the years to local authorities' use of capital receipts has been conditioned primarily by the concern to control total capital expenditure. The approach adopted reflected formal limits on central government intervention and an interest in controlling expenditure overall. In practice the application of the capital expenditure control system has created difficulties for many authorities firstly because of an inability to generate sufficient spending power and, secondly, because of difficulties in assigning priority to roads expenditure relative to other services. The resulting underspend on local roads can be seen from one point of view, therefore, as an 'unintended consequence' deriving from the limits of central government to achieve its plans and objectives with the available control mechanisms. From this point of view the inability of local authorities' to address their local problems and needs is due to an inappropriate system of central government control which fails to accommodate both the reality of local circumstances and the exercise of local autonomy and discretion.

The alternative interpretation of the problem places greater emphasis upon the intentional behaviour of local authorities in setting priorities for resource allocation between services within the broader framework of central government control. From this point of view the failure of local authorities to address their local problems and needs is due to their failure to assign sufficient priority to roads expenditure for the resources which are available. We have seen that the Government and local authorities have tended to adopt different viewpoints in the explanation of the problem arising from a selective emphasis on different elements in the broader explanatory framework which we have elaborated. From our perspective such viewpoints must be seen as partial and limited and serving particular sets of interests in the central and local state, tension between which has become an important characteristic of our political system.

The reform of the TSG system can be understood in terms of our explanatory framework. Before the change introduced in 1985 TSG was a block grant to support authorities in their development of integrated transport policies and programmes. Our analysis leads us to conclude that the operation of the TSG system per se cannot be seen as the main cause of the Government's frustration with

local authorities' spending behaviour up to 1984/85 but it did contribute to the problem in the context of the operation of the Government's broader expenditure control systems. On the one hand, as an unhypothecated grant it served to support patterns of expenditure arising from the priorities of authorities in the major conurbations which differed radically from those of the Government. On the other hand, it added complexity to the system of control of local authority expenditure, providing authorities with an additional 'degree of discretion' within the broader framework of central government control mechanisms.

Therefore, the TSG system can be seen as to some degree 'out of step' with the Government's concern in the early 1980s to achieve greater control over local transport expenditure in terms of both level and composition. It reduced the Government's capacity for control through both the above factors of increased complexity and increased local discretion. This can be seen particularly in the 1983/84 TSG settlement which was influenced by the introduction of PELs by the 1983 Transport Act such that greater support was provided to the GLC and MCCs at the expense of the Shire counties. This contradicted the Government's objectives by providing more resources to the discretion of authorities whose priorities to public transport expenditure were the main source of the Government's frustration while providing less resources to those authorities who were central to the Government's emerging priorities for the promotion of road construction and improvement. Therefore, in part, the TSG system exacerbated the 'unintentional consequences' of the Government's control systems by increasing complexity (and the potential for lack of co-ordination between various Government departments) and by increasing the scope for influence of conflicting interests within central government. However, the TSG system also increased the ability of local authorities to choose not to deliver expenditure outputs in accordance with the Government's plans.

The Government's rationale for the reform of the TSG system was, as we have seen, consistent with its broader viewpoint on the problem of local transport expenditure, emphasising this role of TSG in supporting local authorities' ability to pursue transport spending programmes at odds with central expenditure plans. The actual reform of the system restricting TSG support from 1985/86 to capital expenditure on roads 'of more than local importance', serving primarily heavy and longer distance traffic, can be seen as consistent with the Government's broader strategy to achieve control over local authorities' expenditure and conformity with central spending plans, involving a shift of resources away from public transport and towards roads.

The reform of the TSG system, therefore, can be seen as one of a series of radical measures introduced during the Conservative Government's second term of office which have addressed specifically the scope of local authorities' discretion to develop expenditure priorities at odds with central government plans. Such measures also include the transfer of responsibility for public transport in London to LRT, the abolition of the GLC

and MCCs and the deregulation of local bus services. The net result of these changes has been a direct reduction in the role of local authorities in decision making about resource allocation to public transport and a restriction on the discretion of local authorities to derive integrated and co-ordinated plans for the development of local transport services and facilities to meet the perceived needs of the communities they represent, in which public transport, in particular, can be supported to achieve objectives expressing the broader economic and social welfare of those communities.

More generally, there has been an increase in the ascendancy of central government plans over locally-determined policies and priorities. The reform of the TSG system has contributed to this process and can be seen as perhaps reflecting the Government's broader thinking about the role of local government. Thus, TSG is now essentially a specific grant to persuade local authorities to construct roads which they might not otherwise give priority, primarily oriented to the needs of longer-distance business and commercial traffic rather than to the needs of local communities - that is, to persuade local authorities to act primarily as the agent of central government. In this sense it is radically different from the original TSG which was a general grant for use at authorities' discretion to support the development of broader transport plans and programmes to meet the perceived needs of local communities in such a way as to promote local co-ordination and integration - that is, to encourage local authorities to exercise discretion in serving local communities.

Nevertheless, we have seen that the ability of the Government to achieve this increased ascendancy in practice is limited by the nature of current control mechanisms. The Government's response to the problem has not been to recognise the inappropriateness of the degree of control it is seeking to exercise but rather to seek to enhance the degree of control through reforms of the system of local government finance. New systems for controlling local authorities' current and capital expenditure are to be introduced in April 1990 with the stated intention of improving local accountability defined in terms of the relationship between the spending behaviour of local authorities and changes in the tax burden on local voters.

As regards current expenditure there will be three main changes.<sup>99</sup> First, domestic rates will be replaced by a flat-rate 'community charge' to be levied on all adults (ie persons aged 18 years and over). Second, non-domestic rates will be changed from a tax levied at variable rates by different local authorities into a uniform national business rate (UBR) determined by central government 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.

In the new system authorities will receive from central government a fixed sum at the start of each financial year comprising the needs and standard element of grant plus a share of UBR income. This allocation from central government, which is likely to constitute about three-quarters of total revenue for most authorities, will be invariant with authorities' spending levels; income from the community charge 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 community charge payers. Since the charge is levied on a simple per capita basis and all adults have to pay at least a 20% contribution (following the 1986 Social Security Act) marginal changes in local authorities' spending will be felt most by lower income people.

Changes in the capital expenditure control system are designed to complement the reforms in the financing of revenue expenditure.<sup>100</sup> The new system will apply to all capital expenditure with no distinction between 'prescribed' and 'non-prescribed' categories. Authorities will have three sources of spending power for financing capital commitments. First, they will be able to borrow up to the limit of annual 'credit approvals' specified by the Government. A 'basic credit approval' will cover all categories of expenditure and may be used at the authority's discretion while 'supplementary credit approvals' will be issued in respect of borrowing for specified programmes or projects (eg TSG expenditure net of grant). Second, authorities may obtain grants from central government or other public bodies (eg EEC) but these will be allowed for in credit approvals. Third, authorities may apply their own resources. The main source of such resources for many authorities will be capital receipts but the Government will restrict the proportion of receipts which authorities can use for new capital investment by 'prescribing' proportions to be set aside for debt redemption and for financing future capital expenditure in substitution for external borrowing. Authorities will also be able to use profits from trading undertakings and make unrestricted revenue contributions to capital expenditure, the only discipline on the latter being the impact on the community charge.

These changes are designed to overcome the problem which we analyzed in Section 3 above deriving from aggregate assumptions about the availability of capital receipts which discriminate against authorities with below average actual receipts. In the new system, credit approvals will, in effect, 'top up' authorities' actual spending power from receipts to a level consistent with the Government's assessment of their appropriate share of the provisions in central spending plans. Spending may then be supplemented by revenue contributions at the discretion of individual authorities but, of course, such marginal increases in expenditure will have to be borne entirely by local community

charge payers.

This new system of local government finance will result in a greater degree of central control over local authority expenditure. On the one hand, it should improve the Government's capacity for control reducing the scope for 'unintended consequences'. On the other hand, it will effectively constrain local authorities in the exercise of local discretion to the extent that it results in increased expenditure to be financed wholly from a community charge which will impact most heavily on lower income people. Thus, some three-quarters of total local authority revenue for current expenditure will be under direct government control and will be fixed at the beginning of each financial year. By taking account of individual authorities' capital receipts and topping up spending power via credit approvals to a perceived level of need to spend, central government will achieve a greater degree of control over total capital expenditure. The impact upon local authorities' perceived 'room for manoeuvre' (discretion) in spending decisions will depend firstly upon the degree of restraint exercised by the Government via grant support and credit approval and, secondly, upon local political perceptions of the effect of increased spending on local people.

However, based upon our analysis we have two major reservations about the possible impact of these changes to the systems of local government financial control on local transport expenditure, and particularly on the ability of local authorities to address effectively their transport needs. The first reservation relates to this issue of control and the Government's ability to achieve expenditure outcomes in accordance with its spending plans. The new system will tighten up control overall but will still leave local authorities free, within given constraints, to determine their own priorities. If authorities find that the resources available to meet local needs are restrained further both by central government controls and by the 'discipline' of the community charge they will have to make difficult decisions on local priorities. Our analysis has indicated that over recent years roads expenditure has tended to 'lose out' to other services in the process of setting priorities for constrained resources. In the light of this pattern of relative service priorities there must be some concern about the prospects for roads expenditure under the new system.

