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

2: Analysis of Trends in Local Transport Expenditure Since 1979

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1. Introduction

1.1 Background

This report presents results from the second stage of a research project, funded by the Rees Jeffreys Road Fund, which aims to assess the impact of recent changes in central government policies and powers in relation to local government finance upon local authorities' transport expenditure and outputs and upon their approach to addressing local transport problems and needs. A previous Working Paper (Sanderson, 1988) reviews relevant changes in government policies and financial control mechanisms and identifies major research issues. The results presented in the present report derive from an analysis of data on trends in local authorities' transport expenditure relative to Government's spending plans and expenditure provisions over the period since 1979/80 which attempts to identify the impact of changes in government policies and controls. Conclusions from this analysis will provide the basis for a more detailed examination of information relating to a small sample of local authorities from which a better understanding of cause-effect relationships will be obtained. The results from this latter stage of the research will be published in a third working paper.

1.2 Research Focus

As indicated in our previous report (Sanderson, 1988, p 49-51) the central focus of our research is on the change in the Transport Supplementary Grant (TSG) system announced in 1984 which restricted TSG support from 1985/86 to capital expenditure in respect of road schemes 'of more than local importance', specifically "... investment on roads which form part of the primary route network of major through routes, important urban roads, and bypasses and relief roads which relieve communities of the effects of heavy through traffic" (Department of Transport, 1984, para 2). However, it is considered that this change should be examined in the context of a wide range of measures introduced by the Conservative Government since 1979 affecting local government finance in general, and the financing of local transport expenditure in particular. A consistent theme, with both economic and political dimensions, can be seen as running through these changes from the Local Government Planning and Land Act 1980, through the Local Government Finance Act 1982, the Rates Act 1984, the Transport Acts of 1983 and 1985, the Local Government Act 1985, and culminating in the Government's present proposals for the abolition of domestic rates and reform of the grants system, already on the Statute Book in respect of Scotland. These legislative measures can be seen as representing concrete manifestations of the Government's broader economic and political programme for Britain in which the objectives of reducing the role of the public sector and, conversely, providing the conditions for a flourishing and profitable private sector, produce major implications for local government, its role, responsibilities and financing (cf. Sanderson, 1988).

The specific measures which have been introduced since the early 1980s affecting the scale and pattern of local authority expenditure can be summarised as follows (see Sanderson op cit for a full discussion):

a) the introduction of the block grant system in 1981/82, following the Local Government Planning and Land Act 1980, with grant distribution based upon the new GRE methodology;

b) deriving from the same legislation, and also introduced in 1981/82, a new system of control over capital expenditure which replaced 'loan sanctions' with expenditure allocations for service blocks, thus shifting the focus of control from borrowing to actual spending;

c) the super-imposition on the basic block grant system of expenditure targets and grant penalties, which operated with increasing severity up to 1985/86, being replaced in 1986/87 by a modification to the 'grant-related poundage' schedule in the basic block grant formula;

d) the introduction of the 'selective rate limitation scheme' ('rate-capping') in 1985/86, following the Rates Act 1984, which provided for direct control by the Secretary of State of the expenditure levels of those authorities whose expenditure is considered to be 'excessive and unreasonable';

e) following the successful legal challenge by Bromley Council to the GLC's 'Fares Fair' policy and the consequent 1983 Transport Act, the designation by the Secretary of State of 'Protected Expenditure Levels' (PELs) relating to public transport revenue support in the metropolitan areas;

f) the transfer, in June 1984, of responsibility for public transport in London from the GLC to London Regional Transport, a nationalised industry whose financing is under the direct control of the Secretary of State;

g) the reform of the Transport Supplementary Grant (TSG) system from 1985/86 so as to terminate supplementary support for local transport current expenditure and restrict TSG to 'highways capital expenditure which is of more than local importance';

h) the abolition, in March 1986, of the GLC and the Metropolitan County Councils and the transfer of responsibility for public transport in the Metropolitan Counties to 'joint board' PTAs whose expenditure for the first three years of their existence is subject to direct control by the Secretary of State via the designation of 'Expenditure Levels' (ELs) and precept limits;

i) the deregulation of local bus transport from October 1986, producing a requirement for local authorities to subject to competitive tender the 'supported services' which they wish to secure over and above the 'commercial services' provided by private bus operators;

j) recent changes to the capital control system which, from 1987/88, incorporate assumptions about the use of local authorities' accumulated capital receipts in the designation by the Government of capital allocations and their relationship to provision.

Taken together with the Government's present proposals to replace domestic rates with a per capita 'community charge', to introduce central control over the level and distribution of non-domestic rates, and to replace the present block grant with a 'needs grant' supplemented by a per capita 'standard grant', the measures introduced since 1980 can be seen as effecting a significant increase in the degree of central control over local government expenditure. In terms of assessing the implications of these changes for local transport expenditure and provision we are clearly presented with an extremely complex task due to the coincidence and interaction of the effects of a number of different measures.

As indicated above, our research focusses, in particular, upon the reform of the TSG system in 1985/86 and it is obvious that this was introduced into a complex and changing context of measures with expenditure consequences. Thus, for example, when looking at the impact of the loss of TSG support for transport current expenditure and the full incorporation of such expenditure within the block grant system in 1985/86, the operation of the system of expenditure targets and penalties and the first year of the rate-capping system have to be examined; revenue support for public transport in London had ceased to be a local authority responsibility. The picture is complicated the following year by the ending of specific targets and penalties and by the abolition of the GLC and metropolitan county councils, with highways current expenditure transferring to the boroughs and districts but public transport current expenditure in the metropolitan counties becoming the responsibility of the PTAs. From October 1986 expenditure on public transport in all areas was affected by bus deregulation. The capital expenditure picture is similarly complicated, additionally by the inclusion in transport capital provision from 1987/88 of an assumed proportion of local authorities' capital receipts accumulated from previous years under the 'cascading' system.

1.3 Structure of Report

In this report the analysis is divided into two main parts. First (in Section 2), we examine trends in local transport expenditure and provision up to 1984/85 in order to provide an understanding of the context in which the Government decided to reform the TSG system. Second, (in Section 3) we look at trends since 1984/85 in order to derive an assessment of the way in which the reformed TSG system has operated in the context of the wider expenditure control systems. In conclusion (Section 4) we draw together the main findings and identify specific issues on which the next stage of our research will focus.

2. Trends in Local Transprt Expenditure to 1984/85

2.1 Introduction

In this section we examine trends in transport expenditure by local authorities over the period 1979/80 to 1984/85 compared with trends in provision for such expenditure made by the Government in the context of the annual public expenditure planning system and published each year in the Public Expenditure White Paper. In addition, the Government's plans for local transport expenditure are reflected in the annual TSG settlement, which provides authorities with TSG on the basis of 'accepted expenditures', which also reflect the Government's expenditure plans. In general terms, when we use the term 'provision' we refer to the Government's plans as published in the Public Expenditure White Paper. The purpose of analysing trends up to 1984/85 is to provide an understanding of the context in which the reform of the TSG system took place, discontinuing supplementary grant support for current expenditure on road maintenance, safety and public transport revenue support and restricting it to capital expenditure on road schemes of more than local importance. In particular, we aim to derive an assessment of the role of TSG in explaining trends up to 1984/85 relative to the role of the broader systems for controlling local authorities' current and capital expenditure.

The first part of this section looks at trends in local authorities' current expenditure relative to the Government's provision up to 1984/85 in terms of two sub-periods (first, 1979/80 to 1982/83 and, second, 1982/83 to 1984/85) with a specific examination of the role of the block grant system, expenditure targets and grant penalties. Trends in capital expenditure are then analysed with particular focus on the capital expenditure control system. Finally, an attempt is made to assess the role of TSG in explaining the trends in the context of the broader expenditure control systems.

2.2 Current Expenditure

2.2.1 Trends Between 1979/80 and 1982/83

The trend in English local authorities' current transport expenditure since 1979/80 relative to the Government's planned provision is shown in Figures 2.1 - 2.3. Two distinct periods are evident in the trends to 1984/85. First, during the period 1979/80 to 1982/83 total current expenditure increased by 13% in real terms[1] while the Government's provision decreased by 12% reflecting the Government's attempts to reduce local authority spending in the context of broader measures to control public expenditure generally (Sanderson, 1988, p 9-11). Consequently, whereas there had been a slight underspend in 1979/80 (3.5%), by 1982/83 local authorities' transport expenditure was some 23% in

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1 Throughout this report 'real terms' expenditure data is derived using the GDP market price deflator except for road maintenance current expenditure for which a separate index is available : see Annex.

excess of provision. Most of the increase in expenditure up to 1982/83 was accounted for by support for public transport, which increased by 60%, and by concessionary fares (a 24% increase). On the other hand, the Government's spending plans provided for a decrease in such expenditure so that by 1982/83 spending on public transport revenue support was 63% in excess of provision, while the overspend on concessionary fares was 24%. Over this same period expenditure on road maintenance remained relatively constant in real terms while provision was decreased by some 7%, producing a 5.7% overspend in 1982/83. Administration (professional and technical services) was also substantially (c. 28%) overspent by 1982/83 in spite of a real terms reduction in spending of 14%, which failed to match the reduction in provision of 35%.

Therefore, it is apparent that between 1979/80 and 1982/83 the Government's efforts to control local authorities' current expenditure by decreasing provision (and Rate Support Grant) did not meet with success. Expenditure on public transport revenue support was responsible for much of the 'overspend problem' and, in particular, increased expenditure in London and Metropolitan Counties - up by 82% between 1979/80 and 1982/83 (see Figure 2.4).

The pattern of revenue support expenditure over this period is shown in more detail in Figures 2.5a - 2.5e. From Figure 2.5a it can be seen that, nationally, there was a steady decrease in provision in real terms between 1979/80 and 1981/82 contrasting with the steady increase in expenditure; however, in 1982/83 a small real terms increase in provision was made by the Government to allow for "... overspending in 1981-82 (which) means that local authorities will not be able to achieve the previously planned levels ..." (H M Treasury, 1982, p 24). Notwithstanding this 'concession' by the Government, expenditure increased substantially in real terms in 1982/83 so the overspend against provision in 1982/83 was 63% (compared with 44% the previous year).

Figures 2.5b - 2.5e show trends in London, the Metropolitan and shire areas comparing outturn expenditure with TPP bids and expenditure accepted for TSG. It can be seen that up to 1981/82 the 'overspend' problem (i.e. outturn expenditure relative to accepted expenditure) was attributable mainly to the metropolitan counties (MCCs) where a 59% increase in expenditure contrasted with a 13% decrease in the level of expenditure accepted for TSG, producing an 'overspend' against the latter of 94% (Figures 2.5c to 2.5e).

It can be seen that 1981/82 was the year in which revenue support expenditure in the MCCs moved seriously out of line with the Government's plans and this can be related clearly to the changes in political control in these authorities at the May 1981 local elections. Table 2.1 shows the changes in political control in four of the MCCs and the related substantial increases in outturn expenditure on revenue support over the budgets set by the pre-May 1981 administrations. Of course, these increases occurred at a time of substantial increases in unemployment and declines in revenue for the public transport undertakings in the metropolitan counties producing increased demands for subsidies to avoid fares increases.

Table 2.1

Changes in Political Control in May 1981 in the Metropolitan County Councils and Implications for Revenue Support Expenditure 1981/82

	Political Control				Revenue Support Expenditure
	1980		1981		1981/82
	Party	Majority[1] Factor	Party	Majority[1] Factor	Outturn % Original Budget
Greater Manchester	Con	3.08	Lab	2.79	+ 32.7
Merseyside	Con	2.09	Lab	1.25	+ 37.2
South Yorkshire	Lab	1.63	Lab	4.56	+ 6.4
Tyne and Wear	Lab	1.04	Lab	2.25	- 2.0
West Midlands	Con	3.16	Lab	2.47	+ 84.0
West Yorkshire	Con	1.51	Lab	2.52	+ 48.5

Note: [1] 'Majority Factor' = $\frac{\text{Seats of majority party}}{\text{Total of other seats}}$

Source: CIPFA Finance and General Statistics 1981/82; Highways and Transportation Statistics 1981/82; Municipal Yearbook 1982.

The degree of overspend in the MCCs decreased in 1982/83 as the rate of growth in expenditure moderated and was more than offset by the increase in 'accepted expenditure' of 16%. This latter increase can be related to the substantial increase in the TPP bid for revenue support by the MCCs in 1982/83, this being the first bid by the authorities following the political changes in May 1981.

The bids for 1981/82 by the previous administrations had been reduced in line with the new Conservative Government's guidance for TPP preparation which had indicated that the spending provision in the Public Expenditure White Paper should be taken as the basis for authorities' bids (Department of Transport, 1980, para 2). Nationally, the sum of revenue support bids exceeded provision by only 6.6% and in the MCCs 86% of the bid was accepted for TSG. However, following the change in political control in the MCCs there was clearly less inclination to conform to the Government's guidance for 1982/83 TPP preparation (again exhorting authorities to conform to the PEWP provisions) in the face of deteriorating trends in public transport patronage and the 1982/83 bids from these authorities were, in total, 57% up from 1981/82, compared with the 7.6% real terms increase in provision.

The pattern in London is rather different (Figure 2.5b and 2.5e). The GLC's expenditure on revenue support increased significantly in 1980/81 but, following the change in political control to

Labour in May 1981, expenditure actually fell in real terms in 1981/82. However, the effect of the cheap fares policy pursued by the new Labour Council is reflected in the 1982/83 outturn which was 81% in excess of the 'accepted expenditure' for that year. The substantial increase in the TPP bid in respect of revenue support came in 1983/84 one year later than in the MCCs, and in contradiction to increasingly specific guidance from the Government in respect of TPP preparation referring to the need to "... contain revenue support to public transport..." and indicating the Government's unwillingness to accept "... proposals for subsidies intended to implement generalised low fares policies." (Department of Transport, 1982, paras 3,10).

In contrast to the large urban areas, the picture in the shire areas is one of underspending on revenue support, although between 1980/81 and 1982/83 the degree of underspend against 'accepted expenditure' decreased significantly as increasing actual expenditure caught up with a relatively static 'accepted expenditure'. As in the MCCs, a significant increase in the TPP bids from the shire counties occurred in 1982/83 which, again, can be related to the impact of the economic recession on bus patronage.

As regards road maintenance (and safety), as indicated above, a modest overspend against provision nationally (5.7%) by 1982/83 was primarily due to a decrease in provision, particularly in 1981/82 (Figures 2.2 - 2.3). This trend is shown more clearly in Figures 2.6a - 2.6d. In 1981/82 London and the metropolitan areas suffered a real terms decrease in accepted expenditure of 15% and 13% respectively; in the shire areas it was 9.3%. These decreases followed reduced bids in 1981/82 in line with the Government's guidance for TPP preparation which reflected their broader concern to achieve reductions in public expenditure. Therefore, in 1981/82 there was a sizeable overspend against accepted expenditure compared to an underspend the previous year. Provision was increased by the Government in 1982/83 (as in the case of revenue support) in recognition of authorities' inability to meet the previously planned level, and this reduced the degree of ovespending. In London and the metropolitan areas the degree of overspend on maintenance was much lower than for revenue support and the marginal increase in real terms in the MCCs bids for road maintenance in 1982/83 (+ 1%) contrasts markedly with the 57% increase in the bid for revenue support, indicating a greater preparedness to conform to Government policy in respect of road maintenance expenditure (Figures 2.5c and 2.6c). In the shire areas the overspend on maintenance in 1982/83 contrasts with the underspend on revenue support (relative to 'accepted expenditure') indicating the difference in the perceived needs and priorities in these areas compared with the large urban centres.

Therefore, the period 1979/80 to 1982/83 presents a picture of local authorities increasingly out of step with central government policies and provisions in respect of current expenditure. The introduction of the new block grant system and expenditure targets and penalties designed to effect a reduction in expenditure marked a significant increase in the degree of overspending, particularly in London and the metropolitan areas where newly-elected Labour authorities came into increasing conflict with the Government after 1981. In the transport field, public transport revenue support was the main source of conflict and overspending as councils in the large urban centres adopted 'cheap fares' policies in response to declining patronage trends due to the economic recession. Following the legal challenge by Bromley Borough Council to the GLC's cheap fares policy in 1982, the resulting Lords' ruling against the GLC, and subsequent similar challenges to the policies of West Midlands and Merseyside County Councils, the Government passed the 1983 Transport Act which established 'Protected Expenditure Levels' for revenue support in the metropolitan areas (cf. Sanderson, 1988, p 39-43). The purpose of this legislation was explicitly "... to restrain expenditure on public transport revenue support in the metropolitan areas." (H M Treasury, 1983, p 30). This legislation, and the broader operation of the Government's control system for current expenditure (particularly, the increasingly severe regime of grant penalties) provides the context for examining trends in transport expenditure during the second distinctive period, from 1982/83 to 1984/85.

2.2.2 Trends Between 1982/83 and 1984/85

During this period the real terms increase in expenditure, which had taken place up to 1982/83, was effectively halted; local transport current expenditure remained relatively constant in real terms up to 1984/85, as did the level of the Government's total provision and, consequently, the degree of overspending, which varied between 23% and 26% over this period. Therefore, the period is one of continuing substantial disjunction between the Government's policies and provisions and local authorities' behaviour (Figs 2.1 - 2.3).

However, the trends in respect of the two major current expenditure programmes over this period (i.e. revenue support and road maintenance) show significant differences. As regards public transport support (Figure 2.5a), expenditure increased only slightly in real terms, a marked reduction in the rate of increase from previous years. The Government's provision was decreased in 1983/84 by 10% in real terms reflecting the concern to achieve a reduction in expenditure; as a result the degree of overspend increased in 1983/84 to 82%. This level of overspending against provision was sustained in 1984/85 as a small real terms increase in provision matched the increase in expenditure (cf. Figure 2.3).

It is notable that the Government's provision for revenue support actually increased in 1984/85 at a time when it was concerned to effect a substantial reduction in expenditure. Figure 2.5a also shows that there was a significant increase in the level of expenditure accepted for TSG in 1983/84. There are two relevant factors here. First, it can be seen that TPP bids for revenue support increased substantially in 1983/84, primarily due to a 148% increase in the GLC bid (Figure 2.5b). The GLC achieved a 22% real increase in its revenue support 'accepted expenditure' in 1983/84 in spite of the Government's view that its expenditure was far in excess of desirable levels. However, perhaps of more relevance was the introduction, in 1983/84, of Protected Expenditure Levels (PELs) for revenue support in London and the metropolitan areas following the 1983 Transport Act which were significantly in excess of specific provision for these areas. The Government's view of the relationship between the PELs, the level of provision in spending plans, and accepted expenditure for TSG was stated as follows:

> "Legislation has now been introduced to restrain expenditure on public transport revenue support in the metropolitan areas. But 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. The levels of expenditure which it is proposed to protect from legal challenge under the new legislation will reflect the difficulties of adjusting rapidly to more balanced policies and may therefore exceed the specific provision for 1983-84 by about £135 million .... The Government is not, however, prepared to grant-aid the protected expenditure levels in full, and the revenue support expenditure for the metropolitan areas accepted for Transport Supplementary Grant will be less than the total of the provisional protected expenditure levels under the legislation."

(H M Treasury, 1983, p 30)

However, in view of the fact that "... PELs are not intended as guidelines but maxima ..." (H M Treasury, 1984, p 45) it is difficult to see the Government's logic in providing TSG support for levels of expenditure on revenue support in excess of the provision made in the spending plans when it is this provision which represented the Government's view of the desirable level of expenditure. Thus, in 1983/84 expenditure accepted for TSG support exceeded provision by 26%, although this excess was reduced to 12% in 1984/85. As indicated earlier, the GLC would appear to have been the main beneficiary in terms of increased accepted expenditure (Figure 2.5b) and through an increase in TSG of 7% (compared with a national decrease of 5%). Thus, in 1983/84 the proportion of total TSG allocated to London and the metropolitan areas was 71% compared to 65.6% in 1982/83. It would appear that this could have helped to sustain high levels of spending on revenue support since in 1983/84, there was only a small overspend on road maintenance and an underspend on roads capital expenditure (see Section 2.4).

In 1984/85 provision for revenue support was increased slightly in real terms (+ 1.4%) whereas PELs and accepted expenditure decreased, the latter being particularly marked in London and the metropolitan areas (- 14%), which also, therefore, suffered a significant loss of TSG (- 26%). (This is also related to a decrease in capital accepted expenditure in London.) Nevertheless, expenditure on revenue support in London increased in real terms in 1984/85 by 5% while in the metropolitan counties it remained at the same level as in 1983/84. These trends do not provide strong support for the Government's claim for the success of PELs in restraining revenue support expenditure in the metropolitan areas. Although the Government cites the evidence of a substantial reduction in budgets in the metropolitan areas from original plans, and the rate of real increase in expenditure did level off after 1982/83 (with a subsequent slight reduction in the metropolitan counties) there remains a substantial question mark over the effectiveness of PELs. In particular, they would appear to have contributed to a higher degree of TSG support being given to the GLC and MCCs than may otherwise have been the case at a time when these authorities were overspending substantially on revenue support (this will be discussed further in Section 2.4 below).

The trend in road maintenance expenditure relative to provision over the period 1982/83 to 1984/85 presents a somewhat different picture. Nationally, a modest overspend in 1982/83 had been virtually eliminated by 1984/85 as expenditure declined by some 3% in real terms while provision increased by a similar proportion (Figures 2.1 - 2.3). The disrepancies between expenditure and the Government's plans over this period were substantially less than in the case of revenue support. Figure 2.2 indicates that a significant increase in provision was made in 1982/83 for road maintenance (+ 4.5% in real terms[1]), as it was for revenue support, "... because overspending in 1981-82 means that local authorities will not be able to achieve the previously planned levels ..." (H M Treasury, 1982, p 24).

The degree of overspend in 1982/83 (6%) was therefore reduced from the previous year. Figures 2.6a - 2.6d indicate that most of the overspend relative to expenditure accepted for TSG (which is roughly equivalent to provision) was accounted for by the shire areas but the largest proportional overspend (14%) was in London.

In setting the provision for the next two years, the Government's main concern was to reduce ovespending. For example, in the 1983 Public Expenditure White Paper it is argued that:

> "Responsible pay settlements, increased efficiency and the avoidance of waste should enable local government to maintain satisfactory levels of road maintenance and other services which they themselves provide without having to overspend the provision."
>
> (H M Treasury, 1983, p 30)

In 1983/84 national provision was increased marginally in real terms but the GLC and the metropolitan counties suffered a decrease in 'accepted expenditure' while the shire counties received a slight increase (Figures 2.6a - 2.6d). This contrasts interestingly with the picture for revenue support (above p. 9) where the GLC and the metropolitan counties received a significant increase in accepted expenditure in 1983/84, resulting in an increase in their share of TSG. It is rather difficult to see how this situation fits in with the Government's objectives: London and the metropolitan areas benefitted in terms of TSG support in respect of revenue support expenditure significantly at odds with the Government's policies and lost

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1 Road maintenance and lighting cost figures have been transformed to constant prices using the maintenance and lighting prices indices outlined in Annex.

(marginally) in respect of road maintenance expenditure which was only slightly in excess of the Government's provision; on the other hand, the shire areas suffered a decrease in TSG support in spite of an increase in accepted expenditure for both revenue support and maintenance and in spite of being much closer to the Government's plans in their expenditure behaviour.

Therefore, in 1983/84 expenditure on road maintenance in London and the metropolitan areas actually increased in real terms taking them further out of line with the Government's plans while in the shire areas expenditure decreased (in spite of the increase in accepted expenditure) bringing them broadly into line with the Government's plans. However, the real terms decline in expenditure in the shire areas continued into 1984/85 and, because accepted expenditure was increased slightly, resulted in an underspend, notwithstanding an increase in TSG support. A decline in expenditure in the metropolitan areas also produced an underspend against 'accepted expenditure'. In contrast expenditure continued to increase in real terms in London in 1984/85 increasing the overspend against 'accepted expenditure' to 38% (Figures 2.6b - 2.6d).

Therefore, over the period 1982/83 to 1984/85, although nationally the total of transport current expenditure remained relatively constant in real terms, there were changes in its composition and distribution between local authority classes. Taking revenue support and road maintenance expenditure (over three quarters of the total during this period) two main trends are in evidence. First, revenue support expenditure increased its share of the total from 37.8% to 39.4% which contrasts with its share of provision which fell from 29.4% to 27%. Second, expenditure on both maintenance and revenue support increased in London by some 15% and decreased in both the metropolitan areas (- 4%) and the shire areas (- 6%). This contrasts with the trend in accepted expenditure which decreased in London by 5%, remained relatively constant in the metropolitan areas and increased by about 6% in the shire areas. Therefore, over this period it is clearly London which is mostly out of line with Government policies for current expenditure, being 75% overspent against accepted expenditure by 1984/85, mainly due to revenue support. Despite reducing their current expenditure in real terms, the metropolitan areas were still 28% overspent against accepted expenditure in 1984/85, wholly due to revenue support. In contrast the shire areas were experiencing a problem of being increasingly underspent against accepted expenditure (7% in 1984/85) as spending declined in real terms in spite of an increase in accepted expenditure.

As indicated earlier it is necessary to refer to the operation of both the TSG system and the wider block grant system (with the additional system of targets and penalties) in attempting to explain these trends in current expenditure. Since TSG covered both current and capital expenditure over this period it will be appropriate to leave its consideration until after the analysis of trends in capital expenditure. In the next section we shall look briefly at the impact of the block grant system, targets and penalties.

2.2.3 Block Grant, Targets and Penalties

Since the introduction of the block grant system in 1981/82 the Government's attempts to restrain local authorities' expenditure have resulted in a declining contribution of Aggregate Exchequer Grant to total relevant expenditure. Figure 2.7 shows this declining contribution, down from 59% in 1981/82 to 50% in 1984/85. Moreover, the decline in the contribution of block grant to total expenditure was even more marked over the same period (45% down to 35%) as the amount of AEG earmarked for specific and supplementary grants increased (by 30%).

This decline in the level of support provided by central government to local authority expenditure placed authorities under increasing pressure to restrain expenditure given that their only alternative was to increase their rate poundages. The trend shown in Figure 2.7 is accounted for by two main factors. First, the original determination of AEG and block grant each year by the Secretary of State for the Environment, and published in the Rate Support Grant Main Reports, declined over the period to 1984/85; thus, block grant provision was reduced by some 12%. Second, up to 1985/86 authorities whose expenditure exceeded their targets suffered grant penalties but the block grant withheld from these authorities was not re-cycled under the 'close-ending' arrangements resulting in a reduction in the total block grant paid. Thus, the reduction in the 1983/84 block grant between the original determination (in 1982) and the latest 'Supplementary Rate Support Grant Report' (1988) is 4%; the equivalent figure in respect of 1984/85 is 2%.

The prospect of block grant abatement due to the operation of the system of targets and penalties was an important factor in local authorities' spending decisions over the period 1982/83 to 1984/85 and, as indicated in the previous section, is a relevant consideration in explaining trends in local transport current expenditure. During this period grant penalties became increasingly severe on authorities overspending their expenditure targets.[1] For example, an authority spending 6% over target in 1982/83 suffered a loss of grant equivalent to 15 pence in the pound at ratepayer level; by 1984/85 the penalty for the same degree of overspending had increased to 41p.

Targets did not bear a simple relationship to grant-related expenditures (GREs). Whereas the latter represents a level of expenditure which the Government considers is 'objectively' required for an authority to provide an 'appropriate' level of service, targets expressed a more pragmatic view of what authorities could realistically achieve in the light of their past spending behaviour. Therefore, the main criteria in setting targets in any one year tended to be specified relationships either to previous years' budgets or to the previous year's target (Smith and Stewart, 1985). Overall, targets were related to the Government's provision for total local authority expenditure, differing from GREs primarily in respect of a proportion of the provision not allocated to services and, therefore, not appearing in GREs.

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1 The system is explained in more detail in Sanderson (1988, p 14-15)

The discrepancy between targets and GREs, and the fact that the system of targets and penalties 'cut across' the logic of the basic block grant system, constituted a basis for considerable criticism (for example, from the Audit Commission, 1984) which eventually led to their abandonment by the Government in the financial year 1986/87. In 1982/83, in fact, any authority with an initial target below its GRE was allowed to use the latter as its effective target and this protected from penalty several low-spending authorities. However, in 1983/84 this 'GRE exemption' was discontinued and as Smith and Stewart commented (op cit, p. 26-7):

> "This brought loud protest from low-spending, predominantly Conservative-controlled councils, many of which would now be penalised for spending above target, even though they were spending below GRE, the Government's own assessment of their standard level of expenditure."

In 1984/85 the system was made markedly more severe both in terms of the relationship of the targets set to the previous year's targets and budgets and in terms of the grant penalties imposed (ibid. p 27-8).

It is possible to make a general assessment at this stage of the impact of targets and penalties on transport current expenditure in the different local authority classes between 1982/83 and 1984/85. Figure 2.8 shows the relationships between targets and total GREs for the GLC, the metropolitan counties and the shire counties. It can be seen that in 1982/83 the metropolitan were given targets significantly in excess of GRE while in the GLC and shire counties the 'GRE exemption' applied on the whole with targets equal to GREs. However, in 1983/84 while the GLC and the metropolitan counties received an increase in their targets in excess of the increase in their GREs, the shire counties collectively found their targets to be below GRE due to the ending of the 'GRE exemption'. For many shire counties the targets in 1983/84 represented a 4% increase on 1982/83 budgets, where those budgets had been within 1% of target, and several authorities now found these targets to be below their GREs. On the other hand, the high spending metropolitan authorities were allowed targets 1% below their 1982/83 budgets, whatever the relationship of those to the targets, resulting in a real terms increase in their targets of 7% (compared to a decrease for the shire counties of 1.3%) (Smith and Stewart, 1985).

The substantial increase in targets for the GLC and metropolitan authorities in 1983/84 (which reduced the incidence of penalties for a given level of spending) can be seen as a factor serving to sustain the continued high level of overspending, particularly on public transport revenue support, in these authorities. Moreover, it may have served to reinforce the effect of an increase in TSG to the GLC in that year which in turn may have been a factor in promoting real terms growth in revenue support in excess of the Government's spending plans. Conversely, the real terms reduction in targets for the shire counties and the prospects of penalties on expenditure below GRE for many of these authorities is likely to have been a factor in the reduction of transport current expenditure, particularly on highway maintenance, in a context where such authorities faced a reduction in TSG support and pressing needs across a range of services (e.g. education, social services, police and fire). It is noteworthy, therefore, that whereas current expenditure on revenue support and maintenance declined by 4% in real terms between 1982/83 and 1983/84 in the shire counties, spending on social services increased by 2.7%, police by 4.5%, fire services by 2%, while education spending decreased by less than 1%. The average for all services was a 0.1% decrease (Department of Environment 1983-1988).

