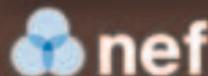




The Decline and Fall of Local Democracy

A History of Local Government Finance

Tony Travers and Lorena Esposito





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A History of Local Government Finance

by Tony Travers
and Lorena Esposito

Project sponsored by:

The Local Government Association, The Hadley Trust,
The Society of County Treasurers, and Localis



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Project Aims

Policy Exchange and the New Economics Foundation are undertaking a major study into radical reform of local government finance in the UK. This project will explore the potential benefits and risks of giving greater tax-raising, borrowing and spending powers to local authorities, based on international and domestic case studies. The intention is to develop new practical policies that will bring about a revival of financial, and therefore political, autonomy at the local level.

The aim of using international case studies is to assess what evidence other countries offer for both the feasibility and desirability of decentralising public finance. It is hoped that the use of domestic case studies alongside the reviews of international local finance systems, will allow a direct comparison between the practical workings of the finance system in England and how they work elsewhere.

The project is being led by Tony Travers of the LSE, and is sponsored by the Local Government Association, the Hadley Trust, and the Society of County Treasurers.

The final report, will be published in mid-2004, and will contain chapters on:

- A History of Local Government Finance – how the local government finance system has changed over time. [In this Volume]
- The Existing System – a summary of the current local government finance arrangements including a review of capital finance and revenue expenditure
- International Case Studies – an analysis of international experiences in countries/regions with greater financial autonomy than Britain/England.
- Domestic Case Studies – an analysis of how the system functions in England.
- Where should we go from here? Recommended Reforms and Conclusions

Executive Summary

Twenty-first century Britain is one of the world's most centralised states and is becoming more centralised with every passing year. The increasing reliance of local government on funding from the centre has led to the emasculation of local democracy and has been associated with ever declining voter turnout at local elections. These problems are widely recognised by all political parties, and the Balance of Funding review currently being undertaken by the Office of the Deputy Prime Minister (ODPM) is seeking to address these issues and to review the balance of funding between central and local government in England.

How did we arrive at the local finance system of today?

Local government expenditure has always been an important part of public spending in the UK. Post World War II, local government expenditure has remained a fairly constant proportion (in the region of 25%) of total public expenditure. The extent to which local expenditure has become reliant on the funding from the centre over the last 200 years, however, has undergone a vast change. From a

completely locally funded system in 1800, to the introduction of the first central grant revenues in 1835, the subsequent trend has been an ever increasing reliance on central grants and the relative decline of locally raised income. In 2001, 60% of funds came from central sources (in the form of various grants and non-domestic rates), with only 40% being met from local sources (in the form of council tax revenues and service revenues). Such a high degree of dependence on central funding leaves local authorities severely constrained and local autonomy badly diminished. What is even more interesting to note is that this gradual movement towards the centralisation of local funding has happened irrespective of the political persuasion of the party in power of central government.

The initial changes to local finance systems were a natural consequence of an industrialising nation with an increasingly urban population. Specific grants were first introduced in 1835 to assist in the provision of public goods such as sanitation and law and order. The Goschen reforms and subsequent Local Government Act in 1888 were necessary to unify the myriad of institutions which were springing up to cope with these changes. Local government in the late Victorian period coped admirably with the social changes it faced. Central government pursued a laissez-faire system of governance with minimal taxation and minimal interference, and did not want to be drawn into being responsible for providing services to combat increasing urban squalor. This period can be seen as something of a heyday for local government. Institutions were highly adaptive, they responded to local needs and used local taxes to raise the revenues necessary to fund local services. The Centre's role was minimal, both in terms of funding and in terms of policy direction.

Since then, however, changes to local government finance systems have reflected the desire of parties in central control at Westminster

to ensure local spending decisions does not threaten national policy. Central governments have increasingly wanted to take control of local policy to ensure it doesn't interfere with central political aims.

Throughout the 20th century, the role of central government grants to local authorities has increased in importance, with systems of grant financing becoming more profuse and more complicated. Specific grants were designed to 'pay' local authorities to provide particular services that central government wanted them to provide. General and block grants were used alongside specific grants to provide extra funds and further support to those local authorities with low rateable values. The proportion of central grant financing in local authority incomes has steadily increased since their introduction, and local authorities have become increasingly reliant on those incomes to meet their budgetary needs. Perhaps more importantly from the viewpoint of diminishing local democracy, the grant system has led to local councils seeking guidance, and taking their lead, from central government when providing local services, rather than responding directly to local needs and wants.

The rates (local property tax) system also fell victim to central government tinkering over the last century. At its inception, the rates system was a true local tax on local property. Rates were set and valuations were carried out on a local basis by individual authorities, with the revenues being spent directly on local services. The Rating and Valuation Act of 1925 pulled all the differing strands of local rates across England and Wales into one single rate, although the responsibility for revaluations was left with individual local authorities. In 1929, the scope of rates as a local tax was decreased when agriculture was completely derated, and industrial assets were derated by 75%, shifting the burden almost entirely to

the domestic ratepayer and decreasing the rateable asset base for all local authorities. A further landmark change came in 1948 when uniformity of valuations for local property were imposed, and the control over rating valuations was taken out of local hands and into the central control of the Inland Revenue. This meant that local authorities could only control their rates income via changing rate poundages. Local authorities were forced into using rate poundages to control their rates revenues, as central government routinely cancelled or postponed national rating revaluations due a series of rating 'crises' caused by public anger over rising property valuations. Eventually even this final aspect of local authority control over rates was effectively removed, with the introduction of centrally imposed rate capping to control rate bills in 1984. What started out as a truly local system of taxation was gradually reduced to a sham, with central government having almost total control over local authority rating.

The poll tax, which replaced rates in Scotland in 1989 and England and Wales in 1990, was an attempt to give local authorities the autonomy to raise extra income at a local level, thereby focussing the public's attention on the connection between local spending decisions and local poll tax bills. This was a step in the right direction for local taxation and local autonomy, but the nature of the tax itself and the method of its implementation were to prove its eventual downfall. The highly regressive nature of the poll tax, and the publicity associated with its introduction, caused public anger over large bills to be aimed directly at the central government ministers who had introduced it. The escalation of poll tax bills led to widespread non-payment by the general public, and culminated in massive public demonstrations, forcing the government to change

the system. The poll tax was quickly abandoned and, in 1993, the council tax introduced to take its place.

Local government finance has been an object of central party politics in the 20th century; it has been used as a means to achieve national policy and as a device for directly controlling local spending. The reform of the local finance system to create a genuine local democracy for local people has been an ideal which no central government has had the courage to pursue.

The constant battle between Equity and Accountability

The desire of local authorities to provide and finance locally relevant services is often in direct conflict with central government's wishes to retain control of fiscal matters and provide nationally uniform public services. This underlying conflict explains the majority of the changes to the system of local government finance over the last century.

