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THE MAKING OF SPENDING CUTS IN LOCAL GOVERNMENT:  
A CASE STUDY OF FOUR ENGLISH LOCAL AUTHORITIES,  
1984/85

A thesis submitted for the PhD examination (London School  
of Economics and Political Science, University of London)

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### ABSTRACT

The thesis focuses on the making of spending cuts in local government in the mid-1980s. It examines how four English local authorities - Bedfordshire County Council, Kent County Council, Knowsley Metropolitan Borough Council, and Stockport Metropolitan Borough Council - made spending cuts in the financial year, 1984/85.

The research is based on a comprehensive set of interviews of the significant actors in each of the four local authorities and an examination of the relevant documents produced by the local authorities, plus an extensive literature survey.

After exploring the significant methodological problems in defining and measuring local authority spending, the thesis examines to what extent the four local authorities cut their spending, why they curbed their spending, and how they made spending cuts. Furthermore, it looks at specific case studies where local authorities cut their spending, including, for example, decisions to contract-out school cleaning, to terminate grant funding of sheltered housing, and to work with a voluntary organisation in providing day care for the elderly.

The thesis outlines the major findings of the research, compares the research findings with those of other research projects, and constructs a theory of cutback management in local government. This theory challenges many of the conventional wisdoms surrounding cutback management. Both the dominant rationalist and incremental models of cutback management are explored and tested in light of the research evidence. The thesis finds that both models provide only limited explanations of cutback management in local government. As a result of their theoretical shortcomings a refined model is formulated, which provides a far more plausible basis upon which to understand cutback management in local government.

The thesis offers both new empirical and theoretical analysis of the making of spending cuts in local government.

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**PART A: SETTING THE SCENE**

CHAPTER ONE

INTRODUCTION



Before the 'IMF Crisis' of 1976 Tony Crosland, the Secretary of State for the Environment, announced to local authorities:<sup>1</sup>

"The party's over."

With the election of the Thatcher Government in 1979 Michael Heseltine, the Secretary of State for the Environment, proclaimed in September 1981 that it was "closing time" for growth in local authority spending.<sup>2</sup> In July 1982 Leon Brittan, the Chief Secretary to the Treasury, appealed for "local authority spending to be contained within limits set by what the nation can afford."<sup>3</sup> In 1988 Nicholas Ridley, as Secretary of State for the Environment, wrote "it has been essential to constrain the growth of local authority expenditure".<sup>4</sup> In February 1991 Margaret Thatcher, the Prime Minister, demanded that "local authorities of whatever political complexion should strain to keep down their public expenditure."<sup>5</sup> In October 1992 John Redwood, as minister for local government, claimed it "is important that local,

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<sup>1</sup> Taken from Crosland (1982) p295. See also Cochrane (1993) p29; Henney (1984) p56; Page A (1980) pp31, 44; Taylor-Gooby (1985) p71; and Warman (1975) p1. There is considerable confusion over when Tony Crosland made this speech. For example, Kenneth Baker, the former Secretary of State for the Environment, believed the speech was given in 1976 ((1993) p111). Blunkett and Jackson, Chandler, Deakin and Kingdom also claimed the speech was given in 1976 ((1987) p149; (1991) p74; (1985) p221; and (1991) p174 respectively). Furthermore, other writers did not cite their sources in citing the speech - see Butcher, Law, Leach & Mullard (1990) p56; Byrne (1990) p266; Pliatzky (1985) p68; and Stoker (1988) p13. His speech, now rooted in local government folklore, was made on 9 May 1975 at a luncheon in Manchester Town Hall (see Warman (1975) p1).

<sup>2</sup> Taken from Byrne (1990) p266.

<sup>3</sup> Brittan (1982) p61.

<sup>4</sup> Ridley (1988) p7.

<sup>5</sup> Taken from Travis (1990) p3.

like central, government does its best to control costs".<sup>6</sup> There has been a sustained period of fiscal pressure facing local authorities from the mid-1970s to the present day. For nearly two decades central government has attempted to curb local authority spending. Local authorities, especially Labour-controlled local authorities, and trade unions have attempted to resist these spending curbs. They have argued spending cuts have been translated into cuts in services, thus denying many people of essential services.<sup>7</sup> As a result of this confrontation local authority spending has dominated relations between central and local government. Arguments over the incidence and impact of spending cuts have been central in local government circles, raising questions whether central government's rhetoric of cuts has been converted into local authority spending cuts and whether spending cuts have adversely affected local authority services.

#### AIMS OF THESIS

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<sup>6</sup> Taken from Hutton (1992) p8.

<sup>7</sup> For example, see Association Of Directors Of Social Services (1983); Association Of Directors Of Social Services (1985); Blunkett & Jackson (1987); Bundred (1986); Community Action (1975); Cook (1991) p24; Cossey (1984); Cuts Monitor (1985); Cuts Monitor (1986a); Cuts Monitor (1986b); Douglas & Payne (1983); Geldart (1994); The Guardian (1993) pp6-7; Hewton (1986); Jacobs (1979); Labour Party Research Department (1979) pp13-25; Labour Research (1988); LGIU Briefing (1993) pp1-2; London Voluntary Service Council (1980); Lunn (1990); Mobbs (1980); National Book Committee (not dated); National Confederation Of Parent-Teacher Associations (1985); National Council Of Women Of Great Britain (1985); National Steering Committee Against The Cuts (1977) pp22-34; National Union Of Teachers (1982); Personal Social Services Council (1979); Pinkham & Platt (1980); Preston (1984); Priscott (1980); Rayner & Conway (1981-2); Research Group Of The Higher Education Finance Executive (1984); and Services To Community Action And Trade Unions (1990) pp2-6.

The focus of the thesis is upon the making of spending cuts in local government. The research conducted in completing the thesis was based on an examination of how four English local authorities - Bedfordshire CC, Kent CC, Knowsley MBC and Stockport MBC - made spending cuts in the financial year of 1984/85.<sup>8</sup> The fiscal pressure facing local authorities unleashed rounds of spending cuts in local authorities. The research examines the making of spending cuts in the four local authorities. It adopts a decision approach, in that spending decisions are examined to explain why and how spending cuts were made in the local authorities.<sup>9</sup> The research focuses on the making of local authority spending cuts in one financial year, thereby allowing comparison between the four local authorities in the way they cut spending.<sup>10</sup> There are three aims of the

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<sup>8</sup> The systems of local government in Northern Ireland, Scotland and Wales is slightly different from that in England. On the making of spending cuts in local authorities in Northern Ireland, Scotland and Wales see Elcock & Jordan (1987) pp153-242; Midwinter (1984); Midwinter (1988); and Midwinter & Page (1981).

