BRAKING MR YOUNGER'S RUNAWAY TRAIN:

THE CONFLICT BETWEEN THE SCOTTISH OFFICE AND LOCAL AUTHORITIES OVER LOCAL GOVERNMENT EXPENDITURE.

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> Mr Younger defended the use of his new statutory powers to penalise authorities whose spending was considered 'excessive and unreasonable'. He said: 'somebody had to do something to protect ratepayers from a totally intolerable burden'. The Government had inherited a 'totally unrealistic' public expenditure programme and were now trying to 'get the runaway train under control'.
>
> The Scotsman, 16th June 1981

Many political issues ultimately boil down to disputes about the raising and use of 'public money'. The whole question of government policy towards local authorities falls clearly into this category. The Conservative Government was elected on a platform of rolling back the public sector and that inevitably meant fewer resources for local authorities. But the issue which has subsequently emerged is that any sharp withdrawal of central government resources from local authorities has clear constitutional implications.

British local authorities are more dependent on central government for their resources than is customarily the case in other European countries(1). Consequently, they are extremely vulnerable in the face of reductions in grant levels. In Scotland, the Conservative Government's policy of cutting both the Rate Support Grant (RSG) and the Housing Support Grant (HSG) has had a sharp impact upon the finances of local authorities. In most cases even large rates increases are unlikely to prevent reductions in services. But at the same time the Secretary of State for Scotland is clearly frustrated at his inability to control local authorities. Just as local authorities believe that such withdrawals of central resources mean that they are no longer able to carry out the job for which they were elected, the Secretary of State believes that local authorities are undermining the economic strategy of the Government.

That economic strategy involves a smaller public sector for reasons which are both ideological and budgetary. The Conservative Government has made clear its ideological commitment to reverse the growth of the public sector. The budgetary problem is more complicated and is discussed later. The scene is being set for intensifying conflict whereas traditionally relationships between Scottish local authorities and the Scottish Office have been fairly amicable. Much more identity of interest (i.e. protecting Scotland) has so far existed than between English local authorities and the Department of Environment.

The objective of this chapter is to set these conflicts over public money into their proper context. One of the characteristic features of debates in the UK about financial issues is the very low level of public understanding. Although the fine detail of mechanisms like RSG is fascinating to a limited number of practitioners and academics, the almost uniform response of the wider circle of politicians, administrators and the public is one of bewilderment at the mysteries involved. What we seek to do is to enable this wider circle to understand why the conflict between Scottish local authorities and the Secretary of State came to a head in the summer of 1981.

Inevitably, these specific events will continue to unfold after this chapter is completed in July 1981. Our purpose is, however, to explore the underlying pressures, which will continue to exert influence beyond this immediate conflict.

Given that the Conservative Government was elected in the aftermath of the devolution referendum of 1979, there were then considerable fears that it might reverse the process of administrative devolution which had been under way in Scotland over the previous 90 years. Although little is documented about the internal debates within the present Government, the result has been that certain of the financial changes which were originally intended to accompany devolution have nevertheless been continued or implemented.

Examples include the use of the Barnett formula[2] to allocate changes in comparable expenditure between Scotland, England and Wales and the formalisation of the Secretary of State's ability to switch expenditure between the different programmes within his own expenditure block.

Although Scotland has had to take its 'share' of cuts in public expenditure, the capacity of Scottish decision-makers to articulate Scottish priorities is greater than ever before. The Secretary of State now decides the balance of expenditure cuts between his different programmes. This means that he is deciding the balance of expenditure cuts between programmes on which spending is incurred by local authorities and by public corporations as well as by the Scottish Office itself. Table 1 summarises the public expenditure context of grants for Scottish local authorities. It distinguishes five distinct stages linking the Cabinet's decision on overall public spending to the operation of the Secretary of State's financial controls over local authorities.

Recent developments in Scotland have followed a rather different course from those in England and Wales. The Secretary of State decided not to extend to Scotland the new form of RSG introduced for England and Wales by the Local Government, Planning and Land Act 1980[3]. This new 'block grant' form of RSG was suggested in 1974 by the Department of Environment in its evidence to the Layfield Committee[4]. Although rejected by the Labour Government, following an adverse response from local authorities, it was subsequently adopted by the Conservative Government as a way of reducing local government expenditure in line with its expenditure plans. During the passage of this Act, the Scottish Office made no move to introduce legislation. The fact that the block grant was not extended to Scotland was at that time regarded as an example of the Scottish Office mediating the impact of UK policies upon Scotland.

Scottish Office ministers then came under mounting pressure to produce their own proposals to deal with errant Scottish authorities, notably Lothian Regional Council. In response, they eventually produced their own Bill - now enacted as the Local Government (Miscellaneous Provisions)(Scotland) Act 1981[5]. Despite the earlier

<u>TABLE 1</u> <u>THE PUBLIC EXPENDITURE CONTEXT OF SCOTTISH GRANTS</u>

<u>Stage 1</u> The Cabinet takes its annual decisions on the planned level of public expenditure for the four years (previously five) of the Public Expenditure Survey (PESC). This process surfaces with the publication of the annual public expenditure White Paper.

<u>Stage 2</u> Decisions are taken on the aggregate levels of:

(a) <u>comparable expenditure</u>: This covers the vast majority of the expenditure within the control of the Secretaries of State for Scotland and Wales (93% for both Scotland and Wales in 1981-82), together with the equivalent expenditure in England.

(b) <u>non-comparable expenditure</u>: This covers the rest of public expenditure (e.g. the big UK programmes such as defence and social security).

<u>Stage 3</u> Any cuts in the GB total of comparable expenditure are allocated on the <u>Barnett formula</u>:

10% of the reduction off Scottish	comparable expenditure
5% of the reduction off Welsh	comparable expenditure
85% of the reduction off English	comparable expenditure

<u>Stage 4</u> The Secretary of State exercises complete discretion about the composition of spending cuts within his expenditure block (i.e. Scottish comparable expenditure). His only control over the total reduction in this block is through his role as a Cabinet minister (i.e. when total public expenditure and the balance between comparable and non-comparable programmes is decided). However, he is solely responsible for the pattern of spending cuts set out in the White Paper.

<u>Stage 5</u> As local authorities spend just over half of the expenditure within his programmes, the Secretary of State will use his financial instruments (e.g. grants such as RSG and HSG; and capital allocations) to secure reductions in local authority expenditure in line with the White Paper plans.

<u>Source</u>: Based on Heald, D.A., <u>Territorial Equity and Public Finances: Concepts and Confusion</u>, Centre for the Study of Public Policy, University of Strathclyde, 1980.

reluctance to take new legislative powers, the Secretary of State has taken upon himself far more ministerial discretion over the affairs of individual local authorities than his English and Welsh counterparts enjoy. The block grant at least establishes a set of rules which govern a local authority's grant entitlement and which are known before the local authority makes its budgetary decisions[6]. There are no such rules in Scotland. Grant withdrawal under the Scottish Act will be based upon criteria set at the discretion of the Secretary of State, after local authority budgets have been completed.

Having reviewed the political and budgetary background, we will now explain the structure of this chapter. Section I outlines the existing system of grants to local authorities; Section II examines the objectives which the Government's expenditure and grants policy is intended to achieve; Section III analyses the policy instruments which the Secretary of State has at his disposal when he attempts to influence local budgetary decisions; Section IV examines the use of the powers of selective grant withdrawal under the Local Government (Miscellaneous Provisions) (Scotland) Act; and Section V assesses the significance of these contemporary events for the government of Scotland.

I <u>The Structure of Government Grants</u>

Scottish local authorities are financed from a number of revenue sources. They have only one tax - the local rates. Charges for services which local authorities provide, such as rents for council housing, fares for municipal buses, and fees for using facilities such as golf courses are a second source of income. Government grants are a third. The most important of these is the Rate Support Grant which is calculated as a percentage of what is termed 'relevant expenditure'[7]. Table 2 summarises the latest available information. In 1978-79, grants financed 51.5% of revenue expenditure whereas rates financed 24.6%. The balance is accounted for by charges, sales and other items such as rents and interest receipts. Grants account for a much smaller proportion of total income (roughly, one half) than is suggested by the RSG percentage (roughly, two thirds). This is mainly a result of relevant expenditure, the base to which the RSG percentage is applied, being

<u>TABLE 2</u> <u>SOURCES OF SCOTTISH LOCAL AUTHORITY INCOME</u>

£m at outturn prices

	1975-76 revenue	1975-76 capital	1976-77 revenue	1976-77 capital	1977-78 revenue	1977-78 capital	1978-79 (provisional) revenue	1978-79 (provisional) capital
1. Rate Support Grant	683 (43.4%)	-	876 (43.4%)	-	933 (42.2%)	-	1,041 (40.9%)	-
2. specific grants and subsidies	191 (12.1%)	10 (2.1%)	257 (12.7%)	9 (1.7%)	242 (10.9%)	13 (2.7%)	270 (10.6%)	19 (3.7%)
TOTAL GRANTS	874 (55.6%)	10 (2.1%)	1,133 (56.1%)	9 (1.7%)	1,175 (53.1%)	13 (2.7%)	1,311 (51.5%)	19 (3.7%)
3. rates	408 (25.9%)	-	471 (23.3%)	-	545 (24.6%)	-	627 (24.6%)	-
4. fees and charges	69 (4.4%)	-	87 (4.3%)	-	100 (4.5%)	-	162 (6.4%)	-
5. sales	10 (0.6%)	3 (0.6%)	22 (1.1%)	6 (1.2%)	32 (1.4%)	8 (1.6%)	52 (2.0%)	23 (4.4%)
6. new borrowing	-	445 (94.3%)	-	489 (93.5%)	-	454 (92.8%)	-	462 (89.4%)
7. other	212 (13.5%)	14 (3.0%)	306 (15.2%)	19 (3.6%)	361 (16.3%)	14 (2.9%)	394 (15.5%)	13 (2.5%)
TOTAL LOCAL RESOURCES	699 (44.4%)	462 (97.9%)	886 (43.9%)	514 (98.3%)	1,038 (46.9%)	476 (97.3%)	1,235 (48.5%)	498 (96.3%)
TOTAL INCOME	1,573 (100.0%)	472 (100.0%)	2,019 (100.0%)	523 (100.0%)	2,213 (100.0%)	489 (100.0%)	2,546 (100.0%)	517 (100.0%)

<u>Notes:</u> Rate rebate grant is included in line 2; domestic water rate in line 3; and rents and interest receipts in line 7. Each of the percentages is calculated independently and, because of rounding, the individual entries do not necessarily sum to the totals.

<u>Source:</u> <u>Hansard</u>, 13th April 1981, cols. 33-34.

defined net of receipts from charges and excluding certain items of expenditure. Our simplified account of the Scottish grants system abstracts from a number of complexities which are not fundamental to the main issues[8].

Until recently there have been two RSG systems, one for England and Wales and one for Scotland. An important extension of administrative devolution has been the establishment in 1981-82 of a separate Welsh RSG. Until the separate introduction of the block grant in England and Wales, the structure of RSG was common to both systems[9].