As indicated above the target and penalty regime was made more severe in 1984/85 with all authorities experiencing a real terms decrease in their targets. The GLC's target was reduced by 5% in real terms, the MCCs by nearly 3% and the shire counties by some 2% (Figure 2.8). Nevertheless, the targets still allowed the GLC and MCCs to spend well in excess of GRE before incurring penalties while for the shire counties, the collective target was now 3% below GRE (CIPFA Finance and General Statistics 1983/84 and 1984/85). There is little evidence of a moderating influence on the GLC which budgeted to spend 67% in excess of target in 1984/85 (compared with 53% in 1983/84) and we have seen that current expenditure on revenue support and highway maintenance continued to increase in spite of a reduction in TSG. The metropolitan counties do display some evidence of a moderating impact with the excess of budgeted expenditure over target down from 6.2% in 1983/84 to 5% in 1984/85 and the excess over GRE down from 27% to 18% (CIPFA Finance and General Statistics op cit). We have also seen that current expenditure on revenue support and maintenance continued to decrease in real terms in 1984/85 in the MCCs.

As regards the shire counties expenditure on road maintenance and revenue support continued to decline in real terms in 1984/85 notwithstanding the relatively favourable treatment of these authorities in that year's TSG settlement. This trend would appear to be amenable to explanation more in terms of the block grant and penalty system than the TSG system because of the relatively low proportion of total accepted expenditure in the shires supported by TSG up to 1984/85 (see below Section 2.4). In fact it would appear that the more stringent target and penalty system operative in 1984/85 more than offset a more generous TSG settlement. Because their collective target was reduced in real terms to 3% below GRE, the shire counties faced harsher penalties for a lower 'overspend' in relation to target. Thus, although the excess of their budgets over target was reduced from 1.6% in 1983/84 to 1.4% in 1984/85 the estimated penalty on these budgets increased by some 80% in real terms, and some shire authorities faced significant penalties even though their budgets were below GRE. For example, Staffordshire budgeted to spend 0.6% less than their GRE but faced an estimated penalty of some 7% of their 'pre-abatement' block grant entitlement (CIPFA Finance and General Statistics op cit). As in 1983/84, outturn expenditures indicate that revenue support and road maintenance received rather lower priority than other major services. Thus, the reduction of some 2% in real terms in revenue support and maintenance compares with the average for all services of about 1%; increases were registered for police (+ 19%), fire (+ 2%) and social services (+ 2%) while education spending was reduced by only 0.7%.

Therefore, it would appear that current expenditure restraints through the block grant system and targets and penalties were an important factor between 1982/83 and 1984/85, particularly in the shire counties which experienced the harshest targets relative to GRE. Of course, authorities were free to determine their own priorities within constrained budgets so the fact that transport current expenditure decreased in the shire counties in real terms more than other services (and while expenditure on some other services decreased) is not attributable directly to the system of expenditure restraints but rather upon authorities' reactions to it. The problem was one of the priority accorded to local transport expenditure relative to expenditure on other services such as education, social services, police and fire. The lower proportion of transport expenditure in the shire counties supported by TSG than in the GLC and MCCs meant that the influence of targets and penalties would have been felt more by the shire authorities and changes in TSG support would have less influence on expenditure behaviour. However, before looking more specifically at the role of TSG we will examine trends in capital expenditure and provision up to 1984/85.

2.3 Capital Expenditure

The trend in English local authorities transport capital expenditure relative to the Government's planned provision between 1981/82 and 1984/85 is shown in Figures 2.9a - 2.9c. The level of spending in 1981/82 in fact represents a significant reduction from 1980/81 - 14% in real terms for local transport as a whole - associated with the introduction of the new capital expenditure control system.

The relative reduction of highways and public transport capital expenditure in 1981/82 is illustrated in Figures 2.11a - 2.11f. In England as a whole (Figure 2.11a) highways expenditure was reduced by some 13% in real terms and public transport expenditure by 10%. However, as Figure 2.11c shows, the reduction in public transport spending was concentrated in the metropolitan counties where the main programmes were the construction of the Tyne and Wear Metro and investment in PTE bus systems. The reduction in highways-related capital investment was concentrated in the shire areas (Figures 2.11d and 2.11f).

Therefore, in 1981/82 local authorities underspend the Government's provision for transport capital expenditure by a significant margin (c. 11%), with both the roads and public transport components below provision (Figure 2.9c). However, despite being underspent against provision, total transport capital expenditure was close to the total allocation, which was set some 12% below provision to allow for an assumed use of capital receipts (principally from the disposal of land and assets) to supplement the allocation (Figure 2.10). This indicates that local authorities were not able to apply capital receipts to transport expenditure to the extent assumed by the Government. This contrasts with the picture in respect of, for example, education and environmental services (such as leisure and recreation) which were overspent against provision indicating a priority on the part of local authorities to apply capital receipts to expenditure on these services.

Between 1981/82 and 1984/85 transport capital expenditure increased steadily in real terms although at a diminishing rate, (as Figures 2.9a and 2.11a show), the total increase over the period being some 17%. On the other hand, provision for transport actually decreased in real terms by 2% so by 1984/85 the previous underspending had been transformed into a 6% overspend against total provision (Figure 2.9c). However, the overspend was attributable to public transport (18% above provision) and car parks (345% in excess of provision), expenditure on these programmes having increased in real terms in spite of reductions in provision by the Government. This contrasts with the roads capital programme which was subject to persistent underspending up to 1984/85 as the increase in expenditure failed to match the increase in provision (Figures 2.9a - 2.9c).

Looking in more detail at public transport, Figures 2.11a to 2.11d show that the picture was dominated over the period up to 1984/85 by London (GLC) which accounted for 80% of total national capital expenditure by local authorities on public transport in 1984/85, most of the remainder being accounted for by the metropolitan counties (Figures 2.11b and 2.11c). It is clear that the GLC and metropolitan counties assigned a higher degree of priority to investment in their public transport systems, particularly in 1983/84 and 1984/85, than was accorded by the Government, producing the overspending shown in Figure 2.9c. The large real terms increase in expenditure in London in 1983/84 is of interest (Figure 2.11b) since in that year the GLC experienced a relatively favourable TSG settlement, indicating that some priority may have been given to TSG-supported public transport schemes (this is discussed further in the next section).

As regards local authorities' roads capital programmes, underspending by local authorities during the period to 1984/85 was a source of concern to the Government. Indeed, together with the contrasting overspending on current expenditure (particularly revenue support, as discussed in Section 2.2 above), it was a major factor in the Government's reasoning behind the reform of the TSG system, restricting support from 1985/86 to capital expenditure on roads 'of more than local importance' (see next section). The degree of underspending in 1983/84 and 1984/85 (7% and 6% respectively) was, however, not of major proportions given the size of the total programme. Moreover, the discrepancy between expenditure and provision illustrated in Figure 2.9c is not a true reflection of the extent to which actual output of local roads matched the output implied in the provision due to discrepancies between outturn road construction prices in any one year and the prices assumed by the Government when setting provision. The constant prices used in Figures 2.9a and 2.9b are based on the GDP deflator and this probably understates the change in output because between 1982 and 1985 (first quarters) the roads output price index increased by only 3.5% compared with an increase of 16% in the GDP deflator (H M Treasury, 1987, p 135). This does not affect the comparison between outturn and provision shown in Figure 2.9c but could indicate that this simple comparison is not a true measure of the extent to which the output of local roads did match the level assumed in the Government's expenditure provisions.

In explaining the trend of local transport capital expenditure relative to the Government's plans we can refer to the operation of both the TSG system, which supported such expenditure on highways-related and public transport programmes, and the wider capital expenditure control system. The TSG system will be considered in more detail in the next section but at this stage we can look briefly at the trends in local authorities' TPP bids in respect of capital expenditure and these are shown in Figures 2.12a to 2.12d. It can be seen that, following a significant real-terms reduction in bids in 1982/83 (cf. difficulties with the new capital control system and run-down of construction on the Tyne and Wear Metro), there was a subsequent substantial increase up to 1984/85 in bids by the GLC, the metropolitan counties and the shire counties. However, the proportion of bids accepted for TSG declined nationally, from 83% to 68% indicating a reduction in the extent to which the Government's provision met the perceived expenditure needs of local authorities. This decline was particularly marked in the GLC (85% down to 66%) and, to a lesser extent, the metropolitan counties (66% down to 53%) reflecting the greater importance of public transport expenditure in the capital programmes of these authorities and the declining provision made by the Government for such expenditure (Figures 2.12b and 2.12c). In the shire counties the proportion of the capital bid accepted for TSG declined from 86% in 1982/83 to 77% in 1984/85. This represented a significant real terms increase in accepted expenditure in the shires (some 21%) probably reflecting the Government's priority over this period to roads capital expenditure on by-pass schemes designed to provide relief to towns and villages from the effects of lorry traffic. This priority was expressed in guidance, in particular, in the circular relating to 1983/84 TPP submissions which indicated that TSG support would be given to such schemes (Department of Transport, 1982, para 4).

Notwithstanding this priority on the part of the Government, the evidence suggests that the shire counties in particular were experiencing difficulties with roads programmes. Thus, between 1983/84 and 1984/85 expenditure increased by some 6% in cash terms compared with a 13% increase in accepted expenditure (total capital) and a 12% increase in the roads capital allocation (DTp data). In 1984/85 expenditure on roads by the shire counties was 9% below the capital allocation. There are two aspects of the broader systems for controlling local authorities' expenditure which are relevant to this problem. First, we have seen in section 2.2 above that the shire counties faced some difficulty with restraints on current expenditure, particularly through the system of expenditure targets and penalties because in 1983/84 and 1984/85 these authorities collectively faced targets below GRE. This, in turn, would have resulted in restraints on capital expenditure in order to restrict the burden of debt charges on revenue accounts. The second aspect relates to the operation of the capital expenditure control system and we shall now consider this in more detail.

As indicated above, in the new capital control system introduced in 1981/82, capital allocations provided to authorities to cover prescribed expenditure were generally set below provision to allow for the use of capital receipts. Figure 2.10 shows that authorities' total transport capital expenditure over the period to 1984/85 consistently exceeded the allocation but, up to 1983/84 failed to reach the level of provision. This indicates that authorities were unable to use capital receipts to supplement transport expenditure on the scale assumed by the Government. However, the increasing availability of capital receipts to authorities over this period is reflected in the closing gap between expenditure and provision and the emergence of an overspend in 1984/85 (cf. Figure 2.9c). Nevertheless, as we have seen, this overspend was attributable to public transport and car parks suggesting that receipts were supporting such expenditure more than that on road construction and improvement.

Indeed, local authorities' ability to supplement allocations from receipts was causing a substantial overspending problem in respect of total capital expenditure which contrasted with the underspending on roads programmes. By 1983/84 authorities were overspending by 16.5% on total expenditure compared with the 7% underspend on roads capital expenditure. In particular, education capital expenditure was 54% in excess of provision in 1983/84 indicating a priority in the use of capital receipts to this service. This general overspending problem caused the Government to react by limiting the use of capital receipts by authorities in any one year to 'prescribed proportions' of income. In 1983/84 the 'prescribed proportion' for non-housing receipts was 50% but this has subsequently been reduced to 30%. However, this reaction to the general problem clearly did not help the specific problem of underspending on roads and in order to encourage authorities to increase their expenditure in this respect, the Government took the compensating step of supplementing transport capital allocations for 1983/84 and 1984/85 by 50% of forecast local transport capital receipts. This would permit additional spending financed by borrowing if such receipts were not in fact available.

Nevertheless, the persistence of underspending on roads and the failure of the shire counties in particular to spend up to allocations indicates the dual influence of restraints on current expenditure (via debt charges) and an inability (or unwillingness) of authorities to apply capital receipts to roads capital expenditure. As regards the latter problem, a substantial part of the difficulty arose from the distribution of expenditure and receipts between different authorities. This is illustrated in Figures 2.13a to 2.13d. The increasing use of capital receipts to supplement capital allocations in respect of prescribed expenditure is clearly evident, particularly over the period 1982/83 to 1984/85. However, it can be seen that the authorities generating and applying the largest amounts of receipts were precisely those with the least transport capital expenditure responsibilities, with the exception of the GLC. Thus, it was the lower tier authorities (London Boroughs, metropolitan and shire districts) which had the most receipts available but these were therefore applicable to a very limited part of the total transport programme mainly, in fact, car parking (explaining the substantial overspend on this item by 1984/85). The GLC was also able to generate substantial receipts and, given the importance of public transport capital expenditure in this authority, and the priority given to such expenditure, it would appear that the use of receipts to supplement such spending contributed to the overspending which arose in 1983/84 and 1984/85 (as discussed above cf. Figure 2.9c).

On the other hand, the metropolitan and shire counties, which accounted for a substantial component of roads capital expenditure (over 85% in 1984/85), were unable to generate and apply large amounts of receipts to supplement their roads allocations and this will have contributed to the underspending on the roads provision. The situation would appear to have been particularly difficult for the shire counties in 1983/84 and 1984/85 in view of the competition within these authorities from a wider range of services for the receipts which were available; the substantial overspending nationally on education is particularly relevant in this respect.

This interpretation is supported by the trends in expenditure on roads and car parks between 1982/83 and 1984/85 illustrated in Figures 2.11a to 2.11f. The main features are, firstly, the growth in public transport expenditure in London; secondly, the significant increase in expenditure by the metropolitan and shire districts (much of which relates to car parking); and, thirdly, the relatively low real terms growth in expenditure in the metropolitan and shire counties (most of which relates to road construction and improvement).

Therefore, it would appear to be possible to explain the trend in the relationship between local transport capital expenditure and provision primarily in terms of the wider system for controlling capital expenditure (together with the effects of the current expenditure restraints on debt charges). In particular, assumptions made by the Government in setting the relationship between allocations and provision about authorities' ability to generate and apply capital receipts would seem to have been a major problem for the roads capital programme. However, in the decision to reform the TSG announced in 1984, the Government related the problem of underspending on roads more to the alleged excessive use of TSG by authorities to support current expenditure at the expense of capital expenditure and it is to the role of TSG relating to the wider expenditure control system that we turn in the next section.

2.4 The Role of Transport Supplementary Grant

The trend in the bids for TSG in respect of current expenditure on revenue support and maintenance was discussed briefly in Section 2.2 above (cf. Figures 2.5 and 2.6) and those in respect of capital expenditure referred to in the previous section (cf. Figure 2.12). Figures 2.14a - 2.14d show the trend between 1979/80 and 1984/85 in total TPP bids, expenditure accepted for TSG and actual TSG paid in constant prices for England as a whole, the GLC, metropolitan counties and shire counties. In general terms it can be seen that between 1982/83 and 1984/85 whereas total bids increased considerably and accepted expenditure also increased (but to a much lesser extent), total TSG paid to local authorities decreased (by 19% in real terms) and declined as a proportion of total accepted expenditure from 28% to 21%. The decline in the proportion of total bids accepted for TSG from 87% in 1982/83 to 72% in 1984/85 indicates a significant decrease in the extent to which the Government's provision matched the perceived expenditure needs of local authorities, particularly in London and the metropolitan areas.

Comparison of Figures 2.5, 2.6 and 2.12 indicates the changing composition of bids over the period between, in particular, 1981/82 and 1984/85. The first notable change occurred in 1982/83 when the capital bid fell from the previous year while that for revenue support increased mainly due to changes in the metropolitan and shire counties. The shire counties benefitted in particular from the 1982/83 TSG settlement; as Figure 2.14 shows, they received a real terms increase in grant at the expense of the GLC and MCCs. This was due to the significant increase in the accepted expenditure of the shire counties in 1982/83, particularly in respect of capital expenditure (Figure 2.12d) and road maintenance current expenditure (Figure 2.6d). This in turn reflects the Government's plans, firstly, in relation to roads capital expenditure, where the promotion of by-passes to provide relief from heavy lorries was a priority (cf above p. 17), and secondly, in relation to current expenditure, where provision was increased to compensate for substantial overspending in 1981/82.

The second notable feature is the increasing divergence between bids and accepted expenditure from 1982/83 to 1984/85, particularly in London and the metropolitan counties, indicating the degree of conflict between the Government's policies and those of the GLC and MCCs. As we have seen, this is most clearly evident in respect of current expenditure on revenue support (Figure 2.5), but it also characterises capital expenditure reflecting, again, priorities in these authorities towards public transport in contrast to the reduction in provision by the Government (Figure 2.12). The Government's main priorities over this period, as reflected in the guidance to authorities for TPP preparation were firstly, to reduce current expenditure particularly on public transport revenue support and, secondly, to promote the construction of by-passes to towns and villages to provide relief from the effects of heavy lorries (Department of Transport, 1982, 1983).

However, notwithstanding their role in sustaining expenditure trends at variance with the Government's plans and priorities, the GLC and MCCs were treated generously in the 1983/84 TSG settlement at the expense of the shire counties. As we have already seen the GLC and MCCs increased their share of a reduced amount of TSG in 1983/84, and Figure 2.14 shows that the GLC actually received a real increase in grant (cf 7%), while the shire counties experienced a 21% decrease in real terms.

The reason for this shift in grant support to London and away, primarily, from the shire counties, lies in the methodology for the distribution of TSG, which is allocated to each county in such a way as to equalise most of the accepted expenditure per head of population. Thus, TSG is paid as a proportion of the amount by which an authority's total accepted expenditure per head exceeds a threshold per capita amount, the latter expressing the extent to which expenditure should be financed from rate income supported by block grant (see Sanderson, 1988, p 26-7). The method of calculation and the relevant figures for the years 1982/83 to 1984/85 are illustrated in Table 2.2.

Table 2.2

The Distribution of TSG 1982/83 to 1984/85

(£ 1979/80 prices)

Year	Accepted Expenditure per cap - GLC	MCCs	Shire CCs	England	Threshold per Capita	x Rate of Grant	= TSG per capita GLC	MCCs	Shire CCs	England
1982/83	42.7	26.0	20.5	25.0	15.1	0.7	19.0	7.5	3.9	6.9
1983/84	46.9	28.1	21.7	26.9	17.5	0.7	20.4	7.3	3.1	6.6
1984/85	41.5	27.8	22.6	26.5	16.4	0.55	13.8	6.2	3.4	5.6

NB: Figures do not compute precisely because the calculation is 'worked back' from published outturn data.

Source: Department of Transport data.

The nature of this distribution formula is such that, as the threshold value is raised, authorities with lower accepted expenditures (i.e. closer to the threshold) lose proportionately more TSG than authorities with higher accepted expenditures, so the latter benefit in terms of a higher proportion of the total TSG. This is indeed what happened in 1983/84 when the threshold was raised but the rate of grant was maintained at 70%; the GLC with a high accepted expenditure per head (and one significantly increased from 1982/83) received not only a higher proportion of a reduced total grant (down 5% in real terms from 1982/83) but also a higher amount in real terms. The metropolitan counties received a slightly increased share (but a real terms reduction in amount) while the shire counties, with their relatively low accepted expenditure (and small increase from 1982/83), received a significantly reduced share and amount (Table 2.2).

Looking at the situation in slightly more detail, Figures 2.5 and 2.12 show the increase in accepted expenditure for the GLC and MCCs in 1983/84 in respect of current expenditure on revenue support and capital expenditure. As regards revenue support, we saw in Section 2.2 above that the increase in accepted expenditure contradicted the decrease in provision in the Government's spending plans; thus, accepted expenditure increased nationally by 13% in real terms while provision decreased by 10%. The increase in accepted expenditure can be related to the introduction of PELs in the 1983 Transport Act, which tended to confuse the issue of what constituted the appropriate yardstick for determining 'overspending' (see above p. 8-10). In particular, because the sum of PELs exceeded provision and because the level of accepted expenditure was related to PELs, total accepted expenditure for revenue support in 1983/84 exceeded provision by 26% (whereas it had been equal to provision in 1982/83).

The decision to raise the threshold for accepted expenditure per capita above which TSG was paid in 1983/84 in the distribution of the smaller amount (in real terms) of TSG available accentuated the effect of the increased accepted expenditure, especially in respect of the GLC. Thus, if the rate of grant had been reduced to 56% and the threshold left at its 1982/83 level in real terms, the GLC would have received a lower share of TSG (39% instead of 45%) and the shire counties a higher share (35% instead of 29%), with the MCCs retaining the same share of 27%. This would have produced a more equitable sharing out of TSG, since the shire counties would have experienced a reduction of 5% (instead of the actual 21%) and the GLC a reduction of 9% (compared with the actual increase of 7%). This would also have been rather more consistent with the Government's policies and spending plans.

In the event, the significant reduction in TSG received by the shire counties in 1983/84 left them with a higher proportion of their (increased) accepted expenditure to be funded from rate income (supported by block grant) in the case of current expenditure, and from borrowing (within capital allocations) in the case of capital expenditure (supplemented by capital receipts). This presented the shire counties with difficulties on two fronts. On the one hand, they were thereby more exposed to the effects of the broader system for control of current expenditure, both the basic block grant system and the system of targets and penalties which, as was discussed in Section 2.2.3 above, subjected these authorities to increasingly severe restraints between 1982/83 and in 1984/85. This situation is reflected in the real terms decline in current expenditure on revenue support and maintenance in the shire areas in 1983/84 (-4%) and the change from an 'overspend' against accepted expenditure on these items of 5.3% in 1982/83 to an 'underspend' of 2.2% in 1983/84.

On the other hand, the shire counties were also more exposed to the effects of the capital expenditure control system. We saw in Section 2.3 above that in 1983/84 allocations for capital expenditure were set below provision to allow for the application of capital receipts, although 50% of forecast receipts were added to allocations. We also saw that the shire counties suffered in the operation of this system due to their relatively low ability to generate receipts for application in respect of transport capital expenditure (see p. 18-19). In such a context, the reduction in TSG support for these authorities in 1983/84 can only have hindered their roads capital programmes at a time when the Government was increasing the roads provision and attempting, in particular, to promote by-pass schemes of a kind which tend to figure prominently in the shires' roads programmes.

At the same time, the increase in TSG support received by the GLC in 1983/84 would have afforded more protection from the Government's broad financial control mechanisms at a time when the Government was, in fact, attempting to impose greater control. In respect of current expenditure, it is also notable (as discussed in Section 2.2.3 above) that the GLC received an expenditure target in 1984/85 significantly in excess of its GRE thus reducing the potential impact of penalties. These factors must have helped the GLC to maintain increases in current expenditure in excess of accepted expenditure levels. As regards capital expenditure, Figure 2.11 shows the large increase in expenditure on public transport in London in 1983/84 (23% up from 1982/83 in real terms) which contradicted the national trend in provision (down 7%) and contributed to the emergence of overspending on public transport capital (cf. Figure 2.9c). Again, the 1983/84 TSG settlement must have contributed to this situation.

Therefore, the 1983/84 TSG settlement would appear to have helped to sustain trends in expenditure by local authorities in contradiction to the Government's own policies and spending plans at a crucial juncture in the context of the Government's efforts to bring local transport spending into line with those plans. Because of its contribution to this situation (by increasing revenue support accepted expenditure above provision) the 1983 Transport Act can be seen as a rather perverse piece of legislation, its dubious effectiveness reinforcing the dubious validity of the fiduciary concept underlying the Act (cf. Sanderson (1988, p 39-43)). In fact, the situation in 1983/84 produces the impression of a lack of a coherent and co-ordinated approach in the control of local authorities transport expenditure, in particular, an apparent failure to assess adequately the interactions between the TSG system, the wider current and capital expenditure control systems, and specific legislation introduced in response to a particular problem. This raises questions about the adequacy of co-ordination arrangements between, in particular, the Departments of Transport and the Environment, and the Treasury.

The importance of TSG settlements in influencing local transport expenditure trends relative to the effect of the wider expenditure control systems is difficult to assess. Although the 1983/84 picture does suggest evidence of its influence, the picture in 1984/85 is less clear. In the 1984/85 TSG settlement action was taken to redress the balance in favour of the shire counties (following their protests after the 1983/84 settlement). However, the total amount of TSG available was reduced by 15% in real terms from 1983/84. The shire counties received a much higher proportion than in 1983/84 (38% up from 29%), primarily at the expense of the GLC (35% down from 45%); these shares represented an increase in the amount of grant in real terms for the shire counties of 13% and a decrease for the GLC of 32%. This redistribution was the result of a reduction in both the threshold value of accepted expenditure per capita and the rate of grant; thus, a lower rate of grant was paid on a higher proportion of counties' accepted expenditures benefitting authorities with lower accepted expenditures, i.e. mainly shire counties (see Table 2.2). Moreover, the GLC, in particular, suffered a large reduction in its accepted expenditures especially in respect of revenue support (Figure 2.5b) and capital (Figure 2.12b). On the other hand, the shire counties experienced increases in accepted expenditures for capital (Figure 2.12d) and maintenance (Figure 2.6d). It is notable that, in 1984/85, the extent to which revenue support accepted expenditure exceeded provision was significantly reduced from 1983/84 as the proportion of PELs accepted for TSG was reduced (Figures 2.5a and 2.5c).

Changes in expenditure between 1983/84 and 1984/85 do not wholly reflect the changes in TSG indicating the importance of the wider financial control mechanisms. The significant reduction in public transport capital expenditure in London in 1984/85 (down 12% in real terms from 1983/84) is consistent with the reduction in capital accepted expenditure and TSG (Figure 2.11b) but current expenditure in London on revenue support and maintenance continued to grow and the degree of overspend against accepted expenditure increased (Figures 2.5b and 2.6b). This suggests decisions to protect current expenditure (particularly revenue support) from the loss of TSG somewhat at the expense of capital expenditure. On the other hand, in the shires current expenditure on revenue support and maintenance continued to decrease in real terms in spite of increases in accepted expenditure and TSG (Figures 2.5d and 2.6d). In particular, road maintenance expenditure in the shires fell below accepted expenditure in 1984/85. Moreover, roads capital expenditure in the shire counties increased by only a small amount (c. 1%) in real terms (Figure 2.11d), much less than the increase in accepted expenditure, and the overall degree of underspending on roads was not significantly reduced from 1983/84 (Figure 2.9c). This persistence of underspending on roads suggests the importance of difficulties with the wider capital control system, as discussed earlier in Section 2.3.

In spite of the evidence to suggest the importance of the role of the wider current and capital expenditure control systems in explaining trends in local transport expenditure, the Government focussed on the role of TSG in promoting expenditure patterns at odds with its policies and spending plans. In the Department of Transport circular outlining the reform of the TSG system in 1984 the change was rationalised in the following terms:

> "TSG was intended to support local transport expenditure generally. But in recent years authorities have spent more on transport revenue expenditure (particularly on public transport revenue support) than provided in the Government's public expenditure plans, while they have underspent the provision for transport capital expenditure. The Government wishes to concentrate the extra support provided through TSG on highways capital expenditure which is of more than local importance, in particular investment on roads which form part of the primary route network of major through routes, important urban roads, and bypasses and relief roads which relieve communities of the effects of heavy through traffic."
>
> (Department of Transport, 1984A, para 2)

Implicit in this rationalisation, then, is the assertion that authorities diverted an excessive amount of TSG to support current expenditure on public transport in excess of the Government's provisions, and that this contributed to underspending on transport capital, particularly in respect of roads. We can examine this assertion on two levels. First, what evidence is there to support the assertion, on the one hand, that authorities applied TSG primarily to support revenue expenditure and, on the other hand, that this contributed to underspending on roads capital? Second, if indeed such evidence does exist to what extent does this in itself provide a basis for reforming the TSG system?

On the first level, the previous discussion in this section has suggested that the role of TSG in influencing expenditure patterns and trends must be examined within the context of the broader current and capital expenditure control systems. In general terms, the role of TSG in local transport expenditure declined between 1979/80 and 1984/85 due to the reduction in total TSG by 21% in real terms. Over that period it declined as a proportion of total expenditure on revenue support, maintenance and highways and public transport capital from 28% to 18% so there was a corresponding increase in the relative influence of block grant on the one hand and capital allocations on the other. Indeed, the reduction in the role of TSG is particularly marked since 1982/83 when it constituted some 25% of total eligible expenditure. Of course, over the period 1982/83 to 1984/85 the system of expenditure targets and grant penalties became more severe (as described in Section 2.2.3) and the role of capital receipts in the capital expenditure control system became more problematical (as described in Section 2.3) which will have served to reinforce the declining influence of TSG.

Nevertheless, we have seen that there is evidence to suggest that the 1983/84 TSG settlement in particular may have had some effect on authorities' expenditure patterns, serving to promote or reinforce the very patterns and trends which were causing the Government so much concern. It is clear that the problem generated by TSG from the Government's point of view arose from the discretion of local authorities to spend the unhypothecated grant as they wished; the complaint was, therefore, essentially about the spending priorities and decisions of certain authorities - particularly the GLC and metropolitan counties. It was somewhat disingenuous, then, on the Government's part on the one hand to decide upon a TSG settlement in 1983/84 which provided more resources to the discretion of those 'problem' authorities while on the other hand proposing to change the system in order to overcome the results of the exercise of that discretion.

As regards the extent to which TSG was used by authorities to support revenue expenditure at the expense of capital expenditure, the available evidence is presented in Figures 2.15a to 2.15d which compare the proportion of revenue expenditure in total expenditure accepted for TSG with the proportion of TSG estimated to have been applied by local authorities in respect of revenue expenditure (the latter from CIPFAs Finance and General Statistics). Figure 2.15a shows that, nationally, there was indeed an increasing tendency to support revenue spending with TSG particularly between 1982/83 and 1984/85, the years in which there was persistent high overspending on revenue support relative to the Government's plans. However, even in 1984/85 the proportion of TSG applied to revenue was only slightly in excess of the proportion of revenue expenditure in total accepted expenditure.[1]

Nevertheless, the picture varies by local authority class, as shown in Figures 2.15b - 2.15d. It is clear that there was a greater tendency to apply TSG in respect of revenue expenditure in the metropolitan counties than in the GLC and the shire counties. The increase in 1980/81 relates to the substantial increase in TPP bids and in actual expenditure on revenue support in that year (cf. Figure 2.5c) on the basis of the relatively favourable TPP guidance in respect of revenue support given towards the end of the Labour Government's term of office. The subsequent restraints exercised by the new Conservative Government, and the real terms cut in TSG for 1980/81, which particularly affected the MCCs (see Figures 2.15a and 2.15c), explain the increased use of the available TSG to support revenue expenditure particularly (it would be reasonable to surmise) on public transport support. In 1981/82 the increased use of TSG to support capital expenditure coincides with the introduction of the new capital control system; in Section 2.3 we saw that highways capital expenditure in the MCCs did not fall in 1981/82 to the same degree as in the shire counties and this might be explained in part by the increased use of TSG to support such expenditure. Over the period 1982/83 to 1984/85, however, the metropolitan counties applied most of their TSG to revenue

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1 We make the assumption here that block grant (RSG) support would apply to TSG-eligible expenditure within the threshold in proportion to accepted expenditures for current and capital items (the latter supported via revenue contributions - RCCOs).

expenditure (in excess of the revenue proportion of accepted expenditure) and, as we have seen, this was a period of continued high overspending by these authorities on public transport revenue support in spite of the Government's efforts to bring such expenditure into line with their plans.