<sup>9</sup> Decisions involve choice between different courses of action (see Hogwood (1987) p79; McGrew & Wilson (1982) pp4-6; and Simon (1957a) p46). Bachrach and Baratz argued not all issues reach the decision-making agenda, and some issues not on the agenda are 'non-decisions' (see (1963); and (1970) pp39-51). They claimed when "the dominant values, the accepted rules of the game, the existing power relations among groups, and the instruments of force, singly or in combination, effectively prevent certain grievances from developing into fully-fledged issues which call for decisions, it can be said that a nondecision-making situation exists" ((1963) p641). Though this idea "seems intuitively plausible" there are considerable and perhaps insurmountable problems in researching the making of 'non-decisions' (Parry & Morriss (1974) p319). While accepting that structural forces filter issues before reaching the decision-making agenda, the research did not examine 'non-decisions' because spending cuts are outcomes of decisions made and not of decisions not made.

<sup>10</sup> This focus, however, prevents a systematic examination of the impact of spending cuts - see Hoggart (1991). A longitudinal survey of spending cuts is necessary to explore their impact, though this survey would be fraught with problems of attempting to separate the effects

thesis:

(a) On the methodological front, it seeks to understand the nature of spending cuts in local government.

(b) On the empirical front, it undertakes to widen and deepen the pool of observations about how local authorities make spending cuts, by examining the making of spending cuts in four local authorities.

(c) On the theoretical front, it intends to test existing theories of how local authorities cut spending, and to construct a new theory of how local authorities make spending cuts.

In writing about central government Heclo and Wildavsky observed:<sup>11</sup>

"... the expenditure process is an immense window into the reality of British political administration. A peek through that window reveals a fascinating glimpse of how our governors actually govern."

Similarly, the exploration of how local authorities make spending decisions reveals many insights into how local authorities make decisions. Debates about spending cuts in local government tend to be emotive. Decision-makers in local government often do not use the language of 'cuts', preferring instead the managerialistic language of 'efficiency savings'. For example, spending cuts were 'reductions' in Bedfordshire CC and Kent CC; 'lower expenditure options' in Knowsley MBC; and 'options' in Stockport MBC. Debates have become confused with managerial anodyne, polemical claims and rhetorical posturing. It is important that the thesis disentangles this methodological confusion, and understands the nature of spending cuts. The examination of spending cuts in the four local authorities will provide empirical findings that can be compared to the

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of spending cuts from the effects of other factors. Though the research did not involve a longitudinal survey, the impact of the spending cuts examined will be noted, wherever possible, throughout the thesis.

<sup>11</sup> Heclo & Wildavsky (1981) plxii.

findings of other research projects. It extends the knowledge on cutback management in local government, from which existing theoretical interpretations can be tested and new theoretical interpretations developed. In the words of Hogwood and Gunn:<sup>12</sup>

"We are all model builders, in the sense that we need to see some sort of pattern in the world around us and tend to interpret events in terms of that perceived pattern. We create 'reality' rather than simply observe it."

The empirical findings of how local authorities cut spending require interpretation and explanation. The thesis uses existing theories to make sense of how local authorities made spending cuts, and develops a new theory of cutback management in local government.<sup>13</sup> The thesis aims to provide empirical and theoretical analysis of the way local authorities make spending cuts.

### STRUCTURE OF THESIS

There are three parts to the thesis, which are further subdivided into eight chapters. Part A consists of chapters

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<sup>12</sup> Hogwood & Gunn (1984) p42. On modelling see Fiorina (1975); Hogwood & Gunn (1984) pp42-64; Kingdom (1985); and Nagel & Neef (1979) pp177-196.

<sup>13</sup> Given 'everything connects' it is important to clarify what the thesis attempts to explain. It seeks only to explain how local authorities make spending cuts. Local authorities do not operate in a vacuum, and are subject to many outside pressures, such as governmental pressures (eg central government), political pressures (eg pressure groups), economic pressures (eg national and world economy) and ideological pressures (eg ideological shifts from Keynesianism to monetarism, and from state to market provision of services). The theories examined and developed in the thesis seek to explain how local authorities made decisions to cut spending, taking into account how these wider pressures affected decision-making in local authorities. It cannot explain changes in the environment surrounding local authorities.

one, two and three. It gives background required to understand how local authorities make spending cuts. This chapter provides an introduction to the thesis. Chapter two looks at the methodological difficulties in defining, observing and measuring spending cuts in local government. Chapter three explores the pressures facing local authorities in making decisions to cut spending. This part sets the scene for the subsequent empirical and theoretical analysis of spending cuts in local government.

Part B consists of chapters four and five. It provides empirical analysis of how Bedfordshire CC, Kent CC, Knowsley MBC and Stockport MBC cut spending. Chapter four examines how the four local authorities made spending cuts in the financial year of 1984/85. Chapter five dissects one spending cut in detail, the contracting-out of school cleaning in Kent, and analyses why and how it was made.

Part C consists of chapters six, seven and eight. It offers theoretical analysis of how local authorities make spending cuts. Chapters six and seven examine the empirical findings identified in Part B within existing theoretical frameworks. Chapter six looks at the rationalist view, and chapter seven the incremental view of cutback management in local government. Chapter eight assesses the plausibility of the rationalist and incremental theories of cutback management, and puts forward a new theory of cutback management in local government.

Though the research focuses on the making of spending cuts in four local authorities in 1984/85, the empirical and theoretical analysis is still highly relevant because spending cuts remain on the local government agenda. The changes that have occurred in local government since the mid-1980s do not invalidate the empirical and theoretical

findings outlined in the thesis.<sup>14</sup> There are three areas where the thesis provides original contributions to debates on the making of spending cuts in local government. First, it outlines a distinctive methodological approach to understanding spending cuts in local government. Second, it offers new empirical observations on how four local authorities cut spending. Third, it constructs a new theory of cutback management on examining how local authorities managed cutbacks and on testing existing theories of cutback management.

