Chapter 4
The conflict over local government spending

Since the mid-1970s the relations between central and local government have become increasingly troubled. This was partly the result of the reform of local government in 1974 which (very oddly) took place with virtually no consideration of financial matters; but it has also been caused by general recession and inflation, themselves due to failures of national and international economic policies. In this context the government became increasingly preoccupied with restriction of public spending, and reluctant to finance councils on the scale they felt to be necessary. Many councils, on the other hand, began to face worsening social and economic problems within their local areas which increased their spending needs. Because of the government's preoccupations they found that they were being compelled either to leave needs unmet or to push up their own sources of revenue (chiefly rates and council house rents), imposing an unacceptable rising burden on local residents.

The crisis of local government finance has been sharply intensified by the severity of the present government's monetarist policies, involving the use of very restrictive cash limits, which are pushing local councils into the front line of counter-inflation policy. Councils are also being asked to play a central role in the policy of reducing the size of the public sector.

The government has been trying by a number of different means including exhortations and threats to control the aggregate of local spending. But the main sanctions to which it can resort if local authorities do not co-operate are to reduce the amount of grant which it pays (government grants now finance two-thirds of council spending) and to refuse authorisations for capital spending and borrowing by councils. At the same time, the new Local Government Planning and Land Bill is altering the system by which the government pays grants in a manner which gives the government greater powers of control over local government spending as a whole and, potentially, over the spending decisions of individual councils.

Although the Bill is objectionable because the extensive new powers it confers on the government are far too loosely defined, there is an urgent need to change the existing system of grants. For one thing, as we shall show, the allocation of funds between areas is at present seriously unfair; in the context of recession and reduced public spending such unfairness causes acute problems in the worse affected areas. For another, the obscure process by which grants are now determined has prevented electorates, national and local (and for that matter most MPs and councillors), from judging the resulting pattern of local spending, rates and rents and from knowing who is responsible for the various problems which arise.

The first part of this chapter outlines the problems which have arisen under the existing system of control and finance of local government. The second part explains the arbitrary nature of powers conferred by the new Bill and suggests how these powers should be constrained.

Problems under the existing system

As a preliminary to discussion of the problems which have arisen in recent years, we first give a brief outline of the historical system of local government finance as it applies to England and Wales.*

The Rate Support Grant

Local authorities undertake a high proportion (over 25%) of total public expenditure – the whole of education and much health and welfare, as well as services which are more obviously local in character such as refuse collection and housing. But although they undertake this expenditure, none of which is voted directly by Parliament, local authorities are in most cases not completely free to decide what the level of spending should be on these services. In the case of education, they are required by legislation to satisfy certain minimum standards of provision and they are also subject to all kinds of directives and pressures from the government. Comparable guidance is given for most services although a few, such as support for the arts, are left entirely to the discretion of individual authorities.

These controls exercised by central over local government, as far as priorities among individual services are concerned, have generally been of a *non-financial*† kind. The counterpart of this is that the main grant received by local authorities is totally unhypothecated: authorities are free to allocate the

* A more comprehensive presentation of the system of local government finance is to be found in Cripps and Godley (1976).

† There are a few exceptions to this, of which expenditure on police is the most important.

grant among individual services entirely as they like. This, together with the fact that they have their own source of tax revenue (the rates) gives them a considerable degree of discretion over both the aggregate level of expenditure they undertake and its allocation among services.

The unhypothecated grant paid by the government to local councils is called the Rate Support Grant (RSG). The government's decision on the total amount of this grant is based on forecasts presented to it by local authorities. The decision conventionally takes into account:

(a) whether the forecast of local expenditure is *realistic* in the sense that it represents the most likely outcome, given the aspirations of local authorities and the constraints and pressures that have up to that time been placed on them;
(b) the average change in the burden of local authority rates which the government wishes to see (this being closely determined by the level of local government expenditure less the amount financed by RSG); and
(c) whether the size of the grant is to be used to alter local government plans. Thus it may be agreed that the preliminary forecast is a realistic embodiment of intentions at the beginning of the RSG negotiation, but the central government may feel that some reduction in planned expenditure is required and may hold down the RSG to put pressure on local authorities.