This concern would apply to both current expenditure and maintenance and capital expenditure on local road construction and improvement. We have seen that the condition of local authority roads has deteriorated over recent years partly due to resource restraints exercised by central government and partly due to the difficulties experienced by local authorities, in the context of such restraints, in assigning priority to road maintenance relative to the wide range of other services which face pressing demands for additional resources. We can foresee an exacerbation of this problem under the new system of local government finance unless steps are taken by central and local government in partnership to address the issue along the lines

proposed in section 4.4 above.

As regards the construction and improvement of local roads, we have seen that restraints on capital expenditure have resulted in inadequate expenditure by local authorities on non-TSG programmes directed to meet specifically local needs. Such expenditure has been 'squeezed' in a situation where spending is constrained, where TSG supports expenditure on roads 'of more than local importance', and where other local authority services compete for priority for the available capital resources. Under the new capital control system much will depend on the degree of restraint imposed by the Government and its approach to distributing basic credit approvals to authorities. Although those authorities with below-average capital receipts should benefit under the new system, we have reservations about the prospects for capital expenditure on local transport schemes in a situation where expenditure on TSG schemes will be effectively 'ring-fenced' by supplementary credit approval, and where authorities will have to make difficult decisions about relative service priorities for limited resources.

There are grounds for fears about the impact of the new systems of local government finance on the northern metropolitan authorities in particular. In the new system for financing current expenditure there will be no resource equalisation mechanism in grant distribution related to differences in rateable values. Therefore, authorities with relatively low rateable resources which benefit at present from resource equalisation (mainly in northern England) will lose out under the new system, while those with high rateable resources (mainly in southern, eastern and central England) will gain. This effect will be magnified for those northern authorities (particularly in the larger urban areas) where spending is high relative to GRE and whose non-domestic rates are above the national average, because they will lose out in the allocation of the uniform business rate. Although 'safety nets' will spread the impacts over a period of years, the long-term result is likely to be severe constraints on the resources made available by central government to local authorities in the northern urban areas. A greater burden will be placed on the community charge but concern about its impact on lower income people in these areas is likely to make it difficult for these authorities to increase expenditure to meet perceived needs.

Capital expenditure in these authorities may also be subject to a greater degree of restraint under the new system for two reasons. The first is the requirement to set aside substantial 'prescribed' proportions of capital receipts to pay off debt and to finance future capital expenditure in substitution for external borrowing. The second factor is the Government's proposed procedure for distributing basic credit approvals to authorities which will effectively redistribute spending power in favour of authorities with lower levels of non-prescribed receipts. The northern metropolitan authorities are likely to experience the greatest difficulties because of their relatively high levels of capital receipts at present. In addition, of

course, any revenue contributions to capital expenditure will be subject to considerations of the impact of the community charge as for current spending.

The prospects for roads capital expenditure in northern local authorities is also affected by the trend in the contribution of central government resources for road construction which, we have seen, have tended to favour growth areas of the south at the expense of the north in recent years. Although we have little evidence for firm argument, there would appear to be some grounds for fears that road building may support and strengthen a 'virtuous circle' of growth and development in the south and therefore underpin a widening of the so-called 'north-south divide'. Much depends on the approach adopted by the Government to the assessment of need as a basis for distributing TSG and other capital spending power between authorities.

In our view, there would appear to be difficult times ahead for the northern metropolitan authorities. In particular, we have seen that these authorities have experienced some difficulties in assigning priority to local roads expenditure since the abolition of the MCCs in a situation where a wide range of urban economic and social problems result in pressing demands for more resources for education, social services, housing, community and leisure services, economic development etc. In view of this pattern of priorities and the prospect of increased expenditure restraints under the new financial regime, we fear that expenditure on roads in the northern urban areas may suffer particularly badly, resulting in an exacerbation of urban transport problems.

There is, indeed, an additional factor which strengthens the cause for concern about future transport problems in the northern urban areas. This relates to the extent to which resources from central government are distributed in a way which reflects adequately the needs of these areas. We referred above to the question of need assessment for the distribution of TSG and other capital spending power. The DTP is placing increasing emphasis on quantitative assessment of benefits from road schemes and the question arises of the extent to which all relevant needs can be considered adequately within such a framework. There is also the question of the degree to which the quantitative interpretation of the criteria for TSG support within the evaluation framework makes justification for such support more difficult in large urban areas.

We are aware that certain metropolitan authorities have voiced the concern that GREs fail to reflect adequately the needs of large urban areas subject to heavy traffic use, large numbers of utility openings and a wide range of inner city problems requiring attention with scarce resources. Indeed, in our analysis of the road maintenance problem we criticise the current GRE on the grounds that it fails to take into account the actual condition of roads pertaining in 1985/86 when TSG support was discontinued. A major determinant of need for maintenance expenditure is the maintenance 'backlog' but the GRE does not

reflect adequately the difference in severity of this problem between authorities. The evidence for the National Road Maintenance Condition Survey concerning the substantial maintenance backlog on urban principal roads in particular lends support to the contention that the maintenance GRE failed to reflect adequately the needs of authorities in larger urban areas.

Therefore, there are two bases for concern on the part of such authorities about the extent to which resources from central government will meet their needs under the new system of local government finance. First, part of their grant (the 'standard grant') will be paid on a per capita basis and therefore will not be related directly to assessed need. Second, the part of their grant which will be related to assessed need will be distributed to authorities on the basis of GREs which have limitations as measures of the actual needs of local authorities. These considerations strengthen our fears for the future ability of local authorities in the northern metropolitan areas in particular to address effectively their transport problems and needs.

However, the assessment of effectiveness in meeting needs is an extremely complex task. In particular, the differences in priorities between central government and many local authorities, arising from conflicts between interests and values, result in different perspectives on effectiveness. We discussed this at some length in section 3.4 but we can summarise some of the issues here. From the Government's point of view, priority to the promotion of economic growth and, in such a context, to the needs of business and commercial traffic in particular is an important basis for the provision of TSG support for capital expenditure on roads 'of more than local importance'. A further objective is the relief of communities from through traffic, especially heavy lorries. The degree of competition between local authority schemes for the available resources and the use of the 'Annex B' evaluation framework are seen by the Government as important factors promoting effectiveness in the use of resources. But certain questions can be posed which have a bearing on the issue of effectiveness. Is the total level of resources allocated to TSG schemes appropriate in view of the opportunities foregone through possible alternative uses? To what extent would the schemes which have attracted TSG support have been implemented by local authorities in the absence of such support (given the opportunity through the general capital control system)? To what extent is road investment supported by TSG effective in achieving the Government's broad priority objective of promoting economic growth?

As regards local transport needs central government provides a legislative framework within which local authorities must operate and provides resources to local authorities on the basis of a scrutiny of their policies as set out in TPPs and in accordance with centrally-determined priorities. Therefore, central government sets 'parameters' for local authorities who must work within these parameters in meeting local needs. We have seen

that these parameters have been tightened in recent years through the expenditure control systems, through the reform of the TSG system and through deregulation of local bus services. These changes can be seen as part of an attempt by central government to change the parameters so as to promote greater effectiveness by local authorities where such effectiveness is defined in relation to the Government's view of objectives and priorities.

Because of the substantial discrepancy between the Government's view of priorities and that of many local authorities there has, of course, arisen a dispute about the cause of problems of effectiveness in meeting local transport needs. From the viewpoint of central government, such problems are due mainly to the behaviour of local authorities, specifically their failure to use available resources to meet local needs in accordance with centrally-determined priorities. We have seen this viewpoint in the Government's criticisms of local authorities' underspending on roads capital and current expenditure. However, from the viewpoint of local government problems of effectiveness in meeting local needs are due mainly to the 'parameters' set by central government which are seen as imposing a restraint on the ability of local authorities to meet the needs of their areas as assessed and prioritised locally. We have seen this viewpoint in local authorities' criticisms of resource constraints which lie behind their inability to allocate sufficient resources to local roads expenditure given the wide range of priority needs which they face. In our view, there can be no 'objective resolution' of this conflict of viewpoints; in essence, it depends upon one's belief in the extent to which central government should seek to control local authorities within 'tight parameters' so as to ensure that they behave in accordance with centrally-determined priorities or, alternatively, the extent to which local authorities should be free to raise and allocate resources to meet local needs in accordance with locally-determined priorities, within relatively 'loose parameters' set by central government. Such a belief, of course, is located in a broader 'world-view' or paradigm comprising sets of inter-related political values and beliefs which condition the perception and analysis of problems.

