

John Raine<sup>1</sup>THE FINANCE OF LOCAL GOVERNMENT IN GREAT BRITAIN:  
LEGAL AND FINANCIAL STRUCTURES

There are 456 local authorities in England and Wales and a further 46 in Scotland, which between them have responsibility for the majority of locally-based public services. Indeed besides health care, which is a national service, albeit locally administered, water supply and sewerage services which are administered regionally, and the social security services (for example pensions, unemployment and low income benefit payments) which are also organised nationally, almost all the community-oriented services are provided by democratically-elected local authorities. The main such service, in expenditure terms, is education, which accounts for just less than half the total annual spending of local government as a whole. The social services, especially for the elderly and children in the care of local authorities account for a further 10 percent, while the police, fire services make up another 14 percent. The provision and maintenance of public housing is a major function of local government, particularly in the urban areas (1 percent) and a range of highways, transportation, environmental protection, planning and associated services account for some 20 percent. Finally a large collection of miscellaneous services, which includes public libraries, consumer affairs, careers services account for a further 6 percent.

But not all 456 local authorities are responsible for all these functions. In fact the responsibilities in local government in Great Britain are divided between two tiers and each citizen votes in two local authority elections; an upper tier of County

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Councils and a lower tier of District Councils. Outside the major conurbations of London, Greater Manchester, Merseyside, West Midlands, West Yorkshire, South Yorkshire and Tyne and Wear, the county councils are responsible for the major proportion of local government expenditure, providing among others education, social services, highways, police, fire and some environmental services. The district councils, which nest within the county council boundaries are separately elected and are responsible for quite separate services, but these are a fractions of the total level of spending; the principle ones being public housing, environmental health, local planning and refuse collection. Within the conurbations however the responsibilities are differently divided. The upper tier are responsible above all for highways and transportation, strategic planning, some environmental services, the police and fire services, while the lower tier provides the majority, which includes education, social services and housing. Only in Inner London is education organised at the upper tier level, where there is a special Inner London Education Authority, made up of representatives of the Greater London Council, which is the upper tier authority in the capital.

These arrangements have existed in Great Britain since the early 1970s, when the previously existing pattern of over 1300 local authorities was greatly rationalised. However almost since that reorganisation there has been quite widespread dissatisfaction with the system, perhaps most particularly with the degree of remoteness of the councils from the communities which they serve, and the apparent complexities and overlap in the division of responsibilities. Although as indicated the counties and districts are responsible for different aspects of public provision, and the dividing lines are fairly clearly drawn in legislation, inevitably in practice a degree of co-ordination is required, for example in the case of social services and public housing, where outside the major conurbations, the responsibility is split between the tiers. And the point is that such necessary co-ordination has hardly been facilitated by the two tier system. Similarly the division of responsibility between the tiers for planning, with "strategic" planning being undertaken by the upper tier and "local" planning by the lower tier has created further difficulties on the occasions when district council views and interests have differed from those of the county councils.

In some measure a response to these problems and the feeling that the two tier system has been unduly expensive, central government has recently announced its plans to abolish the upper tier in the major conurbations proposing to pass their functional responsibilities to the districts and in some cases to newly created joint boards made up of district council representatives. While in some senses, meeting the criticisms of the two tier system, the proposals themselves have been widely criticised, partly because the detailed arrangements to follow seem even more complex, and partly because the fact that the proposals are confined to the urban areas, suggests a degree of political manoeuvring; since all seven councils to be abolished are currently controlled by the Labour party. Most county councils covering the rest of the county on the other hand, are controlled by politicians more sympathetic to central government. But however one interprets the government's actions on this issue it raises only one aspect of the general problem of relationships between central and local government in this country. For although local authorities are independently elected, and indeed the only elected bodies other than Parliament their powers are derived entirely from Parliament. With a strong majority in Parliament this effectively means that the pattern, powers, and very strength of a local government system in Great Britain is ultimately in the hands of central government. And this leads to the further important point that Parliament has imposed a number of statutory duties on local authorities, which dictate in large measure the pattern of service provision. It is a difficult matter indeed, and remains a source of much debate, to determine exactly how much discretion a local authority has in practice. In one sense the fact that almost all the major services are now covered by a particular statute; that is local authorities are required to provide them to specified standards; might suggest that there is little freedom left in local government. And certainly the history has been one of growing amounts of legislation covering in increasing detail the requirements and standards of provision to be expected. On the other hand it is often argued in reply that most statutes are fairly vague, and therefore impose little detailed control. Thus one might conclude that while local authorities are certainly not totally free in their activities, nor are they necessarily totally constrained.

In practice, the degree of such constraint varies markedly from service to service, and this does not just reflect differences in the style of legislation, but differences in the relationship between central and local government more generally, as encapsulated in the range of contact, circulars and other means of communication which exist. And it is perhaps fair to say here that local authorities have over a long period of time generally succumbed to the persuasion and advocacy of central government departments, even without legislative backing, accepting in large measure the desirability of more clearly defined and improved standards for public services. Arguably the trend towards a more professionalised officer-class in local government, with greater consequent sympathies with their counterparts in central government, has contributed significantly to a trend of increasing centralisation, as the standards of provision have become more and more determined by central government. Even in fields where no particular statutory requirements are yet laid down, the existence of guidelines and norms in provision has been a powerful force to ensure a fairly high degree of uniformity in standards between local authorities.

Thus although local government in Great Britain appears a strong institution, having responsibility for large areas of public policy, and having its own separate electoral system, the situation in practice is rather different. For with the organisation of local government itself being decided by Parliament, with the powers and functions being similarly derived, and with pressure to provide to increasingly centrally-determined standards, local authorities in this country may be considered essentially subservient to the centre. Certainly this would seem to be the way in which relationships between central and local government have developed over the past two decades or so. And the reality of this comment is further emphasised when one adds to the points about organisation and powers the fact that local government finance is also closely controlled by central government.

Enshrined in the local government legislation is the power of every local authority to raise revenue with its own local taxes, known as the rates. These are levied as a land and property tax, both on householders and industry and commerce. Historically, local authorities have been free to levy rates at whatever level

is decided locally, but controversial new legislation to be enacted this year will give central government the power to limit them to finance centrally-determined levels of spending only. In any case however inequalities in the local taxable capacity of different local authorities, reflecting variations in the value of property, and variations in the needs for public services and the costs of providing them between different parts of the country has meant that most local authorities are heavily dependent upon grants paid by central government. Indeed in the financial year 1983/84 almost half of local government expenditure was financed by central government grants and in the mid 1970s, the percentage of such support was somewhat higher. All of which implies considerable dependency upon central government, and therefore limits the freedom of local authorities in practice to pursue the courses of action which are felt to be locally most desirable.

Moreover there is a simple but all important requirement upon local authorities to prepare a budget each year with revenues to meet expenditure. There are no powers to allow local authorities to borrow to finance expenditure, except for the purposes of capital expenditure, so that all annual revenue expenditure on wages and salaries, running costs and the debt charges on past capital expenditure must be financed from either the rates, charges for specific services or from government grants. This further emphasises the dependency of local government on government grants, for in recent years, as central government has reduced its grant allocations in the pursuit of its macro-economic policies towards public expenditure, local authorities have annually faced the difficult choice of raising more income from the rates to maintain standards, or reducing expenditure and levels of provision. Given such circumstances, the preparation of the annual budget by a local authority provides in a sense the very focus of local government decision-making and it is here that the realities of the state of local government in Great Britain can most fairly be assessed. For this reason Paper II in this series of four on the finance of Local Government in Great Britain looks specifically at the budget process.

## Selected Reading

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