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### THE BRITISH CRISIS IN CENTRAL-LOCAL RELATIONS

In Britain local authorities have traditionally had complete freedom to determine their own levels of revenue expenditure (and their allocation of this expenditure between services) and levy rates (property tax) sufficient, after receipt of grants from central government, to balance their budgets.

Since 1975 negotiations on the level of local government expenditure and central grants have been incorporated into the national system of public expenditure planning, known as PESC. The central department responsible for such planning - the Treasury - had for some time been concerned that unlike other parts of public expenditure the Government had no instruments of direct control over local government revenue spending.

In the later 1970s tensions had developed in central-local relations as the Labour Government attempted to reverse the growth in local government expenditure as part of its effort to meet the International Monetary Fund's (IMF) demand for public expenditure cuts as a condition of the borrowing made from the IMF. However, tensions eased by 1978 because the small percentage cut in expenditure requested was, in fact, achieved by local government.

However, in May 1979 a General Election was held and the Conservative Party won a victory over the Labour Party. The Conservative Government were elected with a manifesto commitment to reduce the level of public expenditure and taxation. The new Prime Minister, Mrs Thatcher, had also, whilst in opposition in 1974, promised to abolish rates on domestic property. However, in the 1979 Conservative Election Manifesto this had been demoted

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to a lower priority compared to a reduction in the burden of direct taxation. It should also be mentioned that the Conservative Government were pledged to increase real levels of defence expenditure under N.A.T.O. agreement by 3 per cent a year until 1986, and also to raise real expenditure on law and order (police). Also, there was a projected real increase in social security demands from both pensioners and unemployed. Thus it was inevitable that the Government would have to look for substantial cuts in expenditure on most of the services which local government was responsible for providing.

This change in priorities can be shown by considering the new Government's first set of public expenditure plans - that for 1980-81 and comparing it to 1979-80 spending levels. This is done in Table 1 at constant prices. The Table is also useful because it shows the main current expenditure responsibilities of central and local government.

Table 1:

The Conservative Government's Spending Plans  
(1979 survey prices)

CENTRAL GOVERNMENT

	1979-80 Estimated £m	1980-81 Plan £m	% Change
Total	52,032	51,665	- 0.7
Defence	7,723	7,997	+ 3.5
Overseas aid etc.	2,112	2,175	+ 3.0
Agriculture, Fisheries	939	871	- 7.2
Industry, Trade, Employment	1,866	2,890	- 0.8
Lending to Nat. Industries	1,900	700	-63.2
Roads and transport	1,235	1,176	- 4.8
Housing	2,686	2,679	- 0.3
Education, Science, Arts	1,514	1,489	- 1.7
Health and Social Services	7,701	7,911	+ 2.7
Social Security	18,890	19,354	+ 2.5
Other	4,464	4,423	- 0.9

Table 1 (continued)

## LOCAL GOVERNMENT

	1979-80 Estimated £m	1980-81 Plan £m	% Change
Total	18,113	16,996	- 6.2
Education, Science, Arts	8,140	7,736	- 5.0
Environmental services	2,271	2,237	- 1.5
Law and order	1,865	1,921	+ 3.0
Social services	1,367	1,276	- 6.7
Transport	1,762	1,667	- 5.4
Housing	2,466	1,914	-22.4
Other	243	245	+ 0.8

(Source: The Government's Expenditure Plans 1980-81 to 1983-84  
Cmd 7841, Tables 1.3 and 1.5)

**B.U.I.** However, although the Government thought that local government's expenditure was too high in general, its perception was that certain groups of local authorities were much more spendthrift than others - mainly those authorities which had benefited from the grant distribution system under Labour in the later 1970s. The general trend has been a shift in the two most important grants - needs element and resources element - towards the urban (metropolitan and London) areas, many of which were controlled by the Labour Party at the expense of the predominantly Conservative non-metropolitan counties and districts (see Table 2). Thus the Government wished to see expenditure reductions but it especially wished to see such reductions concentrated on high spending local authorities.