A further important 'belief-conflict' which underlies the dispute about effectiveness in meeting local transport needs goes to the heart of the conflict in 'world-views' between the present Government and many of the local authorities which have responsibility for dealing with urban transport problems. Essentially, this conflict relates to the extent to which it is believed that transport services and facilities in urban areas should be provided in accordance with market principles or, alternatively, should be planned in accordance with need as assessed by local authorities. The Government's belief in market principles is reflected in the deregulation of local bus services and in the introduction of the requirement for car parking facilities to be self-financing and, where possible, provided by the private sector. In addition, moves are being made by the Government to promote involvement of the private sector in the construction of new roads and in urban rapid transit systems with

user charges playing an increasing role in the financing of investment. These moves involve an increase in the role of consumer's demand in the determination of the requirement for urban transport services and facilities at the expense of the role of the needs of local communities as assessed by elected local authorities.

There is considerable opposition amongst many urban authorities to the Government's moves to introduce market principles in urban transport. Such opposition has a basis in economic arguments concerning 'market failure' primarily in situations where there are substantial 'externalities' and such arguments lie behind the notion that the integrated and co-ordinated planning of land use and transport development in urban areas should be undertaken by local authorities in order to achieve a socially efficient use of resources. Additional support for such an approach is provided if equity considerations are introduced relating to the provision for the needs of those who have insufficient resources to participate adequately in the market.<sup>101</sup> This perspective, in fact, underpinned the move towards integrated local transport planning during the late 1960s and early 1970s manifested in the 1968 Transport Act and the introduction of the TPP/TSG system in 1975. As indicated above it provides the basis for criticism of the 1983 Transport Act and the reform of the TPP/TSG system from 1985/86 as eroding the capacity for local authorities to formulate integrated and co-ordinated plans for the development of local transport services and facilities to meet the perceived needs of the communities they represent, in which public transport in particular can be supported to achieve objectives expressing the broader economic and social welfare of those communities.

The resolution of this 'market versus planning' dimension of the conflict is only partly a 'technical' matter. Thus, it is possible to analyse the effect of the introduction of market approaches to the solution of urban transport problems in terms of defined objectives relating to efficiency and equity considerations. However, in our view the dispute is again ultimately based upon conflict between belief systems within broader world-views which are largely impervious to empirical refutation: it is basically a question of ideology.<sup>102</sup>

Therefore, in considering the way forward to achieving a more effective approach to addressing local transport problems and needs, we come up against a fundamental difference in perspective which can be seen as underpinning tension in central-local relations but which confounds objective resolution. Two conflicting belief-systems are involved. The first 'central versus local' conflict concerns beliefs about the desirable balance between central government control and local government autonomy and discretion. The second 'market versus planning' conflict concerns beliefs about the desirable balance between the role of consumers' demand in the market as opposed to assessments of need by elected local authorities in the provision of local transport facilities and services.

Although it would be erroneous to attribute to local government a uniform perspective or set of beliefs, it is nevertheless probably valid to characterise local government as having an interest in preserving the maximum degree of local autonomy and discretion in resource allocation decisions and in promoting local planning to meet needs as opposed to market approaches to service provision. There would, however, be some dispute between authorities on the latter dimension relating to the local authorities' role in service delivery as opposed to service planning. Nevertheless, there is a real basis for continuing tension and conflict between central and local government which will obstruct moves to improve effectiveness in the treatment of local transport problems. Our view of a desirable approach to the road maintenance problem embodied, in effect, compromises by central and local government which assume some resolution of the 'central versus local' dimension of conflict. More generally, it is our view that the effective treatment of local transport problems, especially in urban areas, requires a reinstatement of the concept of integrated and co-ordinated planning on the basis of need which assumes a balance on our two dimensions of conflict involving more 'local autonomy' and more 'planning for need' than is implied in the present policies of the Government.

## Notes on Text

- 1 Jones and Stewart (1983), Rhodes (1984)
- 2 Department of the Environment (1975)
- 3 Boddy (1984)
- 4 Information was provided by 9 shire counties and 4 metropolitan districts as follows: Avon CC, Cheshire CC, Cleveland CC, Cornwall CC, Hereford and Worcester CC, Kent CC, Norfolk CC, Nottinghamshire CC, Oxfordshire CC, Manchester City Council, Sheffield City Council, Birmingham City Council, Solihull MDC. The assistance of these authorities is gratefully acknowledged.
- 5 The findings and conclusions of the research are reported in full in four working papers available from the Institute for Transport Studies, University of Leeds:  
"The Impact of Central Government Policies on Local Authorities' Transport Expenditure and Provision":
  1. Review of Changes in Government Policies since 1979, WP 256
  2. Analysis of Trends in Local Transport Expenditure since 1979, WP 261
  3. Roads Capital Expenditure and Transport Supplementary Grant since 1985/86, WP 268
  4. The Maintenance of Local Roads, WP 270
- 6 Department of the Environment (1973)
- 7 Mackie (1980) p188
- 8 *ibid*
- 9 *ibid* p198-202
- 10 Department of the Environment (1975) para 15
- 11 Loughlin (1983) p283
- 12 eg. Travers (1986); Page (1986); Meadows (1985)
- 13 Meadows *op cit.* p147
- 14 *ibid*, Travers (1986) p83-4; Gibson (1982) p16-17
- 15 Full descriptions of the block grant system are provided in the annual Rate Support Grant Orders published by the Department of the Environment; also Dept. of Environment (1986a) Annex 13; Audit Commission (1984); House of Commons Public Accounts Committee (1985)
- 16 Full descriptions of the capital expenditure control system are provided in Audit Commission (1985) and Department of the Environment (1986a)
- 17 Greenwood (1982) p63-4; Smith and Stewart (1985)
- 18 Travers (1986) p145
- 19 *ibid.* Chapter 9
- 20 Department of Environment (1984-86) Rate Limitation Reports
- 21 Oppenheim (1987) p45
- 22 Department of the Environment (1988); see below section 5
- 23 Sources of data are CIPFA Statistical Information Service (Highways and Transportation Statistics), Department of Transport and the Government's Public Expenditure White Papers
- 24 Loughlin (1983)
- 25 Department of Transport (1983)
- 26 *ibid.*
- 27 Loughlin (1986) p183-4
- 28 Loughlin (1983)
- 29 Department of Transport (1987B) para 37

30 H M Treasury (1983) p30  
31 House of Commons Transport Committee (1984) paras 31-2  
32 Mackie (1987) p108  
33 Smith and Stewart (1985) p30  
34 South Yorkshire MCC Revenue Budget 1984/5; Rate Support  
Grant Report 1984/85, DOE  
35 Department of the Environment (1983)  
36 ibid. Chapter 1  
37 ibid. para 1.19  
38 Flynn et al (1985) p109-11; Hampton (1987) p201  
39 Coopers and Lybrand (1983)  
40 Flynn et al (1985) p ix-x  
41 Mackie (1987) p110-1  
42 Department of Transport (1985)  
43 Mackie (1987) p112-5  
44 House of Commons Transport Committee (1980-87)  
45 op cit (1981) para 33  
46 op cit (1982), (1983)  
47 British Road Federation (1983A) (1983B) (1984)  
48 House of Commons Transport Committee (1984)  
49 Department of Transport (1984) para 2  
50 ibid. paras 3-7  
51 Department of Transport (1982) paras 3-4, 10  
52 Department of the Environment (1986a) para 6.16  
53 H M Treasury (1987) p392-3  
54 H M Treasury (1988) p135  
55 Department of Transport (1987A, 1987B)  
56 H M Treasury (1986) p136  
57 H M Treasury (1987) p141  
58 Department of Transport (1987B) p24-5  
59 H M Treasury (1988) p131, 133  
60 Department of Transport (1987A, 1987B)  
61 Department of Transport (1987B) para 2  
62 Department of Transport (1987A) para 2.4  
63 Department of Transport (1987B) para 38  
64 Department of Transport (1987A) para 2.5  
65 ibid. para 2.12  
66 ibid. para 2.13  
67 Department of Transport (1988)  
68 See Section 2.2 above  
69 Data for this analysis was provided by the Department of  
Transport  
70 Such an analysis makes the assumption that TPP bids reflect  
a careful assessment of authorities' problems and needs.  
However, we recognise that authorities' bids can also be  
influenced by pragmatic considerations not directly related  
to expenditure needs and, therefore, caution is required in  
interpreting the analysis.  
71 CIPFA (1988)  
72 ibid.  
73 Sheffield City Council, 1988/89 TPP Submission, para 2.23  
74 Cleveland County Council, Report of County Treasurer,  
Revenue Budget 1987/88, para 26.13  
75 See above note 4  
76 See reviews in Mackie and Simon (1984, 1986) and Vanke  
(1988); see also McArthur and McGregor (1987) p129  
77 Paterson and May (1981)  
78 House of Commons Transport Committee (1983) para 46