Once the total of RSG has been decided, the grant has to be allocated among individual local authorities. It will readily be seen that if the grant were simply distributed on a per capita basis this would be unfavourable to areas where demographic or geographical characteristics give rise to special needs; it would also be unfavourable to relatively poor areas, which would have to impose a relatively high burden of rates to provide a given level of service. Thus, over the years before local authority reform in 1974, an elaborate set of formulate was evolved which had, in a very general way, the effect of equalising the options open to individual authorities. On top of a per capita grant which was common to all authorities, additional sums of money were paid out for numbers of children, numbers of old people, geographical sparsity and so on. In addition, relatively poor authorities were aided by a device whereby the government stood in as rate payer to bring the proceeds of the rates up to a standard value relative to population.

But while in a general way the grant compensated local councils for differences in both 'needs' and 'resources', the formulae used to allocate the grant were complicated and the principles underlying them were not explicit.

The Rate Support Grant, up to the mid-1970s, was not an important mechanism for control of local government spending in aggregate, let alone a means for control of spending by individual councils. The formulae for allocation of the grant, although based on an assessment of needs, carried no implication about how much each council ought in fact to spend. The principle involved here is fundamental to the principle of local autonomy which has applied hitherto and which is now seriously under threat. The objective of the system of grant distribution is to equalise the options facing very disparate authorities. It is impossible to achieve this without employing explicitly or implicitly some concept of an authority's normal expenditure. But the autonomy of local government (as hitherto enjoyed) requires that such a concept of normal expenditure is *only* used as a way of calculating the grant. It should not be normative in the sense that an individual council has an obligation to spend any particular amount in total or on particular services.

Problems in the mid-1970s

When the structure of local government was reorganised in 1974, the pattern of allocation of grant which had evolved over a long period was forcibly altered and, in the absence of clear principles, the new allocation gave a great deal of trouble.

Immediately prior to reorganisation, the distribution formulae, despite their extremely obscure properties, were not highly contentious since they had evolved over a long period of time. The alteration in the structure of local government exposed the arbitrary nature of the system. When both the boundaries and the vertical structure of local government changed significantly it was discovered that there were no general principles which could be applied to determine the distribution of grant. One consequence of this was that the reform was accompanied by substantial arbitrary shifts in rate burdens. In the years since reform, notwithstanding some attempt by the government to base the distribution formulae on 'scientific' statistical techniques, the rate burden has in practice shifted this way and that in response to a largely hidden bargaining process. There are still no explicit criteria against which the outcome can be measured.

Throughout the period following reorganisation governments began to be increasingly concerned about the total level of public spending, but found that the existing grant system made control of aggregate local authority spending difficult.

Even total RSG was not really controllable. Faced with a forecast of local expenditure for the following year, the government had to make a political judgement in which the likely average increase in rates loomed large. It was not possible in practice to make a significant distinction between that part of the rate increase caused by local councils and that part caused by the government; thus the government was unable to shed responsibility for rate increases.

The second major problem of financial control arose from 'uprating' of the initially agreed RSG to allow for inflation, based on estimates of changed pay and prices supplied by councils themselves. Councils could, for instance, make pay awards on their own initiative and then simply bill the government for increased RSG to cover a large part of their additional expenditure.

This problem came to a head in 1975/76 when local government spending rose dramatically because of large pay increases and total government grants increased to 7½% of national income from 5½% only two years earlier.

Table 4.1 Local government expenditure and finance – United Kingdom

(percentage of GNP at market prices)

	Current direct expenditure[a]	Grants and subsidies[b]	Capital formation	Interest net of receipts[c]	Total expenditure
1960	4.9	0.3	2.3	–0.1	7.4
1965	5.6	0.5	3.3	0.0	9.4
1970	6.5	0.5	3.6	0.3	11.0
1973/74	7.2	0.6	4.2	0.4	12.4
1974/75	8.1	0.8	3.9	0.4	13.2
1975/76	8.5	0.9	3.6	0.4	13.4
1976/77	8.2	0.8	3.0	0.3	12.3
1977/78	7.8	0.8	2.3	0.2	11.1
1978/79	7.8	0.8	2.0	0.1	10.7
1979/80	7.8	0.8	1.9	0.3	10.8

	Rates	Government grants[d]	Net borrowing, etc.	Total expenditure
1960	3.0	3.0	1.4	7.4
1965	3.4	3.5	2.5	9.4
1970	3.5	4.8	2.7	11.0
1973/74	3.6	5.4	3.4	12.4
1974/75	3.7	6.4	3.1	13.2
1975/76	3.8	7.6	2.0	13.4
1976/77	3.6	7.0	1.7	12.3
1977/78	3.6	6.5	1.0	11.1
1978/79	3.5	6.2	1.0	10.7
1979/80	3.5	6.2	1.1	10.8

[a] Excluding imputed rent in 1960 and 1965 and imputed charge for consumption of non-trading capital in other years.
[b] Excluding the small amount of capital grants to the private sector and public corporations.
[c] Interest payments less interest receipts and rent income.
[d] Excluding capital grants which more or less match capital transfers by local authorities.