Table 2

Needs and resources element shares  
1974-75 to 1979-80

Area	1975-76	1976-77	1977-78	1978-79	1979-80
	%	%	%	%	%
Non-met areas	57.3	56.1	54.8	53.7	53.4
Met areas	29.4	29.0	30.1	29.6	29.6
London	13.3	14.9	15.1	16.7	17.0

## 2. The New Grant System

The Government blamed the existing grant system for encouraging higher spending by local authorities, and in November 1979 the Secretary of State for the Environment, Mr Heseltine, announced to the annual statutory meeting presenting the Rate Support Grant (RSG) Settlement that he planned to introduce a new grant system. He gave his view of the defects of the grant system:

"I now want to come to one of the most debated aspects of the present RSG system. In essence, the present rate support grant arrangements are based on the assumption that need is demonstrated by authorities' expenditure. Resources element provides the same marginal rate of grant support to a local authority's expenditure regardless of how extravagant that expenditure might be. Furthermore, high spending authorities can actually attract to themselves a larger share of the resources grant at the expense of other more prudent authorities. Needs element is distributed on the basis of an analysis of past expenditure patterns. The consequence of this is that if authorities with high levels of expenditure all decided to maintain or increase their levels they could create a feed-back that enhanced their measured needs.

Within such a system it is very difficult to convince authorities that it is in their interest to economise, for to do so might over a period reduce their eligibility for central government support. At its simplest, this phenomenon is known as the "problem of the overspenders". This is a notoriously difficult area. But so great is the volume of public expenditure, and so urgent the need in the interests of the ratepayer and the taxpayer to exercise proper disciplines, that the Government have decided that action is required".

"Action" came in two forms. Firstly, there was the block grant introduced in the Local Government, Planning and Land Bill. Second, work commenced immediately on introducing a new methodology for measuring the expenditure needs of individual local authorities. Both the block grant and the new needs assessments were planned to be ready in time for the RSG Settlement for 1981-82.

The new grant system would provide the following changes which might be expected to give an incentive to some local authorities to reduce their spending.

- 1) A reduction (known as the 'taper') in the rate of grant support on expenditure above threshold - itself to be set some way above the measure of each authority's expenditure needs.
- 2) The methods chosen for measuring expenditure needs would avoid, as far as possible, the use of past expenditure data, thus cutting out 'feedback'.
- 3) It was also planned to make public these measures for the first time by explicit publication.

The block grant proposals evoked much criticism during 1980 when they were publicly debated. A major concern of critics of the block grant was the intention to publish, for the first time, the Government's measure of each local authority's needs assessment. It was argued that this heralded an entirely new concern by the Government with the expenditure and rating decisions of individual local authorities. The original name chosen for needs assessments - Standard Expenditure - reinforced the suspicion that they would eventually be used as measures of what each

authority ought to spend. In fact, the only concession which the Government made was to substitute the term "grant related expenditure" (GRE) for the original "standard expenditure".

The Local Government Planning and Land Act was passed by Parliament in the autumn of 1980 and thus the block grant was introduced for the 1981-82 financial year. Much fuller detail of the grant system is given in the succeeding paper - in the remainder of this paper I propose to describe the main events in the development of the crisis in central-local relations which occurred after the introduction of the block grant. All references will be to events in England - Scotland has a separate grants system, but a crisis also developed in parallel there (Wales had a separate block grant from 1981-82 onwards).

### 3. 1981: The Introduction of Targets and Grant Penalties

We can see the Government's concern with the level of local government expenditure in the speech with the Secretary of State unveiled the first 'block grant' Rate Support Grant Settlement - that for the 1981-82 financial year:

"The new system I have announced today ... is fairer, more visible and more comprehensible ... The new block grant system does not of course guarantee delivery of any given aggregate volume of expenditure, since it is primarily concerned with the fair distribution of grant and leaves local authorities free to reach their own spending and rating decisions. This means, however, that the Government must look to local authorities to deliver, as they have done in the past, the reductions in the volume of expenditure prescribed in our expenditure plans. At this stage I do not propose to issue formally a guideline for each authority but I am seeking urgently the views of the local authority associations about what steps need to be taken to secure the delivery of the national target".

