

Local Government and Local Government Finance in England

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The evolution of the local government system in England¹

Local government in England has a long history. Its origins go back to the royal charters given to some boroughs in the middle ages and to the role of the church in caring for the poor within their parishes. Elected local government developed during the early part of the nineteenth century, mainly in response to rapid urbanisation and the need to provide public services for the growing urban population.

The basic structure of English local government derives from the Local Government Act of 1972. This established a two tier system, made up of an upper tier of counties and a lower tier of districts. (There were slight variations between the metropolitan areas and the rest of the country.) These tiers are not hierarchically related: each has separate functions and each relates directly to central government, i.e. the county has no power over the district.

The 1972 Act has been amended many times, most notably to abolish the Greater London Council and the six metropolitan county councils during the 1980s, leaving single tier authorities in these areas. In addition, in some other areas (and in the whole of Scotland and Wales) the two tier system was replaced by a single tier. It was the Thatcher government's intention to replace the entire two tier system with a single tier, but opposition led to this policy being dropped after only a few single tier authorities had been created.

In the late 1990s, an upper tier of government, the Greater London Authority (GLA), was re-established for London, although the main local government functions remained with the London boroughs.

Regional government

Unlike most of continental Europe, England does not have a regional tier of government. An attempt in 2005 to establish a regional tier comparable to the elected assemblies created in Scotland and Wales was abandoned following an adverse response in the referendum about the establishment of the first of these assemblies in the north-east of England. There are, however, regional chambers, comprising representatives of

central and local government, to discuss policy affecting the regions, but these have no statutory powers. There are also regional offices of central government ministries, as well as centrally appointed regional development agencies, to promote development within the regions (which have boards that include representatives of local governments). But there has never been any system of deconcentrated administration, in the sense of centrally appointed provincial governors or district administrators.

The current structure of English local government

The current structure of local government in England is a mixture of single tier and two tier authorities:

- Single tier in the six metropolitan areas, comprising 36 metropolitan district councils;
- Single tier in the 48 unitary authorities;
- Two tier in London, with the Greater London Authority plus 33 London boroughs;
- Two tier in the 34 (shire) counties plus 238 (shire) districts, with typically 5–10 districts in a county.

The current structure is shown in Table 10.1, together with the typical sizes of units. The largest single tier local authority in England (and in Europe) is the City of Birmingham (technically a metropolitan district) with a population of 1 million. Overall, the size of local governments in England is very large when compared with those of continental Europe. For example, while the UK has approximately 460 local governments for 60 million people, France has around 30,000 communes for a similar population.

Table 10.1. Local government structure in England

	Upper tier	Typical size	Lower tier	Typical size
London	Greater London Authority	9 million	33 London boroughs	150,000–300,000
6 metropolitan counties			36 metropolitan districts	100,000–1 million
34 shires	34 (shire) counties	0.5–1.5 million	238 (shire) districts	60,000–120,000
46 unitary authorities		200,000–1 million		

In addition, there is an optional lower level called the parish. Parishes do not have any mandatory functions, but local communities can choose to have one. They exist mainly in towns and rural areas. Parish councils typically cover a population of 5,000 to 25,000. Their main role is consultative, although they may undertake certain limited functions such as the provision of local amenities (e.g. museums, car parking, public toilets and recreation facilities).

Table 10.2 shows the functions of English local governments, and their division between the two tiers. Unitary authorities have both sets of responsibilities. However, in London, the GLA has powers only in relation to strategic planning and transportation, with the remaining functions being carried out by the 33 London boroughs.

Table 10.2. Functions of local government in England

Counties	Districts
Education	Local planning and development control
Personal social services	Housing
Transportation	Local roads
Strategic planning	Environmental health
Fire services	Waste collection
Consumer protection	Local economic development (shared)
Waste disposal	Recreation and culture (shared)
Libraries	
Local economic development (shared)	
Recreation and culture (shared)	

Certain important functions commonly assigned to local government are not local government functions in England: health (a central government function, deconcentrated through the National Health Service); social welfare payments (handled by the central government's Benefits Agency); utilities such as water, sewerage, electricity, gas and telecommunications (all now privatised companies).