The GLC also displays an increasing trend in the proportion of TSG taken to revenue account but even in 1984/85 this proportion was still below the proportion of revenue in accepted expenditure (which was considerably lower than in the MCCs). We saw in Section 2.3 that capital expenditure on public transport was much more important in London that in other areas and, therefore, TSG will have played a greater role in supporting the GLC's expenditure in this respect. This is illustrated to some extent by the pattern for 1983/84 when, as we have seen, the GLC received a real terms increase in TSG in spite of a decrease in the national total. There was no marked increase in the proportion of TSG applied to revenue in that year and the increase in outturn expenditure on revenue support was less than in the previous year (Figures 2.15b and 2.5b); capital expenditure on highways actually decreased in real terms but public transport capital expenditure increased significantly suggesting, as argued above, that the increase in TSG was used mainly to support such expenditure.

In the shire counties the role of TSG in supporting revenue expenditure increased considerably between 1981/82 and 1983/84 and in the latter year exceeded the revenue proportion of accepted expenditure by a significant degree. However, we have seen that these authorities were underspending on revenue support over this period (Figure 2.5d); indeed, the degree of underspend increased in 1983/84 as expenditure actually declined in real terms in spite of the increase in the proportion of TSG used to support revenue expenditure. This indicates that (as expected) the revenue expenditure picture is dominated by road maintenance and the increase in the role of TSG in supporting such expenditure relates to the growing problems faced by the shire counties in matching the Government's provision for road maintenance due to the operation of wider expenditure controls, particularly expenditure targets and grant penalties (see Section 2.2.3). Thus, in 1983/84 when the shire counties faced a sizeable real terms cut in TSG the proportion of TSG applied to revenue increased significantly (Figure 2.15d) indicating an attempt to protect road maintenance expenditure in particular. On the other hand, in 1984/85 when the balance in the distribution of TSG was redressed in favour of the shire counties, the proportion applied to revenue decreased indicating moves by these authorities to promote roads capital expenditure.

This picture is, therefore, not totally consistent with the Government's argument that the application of TSG to support revenue expenditure on public transport was a factor contributing to underspending on transport capital expenditure. There is evidence that this may have been the case in the metropolitan counties but the effect of this on the total transport capital programme is limited because these authorities in 1984/85 accounted for less than 20% of highways capital expenditure (which was the focus of the Government's concern about underspending). The evidence in respect of the GLC suggests a tendency to favour public transport capital expenditure with TSG support. In the shire counties the increased use of TSG to support revenue expenditure applies mainly to road maintenance and can be related to the operation of the Government's own measures and decisions both in respect of TSG settlements and of the wider operation of the block grant system, targets and penalties.

On the basis of the above evidence we would have to conclude that decisions by authorities in relation to the division of TSG between revenue and capital accounts played a relatively limited role in the problem, as perceived by the Government, of overspending on revenue support and underspending on roads capital. The latter problem would seem to be mainly attributable to the operation of the capital expenditure control system (plus the effect of current expenditure restraints on debt charges). As regards overspending on public transport current (and capital) expenditure this was the outcome of the policies and priorities of (primarily) the GLC and the metropolitan counties and presumably would have occurred irrespective of the availability of TSG. This obviously raises a question mark against the Government's reasons for reforming the TSG system. In fact, the issue would appear to turn upon the preparedness of the Government to continue with the principle of an unhypothecated grant to support local transport expenditure for use at authorities' discretion in accordance with their policies and priorities.

From the point of view of the basic principle underlying the TPP/TSG system as introduced in 1975/76 the Government should not have been excessively concerned about the way in which authorities used TSG because it was intended to be a supplementary block grant in support of authorities' local transport programmes as a whole (Mackie, 1980). However, almost from its inception, as successive governments imposed increasingly severe restraints on public expenditure, there was a growing tension, not to say conflict, between this principle of local discretion and the desire of central government to achieve control over local authority spending so as to bring it into line with public expenditure plans and provisions (ibid. p 200-202). This conflict has focussed primarily on the issue of public transport revenue support, as we have seen, and, true to the prediction of Mackie (op cit, p 204), has constituted a good test of the Government's faith in local discretion. The decision to reform the TSG system, abolishing support for current expenditure essentially illustrates the Government's lack of faith in local discretion when the outcome of that discretion contradicts its own policies. The subsequent transfer of responsibility for public transport in London from GLC to LRT and the abolition of the GLC and MCCs (with rate-capped PTAs taking over public transport in the metropolitan areas) further circumscribed drastically the degree of local discretion which could be exercised in respect of public transport expenditure in London and the metropolitan areas, as will be discussed in Section 3.

2.5 Discussion

It is important, then, to see the reform of the TSG system as the component of a broader set of changes introduced by the Government with the objective of increasing the ability to ensure that local authorities' expenditure conforms with central government spending plans and provisions. (These changes will be considered in more detail in the next section.) Indeed, the change to the TSG system to some extent epitomises a strengthening of the approach to the Conservative Government in their second term of office to the issue of controlling local government expenditure. We have seen (section 2.2.1) that, in spite of the efforts of this Government during their first term, local government current expenditure increased and a significant overspending problem developed in respect of public transport revenue support. This was primarily due to the policies and priorities of Labour Councils in London and the metropolitan counties which came into increasing conflict with the Government over their response to problems exacerbated by the economic recession of the early 1980s. Notwithstanding the introduction of new expenditure control methods in 1981/82 local authorities were left with considerable discretion over the level and composition of their expenditure and the freedom to exceed the Government's targets and provisions if they were prepared and able to pass on the financial consequences to local ratepayers.

The principle of local government discretion was built into the arrangements for Transport Supplementary Grant, a block grant to support authorities' local transport policies and programmes as a whole. The Government's dissatisfaction with these arrangements for TSG reflected their wider frustration at the apparent inability to exercise control over local authorities' expenditure, in terms of both level and composition, so as to bring such expenditure into line with central government expenditure plans. The exercise of discretion within the broader expenditure control mechanisms by the GLC and metropolitan counties was the main source of discrepancy with the Government's plans and TSG underwrote expenditure patterns in these authorities which were the primary focus of the Government's concern. We have seen (sections 2.2 and 2.3) that the central problem, from the Government's point of view, was, on the one hand, excessive spending by these authorities on public transport, both revenue support for 'cheap fares' policies and capital expenditure, and, on the other hand, a general underspending on roads capital expenditure which was frustrating the Government's policy of giving priority to the construction of by-passes and relief roads to provide relief for communities from heavy traffic.

However, our analysis (section 2.4) suggests that the TSG system per se was not the main factor in this problem and that the Government exaggerated its role in its reasoning behind the reform. The main factor behind the overspending on public transport was the policies and priorities of the GLC and metropolitan counties which would doubtless have resulted in expenditure patterns in conflict with the Government's plans even in the absence of TSG support for current and capital expenditure on public transport. Nevertheless, there is evidence that TSG support did serve to sustain this pattern of overspending due to its unhypothecated nature so the reform to the system can be understood in the context of other measures to achieve control over public transport expenditure in the major conurbations.

The other side of the coin was the persistent underspending between 1981/82 and 1984/85 on roads capital expenditure which was frustrating the achievement, in particular, of the Government's developing priorities in relation to the construction of by-passes and relief roads to serve heavier and longer distance traffic. Again, our analysis (sections 2.3 and 2.4) suggests that the issue of the way in which authorities applied TSG was secondary to the effect of the operation of the capital expenditure control system, supplemented by current expenditure restraints which affected debt charges on borrowing for roads capital expenditure. In particular, the way in which capital receipts were treated in setting capital allocations relative to gross provision placed the metropolitan and shire counties at a disadvantage in terms of the amount of receipts actually available to supplement borrowing for roads expenditure. The problem was exacerbated by competition from other priority services for the available receipts, particularly in the shire counties with their responsibilities for education and social services (section 2.3).

More generally, during the period up to 1984/85 we can discern two basic characteristics of the system of local government finance which, in their interaction, serve to explain the problems faced by the Government in bringing local authorities' transport expenditure into line with central government spending plans. The first characteristic of the system is its complexity and the interactive nature of its various parts such that changes made to one part to solve one problem have knock-on effects on other problems. In relation to local transport expenditure there are two particular problem areas: firstly, the effect on various components of transport expenditure of changes in the broader control mechanisms designed to address problems with expenditure generally or on other services; and, secondly, the relationship between the TSG system and these broader expenditure control mechanisms. These problem areas also raise the issue of the relationship between the Treasury (which plays a leading role in developing central government spending plans), the Department of the Environment (which has the main responsibility for the broader systems for control of local government expenditure) and the Department of Transport (which has the responsibility of securing resources for local transport expenditure within the context of the Government's spending plans and for distributing TSG between local authorities). Our analysis has indicated various ways in which problems developed from this first characteristic of the local government finance system.

We have seen, for example (section 2.3), that changes were introduced in 1983/84 in the system for capital expenditure control to deal with the problem of overspending in general (and on certain services such as housing and education) due to the large increase in the amounts of capital receipts accruing to local authorities from sales of land and assets. This limitation on the use of receipts combined with over-optimistic assumptions by the Government about the ability and preparedness of authorities to apply available receipts to expenditure on roads in competition with other services was a major factor, as we have seen, in the underspending on roads capital expenditure and the frustration of Government policies to promote the construction of by-passes and relief roads.

As regards the current expenditure control system, expenditure targets and penalties were introduced to address the problem of a significant degree of overspending by certain local authorities, primarily in London and metropolitan areas. However, we saw in Section 2.2.3 above that authorities in these areas were given targets in 1983/84 and 1984/85 significantly in excess of their GREs (in order to be realistic in relation to actual expenditure levels) in spite of the fact that these authorities were primarily responsible for the large overspend in relation to the Government's spending plans. On the other hand, the shire counties collectively received targets below GRE placing greater pressure, in particular, on road maintenance expenditure which declined in real terms in these authorities and fell below the Government's provision in 1984/85.

These contradictory impacts of the general expenditure control systems were exacerbated in 1983/84 by a TSG settlement which provided more resources to the GLC and metropolitan counties for use at their discretion in relation to local transport expenditure at a time when the exercise of that discretion was the main source of conflict between the Government and local authorities (section 2.4). In particular the GLC received a real terms increase in TSG at a time when its target in respect of current expenditure was significantly relaxed, thus helping to sustain revenue support expenditure, and when an increase in capital receipts helped to promote capital expenditure on public transport, in contradiction to the Government's policies and provision. On the other hand, the shire counties received less resources at a time when relatively harsh expenditure targets were impacting upon road maintenance expenditure and when the capital expenditure control system was placing restraints on these authorities' ability to pursue roads capital expenditure in accordance with Government policies.

Our analysis has indicated that the introduction of PELs following the 1983 Transport Act was a factor influencing the 1983/84 TSG settlement because the sum of PELs exceeded the provision for revenue support expenditure in the Government's spending plans and because decisions on the levels of such expenditure accepted for TSG were made with reference to PELs rather than provision. Therefore, leaving aside criticisms of its legal basis, the 1983 Act can be seen as being of dubious effectiveness to the extent that, in combination with the 1983/84 TSG settlement, it helped to sustain patterns of local transport expenditure significantly at odds with the Government's own spending plans at an important juncture in the context of the Government's efforts to bring local transport spending into line with those plans.

The above problems give the impression of a lack of a coherent and co-ordinated approach in the control of local authorities' transport expenditure but also indicate the complexity of the system and the inability of the Government to achieve simultaneously a variety of objectives relating, on the one hand, to the control of the level of local authorities' expenditure and, on the other hand, to influencing the pattern of such expenditure relative to central government spending plans. There is clearly a limit to the level of detailed control which the Government can exercise through the general systems relating to current and capital expenditure and, as we shall see in the next section, in developments since 1984 the Government has strengthened its control through measures supplementing these general control systems. However, during the period up to 1984/85 the limit to control faced by the Government indicates the importance of a second major characteristic of the system of local government finance which is also at work in the problems outlined above. This relates to the right of local authorities to determine their own expenditure priorities and to exercise their own discretion within a framework of policies and financial support provided by central government.

This principle of local discretion is, to a degree built into the general systems for controlling local authority expenditure. Thus, notwithstanding the role of GREs as the basis for the distribution of block grant, local authorities are free to determine their own priorities for current expenditure subject to rules for abatement of grant as expenditure increases. Similarly, although authorities receive allocations for capital expenditure relating to service blocks, they are free to aggregate these allocations and determine their own priorities for capital expenditure within the total. The use of prescribed receipts is also subject to authorities' own discretion. Up to 1984/85 TSG was an unhypothecated grant to support current and capital expenditure on roads and public transport and could be applied to eligible expenditure items at authorities' own discretion.

Therefore, the problems experienced by the Government up to 1984/85 in bringing local authorities' local transport expenditure into line with central government spending plans can be seen, to some extent, as evidence of the strength and importance of the role of local discretion. The problems outlined above provide examples of the way in which the exercise of discretion by local authorities interacted with difficulties generated by the effects of changes to expenditure control systems, to produce expenditure patterns at odds with the Government's policies and plans.

Thus, the capital expenditure control system, and changes made in respect of capital receipts, created difficulties for the shire counties, for example, in terms of the availability of receipts to supplement allocations but the fact that roads capital expenditure appears to have suffered in competition with other services for the available receipts is due to the degree of priority assigned to roads programmes within the authority relative to other capital programmes (section 2.3). Similarly, the decline in current expenditure on road maintenance in the shire counties in 1983/84 and 1984/85 when relatively harsh expenditure targets were imposed was basically due to the priority assigned by authorities to such expenditure relative to that on, for example, education, social services, police and fire which either remained relatively static or increased (section

2.2.3). Also, the ability of authorities to use TSG at their own discretion supported the ability of authorities to sustain expenditure patterns at variance with the Government's plans.

Therefore, the fundamental problem faced by the Government over the period up to 1984 can be seen as deriving from the interaction of, on the one hand, difficulties of complexity and co-ordination of expenditure control systems and, on the other hand, the discretion of local authorities to determine their own expenditure priorities within the context of these control systems. In the next section we examine the implications of changes introduced by the Government since 1984 which can be seen as attempting to address both these aspects of the problem. These measures serve to strengthen the degree of central government control over local authorities' expenditure through both developments of the expenditure control system and a reduction in the scope of local authority discretion in relation to local transport expenditure in the major conurbations.

3. Local Transport Expenditure Since 1984/85

3.1 Introduction

Since 1984 the Government has introduced a number of legislative measures which have had a substantial impact on local authorities' transport expenditure, particularly in relation to public transport. The effect of these measures is indicated by the fact that the proportional contribution of public transport capital and current expenditure (excluding concessionary fares) to toal local authority transport expenditure declined between 1984/85 and 1987/88 (budgets) from 31% to 15%. On the other hand expenditure on roads (current and capital) increased as a proportion of the total from 51% to 64% (H M Treasury, 1988, Table 8.1). This significant shift in the balance of local transport expenditure has also been accompanied by a change in the nature of the problem of the relationship of local authorities' expenditure to the Government's spending plans. Thus, in 1984/85, as we have seen, the Government's concern was mainly with overspending, particularly in relation to the provision for public transport. By 1987/88 the focus of concern was with underspending, particularly in relation to the provision for road maintenance (current) and construction/improvement (capital).

Because of the large number of changes since 1984 affecting local authorities' transport expenditure it is difficult to identify the relative impacts of the various measures from general data on expenditure trends. This complicates the analysis, in particular, of the implications of the reform of the TSG system which, as we have seen, restricted TSG support to capital expenditure on roads 'of more than local importance' from 1985/86. In order to set this latter analysis in the context of the range of wider changes, we examine briefly the impact of these changes in the next section before going on to address the specific issue of the reform of the TSG system.

3.2 Recent Developments Affecting Local Transport Expenditure

We saw in Section 2 above that the Government's specific concern to reduce expenditure on public transport revenue support in London and the metropolitan counties was manifested in the 1983 Transport Act. However, our analysis suggests that the achievements of this legislation are, at best, open to question and that in some respects the Act had some rather perverse effects. Certainly, in 1984/85 there was still a substantial degree of overspending on public transport current expenditure by the GLC and metropolitan counties which was causing concern for the Government. Moreover, these authorities contributed to the substantial overspend against the Government's provision for public transport capital expenditure. However, in 1985/86 overspending on revenue support decreased substantially while local authorities' capital expenditure on public transport came into line with provision (see Figures 2.1-2.3, 2.9).

The main reason for this was 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 London Regional Transport Act 1984. The Secretary of State assumed full control over the level of financing 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 substantial reduction in expenditure on local public transport in England under local authority control - 41% in real terms for current expenditure and 73% for capital expenditure between 1984/85 and 1985/86 (cf. Figures 2.1 and 2.9a). As regards expenditure on public transport in London, Figure 3.1 shows the substantial reduction in current expenditure on revenue support by LRT. The 1985/86 expenditure allowed by the Secretary of State represented a 41% reduction in real terms from the 1984/85 expenditure by the GLC and since 1985/86 current expenditure by LRT has been more than halved (to 1987/88 forecast) in line with the Government's objectives (H M Treasury, 1987, p 392-3).

In contrast to this reduction in current expenditure, Figure 2.9a indicates that capital expenditure by LRT has increased since 1985/86 in real terms - by some 17% to the 1987/88 forecast. In fact, as Figure 2.11b shows, LRT's investment expenditure in 1985/86 represented a significant increase from the total capital expenditure on public transport in London in 1984/85 (some 26% in real terms). There is some irony in this in view of the fact that the 1984/85 level of expenditure was in excess of the Government's provision by some 11%, contributing to the general local authority overspend on public transport capital of 18% (cf. Figure 2.9). Therefore, the balance of expenditure on public transport in London has changed considerably since control passed from local to central government; in 1984/85 60% of the total was current and 40% capital whereas LRT's forecast expenditure for 1987/88 is 20% revenue support and 80% capital investment (Department of Environment: Local Government Financial Statistics 1984/85; Department of Transport, 1987). This trend reflects the Government's stated objectives for public transport in London which are to increase the attractiveness and efficiency of the system and thereby promote increased revenue and higher productivity (i.e. improving the prospects for the system to operate without revenue subsidies)
(H M Treasury, 1987, p 392-3).

Since 1985/86, then, expenditure on public transport under local authority control has been dominated by the provincial metropolitan areas. In 1985/86 the overspend against the Government's provision for current expenditure on revenue support (c. 44%) was attributable to the metropolitan counties which, as Figure 3.2 shows, spent in excess of GRE in contrast to the underspend in the shire counties. Capital expenditure on public transport was virtually wholly accounted for by the MCCs and was in line with provision in 1985/86 (Figures 2.9c and 2.11). The current expenditure picture in 1985/86 in the metropolitan counties was affected by the introduction of the 'selective rate limitation scheme' (rate-capping) under the terms of the 1984 Rates Act, and the inclusion in the list of rate-capped authorities of two metropolitan counties (Merseyside and South Yorkshire). The GLC and several London Borough Councils were also included and this had implications for current expenditure on road maintenance (Department of Environment, 1984A).

As regards Merseyside and South Yorkshire Metropolitan Counties, these councils had provided relatively high levels of revenue support for public transport, accounting for nearly half of the increase in budgeted expenditure on this item in the metropolitan counties between 1980/81 and 1982/83 and in 1984/85 accounted for nearly half of the total budgets of the MCCs for revenue support compared with about 27% of the total MCC budgets for all services, excluding revenue support and concessionary fares (CIPFA Finance and General Statistics 1980/81-1984/85). The expenditure levels (ELs) given to these authorities in 1985/86 under the selective scheme represented virtually 'stand still' budgets in real terms from the previous year and, in the event, revenue support expenditure was reduced by Merseyside by some 8% in real terms but increased slightly in South Yorkshire. This compares with a decrease of 9.5% from 1984/85 in total revenue support expenditure by the MCCs, the largest declines being in Tyne and Wear (- 24%) and West Yorkshire (- 19%). This would suggest that the metropolitan counties affected by rate-capping were able to provide some protection to revenue support expenditure in comparison with other MCCs which were, of course, subject to the broader system of expenditure targets and penalties, which was made more severe in 1985/86.

The effects of rate-capping and grant penalties in 1985/86 provided the broader environment in which local transport current expenditure on revenue support and road maintenance lost Transport Supplementary Grant Support and became subject to block grant support in the same way as other local authority services. However, in 1986/87 the broader context of financial controls was changed by the ending of the system of expenditure targets and grant penalties. In its place the Government introduced a modification to the GRP component of the basic block grant formula so as to reduce the block grant entitlement of all authorities as their expenditure increased, and to increase the rate of loss of grant above a threshold level of spending (c. 10% above GRE) thus imposing heavier penalties on the larger 'overspenders' relative to GRE (see Sanderson, 1988, Annex 2). This means that GREs now play a more direct role in the expenditure control system and the implications of this for local transport expenditure will be considered in more detail together with the implications of the reform of the TSG system in the next section.

During 1986 two major legislative measures took effect which have had a considerable impact on local transport expenditure. The first measure was the 1985 Local Government Act which abolished the GLC and metropolitan counties; the second was the 1985 Transport Act which deregulated local bus transport. The GLC and the metropolitan county councils were abolished at the end of March 1986. Responsibility for public transport in the provincial metropolitan areas passed to the joint board PTAs which are subject to strict expenditure limits and precept control by the Secretary of State, while the GLC's and MCC's responsibilities for local roads passed to the London boroughs and metropolitan districts respectively. These changes had two major implications for local transport expenditure and provision.

First, the degree of central government control over public transport expenditure increased significantly through expenditure limits imposed on current expenditure and direct capital allocations to the PTAs. Second, expenditure on roads became subject to greater 'competition' from a wider range of services in the London boroughs and metropolitan districts in a context where current expenditure was no longer supported by TSG, where current expenditure restraint was exercised through a revised approach to block grant abatement, and where several of the authorities concerned were subjected to rate-capping.

Figures 3.1 and 3.2 indicate that there has been a significant reduction in current expenditure on public transport revenue support in the metropolitan areas since 1985/86 - down 37.5% in real terms to 1987/88 budgets. Figure 3.2 indicates a slight overspend by the PTAs against their GREs but nationally budgeted expenditure in 1987/88 was below the Government's provision due to underspending by the shire counties (Figures 2.3 and 3.2). Also relevant to the explanation of this trend is the second major development during 1986 - the deregulation in October of local bus services. Following deregulation local authorities must submit to competitive tendering all services requiring 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 public transport 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 (H M Treasury, 1988, p 135). This would imply that abolition of the MCCs has reduced expenditure on revenue support in 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. Of course, in the latter areas, in particular, the effects of deregulation per se must be assessed in the context of the discontinuation of TSG support for revenue support expenditure and the requirement for such expenditure to 'compete' with a range of other services within a system of expenditure restraint which reduces block grant as expenditure increases.

As indicated above, capital expenditure on public transport in the metropolitan areas is now subject to greater central government control through direct capital allocations to the PTAs. Following the discontinuation of TSG support for such expenditure from 1985/86, capital investment must now be financed either from borrowing (with block grant support for debt charges) or by specific grants which are available under Section 56 of the 1968 Transport Act, although only for large infrastructure projects. The PTAs' capital allocations also allow for grants to operators for public transport investment and such grants to British Rail in respect of rolling stock renewal have been an important element in public transport capital expenditure since 1985/86 (especially in 1987/88 when the provision for such grants by the PTAs of £55 million constituted 52% of total provision). However, the process of rolling stock renewal on BR services in the metropolitan areas will be virtually completed in 1988/89 and thereafter public transport capital expenditure will cover mainly investment in new and improved rail and bus stations, interest in the former having increased significantly in recent years, and borrowing by any local authority-owned bus companies.

This latter element has also been affected by the deregulation of local bus services so that from the financial year 1986/87 capital expenditure financed by internally-generated income in local authority-owned bus companies (and airports) has been excluded from the provision for local authority capital expenditure. Only the external financing requirement (EFL) of such companies is now included, as is the case with nationalised industries, and this includes grants and other income from government, borrowing and the capital value of leased assets (H M Treasury, 1986, p 130-3). Of the provision for local public transport capital expenditure in 1988/89, 31% is in respect of borrowing by local authority-owned bus companies, most of the remainder covering investment in rail and bus stations and interchanges (H M Treasury, 1988, p 135).

Within the context of the effects of all the above changes we can now focus on a more detailed examination of the implications for local transport expenditure of the reform of the TSG system which resulted in the restriction of TSG support from 1985/86 to capital expenditure on roads 'of more than local importance'.

3.3 The Reform of the TSG System

3.3.1 Current Expenditure Since 1984/85

With the ending of TSG support for current expenditure on road maintenance and safety and public transport revenue support, the full grant-related expenditure assessments were, from 1985/86, assigned to local authorities as the basis for the distribution of block grant support in respect of these items. Separate GREs were devised for road maintenance (including safety), and public transport revenue support outside London and new methods were developed for assigning the total GREs to individual authorities which were intended better to reflect the expenditure needs of authorities. Thus, whereas prior to 1985/86 the GRE for maintenance and revenue support (net of TSG) had been assigned primarily on the basis of population, since 1985/86 the GRE for maintenance has been sub-divided into normal and winter maintenance and street lighting and allocated on the basis of road lengths in different categories modified by traffic usage and weather data (Department of Environment, 1985A). Local transport current expenditure was thereby incorporated fully into the general block grant system (supplemented in 1985/86 by expenditure targets and grant penalties) and as a result became subject to the broader system of expenditure restraints and controls in the same way as other items of local authority current expenditure.

Looking at changes in expenditure relative to provision between 1984/85 and 1985/86 reference back to Figures 2.1 - 2.3 illustrates the extent of decline in real terms in current expenditure by local authorities and a marked reduction in overspending, particularly on revenue support. Of course, much of this is due to the loss of responsibility for public transport by the GLC but reference to Figure 3.1a shows that there was a substantial real terms decline in current expenditure on roads and public transport even if expenditure by LRT in 1985/86 is included. Figure 3.1b shows the marked reduction in expenditure in London.

Analysing the situation in more detail it is notable that there was a reduction in real terms in current expenditure which had previously been eligible for TSG which exceeded the reduction in 'provision' (see Table 3.1). However, the pattern of change in expenditure relative to the change in 'provision' (as measured by expenditure accepted for TSG in 1984/85 and by the new GREs in 1985/86) varies between programme and between classes of local authority as shown in Table 3.1. Thus, revenue support expenditure shows the largest decrease but this is consistent with the change in provision nationally. (The picture is, of course, complicated by the loss of responsibility for public transport by the GLC and this is allowed for in the national changes shown in Table 3.1.) Table 3.1 indicates a tendency in the metropolitan counties to protect revenue support expenditure relative to provision and they were probably helped in this by the increase in block grant. In the shire areas, however, real terms cuts in revenue support were greater than the reduction in provision while, on the other hand, road maintenance expenditure was reduced in real terms in spite of an increase in provision. The significant reduction in block grant for the shire counties indicates the degree of expenditure restraint faced by these authorities. In the general the change from overspending to underspending on road maintenance betwen 1984/85 and 1985/86, mainly due to real terms reductions in expenditure, suggests that the loss of TSG support may have had an adverse impact on authorities' ability to sustain expenditure on this item.

Table 3.1

Comparison of Changes in Provision, Expenditure and Block Grant Between 1984/85 and 1985/86

(Figures in percentages on real terms prices)

LA	Change in 'provision'[1]			Change in expenditure			Change in
Class	Maint	Rev Supp	Total	Maint	Rev Supp	Total	Block Grant[2]
London	- 9.6	-	- 9.6	- 9.2	-	- 9.2	- 5.0
Mets	- 0.2	- 14.1	- 6.7	- 0.8	- 9.5	- 5.9	+ 9.6
Shires	+ 2.4	- 2.9	+ 1.6	- 1.6	- 15.8	- 3.8	- 6.5
England	+ 0.2	- 10.0[3]	- 2.2[3]	- 2.8	- 11.1	- 5.3	- 6.4

Notes on Table 3.1

1 'Change in provision' is the change from 1984/85 'accepted expenditures' for maintenance and other current expenditure and revenue support to 1985/86 GREs for maintenance and revenue support (Source: DTp data and GRE 'Green Book' 1985/86).

2 'Change in block grant' is calculated from CIPFA estimates of block grant entitlement on the basis of budget estimates (Source: CIPFA Finance and General Statistics 1984/85 and 1985/86).

3 Figures for England exclude revenue support in London in 1984/85.

Trends since 1985/86 in public transport current expenditure by local authorities have been influenced heavily both by the abolition of the metropolitan counties and by bus deregulation, as indicated above. Figures 3.1a - 3.1d show the trends in real terms in current expenditure on roads and public transport nationally and in London, the metropolitan and the shire areas, illustrating the significant change in the balance between roads and public transport due primarily to the transfer of control over public transport in London and the metropolitan areas to LRT and the rate-capped PTAs respectively. Thus, the 1987/88 LRT budget represents just over a quarter of the GLC's 1984/85 expenditure (Figure 3.1b), while in the metropolitan areas the PTAs' 1987/88 budgets are down by about a quarter from the MCCs' 1985/86 expenditure. Therefore, whereas in 1984/85 public transport revenue support expenditure had comprised 30% of total current transport expenditure by English local authorities, by 1987/88 (budgets) this was down to 14%. As a result the balance of expenditure had shifted away from the large urban areas towards the shire areas with the latter increasing their proportion of total current expenditure from 43% in 1984/85 to 53% in 1987/88.