The Scottish RSG still has three elements:

1. Needs element is designed to offset differences in 'need' between local authorities, as well as making a general exchequer contribution on a per capita basis towards the cost of local government services. The 'need' for local government services may vary between areas. The type of factors which have been built into needs element are population, number of school children, number of old age pensioners, population sparsity and population decline. A figure is calculated for 'weighted population' which is intended to reflect more closely the 'need' of a particular local authority area for services than population itself would do. Although this procedure is justifiable on a conceptual basis, it has proved immensely difficult to produce justifiable measures of 'need'. The procedure in England and Wales was to use step-wise multiple regression analysis: although superficially 'objective', its use has been severely criticised[10]. In Scotland the distribution of needs element has always been much more judgemental, reflecting the assessments of successive Secretaries of State of what is a desirable pattern of grant distribution[11].

2. Resources element is designed to eliminate the effect of differences in the level of per capita rateable value. Without such a grant, those local authorities with high per capita rateable values would be able to finance a given level of per capita expenditure much more cheaply than those with a low level. Focus is being placed upon the resources available to a local authority rather than upon the resources of the residents of that area. A 'rich' local authority may not be composed of 'rich' inhabitants because non-domestic rateable value accounts for 63 per cent of rateable

value in Scotland as a whole, and there are substantial variations between authorities in this percentage. A local authority with predominantly low income households but high industrial and commercial rateable value may be a 'rich' authority whereas an authority with very high-valued domestic property but little industrial and commercial rateable value may be a 'poor' authority. The basic principle of resources element is to compensate local authorities which have low per capita rateable values by paying grant so as to put them in the same position as if each had at least a prescribed level of per capita rateable value. Local authorities either have the physical rateable value or they are credited with notional rateable value. The Secretary of State 'pays rates' on this notional rateable value at the poundage which the local authority itself declares. Therefore for any local authority in receipt of resources element it will attract more grant the higher the rate poundage it sets. This has been much criticised but, given the objective above, such a characteristic is an inevitable and indeed desirable feature of the grant system. Nevertheless this criticism of resources element is an important factor behind this Government's changes to the grants system in all parts of Great Britain.

3. Domestic element is simply a flat-rate subsidy to domestic ratepayers. It was introduced in 1966 when the Labour Government was concerned about the effect of rising rate poundages on its ability to maintain an incomes policy. Domestic element accounts for a much smaller percentage of RSG in Scotland than in either England or Wales. This is mainly because the rating revaluation of 1978 upvalued industrial and commercial property by a higher factor than domestic property. The Secretary of State, very much with the approval of the Scottish local authorities, took advantage of this to switch grant away from domestic element back towards needs and resources elements.

In December each year the Government sets the level of RSG for the following financial year. The Local Government Finance Working Party and its associated committees, composed of Scottish Office officials and of COSLA representatives, are engaged throughout the year upon forecasting, data collection and revaluation exercises which provide the informational base for the operation of the RSG system. The key decisions are the setting of the RSG percentage and the base of relevant expenditure to which this percentage is applied. In the past, the base tended to correspond to a joint estimate of the likely level of local government expenditure on relevant services. More recently a clear link has been established between the Government's plans set out in the annual public expenditure White Paper and the figures which subsequently appear in the RSG (Scotland) Order. Consequently, the role of local authorities in this joint exercise has become more limited.

Table 3 shows how the Scottish RSG system operates. Having established the base of relevant expenditure being met by grant, there are a number of adjustments which must be made. An important source of confusion is that the RSG percentage (now 66.7%) is used to calculate the aggregate amount of grants within the RSG system and not the sum of needs, resources and domestic elements. A number of specific grants, notably the 50% police grant, are deducted from the aggregate amount of grants to give the sum available for the three elements of RSG. If, for example, urban programme grants are increased, there is less money available for RSG itself.

In addition to these grants within the RSG system, there are a number of other grants. The most important is the Housing Support Grant, which was introduced in 1979-80 by the Labour Government. Earlier subsidy systems were historically based, with the rate of subsidy depending upon when particular houses were built rather than upon the current 'needs' of the local authority for Exchequer support.

The new system was designed to match subsidy distribution much more closely to the present pattern of need. A local authority's HSG is calculated by formula as the difference between its 'eligible expenditure' and its 'relevant income'. The former includes standard allowances for management and maintenance, and actual loan charges. The latter consists of assumed income from rents and from rate fund contributions.

The remaining grants are small but, for rather curious administrative reasons, have never been assimilated into the RSG system. Some of them have rather quaint origins such as the grants for

TABLE 3 GRANTS WITHIN THE SCOTTISH RSG SYSTEM : 1981-82

£m at November 1980 prices

A. Composition of relevant expenditure		
education, libraries and museums		1,154.7
social work services		225.1
law, order and protective services		252.2
roads and transport		268.0
water, sewerage and environmental services		230.1
planning services		44.5
technical services		85.4
miscellaneous		104.6
central administration		103.9
interest receipts		- 10.0
Total Relevant Expenditure		2,458.5
B. Grants		
aggregate amount of grants at 66.7% of relevant expenditure		1,639.8
specific grants: police	98.7	
list D schools	0.4	
urban programme	9.0	
civil defence	1.0	
urban development	5.5	
housing improvement	14.4	
clean air	0.1	
sewerage	1.2	
sheltered workshops	1.0	
countryside and port health	1.1	
town development	0.8	
additional teachers in urban areas of deprivation	2.7	
community service facilities	0.7	
hostels for adult offenders	0.1	
		136.7
		1,503.1
C. Elements of RSG		
domestic element		14.0
resources element		148.9
needs element (extraordinary expenses portion)	10.8	
needs element (general portion)	1,329.4	1,340.2
		1,503.1

Source: Scottish Office, The Rate Support Grant (Scotland) Order 1980, HC 63 of Session 1980-81, London: HMSO, 1980.

roads under the Congested Districts (Scotland) Act of 1897. The main features are clear even though the administrative and financial complexities make the grant system difficult to comprehend.

Central government resources are crucially important in the financing of local services. Table 4 shows the proportion of expenditure (other than for housing) financed by grant for each of the 65 Scottish local authorities. This ranges in 1981-82 from 22.8% for Falkirk District to 83.4% for Western Isles. The distribution of needs element on a weighted population rather than population basis means that those authorities which have an above average proportion of the characteristics being 'rewarded' will attract an above average proportion of grant. Similarly authorities which have low per capita rateable values will be those most dependent upon resources element. Consequently the impact of any government policy which relies upon altering the structure and operation of RSG will vary between authorities.

II The Government's Policy Objectives

The Government not only wishes to cut public expenditure but also to alter its composition in favour of defence and law and order and away from social programmes such as housing and education. These aims have led to growing pressure upon local authorities which are the direct providers of many of the social programmes now assigned a lower priority in the Government's expenditure planning. The 1980 public expenditure White Paper[12] placed great emphasis upon reducing the public expenditure : GDP ratio over the survey period to 1983-84. Nevertheless, this ratio actually rose from 41.5% in 1979-80 to 44.5% in 1980-81.

The two main factors frustrating the Government have been the recession and the dramatic growth of public sector costs. There is no comprehensive estimate available of the financial cost to the Exchequer of the present recession. Nevertheless, some indication of its importance is provided by the Treasury's own estimate that the full year financial cost in 1980-81 of each extra 100,000 unemployed was £340m: this is a calculation of the direct costs and excludes 'second round' effects such as lower VAT receipts[13].

The relative price effect (RPE) was introduced into public expenditure planning in the 1970s to allow for the tendency for the

TABLE 4 PROPORTION OF LOCAL EXPENDITURE FINANCED BY GRANT : 1981-82

local authority	Rate Support Grant needs element	Rate Support Grant resources element	specific grants	total grant-borne expenditure
	%	%	%	%
Borders	52.7	13.3	5.4	71.4
Berwickshire	28.1	19.5	9.2	56.8
Ettrick & Lauderdale	27.0	16.3	9.1	52.4
Roxburgh	23.7	21.2	6.9	51.8
Tweeddale	25.6	10.1	8.4	44.1
Central	52.4	-	4.3	56.7
Clackmannan	22.5	9.2	1.9	33.6
Falkirk	21.2	-	1.6	22.8
Stirling	16.6	5.4	1.8	23.8
Dumfries & Galloway	53.5	12.6	4.1	70.2
Annandale & Eskdale	26.7	16.2	9.9	52.8
Nithsdale	28.9	15.8	9.5	54.2
Stewartry	30.0	16.4	10.4	56.8
Wigtown	31.8	14.9	10.8	57.5
Fife	53.7	5.2	3.9	62.8
Dunfermline	27.2	5.7	3.1	36.0
Kirkcaldy	30.3	7.6	3.4	41.3
N.E. Fife	27.2	9.0	10.2	46.4
Grampian	54.8	2.9	3.7	61.4
Aberdeen	21.6	-	4.6	26.2
Banff & Buchan	34.7	4.0	10.7	49.4
Gordon	35.0	13.4	9.4	57.8
Kincardine & Deeside	36.2	9.3	12.2	57.7
Moray	29.1	7.9	7.7	44.7

Notes: This Table excludes housing expenditure and housing grants. Figures for Borders and Dumfries & Galloway (where some district services are functions of the regional council) are inclusive of all services (district and regional).

Source: Chartered Institute of Public Finance and Accountancy, Scottish Branch, Rating Review, Hamilton, 1981.

TABLE 4 (Cont'd)

PROPORTION OF LOCAL EXPENDITURE FINANCED BY GRANT : 1981-82

local authority	Rate Support Grant needs element	Rate Support Grant resources element	specific grants	total grant-borne expenditure
	%	%	%	%
Highland	61.1	5.4	3.0	69.5
Badenoch & Strathspey	25.8	2.6	5.2	33.6
Caithness	17.6	19.3	10.1	47.0
Inverness	17.7	2.2	3.3	23.2
Lochaber	20.3	7.9	1.3	29.5
Nairn	20.5	18.9	5.9	45.3
Ross & Cromarty	39.0	4.6	11.2	54.8
Skye & Lochalsh	25.3	22.2	9.1	56.7
Sutherland	22.5	21.9	14.6	59.0
Lothian	43.1	-	4.8	47.9
East Lothian	17.6	9.8	5.1	32.5
Edinburgh	27.4	-	3.4	30.8
Midlothian	18.3	21.8	1.3	41.4
West Lothian	22.1	14.5	3.7	40.3
Strathclyde	56.1	6.1	6.1	68.3
Argyll & Bute	21.4	12.3	6.2	39.9
Bearsden & Milngavie	30.5	8.8	0.2	39.5
Clydebank	26.6	17.6	7.1	51.3
Clydesdale	25.5	15.8	4.8	46.1
Cumbernauld & Kilsyth	33.4	18.8	1.3	53.5
Cumnock & Doon Valley	22.7	32.7	1.7	57.1
Cunninghame	21.2	2.5	1.7	25.4
Dumbarton	18.5	3.5	3.1	25.1
East Kilbride	27.1	5.3	1.0	33.4
Eastwood	28.6	10.6	1.8	41.0
Glasgow	26.4	3.7	5.3	35.4

Notes: This Table excludes housing expenditure and housing grants. Figures for Highland Region (where some district services are functions of the regional council) are inclusive of all services (district and regional).