#### METHODOLOGY OF RESEARCH

The thesis looks at the making of spending cuts in Bedfordshire CC, Kent CC, Knowsley MBC and Stockport MBC. This selection of local authorities allows generalisations to be made on the basis of the findings collected from the four local authorities. The local authorities were selected on the basis of satisfying the following criteria:

- (a) the ability to make comparisons between local authorities on the making of spending cuts
- (b) the need to compare local authorities under different party political control
- (c) the need to compare local authorities from different regions in England
- (d) the willingness of local authorities to grant access for research

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<sup>14</sup> The major changes in local government that have taken place include the merger of the Liberal Party and Social Democratic Party (SDP) to form the Liberal Democrats, new systems of financing and controlling local authority spending (eg replacement of domestic rates with the poll tax and later the council tax), and the merger of the Confederation of Health Service Employees (COHSE), National and Local Government Officers Association (NALGO) and National Union of Public Employees (NUPE) to form UNISON.

Bedfordshire CC and Kent CC are county councils; and Knowsley MBC and Stockport MBC are metropolitan district councils. These types of local authorities provide a similar range of services, thus facilitating meaningful comparison between them.<sup>15</sup> Bedfordshire CC was 'hung' with no majority party group in control of the local authority; Kent CC was Conservative-controlled with the Conservative Group having a clear majority of seats on the Council; Knowsley MBC was Labour-controlled with the Labour Group occupying nearly all the seats on the Council; and Stockport MBC was Conservative-controlled with the Conservative Group having only a narrow majority of seats on the Council, though by the end of 1984/85 it had lost control and the Council became 'hung'. Bedfordshire CC and Kent CC are located in the South, and Knowsley MBC and Stockport MBC are located in the North of England.<sup>16</sup> All four local authorities promised access in terms of documentation and interviews.<sup>17</sup> The four local authorities satisfied the given selection criteria.<sup>18</sup> The table below profiles the four local authorities selected for research.

Table 1.1: Profile of Bedfordshire CC, Kent CC,  
Knowsley MBC and Stockport MBC, 1984/85

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<sup>15</sup> The major exception is housing, which is a district not a county council responsibility.

<sup>16</sup> The geographical spread of the four local authorities is important given that the financial health of local authorities varies between regions (see Bennett ((1982b))).

<sup>17</sup> However, the Labour councillors of Knowsley MBC later refused to be interviewed for this research.

<sup>18</sup> Furthermore, the Institute of Public Finance undertook cluster analysis of all local authorities in England (Davies & Griffin (1986)). The four local authorities belonged to different clusters of local authorities, thus facilitating comparison between different kinds of local authorities.



	<u>Beds</u>	<u>Kent</u>	<u>Knowsley</u>	<u>Stockport</u>
<u>Population</u> ( '000, 1983)	512.9	1,486.3	170.8	288.9
<u>Area</u> ( '000 hectares)	123.5	373.1	9.7	12.6
<u>Population density</u> (population per hectare)	4.2	4.0	17.5	22.9
<u>Unemployed persons</u> (% of working population)	7.3	7.6	22.6	8.0
<u>Persons under 20</u> (% of population)	31	28	33	28
<u>Persons over 75</u> (% of population)	5	7	4	6
<u>Owner-occupied dwellings</u> (% of dwellings)	65	n/a	31	75
<u>Council-owned dwellings</u> (% of dwellings)	23	n/a	65	18
<u>Total Expenditure</u> (£m)	192.8	475.3	71.0	90.0
<u>Grant-Related Expenditure</u> (£m)	187.5	506.4	66.2	90.8
<u>Expenditure Target</u> (£m)	189.0	470.2	69.0	90.0
<u>Block Grant</u> (£m)	60.1	219.2	37.7	38.8
<u>Rate-borne expenditure</u> (£m)	126.2	258.8	32.2	49.3
<u>Staff employed</u> ( '000, full-time)	11.1	28.7	5.8	6.8

Source: Audit Commission For Local Authorities In England And Wales (1984b); Audit Commission For Local Authorities In England And Wales (1984c); Audit Commission For Local Authorities In England And Wales (1984d); Audit Commission For Local Authorities In England And Wales (1984e); and Bedfordshire CC's Annual Report And Statement Of Accounts 1984-1985

A variety of methodologies were deployed in conducting research for the thesis. They involved both the analysis of primary and secondary data, and of quantitative and qualitative data. Primary data were collected by interview, telephone conversations, letters, questionnaire and perusal of local authority documentation. Over 140 interviews were conducted as part of the research.<sup>19</sup> The interviews were open-ended, and not structured around the same set of questions for each interviewee. Secondary data were collected by an extensive literature survey.<sup>20</sup> The literature surveyed was vast, mainly because the thesis impinges on areas upon which vast amounts have been written, such as public expenditure, central-local government relations, local government finance, local government spending, contracting-out, budgeting, cutback management, decision-making and policy analysis. For the thesis to make a contribution to understanding how local authorities make spending cuts, it is necessary to read existing literature to see what others have written and to link in with existing debates. The data collected for the research were analysed quantitatively and qualitatively. The quantitative analysis of data involved primarily examining spending figures collected by the four local authorities and other bodies (eg Chartered Institute of Public Finance and Accountancy, the Treasury and Department of the Environment). The qualitative analysis of data

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<sup>19</sup> See appendix A.

<sup>20</sup> See bibliography.

involved mainly interviews and a literature survey, which were undertaken to interpret the data collected and to construct explanations of how local authorities cut spending.

The research methodology and subsequent analysis of data were complicated by the problematical relationship between fact and theory. This relationship has forever troubled researchers in the social sciences.<sup>21</sup> It begs the question whether facts precede theory, or whether theory determines facts. Many studies of local authority spending adopted the bottom-up approach, by observing what happened in local authorities and then constructing a general theory to explain what happened.<sup>22</sup> This common approach has been attacked because it assumes there are 'facts' out there to be collected, measured and observed. In the words of Saunders:<sup>23</sup>

"It is now generally agreed that knowledge cannot be the product of unmediated experience through the senses, but that the way in which we come to 'see' the world is in some way dependent upon the theoretical assumptions and conceptual frameworks that we apply to it.... If observation is theory-dependent, then resort to empirical evidence to arbitrate between competing theoretical explanations is clearly problematic.... The point is not simply that theory determines where we look, but that it to some extent governs what we find."