The 1981-82 RSG Settlement embodied expenditure plans which asked for extremely ambitious reductions in current expenditure



- 5.6 per cent compared to 1978-79 outturn, and (because expenditure had only just been reduced to 1978-79 levels) 5.7 per cent compared to 1980-81 revised budgets. Local government had never been asked to make year-on-year cuts on such a scale before. The previous labour administration had kept its requests below 2 per cent even at the height of the IMF crisis. The traditional weapon of central government when seeking expenditure cuts from local government was to reduce the proportion of grant support and the Labour Government had shown its willingness to use this weapon when they reduced support by 5 percentage points between 1976-77 and 1977-78. However, the extremely ambitious expenditure plans for 1981-82 were backed up by a cut in grant support of only 1 percentage point in England - from 60.14 percent in 1980-81 to 59.14 percent in 1981-82.

If Mr. Heseltine really had much hope that the 1981-82 RSG Settlement would help deliver expenditure cuts then we have to presume either that he had a naive faith in his own powers of exhortation or that, perhaps because he was inadequately briefed, he thought the small cut in grant proportion would suffice.

However, Mr. Heseltine's, stated intention at the Statutory meeting to seek "the views of the local authority associations about what steps need to be taken to secure the delivery of the national target" conveys that he was probably advised that the block grant taper alone, not backed by large cuts in grant, would not deliver the required expenditure reductions.

Another cause of anxiety was that a number of authorities might do just what many critics of the block grant had predicted and increase their spending up to GRE because of the pressure to improve services to reflect the now published needs assessment figure. This applied particularly to a number of the historically lower spending non-metropolitan counties who found that they were spending well below GRE.

The "steps" taken by Mr. Heseltine marked a dramatic departure from tradition because they marked the introduction of a second grant system - one that had never been mentioned or even hinted at by Ministers during the whole public debate of 1980. On 23 January 1981 in a letter to each local authority he issued

expenditure targets. These targets were uniform - 5.6 percent below 1978-79 outturn current expenditure for each local authority. It signified the introduction of a second grant, or penalty, system because he indicated that he might "holdback" i.e. withdraw, some block grant from any local authority that overspent its target, if local government as a whole overspent the Government's plans in its 1981-82 budgets.

Thus local authorities completed their 1981-82 budgets against the background of this unexpected and unspecified threat to their grant receipts. These budgets (see Table 3) showed only a minor reduction in the aggregate of current expenditure and left English local government 5.8 percent above the Government's provision.

Table 3

Local authority budgets 1981-82  
compared to RSG settlement

	Settlement	Local	Excess over	
	Provision	Authority	Settlement	
	m	Budgets	m	%
		m		
Current expenditure at Nov. '80 prices	15,159	16,040	881	5.8
Provision for Inflation	1,021 (+6.7%)	1,494 (+9.3%)		
Current expenditure at	16,180	17,534	1,354	8.4
Rate Fund Contributions to Housing Revenue Accounts	254	432	178	70.0
Revenue Contributions to Capital Outlay	582	588	6	1.0
Gross Loan Charges	1,674	1,783	109	6.5
Interest Receipts	-267	-266	1	--
Total Relevant expenditure	18,423	20,071	1,648	8.9



Local authority budgets were discussed at the Consultative Council on 2 June 1981 and Mr. Heseltine decided to review and revise their current expenditure plans for 1981-82 to bring them into line with the Government's expenditure plans. Details of the new budgets were to be returned by 31 July.

Mr. Heseltine also specified (i) changes in the grant necessary for "close-ending at the original 1981-82 budgets level of grant claims, and (ii) "holdback" grant penalties for those authorities overspending their current expenditure target.

Mr. Heseltine announced that this highest penalty would only be paid by those local authorities spending more than 4 percent above target. Partial exemption was offered to other authorities. Authorities which spent 2 percent or less above target would suffer only 25 percent of the full grant reduction; authorities which spent between 2 and 4 percent above target would suffer 60 percent of the grant reduction.