Sources: *National Income and Expenditure*, HMSO, for calendar years; *Financial Statistics*, April 1980, HMSO, for financial years up to 1978/79; *Financial Statement and Budget Report, 1980-81*, HMSO, for 1979/80.

Table 4.2 Local government expenditure on education and personal social services: indicators of changes in provision of services in Great Britain

(Annual average percentage changes)

	Volume of expenditure[a]	Effect on expenditure of demographic changes[b]	Volume of expenditure per capita
Primary and secondary schools			
1968/69 to 1974/75	5.0	3.2	1.7
1974/75 to 1978/79	1.7	0.1	1.6
Personal social services			
1968/69 to 1974/75	10.8	0.9	9.8
1974/75 to 1978/79	4.6	0.2	4.4

[a] Changes in current expenditure at constant Survey prices, derived from successive public expenditure White Papers.
[b] The effect of both changes in numbers and changes in age structure, in order to allow for the fact that average spending per capita increases with age in both cases.

Seen in a longer-run perspective, local government spending had risen steadily as a share of national income from 7½% in 1960 to 11% in 1970 and 13% in 1974/75 (see Table 4.1). The largest part of this expenditure, that on education, grew rapidly as the number of pupils increased particularly in secondary schools, while standards, notably teacher-pupil ratios, were improved (see Table 4.2). Demographic pressures and rising standards were simultaneously pushing up expenditure in other categories, notably housing and social services.

During the 1960s part of the increase in spending had been financed by higher rate burdens (as a share of national income). But in the early 1970s the average rate burden seems to have reached an effective ceiling of just over 3½% of GNP. Thus the main source of finance for higher local spending became the RSG.

Already in 1975 when current spending by local government was still rising exceptionally fast, the government had started to reduce the strain on overall public finances by cutting back council borrowing and capital spending. Since then, capital spending has fallen year by year, from over 4% of national income at its peak in 1963/74 to under 2% in 1979/80. The net borrowing of local government is indeed now lower, relative to GNP, than it was in 1960 (Table 4.1).

Starting in 1976, the government also began to try out new ways of controlling the Rate Support Grant and current spending by local authorities. Since then it has each year announced a cash limit for the Rate Support Grant – that is to say, a pre-specified allowance for inflation rather than an automatic adjustment after the event. As long as increases in wages and salaries which form the largest part of local government costs were regulated by incomes policy, the cash limit on RSG did not present very great problems. Indeed where the initial inflation forecast was falsified by wage settlements in which the government itself was involved, the cash limit on RSG was quite reasonably modified to take account of the additional cost to council expenditure.

Apart from the switch to cash limits, the Minister for the Environment announced in 1976 (Circular 84) that he might reduce the RSG in 1977 below what it would have been, by the amount of any excess in aggregate local expenditure in 1976 over the forecast which had formed the basis of the RSG negotiation. This method of control was inherently objectionable and liable to be ineffective since the 'innocent' would be punished with the 'guilty'.

Considering the limitations of the approach, the government had remarkable success in keeping down local spending in the years from 1976/77 onwards (see Table 4.3). Current spending in volume terms was below forecast in the first two years and only a little above forecast subsequently (allowing for increases authorised during the year). Capital spending was below forecast for three years running. As a share of national income, current spending fell from 9½% in 1975/76 to 8½% from 1977/78 onwards. Total government grants, of which RSG is the main element, were cut correspondingly from 7½% of GNP to little over 6% (Table 4.1).

The reduction in government grant did not lead to any increase in the average rate burden as a share of GNP. This may reflect the success of government threats about the consequences of overspending or, perhaps more plausibly, it may simply be that the average rate burden had reached the limit of public acceptability.