Source: Chartered Institute of Public Finance and Accountancy, Scottish Branch, Rating Review, Hamilton, 1981.

TABLE 4 (Cont'd)

PROPORTION OF LOCAL EXPENDITURE FINANCED BY GRANT : 1981-82

local authority	Rate Support Grant needs element	Rate Support Grant resources element	specific grants	total grant-borne expenditure
	%	%	%	%
Hamilton	22.7	23.7	1.2	47.6
Inverclyde	25.0	9.1	4.9	39.0
Kilmarnock & Loudoun	23.4	19.8	1.0	44.2
Kyle & Carrick	21.7	5.8	2.5	30.0
Monklands	20.5	18.3	1.9	40.7
Motherwell	21.8	7.0	2.5	31.3
Renfrew	21.6	11.8	2.3	35.7
Strathkelvin	24.5	22.8	0.7	48.0
Tayside	50.7	7.3	5.4	63.4
Angus	29.3	13.3	10.6	53.2
Dundee	18.8	5.9	3.3	28.0
Perth & Kinross	32.6	10.7	10.8	54.1
Orkney	47.2	-	5.4	52.6
Shetland	27.6	-	4.9	32.5
Western Isles	61.6	18.4	3.4	83.4

Notes: This Table excludes housing expenditure and housing grants. Island councils carry out both regional and district functions.

Source: Chartered Institute of Public Finance and Accountancy, Scottish Branch, Rating Review, Hamilton, 1981.

rate of growth of public sector costs to exceed that for the rest of the economy. However, in recent years this long-term trend has been dominated by the increasingly erratic movements in the wage relativities between the public and private sectors. For the three years up to and including 1979-80 the RPE was either non-existent or negative: it then became extremely high in 1980-81. Whereas the inflation rate in the rest of the economy was about 15% in the period November 1979 to November 1980, local government costs grew by about 25% over the same period. This was the result of higher interest rates and the timing of major public sector pay awards made under the auspices of the Clegg Commission. Consequently, it became very much more expensive in cash terms to maintain the existing level of provision.

Before examining how the Secretary of State has used changes to both the level and structure of grants as an instrument for control over local authorities, it is necessary to focus upon the objectives which he has been attempting to achieve. There are three possible objectives:

(a) to achieve the planned volume reduction in local government expenditure as specified in the White Paper and RSG (Scotland) Order;

(b) to prescribe the functional pattern of local government expenditure so that this matches the priorities established in the White Paper;

(c) to prescribe the territorial pattern of local government expenditure so that each local authority takes its proper 'share' of cuts.

Although these objectives are not mutually exclusive (for example, the Government could aim for all three simultaneously), distinguishing them helps to clarify the issues. The Secretary of State's choice of objectives has important implications, both for the choice of policy instruments and for central-local relations.

It has been far from clear that, either in Scotland or in England and Wales, the Government has itself known which combination of these objectives its grants policy is intended to achieve. It could pursue (a) by altering the broad parameters of RSG (e.g. cutting either the base or percentage) but leaving both the functional and territorial patterns to local decisions. Yet, despite

TABLE 5 THE GOVERNMENT'S SPENDING PLANS: CHANGES IN THE SECRETARY OF STATE'S SPENDING FROM 1979-80

	£m at 1980 survey prices 1980-81	 1981-82	 1982-83	 1983-84
EXPENDITURE OUTSIDE BLOCK				
15.1 agriculture, fisheries, food and forestry	20 16.1%	-14 -11.3%	-14 -11.3%	-24 -19.4%
15.2 industry, energy, trade and employment (excluding tourism)	16 14.2%	11 9.7%	7 6.2%	7 6.2%
15.3 other public services	1	-	-3	-3
15.4 common services	1.2%	-	-3.6%	-3.6%
Sub-Total	37 11.6%	-3 -0.9%	-10 -3.1%	-20 -6.3%
EXPENDITURE WITHIN BLOCK				
15.3 industry, energy, trade and employment (tourism only)	-1 -20.0%	- -	- -	- -
15.4 transport	-24 -6.3%	-27 -7.1%	-39 -10.3%	-39 -10.3%
15.5 housing	-78 -10.2%	-151 -19.7%	-225 -29.4%	-305 -39.9%
15.6 other environmental services	-43 -9.0%	-59 -12.4%	-87 -18.2%	-87 -18.2%
15.7 law, order and protective services	6 2.3%	8 3.0%	7 2.7%	17 6.5%
15.8 education and science, arts and libraries	-38 -3.6%	-72 -6.8%	-91 -8.6%	-101 -9.5%
15.9 health and personal social services	10 0.8%	46 3.7%	80 6.3%	100 7.9%
Sub-Total	-167 -4.0%	-254 -6.0%	-349 -8.3%	-409 -9.7%
TOTAL EXPENDITURE WITHIN THE SECRETARY OF STATE'S RESPONSIBILITY — TOTAL	-131 -2.9%	-259 -5.7%	-360 -7.9%	-430 -9.5%

Notes: Because of rounding, figures do not necessarily sum to the totals.

Source: Convention of Scottish Local Authorities, Government Economic Strategy: The COSLA Critique, Edinburgh: 1981, pp.32-33.

the emphasis it has placed upon (a) as the key objective, the instruments it has chosen imply an entirely new emphasis upon (c). The Government has begun to set and attempt to enforce 'reasonable' spending levels for each local authority. Such developments have profound implications for the future role of local authorities.

Table 5 analyses the expenditure priorities of the Secretary of State as set out in the 1981 public expenditure White Paper[14]. It confirms the very low priority he attaches to major local authority services such as education and housing (scheduled to fall in real terms over the period 1979-80 to 1983-84 by 9.5% and 39.9% respectively). Table 6 shows that, as the size of the Secretary of State's expenditure block has fallen, the bulk of the burden of adjustment has fallen upon local authorities. From the mid 1970s the expenditure of local authorities has been falling in real terms: at 1980 survey prices, from £2,664m in 1975-76 to £2,218m in 1981-82, a fall of 16.1%. In contrast, the central government component of the Secretary of State's expenditure has increased by 10.7%. If there is a runaway train, it is not powered by local government. Rather than local government expenditure being out of control and rising too quickly, local authorities have cut spending - but not as quickly as the Secretary of State would like[15]. Most of the cuts have been in capital expenditure whereas current expenditure has remained stable. The next section examines the policy instruments the Government has used in its attempts to secure further reductions.

III <u>The Government's Policy Instruments</u>

The Government has many different instruments which it can use either separately or together. The list in this section shows their number and diversity. No significance should be attached to the order in which these are now discussed.

1. <u>Cut the RSG percentage</u> The Conservative Government left the RSG percentage unchanged at 68.5% for 1980-81 and then cut it by one percentage point for 1981-82[16]. In fact, it has so far made comparatively little use of this instrument. The large falls which are shown in column 4 of Table 7 were imposed by the previous Labour Government.

2. <u>Cut the base of relevant expenditure</u> The expenditure base

<u>TABLE 6</u> <u>ANALYSIS BY SPENDING AUTHORITY OF EXPENDITURE WITHIN THE SECRETARY OF STATE'S RESPONSIBILITY</u>

£m at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
A. EXPENDITURE:							
local government	2,644 57.6%	2,472 54.7%	2,369 54.2%	2,411 54.0%	2,413 53.3%	2,254 51.2%	2,218 51.9%
central government	1,774 38.7%	1,899 42.0%	1,886 43.2%	1,942 43.5%	2,013 44.4%	2,048 46.6%	1,963 46.0%
certain public corporations	170 3.7%	148 3.3%	113 2.6%	108 2.4%	104 2.3%	98 2.2%	91 2.1%
total expenditure within Secretary of State's responsibility	4,589	4,518	4,368	4,462	4,530	4,399	4,271
B. CHANGES FROM 1975-76:							
local government		-172 -6.5%	-275 -10.4%	-233 -8.8%	-231 -8.7%	-390 -14.8%	-426 -16.1%
central government		+125 +7.0%	+112 +6.3%	+168 +9.5%	+239 +13.5%	+274 +15.4%	+189 +10.7%
certain public corporations		-22 -12.9%	-57 -33.5%	-62 -36.5%	-66 -38.8%	-72 -42.4%	-79 -46.5%
total expenditure within Secretary of State's responsibility		-71 -1.5%	-221 -4.8%	-127 -2.8%	-59 -1.3%	-190 -4.1%	-318 -6.9%

<u>Notes:</u> Because of rounding, figures do not necessarily sum to the totals.

<u>Source:</u> <u>COSLA Critique</u>, op.cit., pp.34-35.

to which this percentage is applied is no longer an agreed figure but is derived from the latest public expenditure White Paper's provision for the settlement year (taking into account any subsequent revisions). Given the minimal level of public understanding of how RSG works, cutting the base is a more attractive (because less visible) option to the Government than cutting the percentage. This means that grant is likely to meet a lower percentage of actual expenditure than it does of relevant expenditure (see the difference between column 5 and column 6 of Table 7).

3. <u>Alter the balance between needs and resources elements</u> Resources element has been criticised for rewarding high spenders because, by setting a higher rate, those local authorities in receipt of it can increase their share of the fixed amount the Government has set aside. The ratio between needs and resources elements has traditionally been set at 4:1. The Government changed this to 7:1 in 1980-81 and 9:1 in 1981-82. This 'saving' in resources element was then distributed as an addition to the population factor in the needs element. This change deliberately moved grant away from low tax-base/high-spending authorities to high tax-base/low-spending authorities.

As a result of these actions, resources equalisation (i.e. equalisation of tax bases) is now far less complete in Scotland than it used to be. Oil development has greatly increased the tax bases of Orkney and Shetland Islands Councils and given them per capita rateable values far above the 'national standard amount'[17]. A smaller resources element (and hence a lower 'national standard amount') has meant that Central and Lothian Regional Councils, Aberdeen, Edinburgh and Falkirk District Councils, as well as Orkney and Shetland, no longer receive it. Ironically, this Scottish move away from full resources equalisation has occurred just as England has adopted the block grant, partly out of a desire to achieve it. This particular change in Scotland was presented by the Secretary of State as a way of controlling local government expenditure without introducing the block grant.

4. <u>Enforce cash limits</u> These are ceilings upon wage and price increases for which extra money will be provided. Although cash limits for central government place a ceiling on expenditure, those

<u>TABLE 7 THE EROSION OF RATE SUPPORT GRANT</u>

	(1) relevant expenditure £m	(2) near-actual expenditure £m	(3) actual aggregate amounts of grants £m	(4) official grant %	(5) actual grant as % of relevant expenditure	(6) actual grant as % of near-actual expenditure
1970-71	383.5	396.3	251.3	65.5%	65.5%	63.4%
1971-72	443.8	461.0	292.7	66.0%	66.0%	63.5%
1972-73	515.9	541.0	343.9	66.5%	66.7%	63.6%
1973-74	635.7	651.2	431.5	68.0%	67.9%	66.3%
1974-75	840.4	883.6	596.9	68.0%	71.0%	67.6%
Reorganisation						
1975-76	977.7	1,037.1	736.8	75.0%	75.4%	71.0%
1976-77	1,330.4	1,334.1	941.8	72.5%	70.8%	70.6%
1977-78	1,478.8	1,429.5	1,008.5	68.5%	68.2%	70.5%
1978-79	1,654.1	1,667.5	1,127.3	68.5%	68.2%	67.6%
1979-80	2,013.5	2,013.0	1,299.7	68.5%	64.5%	64.6%
1980-81	2,443.6	2,539.9	1,577.2	68.5%	64.5%	62.1%
1981-82				66.7%		

<u>Notes:</u> The figures are at outturn prices and include loan charges. From 1976-77, the amounts of aggregate grants have been restricted by the operation of cash limits.