- 79 *ibid.* paras 198, 202
- 80 H M Treasury (1988) p133
- 81 British Road Federation (1987) p1
- 82 Audit Commission (1988B) para 16
- 83 House of Commons Transport Committee (1983A) paras 50-72;  
Associations of County and District Councils (1983) paras  
8.1-8.11
- 84 Horne (1985)
- 85 Department of Transport (1987B) Table 1.21
- 86 Standing Committee on Highways Maintenance (1987A), (1987B)
- 87 Audit Commission (1988A) paras 49-50
- 88 See above section 2.4
- 89 H M Treasury (1983) p30
- 90 Data supplied by DTp
- 91 Associations of County and District Council (1983) para 10.4
- 92 Associations of County, District and Metropolitan Councils  
(1983)
- 93 House of Commons Transport Committee (1984) para 28
- 94 H M Treasury (1986) para 3.8.59
- 95 Avon County Council, 1987/88 TPP Submission, para 6.16
- 96 West Midland Regional Forum (1987)
- 97 H M Treasury (1988) para 8.51; see above section 4.1
- 98 Audit Commission (1988A), (1988B)
- 99 Department of the Environment (1986); Gibson (1987);  
Oppenheim (1987)
- 100 Department of the Environment (1988)
- 101 LeGrand and Robinson (1984); Gordon (1982)
- 102 Gordon op cit p166