In the first years of cuts in current spending, the financial problem for councils was eased by a fall in the pay of their employees relative to pay in the economy as a whole, as a result of incomes policy being more strictly enforced for council workers. But in the past year or two incomes policy has ended and council employees have received new comparability awards, causing a relative increase in their pay. The strain on councils was eased by a fall in numbers of schoolchildren whereas there had previously been an increase over a long period (Table 4.2). But despite this, the level of service provided has had to rise more slowly since the growth of total spending was curtailed and is now in many cases having to be reduced.

The present crisis

The cash limit imposed on the RSG for 1980/81 faces local councils with far more serious problems than they have previously encountered and many of them have been forced into an impossible position not of their own making. This is because inflation

Table 4.3 Forecasts and outturn of local government expenditure

(percentage difference of outturn from forecast)[a]

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80[b]
Volume[c]						
Current expenditure[d]	+ 5.9	+ 0.7	–1.5	–3.4	+ 1.1	+2.5
Capital expenditure[e]	+26.3	+ 5.8	–2.6	+0.2	–14.8	–5.4
At current prices[f]						
Current expenditure[d]	+18.2	+ 4.8	+0.3	–2.5	+ 2.9	+1.9
Capital expenditure[e]	+29.4	+22.2	–5.3	–6.6	– 9.6	+2.7

[a] Outturn compared with forecast made immediately before the beginning of the financial year in question, adjusted for any policy changes made during the year.
[b] Estimated outturn figures as published in public expenditure White Paper, March 1980 and *Financial Statement and Budget Report, 1980-81*. The current price forecast for 1979-80 was published in June 1979.
[c] Expenditure at Survey prices as published in successive public expenditure White Papers, which ought to closely correspond with the expenditure estimates used to determine the rate support grant. The figures for 1974/75, 1975/76 and 1979/80 are our own estimates obtained by adjusting the Survey price figures for different years to a common basis.
[d] Excluding interest payments.
[e] Excluding capital grants and net lending.
[f] Taken from *Financial Statement and Budget Estimates* published at the beginning of the financial year in March or April. These figures might incorporate some revisions to the expenditure estimates used as the basis of the rate support grant settlement.

Table 4.4 Local authority expenditure per capita by country

(£ per capita at 1979 Survey prices)

	1974/75	1975/76	1977/78	1979/80	1980/81
England and Wales					
Current expenditure	242	254	253	266	255
Capital expenditure	124	108	70	60	51
Scotland					
Current expenditure	270	294	279	293	289
Capital expenditure	142	135	109	107	90
Northern Ireland					
Current expenditure	269	277	265	278	261
Capital expenditure	52	53	52	49	47

Sources: The expenditure figures at 1979 Survey prices are taken from *The Government's Expenditure Plans, 1980-81 to 1983-84* (Cmnd 7841). The figures for Northern Ireland are not shown in this form in the White Paper but can be obtained by deducting the sum of expenditure in England, Wales and Scotland from the figures for total expenditure by all local authorities.

Table 4.5 Distribution of RSG in England and Wales

(£ per capita at 1980/81 prices)

	London	Metropolitan areas	Non-metropolitan England	Non-metropolitan Wales	Salford	West Sussex
Rate Support Grant						
1974/75	161	200	171	256	209	148
1979/80	224	222	170	257	258	127
1980/81	215	222	167	252	255	123
Net current expenditure[a]						
1974/75	446	356	318	368	344	291
1979/80	490	355	306	370	381	281
1980/81	491	361	304	366	382	299
Net rate burden[b]						
1974/75	252	138	129	99	119	125
1979/80	258	128	132	109	119	149
1980/81	276	139	137	114	127	176

[a] Defined as the net rate burden plus Rate Support Grant.
[b] Rate levied on ratepayers (ie, excluding RSG resource and domestic elements borne by the government).

Source: Return of Rates 1974/75; Financial, General and Rating Statistics 1979/80 and 1980/81, CIPFA.