Territorial inequalities, both in terms of social characteristics and local tax bases, have shaped central government's views regarding the provision and financing of public services. Initially, central government was happy to take a back seat, and allowed local institutions to set and raise local taxes to provide those services which they deemed necessary in their local communities. Naturally this meant that the types and levels of service provision varied from locality to locality. This variation was the primary driving force behind greater central government intervention. Some local authorities demanded assistance with equalisation, and central government came under pressure to ensure uniform levels of service provision, and realised that without some compulsion some local authorities wouldn't

provide the required services. So the centre stepped in either by requiring local authorities to provide certain services (via the use of specific grants) or to make the provision of essential services centrally controlled. The role of local government has shifted from an adaptive provider of local public goods, to that of ‘plugging’ the holes left by inadequate national income redistribution policies. The irony is, that after years of central government intervention, there is still a great variation in the availability and quality of basic services across the country.

This tension between the need for equality on one hand, and the desire for local autonomy and accountability on the other, is further exacerbated by the inconsistent views of the public. British voter culture appears to be strongly in favour of equality of service and finds it difficult to tolerate national diversity in service provision (particularly in the core welfare services) while at the same time demanding increased local accountability. This push-pull nature of British public opinion makes any decision to reform local finance and services politically very difficult.

The tensions between equity and local accountability have been a historical feature of local government finance systems and are still present in the current debate. Local government’s role is increasingly aimed at addressing income and wealth disparities via the provision of those local services that central government deems necessary. As a result, local government has only minimal control over its income with the majority of its funding coming from the centre, and local people have little control over local service provision. Central government’s desire for uniformity of services in the 20th century has also helped shape the desire of the British public for territorial equity in public service provision, alongside its calls for increased

local accountability. Any reforms to systems of local funding will have to acknowledge these political conflicts in order to succeed.

Conclusion – the current system cannot continue unreformed

The purpose and strengths of local government as an adaptive, locally controlled provider of public goods, answerable to local people, have been lost. Local government has its hands tied; it cannot respond to local needs, it cannot raise its own local income, it has little scope for targeting and working in partnership with efficient service providers in the private and non-profit sector, and local people have no one to call to account. All these factors have rendered local democracy impotent, and the current state of play should not be allowed to continue unchallenged. We believe that local people deserve better and it is high time that the local government finance system was reformed.

Introduction

“Britain is, and always has been, a unitary state: a state in which local government is formally subordinate to central government”

[Foster et al, 1980, pg 21]

Although the comment by Foster et al is clear in its view of central government dominance in British local government history, this does not mean that the state of local government in Britain has been static and unmoving. On the contrary, despite, or perhaps in spite of, an unchanging and unwritten constitution, the role and funding of local government has been evolving throughout British history; sometimes organically, as changes in local needs and the development of towns and cities demanded changes in local governance and service, and sometimes forcibly according to the dictat of central government.

This paper examines the history of local government relations with central government from the first beginnings of local institutions of government with the installation of Justices of the Peace under Edward III in the 14th century, up to the introduction of the Council Tax in 1993.

As we will see, the themes that emerge as we watch the picture change, are those which continue to plague policy makers and ministers today; How to reconcile the desire for equality of service for all individuals, whilst relinquishing central control to local institutions.

Local institutions of government should be the most efficient and adaptable of institutions, close to local needs and infrastructure, and able to judge the wants of the local population. In theory, this would suggest that local government would be best placed to provide their localities with the services and infrastructure they need. However, in order to react properly to local changes and to maintain flexibility, local institutions would need to be largely autonomous and unconstrained by central policies and red tape. Unsurprisingly, central government, concerned with the disparities in local service provision that this could result in, has been very reticent about giving autonomy to local institutions and has been unwilling to release financial control.

This tension between the need for equality, and the desire for local control and autonomy, has, despite attempts over the years, not been successfully resolved.

1. The Origins of Local Government

The evolution of institutions and the beginnings of local finance and taxation

Between the 11th and the 14th centuries, a system of feudalism developed in Britain where the Crown ruled the land in alliance with the Church and the nobility.

The church and the nobility were required to pay taxes to the crown in return for enservment rights, “crucially these feudal superiors were also granted the right to levy local taxes...” [McConnell, 1999, pg 3] These first taxes were truly ‘local’ in that they varied from area to area, and that complete autonomy was given in the setting of the rate and the collection of the monies.

Local institutions of government arose in the 14th century with the creation of the Justices of the Peace (who were largely responsible for all local administration duties, including poor relief and prisons) who governed the Counties. Alongside the Counties sat the Boroughs in

which the internal trade of craftsmen was regulated by the Crown via the granting of royal charters. The Boroughs were exempt from the jurisdiction of the Justices of the Peace, and in essence governed themselves through incorporated Corporations. The Royal towns also had local tax raising powers, and levied early poll taxes on their inhabitants to support local trade by paying for road and bridge maintenance. In addition to the poll taxes, ad hoc local taxes were administered as and when they were deemed necessary; as evidenced by the well documented case of Romney Marsh in 1250 where repairs to a sea wall were paid for by each landowner in the area in proportion to the value of his landholding. Once again we see truly local taxes in terms of administration, assessment and collection.

This early system of local government in Britain answered to the Crown, but was effectively autonomous in its activities and financial decisions.

Alongside the boroughs and justices, sat parishes and the many institutions, dubbed Special Purpose Authorities, by Sidney Webb which began to be created by Acts of Parliament in the 17th century to perform specific functions not being carried out by existing institutions. The number of SPAs, with overlapping geographical boundaries and differing tasks, grew over time.

The passing of the Bill of Rights, intended to stop the crown meddling in the election of MPs, also had the "...unintended effect of giving those boroughs which were crown corporations unparalleled autonomy for one hundred years...[and] ...the decisions the justices of the peace gave...were often locally given the force of the law" [Foster et al, 1980, pg 21 and 22]

This fairly autonomous administration of local institutions was brought to an end when the inadequacies of these old forms of

government became apparent in the sweeping economic changes bought about by the Industrial Revolution, and the period of unrest following the Napoleonic Wars in the 19th century. Central government began to become worried about the lack of control it had over law and order issues in some localities, particularly where magistrates refused to be of assistance. The mass movement of labour from rural to urban areas had led to an upsurge in crime, disease and poverty, problems to which the incumbent institutions found themselves ill-equipped to react. “The existing patchwork of institutions simply could not cope with the demands of a developing industrial society.” [Wilson and Game, 2002, pg 51]

The independence of local institutions began to ebb away as central government began to intervene and take control of law and order (notably with the Prisons Act 1823). Interventions grew in nature and scope as central government became more and more interested in other areas of service provision like sanitation and education.

The initial response to the problems of industrialisation were the passing of the 1832 Reform Act and the 1835 Municipal Corporations Act in which further sweeping changes were made at the municipal level, introducing a directly elected system of corporate boroughs to replace the old and corrupt corporations. The freedoms of local corporations were severely restricted and a multitude of ad hoc bodies were created (each with their own rating system) to provide local services such as Poor Law, highways and education. Statute had created a method by which local government was formally created and controlled from the centre.

Even in the very early workings of local government a pattern of centralist worries over control of local institutions was established.

The structure of the relationship between central and local government was born, and the scene set for the next 100 years.