FIGURE 1a

REVENUE SUPPORT: TPP BIDS, PROVISION AND OUTTURN  
ENGLAND 1979/80-1987/88

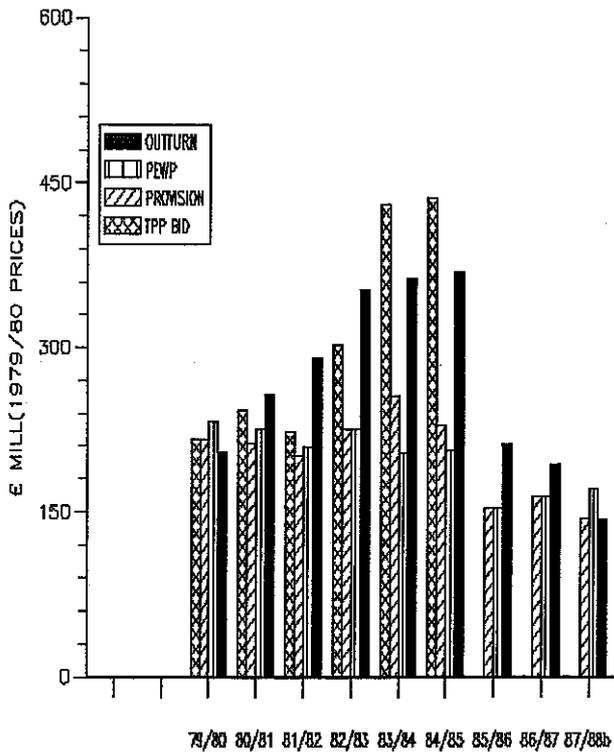


FIGURE 1b

REVENUE SUPPORT: TPP BID, PROVISION AND OUTTURN  
GLC 1979/80-1984/85

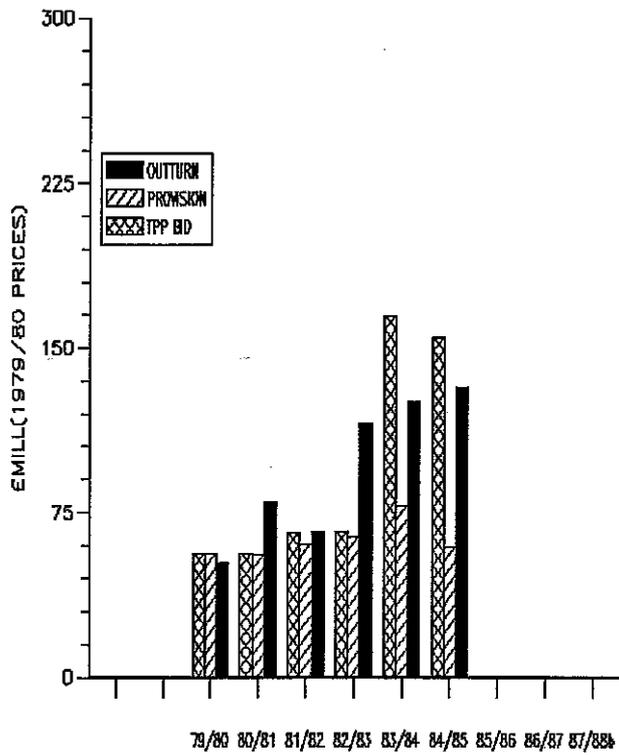


FIGURE 1c

REVENUE SUPPORT: TPP BID, PROVISION AND OUTTURN  
METROPOLITAN COUNTIES 1979/80-1987/88

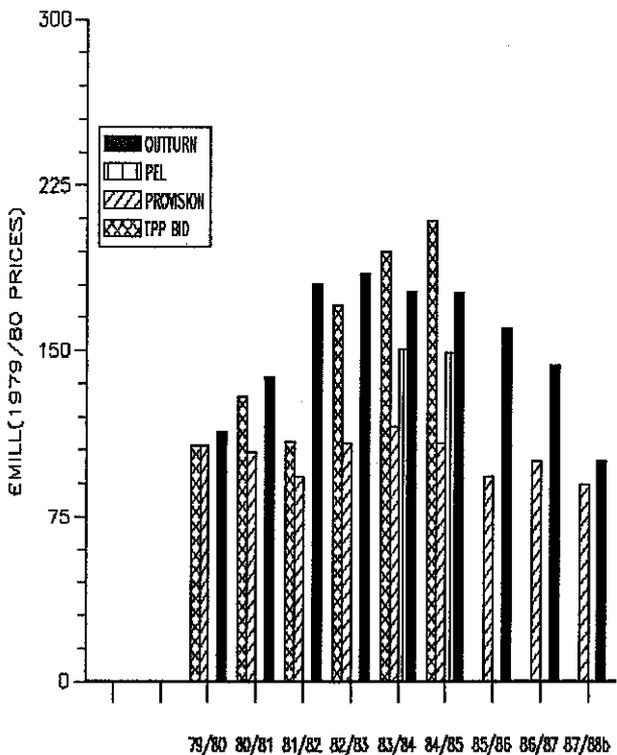


FIGURE 1d

REVENUE SUPPORT: TPP BID, PROVISION AND OUTTURN  
SHIRE COUNTIES 1979/80-1987/88

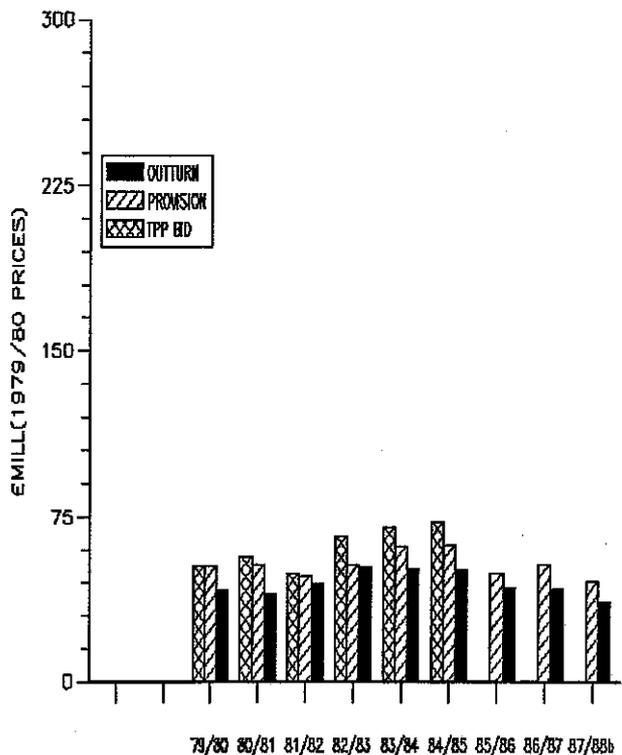


FIGURE 2

LOCAL ROAD MAINTENANCE EXPENDITURE AND PROVISION

ENGLAND 1979/80-1987/88

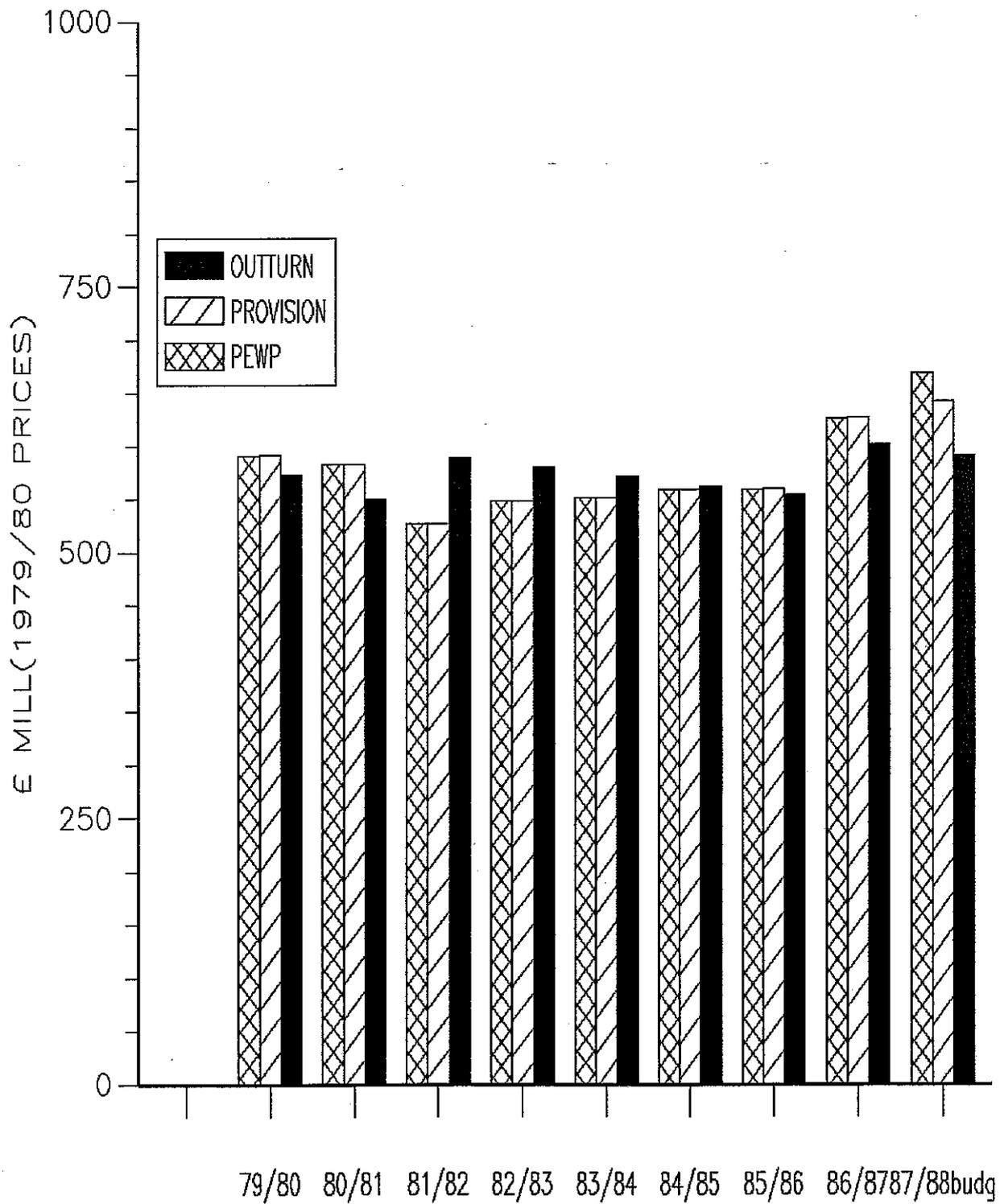


FIGURE 3a

LOCAL TRANSPORT CAPITAL EXPENDITURE: ENGLAND 1981/82-1987/88

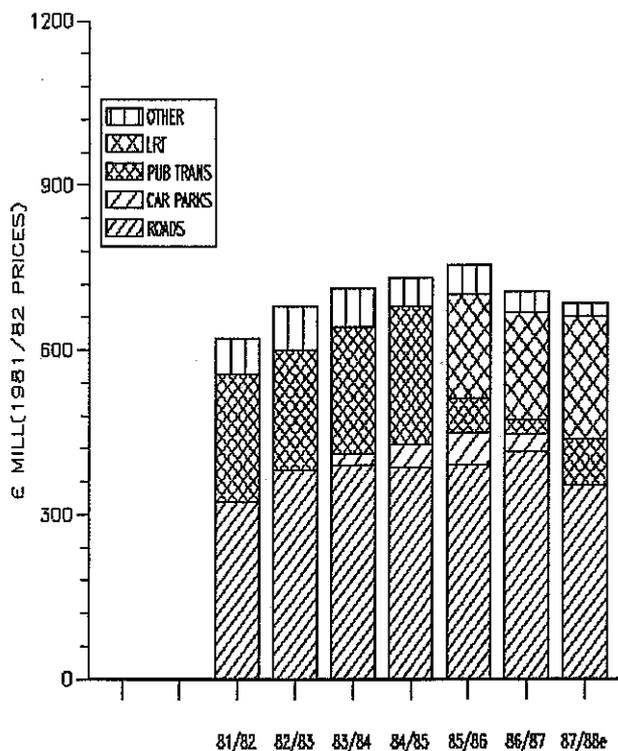


FIGURE 3b

LOCAL TRANSPORT CAPITAL PROVISION: ENGLAND 1981/82-1987/88

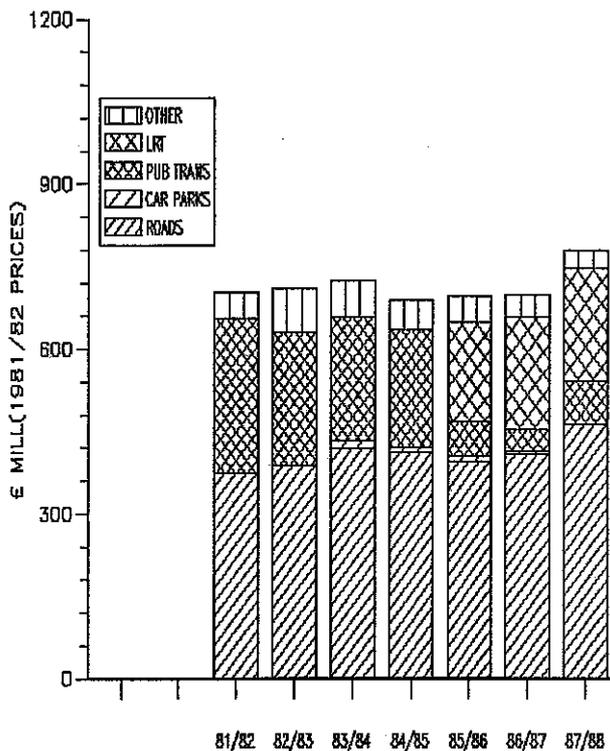


FIGURE 3c

LOCAL TRANSPORT CAPITAL EXPENDITURE V PROVISION  
1981/82-1987/88

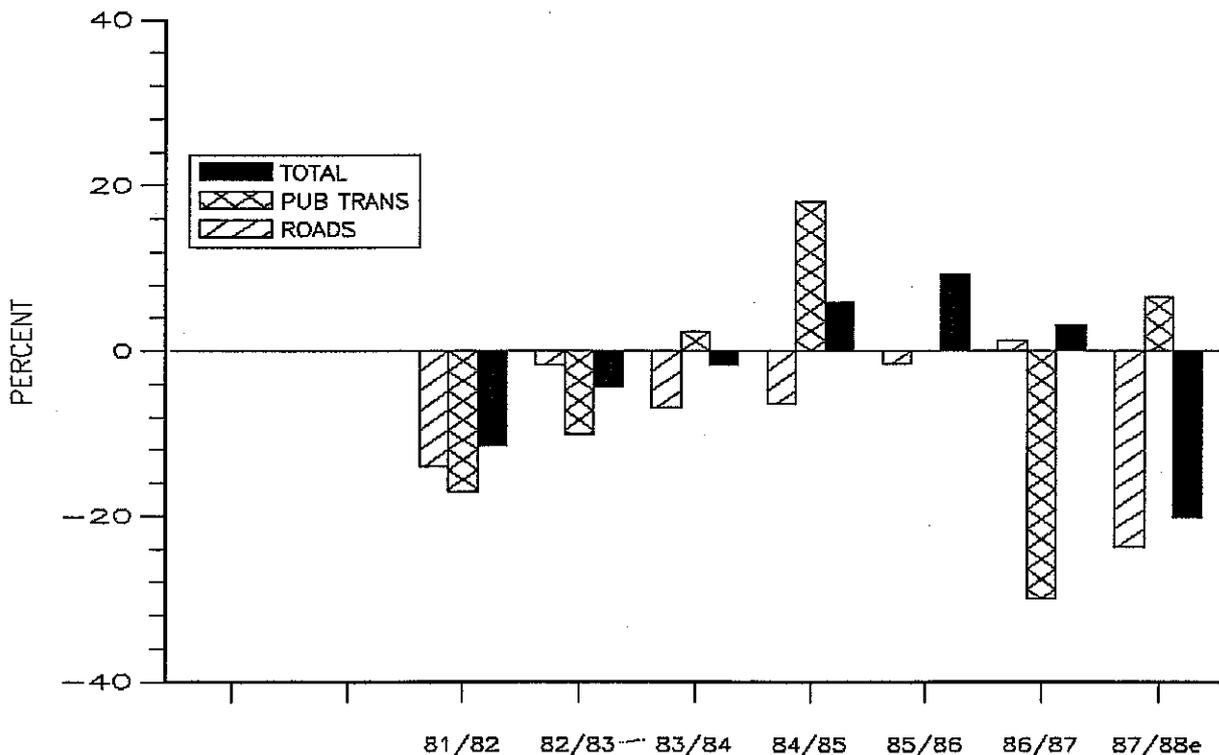


FIGURE 4a

ROADS CAPITAL PROVISION: TSG-ACCEPTED AND ALLOCATION  
ENGLAND 1985/86-1988/89

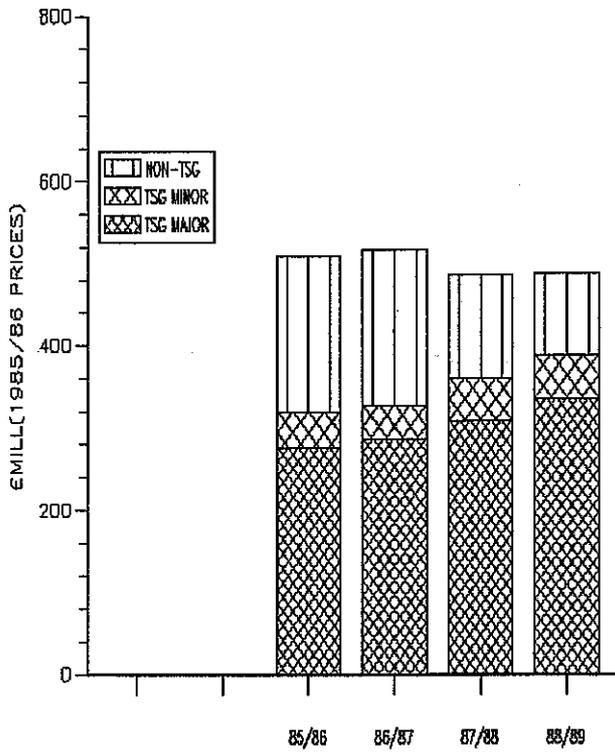


FIGURE 4b

ROADS CAPITAL PROVISION: TSG-ACCEPTED AND ALLOCATION  
LONDON 1985/86-1988/89

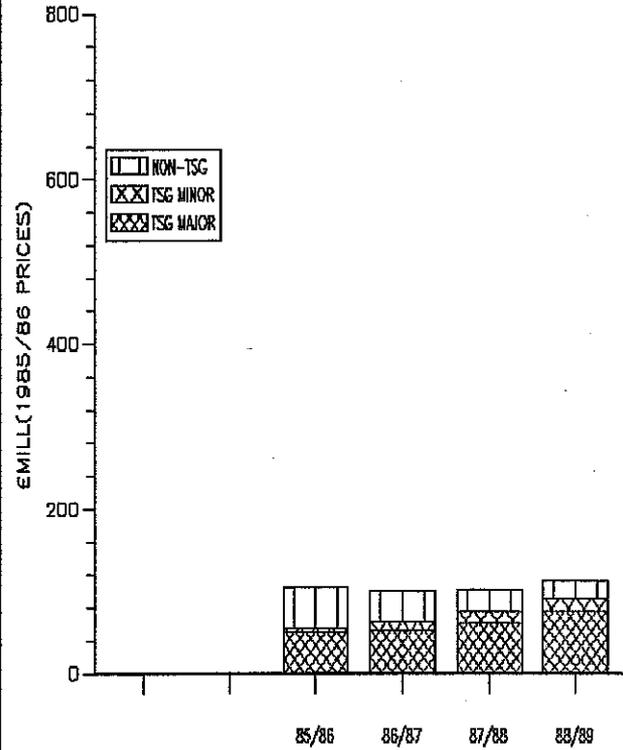


FIGURE 4c

ROADS CAPITAL PROVISION: TSG-ACCEPTED AND ALLOCATION  
METROPOLITAN AREAS 1985/86-1988/89

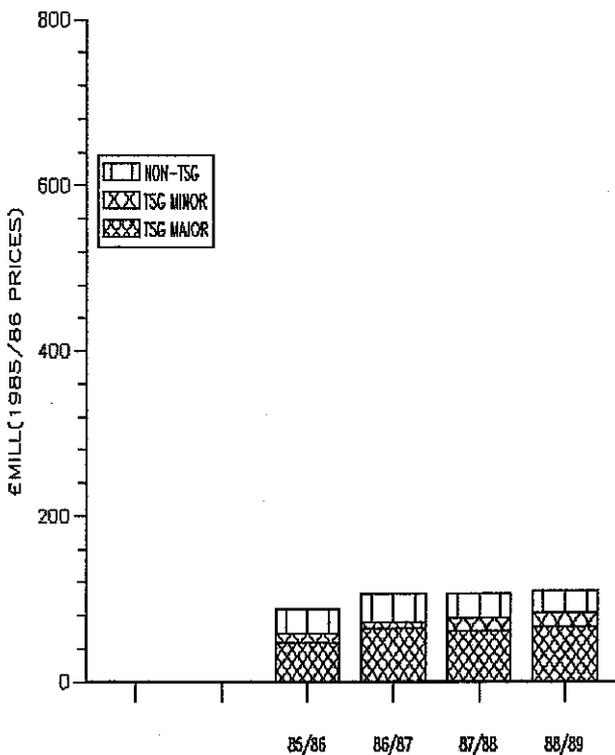


FIGURE 4d

ROADS CAPITAL PROVISION: TSG-ACCEPTED AND ALLOCATION  
SHIRE AREAS 1985/86-1988/89

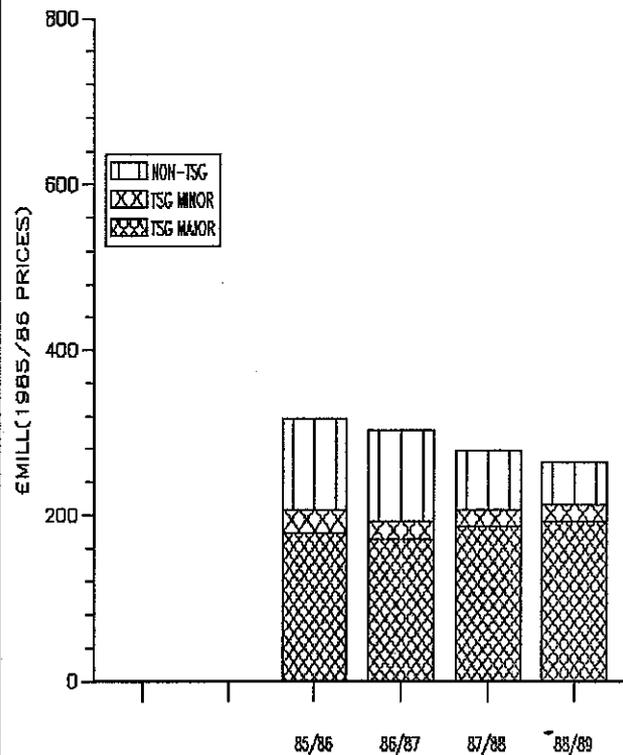