In the shire areas as indicated in the previous section, deregulation of local bus transport is likely to have been a major factor in reducing revenue support spending between 1985/86 and 1987/88 budgets by about a quarter (Figure 3.1d). However, the impact of bus deregulation per se will have been increased by the loss of TSG support for current expenditure because expenditure on supported bus services by the shire counties now has to compete 'on equal terms' against a range of demands from other services in a context (since the abolition of targets and penalties in 1986/87) where each pound of increased spending results in a loss of block grant. Thus, referring to Figure 3.2c it can be seen that in 1987/88 provision (as measured by GRE) was reduced by 14.4% for the shire counties reflecting the savings from bus deregulation expected by the Government. Nevertheless, the 1987/88 budgets of these authorities were still some 19% below the GRE suggesting that revenue support expenditure tends to 'lose out' somewhat in the competition for resources.

Nationally, budgeted expenditure on revenue support in 1987/88 was down to the level of provision as expressed by GREs (Figure 3.2a) with the spending shortfall from GRE in the shire counties counter-balanced by spending over GRE in the metropolitan PTAs. Figure 3.2b illustrates clearly the extent to which revenue support expenditure in the metropolitan areas has come into line with the Government's provision since 1985/86.

Following the reduction in 1985/86, road maintenance expenditure increased in real terms in 1986/87 by 9% nationally (Figures 2.1 and 3.1a). However, the increase was concentrated in the shire areas (+ 11%) and the metropolitan areas (+ 9%) with expenditure virtually static in real terms in London (Figures 3.1b - 3.1d). Moreover, the increase in expenditure nationally did not match the increase in provision by the Government resulting in an increased underspend (Figure 2.3). 1987/88 budget data indicate a significant increase in the degree of underspending (to some 12%) as expenditure declined in real terms relative to a further increase in provision.

Therefore, the situation pertaining in 1987/88 in respect of road maintenance represents a real terms increase in expenditure since 1983/84 of only 3% compared with an increase in provision by the Government of 21%. This increase in provision, particularly since 1985/86, was made as a reflection of "... the high priority the Government gives to maintaining the local road network ..." (H M Treasury, 1986, p 136) and "... the Government's continuing commitment to ensuring that roads are kept in a satisfactory condition" (H M Treasury, 1987, p 141). However, local authorities clearly have been unable or unwilling to increase their expenditure on road maintenance in line with the Government's plans and the explanation for this probably lies in two main factors.

On the one hand, although provision for road maintenance in the Government's spending plans has been increased substantially, local authorities have not been provided, to the same degree, with the means to meet that provision in the form of grant support for expenditure. Figure 3.3a shows that the increase in the road maintenance GRE between 1985/86 and 1987/88 (14.5% in real terms) did not match the total increase in provision (20% in real terms). Moreover, although the downward real terms trend in block grant support was halved in 1986/87 (Figure 2.7) its proportionate contribution to total English local authority relevant expenditure has continued to decline from 35% in 1985/86 to 32% in 1987/88. Therefore, the Government's broader system of expenditure controls provides a continuing climate of restraint.

The second factor is the response by local authorities to this climate in terms of expenditure levels relative to GREs. Of course, all authorities have faced, since the abolition of targets and penalties in 1986/87, a block grant distribution formula which reduces block grant as expenditure increases, with the rate of reduction increased for spending above a 'threshold', which is about 10% above GRE. In such a situation, given the incentive to maintain expenditure close to GRE, authorities have to balance their priorities with any service expenditures in excess of their particular GREs producing pressure to reduce expenditure on other services below their GREs. In view of a tendency towards continued overspending on such services as education, social services, police and fire the trend towards increasing underspending on road maintenance would indicate difficulties faced by local authorities in allocating additional resources to this item in the context of the system of block grant abatement supplemented by rate-capping.

However, the pattern differs between London, metropolitan and shire authorities. In London (Figure 3.3b) maintenance expenditure exceeds GRE but since 1985/86 the discrepancy has been reduced as expenditure has declined in real terms while the GRE has increased. This indicates a relative shift of expenditure towards other services in the London boroughs several of which are subject to rate-capping due to the large excess of expenditure over GRE. In the metropolitan areas (Figure 3.3c) maintenance expenditure has increased in real terms since 1985/86 but has nevertheless fallen further below GRE suggesting as 'even handed' approach to resource allocation in the metropolitan districts. Similarly, in the shires (Figure 3.3d) expenditure has fallen further below GRE since 1985/86 and there was a real terms reduction in expenditure in 1987/88 (budgets) suggesting increasing difficulties in sustaining priorities for maintenance expenditure in the shire counties.

In the 1988 Public Expenditure White Paper the Government acknowledged this "... increasing tendency for local authorities to underspend on maintenance ..." and argued that it indicated "... that local authorities are not according road maintenance sufficiently high priority" (H M Treasury, 1988, p 133). Consequently, provision for 1988/89 is held at the same level in cash terms as in 1987/88 representing a real terms reduction (3.4% on GDP deflator) "... to set local government a realistic target increase" (ibid. p 134). However, the maintenance GRE for 1988/89 has also been reduced in real terms to 5% below provision and since the increase in block grant hardly matches the increase in relevant expenditure (Figure 2.7) it remains to be seen whether or not authorities can deliver an increase in road maintenance expenditure in accordance with the Government's wishes. On the face of it the prospects do not appear to be promising in view of the continuing constraints on block grant and the system of abatement for spending above threshold, and in view of the pattern of spending priorities which appears to be established in local authorities facing a wide range of increasingly pressing needs for their various services.

3.3.2 Capital Expenditure Since 1984/85

The trend in public transport capital expenditure since 1984/85 was discussed in Section 3.2 above so we shall concentrate here on roads capital expenditure. As we saw in Section 2.3 above, the persistent underspending on roads capital expenditure up to 1984/85 (relative to overspending on public transport) was referred to by the Government in its rationalisation of the change in the TSG system and since 1985/86 TSG has been directed specifically at promoting the construction of roads by local authorities which are important in serving long-distance or through traffic and which complement the national system of roads for which central government retains responsibility (Department of Transport, 1984A).

In fact, between 1984/85 and 1986/87 the underspend on roads capital was transformed into a small overspend as roads expenditure increased in real terms, particularly in 1986/87 (Figure 2.9). This was the first time that capital expenditure on roads had been in excess of the Government's provision since the introduction of the new capital control system in 1981/82 and it could be interpreted as evidence of some degree of success for the new TSG system in promoting investment in larger road schemes. This is supported by the significant increase in each year since 1984/85 in the number of road schemes costing over £1 million in progress or started (planned to be started in 1987/88) during the year (See Figure 3.4; Department of Transport, 1987, p 24-5). Moreover, roads capital expenditure showed the highest rate of increase between 1984/85 and 1985/86 in London where, as we saw in Section 2.3 above, there had been a slight decline in real terms between 1982/83 and 1984/85 (Figure 2.11b). Thus, a number of extremely large road schemes have been commenced in London since the change in the TSG system including the Hayes Bypass (£64 million), Kingston Town Centre Relief Road (£21 million) and the north-south route in Enfield and Haringey (£73 million).

However, the effect of the reformed TSG system in promoting roads capital expenditure between 1984/85 and 1986/87 should be assessed in the context of the broader capital expenditure control system. Indeed, we saw in Section 2.3 the extent to which the operation of the system was responsible for underspending on roads up to 1984/85 due to the apparent inability of authorities to supplement borrowing for roads investment with capital receipts on the scale assumed by the Government. However, as Figure 2.10 shows, over the period 1984/85 to 1986/87 capital allocations were set close to provision and this must have helped authorities to meet the level of provision for roads capital expenditure by 1986/87.

The importance of the effect of the capital expenditure control system is shown even more graphically by the picture in 1987/88. According to estimated outturn figures, the trend of increasing capital expenditure on local roads was reversed abruptly in 1987/88 and, relative to a significantly increased provision (+ 13% in real terms), the forecast underspend is some 24%. Clearly, this has interrupted the progress towards the achievement of the Government's objective for local road investment. This trend can be related to a further change introduced by the Government in 1987/88 in the treatment of capital receipts in setting the relationship between capital expenditure provision and allocations. This change was introduced to accommodate the spending power accruing to authorities from capital receipts accumulated over the years due to the 'cascading' principle applying to the prescribed proportions of receipts (see above Section 2.3). By March 1987 it was estimated that local authorities had accumulated some £8 billion of capital receipts providing them with a spending power during 1987/88 of £2.15 billion compared with £0.6 billion from prescribed proportions of in-year receipts (H M Treasury, 1987, p 359-62). Consequently, from 1987/88 capital allocations were reduced for all services to allow for an assumed usage of accumulated capital receipts.

The effect of this change on the relationship between the provision for total local transport capital expenditure and the sum of authorities' capital allocations is illustrated in Figure 2.10. Whereas provision increased by 17% in real terms between 1986/87 and 1987/88 allocations were reduced by 5% and in 1987/88 allocations covered only 79% of provision. The situation relating specifically to roads capital expenditure is shown in Figure 3.5, with allocations in 1987/88 covering 84% of provision. The picture for 1988/89 is similar. We saw in Section 2.3 above that local authority transport services do not generate capital receipts on a very large scale so it is clear that the Government is assuming, in introducing this new system, that authorities will be able to transfer accumulated receipts from other services to local transport spending:

> "Local authorities' spending power from capital receipts is increasing overall and will enable gross capital expenditure for all services - including roads - to match gross

provision providing local government's overall service priorities match central government plans."

(H M Treasury, 1988, p 131)

Since the abolition of the GLC and metropolitan counties there has been some reduction in the mis-match between authorities in terms of responsibility for roads capital expenditure and spending power from capital receipts. Specifically, the situation will have been improved in London and the metropolitan areas but in the shire counties the problem remains, since the bulk of spending power from capital receipts accrues to the district councils. The extent to which the estimated outturn roads capital expenditure for 1987/88 falls short of gross provision (c. 24%) indicates that the reality does not conform to the Government's assumption (although final outturn figures are likely to be higher than the estimates). It is clear that authorities have not been able (or willing) to apply capital receipts to roads expenditure on anything like the scale assumed by the Government. It would appear, therefore, that the new approach to determining local authorities' spending power in the capital expenditure control system may be jeopardising the objective (which lay behind the reform of TSG) of promoting investment in major road schemes.

In fact, the effect of the assumptions about accumulated capital receipts in 1987/88 appears to be similar to the effect of the assumptions about in-year capital receipts as it was manifested in underspending on roads capital over the period up to 1984/85. However, the effect is magnified because of the greater degree of spending power accruing from accumulated receipts, producing a danger of a more serious degree of underspending on roads. Comparing Figures 2.9c and 2.10, it can be seen that the patterns of expenditure relative to allocation and provision in 1981/82 and 1987/88 look very similar, with the effects exaggerated in the latter year. With the experience of the early 1980s to refer to it must have been to a large degree predictable that the changes to the capital control system in 1987/88 would have an adverse effect on roads capital expenditure.

Moreover, it can be expected that this problem will have a differential impact on expenditure on road schemes which are eligible for TSG on the one hand relative to expenditure on non-TSG eligible schems on the other. In particular, major schemes costing in excess of £1 million are 'named' in TSG settlements and TSG support is contingent upon satisfactory progress being made with these schemes. Consequently, it is likely that TSG-supported major schemes will have a priority for capital allocation within an authority's total roads programme. In 1986/87 some 35% of local authorities' total roads capital expenditure was on major TSG-supported schemes.

Figure 3.5 shows that in 1987/88 expenditure accepted for TSG comprised a significantly higher proportion of the total roads capital allocation than in 1986/87 (69% compared with 61%) and in 1988/89 this proportion increased to 72%. Therefore, if, on the one hand, authorities face difficulties supplementing roads capital expenditure from capital receipts and, on the other, TSG-eligible schemes gain priority within capital allocations, then it can be surmised that non-TSG eligible road programmes will suffer disproportionately from the operation of the capital expenditure control system. From the available outturn expenditure information it is not possible as yet to test this proposition.

3.4 Discussion

Our analysis has indicated clearly the extent to which developments in central-local government relations since 1984 have had a marked impact upon local transport expenditure. In particular, the problem of overspending on current expenditure on public transport in the major conurbations has been eliminated and the focus of the Government's concern is now on underspending on roads, in terms of both current and capital expenditure. The developments since 1984 are symptomatic of a strengthening of the Conservative Government's approach to controlling local authorities' expenditure in their second term of office following the General Election in 1983. We saw in Section 2 that the reforms of the general local government expenditure control systems introduced in the Governments' first term failed to achieve the degree of control over local transport expenditure desired by the Government in relation to their spending plans. During the period up to 1984 there was a significant disjunction between the Government's plans for local transport expenditure and local authorities' policies and programmes developed in relation to their perceptions of local needs, especially in the major conurbations. We concluded (section 2.5) that the main factors behind the failure of the Government to achieve conformity with their plans were, firstly, the complexity of the systems for controlling local authorities' expenditure and the inability to achieve simultaneously a variety of objectives relating to the level of expenditure and its distribution between a wide range of services, and, secondly, the importance of the discretion left to local authorities within the framework of central government controls to determine their own expenditure priorities.

Developments since 1984 have addressed both these factors. On the one hand, the Government has introduced measures to attempt to refine the general expenditure control systems. The abolition of targets and penalties and incorporation of grant abatement rules into the general block grant formula; the introduction of rate-capping to achieve direct control over authorities whose expenditure is deemed to be 'excessive and unreasonable'; the incorporation of accumulated capital receipts into the capital expenditure control system. These measures are designed to improve the Government's ability to keep local authorities' expenditure in line with central government spending plans.

On the other hand, the Government has addressed the problem it faced due to the exercise of discretion by the local transport authorities in the major conurbations. First, responsibility of public transport in London was taken away from the GLC to be under the direct control of the Secretary of State; then the GLC and metropolitan counties were abolished altogether, with public transport in the metropolitan areas becoming the responsibility of 'joint board' PTAs whose expenditure is subject to direct control by the Secretary of State. More generally, the deregulation of local bus services, together with the ending of TSG support for current expenditure and the abolition of the upper tier authorities in the major conurbations, have dealt a serious blow to the ability of local authorities to devise plans for the integrated and co-ordinated development of local transport services and facilities in which public transport, in particular, can be supported in relation to objectives expressing the broader economic and social welfare of local communities. This too can be seen as a restriction on the discretion of local authorities to develop their expenditure priorities in relation to their perceptions of the needs of the people they represent.

Within this context, the reform of the TSG system can be seen as part of a broader move towards increased ascendency of central government plans over local discretion and priorities. The new TSG is essentially a specific grant to encourage local authorities to construct roads, the main purpose of which is to serve heavier, longer-distance and through traffic i.e. roads which are not primarily designed to meet the needs of the local communities which authorities represent and which, therefore, local authorities might not otherwise pursue. As such it is a very different animal from the original TSG which was a general grant to support local authorities' broader transport policies and programmes developed in relation to the problems and needs of local communities in such a way as to achieve co-ordinated and integrated development of all local transport services and facilities.

It is possible to see the measures introduced by the Government since 1984, designed to increase their control over local authority spending, as effecting significant changes to the 'rules of the game'. Certainly, the introduction of rate capping and the abolition of the GLC and metropolitan councils were criticised widely as having 'constitutional' implications; this kind of criticism of measures relating to local government is an indication of concern that the 'rules of the game' are indeed being tampered with. In this context the 'rules' essentially express the relationship between central and local government, specifically, the degree of autonomy and discretion allowed to local authorities to develop their policies and expenditure priorities within a wider framework of central government economic and social policies and political priorities and within the terms of central government financial support for local authorities' expenditure (cf. Sanderson, 1988, Section 2). In broad terms, these 'rules' are expressed in the basic systems for controlling local authorities' current and capital expenditure which allow authorities the discretion to determine their own expenditure priorities within total expenditure levels deemed appropriate by the Government. Perhaps the fundamental contemporary issue in central-local relations is the extent to which central government can encroach upon and circumscribe this local discretion before it undermines the traditional status and role of local government in our political system. This issue is certainly raised by the Government's present proposals for the reform of the system of local government finance which will replace domestic rates with a per capita community charge and will reform the procedures relating to non-domestic rates and central government grants to local authorities.

The trends in local transport expenditure since 1984/85 discussed in section 3.3, highlight the importance of this issue in the context of the present Government's approach to the control of local government expenditure. Thus, on the one hand, expenditure on public transport has been brought into line with the Government's spending plans but this is primarily due to the assumption of direct Government control over such expenditure in the major conurbations. In other words, the Government's 'success' in this respect derives from a major reduction in the degree and scope of local discretion. On the other hand, local authorities' roads expenditure is significantly out of line with the Government's spending plans and a major factor behind this problem is, we have argued, the exercise of local discretion of authorities in determining their expenditure priorities across a range of competing services.

Indeed, this problem of underspending against the Government's plans in respect of both road maintenance current expenditure and roads capital expenditure provides further evidence of the continuing importance of the interaction between, on the one hand, difficulties arising from the operation of the general expenditure control systems and, on the other hand, the exercise of local discretion within these control systems. We have seen (section 3.3.1) that road maintenance expenditure has fallen increasingly behind the Government's provision since the ending of TSG support and the full incorporation of such expenditure into the general block grant system. We have argued that this problem derives essentially from the process of determination of priorities by local authorities across a range of competing services within a context of expenditure restraint exercised by the Government through the system of block grant abatement supplemented by rate-capping of particular 'high-spending' authorities. It would appear to be particularly relevant in London and the metropolitan areas where road maintenance has had to compete against a wider range of other services since the abolition of the GLC and metropolitan counties. The effects of this process have probably been strengthened by the loss of TSG support in respect of such expenditure.

As regards roads capital expenditure (section 3.3.2) the development of an apparently serious underspending in more recent years can be attributed to changes in the treatment of accumulated capital receipts in the capital expenditure control system which provides a context in which the effect of the determination of priorities by authorities for the use of available receipts across the range of services is strengthened because of the greater degree of spending power involved. Within this framework there is evidence that the TSG system is succeeding in promoting the contruction of roads 'of more than local importance' in accordance with the Government's policies and priorities.

However, it is apparent that the issue of the effectiveness of the TSG system itself is intimately dependent upon the operation of the wider capital expenditure control system and that, from the point of view of roads capital expenditure, there are significant problems in the way that this system handles spending power from capital receipts. If the Government persists with the present approach to capital expenditure control, particularly in respect of accumulated capital receipts, one can foresee a potential threat to the credibility of the TSG system. This arises from the requirement for local authorities to supplement their roads allocations from capital receipts to a significant degree and the apparent greater degree of dependence of non-TSG eligible roads programmes on the availability of such receipts. We have seen that past experience indicates that roads investment tends to suffer in such a situation because of the lack of sufficient receipts in the authorities with road construction responsibilities and/or because of competition from other services (e.g. education, social services) for the available receipts. If non-TSG eligible roads programmes begin to suffer disproportionately there is danger of frustration developing amongst local authorities because non-TSG eligible schemes are, by definition, directed more at the needs of local communities whose interests they represent. This could then result in a reduced enthusiasm for TSG eligible schemes, notwithstanding the availability of grant, in an attempt to make more progress with road schemes which are, specifically, of local importance. It remains to be seen whether or not this potential threat to the achievement of the objectives of the TSG system materialises in the longer term. Much depends, of course, on the Government's approach to capital expenditure control and proposals for further changes to the system are being considered by the Secretary of State for the Environment.

The picture in respect of roads expenditure, therefore, presents an interesting contrast with that in respect of public transport and it highlights the importance of the issue of the future role and importance of local autonomy and discretion in a context where one of the Government's priority objectives is to achieve control over local government expenditure in relation to central government spending plans. Indeed, the Government's concern about underspending on road maintenance has raised the prospect of further changes affecting the financing of local transport expenditure which could have implications for the scope of local authorities' discretion. As indicated earlier, the Government's present proposals for the reform of the system of local government finance embody a radical response by the Government to this tension between local autonomy and discretion on the one hand and central control on the other, and can be seen as a logical extension of this Government's approach, manifested in the series of measures introduced since 1980 (and more particularly since 1984), involving the progressive circumscription of the scope for local authorities to exercise discretion in such a way as to produce expenditure consequences at odds with the Government's plans.

4. Summary and Conclusions

The present Government has pursued an intensive programme of legislative reform over the past eight years or so with the aim of achieving greater control over local authorities' expenditure and bringing such expenditure into line with central government objectives and spending plans. This report presents the results of our analysis of the impacts of this programme upon local authorities' transport expenditure. The next stage in our research will comprise an assessment of the implications for authorities' ability to address local transport problems and needs and will be the subject of a subsequent report.

The reforms of the general local government expenditure control systems introduced during the Government's first term of office (1979-83) failed to achieve the desired degree of control over local transport expenditure. During the period up to 1984 there was a significant degree of overspending by local authorities, particularly on public transport in London and the metropolitan areas. This was primarily due 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 objectives. On the other hand, local authorities consistently underspent the Government's provision for roads capital expenditure, frustrating the Government's developing objectives in relation to the promotion of the construction of roads to serve heavy and longer distance traffic (sections 2.2.1 and 2.2.2).

The main factors behind the Government's failure to bring local authority spending into line with central spending plans were, firstly, the complexity of the systems for controlling local authorities' expenditure and the inability to achieve simultaneously a range of objectives relating to both the level of expenditure and its distribution between a wide range of services and, secondly, the importance of the discretion left to local authorities, within the framework of central government control mechanisms, to determine their own expenditure priorities (section 2.5).

The principle of local discretion was built into the arrangement for Transport Supplementary Grant (TSG) which was, before 1985/86, a block grant to support authorities' local transport policies and programmes as a whole. The operation of the TSG system per se cannot be seen as the main source of the Government's frustration with local authorities' spending behaviour but it certainly contributed to the broader problem in two ways. First, as an unhypothecated grant it supported patterns of expenditure arising from the exercise of local discretion by authorities in the major conurbations whose perceptions of spending needs differed radically from the Government's plans. Secondly, it added complexity to the system for control of local authority expenditure providing local authorities with an additional degree of discretion within the broader framework of central government control mechanisms (section 2.4).

As regards this latter aspect of the problem, the TSG system can indeed be seen as having become something of an anachronism in the context of the Government's policies and priorities during the early 1980s. Originally, devised with a view to promoting local transport expenditure in the context of co-ordinated and integrated plans, it had become rather a hindrance to a Government concerned primarily to achieve greater control over local authorities' expenditure in terms of both its level and distribution between programme areas. The reform of the system, restricting TSG support from 1985/86 to capital expenditure on roads serving primarily heavy and longer distance traffic, can be seen as consistent with the Government's broader approach to achieving conformity with central spending plans which embodied a shift of resources away from public transport towards roads.

The emphasis placed by the Government, in their reasoning behind the reform of the TSG system, on its role in supporting the recalcitrant spending behaviour of certain local authorities can be seen as underplaying the role of the broader expenditure control systems. In particular, underspending on roads capital expenditure was attributable primarily to the priorities established by authorities in response to the operation of the capital expenditure control system. Specifically, the treatment of capital receipts in this sytem disadvantaged authorities in shire and metropolitan areas with road construction responsibilities (section 2.3).

The complexity of the control systems developed by the Government was an important factor, with local transport expenditure being affected by changes designed to achieve broader control objectives. Thus, the changes in the treatment of capital receipts in the capital expenditure control system was a response to serious overspending, particularly on housing and education programmes, but exacerbated underspending on roads programmes (section 2.3). The system of expenditure targets and penalties in respect of current expenditure was aimed particularly at high spending authorities in London and the metropolitan areas but had a major restraining impact on the shire counties which affected their transport expenditure; particularly current expenditure on road maintenance but also capital expenditure via debt charges (section 2.2.3).

These contradictory impacts of the general expenditure control systems on local transport expenditure were compounded by the impact of the 1983 Transport Act which introduced 'Protected Expenditure Levels' (PELs) in respect of public transport revenue support for the GLC and Metropolitan Counties. Notwithstanding the effect of PELs restraining the growth in revenue support expenditure, they rather served to confuse the issue of what constituted appropriate yardsticks for expenditure relative to the Government's spending plans and they had an impact on the distribution of TSG resources, particularly in 1983/84, which can be seen as rather perverse in terms of the Government's plans and objectives (section 2.2.2 and 2.4).

The problem faced by the Government in their inability to achieve a range of (not mutually consistent) objectives with their general expenditure control systems therefore compounded their difficulties arising from the discretion available to local authorities to pursue spending priorities at odds with central government plans. Up to 1984 the Government's difficulties in bringing authorities into line with such plans indeed are indicative of the strength and importance of local autonomy and discretion exercised within the framework of the Government's broader control systems. Thus, overspending on public transport and underspending on road construction arose from the decision-making processes in local authorities on the allocation of resources available to them, within the constraints of central government controls in response to the wide range of problems and needs perceived as requiring attention in their areas (section 2.5).

Since 1984, however, the Government has introduced a series of radical measures which have addressed specifically the influence of local authorities' discretion upon transport expenditure. There have also been various modifications and refinements to the broader expenditure control mechanisms. These changes have been designed to improve the Government's ability to bring local authorities' expenditure into line with central spending plans (section 3.2).

Such changes include the transfer of responsibility for public transport in London in 1984 to a nationalised industry, London Regional Transport; the abolition of the GLC and metropolitan counties in 1986 and the transfer of responsibility for public transport in the latter areas to PTAs subject to direct expenditure control by the Government; the deregulation of local bus transport, also in 1986; and the ending of TSG support for transport current expenditure from 1985/86. The net result of these measures 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 develop integrated and co-ordinated plans for the development of local transport services and facilities in relation to 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 (section 3.4).

These measures, together with the introduction of 'rate-capping', changes in the system for block grant 'abatement' for 'high spending' authorities, and further changes in the treatment of capital receipts in the capital expenditure control system, have effected considerable changes in the level and pattern of local authorities' transport expenditure since 1984. In particular, expenditure on local public transport has been reduced and brought into line with the Government's plans directly due to the circumscription of local authorities' control over public transport spending in the major conurbations. On the other hand, whilst expenditure on roads programmes has increased, underspending against the Government's plans for such programmes has become a more serious problem. This problem, again, reflects the exercise of local authorities' priorities within the constraints imposed by the broader expenditure control system (section 3.3).

In the case of road maintenance, since the ending of TSG support it has had to compete with other services on an equal footing in a context of constrained block grant support and since the abolition of the GLC and metropolitan counties it has had to compete with a wider range of services in the London boroughs and metropolitan districts. Underspending on road maintenance derives from the interaction of the tight restraints on local authorities' current expenditure by the Government and the determination of expenditure priorities between services by authorities within the overall restraints (section 3.3.1). As regards roads capital expenditure, changes in the treatment of capital receipts have resulted in increased constraints on resources for certain highway authorities (particularly the shire counties) and the serious underspend again reflects the inability of authorities both to generate receipts on a scale assumed by the Government and to allocate available receipts to roads programmes in competition with other services (section 3.3.2).

The reform of the TSG system, to provide support from 1985/86 only for capital expenditure on roads 'of more than local importance', serving heavier and longer distance traffic, can be seen as part of the broader pattern of increased ascendancy of central government plans over locally-determined policies and priorities. TSG is now essentially a specific grant to encourage local authorities to construct roads which are not primarily designed to meet the needs of local communities within the context of an integrated and co-ordinated plan for all local transport services and facilities - i.e. roads to which local authorities might otherwise assign a relatively low priority. This makes it radically different from the original TSG which was a general grant for use at authorities' discretion to support their broader transport plans and programmes developed specifically in relation to the perceived needs of local communities in such a way as to achieve local co-ordination and integration. This radical difference in scope and purpose, which reflects the change in the Government's philosophy for, and approach to, local transport is to some extent masked by the retention of the same name for the grant and the 'Transport Policies and Programme' submissions.

There is some evidence (although it is too early to be conclusive) that the new TSG system is succeeding in promoting the construction by local authorities of roads of 'more than local importance' and, to date, it would appear that authorities are, in general, conforming to the Government's approach and bringing forward large numbers of schemes in bids for TSG resources. However, there is also some preliminary evidence that the operation of the broader capital expenditure control system (specifically the treatment of accumulated capital receipts) may be imposing more severe constraints on non-TSG eligible schemes (i.e. those specifically of more importance to local communities) and, in the absence of changes in the treatment of capital receipts in this system, this might pose a potential threat to authorities' enthusiasm for, and commitment to, the TSG system (section 3.4).

In general, then, our analysis highlights the salience of the issue of the role and importance of local government autonomy and discretion relative to central government control and, indeed, raises the fundamental question of the extent to which central government can encroach upon and circumscribe this autonomy and discretion before it undermines the traditional status and role of local government in our political system. Clearly, a healthy system of local democracy will produce diversity and will generate some tension and conflict between local and central government. Central government must be prepared to accept the failure of local authorities' expenditure priorities to match central spending plans as a necessary cost of a tradition of strong local government exercising discretion in relation to perceived local problems and needs. The record of the present Government, however, indicates a lack of faith in local government and an unwillingness to accept this cost.

The political and economic framework within which local authorities can exercise their own discretion is, therefore, being modified radically by the Government and the changes we discuss in relation to local transport expenditure (such as the reform of the TSG system) can be seen as part of this broader programme. We highlight the significance of such measures as 'rate-capping' and the abolition of the GLC and metropolitan counties in this respect and, in general, indicate the importance of the broader expenditure control systems. The Government's present proposals for the reform of the system of local government finance, introducing the 'community charge', national business rate and changes to the grant system, represent a further radical response to the tension between local autonomy and central control which, together with other measures (affecting, for example, education and housing) will erode further the scope for local authorities to exercise their discretion in such a way as to produce expenditure consequences at odds with the Government's plans.

5. Research Issues

This report has presented findings from the second stage of our research which has involved analysis of data relating to trends in local authorities' transport expenditure relative to the provision for such expenditure expressed in the Government's spending plans. On the basis of this analysis we have been able to draw certain conclusions about the impact of changes in central government policies and controls relating to local government finance upon local authorities' transport expenditure. The next stage of our research aims to take this analysis further by examining information from a sample of local authorities to achieve two main objectives. The first is to obtain further detailed evidence in relation to the findings and conclusions presented in this report, in particular to examine the extent to which measures introduced by the Government actually caused changes in local authorities 'expenditure. The second objective is to take the analysis beyond the effect on local authorities' expenditure and to examine the effects on their transport outputs and their ability to address the transport problems and needs which they face in their areas.