The workings of early finance systems

The rise of entrepreneurship and the development of market mechanisms around the time of the Industrial Revolution, necessitated the development and evolution of local taxation. The major source of local finance for early local government institutions was rates, the first of which fell on owners of property. The level of rates was set locally, and was subject to local interpretations and variations. Over time additional means of assessment were brought into the charge for rates, including; all personal property, moveable and immovable property and stock-in-trade. Until the enactment of the 1849 Poor Rate Exemption when movable property was removed from the charge, rates were chargeable on all property, whether moveable or immovable.

The reason for using property as a tax base is fairly simple; the lack of administrative techniques meant that using a property tax as an approximation of an income tax was the simplest way, and also the fairest way, to collect revenue. The landed classes were wealthy. The poor had no land and no wealth. To tax property was not only administratively simple, but also seen as having a basis of assessment on income (albeit a rough measurement of income) and therefore rates were seen to be equitable on an ‘ability to pay’ principle.

Rates were administered locally on a fairly ad hoc basis, and the revenues generated were essentially used to better the conditions, and the policing, of the growing urban working classes. Local administrators had to cope with the problems of coordinating and

collecting the multitude of rates based on all the various assets, and eventually “could not cope with the massive growth in the role that was required of the state at a local level in this respect.” [McConnell, 1999, pg 9]

The early systems of local taxation had been forced to evolve by the advent of industrialisation and urbanisation and the need to address urban poverty. The resulting system of locally administered rates was now being forced to change by the demands of industrialisation as local systems could no longer cope with increasing urbanisation and the conditions this brought to towns and cities.

The equity of a rates based system was increasingly challenged as the 19th century wore on. Landowners (in particular agricultural land owners) began to complain that they were being unfairly taxed relative to their income-earning counterparts who did not own rateable assets. Also the ‘ability to pay’ principle was attacked on the basis that the value of fixed property was not always a good indicator of income. The war between the agricultural and manufacturing sector over the equity of the rating system on fixed property continued throughout the 19th century and formed part of the backdrop to the Goschen Report in 1870 (see below).

Grants didn’t enter the scene until 1835, when the first grants were allocated to local authorities to cover the cost of policing and the administration of justice. In fact, law and order were the main services to receive grants in the mid 19th century as the control of society was central government’s main aim. “From their first appearance in a recognisable form in 1835, the purpose of government grants was to reimburse local authorities for that part of their expenditure that was devoted to national purposes.”[Layfield Committee, 1976, pg 18] Grants in their earliest forms were designed to be a

means by which to encourage local government to promote the performance of certain voluntary functions and services, and were paid on a percentage basis. By the end of the 19th century, nearly all-major local government services were grant aided, and central government made the services associated with the provision of grants compulsory. “...the [percentage] grant was naturally seen as a part payment by the central government for services they had imposed” [Foster et al, 1980, pg 27]

Within each of the major categories of service, there were multitudes of minor grants for specific services (eg within education there were grants for needlework and cookery, and by 1918 education was supported by 57 different grants). “The grants multiplied and acquired a life of their own. In 1842, grants amounted to just under £500,000, by the end of the century the figure had risen to just under £20 million” [Foster et al, 1980, pg 173] By 1890 grants had risen to form 14% of all tax revenues.

The escalating grant totals created a financial problem for central government; centralist ideals had spawned legislation forcing local government to provide what were deemed essential services. This naturally led to a rise in local expenditures, causing the percentage based grant system to put ever increasing pressure on the purse of the exchequer.

2. The Goschen Report, the late Victorian period and into the 20th century

By 1870 the growing number of institutions at a local level was causing confusion. The previously mentioned tensions between the agricultural and manufacturing sectors regarding the equity of the rating system, alongside the ever escalating percentage grant bill, formed part of the background to the Goschen Report in 1870 and the reforms of the Local Government Act of 1888.

The Goschen Report described the state of local government at the time as “a chaos as regards authorities, a chaos as regards rates, and a worse chaos than all as regards areas.” [as quoted in McConnell, 1999, pg 10] As well as disagreements and concerns over the methods of finance in existence, increasing city populations were creating pressure on local government to increase spending to alleviate poor social conditions, putting even more pressure on financial budgets. The increasing pressures brought about by industrialisation demanded a

reorganisation of this fragmented system of local government and the creation of a more ordered and unified system. Reforms in 1888, 1894, and 1899, resulted in a reduction in the number of ad hoc bodies and produced a reasonably uniform set of councils.

Rates; the burden shifts to the domestic ratepayer

Alongside the gradual rationalisation of the structure of local government, came the gradual merging of rates, and of the various forms of rate assessment. The 1840 Poor Rate Exemption Act, as well as abolishing rating on moveable property, transferred liability for rate payment from inhabitants to owners. The Rating and Valuation Act 1925 finally pulled together the various strands of rates in England and Wales into a single general rate. Uniformity of valuations, however, was not imposed, and each rating authority was able to conduct 5 yearly revaluations of its own, with rates themselves based on annual property values to which a rate poundage (set by the local authority) was then applied.

Despite the incarnation of rates as a tax to redistribute income from the wealthy property owning classes to the working classes, the actual burden of rates was starting to fall relatively more heavily on the working classes. In contrast the burden on capital was much less, with capital contributing approximately one fifth of all rating income in 1927. By 1929 agriculture was completely derated and industrial property was derated by 75%.

Grants

Goschen devised a grant system known as Assigned Revenue System (ARS), as a resolution to the problems of percentage grants and to

placate the rate dissenters. Under ARS, local authorities were assigned certain excise duties and later 40% of probate revenues. This reduced local authority claims on central revenues via percentage grants, and also removed the direct association, through rates, of local revenues to local property.

The assigned revenues were collected into a central pot from which they were distributed back to local authorities. Excise duties were distributed based on their source of collection, and the remainder of the revenues were given out on the basis of the previous grant allocation, in essence being a new form of central grant. Central government however was unwilling to relinquish profitable sources of revenue to local control, and by 1912 had retaken control of the most profitable excise duties, fixing their allocation independently of the actual amounts collected locally. ARS was slowly phased out with the introduction of specific grants, until the 1929 Local Government Act abolished ARS completely.

As ARS died out, the number of specific grants in existence increased, with the system of their calculation and allocation becoming ever more complex, and the magnitude of grant paid out enormous. “In 1928 it amounted to £110 million, nearly 16% of total government revenue” [Foster et al, 1980, pg 173]

The early twentieth century did see a theoretical debate on how grant financing systems should be structured. Lord Balfour put forward formulas based on equalisation. The Kempe Committee in 1914 rejected Lord Balfour’s ideas on the basis that local authorities were entitled to ‘payment’ for services rendered which were for the national good. Despite the debate, no changes were made to the grant system, which continued on a percentage basis until the increasing demands on the Treasury’s coffers prompted further reforms in the 1929 Local Government Act.

The late Victorian period: why did local government evolve?

It is worth bearing in mind why local government evolved as it did, particularly in what is widely regarded as its heyday in the late Victorian period.