At the level of original 1981-82 budgets the net result would have been holdback penalties of 450m - that is about 5 percent of the original provision of 8364m. Despite this framework of penalties the revised budgets exercise was, in the aggregate, a complete failure. The Department of the Environment's press notice of 3 September 1981 announced the results. It noted that the original overspend on current expenditure at November 1980 prices had actually increased by 15m:

"most local authorities (257 out of 413) have...reduced their expenditure ... from ... original budgets by 196m in line with the Government's request ... a small number of authorities have ignored the Government's request for economy...The total increase by these local authorities is 211m of which 167m is attributable to just 3 authorities."

The 3 authorities were the Greater London Council (GLC), Merseyside County Council, and the West Midlands County Councils. The cause of their dramatic increase in budgetted expenditure, which had such a devastating effect on the outcome of the revised budgets exercise, was that they had changed from Conservative to Labour control in the county elections of May 1981 and proceeded

to implement manifesto commitments to lower public transport fares, thus increasing their total expenditure.

However, the Secretary of State also decided that he would exempt from grant penalties those authorities which although spending above their current expenditure target were spending less than their GRE. This was a major reason for the reduction in anticipated holdback penalties from m450 at original budgets to m300 at revised budgets. He did this in response to pressure from local authorities - particularly among the counties - which in many cases were spending above their target but below their GRE.

The Settlement and the events of 1981 also illustrate problems which have remained throughout the rest of the period considered in the paper. The most important of these was the issue of the gap between local government spending and the Government's expenditure plans. Our "budget to target" analysis shows the reluctance of the Government to back up severe expenditure reduction requests by appropriately severe grant reductions. This "too gentle" approach was to continue throughout the period because of the Government's sensitivity to rate increases - particularly in areas where there was Conservative local political control. Targets were introduced as a mechanism which could reduce grant in a more discriminating way - namely from those authorities which were not making expenditure cuts. They could be used to give an additional incentive to all authorities to reduce spending and unlike the block grant taper could provide an incentive to those authorities spending below GRE not to increase spending. However, this latter pressure would not apply to low spending authorities if the Government decided to continue the GRE exemption given in September 1981. Targets also helped to ensure that the larger rate increases would be confined to those areas where local authorities chose to overspend targets - and there were good reasons to anticipate that this would be confined to areas where Labour councils dominated.

But the net result of the introduction of block grant targets and holdback penalties and the revised budgets exercise left the Government facing a number of pressing problems during

the autumn of 1981.

The most immediate problem was to do, or be seen to do, something in the face of the unpopularity of rate increases, which had been particularly high in London partly due to losses under block grant to the high spending boroughs, and partly due to the additional losses caused by the imposition of holdback penalties.

In the GLC's case this was also a large post election increase in planned expenditure which meant that the GLC levied a supplementary (that is a second tax demand made during the financial year) precept on the boroughs which in turn led to an outbreak of supplementary rates in London. The unpopularity of this large increase in rate demands brought intense pressure on the Government, underlined because of the Prime Minister's commitment, when Shadow Environment Secretary in 1974, to abolish domestic rates. This resulted in action on two fronts. First, the Government issued a Green Paper on Alternatives to Domestic Rates in December 1981. Second, and more immediately, the Government introduced the Local Government Finance Bill to (i) make supplementary rates illegal, (ii) to require local referendums on budgets which necessitated local rate poundages above a certain level, and (iii) to establish the legality of holdback penalties, which DOE's counsel had advised to be of dubious legality under the Local Government Planning and Land Act. This first bill had to be withdrawn and a second Bill introduced without the referendum proposals after the latter had aroused much opposition from Conservative MPs.

The other problem facing the Government, and it was recurrent throughout the period, was what to do about local government overspending. This problem was intensified by the loss of the referendum proposals. Throughout the summer of 1981 negotiations between representatives of central and local government had taken place with Ministers insisting that the framework for public expenditure in the Public Expenditure White Paper, Cmnd. 8175, of 1981 would apply. Indeed, the Minister for Local Government and Environmental Services announced to the Consultative Council on Local Government Finance on 4 August 1981:

"Local authorities are now beginning to plan their budgets



for 1982-83 ... The most recent Public Expenditure White Paper (Cmd. 8175) ... envisage a fall in the volume of total local authority current expenditure of 1% in 1982-83, from the level which the Government had planned for 1981-82, and a further fall of  $\frac{1}{2}$  to 1% in 1983-84 ... Local authorities should plan on the assumption that the present review of public expenditure will not allow for any significant increase in the Government's planned volume of current expenditure by local authorities for 1982-83".

