

## **2 The mid-1970s to the mid-1980s: central government intervention**

From the late 1960s central government began to take more interest in the policies being carried out at the local level. In housing, for example, concern grew about the variation of housing needs and services over the country and an attempt was made to devise policies which would meet local needs more effectively.<sup>1</sup> The change in approach was also caused by anxieties about the level of central government funding for local authority housing and about its effectiveness, concerns which were to grow in times of increasing fiscal austerity in the 1970s. In education as well, there was growing central government interest in standards<sup>2</sup> and the curriculum,<sup>3</sup> as the debate moved from equality and selection to the performance of schools. Particular social and economic problems which existing policies did not appear to solve seemed to require initiatives from central government.<sup>4</sup> The overall result was more central involvement: legislation to set standards and special financial schemes.<sup>5</sup>

The 1970s brought reforms which set the pattern of change for the future. The Labour government considered the introduction of a needs-based central grant in the 1977 green paper on local government finance. Central government became concerned to define more clearly parts of the role and functions of local authorities. For example, the Housing (Homeless Persons) Act, 1977 set out responsibilities for housing homeless people, an area in which local

authorities had previously had freedom to set their own policies. In 1977 the Department of Education and Science started to promote the idea of a national curriculum and a unit was created, the Assessment of Performance Unit, to test samples of children. The rise in unemployment in the 1970s had highlighted the lack of training of school leavers. This led central government to become more directly involved in the provision of education through the establishment of the Manpower Services Commission in 1974 and its training initiatives such as the Youth Employment Subsidy and the Youth Opportunities Programme. These activities to some extent sidestepped local education authorities.

An important facet of the reorganisation debate in the late 1960s and the early 1970s was the concern of central government to increase the efficiency of local authorities in administering services.<sup>6</sup> It is argued that the reform of local government in 1974 was in part inspired by central government's wish to control local authorities, a task made easier by reducing their number.<sup>7</sup> On the other hand the legislation abolished many of the precise central controls over local authorities. Also, some of the reforms of the policy-making machinery in the 1970s, such as Transport Policies and Programmes in 1973 and Regional Reports in Scotland in 1975, were designed to allow central government to set the strategic framework with local authorities setting their own priorities. As in the 1980s the trend toward centralisation ebbed and flowed and was not experienced in all aspects of central-local relations.

A new dimension, however, was the emergence of a more political conflict between central and local government from the late 1960s. The 1964-1970 Labour governments' policy of reorganising secondary education was initially not set out in legislation, but was promoted by circulars and financial incentives, in keeping with the consensual pattern of central-local relations.<sup>8</sup> Towards the end of the 1960s, however, some Conservative councils resisted the policy of introducing comprehensive schools.<sup>9</sup> In 1969 Labour decided to introduce legislation to enforce comprehensive schooling, but this was cut short by the 1970 general election. The Conservative government of 1970-1974 also was in conflict with some local authorities over several issues, starting with its plans, opposed by Labour authorities, to end free school milk in 1971. Conflict next arose over the Housing Finance Act, 1972, which tried to introduce market rents for council

homes. This led to the Clay Cross dispute, the refusal of a council to carry out a central government policy.<sup>10</sup> In 1974 Conservative councils' opposition to the Labour government policy of comprehensive schooling continued, leading to the Tameside dispute in 1976 and the Education Act of the same year which made the policy compulsory.<sup>11</sup> The Labour government was in conflict with South Yorkshire County Council in 1977 over its cheap fares policy, which also pointed ahead to further conflicts in the early 1980s, such as over the Greater London Council's cheap fares policy.

Such conflicts arose partly because local authorities did not agree with the policies they had to implement on behalf of central government. This was to some extent because policies tended to limit the discretionary role of local authorities, but also because of changes in the political style and behaviour of some local councils. At the local level increasing politicisation developed in the late 1960s and 1970s. More party control of local government, fuller policy definition in manifestos, partisanship at council and committee meetings and political control of chief officers were characteristics of this process. In some councils this led to new policies, such as higher transport subsidies, to which central government was opposed.

But the biggest source of tension was finance. Central government control over the level of central grant began in the mid-1970s, with the introduction of cash limits for rate support grant in 1976. These continued through to the mid-1980s as the main cause of conflict between central and local government. Local authorities claimed they had to reduce the level of service provision as a result of the limits. Pressure from the Treasury to control expenditure in cash terms conflicted with local government's view that finance should be increased to maintain spending in real terms.