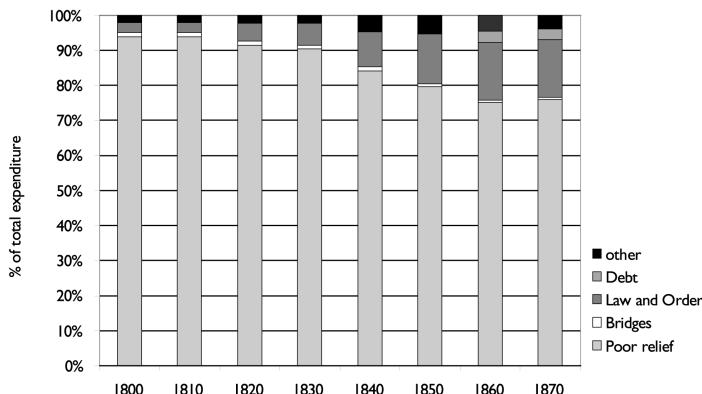
Local government institutions and financial systems evolved to meet the needs of a shifting and changing local population caused by urbanisation. It was built and developed around the need to provide this population with ‘public goods’ (ie, those services which benefit everyone but that are unlikely to be provided by the private sector due to their characteristics of non-excludability which make it impossible to charge for them). Although the focus here is on Victorian Britain, the provision of public goods by local institutions can be seen as far back as the Romney Marsh example of 1250.

In the Victorian period this principle of public good provision evolved further due to ever increasing urbanisation and the resultant changes in the population density turning “activities that were previously private concerns into public goods...” [Dawson, 1985, pg 27] Local government prided itself on developing systems and infrastructure (in many instances in conjunction with the private sector) that allowed public goods (such as policing, education, health, sanitation etc) to be provided for the good of whole local populations.

Figures 1 and 2 show how Law and Order, and Social Services (formerly Poor Relief) were paramount in local spending during the 1800s and into the early 20th century, and the provision of these services was very successful, “If we compare the state of English towns in 1835 with their state in 1935, we might well conclude that the creation of our modern system of government is the greatest British achievement in the last hundred years.” [Hammond, 1935, pg 37]

28 The Decline and Fall of Local Democracy

Figure 1: What does local government spent its money on? England and Wales, 1800–1870



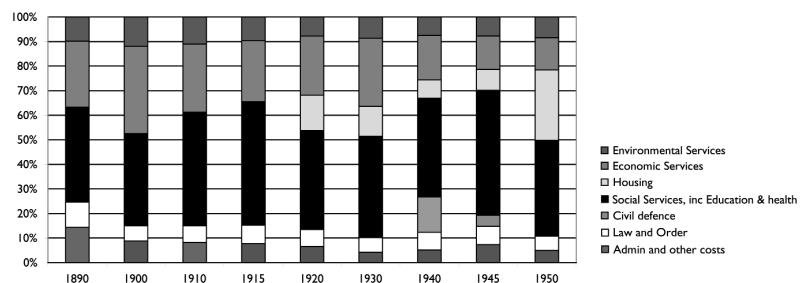
Source: Mitchell and Deane, p410-413

Notes: Law and Order includes; gaols, police, lunacy, prosecution and vagrancy costs

Debt includes; interest on debt and the repayment of debt

Total local authority expenditure is the sum of poor relief expenditure (p410) and Other Annual Expenditure (p411-413)

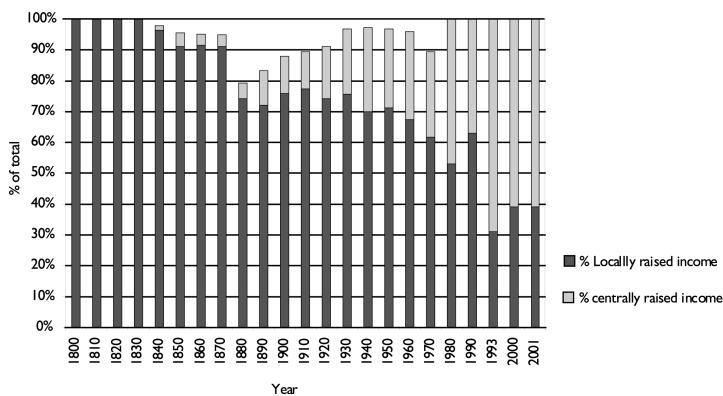
Figure 2: What does local government spent its money on? UK, 1890–1950



Source: Peacock and Wiseman, p207

Central government simply did not get involved in local services or finance during this time. Between 1835 and 1935 local authority activities were only debated in parliament to the extent that specific pieces of legislation needed to be passed to authorise major local undertakings. "Local expenditure per se, as long as it was legally incurred was not a subject of regular scrutiny" [Dawson, 1985, pg 40]. Central government was only concerned with the costs which would fall on the purse of the Exchequer rather than aggregate levels of local spending. As we can see from Figure 3, even as late as 1920 pressure on the

Figure 3: The balances of funding, local authority gross income by source (capital and revenue) 1800–2001



Sources: 1800 - 1870 Mitchell and Deane, p410-413

1880 - 1970 Foster et al, p145-151

1980 - 2001 Local Government Financial Statistics (DTLR and previous) for the relevant years

Notes: 1800 - 1970 All data relates to England and Wales

1980 - 2001 Data relates to England only

1800 data relates to 1803, and 1810 data relates to 1813.

Local income data pre 1880 includes Poor Rates Receipts and other rates

Local income data post 1880 relates to revenue and capital income, and includes local taxes and charges for services

Some years do not total 100% due to incomplete data.

Treasury from local government spending was minimal, with more than 75% of revenue during this time being raised locally.

Too good to last; Central government intervenes

Things began to change drastically at the local level in the 1920s. The 1920s saw political pressures coming to bear on local government finance. The political Left began to encourage local authorities to use their rate income to provide more relief to the working classes. Autonomy in both valuation and the setting of rate poundages gave local authorities a degree of control over what revenues they could raise and what services they funded with the monies. Some Labour-controlled local bodies began to use this discretion to provide greater than the prescribed levels of relief to the poor.

In a direct counter to this, middle class ratepayer groups formed, and protested against the use of local rate revenues for what they considered to be ‘fiscal excesses’.

National government also began to become uneasy at the levels of local autonomy, and worries began to emerge that local authorities could hinder national policy. In 1928, Churchill (the then Chancellor) said “it is a matter of vital importance to secure that any taxation of industry is taken out of the hands of local bodies.” [as quoted in McConnell, 1999, pg 14]

The advent of Keynesian economics, the Beveridge report, and the economic depression of the 1930s caused a shift in the balance of control away from local government and towards the centre. The focus moved away from public goods provision to income redistribution. Many of the major public services were shifted to central provision, and central government began to push its desire for

uniformity in service provision for fear that essential public services were not being provided everywhere and to the same degree.