Certain issues emerge from our research to date which provide a focus for the analysis during the next stage. The primary aim, of course, will be to provide an assessment of the impact of the reform of the TSG system, such an assessment being undertaken in the context of the operation of the general systems for control of local authorities' current and capital expenditure, in the sense that it must refer both to the impact on roads capital expenditure and to the implications for expenditure which lost TSG support in 1985/86 and now receive grant support from other sources. Within this framework we can identify the following issues for the next phase of our research.

1. We will examine the impact during the period up to 1984/85 (and particularly from 1982/83 onwards) upon local authorities' ability to address perceived local transport problems and needs of:

    a) Restraints on block grant and the operation of expenditure targets and penalties, particularly in relation to public transport revenue support and road maintenance;

    b) The operation of the capital expenditure control system, particularly in respect of the availability and application of capital receipts, with reference to road construction and improvement;

    c) Changes in the level of resources provided through TSG settlements in relation to the effects of the broader controls on current and capital expenditure.

    In the light of the availability of information from local authorities and the timescale of our research, the above analysis will be undertaken primarily in relation to a sample of shire counties.

2. For the period from 1985/86 to the present we will focus on assessment of the impact of the reform of the TSG system on selected local authorities' transport expenditure and provision against the background of the pre-1985/86 analysis (cf. 1 above), and, again, in the context of the broader expenditure controls systems, and other major changes affecting the provision of local transport services. Our analysis will focus on two main questions:

a) How has the ability of local authorities to meet current expenditure needs fared since the ending of TSG support and the full integration of such expenditure into the general block grant system? In relation to this question we will examine the impact on road maintenance in the shire counties and metropolitan districts and on revenue support in the shire counties (bearing in mind the impact of deregulation).

(b) What has been the impact of the reform of the TSG system, in the context of the broader capital expenditure control system, on the ability of local authorities to meet needs for road construction and improvement in their areas? Here, we will wish to address certain specific issues:

i) The effectiveness of the TSG system in the context of the general capital control system in promoting the construction by local authorities of roads of more than local importance;

ii) The impact on authorities ability to pursue road capital programmes which address the problems and needs of their areas. There are two components to this issue: firstly, the extent to which roads of more than local importance serve the needs of local communities; and, secondly, the extent to which authorities have been able to progress non-TSG eligible road schemes;

iii) The impact of the Government's approach to the treatment of capital receipts in the capital expenditure control system.

The analysis of these issues will be undertaken on the basis of information from both shire counties and metropolitan districts.

Annex : Real Terms Price Indices

1. GDP Deflator at Market Prices

a. Conversion from financial year to financial year

Financial Year	Index (1986/87 = 100)	Conversion Factors to Real Terms Prices 1979/80	1981/82
1977/78	46.4	1.2953	1.6853
1978/79	51.4	1.1693	1.5214
1979/80	60.1	1.0000	1.3012
1980/81	71.2	0.8441	1.0983
1981/82	78.2	0.7685	1.0000
1982/83	83.8	0.7172	0.9332
1983/84	87.7	0.6853	0.8917
1984/85	91.5	0.6568	0.8546
1985/86	97.1	0.6189	0.8054
1986/87	100.0	0.6010	0.7820
1987/88[1]	104.2	0.5768	0.7505
1988/89[1]	108.9	0.5569	0.7181

Note [1]: Indices for 1987/88 and 1988/89 are forecasts.

Source: H M Treasury 1988, Volume 1, Tables 5.2, p 91.

b. Conversion from November prices to financial year

Fourth Quarter of Year	Index	Conversion Factor to 1979/80
1977	68.1	1.2780
1978	75.9	1.1560
1979	89.3	0.9798
1980	105.8	0.8284
1981	114.8	0.7613
1982	122.9	0.7106
1983	128.6	0.6780
1984	134.1	0.6518
1985	143.5	0.6091
1986	146.7	0.5958

Source: Economic Trends, Annual Supplement 1987 and December 1987 issue, Central Statistical Office, HMSO.

2. Road Maintenance and Lighting Price Indices

November of Year	Maintenance Index (Nov 1975 = 100)	Maintenance Conversion Factor Nov 1979 prices	Maintenance and Lighting Index (Nov 1975 = 100)	Maintenance and Lighting Conversion Factor Nov 1979 prices
1977	129	1.357	129	1.341
1978	144	1.215	144	1.201
1979	175	1.000	173	1.000
1980	212	0.825	210	0.824
1981	235	0.745	233	0.742
1982	253	0.692	252	0.686
1983	267	0.655	265	0.653
1984	282	0.621	279	0.620
1985	305	0.574	301	0.575
1986	311	0.563	308	0.562
1987	331	0.529	327	0.529

Source: Transport Statistics Great Britain 1976-1986, HMSO, 1987 Table 1.21 and Department of Transport

Notes on Figures

General:

1. Deflation of expenditure data to constant prices has been effected using the indices set out in the Annex to this report. For most data, the GDP market price deflator is used but for roads current expenditure the maintenance and lighting price index is applied.

2. The term 'provision' is used to refer to the expenditure provided for by the Government in their spending plans as set out in the annual Public Expenditure White Paper. Where there are exceptions to this general rule they are highlighted in the notes to individual figures.

3. All data relates to local authorities in England.

Figures 2.1 - 2.3:

1.

'Conc Fares'	=	expenditure on concessionary fares on public transport
'Pub Trans'	=	revenue support expenditure on public transport including bus, underground, ferry and rail services
'Admin'	=	professional and technical services
'Roads'	=	maintenance, lighting and road safety

2. Source is the annual Public Expenditure White Paper (H.M. Treasury 1979-1988).

Figure 2.4

1.

'Shire CCs'	=	Shire County Councils
'MCCs'	=	Metropolitan County Councils
'GLC'	=	Greater London Council

2. Source is CIPFA Highway and Transportation Statistics 1979/80 - 1984/85 and data provided by the Department of Transport.

Figure 2.5

1. See note 1, Figure 2.4.

2.

'Provision'	=	expenditure provided for by the Government in the annual Public Expenditure White Paper
'Accepted Expend'	=	expenditure accepted by the Government for Transport Supplementary Grant (TSG) support
'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

3. Source: cf. Figure 2.4 and H.M. Treasury (1979-1984).

Figure 2.6

1. See notes 1 and 2, Figure 2.5.

2. Source: cf. Figure 2.5.

Figure 2.7

1. 'Spec. Grants' = Specific and supplementary grants (e.g. Police grant, TSG)
   'AEG' = Aggregate Exchequer Grant
   'Rel Expend' = Relevant expenditure (this is defined in detail in the annual Rate Support Grant Report (England) (cf. Department of Environment 1987)

2. Source: annual Rate Support Grant Reports (Department of the Environment 1980-1987).

Figure 2.8

1. This figure expresses expenditure targets specified by the Government as a percentage of total Grant-Related Expenditure by class of local authority.

2. See note 1, Figure 2.5.

3. Source: CIPFA Finance and General Statistics 1982/83 - 1985/86 and data provided by the Department of the Environment.

Figure 2.9

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: annual Public Expenditure White Paper (H.M. Treasury 1981-1988).

Figure 2.10

1. Expenditure is in cash terms (outturn prices).

2. 'Allocation' = Sum of capital allocations in respect of the total transport block for English local authorities

   'Provision' = gross expenditure provision (i.e. the 'cash limit') for English local authorities for all transport capital spending.

3. Source: annual Public Expenditure White Paper (H.M. Treasury 1981-1988) and data on capital allocations provided by the Department of the Environment.

Figure 2.11

1. 'LRT' = investment expenditure (including renewals) by London Regional Transport

   'Pub Trans' = expenditure on local authorities' rate fund capital accounts on public transport

   'Roads/Other' = expenditure on local authorities' rate fund capital accounts on road construction and improvement, car parking, public lighting and road safety

2. Source: Local Government Financial Statistics 1979/80 - 1985/86, (H.M.S.O.), and H.M. Treasury (1987).

Figure 2.12

1. See note 2, Figure 2.5.

2. Source: Data supplied by the Department of Transport.

Figure 2.13

1. This figure compares local authority classes in terms of the relationship between, on the one hand, the proportion of the total of capital expenditure taken up by transport and, on the other hand, the proportion of total capital expenditure financed from capital receipts (e.g. income from disposal of land and assets).

2. GLC = Greater London Council
   MCC = Metropolitan County Councils
   SCC = Shire County Councils
   LBC = London Borough Councils
   MDC = Metropolitan District Councils
   SDC = Shire District Councils

3. Source: CIPFA Capital Expenditure and Debt Financing Statistics 1981/82 - 1985/86.

Figure 2.14

1. See note 2, Figure 2.5.
2. Source: Data supplied by the Department of Transport.

Figure 2.15

1. This figure compares, for English local authorities as a whole and for LA classes, the proportion of TSG applied to revenue expenditure with the proportion of accepted expenditure accounted for by revenue items.

2. Source: Data provided by Department of Transport and CIPFA Finance and General Statistics 1979/80 - 1984/85.

Figure 3.1

1. 'Conc Fares' = expenditure on concessionary fares on public transport
   'LRT' = expenditure by London Regional Transport on revenue support
   'Rev Supp' = expenditure by local authorities and PTAs on public transport revenue support including bus, ferry and rail
   'Roads' = expenditure on road maintenance, lighting and safety.

2. Source: Data supplied by Department of Transport.

Figure 3.2

1. 'Provision' refers in this figures to the following:

   a) 1983/84 and 1984/85 expenditure accepted for TSG support
   b) 1985/86 to 1987/88 grant-related expenditures for current expenditure on passenger transport

2. Source: Data supplied by Department of Transport; Department of Environment Grant-Related Expenditure 'Green Books' 1985/86 - 1987/88.

Figure 3.3

1. 'Provision' is defined in the same way as in Figure 3.2, the relevant GRE being the sum of normal and winter maintenance and street lighting.

   'PEWP' refers here to the expenditure provided for by the Government in the annual Public Expenditure White Paper.

2. Source: cf Figure 3.2; H.M. Treasury (1983-1987).

Figure 3.4

1. This figure presents data on local authorities' actual and planned performance on major road schemes.

2. Source: Department of Transport (1987, Figure 12, p. 25).

Figure 3.5

1. This figure presents data relating to capital expenditure on road construction and improvement in cash terms (outturn and forecast outturn prices).

2. 'Accepted Expend' = capital expenditure on roads 'of more than local importance' accepted for TSG support
   'Allocation' = capital allocations for all roads capital expenditure including both TSG eligible and non TSG eligible schemes
   'Provision' = gross provision by the Government for expenditure on roads