<u>Source:</u> <u>COSLA Critique</u>, op.cit., p.36.

for local government apply not to expenditure but to RSG. If actual inflation is greater than allowed for, RSG is worth less in real terms. Cash limits were introduced in 1976-77 by the Labour Government. As an incomes policy was then in operation, it was not too difficult to produce reasonable estimates of future wage and price increases. Consequently, although cash limits did squeeze volume expenditure, the extent of this was limited. Without an incomes policy there is far less basis for setting cash limits. The Government has used cash limits as a back-door method of cutting the volume of expenditure: no public announcements of such cuts have to be made. It also faces the dilemma that any statement it makes about the likely inflation rate will influence the subsequent level of wage settlements.

The impact of cash limits can be seen from Table 7 which shows a further reason why the proportion of relevant expenditure met by grant has been substantially lower than the official percentage. For example, in both 1979-80 and 1980-81 the percentage of Order level expenditure met by grant (column 5) was four percentage points below the official percentage (column 4). Cash limits have been used as an unofficial public sector pay policy. For 1981-82, the cash limit on RSG only provides for 6% increases in wage costs and 11% increases in other costs: these are likely to be well below the actual figures. Through the use of cash limits set at this level, the Government is seeking to claw back part of the gains which public sector employees received from Clegg settlements.

5. Publish expenditure guidelines The Scottish Office publishes guideline figures for each local authority which, taken together, are consistent with the expenditure level set in the RSG (Scotland) Order. This looks like a central assessment of local expenditure needs but such an appearance is rather deceptive. The methods of calculation have resulted in an individual authority's guideline being heavily influenced by its previous levels of expenditure. A traditionally high spender would thus receive a high guideline and vice versa. Furthermore, changes in political control are likely to produce deviations between such historically-based guidelines and current spending. There has recently been a move to weaken the link between past expenditure and current guidelines. The 1981-82 guidelines 'take account of the assessment of expenditure needs implicit

in the demographic formula used to distribute the needs (general) element of RSG, modified by the level of previous guidelines (in order to avoid undue variations from one year to another)'[18].

Initially, COSLA welcomed the publication of such guidelines, but when it changed its view the Secretary of State proceeded regardless. Hitherto, the main use of guidelines has been by the press to identify certain councils as 'spendthrift'. Performance against guidelines is one of the criteria now being used for the withdrawal of RSG for 'excessive and unreasonable expenditure'.

6. Cut Housing Support Grant Because of the existence of the separate HSG upon which district councils are highly dependent, the Secretary of State has been able to direct cuts towards housing expenditure. In 1981-82 HSG was cut by 44.8% in real terms compared to 2.7% off RSG. This is a clear example of the Government imposing White Paper expenditure priorities upon local authorities. Although local authorities have not delivered the full rent increases asked for, the increases have been unprecedentedly high. For example, instead of £1.40 as the Secretary of State wanted in 1980-81, the average rent increase was 97p; and instead of £2.35 in 1981-82 it was £1.84. Large increases in the assumed rent income automatically bring about reductions in HSG. Table 8 shows the reductions in HSG

TABLE 8 THE EROSION OF HOUSING SUPPORT GRANT

	£m at November 1980 prices 1979-80	1980-81	1981-82
A. ELIGIBLE EXPENDITURE			
1. loan charges	402.6	405.3	361.3
2. repairs and maintenance	125.9	133.9	131.5
3. supervision and management	43.7	46.6	45.7
4. other expenditure	10.6	10.3	8.9
total estimated expenditure	582.8	596.1	547.4
	£m	£m	£m
B. RELEVANT INCOME			
1. local contributions (i.e. standard rental income and rate fund contributions combined)	322.1	351.7	404.9
2. other income	10.5	11.8	14.1
total estimated income	332.6	363.5	419.0
C. HOUSING SUPPORT GRANT (A - B)	250.2	232.6	128.4

Source: Hansard, 13th April 1981, col 33.

imposed by the Government. Some local authorities (e.g. Nithsdale, Cumbernauld & Kilsyth, and Eastwood) may fall out of the HSG system completely in 1982-83, a development made possible by the Local Government (Miscellaneous Provisions)(Scotland) Act 1981.

7. Publicise Manpower Watch statistics The Secretary of State has frequently contrasted the continued growth of local government manpower in Scotland with the decline in England and Wales. He has also cited reductions in Scottish Office manpower as an example to be followed and reminded local authorities of their response to the previous Labour Government's call for manpower reductions (12,000 fewer full-time equivalents between June 1976 and December 1977). Publicity about manpower levels is very much part of the growing battle to win over public opinion. However, in contrast to England and Wales the employment statistics for individual councils are still not published.

8. Use unrelated sanctions The Secretary of State's control over each local authority's capital programme is near absolute. He has used this as a method of punishing individual local authorities for revenue decisions of which he disapproves. In 1980-81, the Secretary of State refused to give consent under Section 94 of the Local Government (Scotland) Act 1973 to Lothian Regional Council's capital programme and ordered that each project be vetted separately. The Scottish Office subsequently claimed that this had saved £11.6m by holding down Lothian's capital spending to £42.8m when its budget was £54.4m.

In 1981-82, 27 local authorities have had their housing capital allocations reduced below the 'provisional maximum' because of rate fund contributions to housing revenue accounts above the Secretary of State's guidelines. Table 9 illustrates this use of capital allocations as a sanction against revenue decisions. For every pound an individual authority was above its rate fund contribution guideline, the Secretary of State removed a pound of capital allocation (subject to a minimum allocation). The Government's view is that in order to contain Scottish local government expenditure within the White Paper plans, excessive revenue spending must mean lower capital spending. Rather than penalise all councils including those which have conformed to the Government's guidelines, the Government

TABLE 9 RATE FUND CONTRIBUTIONS AND CAPITAL ALLOCATION : 1981-82

£m at estimated outturn prices

district or island council	RFC guideline	budgeted RFC	provisional maximum capital allocation	provisional minimum capital allocation	capital allocation received
Berwickshire	0.212	-	0.950	0.720	0.950
Ettrick & Lauderdale	0.398	-	0.835	0.455	0.835
Roxburgh	0.426	0.191	3.290	2.530	2.680
Tweeddale	0.166	0.167	0.500	0.415	0.415
Clackmannan	0.578	1.456	2.700	1.830	1.830*
Falkirk	1.731	3.951	5.945	3.940	3.940*
Stirling	0.957	3.790	5.420	4.335	4.335*
Annandale & Eskdale	0.422	0.422	4.045	3.555	4.045
Nithsdale	0.666	0.650	2.245	1.595	2.245
Stewartry	0.269	0.128	1.455	1.280	1.455
Wigtown	0.354	0.102	1.755	1.445	1.755
Dunfermline	1.528	1.603	4.400	2.745	4.475+
Kirkcaldy	1.795	1.755	6.870	4.850	6.870
N.E. Fife	0.775	0.264	3.570	3.345	3.570
Aberdeen	2.514	7.833	13.610	10.030	10.030*
Banff & Buchan	0.964	-	3.965	2.930	3.965
Gordon	0.744	0.739	3.990	2.865	3.990
Kincardine & Deeside	0.491	0.390	2.680	2.345	2.680
Moray	0.992	-	5.000	4.860	5.000

Notes:

+ local authorities suffering a £ for £ withdrawal of capital allocation;
* local authorities suffering a £ for £ withdrawal but protected by the 'floor' of provisional minimum capital allocation.

29 councils breached their RFC guideline but only 27 lost part of their capital allocation. Two councils (including Tweeddale) were protected by capital allocations being rounded up to the nearest £5,000.

Following representations to the Secretary of State and a reassessment by him of housing needs, 8 authorities secured an increase in their maximum capital allocation in April 1981 above the provisional maximum announced in December 1980 (including Dunfermline, to £4.550m). Two councils requested decreases (Roxburgh, to £2.680m and Tweeddale, to £0.415m).

Source: Hansard, 29th January 1981, cols. 460-462; 5th March 1981, cols. 182-186; and 31st July 1981, cols. 599-601.

TABLE 9 (Cont'd) RATE FUND CONTRIBUTIONS AND CAPITAL ALLOCATION : 1981-82

£m at estimated outturn prices

district or island council	RFC guideline	budgeted RFC	provisional maximum capital allocation	provisional minimum capital allocation	capital allocation received
Badenoch & Strathspey	0.114	0.113	1.320	1.230	1.570
Caithness	0.323	0.323	1.720	1.245	1.720
Inverness	0.673	1.191	3.500	3.200	3.200*
Lochaber	0.244	0.521	2.405	2.000	2.130+
Nairn	0.128	0.170	1.060	0.525	1.020+
Ross & Cromarty	0.545	0.468	2.615	2.145	2.615
Skye & Lochalsh	0.122	0.125	0.675	0.625	0.675
Sutherland	0.157	0.157	0.700	0.515	0.700
East Lothian	0.944	0.708	4.100	2.705	4.100
Edinburgh	5.427	4.200	12.025	7.950	12.025
Midlothian	1.019	1.556	2.905	1.880	2.370+
West Lothian	1.622	1.622	2.640	0.955	3.140
Argyll & Bute	0.768	0.845	4.100	3.590	4.025+
Bearsden & Milngavie	0.470	0.577	0.820	0.625	0.715+
Clydebank	0.623	0.630	2.580	1.940	2.575+
Clydesdale	0.685	0.613	1.255	0.680	1.255
Cumbernauld & Kilsyth	0.795	0.793	1.150	0.910	1.150
Cumnock & Doon Valley	0.551	1.111	2.115	1.390	1.805+
Cunninghame	1.642	2.254	5.435	2.435	4.825+

Notes:

+ local authorities suffering a £ for £ withdrawal of capital allocation;
* local authorities suffering a £ for £ withdrawal but protected by the 'floor' of provisional minimum capital allocation.

29 councils breached their RFC guideline but only 27 lost part of their capital allocation. Two councils (including Skye & Lochalsh) were protected by capital allocations being rounded up to the nearest £5,000.

Following representations to the Secretary of State and a reassessment by him of housing needs, 8 authorities secured an increase in their maximum capital allocation in April 1981 above the provisional maximum announced in December 1980 (including Badenoch & Strathspey, to £1.570m; West Lothian, to £3.140m; and Cumnock & Doon Valley, to £2.365m).

Source: Hansard, 29th January 1981, cols. 460-462; 5th March 1981, cols. 182-186; and 31st July 1981, cols. 599-601.