Note: For RSG and net current expenditure, the implied deflator for general government current expenditure has been used to adjust figures to a 1980/81 price basis; for the net rate burden, the consumer's expenditure deflator has been used. The figures therefore do not sum for prior years.

has far exceeded what the government was prepared to allow in November last year when the RSG was set. What has happened is that the government sponsored a level of aggregate spending in the main RSG negotiation but is now refusing to provide its share of the finance for it. This is particularly unfair since the government itself has been responsible for acceptance of pay settlements, notably the Clegg award to teachers, which will raise the local authority wage bill this year by well over 5% more than was assumed in fixing the cash limit. The government has made it clear that no extra money will be forthcoming. The only possibility for councils to hold to their budgets for 1980/81 would lie in very low pay settlements during this year (councils calculate that money wage settlements this year would need to average 8%, implying 10% real wage cuts for their employees). Even if the cash limit did succeed in forcing low settlements on local government employees, the problem would only have been postponed since their earnings would then be way out of line with those in the private sector and there would inevitably be subsequent pressure for restoration.

The RSG cash limit, apart from its unrealistic inflation assumptions, was based on a planned reduction of 5% in the volume of current spending by local councils as compared with the previous year, 1979/80. Government forecasts in the March 1980 White Paper also imply a further fall of almost 20% in the volume of councils' capital spending. With balances depleted or exhausted and the volume of expenditures already cut back heavily, councils will need increases in RSG in excess of the rate of inflation simply to stabilise their finances. Yet the government is likely, on the basis of its own financial plans, to be seeking further reductions.

So far the government has made three threats: that it will cut the total RSG further; that it will identify what it considers to be individual overspending councils, and take discriminatory action against them; and that it may impose a moratorium on building contracts. The threat of sanctions on individual authorities is particularly explosive, not only because it strikes directly at the autonomy of councils and the local electorates who vote for them, but also because the government has no valid means of ascertaining whether an individual authority is overspending relatively to others.*

Reforming the distribution formulae †

It is convenient at this point to consider at greater length the problems which arise over the distribution of RSG – the main subject of the new Local Government Bill. As we shall show, the way this difficult question is resolved has important implications for the ability of the government to control local expenditure in total and for the achievement of equity among individual authorities. The proposals contained in the new Bill, whatever their potential merits, look to us largely designed to strengthen further central government influence over local expenditure. This is quite clearly the case as regards the proposed direct controls over capital spending.

Ideally the purpose of a grant equalisation scheme is to give to each authority the same options in terms of the level of service it can provide with a given burden of taxation – defined, for instance, in terms of the proportion of family income paid in rates. In what follows we shall assume that this ('the ideal position') is indeed the correct objective.

This 'ideal position' carries precise implications both as to what is wrong with the existing system and as to how it should be reformed. Corresponding to any average provision of services in the country as a whole there must exist a normal or standard level of expenditure by each individual authority which represents the cost of providing average services in its area. We shall call this level of expenditure the 'standard expenditure' of an authority.

Similarly, in each area there is a level of rates which would impose a burden on family income equal to the average ratio of rates to family income over the country as a whole. We shall call this the 'standard rate' of an authority.

One condition that an ideal system must fulfil is that an authority's receipt of grant should exactly make up the difference between its standard expenditure and the yield from its standard rate; if an authority decides to undertake standard expenditure, it will find itself having to impose the standard rate burden. But fully to equalise the options open to all local authorities also requires that the marginal change in the rate burden associated with more or less expenditure than the standard should be the same for all authorities. This will require a further adjustment of the distribution of grant, depending on the amount each authority actually decides to spend.

It is quite clear that the existing system of grant distribution, even as partially reformed following reorganisation of local government, falls far short of this ideal system.

Very briefly, this is so because:

(a) The present way of estimating local authorities' 'needs' does not do justice to the intricately different circumstances in different parts of the country. The present procedure is to attach values to the various components of the 'needs element' grant on the basis of a cross-sectional correlation between local expenditure and such factors as the numbers of young or old people. This method must result in grants per young or old person being uniform throughout the country, which is obviously inappropriate. Bournemouth and Hastings each have an exceptionally high proportion of old people in their populations but those in Hastings are very much poorer than those in Bournemouth and are therefore likely to need far greater assistance from the local authority.

(b) The existing system implies that the burden of taxation would be equalised if the rate poundage were also equal throughout the country. But if rate poundages were equal throughout the country, the tax burden expressed as rates paid as a proportion of family income would be very unequal because rateable values, which are based on rents, are much higher for a given type of property in certain areas than in others.

(c) Finally the present system does not ensure that authorities which alter expenditure by a given amount experience an equal change in the burden of taxation. This follows *a fortiori* from (b). But the point is compounded by the fact that we have at present a deficiency, rather than an equalisation, system which brings below-par authorities up to some norm but does not bring above-par authorities down to that norm.