The police service, which was formerly a local government function (except in London), is now the responsibility of regional police authorities, which consist of representatives of both central and local government.

Over the last 20 years, there has been something of an erosion of the powers of local government. Important functions have been taken away from them: water supply (removed in the 1970s); further education colleges; and police (now jointly managed with central government). Much of the responsibility for education has been devolved to individual schools. The role of local governments in housing has also been much reduced as local governments have been required to sell the housing stock to tenants, while new social housing has been built mainly by independent housing associations. Increased central regulation has reduced the room for local discretion in the delivery of local services. Many other public agencies (sometimes known as quangos) are involved in areas that were formerly the domain of local government. On the other hand, local governments have been given increased responsibilities in the area of social services, and widened powers to address the well-being of residents. Increasingly, local governments are working in partnership with other public and private sector agencies, often providing leadership for such partnerships.

Organisation of local governments

Local councils are made up of representatives elected on a ward basis. The electoral term is four years. Elections are on a first-past-the-post basis. The three main political parties (Conservative, Labour and Liberal Democrat) occupy almost all the seats in local government, although there are a few minority parties and some independents. Control of the council goes to the largest party, but if that party does not have an overall majority, it has to establish a coalition with another party. A particular concern is the low voter turn-out in local elections – typically 30–45 per cent.

In most councils, political power resides with the leader of the largest party, who is one of the elected councillors. The leader selects the members of the Cabinet from among the elected councillors (subject to approval by the full council). The Cabinet has executive power and each Cabinet member has a portfolio, which generally corresponds to one (or more) of the main service departments. The remaining members of the Council serve on scrutiny committees, which examine the work of the executive. (The previous system of executive committees of councillors has been abolished in all but the smallest councils.) In this system the mayor (or lord mayor in a city) has no executive power but only a ceremonial role, including chairing the full council meeting.

A few councils (notably the GLA) have a directly elected mayor, rather than a leader. (The choice of whether or not to have an elected mayor is made through a referendum of all voters in the local government area.) The executive is then made up of the mayor plus a Cabinet drawn from the elected councillors, with other councillors serving on scrutiny committees.

Although national legislation does not specify the internal structure of local government, the management structure is remarkably uniform across the country. It is headed (in most cases) by a chief executive, who is a local government employee. There is a tradition of strong professional departments in English local government. The heads of these departments (usually one department for each of the main functional responsibilities) make up a management team of officers, chaired by the chief executive. All local government staff are directly employed by the local government; central government has no role in the appointment of staff.

Local government finance

Local governments account for around a quarter of total public spending in England. The largest areas of expenditure are education (36 per cent of gross local government spending), social services (16 per cent) and housing (14 per cent). County councils have much larger budgets than district councils, since they are responsible for the two largest services, education and social services.

Local governments have only one local tax, the council tax. This is a tax per household, which varies according to the value of the property occupied. Before 1990, local

governments levied a property tax on all properties in their jurisdiction. Between 1990 and 1994, this was replaced by the community charge, a flat-rate poll tax on all citizens, with a few exceptions. Due to the unpopularity of the tax (and administrative problems), it was abandoned. It was replaced with the council tax, which is something of a hybrid between a poll tax and a property tax.

The council tax

The council tax is levied according to eight bands. The local government sets the annual tax rate for a band D property. The amount of tax payable is then determined by the band of property occupied, with the proportion of the band D tax that is applied being determined by the ratios set by legislation (see Table 10.3).