This criticism has given licence to several writers to construct theory without any serious attempt to test it through empirical observation. These top-down accounts have started explicitly from a theoretical position, and shaped their empirical findings around its theoretical

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<sup>21</sup> See Lukes (1981).

<sup>22</sup> For example, see Elcock & Jordan (1987); and Elcock, Jordan & Midwinter (1989).

<sup>23</sup> Saunders (1986b) pp352-353.

requirements.<sup>24</sup> The observed findings are the product of a generalised theory, rather than the theory constructed in light of observed findings. This top-down approach is flawed because it treats theory as axiomatic truth. Dunleavy captured this dilemma when he wrote:<sup>25</sup>

"The options available to urban researchers on the fundamental explanatory units in their analysis are the set of general methodological positions on a continuum whose extremes are marked by pure methodological individualism, on the one hand, and by sociological holism on the other."

The research on the making of spending cuts in four local authorities takes a dualistic methodological approach, in that empirical findings are observed and interpreted to construct theory but are also reinterpreted within existing theoretical frameworks. Though this approach cannot remove the methodological dilemma facing all social scientists, it recognises at least the pros and cons of the bottom-up and top-down approaches by embracing 'methodological pluralism'.<sup>26</sup>

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<sup>24</sup> For example, see Cockburn (1977).

<sup>25</sup> Dunleavy (1980) p25.

<sup>26</sup> See Rhodes (1991a) pp551-552.

CHAPTER TWO

THE ANATOMY OF SPENDING CUTS IN LOCAL GOVERNMENT

Spending cuts have been firmly established on the agenda of local government since the mid-1970s. The New Right have consistently sought cuts in local government, believing local government to be both wasteful of public money and damaging to economic growth. The Left, particularly the New Urban Left, have vehemently criticised this position as an ideological attack on local government, and have paraded the damaging consequences of spending cuts in local government. Both sides have placed spending cuts at the forefront of debates on local government.<sup>1</sup> However, this chapter shows that these debates are largely confused and even misleading, not least because each side is not interested in an empirical assessment of the record of local government spending but only in finding ideological ammunition to attack the other side. Even academics have been tainted by these highly partisan and polarised debates, and much of their work on local government spending has not been rooted in empirical analysis. The aim of this chapter is to explore the methodological problems in defining and measuring local government spending. First, this chapter assesses the manner in which the debates on local government spending have been misunderstood. Second, it examines the many ways in which local government spending can be defined and measured. Finally, the chapter outlines the anatomy of spending cuts in local government, which is necessary to understand fully the making of spending cuts in local government.

#### MISUNDERSTANDING LOCAL GOVERNMENT SPENDING

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<sup>1</sup> See Boddy & Fudge (1984); Butcher, Law, Leach & Mullard (1990); Gyford (1985); Holliday (1991a); King (1989); Lansley, Goss & Wolmar (1989); Manton (1993); Newton & Karran (1985); Page (1990); Seyd (1987) pp141-158; and Stoker (1988) pp151-214.

Spending has often been at the heart of conflicts between central government and local government irrespective of what party was in power nationally and locally.<sup>2</sup> Indeed, Stevenson noted that the ongoing battles between the present Conservative Government and local authorities "are very similar to those between the wars."<sup>3</sup> From Poplar in the 1920s to Clay Cross in the 1970s there have been many important battlegrounds where central government has fought with local authorities over spending.<sup>4</sup>

Over the last two decades conflicts over spending have become particularly pronounced and entrenched in relations between central and local government. Since the late 1960s, following sterling and oil crises, successive Conservative and Labour Governments have attempted to control and curb the level of public expenditure.<sup>5</sup> This pressure to reduce public expenditure was quickly translated into pressure to reduce local government spending.<sup>6</sup> In the 1970s central government, through ministerial speeches and government circulars, urged local authorities to curb their spending; and later it co-opted local government representatives into

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<sup>2</sup> See Ashford (1980a); Heclo & Wildavsky (1981) pp232-233; Hepworth (1976) p1; Jackman (1985); Robson (1933); Robson (1968); Stevenson (1984); and Travers (1986b).

<sup>3</sup> Stevenson (1984) p219.

<sup>4</sup> See Branson (1979); and Mitchell (1974).

<sup>5</sup> See Pliatzky (1982) pp98-175.

<sup>6</sup> See Benington & Stoker (1989) p115; Brittan (1982); Butcher, Law, Leach & Mullard (1990) pp55-77; Donnison (1983) p4; The Economist (1979a); Greenwood (1981); Greenwood (1982a); Greenwood (1982b); Greenwood, Hinings, Ranson & Walsh (1980) pp32-36; Heald, Bailey, Jackman, Midwinter, Page & King (1981); Heclo & Wildavsky (1981) pp232-233; Hepworth (1976); Jackman (1979); Jones & Stewart (1982b); Jones & Stewart (1984); Kingdom (1991) pp172-193; Meadows (1985); Midwinter & Page (1981); O'Higgins (1983) p163; Riddell (1983) p127; Short (1984) pp92-95; Stoker (1991) pp161-178; Travers (1984a); Travers (1985b); Travers (1986b) pp80-81; and Turner (1984).

its decision-making processes in the hope that local authorities would restrain their spending. The Labour Government established the Consultative Council on Local Government Finance in 1975, which was set up to promote consultation and cooperation between central and local government on common economic and financial matters.<sup>7</sup> However, by the 1980s central government had firmly abandoned this strategy of persuading local authorities to cut spending, and instead attempted to impose spending cuts upon local authorities.<sup>8</sup> Though the 1980s saw a concerted attempt by the Thatcher Government to cut local authority spending by diktat rather than by exhortation, there were signs in the 1970s that the Callaghan Government was unable

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<sup>7</sup> See Chandler (1991) pp66-68; Chartered Institute Of Public Finance And Accountancy (1984c) pp50-52; The Economist (1976); Goldsmith & Newton (1983) pp220-221; Greenwood (1982a) pp253-254; HM Treasury (1976) p12; HM Treasury (1978) pp7-8; Jones (1990/91) pp199-200; Rhodes (1986a); Rhodes (1988) pp378-379; Taylor (1979); and Wright (1977) pp162-165.