TABLE 9 (Cont'd) RATE FUND CONTRIBUTIONS AND CAPITAL ALLOCATION : 1981-82

£m at estimated outturn prices

district or island council	RFC guideline	budgeted RFC	provisional maximum capital allocation	provisional minimum capital allocation	capital allocation received
Dumbarton	0.947	2.153	2.510	1.600	2.100*
East Kilbride	1.000	0.449	0.730	0.580	0.730
Eastwood	0.623	0.363	0.280	0.130	0.280
Glasgow	9.307	38.380	66.000	55.310	55.310*
Hamilton	1.294	5.253	6.765	4.625	4.625*
Inverclyde	1.228	2.091	4.160	2.255	3.295+
Kilmarnock & Loudoun	0.976	1.200	2.510	1.430	2.290+
Kyle & Carrick	1.335	2.010	4.360	2.920	3.685+
Monklands	1.309	4.963	7.930	5.510	5.510*
Motherwell	1.792	4.659	10.835	7.405	7.970+
Renfrew	2.607	4.888	9.510	6.360	7.230+
Strathkelvin	1.047	1.422	4.030	3.355	3.855+
Angus	1.113	-	2.765	1.675	3.265
Dundee	2.280	5.704	8.185	4.900	4.900*
Perth & Kinross	1.436	-	2.840	3.050	3.150
Orkney	0.220	0.469	0.820	0.705	0.705*
Shetland	0.575	0.575	3.400	3.000	3.400
Western Isles	0.358	1.201	3.465	3.125	3.125*
Scotland	62.281	117.198	267.440	200.550	232.105

Notes:

+ local authorities suffering a £ for £ withdrawal of capital allocation;
* local authorities suffering a £ for £ withdrawal but protected by the 'floor' of provisional minimum capital allocation.

Capital allocations were rounded up to the nearest £5,000.

Following representations to the Secretary of State and a reassessment by him of housing needs, 8 authorities secured an increase in their maximum capital allocation in April 1981 above the provisional maximum announced in December 1980 (including Angus, to £3.265m; Dumbarton, to £3.010m; Perth & Kinross, to £3.150m; and Strathkelvin, to £4.230m). The entry in column 3 for Perth & Kinross represents a reduced programme which was subsequently increased.

Source: Hansard, 29th January 1981, cols. 460-462; 5th March 1981, cols. 182-186; and 31st July 1981, cols. 599-601.

has used its powers over capital programmes to direct these extra cuts at 'overspenders'.

9. Threaten to use existing powers The Secretary of State already possessed powers to reduce the RSG of an individual local authority. Under section 5 of the Local Government (Scotland) Act 1966, the Secretary of State has been empowered to reduce any element of RSG where he is satisfied that a local authority has failed to achieve or maintain a reasonable standard in discharging its functions or where he is satisfied that the expenditure of a local authority has been 'excessive and unreasonable'. In addition to this power to reduce any element of RSG, he could also calculate a local authority's entitlement to resources element on the basis of a lower poundage than the actual one. These powers, which would be exercised after the end of a financial year, have not yet been used - indeed they had largely been forgotten. In the early part of 1980 the Government made a growing number of references to the possible use of these powers noting that these were contained in legislation passed by previous Labour Governments(19).

10. Threaten new powers After the publication of the plans for the block grant in England and Wales, the Secretary of State and his junior ministers consistently warned that new powers would have to be taken if Scottish local authorities failed to conform to the Government's call for expenditure and manpower reductions. These threats were designed to exert pressure upon local authorities to fall 'voluntarily' into line.

11. Take new powers Despite this armoury of existing policy instruments, the Government eventually decided that it did require new powers. In November 1980, it published the Local Government (Miscellaneous Provisions)(Scotland) Bill. This was at least in part a direct response to what it saw as deliberate provocation by Lothian Regional Council. Lothian was not only determined to expand its services despite Government policy but also to publicise its defiance. The pressures upon the Secretary of State to take new powers which would enable him to answer this challenge directly proved irresistible.

This Bill received royal assent in June 1981. It allows the Secretary of State to withdraw RSG from individual local authorities on the basis of their budgets. The formal powers are exactly

the same as before: only the timing differs. However, there are important practical differences. Under the old powers, the Secretary of State could act only at the end of the financial year - after the spending had already taken place. Under the new powers, he can remove grant from any local authority as soon as it has announced its budget - before it incurs the expenditure.

As Scottish local authorities do not possess supplementary rate powers (unlike their English counterparts), any local authority which loses grant in this way is in a very difficult financial position. There was some dispute about whether a local authority would be able to undertake temporary borrowing to compensate for loss of grant. However, after Midwinter was quoted in The Scotsman(20) saying that local authorities could carry forward the deficit to the following year, the Government produced a new clause (now section 18) requiring local authorities to receive the Secretary of State's consent for such temporary borrowing. Also at the report stage, the Government introduced a new clause (now section 15) which allows local authorities, faced with grant reductions, to cut their budgets, recover this grant and make refunds to ratepayers. Such a course of action does not save the Government any money but enables it to present itself as the defender of ratepayers' interests.

Faced with grant reductions halfway through the financial year, a local authority would have few options. Manpower reductions or increased charges would have to be extremely abrupt because it would be trying to make a twelve month saving within the remaining part of the financial year. The time available would be shortened by the need to give warning of redundancies or increased charges. Unable either to levy a supplementary rate or to borrow, a local authority refusing to take these steps would be hemmed in. Very quickly the local authority would run out of cash, and employees and suppliers would not be paid. The question of surcharges upon individual councillors would immediately arise.

Having secured these new powers, the Secretary of State clearly intended to use them. Their detailed implementation for financial year 1981-82 is discussed in the subsequent section. This discussion of the available policy instruments has demonstrated both their extensiveness and the obvious frustration of the Secretary of State that they did not allow him to discriminate sufficiently between individual authorities. Both the use of capital allocations and the powers of selective grant withdrawal reflect a shift of emphasis away from controlling aggregates towards controlling the expenditure of individual councils.

IV Selective Withdrawal of RSG

Anticipating the Act receiving royal assent, the Secretary of State warned 7 councils on 3rd June 1981 that he considered their expenditure 'excessive and unreasonable'. The councils affected and the sums by which grant would be reduced were as follows: Lothian Region (£53m); Cumnock and Doon Valley District (£0.45m); Dumbarton District (£0.75m); Dundee District (£2.75m); East Lothian District (£1.35m); Renfrew District (£3.8m); and Stirling District (£1.25m). The Government also warned that other authorities might be included on a subsequent list. Through this selective action (amounting to £63m) and a general reduction, the Secretary of State has announced his intention to withhold £100m of RSG for 1981-82 as his response to budgeted expenditure being £183m above guidelines. Furthermore, he has said that he will withdraw up to £60m of RSG already paid over for 1980-81. This will happen because it is estimated that actual local authority expenditure for 1980-81 will turn out to have been £83m above guidelines: this can be done under the 1966 Act.

The House of Commons approved orders on 21st July authorising the withdrawal of RSG from 3 authorities: Lothian (£47m); Dundee (£2m); and Stirling (£1m)(21). The Secretary of State did not at that time take action against the other 4 councils. He has indicated that he is satisfied with the reply of Cumnock and Doon Valley which offered both explanations and expenditure cuts of £100,000. However, an Order is expected to be laid against the others in October(22). The selective reductions so far approved only add up to £50m and the Secretary of State gave indications during the debate that he would be willing to compromise at lower figures. The more he compromises with these authorities, the greater must be the general reductions.

The Secretary of State has removed a pound of grant for each pound of expenditure he considers to be 'excessive and unreasonable'. Local authorities do not know where the Secretary of State will draw the line. Once these provisions are used, the Secretary of State is likely to relate the scale of grant withdrawal to all spending above his assessment of expenditure need. In contrast, a local authority which spends more than its centrally assessed expenditure need but does not cross the line, loses no grant. Therefore, so much depends upon where such lines are drawn.

The 1981 Act allows the Secretary of State, in deciding whether budgeted expenditure is 'excessive and unreasonable', to have reference to:

(i) the expenditure of other authorities which are as closely comparable as practicable;

(ii) general economic conditions;

(iii) 'such other financial, economic, demographic, geographical and like criteria as he considers appropriate'.

This final provision confers almost complete discretion upon the Secretary of State to establish the criteria. Those used for 1981-82 are:

(a) comparison of guidelines and expenditure;

(b) expenditure per capita in relation to 'closely comparable' authorities;

(c) trends in expenditure since 1978-79;

(d) the rating effects of expenditure decisions;

(e) changes in population size and structure.

Table 10 summarizes the available data for all Scottish local authorities on criteria (a) to (d). Criterion (e) cannot be summarized as easily and has been excluded.

Much of the debate has been conducted in terms of performance against expenditure guidelines. Yet as the column headed Criterion A in Table 10 shows only 5 out of 65 local authorities have budgeted in 1981-82 for expenditure at or below their guidelines. Indeed 28 councils are more than 20% above and 42 are 10% above. This indicated that the Government's problem extends far beyond a few 'difficult' councils. At 24.7% above its guideline, Lothian is clearly at outlier amongst the regions. Nevertheless, it is far