The new Local Government Bill

The objectives to be met by any reform should include a clarification of the rights of councils on the one hand

*The attempt to do this by reference to an average rate poundage of 119p foundered, quite properly, when it came to be recognised that, if only because rateable values are no indicator of taxable capacity, the average poundage cannot be regarded as a valid norm. It is reported in the *Financial Times* (21 June 1980) that all local authorities are now being asked to submit revised budgets for 1980/81 which show spending 2% lower than the 1979/80 outturn. Again this proposal is arbitrary and inequitable because the population of different authorities is changing at very different rates.

† The argument in this section follows that set out formally and at length in Cripps and Godley (1976).

and of those of government on the other; preservation or enhancement of the financial autonomy of councils, at least as far as this can be made compatible with the government's need for control over its own finances; and greater equity in the distribution of grant among areas with differing resources and needs.

The new Local Government Bill for England and Wales, now about to become law, provides a formal structure which could be used to reform the grant system in these directions. But since few principles, let alone operational methods, are laid down in the Bill to govern how the formal structure is to be applied by the government, the way has been left open for the government to use its new powers to curtail the autonomy of councils and to modify the distribution of grant among areas in almost any manner that it wishes. Its specific plans for the grant still have to be presented to Parliament each year but on past form these plans are likely to go through on the nod.

The councils by and large opposed the new structure for Rate Support Grant in its entirety. Assuming, as seems likely at the time of writing, that the proposals in the Bill will soon become law, the councils will have to adopt a new strategy. Many of their objections to the Bill were well-founded. But a simple repeal of the Bill is for the time being impossible and would in any case leave problems under the existing system unresolved. In our view what is now needed is a clear set of principles to be applied to the new formal structure if the government is not to abuse its powers. These principles could in the first instance provide the councils with a basis for negotiation and public argument. Beyond this, they might provide a basis for Parliamentary scrutiny of government action under the new law, and in the longer run they might be written into amending legislation to define Parliament's intentions more clearly in statute.

Parliament has a long tradition of insisting that powers conferred on government in matters of taxation should be very precisely defined and carefully scrutinised. In our view it should be recognised by Parliament that the Rate Support Grant is much more nearly similar to a tax measure than most other forms of government expenditure. The grant does not fund executive actions of central government in accordance with statutes and policies debated by Parliament. It is explicitly a distribution of money to local authorities which influences the rate burden they impose on their own electorates and constrains their ability to provide local services. Thus the amount of the grant and the way it is shared out have a direct bearing on the tax burden and on the quality of services in each local area of the country. Nor can Parliament leave it to local authorities to see that the government acts reasonably in its decisions on the grant. Once Parliament has conferred powers of decision squarely on the government, local authorities have little more opportunity to challenge the use of those powers than taxpayers would have if Parliament left decisions on the tax system entirely to the Treasury.

Here, after explaining the new system and the problems it presents, we shall put forward a set of principles which we believe could settle the main issues.

The new grant system

According to the Bill (which at the time of writing was still potentially subject to amendment), the Rate Support Grant for England and Wales will in future be determined as follows:

(i) The government will determine the total amount of grant it wishes to pay.

(ii) The government will define an amount of 'standard expenditure'* and a 'standard rate' for each local authority. These should both be fixed according to some general principles, and the standard rate will vary for each authority depending on the relationship between its 'total expenditure' and 'standard expenditure'.

(iii) The grant paid to each authority will be the difference between its 'total expenditure' and the proceeds of its 'standard rate' (which may however be modified by a 'multiplier' set by the government). It is implicit that standard rates will be calculated so that the total grant payable will be more or less the amount fixed initially by the government, and the Bill provides that the grants payable can be scaled to make sure that this is the case.

The formal structure of the new grant bears a close resemblance to that advocated by the Layfield Committee† and in a pamphlet we published a few years ago.‡ To see how it could provide the basis of a fair distribution among councils while leaving them autonomy in their spending decisions, suppose that 'standard expenditure' was in fact calculated on a formula which gave a fair measure of the comparative spending needs of each authority, and that the 'standard rate' varied simply (and not too steeply) with the ratio of *actual* expenditure to standard expenditure. Then, in effect, and in the absence of multipliers, the system would provide grants that enabled councils to vary the level of their spending relative to local needs, by varying their rates on a uniform schedule. This in itself would not be fair as between areas for the reason that rateable values vary widely, relative to income, in different parts of the country. Here the 'multipliers' could come in as a mechanism for equalising effective rate burdens.