3. Source: Data supplied by Department of Transport and H.M. Treasury (1985 - 1988).

FIGURE 2.1

LOCAL TRANSPORT CURRENT EXPENDITURE: ENGLAND 1979/80–1987/88

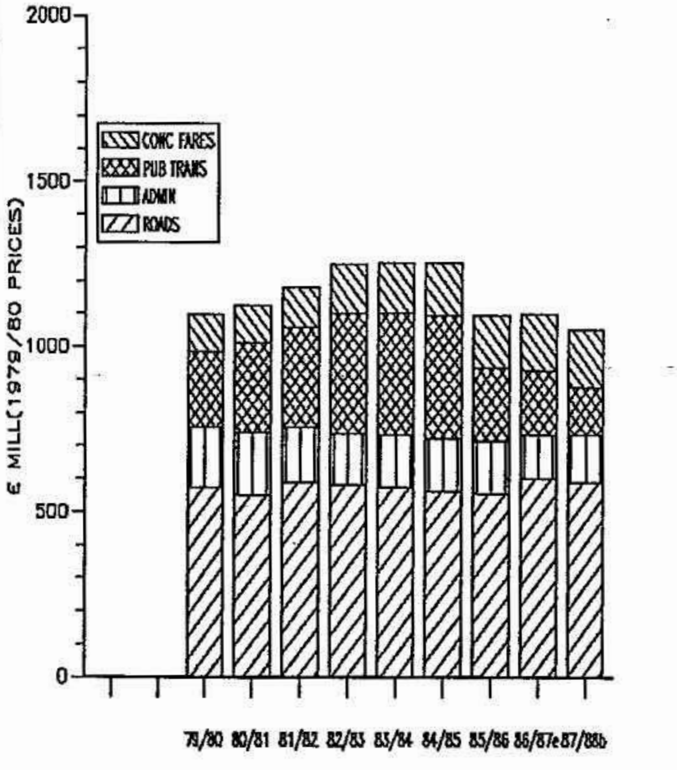


FIGURE 2.2

LOCAL TRANSPORT CURRENT PROVISION: ENGLAND 1979/80–1988/89

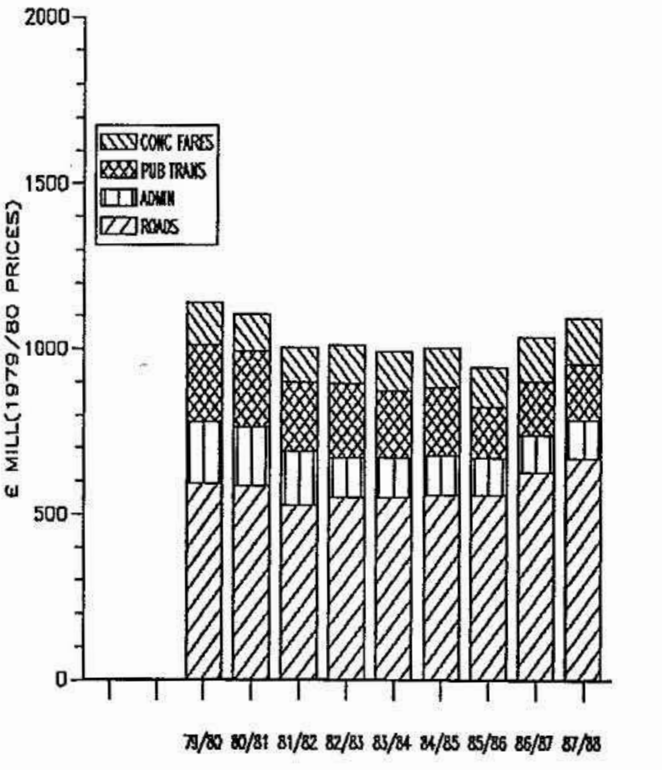


FIGURE 2.3

LOCAL TRANSPORT CURRENT EXPENDITURE V PROVISION

1979/80–1987/88

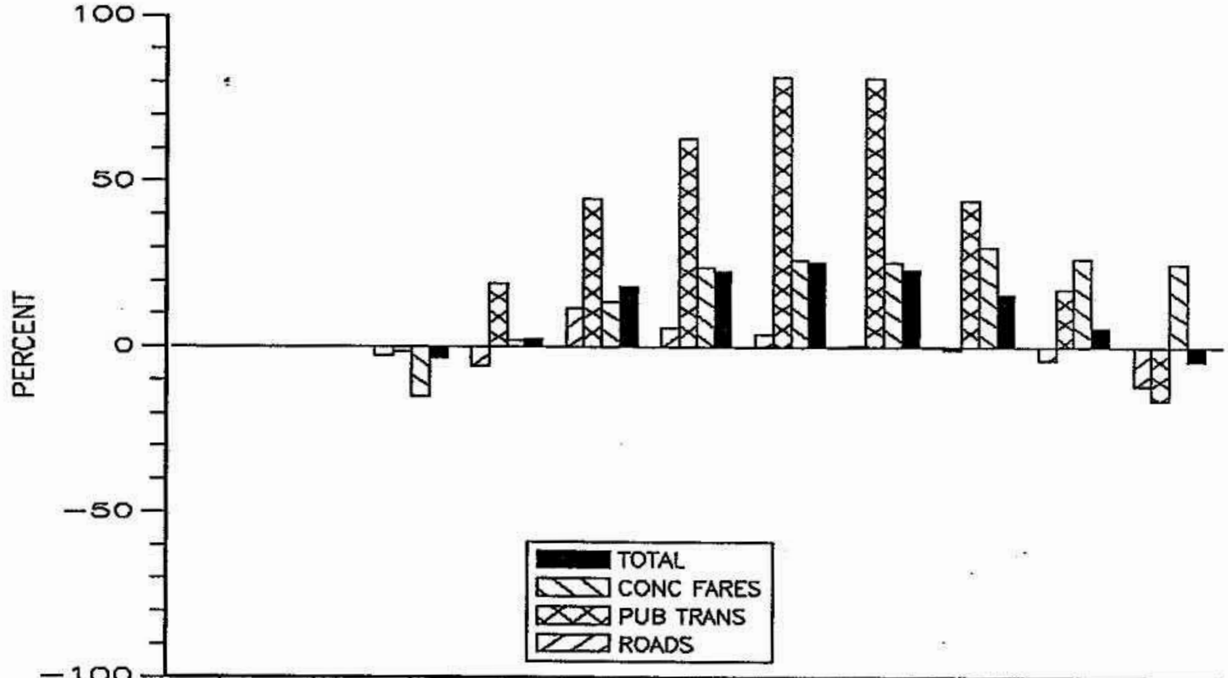


FIGURE 2.4

REVENUE SUPPORT EXPENDITURE: 1979/80–1984/85

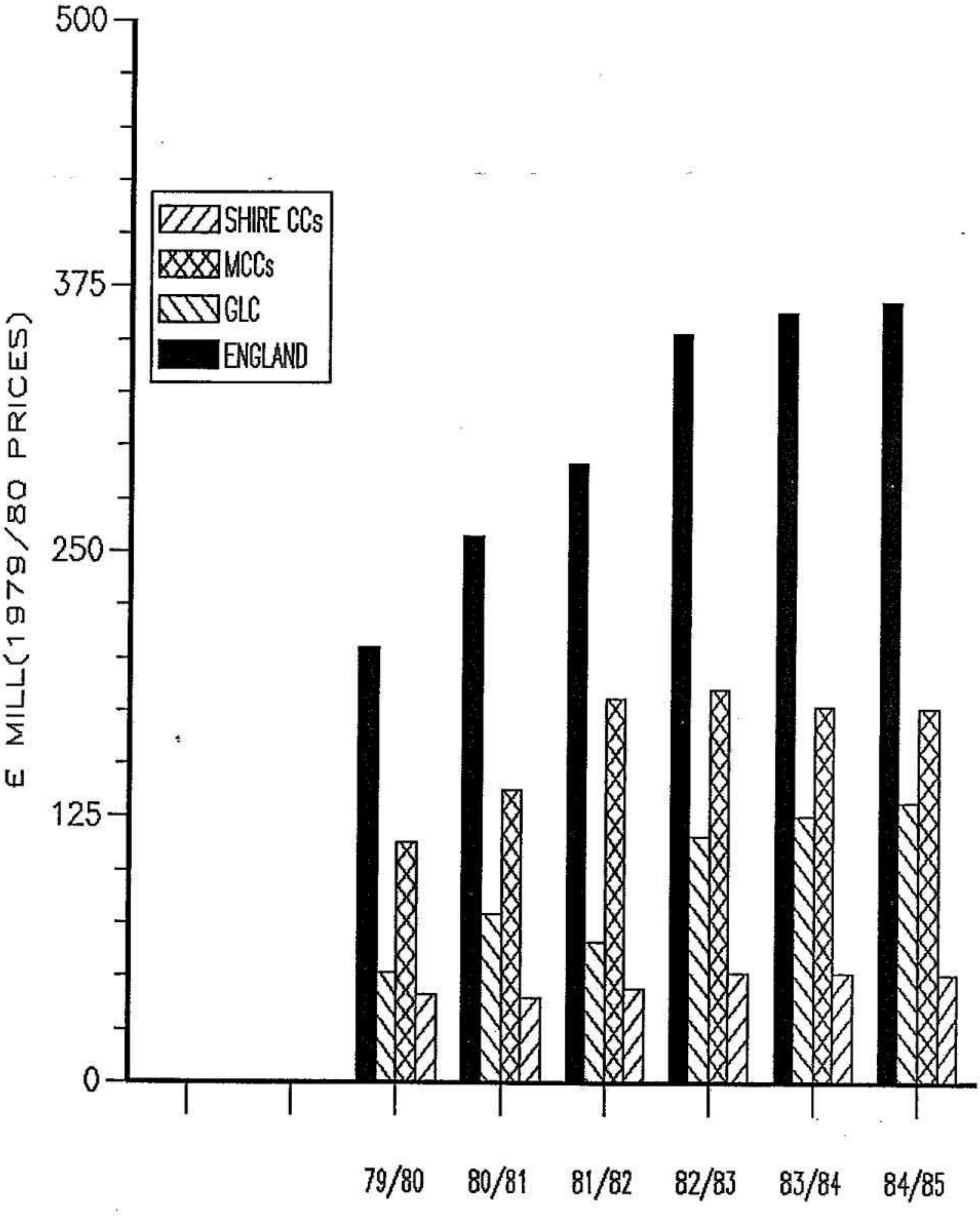


FIGURE 2.5a

REVENUE SUPPORT: TPP BIDS, PROVISION AND OUTTURN

ENGLAND 1979/80–1984/85

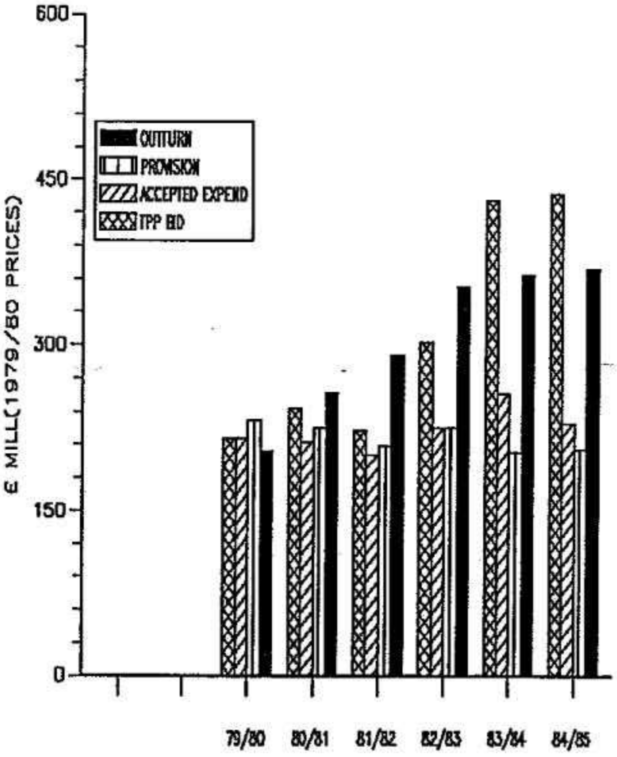


FIGURE 2.5b

REVENUE SUPPORT: TPP BID, PROVISION AND OUTTURN

GLC 1979/80–1984/85

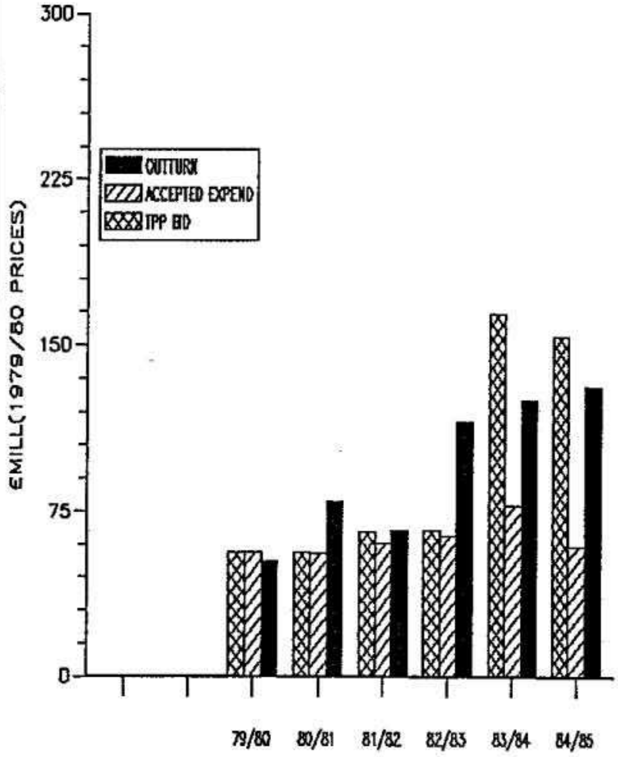


FIGURE 2.5c

REVENUE SUPPORT: TPP BID, PROVISION AND OUTTURN

METROPOLITAN COUNTIES 1979/80–1984/85

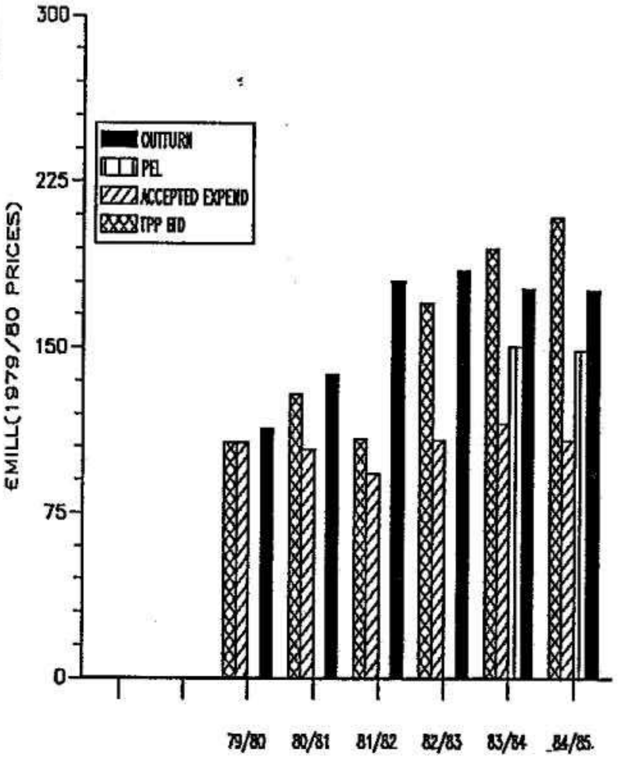


FIGURE 2.5d

REVENUE SUPPORT: TPP BID, PROVISION AND OUTTURN

SHIRE COUNTIES 1979/80–1984/85

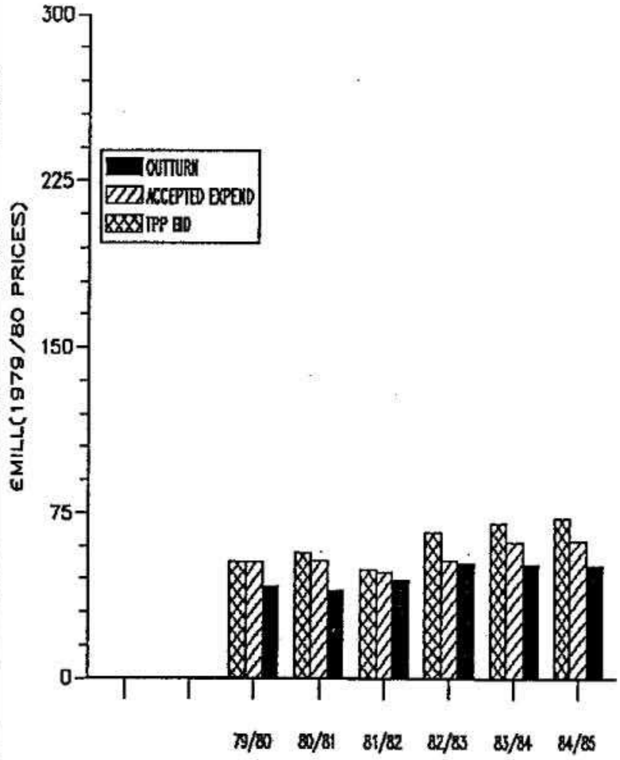


FIGURE 2.5e

REVENUE SUPPORT: OUTTURN V ACCEPTED EXPENDITURE

1979/80–1984/85

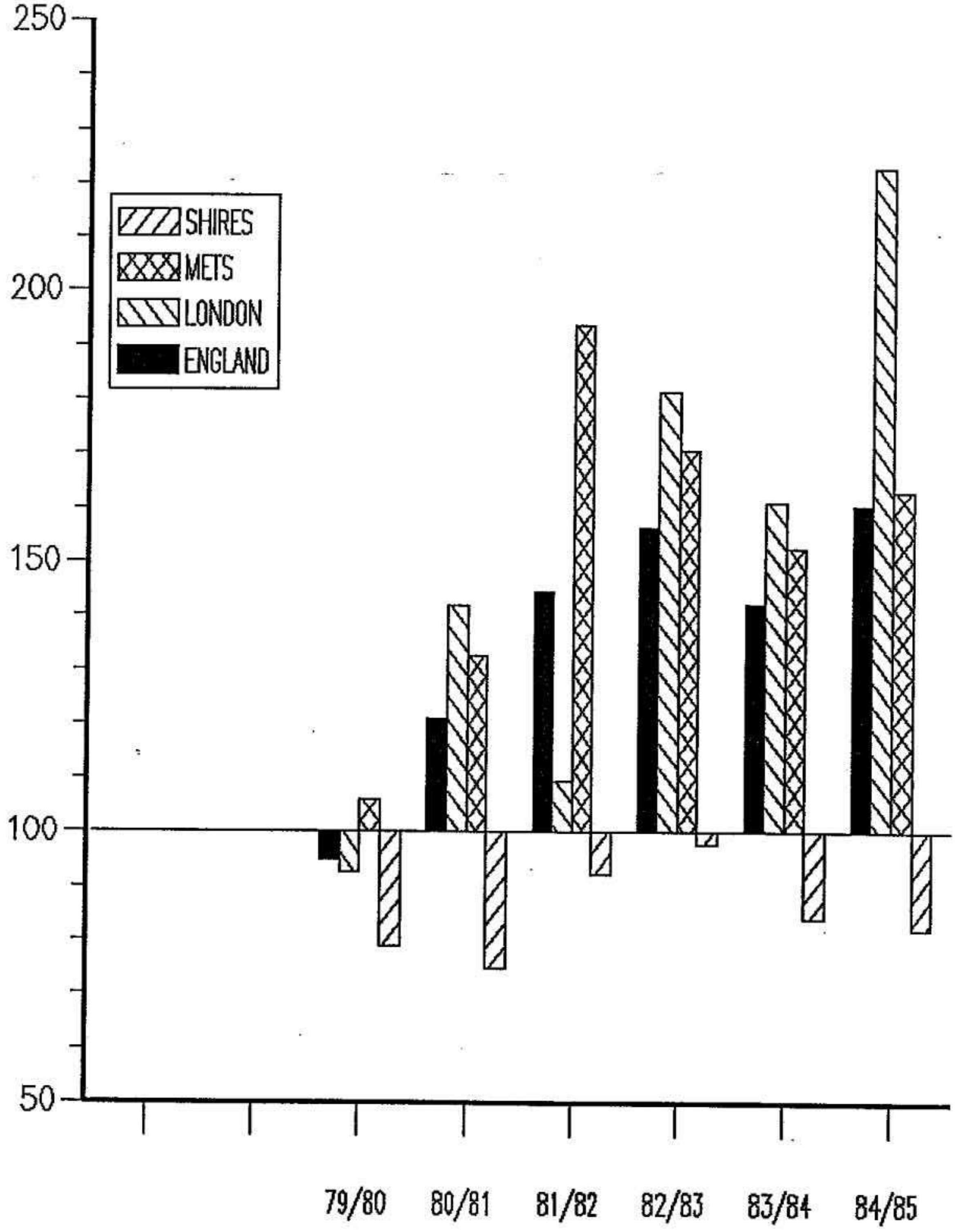


FIGURE 2.6a

MAINTENANCE: TPP BIDS, PROVISION AND OUTTURN

ENGLAND 1979/80–1984/85

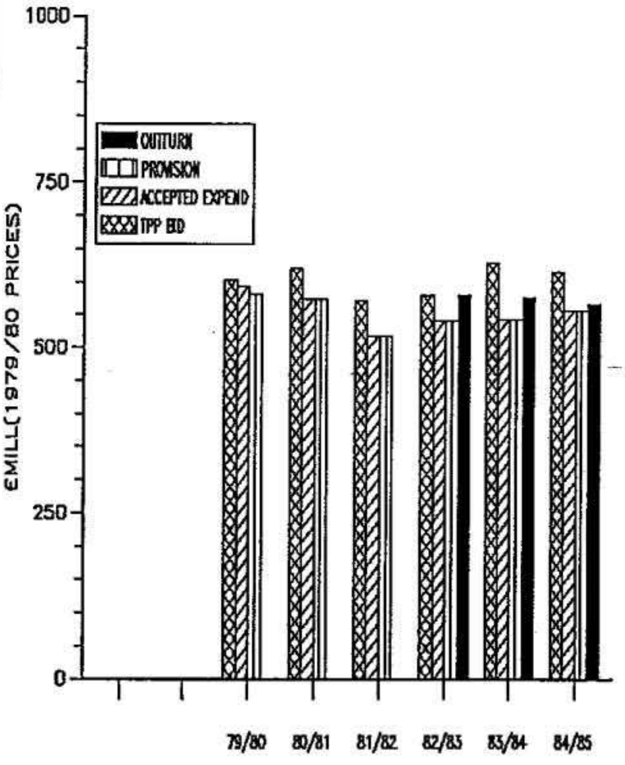


FIGURE 2.6b

MAINTENANCE: TPP BID, PROVISION AND OUTTURN

LONDON 1979/80–1984/85

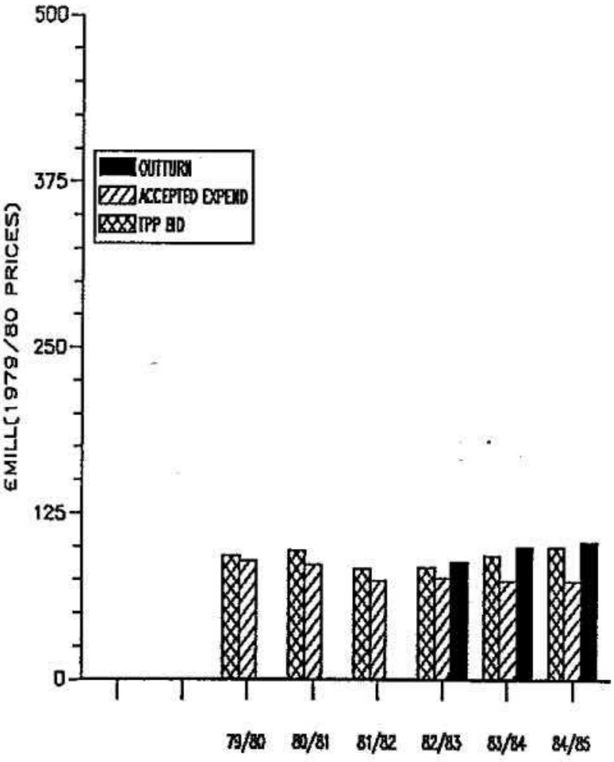


FIGURE 2.6c

MAINTENANCE: TPP BID, PROVISION AND OUTTURN

METROPOLITAN AREAS 1979/80–1984/85

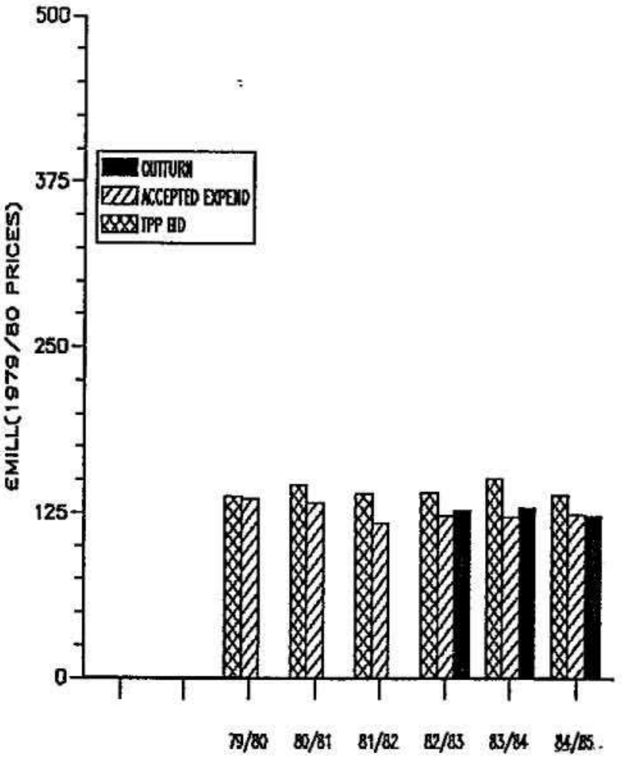


FIGURE 2.6d

MAINTENANCE: TPP BID, PROVISION AND OUTTURN

SHIRE AREAS 1979/80–1984/85

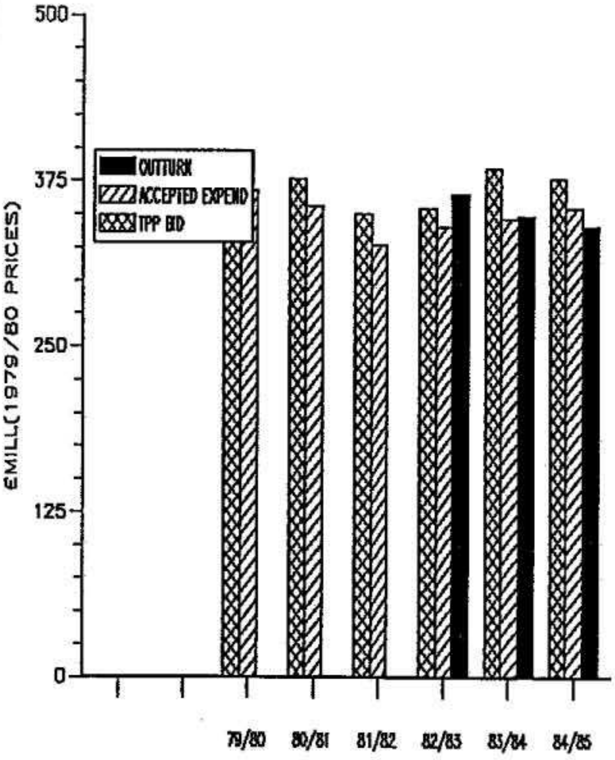


FIGURE 2.7

GOVERNMENT GRANTS TO LOCAL AUTHORITY EXPENDITURE

1981/82–1988/89

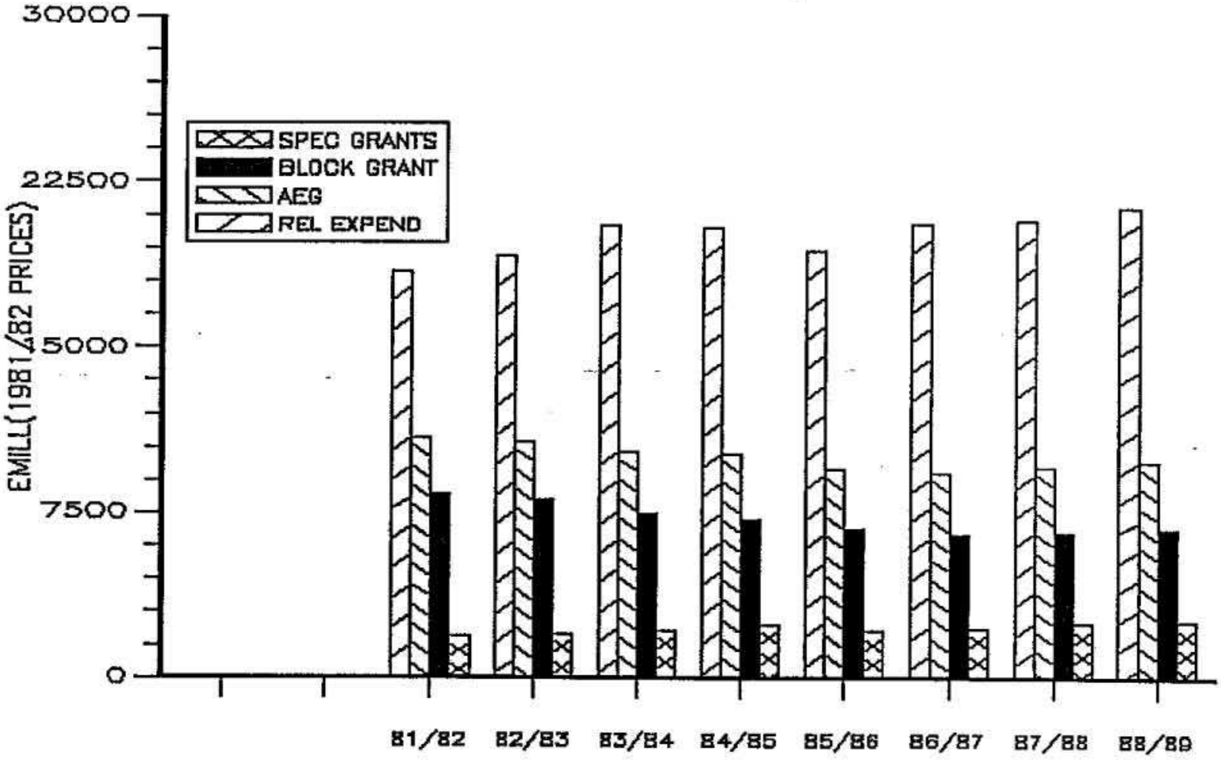


FIGURE 2.8

EXPENDITURE TARGETS AS PERCENTAGE OF GRE

1982/83–1985/86

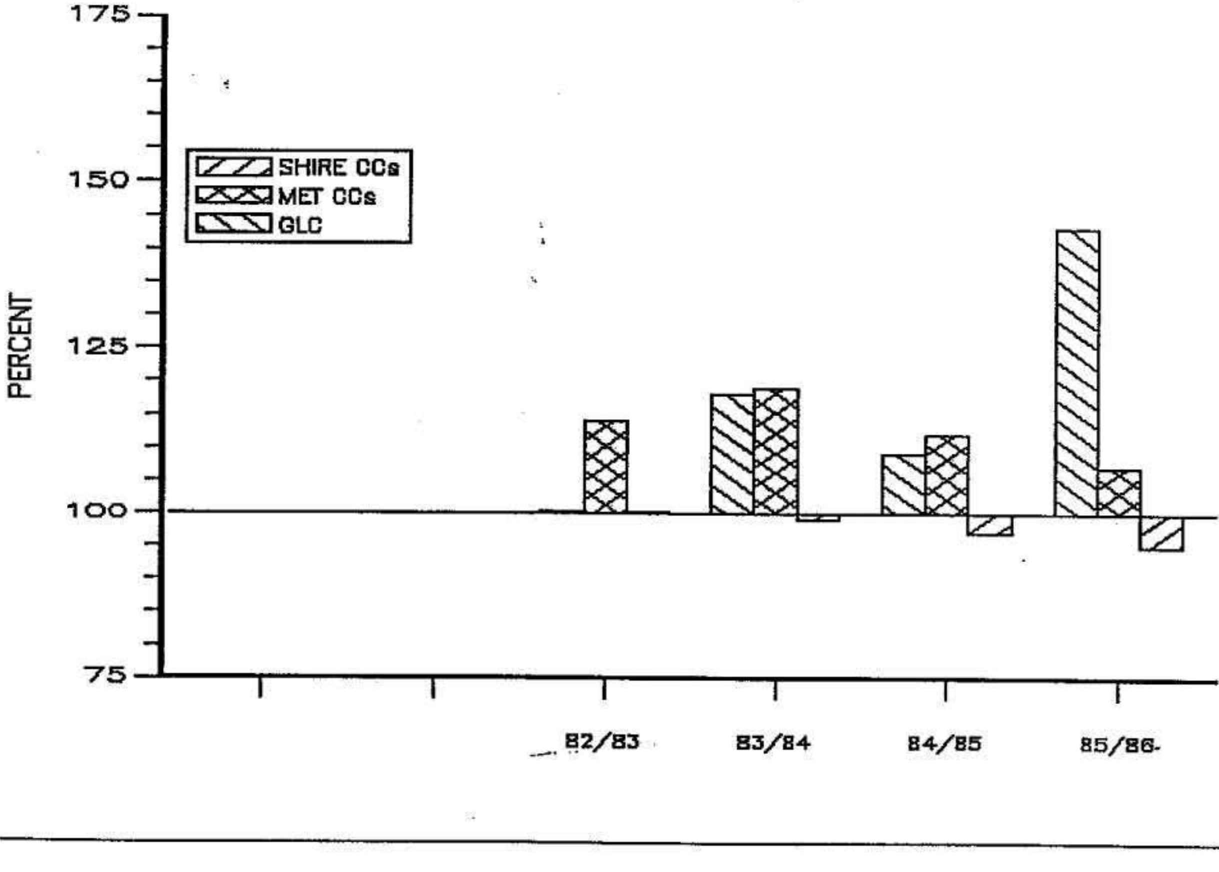


FIGURE 2.9a

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

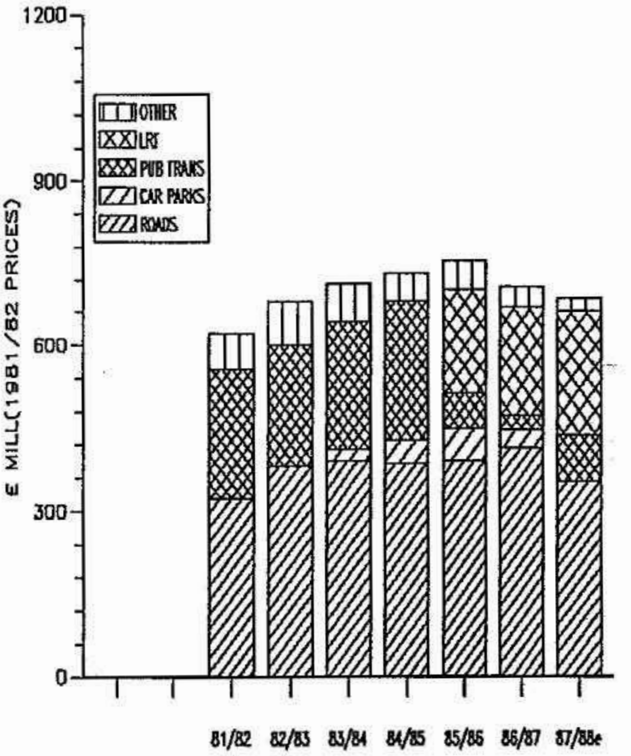


FIGURE 2.9b

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

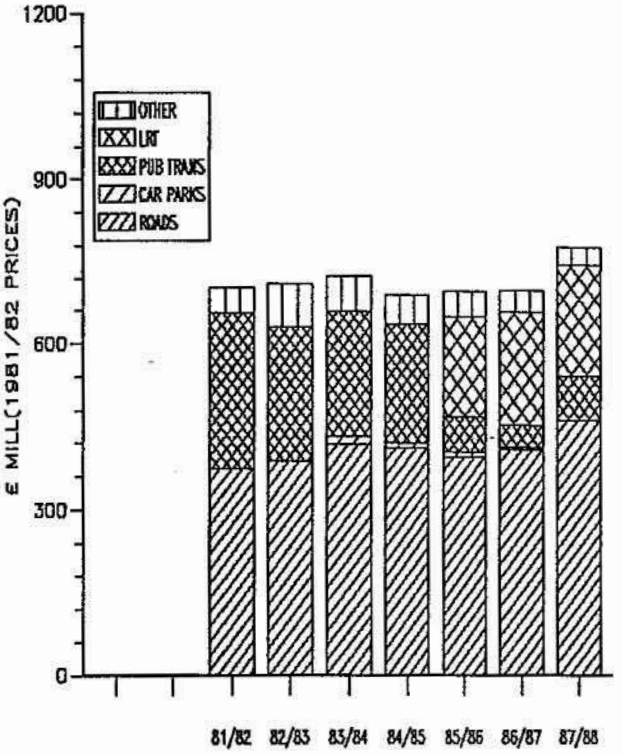


FIGURE 2.9c

LOCAL TRANSPORT CAPITAL EXPENDITURE V PROVISION

1981/82–1987/88

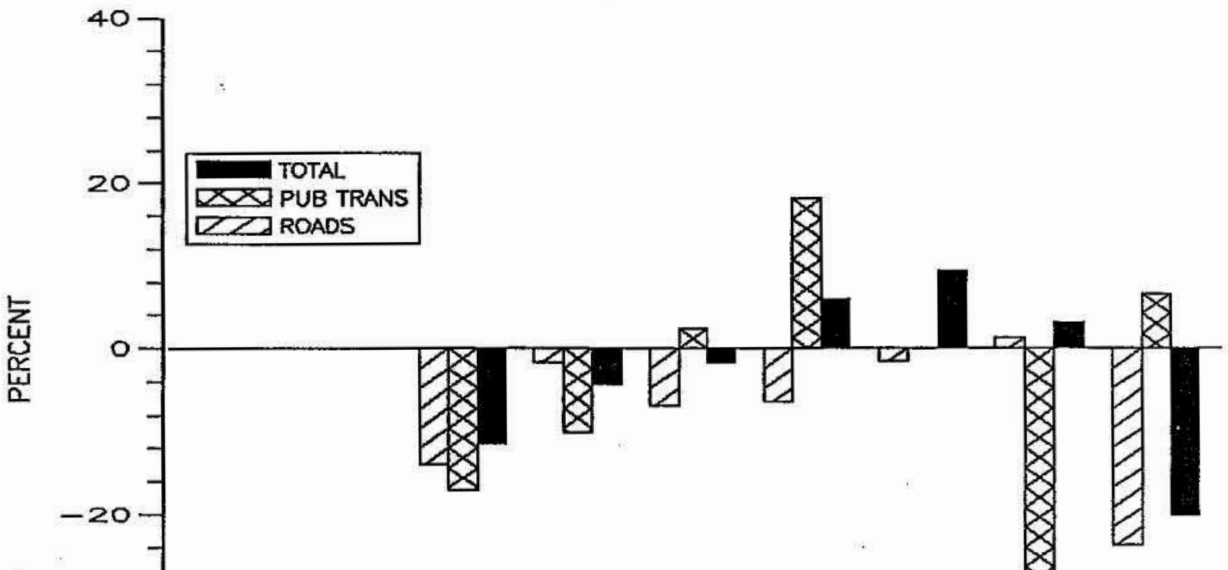