TABLE 10 LOCAL AUTHORITIES AND THE CRITERIA FOR GRANT WITHDRAWAL

	CRITERION A PERFORMANCE AGAINST GUIDELINES % over/under 1978-79	1979-80	1980-81	1981-82		CRITERION B EXPENDITURE PER CAPITA 1981-82	change 1978-79 to 1981-82	CRITERION C CHANGE IN VOLUME: 1978-79 to 1981-82 authority's expenditure	Scottish Office guideline	CRITERION D RATE POUNDAGES 1981-82	change in 1981-82	change 1978-79 to 1981-82
	%	%	%	%	£m	£	%	%	%	p	%	%
Borders	- 1.9	- 0.7	0.3	2.7	0.94	361.1	4.9	3.9	- 0.7	76	20.6	94.8
Berwickshire	-10.0	-22.1	5.0	-	-	32.5	- 7.1	- 8.5	-18.6	10	-	-
Ettrick & Lauderdale	-18.5	17.3	12.2	26.8	0.26	37.3	15.5	16.0	-25.4	9	25.0	- 6.2
Roxburgh	-13.2	17.5	0.8	7.0	0.08	34.9	0.3	- 1.6	-20.1	13.9	39.0	19.8
Tweeddale	-36.4	-22.2	-14.9	4.3	0.02	35.6	40.7	40.0	-14.5	8	-	8.1
Central	5.1	- 0.5	1.4	3.6	3.10	328.5	2.8	2.4	3.9	68	25.9	78.9
Clackmannan	- 0.9	- 3.0	- 9.2	14.7	0.33	53.5	11.9	11.7	- 3.4	25	38.9	66.7
Falkirk	- 3.9	8.0	- 8.6	4.9	0.36	53.1	- 3.3	- 3.5	-11.7	25	13.6	47.1
Stirling	3.5	13.7	7.6	42.0	1.46	62.2	29.0	28.6	- 6.2	40	122.2	150.0
Dumfries & Galloway	- 3.0	- 0.5	- 0.6	- 0.2	-0.09	332.8	2.6	1.8	- 1.0	68	21.4	78.9
Annandale & Eskdale	-12.1	15.9	22.8	23.1	0.21	31.9	19.0	19.1	-15.0	10	-	25.0
Nithsdale	-20.4	-19.8	0.6	-	-	29.6	- 5.4	- 6.2	-25.3	12	50.0	140.0
Stewartry	- 6.8	- 1.3	16.7	18.5	0.12	34.6	12.3	11.6	-12.2	10	42.9	100.0
Wigtown	-19.8	-14.0	6.5	19.7	0.15	31.0	14.0	12.3	-24.8	7	-	-
Fife	1.2	1.7	6.1	6.9	7.30	330.0	7.2	6.4	0.7	69	25.5	115.6
Dunfermline	-19.0	7.7	25.5	30.6	1.33	45.1	17.8	16.2	-28.0	17	21.4	41.7
Kirkcaldy	- 5.3	14.1	25.3	25.4	1.50	49.5	9.6	9.6	-17.3	21	55.6	133.3
North-East Fife	5.8	- 3.1	7.9	12.1	0.35	49.8	- 0.4	- 1.5	- 7.1	16	-	77.8
Grampian	- 0.6	- 0.2	1.4	2.9	4.46	329.4	2.1	3.8	0.2	66	11.9	81.0
Aberdeen	-10.5	16.5	20.6	33.2	2.84	54.5	23.9	24.1	-16.7	30.5	43.5	117.9
Banff & Buchan	-27.9	- 8.2	62.8	38.5	0.85	42.9	29.2	31.0	-31.8	9	-	-30.8
Gordon	-19.2	-30.4	35.1	36.0	0.82	51.5	51.9	59.8	- 5.0	10	-23.1	-23.1
Kincardine & Deeside	-16.9	-16.9	21.2	0.9	0.01	28.3	- 8.4	- 4.2	-21.1	8	-	-
Moray	-19.2	- 5.0	10.1	35.0	0.99	46.0	21.7	24.0	-25.7	12	-20.0	-14.3
Highland	-1.9	3.7	2.7	3.1	2.33	399.2	12.5	14.1	8.5	80	25.0	110.5
Badenoch & Strathspey	3.3	16.7	13.3	13.3	0.04	36.2	12.1	9.7	-	11	22.2	57.1
Caithness	-25.8	22.0	19.1	33.3	0.27	40.0	21.6	21.3	-32.5	14	-	40.0
Inverness	- 0.5	16.2	11.4	15.5	0.30	39.5	4.8	6.7	- 8.1	17	30.8	70.0
Lochaber	-19.8	10.3	31.8	35.0	0.21	40.6	25.7	24.6	-25.9	22	15.8	22.2
Nairn	17.1	36.4	2.9	- 3.1	-0.01	29.8	-26.1	-24.4	- 8.6	13	30.0	44.4
Ross & Cromarty	- 4.6	16.9	9.1	9.0	0.12	32.4	- 5.3	- 0.7	-13.1	12	- 7.7	-42.9
Skye & Lochalsh	18.2	16.7	14.8	14.8	0.04	30.6	18.6	19.2	22.7	15	15.4	87.5
Sutherland	23.4	- 3.5	- 1.75	5.7	0.03	42.5	- 3.2	- 3.4	12.8	16	- 5.9	- 5.9

Source: COSLA, Statistics on Local Authority Expenditure, mimeo, 1981.

TABLE 10 (Cont'd) LOCAL AUTHORITIES AND THE CRITERIA FOR GRANT WITHDRAWAL

	CRITERION A PERFORMANCE AGAINST GUIDELINES % over/under 1978-79	1979-80	1980-81	1981-82		CRITERION B EXPENDITURE PER CAPITA 1981-82	change 1978-79 to 1981-82	CRITERION C CHANGE IN VOLUME: 1978-79 to 1981-82 authority's expenditure	Scottish Office guideline	CRITERION D RATE POUNDAGES 1981-82	change in 1981-82	change 1978-79 to 1981-82
	%	%	%	%	£m	£	%	%	%	p	%	%
Lothian	0.6	4.3	11.7	24.7	63.20	428.4	22.4	22.1	- 1.5	112	49.3	154.5
Edinburgh	4.1	4.5	4.3	15.3	3.40	56.5	8.2	7.2	- 3.7	22.5	15.4	60.7
East Lothian	- 6.6	4.4	23.3	44.5	1.51	62.3	37.8	37.6	-11.0	24.5	25.6	75.0
Midlothian	16.9	17.0	15.2	21.8	0,77	50.7	10.2	10.8	6.3	22	10.0	69.2
West Lothian	-17.3	3.4	35.7	39.2	1.63	43.7	24.5	26.1	-25.0	20	11.1	48.1
Strathclyde	- 0.9	- 2.9	2.9	3.6	32.39	382.8	3.2	2.0	- 2.5	80	37.9	116.2
Argyll & Bute	50.2	8.1	7.1	25.4	1.11	85.2	18.0	17.3	40.5	35	29.6	75.0
Bearsden & Milngavie	6.3	7.3	10.4	25.6	0.46	57.7	20.7	21.5	2.9	24	20.0	50.0
Clydebank	12.3	- 3.8	17.5	21.9	0.62	66.5	- 3.3	- 7.5	-14.8	39	35.7	52.0
Clydesdale	- 9.0	- 5.9	6.9	9.7	0.25	49.7	2.1	3.3	-14.3	17	-	41.7
Cumbernauld & Kilsyth	- 7.6	5.4	20.9	25.5	0.63	48.0	28.0	33.6	- 1.6	25	108.3	127.3
Cumnock & Doon Valley	-26.3	2.7	23.8	34.9	0.58	48.8	28.8	26.6	-30.8	29	38.1	81.3
Cunninghame	20.6	9.9	14.9	26.3	1.74	61.5	16.0	16.9	11.6	30	30.4	100.0
Dumbarton	14.9	9.7	10.3	27.3	1.05	61.6	11.6	11.6	0.8	35	20.7	75.0
East Kilbride	7.3	- 5.2	11.2	20.1	0.78	58.3	14.7	13.4	1.3	21	23.5	90.9
Eastwood	22.1	4.2	23.6	12.3	0.28	49.1	-14.3	-13.0	- 5.4	18	12.5	28.6
Glasgow	25.9	15.8	12.8	19.9	10.92	84.2	7.8	4.1	9.3	48	37.1	81.1
Hamilton	- 3.9	- 5.8	5.6	12.2	0.54	46.3	1.1	1.4	-13.1	36	56.5	89.5
Inverclyde	7.7	8.9	- 8.7	11.0	0.55	55.0	0.7	- 1.4	- 4.4	30	50.0	50.0
Kilmarnock & Loudoun	3.2	2.2	4.4	15.8	0.60	53.8	5.5	5.8	- 5.7	29	26.1	81.3
Kyle & Carrick	16.5	-13.7	-10.2	4.7	0.30	59.5	2.1	2.0	13.5	29	61.1	81.3
Monklands	3.3	14.7	17.9	22.4	1.08	54.0	6.1	5.4	-11.1	37.5	27.1	63.0
Motherwell	- 4.0	0.3	- 1.2	9.2	0.65	50.9	4.3	3.2	- 9.3	29.5	13.5	96.7
Renfrew	18.2	8.0	19.9	38.7	4.51	75.4	24.0	24.7	6.3	35.5	57.8	97.2
Strathkelvin	7.9	- 8.0	17.4	19.7	0.81	56.4	15.3	20.0	8.1	27	28.6	100.0
Tayside	0.9	- 3.8	- 2.6	4.7	6.16	342.3	3.2	2.2	- 1.5	75	36.4	108.3
Angus	- 1.7	-	2.6	8.0	0.30	44.0	- 2.0	- 2.2	-11.0	13	18.2	30.0
Dundee	- 0.5	- 5.0	11.0	44.5	3.52	00.6	23.7	21.7	-16.2	35	150.0	84.2
Perth & Kinross	-12.8	- 2.8	1.3	- 1.3	-0.08	37.0	- 3.1	- 3.7	-14.9	12	14.3	50.0
Orkney	25.7	33.9	20.3	40.1	3.41	660.6	15.9	14.9	3.0	69	11.3	-31.0
Shetland	8.9	42.1	66.4	72.4	7.96	849.9	62.5	69.0	6.8	79	5.3	75;6
Western Isles	- 1.6	3.1	8.2	8.1	1.26	564.7	16.4	3.5	- 5.8	119	33.7	98.3

Source: COSLA, Statistics on Local Authority Expenditure, mimeo, 1981.

behind Shetland (72.4%) and Orkney (40.4%). Dumbarton (27.4%) finds itself on the 'hit list' even though it is only thirteenth in the district 'league'. West Lothian (39.2%), Banff and Buchan (38.2%), Lochaber (35.3%), Moray (35.1%), Aberdeen (33.3%), Caithness (33.1%) and Dunfermline (30.5%) have been left off this first list, despite higher excesses over guidelines. All 7 warned councils are Labour-controlled. Of the 2 islands and 7 districts listed above which have not been included in the first list only 3 are Labour-controlled.

The Secretary of State has stressed that performance against guidelines for 1981-2 is not the sole criterion. Therefore, the evidence produced by criteria (b) to (e) ought to be the basis of the apparent anomalies above. However, no indication has been provided as to the relative importance of these criteria. Furthermore, the criteria themselves are problematic. For example, the second column of Criterion C shows the change in volume expenditure over the period 1978-79 to 1981-82 required by the Scottish Office guidelines. It reveals wide disparities between authorities, particularly for districts. Whereas the average reduction for districts over the three year period was 4.9%, the individual changes ranged from -32.5% (Caithness) to +40.5% (Argyll and Bute). Performance against guidelines depends upon how these change as well as how spending changes!

There is also an important difference between expressing a criterion in terms of levels (e.g. rate poundages) and of changes (e.g. increases in rate poundages). This emerges very clearly in the cases of Dundee and Stirling. It can be seen from their entries under Criterion D that their levels, although high, are not exceptional: however, recent changes have been dramatic (150% and 122% in 1981-82). The period chosen by the Secretary of State is also significant: a considerable bias is introduced by taking 1978-79 as the base year. If the comparison was taken back to 1975-76 (the first year of the new authorities), Dundee and Stirling would fare much better. Both these councils had minority Conservative administrations from 1977 to 1980 : these were periods of modest poundage increases or reductions. If both councils had remained Labour-controlled throughout, and steadily increased poundages, it is much less likely that either would now be penalised.

The use of rate poundages as a criterion is dubious for several

other reasons. Midwinter and Page[23] have suggested explanations other than just expenditure growth for increased poundages and variations between authorities: the use of balances; changes in the level and structure of grant; and the inflation allowance implicit in cash limits being lower than the actual rate. For any given expenditure per capita chosen by a local authority, the Government effectively determines the poundage it must levy. In no sense can it be viewed as an independent criterion. Furthermore, a major factor explaining variations in poundages is the different policies adopted with regard to rate fund contributions to housing revenue accounts. Local authorities which have breached the Government's guidelines on rate fund contributions have been penalised by pound for pound reductions in their capital allocations. Such use of rate poundages unadjusted to remove the effects of rate fund contributions to housing revenue accounts means a double penalty is being exacted.