FIGURE 5a  
 LOCAL AUTHORITY CAPITAL EXPENDITURE  
 CAPITAL PAYMENTS BY SERVICE 1986/87

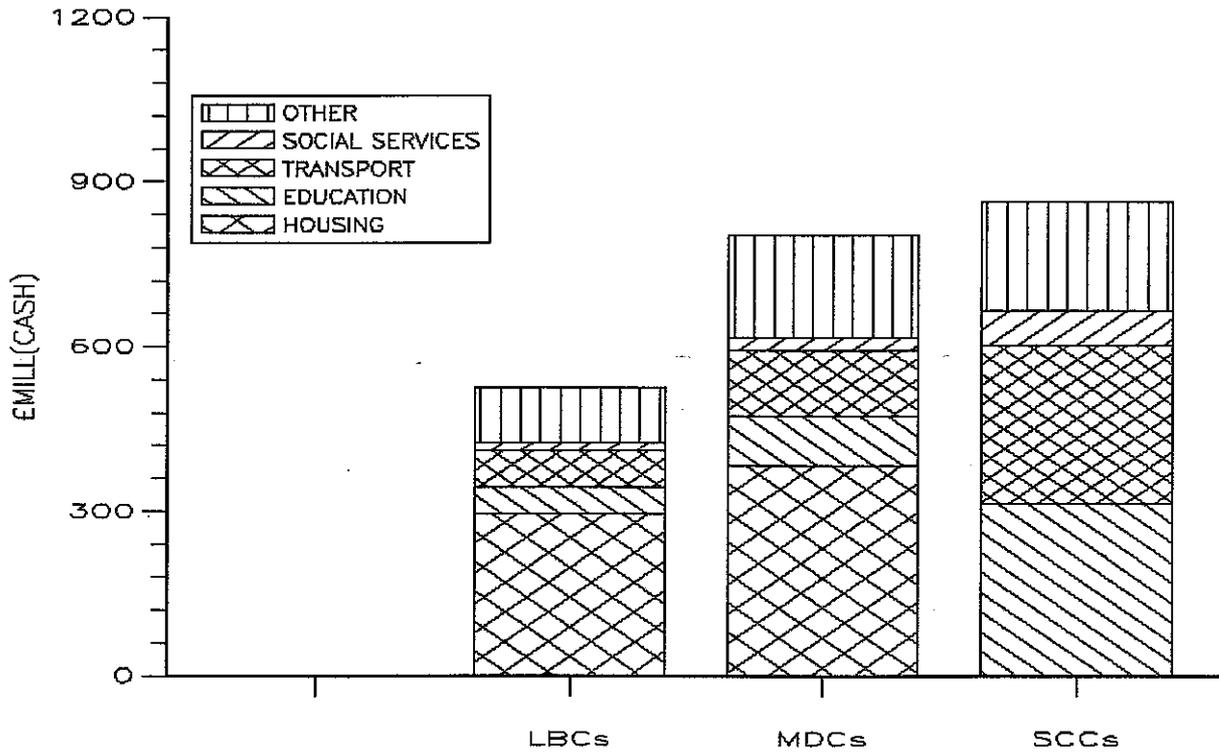


FIGURE 5b  
 LOCAL AUTHORITY CAPITAL EXPENDITURE  
 CAPITAL RECEIPTS BY SOURCE 1986/87

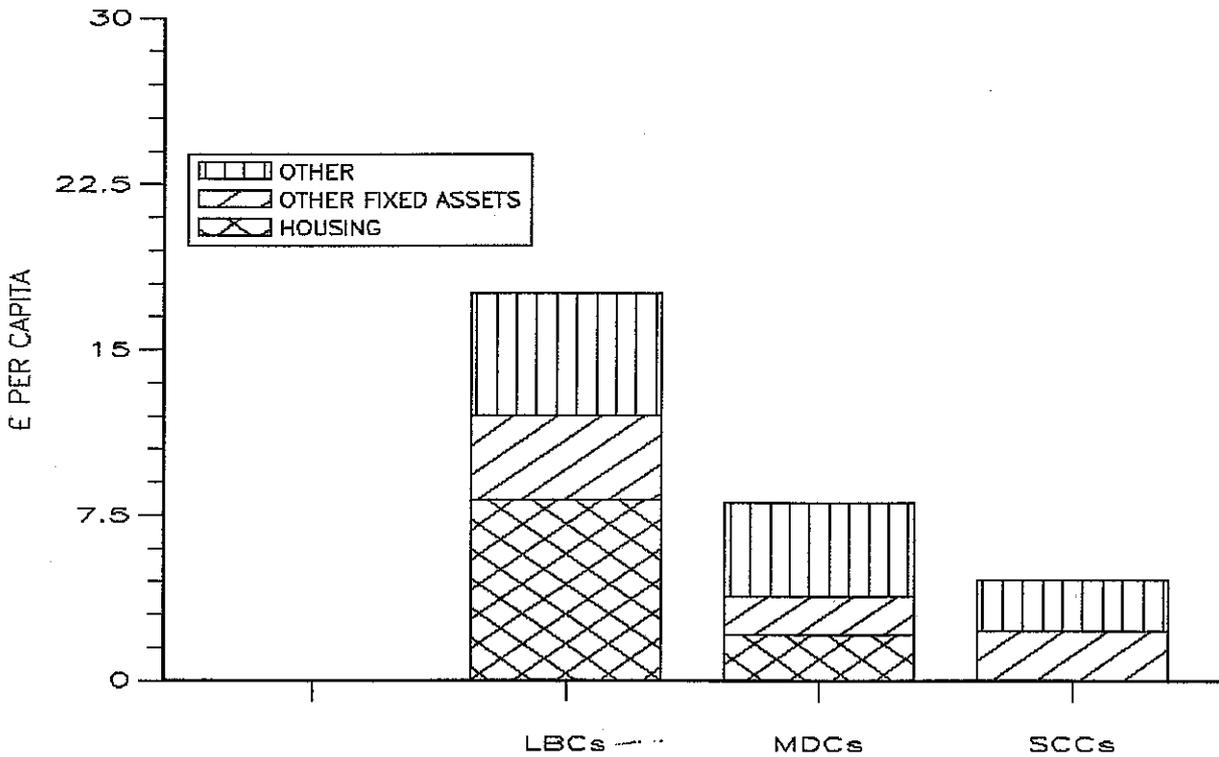


FIGURE 6

ROADS CAPITAL EXPENDITURE COMPARED WITH ALLOCATION

TOTAL SAMPLE 1986/87-1987/88

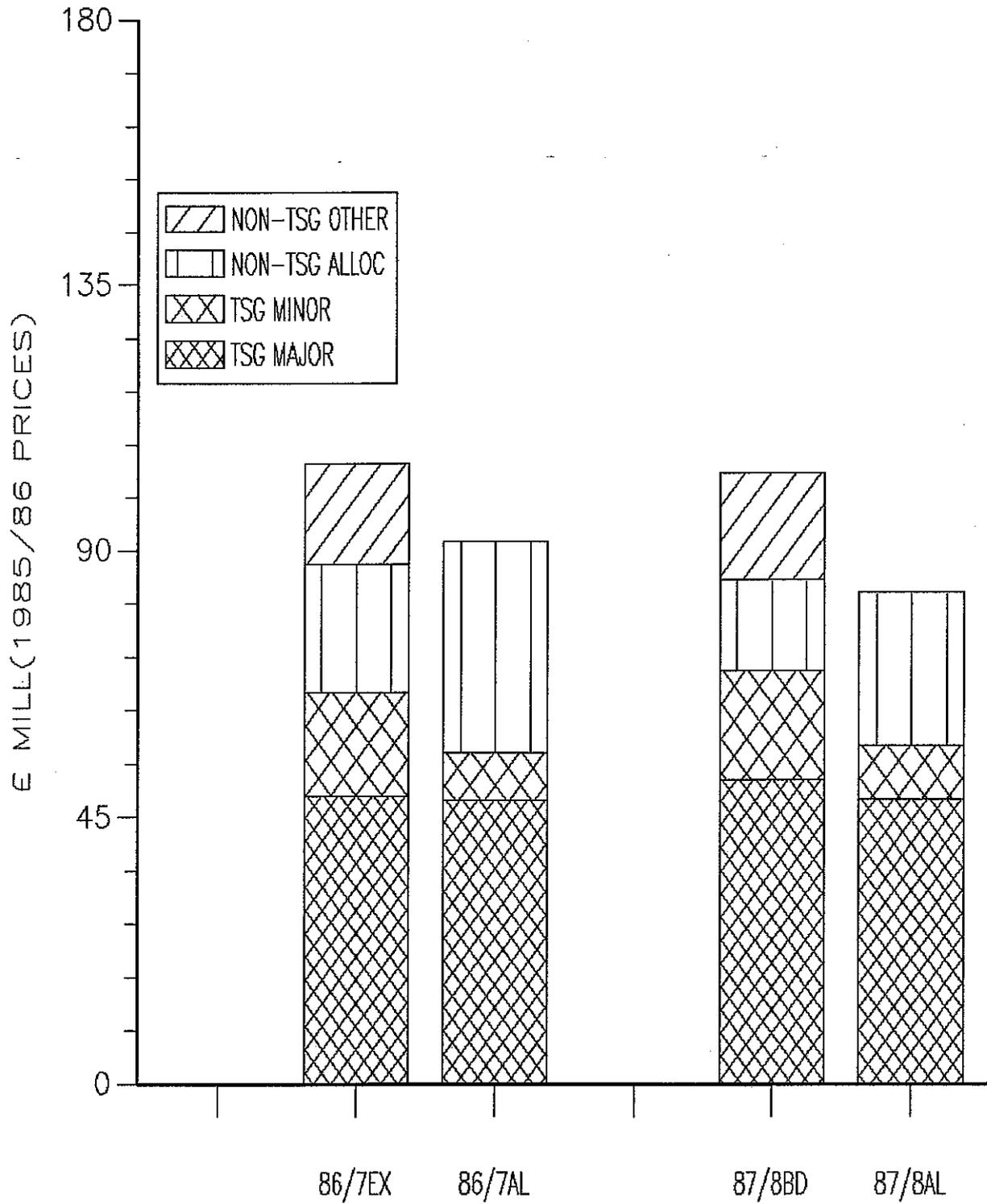


FIGURE 7a

LOCAL ROAD MAINTENANCE EXPENDITURE AND PROVISION  
ENGLAND 1981/82-1987/88

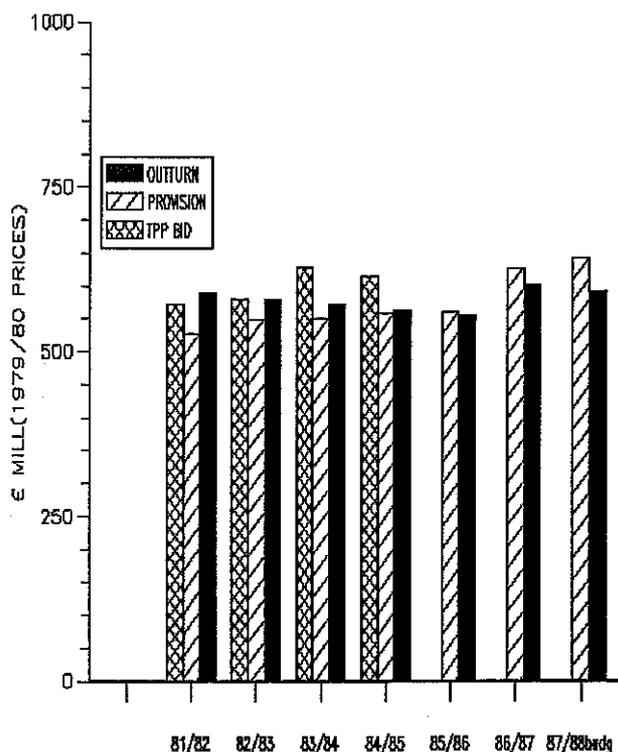


FIGURE 7b

LOCAL ROAD MAINTENANCE EXPENDITURE AND PROVISION  
LONDON 1981/82-1987/88

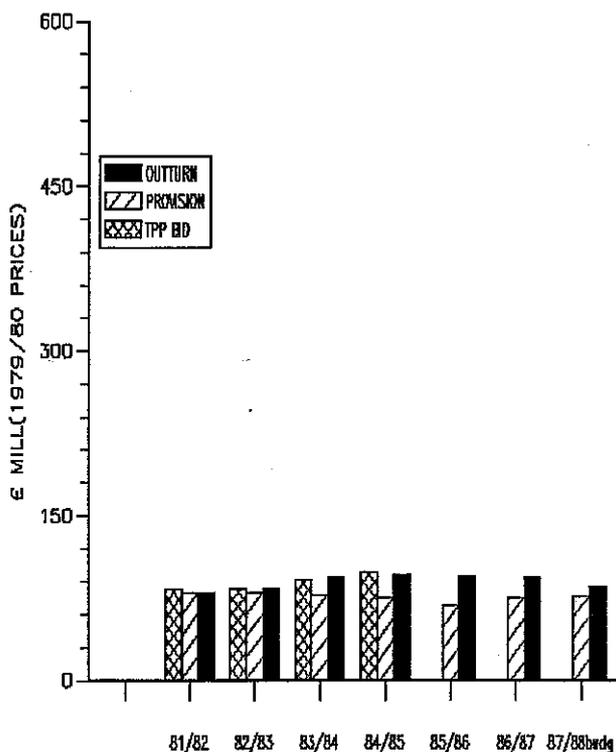


FIGURE 7c

LOCAL ROAD MAINTENANCE EXPENDITURE AND PROVISION  
METROPOLITAN AREAS 1981/82-1987/88

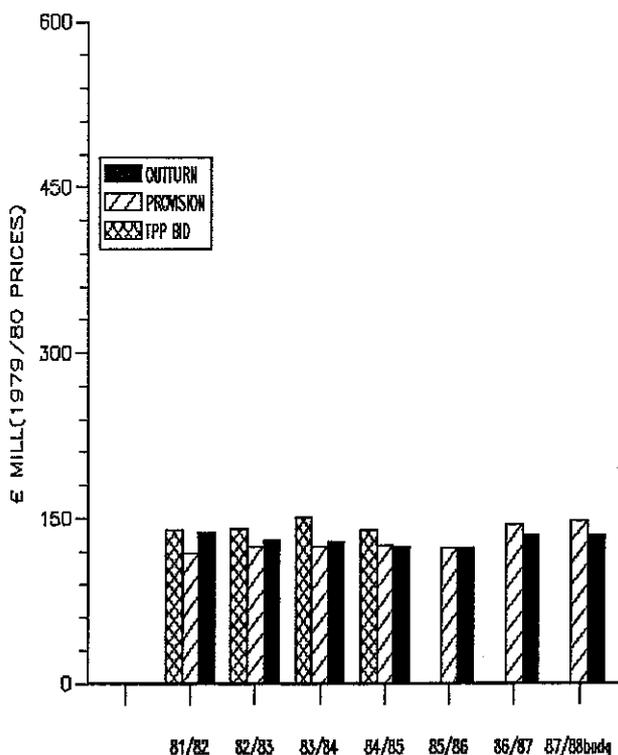
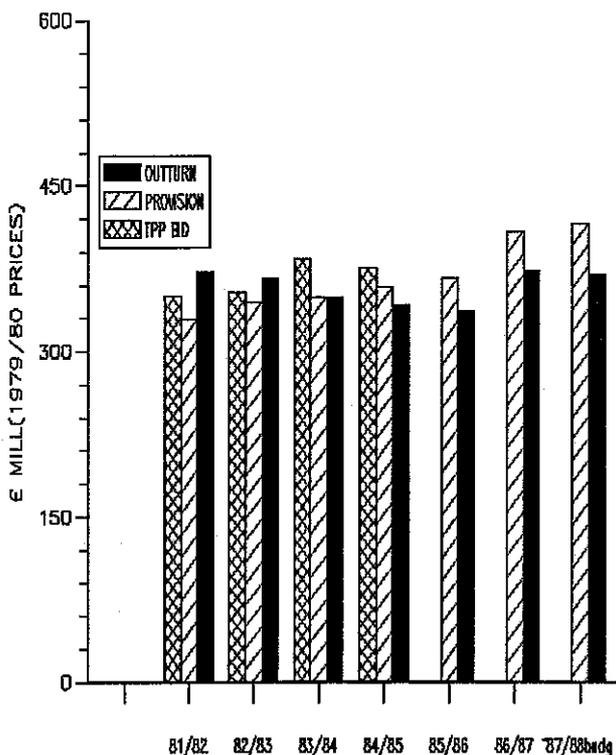


FIGURE 7d

LOCAL ROAD MAINTENANCE EXPENDITURE AND PROVISION  
SHIRE AREAS 1981/82-1987/88



## Notes on Figures

### General

1. Deflation of expenditure data to constant prices in general has been effected using the GDP market price deflator except in the case of roads current expenditure where the DTp's maintenance and lighting price index has been used (data on these indices is published in 'Economic Trends' and 'Transport Statistics Great Britain' HMSO).
2. All data relates to local authorities in England.

### Figure 1

1. 'Outturn' : outturn expenditure  
'PEWP' : expenditure provided for by the Government in the annual Public Expenditure White Paper  