### **Early Conservative reforms**

Central government's pressure on local authorities increased after the election of a Conservative government in 1979. This government continued the preoccupation with local authority spending. In addition its policies to reduce the role of the welfare state and increase individual choice changed the underlying approach to local government. Council tenants were given the right to buy their own homes and parents greater choice of schools. Legislation in 1980 introduced these policies for local government as requirements, and

they were not welcomed by some authorities. The 'right to buy' was resisted by many Labour councils, and this led to central government using its legal powers to ensure the legislation was implemented.<sup>13</sup> In Scotland, the Education (Scotland) Act 1981 introduced more stringent provisions to ensure parents' choice in placing their children in schools.<sup>14</sup>

The Local Government, Planning and Land Act, 1980 allowed the Secretary of State to direct that a local authority's highways, building construction and maintenance be put out to tender. It required local authorities' direct labour organisations to show a certain rate of return on capital. These requirements were tightened over the following years. In general, these policies showed the beginnings of a reform of local government, though at this stage they appeared as fairly general initiatives which appealed to Conservative values such as property ownership, the importance of private enterprise and the reduction of the size of the public sector.

The Local Government, Planning and Land Act, 1980 also gave the Secretary of State powers over local authorities concerning the disposal of land and the power to transfer local authority planning functions to areas designated by central government, the urban development corporations. Though urban development corporations are not intended to be permanent and only ten have so far been created, they have a symbolic importance. They allow central government to promote local economic development without the participation of local authorities, implying that local councils are not necessarily the appropriate bodies to carry out new policy initiatives at the local level. They heralded the creation of other new local institutions, such as city action teams or city technology colleges, which do not have local authorities as key participants.

In the legislation reforming housing, transport and education more powers were given to central government. The Housing Act, 1980 gave central government powers over the sale of council houses and the level of housing subsidy. The Transport Act, 1980 gave the Secretary of State power to designate and regulate trial areas for competitive public transport. The Education Act, 1980 gave powers to the Secretary of State to prescribe the composition of school governing bodies and to establish an assisted places scheme directly funded by the Department of Education and Science. The Education (Scotland) Act, 1981 gave the Secretary of State powers to prescribe

standards and regulations for schools which were greater than the powers to issue guidance in England and Wales.

The government used its influence to seek better 'value for money' in local government. Central government issued codes of practice to ensure that financial information was circulated to the public at the same time as rate demands,<sup>15</sup> and that local authorities published manpower statistics.<sup>16</sup> The establishment in 1982 of the Audit Commission, which oversees the auditing of local authorities and promotes value for money, was the culmination of this process of increasing central government influence over the financial practices of local government.

Not all the effects of the Local Government, Planning and Land Act, 1980 were towards centralisation, and the Act removed some minor controls. Reform of the capital expenditure of local authorities loosened central control to some extent, by removing the need for specific projects to be approved, but central government retained control over the total capital spending of each local authority. There were specific powers of direction when a local authority exceeded its 'prescribed' expenditure. The control over unused capital receipts and a decline in the capital expenditure allocated to local government led to a decline in capital investment, particularly in housing.

The minor loosening of control was because the first Conservative government initially had a commitment to lessening central control, as shown by the abolition of some minor controls in the Local Government, Planning and Land Act. The centralising measures from 1979-1987 were not the result of a coherent policy, but were responses to problems resulting from the government's initial reforms.

### **The conflict over finance**

At first central government used circulars and exhortation to try to induce local government to cut expenditure, beginning by requiring local authorities to reduce their budgets by 3 per cent in 1979/80 and by 5 per cent in 1980/81.<sup>17</sup> The 1980 Local Government, Planning and Land Act gave the central government a new power over the reformed central grant system – the power to vary the formula used in distributing grants to local authorities – as long as the formula was calculated in accordance with principles that applied to all authorities. Despite this limitation, the change meant that central government could alter the amount of grant going to groups of authorities.

The Act also introduced a penalty system, which meant that if a local authority increased its expenditure above a certain level it lost grant, the loss increasing as spending increased. The Act gave central government selective powers; it had the power to withhold grant from certain authorities for a transitional period if their rates were above a specified level.