#### 4. The Increasing Importance of Targets and Holdback Penalties

The final decisions on public expenditure were being made in Cabinet in late November 1981. It was finally recognised that the level of local government spending envisaged in Cmd. 8175 was unattainable and it was decided to increase the plans for local authority spending in real terms by about 2 percent for 1982-83 compared to the plans for 1981-82. However, this still left local government requiring a year-on-year volume cut of 4 percent.

The Government attempted to back up their continuing squeeze on local government expenditure by two means. First, there was a reduction in the grant proportion from 59.1 percent in 1981-82 to 56.0 percent in 1982-83. Second, a system of targets and holdback penalties was continued, but it was now designed to put greater pressure for cuts on high spending authorities.

Targets for 1982-83 were now set in terms of "total expenditure" rather than in current expenditure which applied to 1981-82. The procedure for constructing targets was extremely complex. The most important principle was that the size of real reductions embodied in the 1982-83 targets varied directly with an authority's overspend in relation to its GRE and expenditure target at its minimum volume budget in 1981-82 (ie the smallest of its 1981-82 budgets). The range of reductions from minimum volume budgets was from 7 percent to 1 percent - although it

was higher from revised 1981-82 budgets for those authorities which increased their expenditure in the revised budgets exercise. Finally, the sum of targets was constrained to equal the cash total of the Government's spending plans - in other words, if every authority spent at its target there would be no overspending in relation to the recently revised public expenditure provision.

The underlying principle of asking for real expenditure reductions from all authorities with larger cuts for high spenders and smaller cuts for low spenders was thus established in the construction of targets - a principle that had not been obvious or explicit in the crude 1981-82 targets. However, the constraint on the aggregate of targets meant that many authorities were given targets which were less than their GRE. Despite the differential construction for high and low spenders there was a marked tendency for the ratio between target and GRE to be positively related to past levels of spending. Thus, 36 of the 39 shire counties had targets below GRE, as did 17 of the 36 metropolitan districts. Three of these authorities - Dudley, Leicestershire and Northamptonshire - had targets more than 10 percent below GRE. However, it was amongst the shire districts where the largest discrepancies appeared - Gillingham's target was less than half its GRE. Perhaps because it had legislation pending - the Local Government Finance Bill - and was anxious to receive the support of Conservative controlled authorities the Government made the important concession of making the effective expenditure targets, at which holdback grant penalties commenced, equal to GRE in authorities where the target in the way described above (known as the constructed "technical target") was less than GRE. Penalties for exceeding these "effective targets" were set in terms of an addition to the rate poundage (GRP) to be applied to a local authority's property tax base in the basic block grant formula - at 3p for each 1 percent overspend with a ceiling of 15p at 5 percent overspend.

The importance of the concession on targets was that it created a gap of £762m between the aggregate of "effective targets" and "technical targets" (See Table 4). This was seen by commen-

tators as likely to produce a built in overspend if low spending authorities took the opportunity to spend up to their GRE/effective targets rather than attempt to meet their tighter technical targets. Further, there was likely to be overspending additional to that discussed above by those high spending authorities, with targets well above GRE, who had been asked for real cuts of 7 per cent.