'Provision' : a) up to 1984/85 expenditure accepted by the DTp for TSG support  
b) since 1985/86 grant-related expenditure (GRE) for current expenditure on passenger transport  
'TPP Bid' : sum of local authorities' bid expenditures for TSG submitted in annual TPPs  
'PEL' : Protected Expenditure Levels specified by the Secretary of State for the metropolitan areas under the terms of the 1983 Transport Act
2. Figures since 1985/86 exclude expenditure by London Regional Transport which took over responsibility for public transport from the GLC.
3. Sources : a) CIPFA Highway and Transportation Statistics 1979/80-1984/85  
b) Dept of Environment GRE 'Green Books' 1985/86-1987/88  
c) Data supplied by Dept of Transport  
d) H.M. Treasury (1981-1988)

### Figure 2

1. See note 1 to Figure 1; as regards 'provision' the relevant GRE is the sum of normal and winter maintenance and street lighting.
2. Source : See note 3 to Figure 1

### Figure 3

1. 'Other' : expenditure on ports, airports and urban

programme

- 'LRT' : investment expenditure (including renewals) by London Regional Transport
  - 'Pub Trans' : expenditure on public transport by local authorities only including grants to British Rail for rolling stock renewal in the metropolitan areas and, from 1986/87, excluding internally-generated capital financing by bus undertakings
  - 'Roads' : construction and improvement of local authority roads; includes car parking in 1981/82, 1982/83 and 1987/88
2. Source : H.M. Treasury (1981-1988)

Figure 4

1. 'TSG Major' : accepted expenditure on major works (>£1m) eligible for TSG support since 1985/86