Table 10.3. Council tax property bands

	Capital value	Tax as percentage of band D
A	Up to £40,000	67
B	£40,000–52,000	78
C	£52,000–68,000	89
D	£68,000–88,000	100
E	£88,000–120,000	122
F	£120,000–260,000	144
G	£260,000–320,000	167
H	Over £320,000	200

The initial property valuation was done by the central government and was contracted out to local estate agents, who undertook it on a rapid assessment basis. The valuations have not been updated since 1993. The tax rate is set by the local government, although the central government sets a ceiling on annual increases (currently 5 per cent). There are reductions for single person households, and subsidies (council tax benefit) are available for those on low incomes.

The tax is collected by the local governments. In the case of two tier authorities, the tax is collected by the districts, including the part levied by the county. Most people pay through the banking system (direct debit), but other methods are available. Local governments have rigorous enforcement arrangements, with the power (obtained through the courts) to levy fines, attach earnings (i.e. obtain payment directly from employers), seize property and, ultimately, send non-payers to prison. The average collection rate (effectiveness) is around 95 per cent and the collection cost is around 0.5 per cent.

The tax has a number of problems:

- It is levied on the household, so that if the household moves without paying, the

local government has to pursue them, since there is no liability on the landlord and any debt cannot be made a charge on the property; as a result, the collection rate is lower (95 per cent) than for the former property tax (but higher than for the poll tax).

- The tax is regressive, since the tax rate is much higher on low value properties than on high value properties.
- The tax is only levied on residential properties – business properties are subject to a separate central government tax (see below).
- Local governments have only one local tax – with grants accounting for two-thirds of their revenue, and the gearing effect is very high (a 5 per cent increase in expenditure necessitates a 15 per cent increase in council tax).

The council tax provides approximately 16 per cent of local governments' gross recurrent revenues. Fees, charges and rents provide a further 11 per cent. Most of the rest comes from central government revenue shares. Thus, local governments control less than 30 per cent of their resources, and most of those are subject to tight restrictions, for example of the level of charges for services and increases in council tax. In practice, local governments' room for manoeuvre over their total revenues is at most only 2–3 per cent.

Table 10.4. Local government revenue sources

Tax	Share of total recurrent revenue (%)
Council tax	16
Fees charges and rents	11
Business rates	13
Revenue support grant	21
Specific grants	29
Other	10

Central transfers

The business rate, a tax on business properties, is a central government tax which is shared 100 per cent with local government. (Until 1990, it was part of the local government's property tax.) It is collected by local government on behalf of the centre. The revenue is pooled and then redistributed on a per capita basis. Local governments can use it to meet their general expenditures.

The revenue support grant (or formula grant) is a block grant to local governments to meet their operating costs, including debt servicing. It is designed to provide all local governments with an equitable share of grant resources, taking account of relative expenditure needs and relative resource capacity. Expenditure needs are calculated

using the 'formula spending assessment', which incorporates a large number of factors that are weighted (using regression analysis) to reflect their relative importance in determining local expenditure needs. Local government resource capacity is based on the amount that a local government could derive from the council tax if it levied it at a 'standard' rate. Since central government assesses the value of property for the council tax, it has complete information on the local tax base and hence on the amount of revenue which a local government could generate from the tax. Thus, the revenue support grant can be made fully equalising.

The specific grants include a number of different grants, some of which relate to the costs of specific services, particularly where the government is seeking to influence local government spending patterns towards particular activities. It also includes reimbursement of certain social welfare benefits that are administered by the local governments, such as housing benefit and council tax benefit.

Capital finance

Capital expenditure in England accounts for around 10 per cent of total expenditure. Housing and transport are the main areas of capital expenditure.

Traditionally, local governments in the UK financed most capital from borrowing. This is based on the benefit principle of equity that, since the benefits of capital expenditure accrue over many years, future generations should bear some of the costs of the expenditure by servicing the debt. More recently, a large proportion of capital expenditure has been met from capital receipts, particularly from the sale of local government housing stock, as well as other surplus property. In addition, there may be grants for certain forms of capital expenditure. Some capital assets, such as vehicles, are financed through leasing from private suppliers.