By 1950, electricity, gas, local hospitals, major trunk road provision were all under central control, and by the mid 1970s water supply, sewerage, and local health services joined them. “The prominence of income redistribution in modern economic society has not only shifted attention from local government to central, but has also altered the balance of local authority activities.” [Dawson, 1985, pg31] The role of local government became, and in essence still is, to ‘plug’ holes left by the inadequacies of national income redistribution policies. Clearly then there has been “a shift away from the provision of trading services (‘gas and water socialism’) towards the array of services of the postwar (‘cradle to grave’) welfare state...The outcome in any event was to take away from local government its most obviously ‘commercial’ services...Many of the services of local authorities now provide benefit not the community as a whole but specific groups within it. Local government services have thus become to an increasing extent redistributive, and it is the consequences of this change which...have underlain many of the difficulties which have arisen in local government finance over the past 50 years.” [Jackman, 1985, in Loughlin et al, pg153]

This changing situation is summed up perfectly by Dawson in Loughlin et al (Eds) *‘A century of municipal decline’* [1985]:

Eventual parliamentary desire for uniformity of services initially developed as *public* services by local authorities is perhaps the most consistent theme in the history of local government in Britain. The ‘life-cycle’ of local services can be crudely outlined as follows. Conditions in the nineteenth century brought to the attention of a

number of outstanding individuals and pressure groups the need for clean water, sewage systems, cheap energy, transport, health and education services. Parliament, however, was either uninterested or highly reluctant to legislate – these were considered to be areas for private philanthropy or private enterprise. The weight of evidence on the importance of these services and on the *unevenness of provision by the private sector* eventually led Parliament to pass *permissive* legislation, allowing local authorities to ‘fill the gaps’ left by the private sector...Local authorities...took advantage of such legislation and established public services. The success of these undertakings soon led Parliament to pass *compulsory* legislation to force those authorities that had not acted, or whose performance was considered below standard...to undertake provision of better services....Parliament’s main concern becomes that of the *unevenness of local provision*...The solution becomes great central control of local authorities or transfer of responsibility to the centre.” [pg 32-33, original emphasis retained]

3. The 1929 Local Government Act; the beginnings of a modern system of finance in the post war period

The wide scale derating of agricultural and industrial capital in the late 1920s had a major impact on local authority income. Coupled with central worries over the financial pressures of percentage based grants, this provided the push towards the reforms of the 1929 Local Government Act.

The 1929 Act bought in the ‘block’ (or general) grants favoured by the Treasury in an attempt to regain control over the ever-increasing percentage grants. Block grants sought to devise a system by which grants were distributed according to local needs: “a new grants system which for the first time made an attempt to take account of authorities’ different spending needs and rateable resources” [Travers, 1986, pg4] Specific grants were retained for education, policing and housing. The new general grant did cover the revenue lost from rates, but was based on a very complicated formula which

included a calculation of weighted population (weighted for children under 5, unemployment, sparsity and rateable values locally). Over time additional weightings and measures were added to the formula making it ever more complex. Lady Astor commented in parliament “I do not understand one quarter of it, but neither does anyone else” [as quoted in Foster et al, 1980, pg185]

The only local taxes to remain in the local system of finance were domestic rates and the Rating and Valuation Act of 1925 also introduced regular 5 yearly valuations of property – although the method of assessment and valuation was not standardised and was left to the discretion of each authority. The first revaluation took place in 1934, however the next in 1939 was cancelled due to the war.

The 1948 Local Government Act tried to remedy the criticisms of the block grants by bringing into play a new grant, the Exchequer Equalisation Grant, which “made a massive step forward towards the modern concept of equalisation.” [Travers, 1986, pg 5]. This new grant was aimed at eliminating poor authorities altogether (by bringing all local authorities’ rateable values up to the average rateable value per head in the country – with the exchequer paying the difference needed). The system was flawed in two respects; firstly the measure of population used to calculate the grant was not ‘actual’ population, but ‘weighted’ population, a vestige of the previous grant system which retained all its complications. Secondly the grant was effectively a percentage based grant, which left the Treasury still concerned over the potentially limitless contribution it would need to make, and the old issues of loss of central control over finances.

The 1948 Act also changed the rules with respect to rating revaluations, passing the responsibility to the Inland Revenue in an

attempt to standardise the process across all local authorities. In passing the responsibility for rating valuations to the Inland Revenue, local authorities were divested of one more power over the raising of local revenues. With valuations under central control, the only means by which local authorities could actually influence the total amount of rates they could collect, was to adjust rate poundages. Box 1 shows how rateable values, rate requirements and rate poundages interact.

Box 1

Each local authority worked out how much revenue it would need to raise via rates (known as the Rate Requirement).

The Inland Revenue valued the properties in the local authority, thereby setting the Rateable Value.

Therefore, to calculate the amount of rates to be charged on each property (the Rate Poundage) local authorities divided their Rate Requirement by their total Rateable Value.

$$\text{ie: } \frac{\text{Rate Requirement}}{\text{Rateable Value}} = \text{Rate Poundage}$$

The Rate Poundage could then be applied to each property's rateable value to calculate the individual rates bills

$$\text{ie: } \text{Rate Poundage} \times \text{Rateable Value} = \text{Rate Bill}$$

To meet the needs of local authorities, a whole raft of specific grants (all on a percentage basis) needed to be introduced on top of the general grant to fund the provision of local services.

By the 1940s the foundations of a system of local government, and the finance thereof, had been laid in England and Wales; local government was no longer highly fragmented, and rates and grants

had become the mainstays of the funding of local services. However, the essential conflict at the heart of local financing had emerged; the desire of local authorities to provide locally relevant services for their localities, competed with the desire of central government to retain control of fiscal matters and provide nationally uniform services. As we shall see these problems were destined to continue, due to the “constitutional tradition where there exist two sets of democratically elected governments (central and local) each claiming a mandate from the electorate.” [McConnell,1999, pg 14]

After 1945 specific grants became the most important feature of central government support to local authorities. Grants were paid to local authorities to provide a specific service after some account had been taken centrally of ‘spend need’ in each authority. On top of this, another grant further supported those authorities with low rateable values. Both these grants were paid under very complex rules which made them difficult to monitor and involved heavy administration costs both at a local and central level, but nonetheless they formed the beginnings of a modern grant system.

4. 1950 – 1970; Crises and Reviews but still no assertive action

The 1950s; central government fights political fires using local government finance

The first cracks began to appear in the rating system in 1956 when, despite a statutory requirement for 5 yearly rating revaluations, the first revaluation in more than 20 years was scheduled to take place. The revaluations in 1929 and 1934 had caused a flood of complaints about higher rates bills, making the government particularly nervous about the political consequences of the impending revaluation when rateable values (and therefore bills) were sure to rise.

Central government panicked, and to prevent what it perceived to be an impending crisis, made 1956 valuations based on hypothetical 1934 values. Of course this placated the general public in the run up to the general election, but was a classic example of the short-termist

approach central government was to adopt with respect to local government finance in future years. Adjusting valuation criteria to appease the general public was just postponing the inevitable reoccurrence of the valuation problem for the next scheduled revaluation year when market valuations were going to be just as unpopular. At the same time, local authorities had been denied market value rate income, increasing their dependence on grant revenue to make up the difference. “Property revaluation highlighted the centre’s vulnerability to criticism and possible policy failure” [McConnell, pg 23].

Tinkering with local government income in this way was to become a feature of years to come, with the centre making ‘populist’ political decisions using their control of local government finance systems, without truly considering the long term consequences of their actions. This political vulnerability of the centre, and its attempts to save political face nationally, were to be a brake on the development of properly autonomous local finance systems.