Table 4

The Gap between the Sum of  
"Effective Targets" and "Technical Targets 1982-83  
(£m estimated 1982-83 outturn prices)

Class of authority	GREs	Technical Targets	Effective Targets	Difference between Effective Targets and Technical Targets
ENGLAND	18515.272	18515.264	19277.713	762.449
London Precepting	1332.447	1463.013	1499.286	36.273
Inner London Boroughs	659.597	836.050	840.044	3.994
Outer London Boroughs	1562.118	1616.145	1631.707	15.562
Metropolitan Counties	864.055	985.541	985.682	0.141
Metropolitan Districts	3761.823	3788.256	3889.487	101.231
Non-metropolitan Counties	8934.284	8472.295	8942.586	470.291
Non-metropolitan Districts	1400.848	1353.964	1488.921	134.957



These predictions were fully confirmed by local authorities' budgets for 1982-83. In fact, budgetted current expenditure increased by 0.5 percent in real terms and budgetted total expenditure was increased by 7.0 percent from 1981-82 estimated outturn budgets rather than reduced by 1.0 percent as requested by the Government. Partly this was due to large increases by the GLC and ILEA, but large increases in spending up to the GRE/ effective target level by several low spending shire counties were also important. In addition, local government in general budgetted for much greater provision for inflation than implicitly assumed by the Government in the 1982-83 Settlement. Details are shown in Table 5 below.

Table 5

Local Authority Budgets 1982-83  
Compared to RSG Settlement

	Settlement	Local	Excess over	
	Provision	Authority	Settlement	
	£m	£m	£m	%
Current expenditure at Nov. '81 prices	17,082	17,850	768	4.5
Provision for inflation	918 (+5.4%)	1,411 (-7.9%)		
Current expenditure at outturn prices	18,000	19,261	1,261	7.0
Rate Fund Contributions to Housing Revenue Accounts	347	479	132	38.0
Revenue Contributions to Capital Outlay	565	531	-34	-6.0
Gross Loan Charges	1,965	2,035	70	3.6
Interest Receipts	-414	-353	61	14.7
Total Relevant expenditure	20,463	21,943	1,480	7.2

The 1982-83 overspend was very disappointing to the Government and the passage of the Local Government Finance Act in 1982 was a prelude to a fully matured Government strategy for dealing with local government overspending. This strategy incorporated certain elements already developed namely the continuing reduction in general grant support combined with some upward revision in the expenditure plans for local government. However, a new feature which was now introduced was the announcement of expenditure targets several months in advance of the RSG settlement. This was combined with a marked increase in the severity of grant penalties.

Expenditure targets for 1983-84 were announced on 27 July 1982 in a statement to the Consultative Council. The Secretary of State explained:

"This year I am able to give more detail in the Government's intentions than has been possible before and to do so at a time sufficiently ahead of next year to leave no excuse for those authorities that fail to take the necessary action to avert significant rate increases".

All authorities were asked to make some cuts in expenditure, but again high spending authorities were placed under greater pressure - the range of change in targets in cash total expenditure in relation to 1982-83 budgets was from 4 percent to minus 1 percent.

The Secretary of State also announced that there would be an extra provision of £m900 current expenditure in 1983-84 compared to the March 1982 Public Expenditure White Paper Cmnd. 8494. He stated that the Government "considers that an increase in provision is necessary and appropriate, but only in recognition of the fact that local government still needs more time to bring its spending into line with Government plans".

£m700 of the additional £m900 current expenditure was not allocated to services. This meant a £m700 gap between total current expenditure to be used for targets and the figure to be allocated to services. The Secretary of State indicated that:-

"It will be a global sum needed to recognise the fact that local authorities are going to be spending more in 1983-84 than the Government believes to be desirable".

Thus there was an explicit and deliberate gap between the total of targets and GREs for 1983-84 as opposed to the implicit and accidental gap between the sum of effective targets and GREs in 1982-83.

Grant penalties were not announced at this stage. Local government was consulted on three possible schemes in the Autumn and the one eventually chosen had penalties at the rate of 1p per 1 percent overspend up to 2 percent overspend and 5p per 1 percent overspend thereafter - but without any ceiling on grant penalties and with no GRE exemption. The Secretary of State explained this combination of measures as follows in his statement to the Consultative Council on 16 December 1982:

"I do not propose to exempt from (grant) abatement authorities spending above the guidance figure but below GRE. The methodology for calculating 1983-84 targets already benefits authorities spending above target and below GRE this year, by allowing them the same maximum 4% cash increase over budget (which in many cases will mean a higher increase over outturn) seems a wholly reasonable figure for these authorities. Moreover the gentle lead-in to grant abatement proposed under this scheme would give a degree of protection to all authorities which narrowly fail to keep within the guidance figure".