<sup>8</sup> See Association Of London Authorities (not dated); Blunkett & Jackson (1987); Boddy (1984); Bulpitt (1983) pp200-233; Burgess & Travers (1980); Butcher, Law, Leach & Mullard (1990) pp55-77; Byrne (1990) pp215-282; Chandler (1991) pp57-112; Community Action (1984a); Cook (1993) pp10-12; Davies (1987a); Dawson (1983); Duncan & Goodwin (1988); Dunleavy & Rhodes (1986); The Economist (1980); The Economist (1983); The Economist (1989); Flynn (1990) pp43-46; Gibson, Game & Stewart (1982); Gilmour (1992) pp212-220; Goldsmith & Newton (1983); Greenwood (1981); Greenwood (1982a); Greenwood (1982b); Gurr & King (1987) pp150-184; Hampton (1991) pp93-113, 173-189; Horton (1990); Howells (1982-3); Jackman (1984) pp96-106; John (1990); Jones (1988); Jones (1990/91) pp193-199; Jones & Stewart (1983c); Jones & Stewart (1985); Jones, Stewart & Travers (1983); Kingdom (1991) pp172-193, 228-242; Kirwan (1984); Leach & Stoker (1988) pp99-104; Lee (1987) pp44-61; Letwin (1992) pp159-198; Livesey (1987); Loughlin (1986) pp19-62; Lowndes (1993) pp140-145; Marsh & Rhodes (1992a) pp43-47; Meadows (1985); Meadows (1987); Midwinter (1984); Midwinter & Page (1981); Newton & Karran (1985) pp114-129; Page (1986); Parkinson (1988a); Rhodes (1984); Rhodes (1985a); Rhodes (1988); Rhodes (1991b); Rhodes (1992a); Rhodes (1992b); Rhodes (1992c); Self (1982); Short (1984) pp92-95; Stallworthy (1989); Stewart (1987); Stoker (1988) pp153-172; Stoker (1990); Stoker (1991) pp161-204; Travers (1983a); Travers (1986b) pp79-191; and Travers (1987d).



to rely on local government to make sufficient spending cuts. In 1976 the Labour Government applied cash limits to much of their spending programmes as a way of securing public expenditure cuts, and these cash limits were eventually extended to cover the aggregate level of grant given to local authorities.<sup>9</sup>

After the general election of May 1979 the incoming Conservative Government, armed with its ideological commitment to roll back the frontiers of the state and its monetarist baggage of economic policies, intensified the pressure upon local authorities to reduce their spending.<sup>10</sup> The Government changed the grant system to penalise local authorities which exceeded their spending targets; it controlled tightly local authority capital spending; it outlawed the levying of supplementary rates; it established the Audit Commission for Local Authorities in England and Wales to monitor local authority spending; it rate-capped selected local authorities; it abolished the Greater London Council and the six Metropolitan County Councils in part to curb so-called 'overspending' in local government; it introduced and later extended compulsory competitive tendering to force down local authority costs in providing services; it determined teachers' pay; it controlled the level of business rates which were formerly set by local authorities; it replaced domestic rates with the community charge to impose downward pressures upon local government spending, and retained extensive capping powers to prevent

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<sup>9</sup> See Bevan (1980); Bramley & Stewart (1981) pp51-55; Bush (1982) p6; Else & Marshall (1981) pp254-256; Greenwood (1982a) p257; Hall (1983) pp49-54; Harrison & Smith (1978) pp42-44; Heald (1983) pp193-195; Healey (1990) p401; Hepworth (1980) pp8-13; Hepworth (1984) pp28-30; Likierman (1983); Likierman (1988) pp74-84; Pliatzky (1982) pp138-139, 143-147, 174-175; Pliatzky (1989) pp51-63; Thain & Wright (1988) pp7-14; Thain & Wright (1990) p2; Thain & Wright (1992b) pp198-204; Ward (1983); Wright (1977) pp157-160; Wright (1980a) pp101-103; and Wright (1982) pp33-38.

<sup>10</sup> See Conservative Party (1979).

local authorities from 'overspending'; it 'ring-fenced' the housing revenue accounts of local authorities; and finally it replaced the community charge with the council tax, still retaining capping powers and introducing new banding controls.<sup>11</sup> As a result of these measures and the subsequent responses of local authorities, spending cuts in local government occupied a central place in the conflicts between central and local government. Expenditure cuts in local government are of widespread concern to those who want to impose such cuts upon local authorities, eg the New Right, the Treasury, the Department of the Environment, and many of those who pay taxes towards the upkeep of local government; those who want to resist making cuts, eg the New Urban Left, many local authorities, trade unions and professionals engaged in providing local authority services, and consumers of these services; and those who simply want to understand what is happening, eg academics.

#### The context of public expenditure

It has often been stated that local government is 'big business'.<sup>12</sup> In 1988 Likierman observed that local authorities "are responsible for about a quarter of total public expenditure, representing about 10 per cent of

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<sup>11</sup> These measures were introduced by the Local Government, Planning And Land Act 1980; Local Government Finance Act 1982; Rates Act 1984; Local Government Act 1985; Teachers' Pay and Conditions Act 1987; Local Government Act 1988; Local Government Finance Act 1988; Local Government and Housing Act 1989; and Local Government Finance Act 1992.

<sup>12</sup> This description has been used in two ways - first, to argue that local government spends a lot of money (see Byrne (1990) p215; Kingdom (1991) p1; Ridley (1988) p16; and Sandford (1984) p242); and second, to see local government as the local state serving the interests of capital (see Benington (1976)).

national income."<sup>13</sup> Two years later, Byrne noted:<sup>14</sup>

"Councils spend nearly £60,000 million a year (over £1,000 per person). This amounts to 30 per cent of all state spending and about one eighth of the National Income (GNP)."

The observations made by Likierman and Byrne, and others could have been added, are striking if compared - either local government has spent much more between 1988 and 1990, or they are not observing the same kind of local authority spending. As will be shown later, it is likely they are not measuring local government spending in the same way, though it cannot be ascertained because they, like many other writers, do not state how they have measured this spending. Nonetheless, what is also striking is that spending by local authorities, however measured, constitutes a very significant proportion of public expenditure.

Governments have always attempted to control public expenditure in order to manage the economy.<sup>15</sup> Public expenditure is a central tool in the political management of the economy. Even before the International Monetary Fund attached public expenditure cuts as a condition to its loan negotiated at the end of 1976 the Labour Government was committed to reducing public expenditure.<sup>16</sup> These cuts made by the Labour Government demonstrate that public expenditure cuts "are not the historical prerogative of

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<sup>13</sup> Likierman (1988) p114.