FIGURE 2.10

LOCAL TRANSPORT CAPITAL EXPENDITURE, PROVISION AND ALLOCATION

ENGLAND 1981/82–1988/89

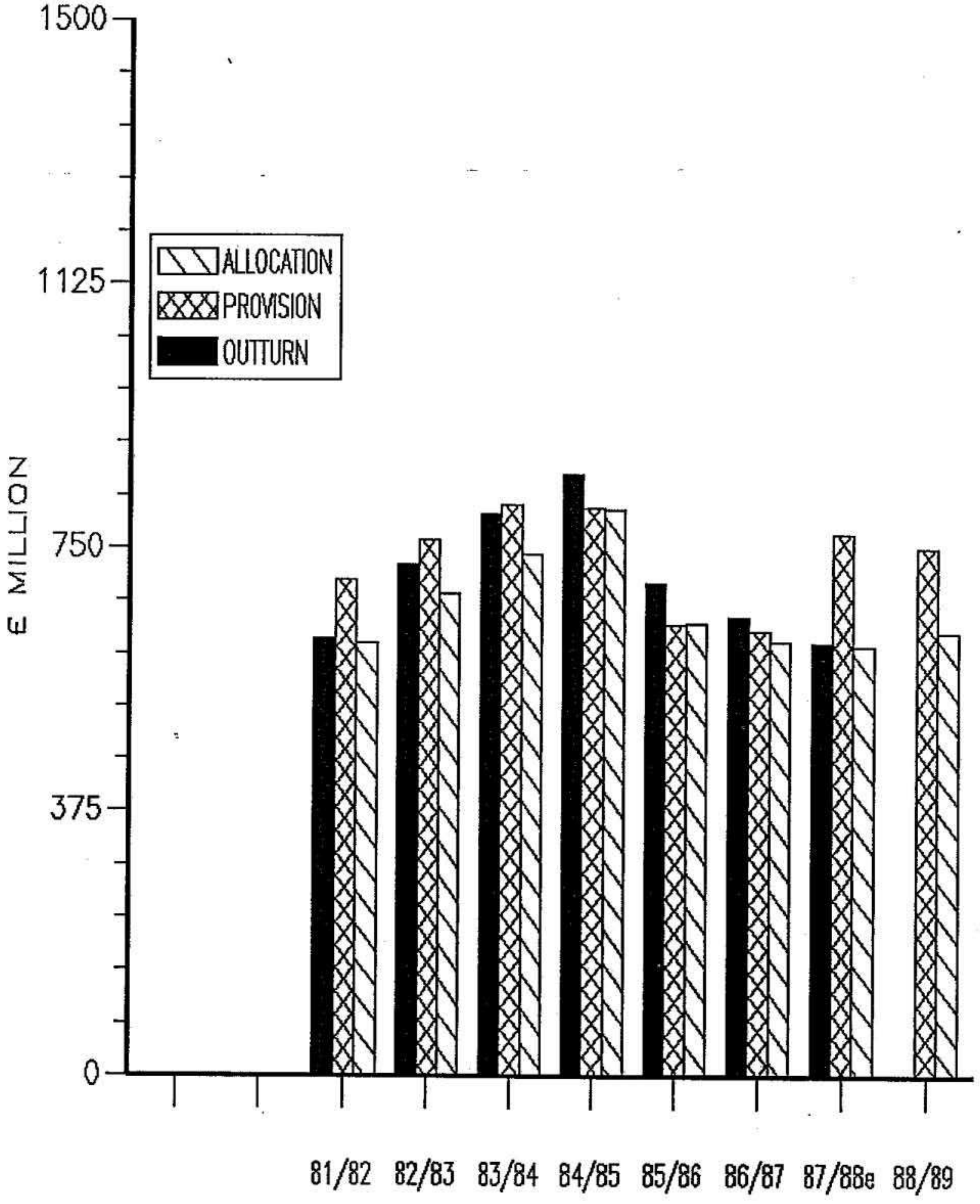


FIGURE 2.11a

LOCAL TRANSPORT CAPITAL EXPENDITURE: ENGLAND 1979/80–1985/86

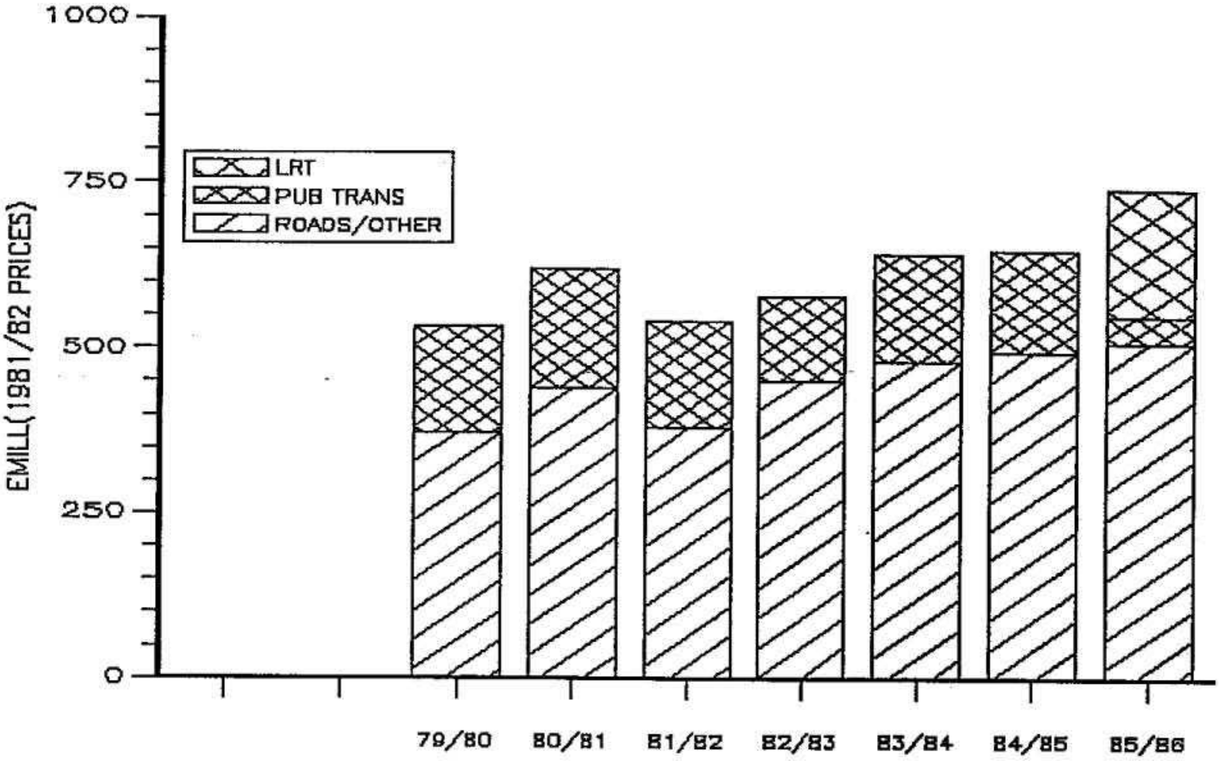


FIGURE 2.11b

LOCAL TRANSPORT CAPITAL EXPENDITURE: LONDON 1979/80–1985/86

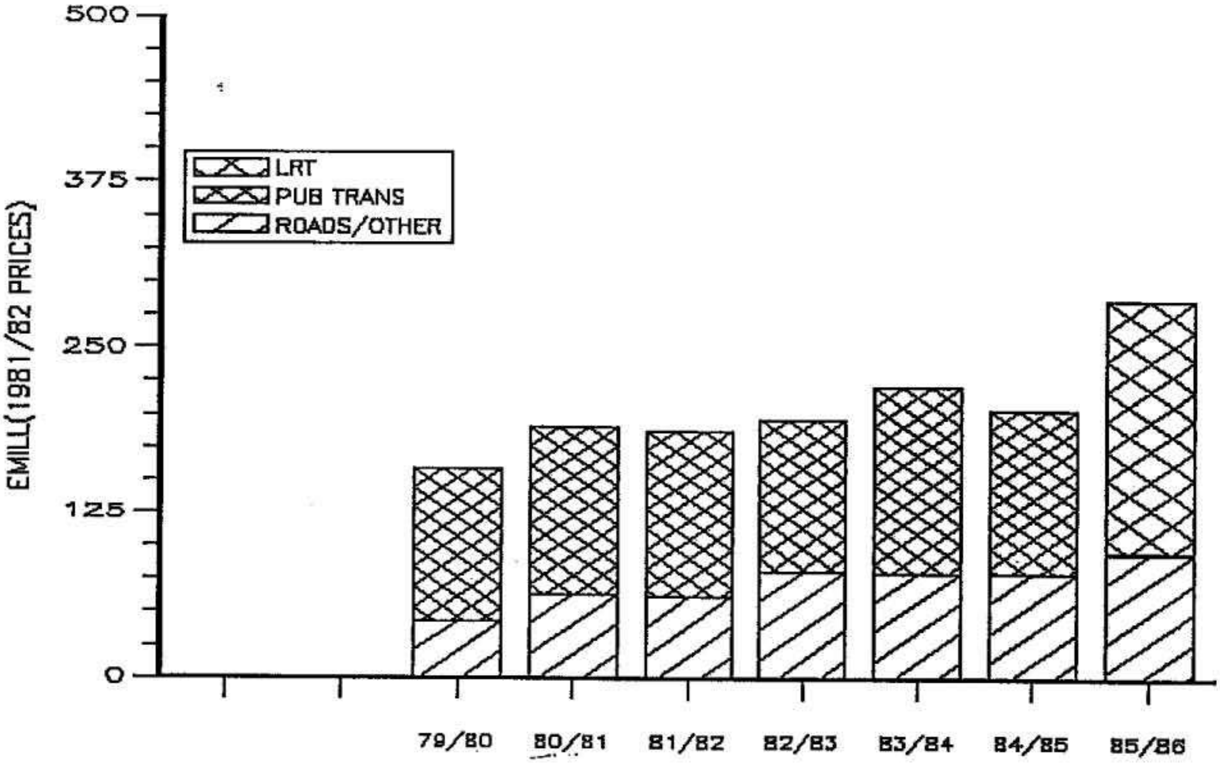


FIGURE 2.11c

LOCAL TRANSPORT CAPITAL EXPENDITURE: MET CCs 1979/80–1985/86

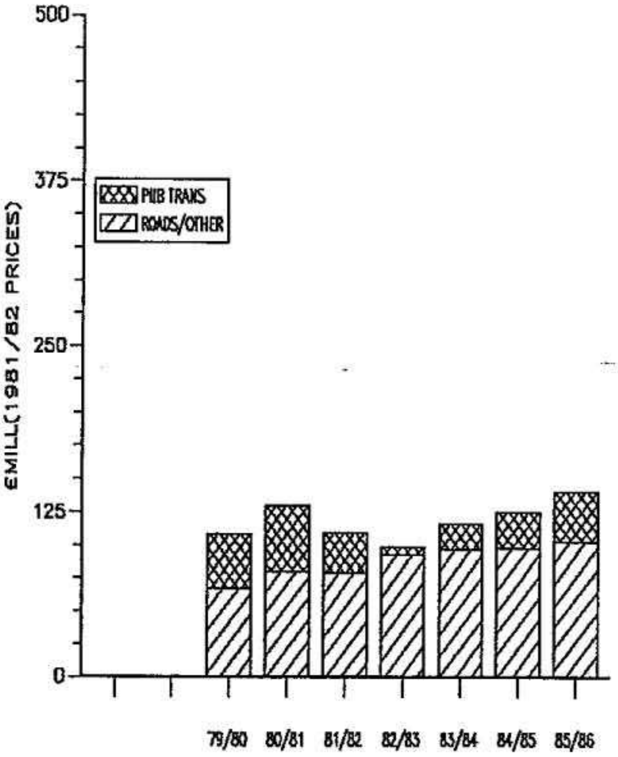


FIGURE 2.11d

LOCAL TRANSPORT CAPITAL EXPENDITURE: SHIRE CCs 1979/80–1985/86

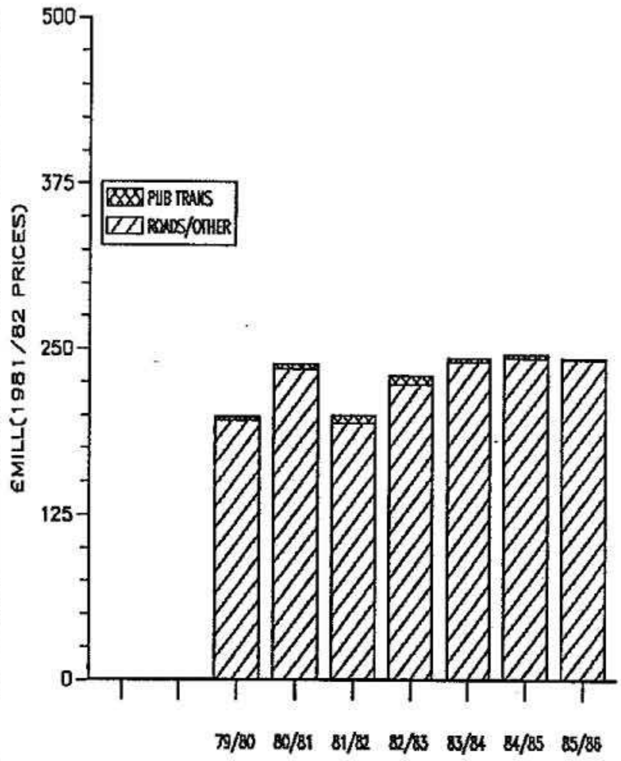


FIGURE 2.11e

LOCAL TRANSPORT CAPITAL EXPENDITURE: MET DCs 1979/80–1985/86

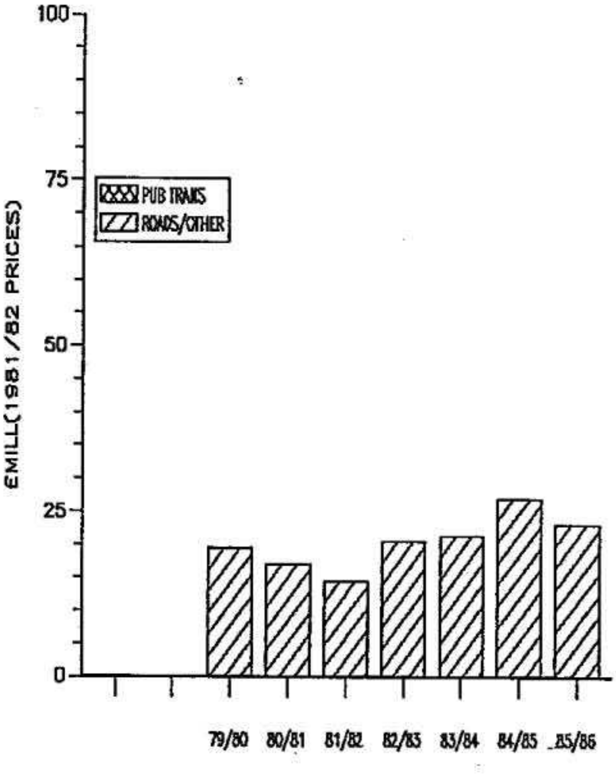


FIGURE 2.11f

LOCAL TRANSPORT CAPITAL EXPENDITURE: SHIRE DCs 1979/80–1985/86

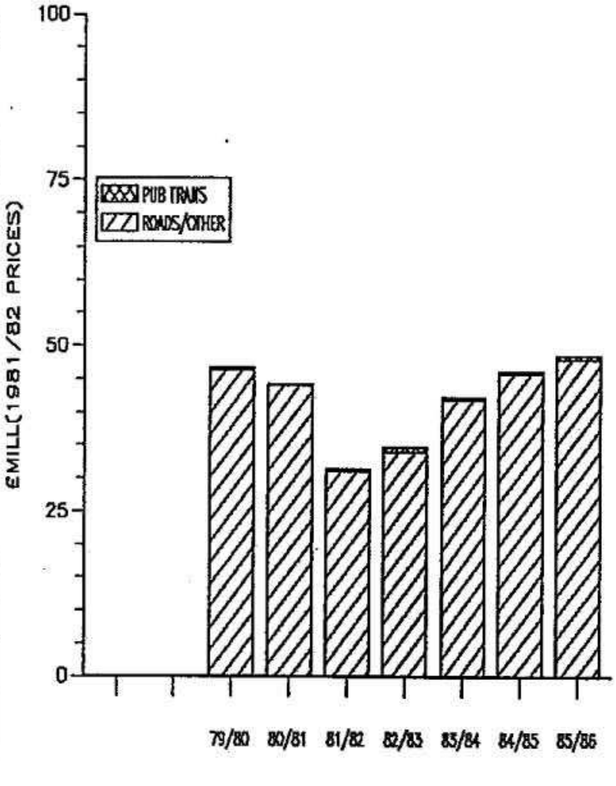


FIGURE 2.12a

CAPITAL: TPP BIDS AND ACCEPTED EXPENDITURE

ENGLAND 1979/80–1984/85

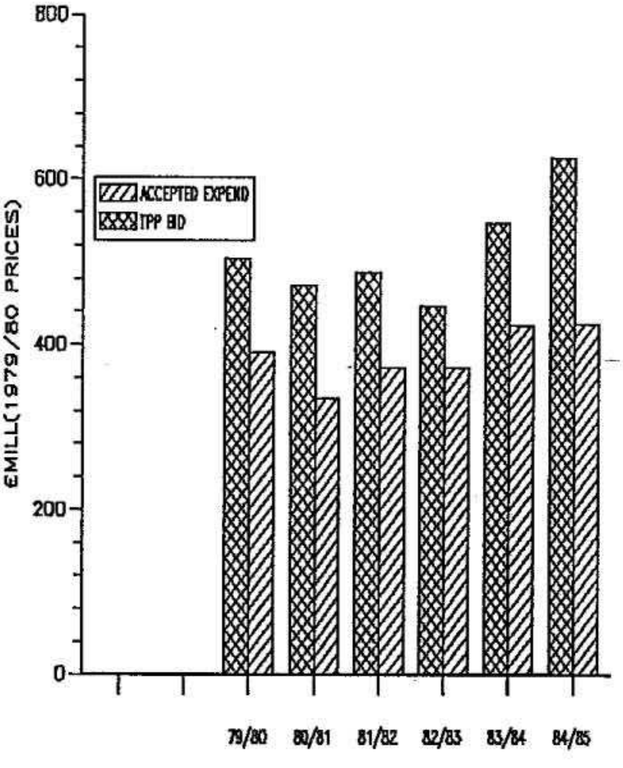


FIGURE 2.12b

CAPITAL: TPP BID AND ACCEPTED EXPENDITURE

GLC 1979/80–1984/85

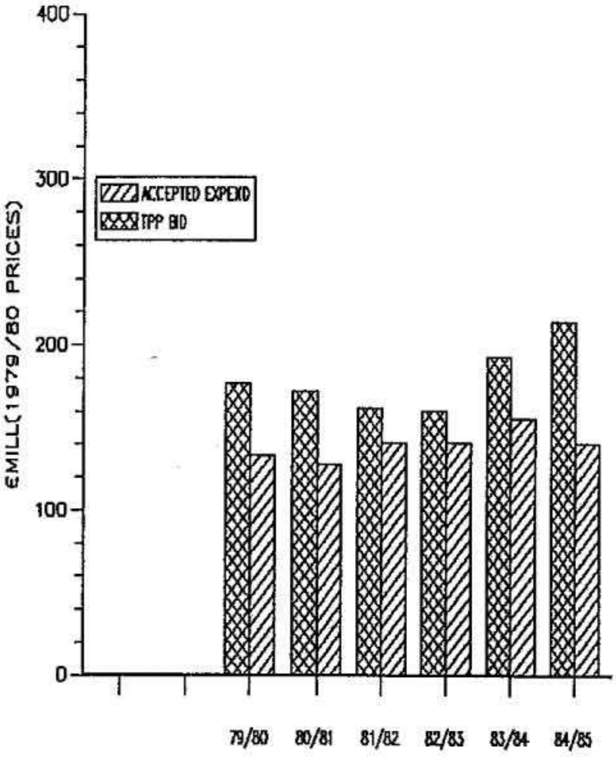


FIGURE 2.12c

CAPITAL: TPP BID AND ACCEPTED EXPENDITURE

METROPOLITAN COUNTIES 1979/80–1984/85

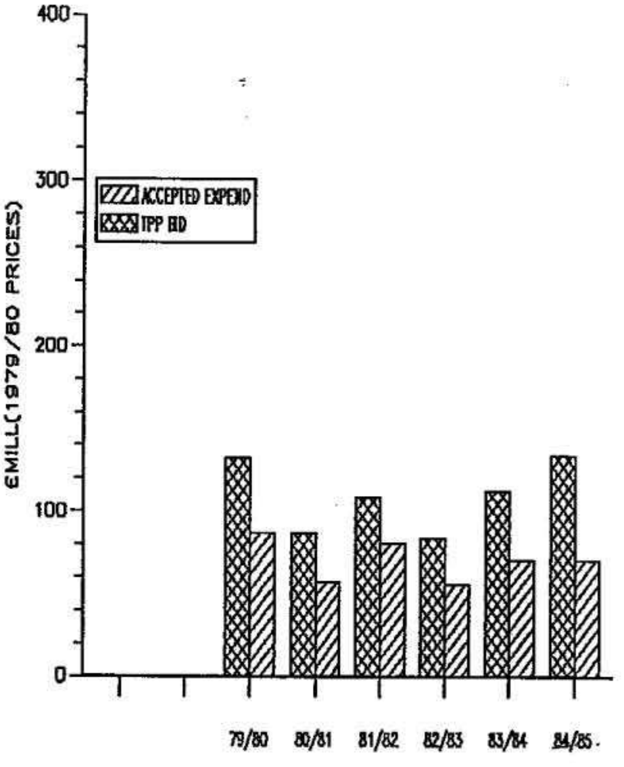


FIGURE 2.12d

CAPITAL: TPP BID AND ACCEPTED EXPENDITURE

SHIRE COUNTIES 1979/80–1984/85

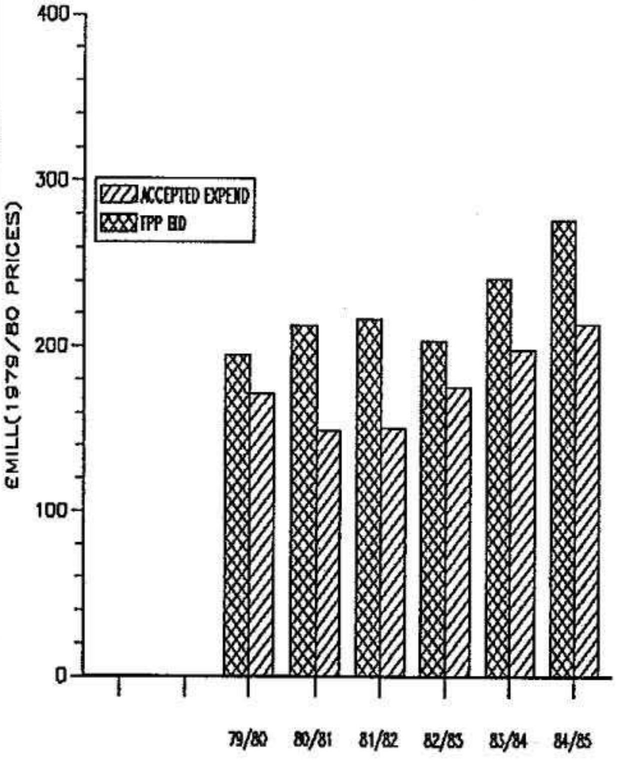


FIGURE 2.13a

USE OF RECEIPTS IN CAPITAL EXPENDITURE 1981/82

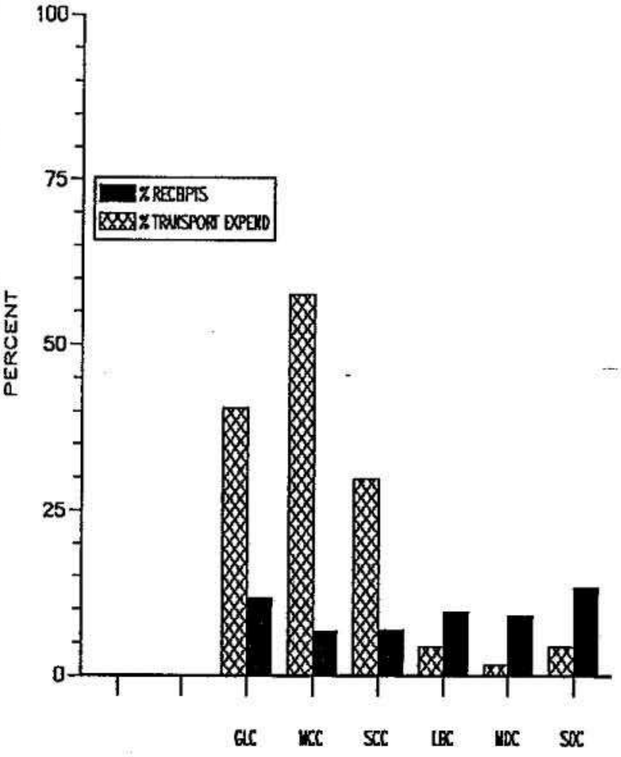


FIGURE 2.13b

USE OF RECEIPTS IN CAPITAL EXPENDITURE 1982/83

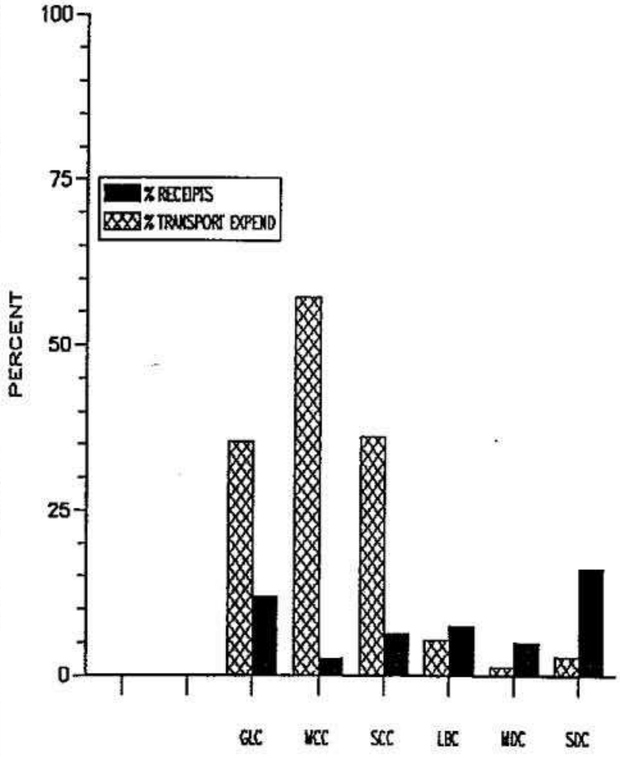


FIGURE 2.13c

USE OF RECEIPTS IN CAPITAL EXPENDITURE 1983/84

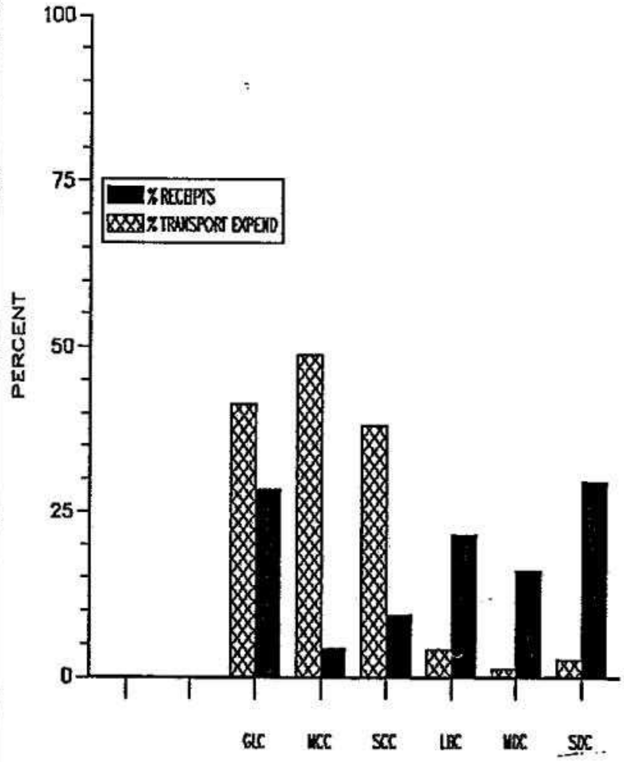


FIGURE 2.13d

USE OF RECEIPTS IN CAPITAL EXPENDITURE 1984/85

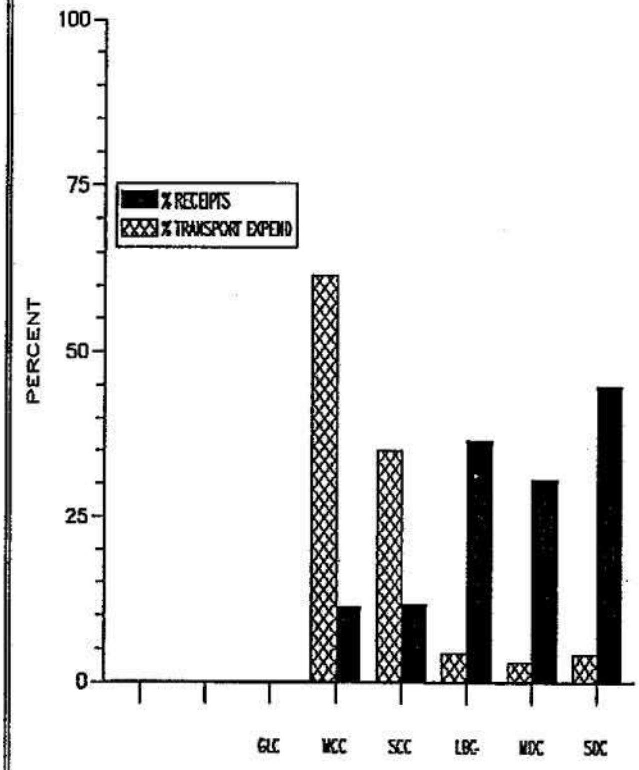


FIGURE 2.14a

TPP BIDS, ACCEPTED EXPENDITURE AND TSG

ENGLAND 1979/80–1984/85

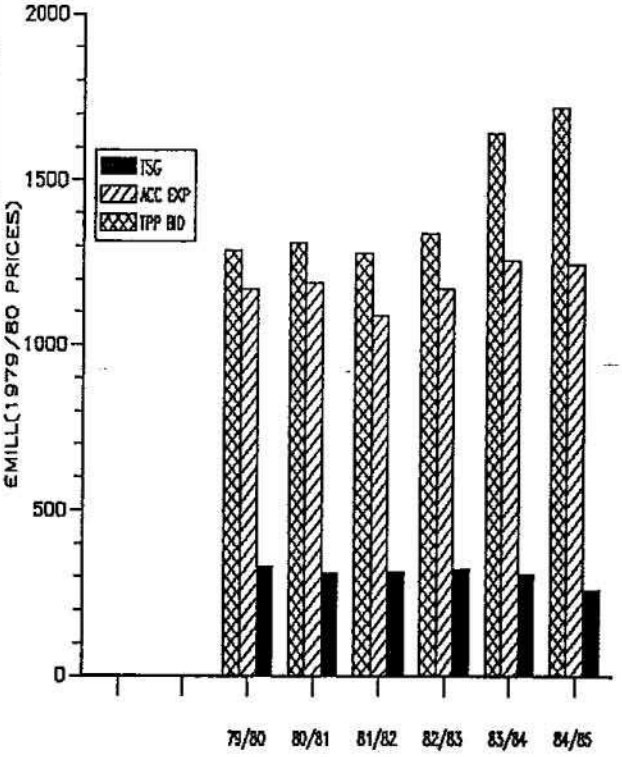


FIGURE 2.14b

TPP BID, ACCEPTED EXPENDITURE AND TSG

GLC 1979/80–1984/85

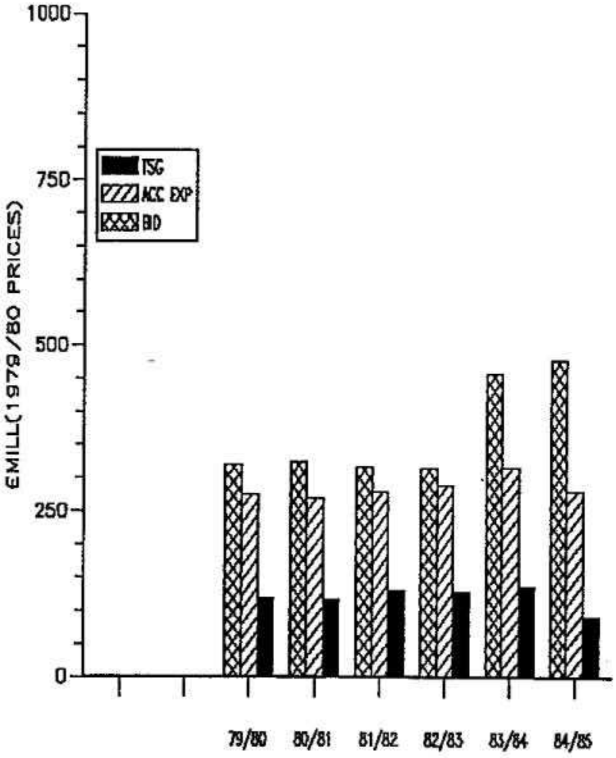


FIGURE 2.14c

TPP BID, ACCEPTED EXPENDITURE AND TSG

METROPOLITAN COUNTIES 1979/80–1984/85

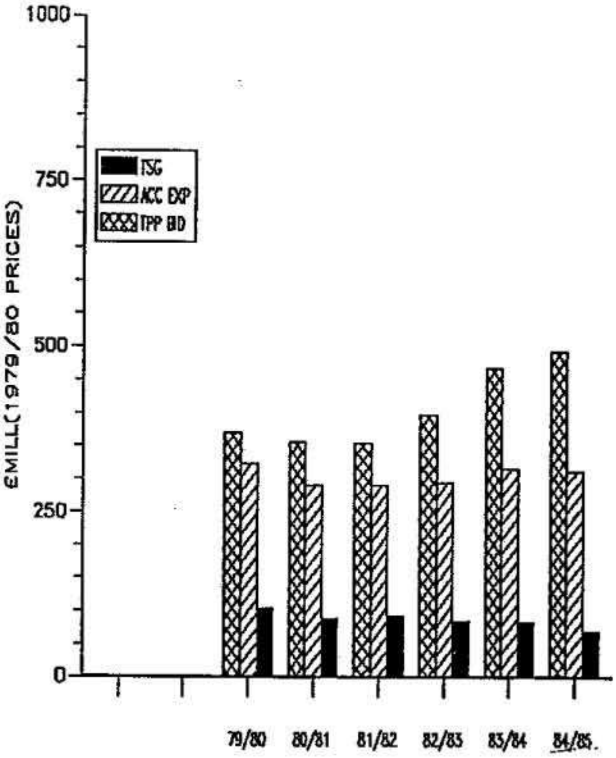


FIGURE 2.14d

TPP BID, ACCEPTED EXPENDITURE AND TSG

SHIRE COUNTIES 1979/80–1984/85

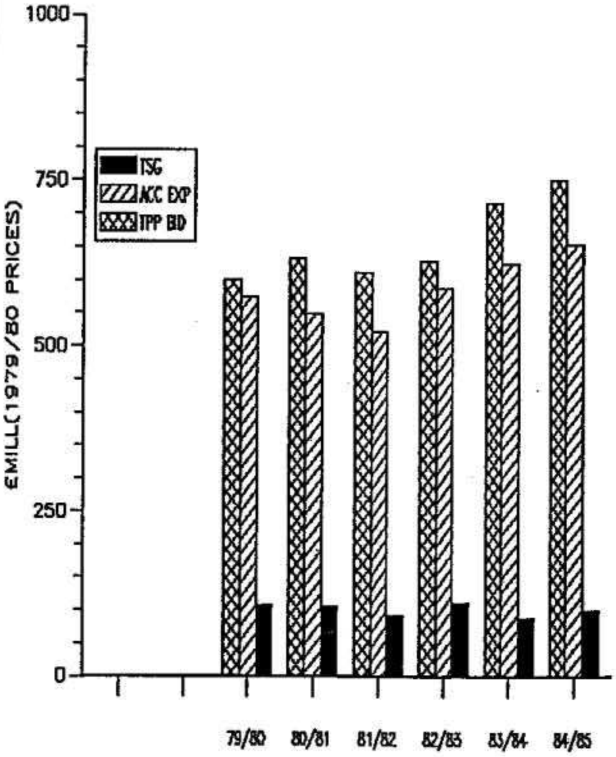