The most remarkable feature, however, is the Secretary of State's choice of comparator authorities. He has compared expenditure per capita (see Criterion B on Table 10) for each of the 7 councils against the average for a group of authorities who are regarded as being as closely comparable as practicable in terms of demographic factors such as the settlement pattern of the population and the number of rateable subjects[24]. This choice of comparators is judgemental and not based on any statistical criteria. Whereas the link between expenditure need and demographic characteristics is clear, the relevance of the number of rateable subjects to either expenditure need or rate poundage is not.

Quite apart from the methodological criticisms of the manner in which they were chosen, the comparators are wholly unconvincing. Table 11 uses the evidence from two governmental studies as a basis for evaluating the Secretary of State's choice of comparators. These two independent studies, which seek to classify local authorities, were undertaken by Webber and Craig for the Office of Population Censuses and Surveys[25]: and by Burbridge and Robertson in an internal study within the Scottish Office's Central Research Unit[26]. Webber and Craig applied the statistical technique of cluster analysis to 40 basic indicators for each of the 457 lower-tier (i.e. district and island) authorities in Great Britain producing 30 clusters and, by further aggregation, 6 'families'. Burbridge and Robertson first classified Scottish local authorities as rural or urban on the basis of agricultural employment and settlement patterns and then applied cluster analysis, but only to the rural authorities.

Table 11 focuses upon the 6 districts threatened with grant withdrawal : Part A gives the Webber and Craig code for each of the 6 (the meaning of the codes is explained in Table 12); Part B lists all the Scottish authorities which appear in the same cluster as the 'warned' authorities (if the Secretary of State chose one of these as a comparator, it is underlined); and Part C lists the other comparators cited by the Secretary of State and gives their code. An asterisk against an authority means that the Central Research Unit study classified it as rural. Because of the different approaches, the two studies classify some authorities rather differently.

The Secretary of State's judgemental comparators can be given scores against the Webber and Craig study. For Cumnock and Doon Valley, he chose 3 of his 5 comparators from the 15 in the same cluster; for Dumbarton, 4 of his 5 from 15; for Renfrew, 2 of his 5 from 15; for Dundee, 1 of his 5 from 7; for East Lothian, 1 of his 5 from 7; and, for Stirling, 1 of his 4 from 7. The choice of the expanding new town of East Kilbride as a comparator for the declining industrial city of Dundee is remarkable. Stirling's comparators are all rural authorities whereas both independent studies classify it as urban. Less can be said about Lothian's comparators because the focus of both studies is upon the district and island tier. Nevertheless, Grampian and Tayside, both with rural hinterlands, are clearly different from Lothian with its urban hinterland[27].

Whilst the difficulties of producing defensible comparators are undeniable, the Scottish Office's exercise is unconvincing. Judgemental techniques are always open to the allegation that the criteria and comparators are chosen in order to 'select' predetermined authorities. Nothing has been done to allay such suspicions - indeed there has been much to arouse them. For instance, there was a considerable delay before the Scottish Office could provide COSLA with information for all authorities comparable to that contained

TABLE 11 INDEPENDENT EVIDENCE ON COMPARATOR AUTHORITIES

	CUMNOCK AND DOON VALLEY	DUMBARTON	RENFREW	DUNDEE	EAST LOTHIAN	STIRLING
A. Webber and Craig's classification	5A/24	5A/24	5A/24	4B/21	4B/21	4B/21
B. Authorities in same cluster as 'warned' authority : those cited as comparators by Secretary of State are underlined	Clackmannan Clydebank Cunninghame Dumbarton Dunfermline Falkirk Hamilton Inverclyde Kilmarnock & Loudoun Kirkcaldy *Lochaber Midlothian Motherwell Renfrew West Lothian	Clackmannan Clydebank Cumnock & Doon Valley Cunninghame Dunfermline Falkirk Hamilton Inverclyde Kilmarnock & Loudoun Kirkcaldy *Lochaber Midlothian Motherwell Renfrew West Lothian	Clackmannan Clydebank Cumnock & Doon Valley Cunninghame Dumbarton Dunfermline Falkirk Hamilton Inverclyde Kilmarnock & Loudoun Kirkcaldy *Lochaber Midlothian Motherwell West Lothian	Aberdeen *Clydesdale East Lothian *Inverness Kyle & Carrick *Nithsdale Stirling	Aberdeen *Clydesdale Dundee *Inverness Kyle & Carrick *Nithsdale Stirling	Aberdeen *Clydesdale Dundee East Lothian *Inverness Kyle & Carrick *Nithsdale
C. Other comparators cited by Secretary of State	*Clydesdale (4B/21) East Lothian (4B/21)	Monklands (5A/25)	Cumbernauld & Kilsyth (5A/26) Edinburgh (4B/22) Monklands (5A/25)	Clydebank (5A/24) East Kilbride (5A/26) Edinburgh (4B/22) Inverclyde (5A/24)	*Angus (2A/10) Cumnock & Doon Valley (5A/24) Midlothian (5A/24) West Lothian (5A/24)	*Angus (2A/10) *Moray (2A/10) *North East Fife (2A/10)

Notes: See Table 12 for the interpretation of Webber and Craig's classification: e.g. 5A is the family code and 24 is the cluster code. Underlining in Part B indicates an authority in the same cluster cited as comparator by the Secretary of State. An asterisk in Parts B and C indicates a rural authority on the Central Research Unit classification.

Source: Webber, R. and Craig, J., *Socio-economic classification of local authority areas*, Office of Population Censuses and Surveys, Studies in Medical and Population Subjects No.35, London: HMSO, 1978; and Burbridge, V. and Robertson, S., *Rural Indicators Study: indicators relevant to the assessment of socio-economic priorities and problems in rural Scotland*, Central Research Unit Papers, Edinburgh: Scottish Office, 1978.

TABLE 12 THE WEBBER AND CRAIG FAMILIES AND CLUSTERS

Family and Cluster	Number of Authorities
Family 1 : Suburban and growth areas	
1A/1 : High status areas with manufacturing employment	20
1A/2 : Rural growth areas	31
1A/3 : Areas of rapid growth	29
1B/4 : Older high status residential areas	28
1B/5 : Areas with large student populations	6
1B/6 : Outer London	12
Family 2 : Rural and resort areas	
2A/7 : Rural Wales and Scottish Island areas	16
2A/8 : Rural West	32
2A/9 : Rural East	31
2A/10: Rural Scotland	23
2B/11: Resort retirement centres	19
2B/12: Port retirement centres	17
Family 3 : Traditional industry and mining areas	
3/13 : Lowland heavy industrial areas	20
3/14 : Upland heavy industrial areas	15
3/15 : The Black Country and similar areas	4
3/16 : Areas with large industrial plants	23
3/17 : Small town manufacturing areas	32
3/18 : Pennine towns	12
Family 4 : Service centres	
4A/19: Metropolitan service centres	12
4A/20: The East End of London	4
4B/21: Scottish service centres	9
4B/22: Regional service centres	19
4B/23: Welsh and Merseyside regional centres	6
Family 5 : Areas with much local authority housing	
5A/24: Scottish industrial areas	16
5A/25: Overspill areas	3
5A/26: New Towns	7
5B/27: Glasgow	1
Family 6 : Inner and Central London	
6A/28: Kensington and Chelsea	1
6A/29: Central London	2
6B/30: Inner London	7
Totals	457

Notes: The dotted lines sub-dividing families 1, 2, 4, 5, 6 together with the whole of family 3, give the eleven family classifications. The code 4B/21 means that an authority is in the second part of family 4 and in cluster 21. Underlining indicates that a Scottish authority appears in this cluster.

Source: Webber, R. and Craig, J., Socio-economic classification of local authority areas, Office of Population Censuses and Surveys, Studies in Medical and Population Subjects No.35, London: HMSO, 1978.

in the letters of 3rd June to the 7 warned authorities. COSLA was not able to circulate this material to member authorities until 2nd July - the day before replies from the 7 were required. But this information should have been readily available as the basis for selecting the 7. The Secretary of State also refused to answer a set of parliamentary questions from Donald Dewar seeking both comparable information for other authorities and to extend the comparisons back to 1975-76. Donald Dewar was referred to Rating Review (the annual publication of the Scottish Branch of the Chartered Institute of Public Finance and Accountancy) which is entirely based on budgets[28]. Such omissions are particularly important because the Scottish Office has not published any post-reorganisation local government financial statistics (i.e. since 1974-75) whereas excellent volumes are available for England and Wales.

Although the Secretary of State is likely to win the open confrontation with Lothian, the conflict will impose substantial penalties upon him. In reality, Lothian simply could not cut its budget by £47m in the remainder of 1981-82 because of administrative obstacles (e.g. redundancy notice periods). The total saving to the public sector is likely to be much smaller than the nominal one. This, however, raises issues beyond this chapter about the Government's overall expenditure strategy. Higher unemployment costs are a problem for another minister - though they will in turn exert further pressure on other programmes including Scotland.

The Secretary of State will have to secure most of his £100m target for 1981-82 by general reductions. But he is likely to find that the many distasteful aspects of this exercise in selective grant withdrawal have soured his relationship with other authorities. Some, like Strathclyde Regional Council stood to gain from the use of selective penalties against others. However, they will view with great alarm the Secretary of State's ability to rewrite the rules on a day-to-day basis.

No explanation has been provided as to why the Secretary of State threatened to reduce Lothian's RSG by £53m (84% of its budgeted expenditure above guidelines); or to seek approval for an Order cutting £47m (89% of the original); or indeed the figure he would compromise at. No statement has been made as to how many other authorities will be first warned and then have grant withdrawn. No satisfactory explanation has been given for why Cumnock and Doon Valley's offer of cuts worth 22% of their expenditure above guidelines secured an acquittal but East Lothian's 26% merely a stay of execution. No 'tariff' has been published setting out the penalties for talking too loudly as well as spending too much: Lothian's rhetoric and Stirling's defiant reply presumably cost them money! Nobody knows the rules any longer.

V Conclusion

As events are still unfolding as this chapter is completed, it is not possible to draw any final conclusions. For example, we do not know whether the withdrawal of grant from penalised authorities will result in compliance or chaos. What we can do at this juncture (writing just after the House of Commons has approved the orders against Lothian Region and Dundee and Stirling Districts) is to offer an interpretation of recent developments.

The most significant consequence of the Government's attempts to impose its public expenditure policy upon Scottish local authorities has been to impose great strains upon the informal networks and arrangements through which central-local relations in Scotland have customarily been conducted. Commentators have often argued that Scottish local authorities are generally more compliant to the wishes of the Scottish Office than their English counterparts are to those of Whitehall ministries. If this is true, it is not just because Scottish local authorities are dependent for a higher proportion of their income on central government grants. The Scottish Office is much more able to respond 'corporately' because it is a single ministry covering almost all local government activities. Whilst Scottish local authorities are thus deprived of the opportunity to play 'divide and rule', they gain the chance of influencing the development of the Scottish Office's own thinking.

The pattern of central-local relations has been sustained by the existence of mutual interests. Whatever party differences might exist, both the Secretary of State and the local authorities shared the commitment to advance or protect Scottish interests. As a territorial department capable of taking some kind of corporate view, the Scottish Office was well-equipped for this task. The Secretary of State knew that this would be the acid test of his incumbency in Scottish eyes. Local authorities would much rather deal

with a Minister with whom they shared such perceptions than with the Treasury itself. This in turn implied an obligation not to carry opposition to his policies so far that this threatened to undermine his position in Cabinet. We can thus detect elements of the sense of community (i.e. shared values and perceptions) which Heclo and Wildavsky[(29)] argued was so important in sustaining the public expenditure planning process within Whitehall.