Scotland had 'current expenditure guidelines' from 1976/77. These were designed to help local authorities plan expenditure, though with the other central financial powers they were an influence on local authorities' expenditure decisions, and from 1984/86 to 1988/89 they were mandatory, in the sense that they led to penalties.<sup>18</sup> In Scotland central government already had powers to reduce the level of grant if the Secretary of State was satisfied that the expenditure was 'excessive and unreasonable'. In 1981 these powers were strengthened.<sup>19</sup> In other words the Secretary of State for Scotland had extensive powers to reduce the grant of a particular authority, though his decisions have been challenged in the courts. These controls preceded those introduced south of the border.<sup>20</sup>

The later changes in local government finance in England and Wales were crucial in shifting the relationship between central and local government. The government reacted to the failure of the new grant system to control spending, particularly by a group of authorities which it saw as 'overspenders'. In 1981 it introduced targets based on past spending patterns. If a local authority exceeded the target its central grant was reduced. The government attempted to introduce a referendum on local rate increases in 1981, but the legislation was abandoned. The Local Government Finance Act, 1982 legalised the targets and increased the power of the Secretary of State in setting the level for each local authority. Because many local authorities did not keep within the targets, they suffered grant penalties. Thus the attempt to control local government finance led the government to acquire wide discretionary powers over local authorities.

The targets were short-lived, being abolished in July 1985; but the wide discretionary powers of the Secretary of State were replicated in the ratecapping legislation. This had, in effect, been introduced first in Scotland in an Act of 1982, which gave the Scottish Secretary the power to reduce the rate of a local authority if he considered it 'excessive and unreasonable' – what became known as 'selective action'.<sup>21</sup> This was used against seven councils in 1981/82 and

1982/83 and five in 1983/84, including Lothian Regional Council, and Dundee and Stirling District Councils.<sup>22</sup>

In England and Wales the Rates Act, 1984 meant that an authority could be ratecapped when it exceeded the government's assessment of its expenditure need, or when expenditure was likely to exceed £10m or was judged to be 'excessive'. Although the same Act gave the Secretary of State powers to carry out a general scheme of ratecapping for all authorities, this power was never used and ratecapping was applied to only 18 authorities. The 1984 Act shifted the central-local relationship in that it allowed the Secretary of State to set the level of expenditure for individual authorities, previously a key discretionary power of local government.

One of the problems seen by central government was that up to the mid-1980s, although it had reduced central grant and cut capital spending in certain areas, such as housing, it had, in its view, failed to control the total level of spending by local government.<sup>23</sup> It was this failure that led to a succession of further policies to control local expenditure and rating. In response to grant penalties some local authorities increased rates to maintain spending. This was done in particular by some authorities in wealthy areas which had lost nearly all their grant, and which therefore did not have an incentive to reduce spending. Some councils also used the mechanisms of creative accountancy to avoid spending controls – such as deferred purchase, sale and leaseback, interest swaps, debt rescheduling and fund switching. The penalty system was legally complex, requiring legislation in successive years to close loopholes and to respond to legal challenges. Both the penalty and block grant systems were found to have distorting effects on local authorities when making their expenditure and planning decisions.<sup>24</sup>

The penalty and ratecapping systems created a language of 'good' and 'bad' behaviour by particular authorities depending on whether they had 'overspent'. This perception encouraged central government to introduce more controls intended to correct the 'overspenders', which exacerbated the tensions. The conflict was then highlighted by some urban Labour controlled authorities which openly challenged central government and campaigned against the 'cuts'. These councils were often self-consciously radical administrations which emerged in the late 1970s and early 1980s, such as those of Lothian Region from 1978, Edinburgh and Glasgow City Councils from 1980, and the

Greater London Council, certain London boroughs, and some metropolitan counties and districts from 1981.<sup>25</sup> The conflict came to a head with the campaign against ratecapping organised in 1984 by a number of Labour councils,<sup>26</sup> and also the dispute in 1985 over Liverpool City Council's budget.<sup>27</sup> While the councils flirted with illegality, only in two were councillors surcharged as a result of capping.

For a period after 1985/86 tension in central-local financial relations lessened. This was because of the abolition of the targets and penalties, the failure of the anti-ratecapping campaign, the effects of ratecapping and more generous rate levels of central grant. However, the reduction in tension was short-lived. It was superseded by the conflict over the introduction of the community charge or poll tax which returned finance to the centre stage of centre-local relations.

### **The increase in central government control**

After its initial reforms in 1980 the Conservative government introduced further central powers which reduced or changed local government's functions, especially those involved in political conflicts with central government. Following the controversy over the Greater London Council's policies for London Transport, the Secretary of State gained more control over London Transport and other passenger transport authorities, such as the power to set a level of expenditure for public transport.<sup>28</sup> When the Greater London Council's control over public transport was taken away, the Secretary of State was given a wide power to direct funds to London Transport from the local authorities in Greater London.<sup>29</sup> The Local Government Act, 1985, which abolished the Greater London Council and the metropolitan county councils, contained a number of extra central government powers over London local authorities to initiate, to control, to direct, to monitor and to execute. For example, the Secretary of State for the Environment was given powers to decide on the arrangements for waste disposal if he was dissatisfied with those made by the boroughs. Central government also has control over the expenditure of the new joint boards.