The rating crisis prompted the first of many reviews of local government finance in the 1957 White Paper, which claimed, “the main aim of the proposed changes [is] to increase the independence of local authorities in the raising and spending of their money so far as it is practicable to do so...local authorities are responsible bodies competent to discharge their own functions...It follows that the objective should be to leave as much as possible of the detailed management of a scheme or service to the local authority...” [Cmnd 209 ‘Local government finance [1957] as quoted in Travers, 1986, pg 8-9].

The Government had stated its intention to shift control from itself to local government. The aims of increasing local autonomy

were to be met, not by legislating for new systems of local taxes, but by improving the existing rating system, supplementing this with a reduction in specific grants and an increase in general grants. The government also proposed to raise the rateable value of industry from 25% to 50%. This increase in the local tax base was seen as a positive step in moving local government towards a greater proportion of locally raised taxes and further reducing their reliance on grants. Opposition MPs voiced their concern that the resultant increase in local autonomy with the implementation of these measures, would lead to a reduction in the quality of services such as health and education.

The changes bought about in the 1958 Act were a positive step towards giving local government more autonomy. The government had averted the rating crisis but ultimately the White Paper review had failed to make the fundamental changes to the rating system which would prevent future crises, and essentially just postponed the issues surrounding revaluation to another time. As we shall see, this time was not very far away.

The unpopularity of the rating system and the Green Paper of 1966

Post war responsibilities, and a period of economic growth in the 1950s and 1960s, increased the demand for local government services, putting increasing pressures on local authority finances. Local government expenditure had increased from 6.5% of GDP in 1955, to 8.8% in 1963 [McConnell, 1999, pg 24]. Local authorities tried to ease this pressure on their financing by using the only means of income under their direct control – they raised rate poundages. These already unpopular increases were compounded by the 1963

rating revaluation which raised rateable values substantially (this revaluation had already been delayed for 2 years due to data problems, and came after the 1956 revaluation which was based on 1939 hypothecated values). Once again this was unpopular with ratepayers, who began to campaign against the rating system, placing the incumbent government under political pressure to reform the system. This pressure was supplemented by the report of the 1965 Allen Committee which had shown rates to be regressive in nature.

An important thing to note at this stage is that the transparency of local finance systems is vitally important. The public protests against the rates system stemmed from the increases in annual rental values in 1963. This however did not necessarily translate into automatic rises in rates bills due to the workings of the poundage system. Had taxpayers better understood the rating system and how bills were calculated, the political pressures on the government would have been lessened.

The government, worried about its prospects at the ballot box in the general election, commissioned a Green Paper to review local government funding in 1966. Unfortunately the paper did little to change the system. It concluded that rates were regressive but difficult to replace due to their simplicity and administrative ease of collection. Instead the report bought in measures which effectively papered over the cracks of an already crumbling system – rates rebates were bought in for the poorest households and the Revenue Support Grant was introduced to help mitigate unforeseen changes in pay and prices. The paper also increased central funding to local authorities (in the form of both specific and general grants) to ease the burden on the rating system. The view of the earlier decade that

local governments should be granted more autonomy in financial matters had reversed; a greater percentage of local funding now came from central sources, and there was a shift in burden from ratepayer to taxpayer.

Once again political pressures had been the major influence on the central government's shaping of local government finances. However, despite the recurrence of problems with the rating system, and yet another review into the financing system, the government took a short term politically motivated view of how to resolve and avert the crisis, and did not look into the underlying issues of how local government should be funded. This left central government exposed and vulnerable to further crisis in the 1970s.

5. Continued crisis in the 1970s and the Layfield Committee Report

The early 1970s and the 1971 Green Paper and reforms of 1974

The 1970s did not start auspiciously for the rating system with the next revaluation of properties being postponed until 1974, thus bringing the spectre of the problems causing the crises of the 1950s and 1960s into another decade. As well as another delayed revaluation, pressure was continuing to bear down on local authority finances, with the rate of growth of local authority spending exceeding the growth rate of the economy as a whole (in the first half of the 1960s, local authority expenditure grew at 6% as opposed to a national economic growth rate of 3%)

Despite these pressures, and the legacy of the previous crises, reform of local government finances was approached with extreme caution.

The 1971 Green Paper noted the pressure on local authority coffers, and reviewed the options of central versus locally raised

taxes as a means of funding. The discussion of new local taxes (eg local income and local sales taxes) was limited almost exclusively to their drawbacks. Although the importance of financial reform at a local level was widely accepted, the Heath government deemed it to be too difficult and disruptive to implement reform. As a consequence, local authorities continued to put pressure on local ratepayers to meet their financial needs.

The factors already putting pressure on the rating system (the impending revaluation, likely rates bill rises, and increased economic growth) were thrown into disarray in 1973 when inflation rates jumped to 20%. Local authorities suddenly found themselves needing to increase rates bills even more just to maintain their previous levels of income, whilst at the same time households were faced with declining real income levels. Once again local authorities were forced to use the only tax under their control, rates, to try and meet their financial needs; domestic rates bills increased by an average of 29% with some extreme rises in excess of 160% [McConnell, 1999, pg 28]

In 1974 structural reform of local government, creating larger authorities with more equal tax bases, provided the perfect opportunity for central government also undertake for financial reform at a local level. This opportunity was missed, despite the Conservative government of the day continuing to state its desire for local democracy, and the ideal that local people should be at the forefront of local decision making. “The government will need to retain general controls over local authority activities, but subject to this, the aim will be to devolve to local government as much responsibility as possible” [Local Government in England: Government proposals for reorganisation; Cmnd 4584, HMSO 1971: as quoted in Travers, 1986, pg 26]

Despite the earlier crises and the revisiting of the same issues that had caused them previously, the government's response yet again did not seek to address the underlying problems of the rating system and the deficiencies of the local finance system. Instead it chose to patch up the existing system with increased central funding to local authorities and the promise of yet another enquiry to investigate a long term solution to local government finance issues. The promises to devolve autonomy to local government were simply lip service; the government did not have the courage of its convictions.

The Layfield Committee Report, 1976

In June 1974, the Layfield Committee was appointed to conduct another review into Local Government Finance in England and Wales. The ratings crisis of 1974 raised yet more issues with the existing system of local government finance and the need for a complete rethink. The remit of the Committee was to consider any aspect of finance which they perceived to be relevant, and to also look for long term solutions rather than short term management measures which had characterised reactions to previous financial problems.

The first steps were to examine the criticisms of the existing system of the time, taking into account the views of the public, local authorities themselves and central government. The public's criticisms centred on the rating system which they deemed regressive, incomprehensible and prone to unexpected and large increases in bills.

The concerns of the local authorities focussed on the limitations of, and difficulties with, the rating system. In their view these diffi-

culties were magnified by the infrequency of valuations in the post war period which had led to politically unpopular large jumps in rates bills, and consequently an increase in evasion. One of the biggest complaints from local authorities was about the lack of adaptability of the system and its lack of 'buoyancy' (ie the yield from rates did not rise in line with costs/incomes, as say income tax) leading to headline grabbing rates rises when they needed to raise more revenue. "Local authorities stressed that this lack of buoyancy created a false impression in the minds of the public [and they] saw increases in local rates that seemed wholly out of proportion to increases in national tax rates and drew *unfair* conclusions" [Layfield Committee, 1976, pg 10. Author's emphasis] Local authorities also complained of receiving mixed signals from central government. Some central departments were urging the development and expansion of local service, while others were urging local expenditure be restrained. Local authorities also felt that the freedom of choice embodied within the general grant structure was not being adhered to, and that some central government departments were interfering with the detail of the services provided with those funds. Inaccurate public sector forecasting was also causing problems, with grant distribution and leading to difficulty budgeting at a local level, and adding further strain to the rating system.

