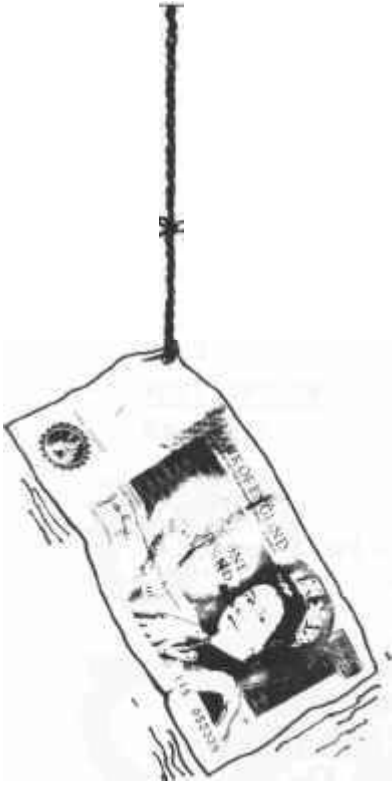


FOCUS



LOCAL GOVERNMENT FINANCE

The Local Government Bill, currently going through Parliament, makes fundamental changes to the way local government operates in England and Wales. The Bill covers a very wide range of issues. It contains provisions for the relaxation of controls and on the publication of information by local authorities. It deals with valuation issues. It will amend the law on town and country planning. It will repeal the Community Land Act. It contains new provisions to limit the operations of Direct Labour Organisations. It provides for responsibility allowances for councillors.

It contains proposals for urban development corporations to take over the functions of local authorities. Most importantly, it will set up a new system for controlling capital expenditure and allocating central government grant to local authorities.

Currently capital expenditure by local authorities is mainly controlled through a system of approvals for borrowing money. In the new system the government will not only control the amount which can be *borrowed*, but also the amount which can be *spent*. The Department of the Environment has said:

'... having regard to the significance of local authority capital expenditure in relation to public expenditure generally, and the need to achieve a fair balance to the use of capital resources between the public and private sectors, Ministers have decided to proceed with a new form of capital expenditure control

The new capital allocation will work like this: the government will first allocate

resources for 'law and order' capital spending (police, magistrates, courts and the probation service); then it will make an allocation to each authority for each of five blocks, education, housing, transport, personal social services and other services. When local authorities receive their total allocations for these five areas they will be able to switch the money from one to another. In other words there will be tighter controls on the amount of money authorities will be allowed to spend, but no more scope for them to decide how to spend the permitted amounts.

Currently about 20% of local government expenditure is financed by fees and charges. Of the rest about 40% is financed from the rates and 60% from central government grant. In 1980/81 the amount of money on which authorities can receive grant is £15,737 millions. The grant paid nationally will be 61% of that amount. The grant is allocated like this: first there are specific grants for things like police and house improvement grants. These come to £1,604.4 million. Then there is a subsidy for domestic ratepayers. This comes to £794.5 millions. Then there is a subsidy which compensates 'poor' authorities, which have low rateable value. This is called the 'resources element' and comes to £2,340 millions. The last element is a subsidy which is allocated according to the characteristics of a local authority's environment. This is called the needs element and is £4,861 millions.

The government is proposing to change this system. It argues that the 'resources element' is an open-ended commitment by the government to subsidise local authority spending. For those authorities which receive resources element, any extra expenditure they make out of the rate receipts is compensated by extra grant from the government.

The new system will prevent this. The government proposes to keep the specific grants and the subsidy for domestic ratepayers, but will replace the needs and resources element with a new block grant.

The government have not yet stated in detail how they intend to operate the new grant allocation system. However certain aspects are clear from the Bill. The government will decide a 'standard expenditure' for each authority. This will be an amount based on what the government thinks each authority 'ought' to spend. If an authority spends more than it 'ought' to, then the amount of grant it receives will be reduced. It is possible under the new system for the government to penalise, by reducing the grant, those authorities which want to spend more than the government wants them

to. The open-endedness of the resources element will be replaced by a progressively punitive allocation of grant, the more an authority exceeds the standard expenditure.

Already central government has a great deal of control over local authority expenditure. It operates this control through the present grant system and the system of giving permission to borrow money for capital expenditure.

In recent years the amount of expenditure by local authorities has been very close to the amount suggested in the Public Expenditure White Paper. In fact, it seems that the 1978/79 capital payments were about 5% lower than suggested in the White Paper, and the current expenditure was slightly below the estimate.

The government only needs the new powers if it wants to make drastic reductions in local authority spending in the future, or if it wants to penalise certain authorities.

A problem facing parties in the May local government elections is how to draw up a manifesto for their own local authorities in the face of increased central government influence over their spending powers. A much higher proportion of current expenditure will have to be financed out of the rates. The ability to finance capital expenditure without limit from contributions from the rates will be removed. If the implications of the new financial arrangements, and the strengthened central control over local authorities are widely known among the electorate it will be understandable if they continue to stay away from the polling booths in droves. More pertinently, the new Bill presents the labour movement with yet another major challenge.