FIGURE 2.15a

REVENUE PROPORTIONS OF ACCEPTED EXPENDITURE AND TSG

ENGLAND 1979/80–1984/85

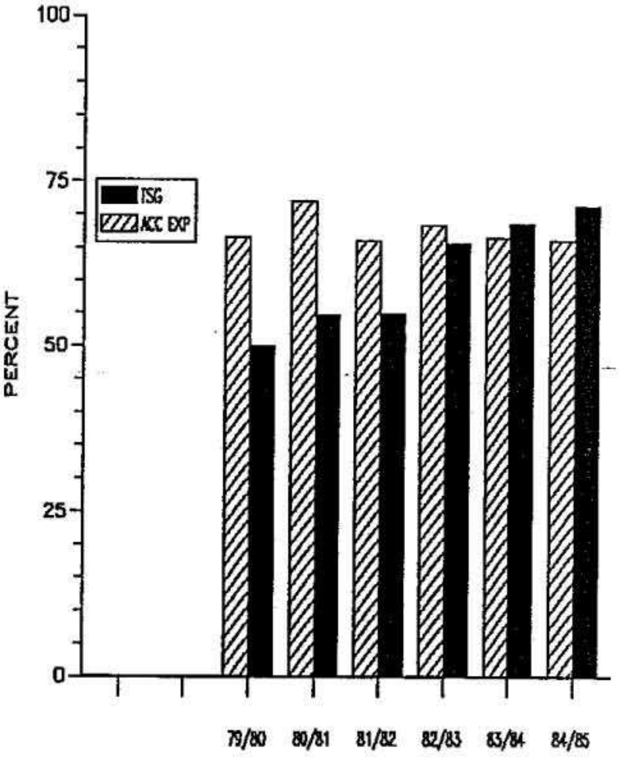


FIGURE 2.15b

REVENUE PROPORTIONS OF ACCEPTED EXPENDITURE AND TSG

GLC 1979/80–1984/85

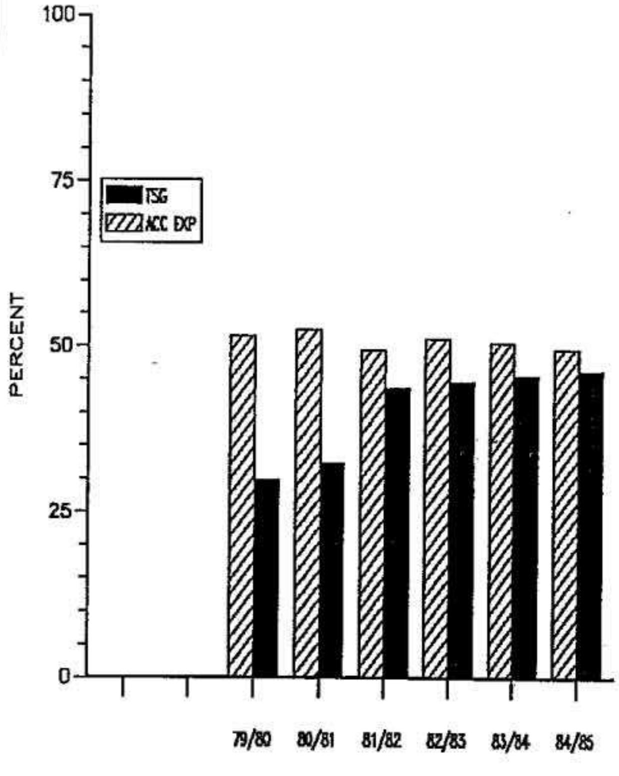


FIGURE 2.15c

REVENUE PROPORTIONS OF ACCEPTED EXPENDITURE AND TSG

METROPOLITAN COUNTIES 1979/80–1984/85

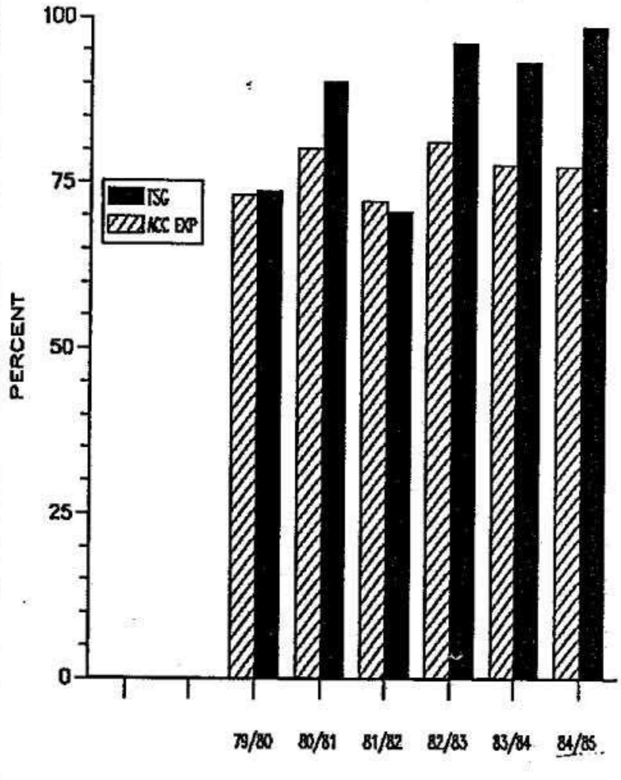


FIGURE 2.15d

REVENUE PROPORTIONS OF ACCEPTED EXPENDITURE AND TSG

SHIRE COUNTIES 1979/80–1984/85

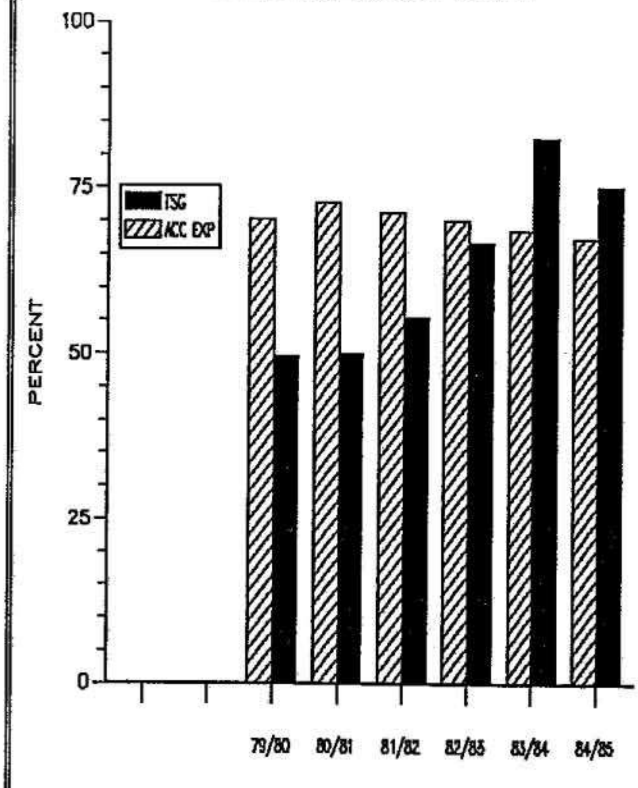


FIGURE 3.1a

LOCAL TRANSPORT CURRENT EXPENDITURE: ENGLAND 1983/84–1987/88

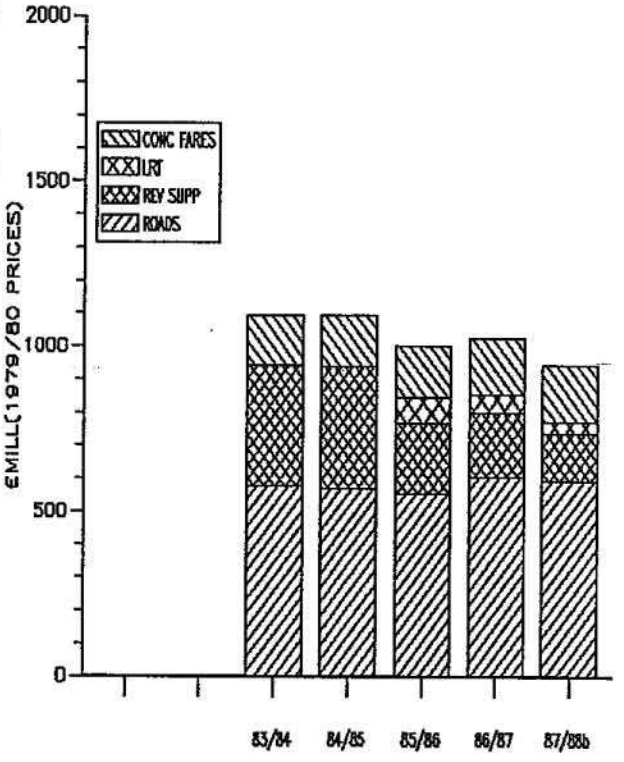


FIGURE 3.1b

LOCAL TRANSPORT CURRENT EXPENDITURE: LONDON 1983/84–1987/88

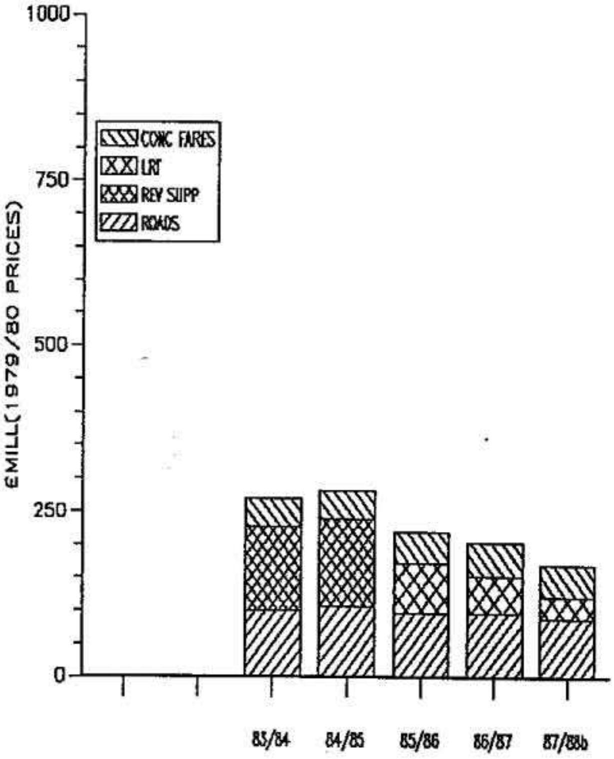


FIGURE 3.1c

LOCAL TRANSPORT CURRENT EXPENDITURE: METS 1983/84–1987/88

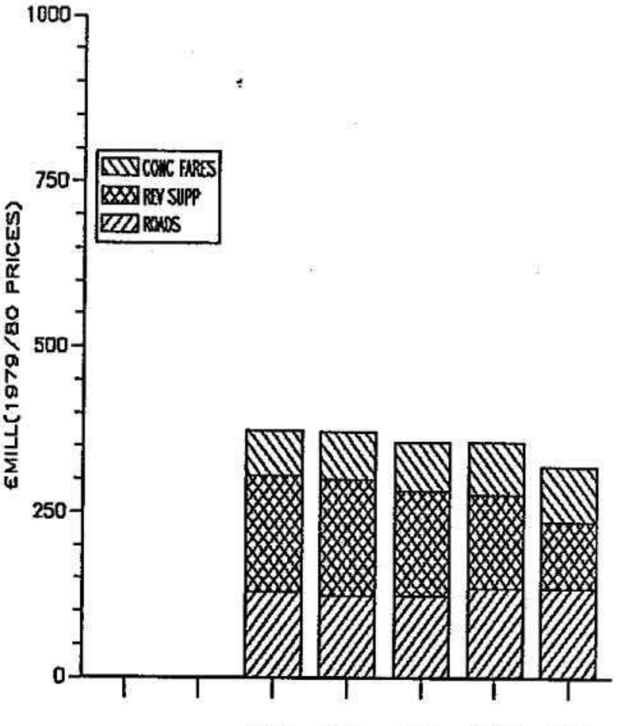


FIGURE 3.1d

LOCAL TRANSPORT CURRENT EXPENDITURE: SHIRES 1983/84–1987/88

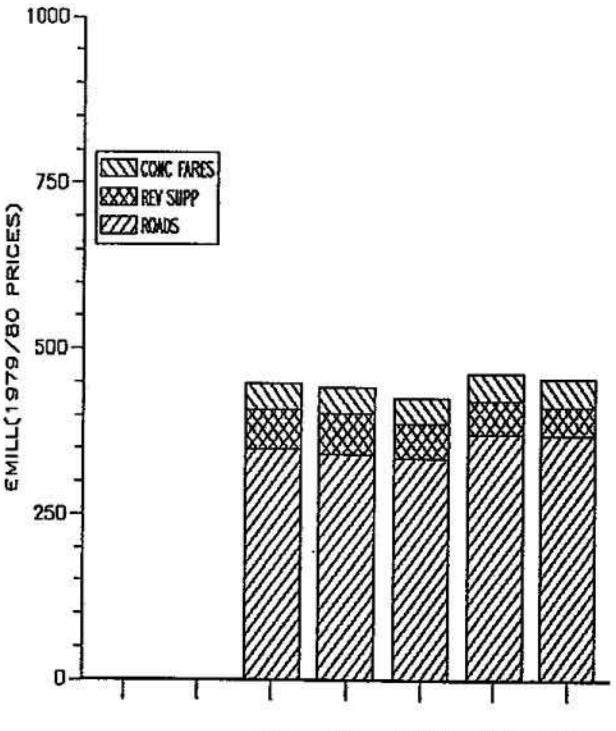


FIGURE 3.2a

REVENUE SUPPORT EXPENDITURE AND PROVISION

ENGLAND 1983/84—1987/88

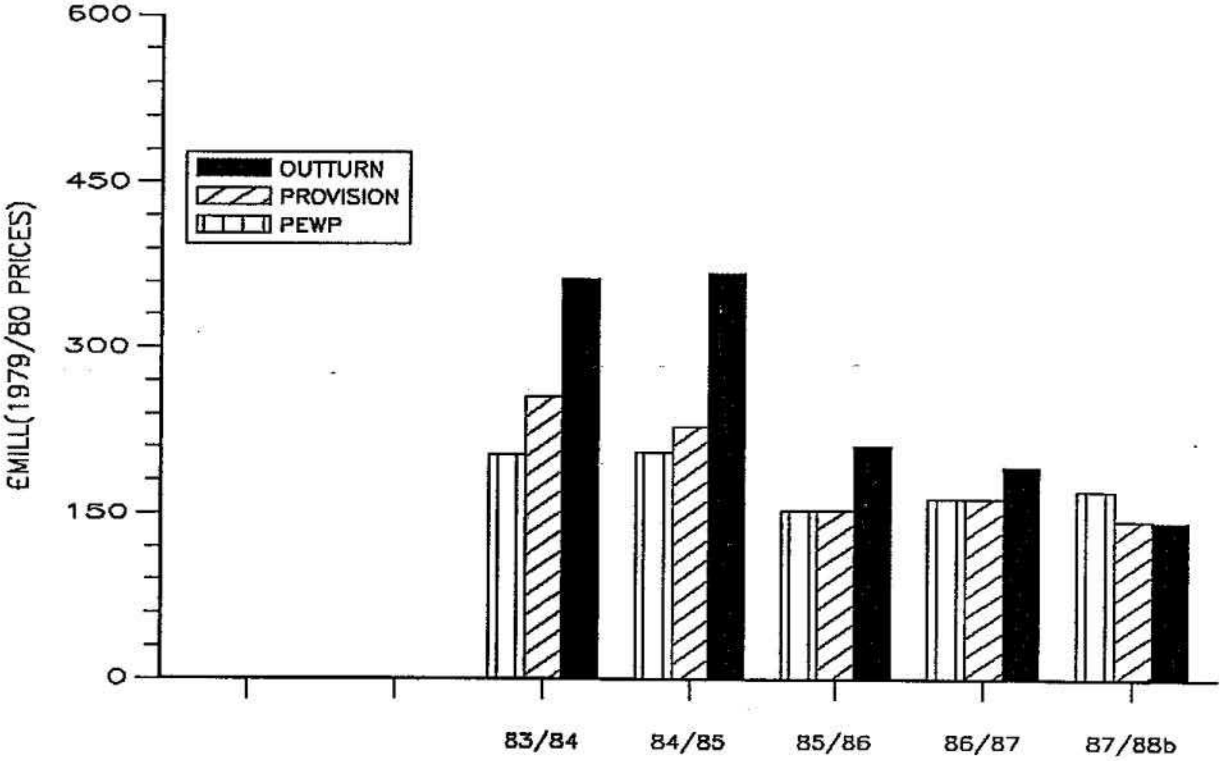


FIGURE 3.2b

REVENUE SUPPORT EXPENDITURE AND PROVISION

METROPOLITAN AREAS 1983/84—1987/88

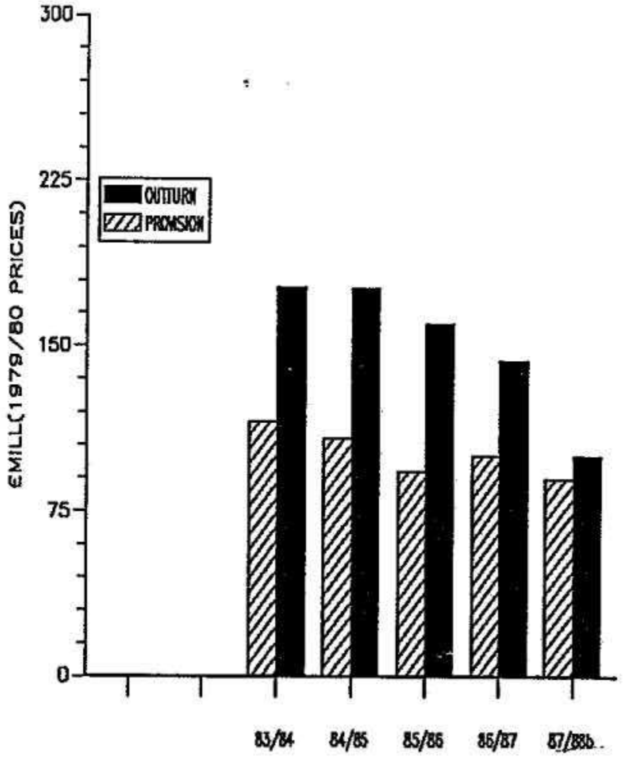


FIGURE 3.2c

REVENUE SUPPORT EXPENDITURE AND PROVISION

SHIRE AREAS 1983/84—1987/88

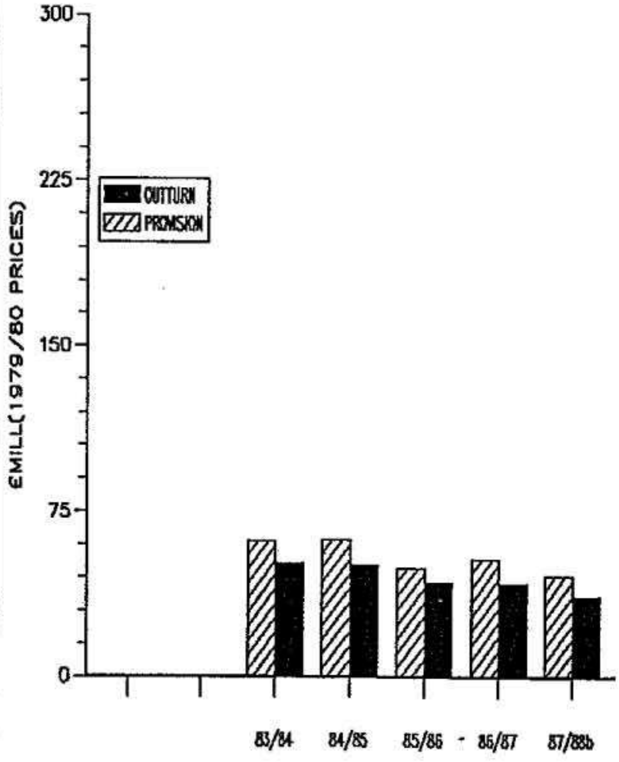


FIGURE 3.3a

MAINTENANCE EXPENDITURE AND PROVISION

ENGLAND 1983/84–1987/88

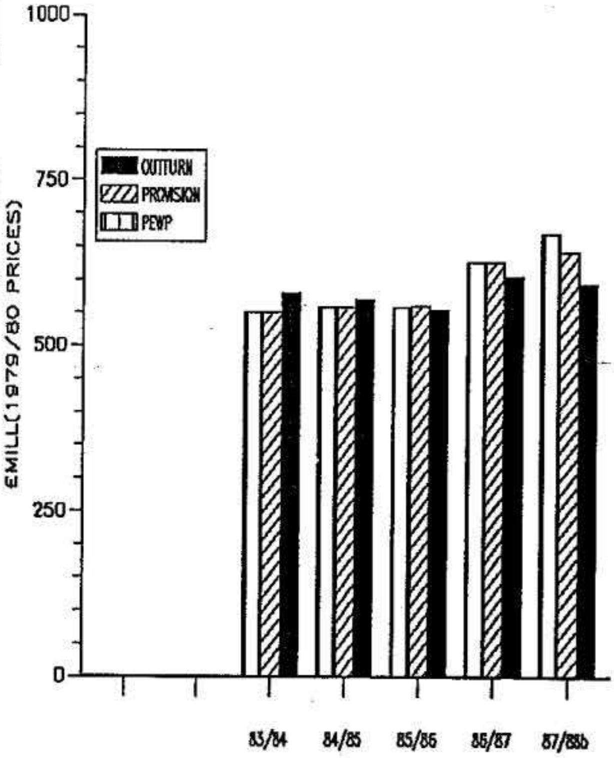


FIGURE 3.3b

MAINTENANCE EXPENDITURE AND PROVISION

LONDON 1983/84–1987/88

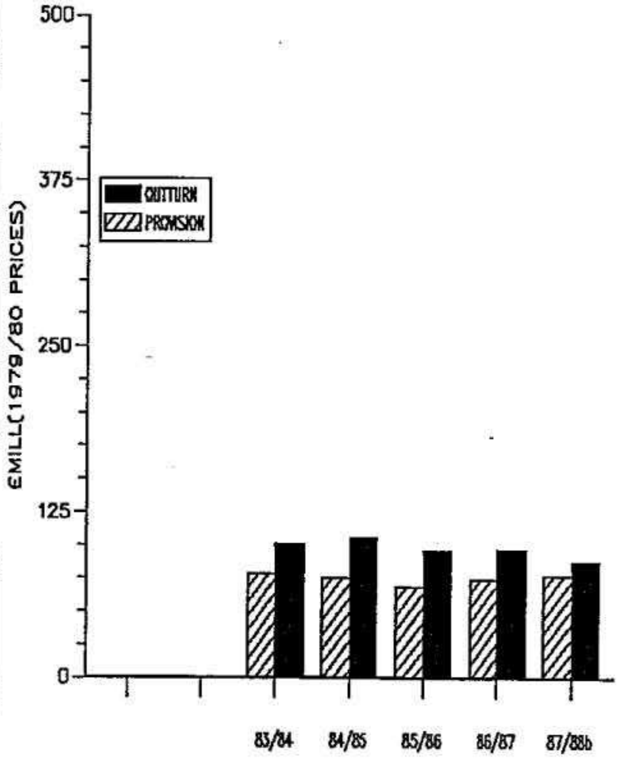


FIGURE 3.3c

MAINTENANCE EXPENDITURE AND PROVISION

METROPOLITAN AREAS 1983/84–1987/88

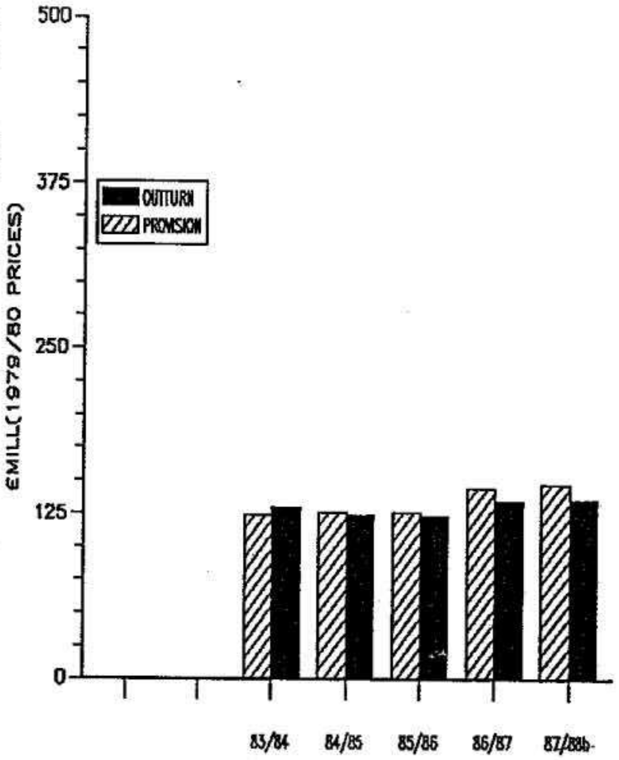


FIGURE 3.3d

MAINTENANCE EXPENDITURE AND PROVISION

SHIRE AREAS 1983/84–1987/88

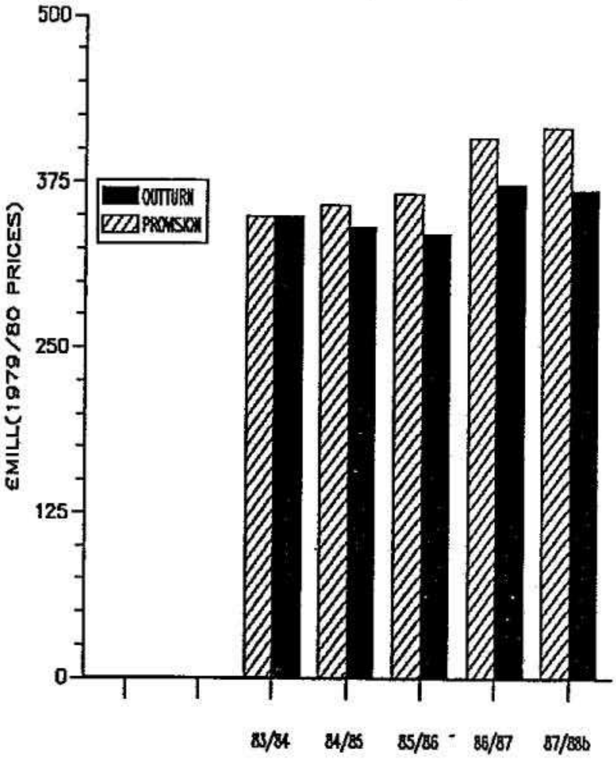
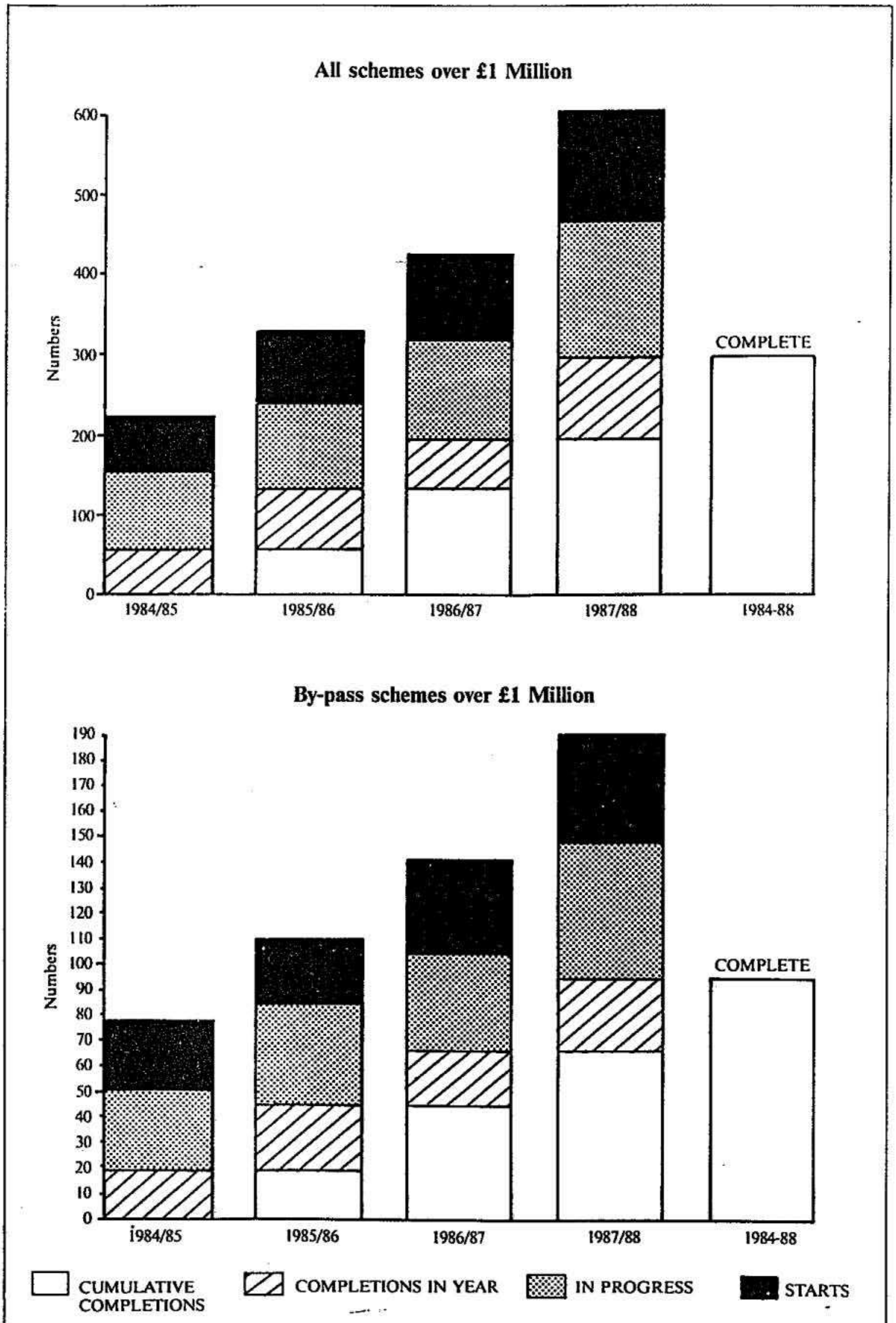


Figure 3.4

Local Authorities' Actual and Planned Performance on Major Road Schemes

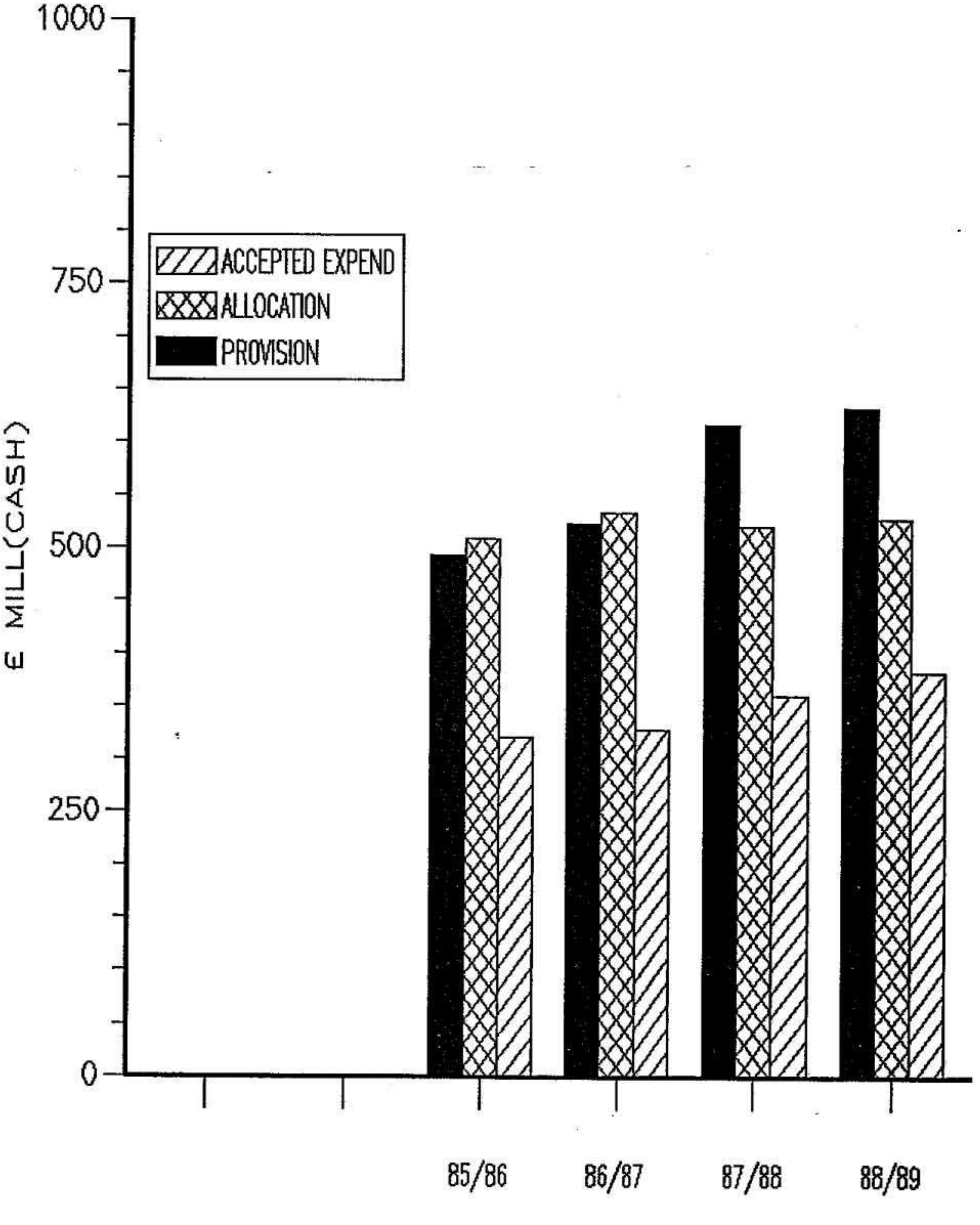
England 1984/85 - 1987/88



Source: Department of Transport (1987 p.25)

FIGURE 3.5

ROADS CAPITAL EXPENDITURE PROVISION: ENGLAND 1985/86–1988/89



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