- 'TSG Minor' : accepted expenditure on minor works (<£1m) eligible for TSG support since 1985/86
- 'Non TSG' : provision through capital allocation for expenditure on schemes not eligible for TSG support since 1985/86
2. Source : data provided by Dept of Transport

Figure 5

1. Data in each local authority class relate to those authorities submitting returns to CIPFA as follows:
- 'LBC's' : London Borough Councils (23 out of 33 incl City)
  - 'MDC's' : Metropolitan District Councils (30 out of 36)
  - 'SCC's' : Shire County Councils (38 out of 39)
2. Source : Chartered Institute of Public Finance and Accountancy, CIPFA (1988)

Figure 6

1. This figure compares roads expenditure with capital allocation and TSG - accepted expenditure in 1986/87 and 1987/88 for the total sample of authorities included in the study (see note 4 on text).
2. Expenditure data is outturn in 1986/87 (86/87EX) and budget in 1987/88 (87/8BD).
3. 'TSG Major' : expenditure on major works (>£1m) eligible

for TSG support

'TSG Minor' : expenditure on minor works (<£1m) eligible for TSG support

'Non TSG Alloc': expenditure on schemes not eligible for TSG support within the roads capital allocation

'Non TSG Offer': expenditure on non-TSG works in excess of roads capital allocation.

4. Source : data provided by Dept of Transport and by individual authorities.

Figure 7

1. For definitions : see note 1 to Figure 1 and Figure 2

2. Source : see note 3 to Figure 1

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