All the rules - always unwritten and sometimes only dimly perceived - have in the last year suddenly been thrown into question by the conflicts which have occurred. There are many facets to the crisis. A few controlling Labour Groups undoubtedly view the conflict over local government expenditure as the front line of the battle against the Conservative Government: in their eyes Mr Younger's amiability and competence cannot mask the fact that he is 'Mrs Thatcher's man in Scotland'. Well-publicised defiance thus becomes an objective in itself. Alongside the appeals to 'local democracy' and the 'local mandate' is the challenge, usually implicit but sometimes explicit, to the Conservative Government's right to govern Scotland given the composition of Scottish MPs.

But it would be entirely wrong to portray the conflict as simply between the Secretary of State and a few radicalised Labour councils. Throughout local government, members and officials are alarmed by the implications of recent developments. The widespread irritation with the brinkmanship of Lothian is based upon fears that the instruments which the Secretary of State devises for Lothian today will be applied to everybody tomorrow. The recent Scottish Act is widely regarded as a direct response to the actions of Lothian[(30)]. As a sanction against its revenue budget, Lothian's capital allocation was suspended in 1980-81. Subsequently 27 councils lost part of their housing capital allocations in 1981-82 because of rate fund contributions above guidelines. Once the Secretary of State had devised a method of punishing a council for taking a perfectly legal decision, he then extended it to another context and many councils. The way in which selective grant withdrawal has been applied to Lothian, Dundee and Stirling means that very few councils can feel much security that they will not be subsequent targets.

Despite his initial reluctance to follow Mr Heseltine into head-on conflict with local authorities, the Secretary of State has allowed himself to be drawn into an extremely centralist position. The importance of ratepayers as part of the Conservative political coalition has overcome the Party's traditional sentiments against centralisation. Consequently, the Secretary of State forsook the option of waiting for the rebel councils to be disciplined by the electorate despite the fact that Lothian, Dundee and Stirling are all marginal councils. Furthermore, the regional elections are due in May 1982. There is some evidence from recent local elections in London that, despite the crucial importance of national swings, the size of rates increases can result in substantial local deviations[31]. A strategy of relying upon an electoral backlash would have allowed the Secretary of State to avoid both the practical difficulties and the centralist dangers of selective action.

The rejection of this course of action suggests that the Secretary of State has himself become caught up in the rhetoric of the political drama. King has demonstrated just how small are the macroeconomic effects of marginal local authority expenditure financed by additional rates[32]. Moreover, as the Government's policy focus is upon financial variables such as the money supply (M3) and the PSBR rather than upon aggregate real expenditure, the notion that a few defiant local authorities can wreck the Government's economic strategy is far-fetched. Nevertheless the need to defend the integrity of its economic strategy has been consistently advanced as the justification for insisting that local government expenditure must be reduced to the White Paper levels.

The tensions between the Secretary of State and local authorities have been exacerbated by the way in which he and his ministers have been willing to appeal to the widely believed myth that local government expenditure has been growing rapidly and is out of control. Although evocative, the 'runaway train' metaphor is entirely without substance. Allegations of profligacy and extravagance have caused both annoyance and pain in local government circles. Even so, there was a much more muted response to the Scottish Bill than to the earlier English Bill. COSLA did not mount a sustained public campaign against it comparable to the English local authority associations' strident (if eventually unsuccessful) one. The quiet parliamentary passage would have been more appropriate for a minor technical piece of legislation than for one involving important

principles: it was enlivened only by the duel between Mr Malcolm Rifkind, the Scottish Environment Minister, and Mr Donald Dewar, his Opposition shadow. The attempt by COSLA to widen the debate about expenditure cuts through the publication in May 1981 of The COSLA Critique vividly highlighted the difficulties it faces in mobilising local government against Government policy: the 2 Conservative members of the 5 member sub-committee disowned the report at the launching press conference. The dispute about the Government's grants policy only reached the top of the political agenda in June 1981 when the Secretary of State named the 7 councils from which he intended to withdraw grant.

The present conflict, whatever its immediate resolution, seems likely to have a lasting influence upon the shape of central-local relations in Scotland. The instruments which the Government has shown itself prepared to use imply a subservient role for local authorities: the power of selective grant withdrawal effectively nullifies their statutory right to set rate poundages at the levels they believe appropriate; and the use of capital allocations as an alternative sanction against revenue decisions removes another important area of local discretion. Such tightening of the financial constraints within which local authorities must operate has been accompanied by the impact of other Government policy measures. Several policies which are intended by the Government to enhance the freedom of the individual at the expense of the state (e.g. tenants' rights to buy council houses and the parents' charter) have been to the detriment of local authorities rather than of central government. Whatever the intrinsic merits or otherwise of these measures, a discussion of which falls outside this chapter, it is undeniable that they have centralised power within the public sector.

Given the low status attached to local government within British political culture, it is difficult to predict anything other than more central control. A rebirth of local autonomy seems highly implausible. The response of a future Labour Government is unpredictable as it is unclear what lessons will be drawn from the present conflict. Bruce Millan has made an explicit commitment that the 1981 Act would be repealed but has said nothing about the earlier 1966 Act powers[33]. In office, Labour might be torn between its rekindled enthusiasm for local democracy and the temptation to use these powers against local authorities with low standards of services. There seems to be little chance of fundamental reform emerging from the present Government's promised Green Paper on local government finance. Given recent events, it is unlikely to confer new revenue sources upon local authorities: it would be ironic indeed if a Conservative Government, after defending Lothian ratepayers from their regional council, were to introduce a local income tax. Much more likely is a continued period of drifting without any coherent sense of direction but which results in practice in tighter central control. One particular danger for local authorities would be renewed manifesto commitments to abolish rates, the sole local tax, without any replacement being specified. The outlook for local authorities seems bleak: the erosion of their existing areas of discretion appears likely to continue.

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1. Newton, K., Balancing the Books: Financial Problems of Local Government in West Europe, London: SAGE, 1980

2. Under the Barnett formula introduced in 1978, marginal changes, both upwards and downwards, in the GB total of 'comparable expenditure' are allocated between Scotland, Wales and England in the proportion 10:5:85. See Table 1 which demonstrates the role of the Barnett formula. See also Richard Parry, 'Public Expenditure in Scotland - Concepts and Measurement' in this edition of The Yearbook.

3. Local Government, Planning and Land Act 1980, Chapter 65, London: HMSO, 1980.

4. Department of Environment, 'Central Government Grants to Local Government, some possible changes', in (Layfield) Committee of Inquiry into Local Government Finance, Appendix 7, Government Grants to Local Authorities: Evidence and Commissioned Work, pp.21-50, London: HMSO, 1976.

5. Local Government (Miscellaneous Provisions)(Scotland) Act 1981, Chapter 23, London: HMSO, 1981.

6. The schedule of grant-related poundages (which governs grant withdrawal) is known at the time of the RSG Order. However, the Secretary of State for the Environment can also set 'multipliers'. Although it was claimed during the passage of the Act that these would solely be used for transitional purposes and for within London adjustments, they can be used to discriminate against individual authorities. Furthermore, the expectation that there will be a new English Bill in Autumn 1981, involving broadly comparable powers to the Scottish Act, has attracted English attention to the conflict

between the Secretary of State and Lothian.

7. Relevant expenditure is that part of Scottish local government revenue expenditure taken into account for RSG calculations. A few items are excluded - for example, rate fund contributions to housing revenue accounts. Although RSG is a block grant (i.e. it is not tied to spending on specific services), its calculation for Scotland as a whole involves estimating expenditure on individual services. Part A of Table 3 shows the composition of relevant expenditure for 1981-82.

8. For a fuller account, see Heald, D.A., 'The Scottish Rate Support Grant: how different from the English and Welsh?', Public Administration, Vol.58, 1980, pp.25-46.

9. The 1980 Act merged the needs and resources elements into the block grant. Domestic element was continued as the domestic rate relief grant.

10. Step-wise multiple regression is a statistical technique whereby the program selects in turn those independent variables which are most significant at the specified level. The list of chosen independent variables and their coefficients can fluctuate alarmingly because of multi-collinearity: this can occur as a result of quite small changes in the data (e.g. moving from one year to another) producing major swings in the grant distribution.

11. For example, Mr Millan altered the weightings for loss of population as a way of returning to Glasgow District the grant which it automatically lost from population decline. Mr Younger altered the ratio of needs and resources elements as a method of moving grant towards low spending rural authorities.

12. The Government's Expenditure Plans 1980-81 to 1983-84, Cmnd 7841, London: HMSO, 1980.

13. Treasury, Economic Progress Report, No.130, February 1981 .

14. The Government's Expenditure Plans 1981-82 to 1983-84, Cmnd 8175, London: HMSO, 1981.

15. This point was made forcibly by the Convention of Scottish Local Authorities' policy document, Government Economic Strategy: the COSLA Critique, Edinburgh: COSLA, 1981.

16. A further technical adjustment for 1981-82, relating to the revaluation of local authority property in 1978, reduced the percentage by a further 0.8% to 66.7%. This did not lead to any grant loss between 1980-81 and 1981-82.

17. A local authority's penny rate product is compared with the product of its population and the national standard amount set by the Secretary of State. If this is smaller, it will receive resources element. A smaller resources element means that the national standard amount must be reduced so that the aggregate claims on the resources element are constrained to the sum available.

18. Scottish Office, Rate Support Grant: Expenditure Guidelines 1981-82, para.5, Finance Circular 1/1981, Edinburgh, 1981.

19. Section 5, Local Government (Scotland) Act 1966, as amended by Local Government (Scotland) Act 1975. These powers were originally included in the Local Government (Scotland) Act 1929.

20. The Scotsman, 21st February, 1981.

21. The Secretary of State tabled two reports: one for Lothian and one for Dundee and Stirling. This was criticised by the Joint Committee of both Houses appointed to scrutinize delegated legislation. It described the single report for Dundee and Stirling as an 'unexpected use of the powers conferred by section 5 of the Local Government (Scotland) Act 1966'. There was only one motion on the Commons Order Paper but the Scottish Office witnesses assured the Joint Committee that steps were being taken to allow separate votes. This was subsequently done. The Lothian Order was approved by 302 votes to 245. The separate votes on the joint Dundee and Stirling Order were 302 to 242 and 301 to 241. Rate Support Grant Reduction (Lothian Region) 1981-82. Report, London: HMSO, 1981; Rate Support Grant Reduction (Dundee and Stirling Districts), 1981-82, Report, London: HMSO, 1981; Twenty-Eighth Report from the Joint Committee on Statutory Instruments, HC 18-xiii of Session 1980-81, London: HMSO, 1981.

22. The revised amounts of proposed grant reductions are: Dumbarton (£0.3m, 40% of the original); East Lothian (£0.9m, 67% of the original); and Renfrew (£1.8m, 47% of the original). Scottish Office Press Notice 777/81.

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28. Hansard 18 June 1981, col.419.

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