<sup>14</sup> Byrne (1990) p215.

<sup>15</sup> See Ashford (1981) pp97-135; Edgell & Duke (1983) pp358-360; Grant (1993) pp43-95; Heald (1983); Heclo & Wildavsky (1981); Hogwood (1992) p33; Jackson (1982a); Jordan & Richardson (1987) pp203-232; Klein (1976); Likierman (1988); Mullard (1987); Mullard (1993); Pliatzky (1982); and Pliatzky (1985).

<sup>16</sup> See Benn (1989); Community Action (1975); Donoughue (1987) pp62-63; Healey (1990) pp400-402, 429-433; Ludlam (1992) pp716-720; Pliatzky (1982) pp122-175; and Starie (1992).

Conservative governments."<sup>17</sup> By 1979 the newly elected Conservative Government continued this attack on public expenditure when it stated:<sup>18</sup>

"Public expenditure is at the heart of Britain's economic difficulties.... The Government's economic strategy must be to stabilise public spending for the time being. Unless this is done there can be no possibility of lower taxes, lower borrowing or lower interest rates."

From the 1970s onwards there has been a widespread perception that public expenditure has contributed to Britain's economic decline.<sup>19</sup> This perception was shared by both Conservative and Labour politicians, top civil servants (especially in the Treasury), 'think-tanks' such as the Institute of Economic Affairs, the International Monetary Fund, and many academics. The reasons for this deeply entrenched belief amongst the political elite managing the British economy were varied, ranging from the political expedients of the Labour Government in the 1970s to the ideological mission of the Conservative Government in the early 1980s. Whatever line of argument was used the outcome was essentially the same - governments needed to control and reduce public expenditure as part of the wider project to renew the British economy.

As a result of this preoccupation much has been written on whether governments have controlled public expenditure, whether governments have cut public expenditure, and whether public expenditure has changed the state of the economy. There is now a literary maze on public

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<sup>17</sup> Edgell & Duke (1983) p358.

<sup>18</sup> HM Treasury (1979) p1. See also Conservative Central Office (1976) pp24-27; Conservative Party (1979); and Lawson (1992) pp36-38.

<sup>19</sup> See Gamble (1990); Jackson (1980); Midwinter (1992); and Pollitt (1981).

expenditure.<sup>20</sup> There is a bombardment of models and theories of public expenditure in this country, on both public expenditure growth and public expenditure cuts.<sup>21</sup> Many competing and conflicting positions have been put forward within this bewildering array of literature on public expenditure. This maze of literature is best examined on two fronts - the prescriptive and the descriptive.

On the prescriptive front there is a heated debate on the desired level of public spending, which peaked in the mid-1980s as the Conservative Government drastically diluted its commitment to monetarism.<sup>22</sup> Margaret Thatcher, the former Prime Minister, noted that in the early 1980s the "most bitter Cabinet arguments were over public spending."<sup>23</sup> There are arguments for both attacking and defending government spending. In attack, the New Right hold liberalism and monetarism as ideological baggage in one hand, and point to the utopia of a free society unfettered by government with the other hand.<sup>24</sup> In defence,

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<sup>20</sup> In contrast, Klein claimed in 1976 that public expenditure "has been massively neglected by political scientists" ((1976) p401).

<sup>21</sup> This bombardment has not been confined to Britain, and can be traced in almost every industrialised country. See Alt & Chrystal (1983); Peters (1989) pp16-38, 218-249; Rose (1984); and Saunders (1985).

<sup>22</sup> See Dunn & Smith (1990); Grant (1993) pp50-56; Jackson (1992); Keegan (1984a); Thain (1985); and Whiteley (1990).

<sup>23</sup> Thatcher (1993) p123. See also Keegan (1984b) pp189-190.

<sup>24</sup> See Adam Smith Institute (1982); Bacon & Eltis (1976); Bow Group Economic Affairs Standing Committee (1976); Burton (1985); Confederation Of British Industry (1981); Conservative Central Office (1976); Conservative Party (1979); Conservative Party (1983); Conservative Party (1987b); Conservative Party (1992); Eltis (1980); Friedman (1976); Friedman & Friedman (1980); Green (1987); Harris & Seldon (1979); Hayek (1960); Horam (1986); Institute Of

there is a disparate and somewhat 'unholy' alliance nominally led by the Left holding on to the post-war legacy of Keynesian economics and the welfare state, and dreaming of a society run by a caring, enabling and interventionist government.<sup>25</sup> On the descriptive front, there are two recurring but contradictory themes running through the jungle of literature on public expenditure. First, there has been much written on public expenditure growth.<sup>26</sup> And second, there has also been much written on public expenditure cuts.<sup>27</sup> This literature contains enough

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Economic Affairs (1976); Institute Of Economic Affairs (1979); Joseph (1975); Minford (1984); Ridley (1992); Scruton (1984); Seldon (1980); Selsdon Group (1980); and Thatcher (1993).

<sup>25</sup> See Benn (1992); Blake & Ormerod (1980); Bosanquet (1983); George & Wilding (1984); Foot (1984); Hattersley (1987); Heald (1983); Heseltine (1987); Holland & Ormerod (1979); Kinnock (1986); Labour Party (1983); Labour Party (1987); Labour Party (1992); Lansman & Meale (1983); Liberal Democrats (1992); National Steering Committee Against The Cuts (1977); Owen & Steel (1987); Pym (1985); SDP-Liberal Alliance (1983); SDP-Liberal Alliance (1987); and Whitfield (1992).

<sup>26</sup> See Bacon & Eltis (1976); Birch (1984); Burton (1985); Confederation Of British Industry (1981); Confederation Of British Industry (1984); Congdon (1985); Conservative Party (1979); Dahrendorf (1980); The Economist (1979b); Else & Marshall (1979); Flynn (1990) pp24-35; Habermas (1976); Hamilton (1984); Heald (1983) pp22-32; Hogwood (1992) pp33-60; Horam (1986); Institute Of Economic Affairs (1976); Jordan & Richardson (1987) pp203-232; King (1975); Klein (1976); Levitt & Joyce (1987a); Levitt & Joyce (1987b); Likierman (1988) pp1-23; Midwinter (1992); Mullard (1987) pp35-68; O'Connor (1973); Offe (1984); Peacock & Wiseman (1967); Ridley (1992) pp83-85; Rose (1984); Rose (1985); Sandford (1984) pp45-78; Travers (1987c); Tullock (1979); Wildavsky (1985); and Wright (1977).