The new scale of grant penalties showed a markedly increased severity between 1982-83 and 1983-84 because although grant penalties at ratepayer level were lower in 1983-84 than in 1982-83 up to an overspend of 4 percent, thereafter they were much more severe in 1983-84. For example at 10 percent overspend grant penalties were 42p in 1983-84 compared to the 15p ceiling in 1982-83.

As well as these grant penalties the gradual reduction in aggregate exchequer grant support continued. It was reduced from 56.1 percent of relevant expenditure in 1982-83 to 52.8 percent in 1983-84. However, despite this reduction in grant support the Secretary of State could announce at the statutory meeting in December 1982 that:

"If authorities plan to spend at target, rate increases will on average be very low; in many cases rates could actually be reduced."



## 5. 1983-84 Budgets: The Decisive Failure

The 1983-84 Rate Support Grant Settlement and the system of targets and penalties which is set up should be seen within the wider perspective of central-local relations.

The overriding importance of the expenditure reduction objective to the Government had, of course, been confined once the Local Government Planning and Land Act was passed. The block grant had then been supplemented by targets and grant penalties and the resulting rate increases had thrown up political problems for the Government which led to the budgetary referenda proposals contained in the Local Government Finance Bill. The events of 1981 had shown a major division between the elected national government and some of the elected local governments. Ministers thus started to stress that the national government's will must prevail. Thus the Secretary of State told Parliament on 18 January 1982 that:

"Where there is a clash between the local and national mandate, the national mandate must prevail".

The resistance of the referenda proposals and their withdrawal combined with the difficulties of finding any alternative to domestic rates left the Government hoping that local government would make budgetary choices to keep down expenditure and rate increases in the run up to the next general election. If rates were not held down the Government would have to come up with an alternative strategy to control local government expenditure and rates.

Within this context the speech by the then Financial Secretary to the Treasury, Leon Brittan to the Society of Local Authority Chief Executives in July 1982 can be seen as extremely important. First, he set out the problem as seen by the Government:

"... we are concerned to ensure that our policies designed to improve the health of the national economy are not frustrated by the actions of local authorities. This necessarily means that we are concerned <sup>to</sup> influence their decisions about spending and the level of rates".

"... Persistent spending above targets jeopardizes the whole balance which the Government and only the government must determine between spending, borrowing and taxation ... persistent ... overspending ... shows either that local authorities are unable to manage their budgets; or more probably, that they have no wish to do so in line with the overall guidance given by central government".

and then he delivered what can be seen as a last warning to local government:

"... a failure to overcome the problem of overspending is bound to lead ultimately to developments which the friends of local government will find extremely unwelcome. It is bound to cause central government to intervene ever more obtrusively and seek ever greater powers over local authority finances ...".

The 1983-84 budgets of English local authorities certainly showed a dramatic failure to overcome the problem of overspending. The planned volume of current expenditure rose by 1.7 percent, whereas the Settlement provision required a fall of 2.8 percent. Total expenditure exceeded target by 3.8 percent or £m771. Over half the overspend of £m771 was due to the GLC and ILEA, as shown in Table 6. However, ironically neither authority suffered any holdback penalties. This was because they both suffered negative marginal rates of grant which removed all their grant at expenditure levels below their targets. The Government was able to say that the major proportion of overspending was due to a small number of Labour controlled authorities - and it was said repeatedly during the rest of 1983 - without explaining that given the greater severity of their targets this had been the likely outcome.

However, for those in Government and, particularly in the Treasury where the wish for new instruments of control was greatest, this overspend provided the opportunity to press for direct controls over local authority expenditure and rate levels.