The government increased the number of central grants for specific programmes in an attempt to ensure that its policies were implemented by local authorities. In 1984 the Department of Education and Science introduced a system of education support

grants.<sup>30</sup> Specific grants from the Department of Employment and the Department of Education and Science combined grew from £26.1m in 1984/85 to £349.2m in 1987/88.<sup>31</sup> Specific grants for local authorities under the urban programme were also expanded. Other examples of direct finance were the programmes under the Housing Defects Act, 1984, the priority estates projects and urban housing renewal. As well as being a move to central control, specific grant removed some of the freedom of local authorities in the way they spent their grant, since as specific grants rose so the general grant fell.

### **The loss of local government powers**

Local authorities lost some of their freedom to set policy. For example, the powers of the district auditor were increased and the Audit Commission was set up with powers to investigate local authorities' finance and efficiency.<sup>32</sup> The Rating and Valuation (Amendment) (Scotland) Act, 1983, predating English and Welsh legislation, reduced the powers of Scottish local authorities to subsidise housing.

Local authorities' function in administering and providing public transport has mostly been taken away. The London Regional Transport Act, 1984 removed local government's control over public transport in London. The Transport Act, 1985 abolished the bus licensing system. Local authorities no longer operate public transport undertakings. Private contractors or former council employees are the providers. Local authorities have been restricted in the extent to which they can subsidise transport services.

Other functions have been removed. The Local Government Act, 1985 abolished the upper tier of local government in London and the metropolitan counties without transferring all of their functions to the lower tier of local government. Local authorities lost the police prosecution service through the setting up of the crown prosecution service.<sup>33</sup> Local authorities lost an element of control over all but five airports; the others are now run as private companies with local authorities as the shareholders.<sup>34</sup> Local government lost representation on regional water authorities.<sup>35</sup>

There has been a restriction of powers in education. The Education Act, 1986 limited local government representation on school boards, gave further powers to parent governors, forbade political indoctrination in schools and imposed upon local education

authorities the duty to consider political issues in a balanced way. It provided for limited financial delegation to schools on items such as the purchase of books and equipment. The role of local authorities in state education was also reduced in indirect ways, through the creation of city technology colleges and through the educational activities of the Manpower Services Commission, now the Training Agency.

As well as the conflicts already mentioned, relations between some authorities and central government deteriorated in other ways during the 1980s. The conflicts between central government and the Greater London Council, for example over public transport, may have soured central-local relations more generally.

For its part, central government gave less attention to local authorities' views. Consultation declined. For example, the Consultative Council on Local Government Finance became a less effective forum for discussing financial issues,<sup>36</sup> and in 1987 the government dissolved the long-standing consultative arrangements for deciding teachers' salaries.<sup>37</sup> Furthermore, the government has not used neutral bodies such as royal commissions or inquiries before abolishing the metropolitan authorities and making other major changes.

Local authorities' decisions were often restricted or limited, for example when ministers overturned a greater number of planning consents.<sup>38</sup> Central government also established 'task forces' and city action teams, composed of civil servants, to coordinate urban policy. This bypassed local authorities.<sup>39</sup> Finance formerly directed to local authorities was channelled to other institutions; for instance, more funding for new housing has been allocated to the Housing Corporation rather than to councils, and more resources for urban redevelopment have gone to priority estates projects and estate action schemes.

### **The main themes**

The dominant theme in central-local relations in the period from 1975 to about 1986 was central government's desire to control local authority spending. Rate support grant, which had been rising in the 1960s and early 1970s, was held down. Central government acquired and used broad discretionary powers over local authorities' financial decisions, culminating in ratecapping. Central government also used controls on capital finance to reduce spending. To implement its new

policies, for example to encourage council house sales and to promote parental choice over schools, central government took on more powers itself and limited the powers of local authorities.

The increase in specific grants to local authorities further limited their powers, as did the privatisation of local public transport. Functions have also been transferred to other government organisations, such as urban development corporations and the Manpower Services Commission (now the Training Agency), and to voluntary agencies and private companies. The abolition of the Greater London Council and the metropolitan counties reduced the functions and diminished the strategic role of local authorities in metropolitan areas. The strategic role of local authorities in planning and transport declined.