Although the new system could be used in the above manner, there is nothing in the Bill to say that it must be used in this way. The government is free to determine standard expenditures, standard rates, multipliers and even 'total expenditure' on almost any formulae it wishes. Nor is any minimum set to the total amount of grant paid. The Bill therefore leaves all the important issues of equity and autonomy (including adjustments for inflation) unresolved for the government to determine subsequently and unilaterally.

The main fear of Councils is that 'standard expenditure' will be fixed by government as a norm with which each council must individually comply, thus depriving them of any financial autonomy. Such an anxiety is not unreasonable in the context of threats

* The name may be amended.

† HMSO (1976).

‡ Cripps and Godley (1976).

made recently by the government. Moreover the Bill provides that the *total expenditure* of each council for the purposes of calculating grant may be subject to deductions determined by the government.

As regards capital expenditure, the Bill proposes that individual local authorities will be able to spend in any year only the amount prescribed by government (subject to a 10% supplementary allowance), irrespective of whether the project is financed by borrowing or by local sources of revenue. This clearly restricts local discretion over the allocation of expenditure and over the timing of spending on capital projects where considerable flexibility might be desirable.

Principles which could make the new system fair

The first point on which the Bill is unsatisfactory concerns the determination of the total amount of grant. In our view the government's determination of this amount ought to be subject to some constraints, in particular:

(i) that it should not imply an unreasonably high average rate burden if councils are to fulfil their obligations as defined by statute and government guidance plus reasonable discretionary spending; and

(ii) that it should be adjusted, at the least, for general inflation (ie, the rise in overall costs in the economy) if not for specific inflation in the costs of councils themselves.

The first criterion implies that if the government reduces the grant it should, as regards the national aggregate, be obliged to show that this will not place local government in an impossible position of conflict between its duties and its sources of finance. In effect, if the government wants to make major cuts in its grant, it should seek Parliamentary approval for a reduction in the functions of local government or for an abnormally high average rate burden. The second criterion implies that local authorities should not bear a heavy burden on account of general inflation for which they themselves are in no way responsible, and therefore that cash limits should be adjusted during the course of the year if the allowance for inflation incorporated in them turns out to be much lower than the actual increase in prices over the economy as a whole.

The second problem concerns how *standard expenditure* should be defined in such a manner that it does not constitute a norm imposed by government. A reasonable solution would be to require that it should be calculated as the estimated cost, to each council, of providing the average pattern and standard of services actually provided by all local authorities taken together.* Given this, the *standard rate* should be set explicitly on a formula which ensures that departures of actual expenditure from standard expenditure are self-financing, averaged over all local authorities. This should leave each council free to vary its own expenditure at the cost of varying the rates it charges, the size of the rate variation required being uniform regardless of whether the council is in a rich or poor area. †

The final provision needed to ensure equity among councils and to guarantee their autonomy concerns the determination of multipliers. We see no case for differences in rate burdens other than those attributable to differences in the amount and standard of services which councils decide to provide. Thus our view is that the multipliers should be calculated to correct for differences among areas in the ratio of domestic rateable values to family income. If this principle is followed, together with the other principles advocated above, there would have to be a substantial increase in rates in areas with low rateable values and some reduction of rates in London. If such a readjustment of the rate burden would make local government finance more equitable, the fact that it involves changes is no good reason for not going ahead with it. Moreover we must emphasise that rate burdens could still be lower in some areas than in others if local electorates in those areas vote for lesser provision or lower standards of service.

Taken together the principles outlined above would fulfil what should be the main objectives of reform of the grant system. Unless they are followed the system instituted by the new Bill will be at least as unfair as, and considerably more subject to government abuse than, the existing system. In the present situation Parliament could play an important role through its power to approve or reject the government's annual Report on its RSG proposals. Having conferred very extensive powers on the government, it must be a major responsibility of MPs to see that the powers are not used in a manner which is unfair or which destroys the autonomy of local government in this country. Thus we would hope to see councils and MPs cooperating in a careful scrutiny of each year's RSG Report before it is approved by Parliament.

References

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* We have discussed elsewhere how such a calculation can be made (Moore and Rhodes, 1976).

† Cripps and Godley (1976).