Table 6

Local Government Overspending  
Compared to 1983-84 Expenditure Targets

	Excess over Target		Authorities penalised	
	£m	%	No.	Amount
ENGLAND - total	771	3.8	148	275
Greater London Council	301	53.2	0	0
ILEA	97	12.8	0	0
Metropolitan Police	0	0.0	0	0
Inner London Boroughs	57	6.4	7	31
Outer London Boroughs	37	2.1	11	27
Metropolitan Counties	72	6.5	6	65
Metropolitan Districts	61	1.5	23	41
Non-metropolitan Counties	147	1.6	25	99
Non-metropolitan Districts	-1	-0.1	75	11

#### 6. Direct Controls - The Rates Act, 1984

The Government thus proposed to introduce direct controls over rate levels, and this was included in the Conservative's manifesto for the 1983 General Election. The election gave the Conservatives a large parliamentary majority and the Rates Act passed in 1984 has been applied to 18 high spending authorities in its first year of operation, 1985-86.

The introduction of 'rate-capping' has been a major departure from the tradition of local autonomy and accountability. However, at the time of writing there are increasing signs that the Government is searching for new sources of local taxation, which will enable it to have more confidence that more local electors are sharing in the cost of local spending and thus enable a return to a system based on local accountability.



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KRYZYS BRYTYJSKI POMIĘDZY SZCZEBIEM CENTRALNYM I LOKALNYM  
W DZIEDZINIE POLITYKI FINANSOWEJ

Brytyjskie władze lokalne posiadały zawsze dużą swobodę jeżeli chodzi o wydatki budżetowe (ich podział na różne rodzaje usług komunalnych) a także określenie wysokości opodatkowania (podatek od własności). Podatki te łącznie z dotacjami otrzymywanymi od władz centralnych pozwalały na zbilansowanie budżetu.

Swoboda ta istniała w ramach planowania wydatków na cele społeczne prowadzonego przez władze centralne, które też określały pożądany poziom wydatków na cele społeczne. Rząd Konserwatywny wybrany w 1979 r. uznał za celowe zmniejszenie wydatków władz lokalnych i w tym celu wprowadził nowy system dotacji w Anglii (i Walii) w 1981 r. Celem tego systemu było przekonanie władz lokalnych o konieczności ograniczenia ich wydatków budżetowych.

Już na początku roku 1981 stało się jasne, że władze lokalne nie potrafiły obniżyć swoich wydatków do pożądanego poziomu, i w związku z tym podjęto kolejne kroki:

a) Wprowadzenie limitów wydatków, których przekroczenie wiązało się z sankcjami w dziedzinie dotacji. Sankcje te stopniowo zaostrzano.

b) Pozbawienie władz lokalnych prawa do nakładania dodatkowych podatków w ciągu roku finansowego.

c) Obniżenie poziomu dotacji. Dotacje te (przed wprowadzeniem sankcji) zostały zmniejszone z 61% planowanych wydatków w roku finansowym 1980-81 do 48.7% w 1985-86.

Zrewidowano także plany wydatków budżetowych na szczeblu lokalnym. Jeden z ministrów stwierdził w 1982 r.:

"Ciągłe przekraczanie planowanego poziomu wydatków budżetowych przez władze lokalne stanowi zagrożenie dla bilansu wydatków, pożyczek i wpływów podatkowych, o którym powinien decydować rząd i tylko rząd ... jeżeli budżety będą nadal przekraczane, rząd będzie zmuszony podjąć wkrótce dalsze kroki zmierzające do nasilenia kontroli centralnej. Jedynym sposobem uniknięcia tego jest przywrócenie tak ważnej zgodności poczynań władz lokalnych z wytycznymi rządu oraz przestrzeganie przez władze lokalne limitów wydatków budżetowych ustalonych przez władze centralne".

W odpowiedzi na planowane przez władze lokalne przekroczenie poziomu wydatków budżetowych o 3.8% w stosunku do planów rządowych w roku finansowym 1983-84, ponownie wybrany Rząd Konserwatywny przekonał Parlament o konieczności wydania Ustawy o Podatkach (1984), która wyposażyła rząd centralny w uprawnienia do ograniczania wysokości stawek podatkowych ustalanych przez władze lokalne. W rezultacie, w roku finansowym 1985-86, stawki podatkowe ustalane przez władze lokalne są bezpośrednio kontrolowane przez władze centralne zgodnie z nowym ustawodawstwem.