Borrowing may be from any source, including overseas, or from other local governments (there is an active market between local governments for short-term surplus funds). However, in practice, long-term borrowing is mainly from the Public Works Loans Board (PWLB), a central government agency that borrows money through government bonds. Although there is no subsidy element, the PWLB's terms are (marginally) more advantageous than other sources, so that in most cases there is no incentive for local governments to borrow elsewhere. The typical borrowing period is 25–30 years.

Borrowing was tightly controlled by the centre until recently, for reasons of macro-economic management. However, since 2000 local governments have been responsible for controlling their own borrowing, in accordance with 'prudential rules' laid down by central government in association with the Chartered Institute of Public Finance and Accountancy (CIPFA), the professional body of local government finance officers.

Increasingly, public sector investment, including that by local governments, is undertaken through private finance initiative (PFI) schemes. These involve the private

sector in building and managing the new capital asset (e.g. a school), with the local government leasing the facility from the private company. This avoids the need for the local government to borrow (and, in theory, brings private sector efficiency to the construction and management of the asset), but the cost implications for the local government may be the same as servicing a loan over time – and indeed there is plenty of evidence that the total costs may be higher.

Budgeting and financial management

The Director of Finance (or Treasurer or Chief Finance Officer) has responsibility for budgeting, financial management and accounting. S/he must be a qualified accountant. S/he has a statutory responsibility to report to central government any unlawful expenditures or decisions by the local government.

The annual budget process typically starts nearly a year before the budget year begins. The annual budget will be based on broader plans and strategies, such as the corporate vision and the medium-term economic and financial plan. These, together with central government policy statements about annual grant allocations, will determine the priority areas and the broad allocations of resources between sectors and services. Departmental heads and service managers will then be given budget ceilings and guidelines to work to in preparing their budgets. These departmental and service budgets are then aggregated. The gap between total budgeted expenditure and total income from fees and charges, revenue shares, grants (rate support grant plus specific grants) and any other sources will determine the level at which the council tax needs to be set to ensure a balanced budget. Balancing can be done from reserves and adjustments to departmental and service expenditure budgets, but the budget must balance (a legal requirement).

The final adjustments to the budget are often only agreed at the final meeting of the council (especially where one party does not have overall control). The budget has to be approved by the full council by 1 March, for the financial year that starts on 1 April. This allows time for council tax bills to be issued during March. There is no process of central government approval, although if a local government proposed to increase council tax above the ceiling, it would be subject to central government intervention.

The capital budget is prepared alongside the recurrent budget, but is usually based on a three-year rolling capital programme. Debt servicing on borrowing is included within the recurrent budget.

Much of the responsibility for financial management is devolved to budget centres, such as departments or services, including individual schools. Central services provided to these budget centres, such as accounting or payroll services, are charged by the unit providing the service on the basis of a service-level agreement.

Auditing

Local governments have internal auditors whose main role is to ensure that systems are secure and not open to fraud. They may also carry out certain value for money exercises. External audit (ex-post) is conducted by the Audit Commission, using either in-house staff or private firms. External audit reports are placed before the council for action to be taken. In the past, external auditors could directly impose surcharges on officers or councillors deemed to have incurred losses, but that power is now exercised through the courts. Cases of fraud are referred to the police. Cases of corruption are rare, but not unknown. They are rare not only because there are effective systems in place to prevent fraud, but also because local government staff are generally well paid, and so are unwilling to jeopardise a safe and well-paid job for the risks involved in corruption. Increasingly, audit is concerned with efficiency and value for money, rather than just probity and fraud.

Most senior finance staff are members of CIPFA. Successful prosecution for fraud would mean that the person concerned would lose their membership and so be unable to work again as an accountant.

Note

- 1 This chapter deals only with local government in England; the systems in Scotland, Wales and Northern Ireland are all slightly different.

Further reading

- Game, C. and Wilson, D. (2006). *Local Government in the United Kingdom*. Basingstoke: Palgrave-Macmillan.
- Chandler, J. A. (2007). *Explaining Local Government: Local Government in Britain since 1800*. Manchester: Manchester University Press.