The style of relations between central and local government altered. Increasingly, policy for local government was introduced without its consent. Consultation became more formal, with less dialogue than formerly. Relationships became more antagonistic. Central and local government relations became more legalistic, with more precise legal controls over local government and the expansion of the numbers of regulations. Central and local government increasingly resorted to the courts to resolve disputes.<sup>40</sup>

Yet the extent of change from the mid-1970s to about 1986 should not be exaggerated. The bulk of central and local legal powers remained unaltered. For example, the Education Act, 1944 was still the formal structure for central-local relations in education. Many functions carried out by local authorities, such as social services or local government's regulatory functions, were not greatly affected by the changes, except as a result of financial austerity. The total level of local government expenditure and manpower remained relatively unchanged from the late 1970s.<sup>41</sup>

Local authorities actually acquired some new functions. The Social Security and Housing Benefit Act, 1982 made them responsible for administering housing benefit, though most of the rules concerning its operation were set by central government. The loss of functions is small compared to those lost in the 1930s and 1940s. In 1973 the loss of responsibility for water in England and Wales and health care in Britain were more important functions than those removed in the 1980s.

It is often argued that the measures since 1979 have increased the role and power of central government.<sup>42</sup> If centralisation is seen as the extent of intervention by central government at the local level, then this argument could be supported. But if centralisation is defined as the capacity of central government to impose its will on local government, the picture is less clear. Central government has failed to achieve some of its most important objectives, particularly over the level of current expenditure and the distribution of capital expenditure. Some policies had relatively little effect on the scale of local government activity. For example, urban development corporations cover small areas and are few in number – six up until 1988, increased to ten afterwards. The 1980s saw local authorities experiment with many new policies in, for example, urban transport, local economic development and equal opportunities – a degree of diversity and innovation which does not indicate a period of uniform centralisation.<sup>43</sup>

### **Reasons for change**

The changes in central-local relations occurred for a number of underlying reasons. Even before the election of a Conservative government in 1979, the financial crisis of central government in the 1970s led to measures to control public spending, including local government expenditure, in a period when the demand for local government services was growing. Central government perceived a particular need to control local government expenditure. After 1979, because the Conservatives had manifesto commitments on defence, police and the national health service, local government spending was one of the remaining areas where public spending might be reduced to achieve the objective of reducing the total level of public spending.<sup>44</sup>

Local government was also under pressure from a general reaction against what was seen as the bureaucracy of the welfare state. Professionally administered bureaucracies became increasingly regarded as inefficient and unresponsive to the consumer, and markets began to be perceived as a more effective means of providing services. These changes challenged the traditional structure and functions of local government. They implied an increase in the legal rights of some consumers and a drastic reduction in local government's role as the direct provider of services.

The Conservative government of 1979-1983 had some of these general ideas in mind when it attempted to reform some of the services administered by local government. It had no clear or coherent plan, but the new policies required a degree of control over local government and removed some of its discretionary powers. The process was accelerated when some local authorities opposed the changes. The result was a deterioration in relations which fostered further controls and a further loss of local discretionary powers.

From the early 1980s, a number of Labour local authorities were elected on more explicitly politicised manifestos than in the past and introduced radical new policies which antagonised the Conservative government and led to further constraints, and were a reason for the abolition of the Greater London Council and the other metropolitan authorities.

The decline of political consensus led to the market inspired policies of the Conservative government to limit the role of the welfare state and, in the opposite direction, radical policies from Labour councils to expand it. This growth of a different policy and style of government between centre and locality was responsible for much of the conflict, and for policies by central government to control local government.

These conflicts were given added force by a background divergence of values between central and local government – between the providers of services and the departments of central government (especially the Treasury) concerned with the economy and the total level of public expenditure. These disputes were translated into party politics with the Conservatives' control of central government from 1979 and Labour's increasing control of local councils. Central-local tensions were reinforced by party conflicts, and party conflicts at the central level were translated into central-local conflicts. The effect of party politicisation was given an extra twist in the early 1980s by the divide between the leadership of the Labour party at central level and a number of left-wing local parties which gained control of some urban councils.<sup>45</sup>

## **Conclusion**

The early reforms that the Conservative government introduced for local government were unsystematic. They derived from a variety of motives – long standing policies (for example, over council house

sales), the pressure on public spending (the control over the level of central grant), political motives (control of local authority powers and the abolition of the metropolitan authorities) and a reaction against the failure to control local government effectively (the controls over spending). Many of the measures were reactive, responding to short term problems.

In particular, continual adjustments had to be made to the central grant system. This required new legislation to legalise central government's actions each year from 1982. Despite the effort that went into constructing and reconstructing the system, central government did not, in its view, successfully control local government spending and settle controversies over the distribution of central funds. All this was a factor in the government's fundamental rethink over local government finance, and its reform of local government functions. Thus the legislation from 1987 has more direction; it is more coordinated and comprehensive. The task of the next chapters is to describe these later changes and their implications for local government.

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