Criticisms of the existing system from central government revolved around the rapid growth of local government expenditure and the increasing reliance this caused on grant income: "the belief that the government would always be bound to come to the aid of local authorities...had contributed to the continuing increase in spending by local authorities." [Layfield Committee, 1976, pg12]

Having taken on board the criticisms of the current system, the Report went on to consider in some detail the origins of the 1974 crisis. This was attributed to a variety of factors that had put a catastrophic pressure on the rating system, including the sudden and dramatic increase in inflation and the delayed revaluation (which when coupled with inflation caused rates bills to rocket). When these factors were combined with the already heavy pressure on local authority expenditure it was the rating system, and the ratepayer which took the strain. “The evidence given to us strongly suggests that many of our present troubles arise from the existence of a set of longstanding problems and deficiencies in the arrangements for local government finance” [Layfield Committee, 1976, pg 36]

The Report went on to examine the history and context of local government finance in great depth, including chapters on the relationship between central and local government; capital finance; fees and charges; rating; new sources of income; grants and macroeconomic reforms.

Some of the main financial proposals of the report were:

- to retain the rating system, both domestic and non domestic, as its abolition “would not be justified in terms of improving the incidence of taxation” [Ibid, pg 285] It was proposed that the proportion of rates in local income should not be increased, and that regular revaluations would be essential for the rating system to work properly.
- Local Income Taxes (LIT) were favoured as an open, transparent, non regressive, and easily accessible form of local taxation. LIT would also go some of the way in making up for the lack of ‘buoyancy’ in the rates system. “Introducing LIT is a necessary

- condition of greater local responsibility” [Ibid, pg 298]
- grants should be retained, but should be general in nature giving local authorities more freedom
 - in the case of services deemed to be of key national importance, where service variations across localities would be unacceptable at a macro level, there was the suggestion that national minimum standards could be set which would be financed from central grants. Those local authorities which wanted to provide higher standards above the minimum levels could meet the demand with locally raised funds.

In forming its recommendations the Report acknowledged the tension between equality and local accountability in the debate about local finance systems but did not see it as an insurmountable obstacle. The Committee believed that the pressure from local rate payers and lobbyists would prevent large disparities in service between localities, and more importantly, if central government wanted to change its policy with respect to local finance, it should have to do so through parliament and should not be able to tinker with the system directly as it had done in the past.

The Committee was clear that the existing system was “a collection of financial arrangements whose objectives were not clear and which had never been properly related to each other.” [Layfield Committee, 1976, pg 283] The crux of the new system had to be clear accountability; those responsible for spending money should be responsible for raising the revenue too “so that the amount of expenditure is subject to democratic control” [Ibid, pg 283] The Report concluded that there was stark choice to be made between central control and local accountability. This choice needed to be

made to prevent future crises and the contradictory financial decisions that often accompanied them. The Committee themselves favoured the devolution of accountability and control to local authorities, but did not explicitly recommend this to central government. “The choice we have posed is a difficult one. It is not for us to make it...after many decades of uncertainty in the realm of local government finance the time has come for a choice on the issue of responsibility” [Ibid, 1976, pgs 300-301]

In its concluding paragraph, the Committee stated its “strongly held view [that] the only way to sustain a vital local democracy is to enlarge the share of local taxation in total local revenue.” [Ibid, pg 301]. Unfortunately the recommendations and suggestions made by the committee were to be largely ignored.

The 1977 Green Paper

Despite the findings of the Layfield report, central government was caught in the throes of an economic crisis and did not favour the idea of local autonomy. The continuing economic crisis and the resultant \$3.9 billion dollar loan from the IMF dominated central government’s thoughts. The very idea of relinquishing control of local government finance at a time when national macroeconomic stability seemed to call for cuts in local expenditure was not a popular one.

A further Green Paper in 1977 did not even begin to tackle the issues at the heart of the local government finance debate. “The green paper was underpinned by the search for effective control of expenditure” [Stewart: 1997, The Green Paper on local government finance: A viewpoint. As quoted in McConnell, 1999, pg 29].

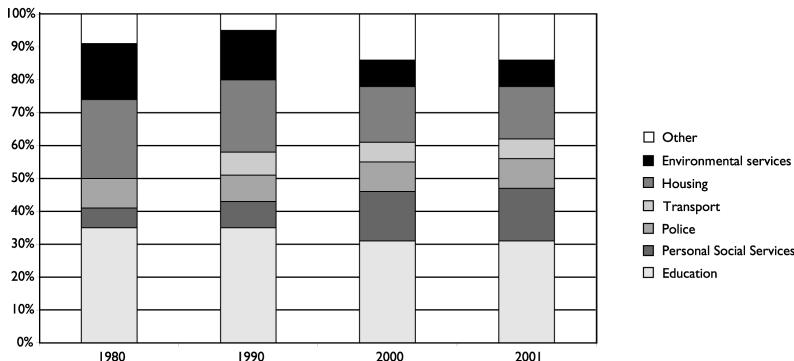
Widespread grant reductions were dismissed on the basis that this would punish poor authorities and those authorities which were constantly within their spending budgets. Local income taxes were rejected and the rates system retained. No new methods of raising taxes locally were even considered.

Fighting for survival in a hung parliament the government had moved back to centralising doctrines with respect to local government finance. “No fundamental reform was achieved, and a further step towards the degeneration of local government was taken. Almost every issue outlined by the Layfield report was ignored or rejected...The tone of the Green Paper suggested that, whatever happened, the government wanted greater central control over local government spending.” [Travers, 1986, pg 77]

6. The 1980s; more problems with rates and the Poll Tax disaster

The Thatcher administration came to power in 1979 with the stated aim of controlling inflation via the use of monetary policy. Part of its aim was to pursue free market non-interventionist policies. Local government freedom was seen as a threat to both these ideals, giving town halls the ability both to increase public spending (and therefore inflationary pressures), and to subvert national policy.

The government therefore set about reducing and controlling all public expenditure particularly at a local level, as well as protecting ratepayers from increasing rates bills. Local authorities which exceeded centrally imposed spending targets were penalised by having their grants reduced. The reduction of overall grants was successful, in England in 1975/76 overall grants made up two thirds of local spending, by 1989/90 this had fallen to 41% [LGIU, 2002, pg 15] Figure 4 shows the constituents of local government spending from 1980 onwards.

Figure 4: What does local government spend its money on? England only, 1980–2001

Source: Local Government Financial Statistics (England) various years

Notes: 'Other expenditure' includes expenditure on fire services, sports and recreation, libraries and the arts, and home office expenditure

In many ways these aims were largely incompatible; squeezing local budgets and reducing grant levels forced local authorities to rely on raising rate income to meet their financial requirements. Those councils which were penalised for overspending found themselves having to raise rate bills to actually meet/neutralise the financial penalties.