<sup>27</sup> See Abel-Smith (1980); Ashford (1981) pp97-135; Bull & Wilding (1983); Community Action (1975); Edgell & Duke (1991); Glennerster (1977); Gough (1979); Gough (1980); Hall (1983); Hall & Jacques (1983); Harrison (1985); Hood & Wright (1981b); Jackson (1980); Labour Party (1983); Labour Party (1992); Labour Party Research Department (1979); Leonard (1979); Liberal Democrats (1992); London Edinburgh Weekend Return Group (1980); McDonnell (1978);

argument and evidence to support every conceivable standpoint on public expenditure - whether it should be falling or rising, and whether it is falling or rising.

Given this variety of views held by writers on public expenditure it is not surprising that much of the debate is confused and confusing. There are three main reasons why the debate is muddled - first, there is a problem of perception; second, a problem of aggregation; and third, a problem of methodology. These problems will be briefly discussed to obtain a clearer picture of what happened with public expenditure.

First, the problem of perception is that what many people believe to have happened does not correspond to what actually has happened with public expenditure. In the words of Rose:<sup>28</sup>

"The disparity between the pattern of actual increases in public expenditure and increased discussion of 'cuts' in public expenditure is great. It is necessary to recognise that there is today a fundamental disjunction between the practice of political expenditure and the psychology of public expenditure. In other words, the perception of public expenditure by many within as well outside government is a misperception. What people see and what is to be seen by examining the record are two different things."

A vivid illustration of how public expenditure has been misperceived, which has plagued election campaigns during the 1980s and 1990s, lies in the social services. In spite of its rhetoric of cuts the Conservative Government has increased its spending on the social services in both cash

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National Steering Committee Against The Cuts (1977); Poverty (1976); SDP-Liberal Alliance (1983); SDP-Liberal Alliance (1987); Walker (1982); Walker, Ormerod & Whitty (1979); Whitfield (1992); and Wright (1980c).

<sup>28</sup> Rose (1980) p9. See also Bramley & Stewart (1981).

and real terms.<sup>29</sup> However, many people believe that central and local government have cut the amount spent on the National Health Service and personal social services. Despite the record of increased spending there still remains a widespread misperception of how much is spent on the social services. In the 1980s the Labour Party lamented the "damage done to our social services", and the SDP-Liberal Alliance deplored the "savage cuts in the social services" and believed that "people are seeing their services cut".<sup>30</sup> An attitude survey revealed that nearly 90 per cent of respondents believed that spending cuts had been made in the National Health Service, and nearly 50 per cent believed cuts had been made in the personal social services.<sup>31</sup> It is likely that the "adverse publicity and the oft-repeated use of the word 'cuts' more or less convinced the public that these had indeed taken place."<sup>32</sup> These widespread beliefs do not correspond with the reality of government spending on the social services, and thus constitute a misperception of public expenditure.

A topical illustration of how public expenditure is misperceived concerns the record of public expenditure itself. There was a highly partisan debate in the 1980s over public expenditure cuts.<sup>33</sup> From 1979 onwards the Conservative Government promised to deliver extensive cuts

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<sup>29</sup> See HM Treasury (1985); and HM Treasury (1987a).

<sup>30</sup> Labour Party (1983) p6; SDP-Liberal Alliance (1983) p17; and SDP-Liberal Alliance (1987) p10.

<sup>31</sup> Taken from Edgell & Duke (1986) pp233-234.

<sup>32</sup> Ridley (1992) p83.

<sup>33</sup> This debate still continues in the 1990s. but is conducted more in terms of restraint than cuts. The Chief Secretary to the Treasury noted recently that the Conservative Government "must be robust in constraining public spending" though "reversing trends in public spending will take some years", and that it "cannot rule out revenue-raising measures" to reduce government borrowing (Portillo (1993) p14).



in public expenditure as part of its wider economic strategy. These promised cuts were widely attacked from all sides - the Labour Party, local authorities, professionals working in the public sector, public sector trade unions, various groups representing client interests, and even parts of industry such as the construction industry. The debate was largely based on a misperception of public expenditure. Table 2.1 below, based on widely used Treasury figures, outlines the record of public expenditure during this period of heated debate.

Table 2.1: Public Expenditure in Britain, 1974/75 - 1984/85

	<u>1974/75</u>	<u>1976/77</u>	<u>1978/79</u>	<u>1980/81</u>	<u>1982/83</u>	<u>1984/85</u>
Cash (£b) *	42.8	59.4	74.6	108.3	132.6	150.0
Real (£b) **	144.6	141.4	140.7	147.4	153.1	159.0
Share of GDP (%)	48	46	43	46	47	46

\* General government expenditure

\*\* Adjusted to 1985/86 prices

Source: HM Treasury (1987b)

This table shows that public expenditure had increased in both cash and real terms in the ten years between 1974/75 to 1984/85. This increase occurred despite the Conservative Government's commitment to reduce public expenditure. Indeed, public expenditure when measured in real terms fell only during the Labour Government from the mid-1970s to the late 1970s, despite the ideological commitment of the Thatcher Government to cut public expenditure in the 1980s. Since 1979 public expenditure has not fallen in the way

that the Conservative Government had hoped.<sup>34</sup> Writing on the Government's now deceased Medium Term Financial Strategy, Thain argued that the "Treasury's most conspicuous failure during the 1980-84 period was the non-implementation of the strategy's public expenditure plans."<sup>35</sup> As a result of the failure to deliver public expenditure cuts, ministers talked about cuts in planned spending and cuts in planned spending increases in order to save face. In 1986 Nigel Lawson, the then Chancellor of the Exchequer, announced to the House of Commons:<sup>36</sup>

"Public expenditure increased in real terms by about 3 per cent a year...over the 10 years before 1978-79.... During the first Parliament under this Government, we reduced that increase to 2½ per cent a year. During this Parliament we have reduced it further to 1½ per cent a year so far. Over the three years to come, we plan to reduce it further to 1 per cent a year."