The arena of local government finance also became increasingly politicised during the 1980s, with local Labour run councils 'overspending' in direct defiance of central government policy. Central government's response to escalating rates bills was to intervene further by introducing rate capping with the enactment of the Rates Act 1984. Strictly speaking, the act did not directly cap local rates bills, but rather gave the Secretary of State the power to cap any

council budget which was deemed to be excessive. Of course, in practice this did equate to an indirect cap on rates as any cap on budget levels had to be reflected in the council's overall rates take. The power to cap was used selectively at first, but following the introduction of the Poll Tax in 1991 "...capping rapidly moved from the selective to the universal..." [Wilson and Game, 2002, pg198] with the forthcoming year's capping criteria being published in advance by central government, effectively forcing local councils to set their budgets within preannounced limits. "If the system sounds centralist and dictatorial, that is because it was designed to be so." [Ibid, pg198]. Local authorities found themselves with their hands tied and no longer had any real revenue raising powers at all.

Despite being a government which had initially been on the side of local autonomy, the Conservative government's obsession with local spending cuts had created a situation in which central influence and control over local spending was paramount. After winning a second term, the Tory government finally published its intention to abolish rates altogether in a White Paper in 1983. The rates system was destined to end as it was thwarting their political aims. Rates were seen as a tool of left wing local opposition which could be used to undermine central government policies and, due to the inclusion of rates in the RPI, could also push up inflation outside of central control.

The last straw for the government was the rating crisis which occurred in Scotland in 1985 after the first revaluation for seven years caused average Scottish rates bills to soar by 21% [McConnell, 1999, pg 33]. The ensuing widespread revolt caused a political crisis in Scotland which threatened Tory power there and

the government panicked that a similar fate would befall them in England and Wales.

The 1986 Green Paper and the Poll Tax

It was against this politically charged background that the idea of a poll tax was conceived almost, “by process of elimination” [McConnell, 1999, pg 35] as the tax with the fewest drawbacks which would fit with the government’s ideals of a laissez-faire state.

In January 1986 a green paper was published setting out the Conservative Government’s plans for the radical reform of the local government finance system. The green paper contained two main policies; the formalisation of the government’s plans to abolish the domestic rates system and replace it with a Community Charge (the poll tax), and the proposal to remove the control of non-domestic rates from local authorities and place it under central control and distribution.

Despite early warnings that the poll tax would be unpopular, highly regressive and difficult to collect, the government staked its political reputation on its introduction, with Mrs Thatcher famously referring to it as a ‘flagship’ of her political fleet.

The poll tax was introduced in 1989 in Scotland, and in 1990 in England and Wales at ‘a single stroke’, and was to be paid by adults aged 18 and over, at a rate set by local authorities as a flat rate payment.

The poll tax was an attempt to give local authorities the autonomy to raise extra income at a local level, thereby focussing the public’s attention on the connection between local spending decisions and local poll tax bills. This was a step in the right direction for local taxation and

local autonomy, but the nature of the tax itself and the method of its immediate implementation were to prove its eventual downfall.

The poll tax became “the most celebrated disaster in post-war British politics.” [Butler et al, 1994] From its very inception the tax proved to be a political millstone:

- The average tax bill was £363 which was far in excess of the prior year estimate of £275, with there being three times as many losers as gainers [Wilson et al, 2002, pg 207]
- In its year of implementation in Scotland, one third of all poll tax bills went unpaid
- Despite giving local authorities the autonomy to raise extra income via the poll tax in the hope that in the event of future rises the focus of taxpayer wrath would be aimed at the local councils, the publicity associated with the introduction of the poll tax caused voters to aim their anger at rising bills towards central government.
- Rising inflation and central squeezing of grant levels put upward pressure on poll tax bills, increasing the public anger towards the tax even more
- In 1990-91 fiscal year, there were 4.1 million summonses for non-payment [McConnell, 1999, pg 41] and massive poll tax demonstrations took place which shook central government and contributed to the resignation of Mrs Thatcher.
- In the 1991 budget, VAT was raised by 2.5% to help centrally finance an across the board cut in individual poll tax bills of £140

Locally determined expenditure (non-domestic and domestic rates) accounted for 53% of local funding in England in 1989-90. With the

nationalisation of the non-domestic rate, and the introduction of the poll tax, this fell to just 15% in 1992-93. [Wilson and Game, 2002, pg 208, fig 10.3] Hardly what could be termed a success story in returning financial autonomy to local authorities.

Alongside the introduction of the poll tax, central government also nationalised the non-domestic rate (or business rates) removing the responsibility for setting the business rate poundage from local authorities and instead centrally setting a single national rate. The newly named National Non-Domestic Rate (NNDR) was set centrally but collected locally, with the revenues being pooled into a central fund, before being redistributed back to local authorities on a per capita basis. Business rates were no longer a form of local tax, but had in effect become part of the central grant distribution to local authorities. “Former local ratepayers have become national taxpayers, and there is no longer any direct link between local authorities and the businesses in their area. In 1989-90 non domestic rates had provided over a quarter of local government current income: more than that from domestic rates. At a stroke, therefore, local councils saw the proportion of their income that they themselves controlled, fall from over a half to barely a quarter” [Wilson and Game, 2002, pg195]

The first serious attempt at reforming local government finance with the introduction of the poll tax, had failed completely and was abandoned shortly after its first birthday. The highly regressive nature of the tax, and the vocal public demonstrations that ensued, led to its downfall and eventual replacement with the Council Tax in 1993.

7. Key issues raised by the historical analysis

Several key issues are apparent in the review of the history of local government finance over the last two centuries:

- There has been a gradual drift from a system where there was no central funding of local government, to a finance system which now funds over 60% of local monies from central coffers. With this increase in central funding over the years has come a corresponding increase in central control.
- Urbanisation and industrialisation in the 19th century created the need for local government institutions in England. Urbanisation bought with it the visible manifestation of social inequalities, which promoted the development of local services and eventually spurred central government to be concerned with equilisation and uniformity of service provision.
- The lack of constitutional underpinning of the finance system in England, puts local government directly under the whim and

control of the central government in power. This has contributed to the relentless reform of the finance system and the structure of local government institutions since the 1950s, and also saw local government's main form of taxation change three times in the space of three years in the 1990s, something which is very unusual by international standards.

- The constant battle between accountability and equality is also clear from the constant changes to the finance systems over time. The desire for local freedom has always been in direct conflict with the desire for territorial equity. Most importantly, central government has been in control of both.
- Local authorities, the functions they perform and the central grants they receive, are seeking to make good the vast income inequalities prevalent in the UK under the direction of central government. Should this really be local government's role? Or should the tax and benefits system be the vehicle for meeting problems of inequality, leaving local government to serve local people?
- No central government has ever seriously considered moving away from having a singular tax at the heart of the local government finance system, and the strain this puts on that single tax (as happened during the ratings crises). A system with multiple revenue streams would be far more flexible.
- The main choice in relation to local finance systems, of local autonomy or central control, is something no central government has been willing to face. Hence the constant struggle between equality and accountability, and an ever changing finance system that results.

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