During the early 1980s there was a gross misperception of public expenditure. The Government's plans to cut public expenditure never materialised, and consequently the debate became misperceived and largely rhetorical. A general examination of the public expenditure record of the Conservative Government shatters the widely held belief that there were public expenditure cuts. This misperception of public expenditure has been described as the 'Big Lie' by Auberon Waugh in his weekly outpourings. He pointed out:<sup>37</sup>

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<sup>34</sup> See Flynn (1990) pp24-35; Johnson (1991) pp76-106; Kavanagh (1990) pp227-229; Lawson (1992) pp36-38; Midwinter (1992); O'Higgins (1983); Pliatzky (1982) pp181-191; Pliatzky (1989) p29; Riddell (1983) pp111-112; Ridley (1992) pp83-86; Short (1984) pp84-86; Thain (1985) pp279-281; and Travers (1987c).

<sup>35</sup> Thain (1985) p279.

<sup>36</sup> Taken from Economic Progress Report (1986b) p3. He later claimed that the "very low growth in public spending in real terms demonstrates that this was a time of genuine public spending restraint" ((1992) p730). See also Congdon (1987); and Thain & Wright (1988) pp3-4.

<sup>37</sup> Waugh (1986) p8. See also Congdon (1985).

"Nobody wants to know the great central truth of our time, that there have been no government cuts, and the English voter can go on voting for them until he is blue in the face, but he is never going to get any."

The Conservative Government promised public expenditure cuts, and in anticipation many attacked the Government for making cuts. In the words of Jordan and Richardson:<sup>38</sup>

"... the government had managed to devise a remarkable 'no win' position for itself. It trumpeted cuts while delivering increases - managing both to frighten client groups and antagonize those who sought real reductions."

Since the mid-1980s the Government has given up on delivering public expenditure cuts, and is now pursuing the less ambitious aim of controlling rather than reducing the overall level of public expenditure.<sup>39</sup> Furthermore, it is now not embarrassed to acclaim the increases in public spending. In the contentious debate on the funding of the National Health Service, the Government has claimed rightly that it "has increased spending on the NHS", and "has vastly increased the resources available to the NHS."<sup>40</sup>

Second, the problem of aggregation refers to the dangers of analysing public expenditure as a whole. Public expenditure includes monies spent by many different government bodies on many different programmes. It is an aggregated total. As Rose warned:<sup>41</sup>

"To measure the totality of government by one undifferentiated observation reduces everything to a denominator so common that it tells us nothing in particular."

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<sup>38</sup> Jordan & Richardson (1987) p227. See also Riddell (1983) pp111-112; and Ridley (1992) pp83-85.

<sup>39</sup> See Conservative Party (1992) p6; Johnson (1991) p105; and Portillo (1993).

<sup>40</sup> Conservative Party (1987a) p12; and Conservative Party (1992) p27.

<sup>41</sup> Rose (1984) p5.

In analysing the trends of public expenditure it is vital that analysis takes place at both the aggregated and disaggregated level.<sup>42</sup> Analysis of only the whole masks changes to its parts. For example, though public expenditure increased during the 1980s there were significant changes to the programmes which made up the total of public expenditure. The amount spent on housing has been cut significantly, but this cut cannot be detected from observing the aggregate of public expenditure because it has been offset by increased spending on other programme areas (most notably social security, social services, and law and order).<sup>43</sup> This problem of aggregation helps explain why the debate on public expenditure contains seemingly contradictory positions. Those who look at the aggregate of public expenditure can point to its growth; but those who look at the disaggregates of public expenditure can see both growth and cuts depending where they look. The problem of aggregation reinforces the problem of perception.

Third, the problem of methodology, which aggravates the problem of perception, comes about because there is no agreed definition of public expenditure. There are many different definitions of public expenditure.<sup>44</sup> Mullard noted that public expenditure is "a contestable concept".<sup>45</sup>

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<sup>42</sup> See Glennerster (1980b); Hogwood (1992) pp33-60; Hood & Wright (1981b); Klein (1976) pp423-432; Mullard (1987); Mullard (1993) pp13-20; O'Higgins (1983); Rose (1984); Rose (1985); and Walker (1982).

<sup>43</sup> See Congdon (1985); Economic Progress Report (1990) pp1-3; HM Treasury (1987a) p21; Hogwood (1992) pp44-58; Johnson (1991) pp76-106; O'Higgins (1983); Riddell (1983) pp111-115; and Short (1984) pp86-88.

<sup>44</sup> See Economic Briefing (1991) p4; Heald (1983) pp12-18; Healey (1990) pp401-402; Hogwood (1992) pp34-37; Lawson (1992) p295; Likierman (1988) pp5-16; and Pliatzky (1982) pp161-168.

<sup>45</sup> Mullard (1987) p2. See also Rose (1980) p3; and Wright (1977) p145.

Pliatzky argued:<sup>46</sup>

"... different definitions of public expenditure have been used over the years and that the choice of definition is anything but an academic question. It determines what comes within the government's expenditure limits, and...how time after time Ministers and Departments have fought to get round the limits by arguing that particular items should not count as public expenditure...."

The annual public expenditure round is a highly politicised exercise where resources are allocated between government departments.<sup>47</sup> Denis Healey, the former Labour Chancellor of the Exchequer, noted:<sup>48</sup>

"I could find it in me to forgive the Treasury for the inaccuracy of its forecasts, since none of the outside organisations did any better. But I cannot forgive it, or those politicians who preceded me as Chancellor, for misleading the Government, the country and the world for so many years about the true state of public spending in Britain. Indeed I suspect that Treasury officials were content to overstate public spending in order to put pressure on governments which were reluctant to cut it. Government departments are liable to present the facts so as to favour their institutional interests in the Whitehall jungle...."

Definitions of public expenditure are critical in determining public expenditure decisions. The present Conservative Government treats monies raised from its privatisation schemes as negative expenditure, thus giving the appearance of reducing public expenditure and thereby helping to achieve a major aim of government policy.<sup>49</sup> Until recently governments included locally-financed expenditure in their public expenditure 'planning totals', which according to Jones, "created an illusion that the

<sup>46</sup> Pliatzky (1982) p161.

<sup>47</sup> See Grant (1993) pp79-95; Heclo & Wildavsky (1981); Hogwood (1987) pp129-155; and Jordan & Richardson (1987) pp203-232.

<sup>48</sup> Healey (1990) p402.

<sup>49</sup> See Heald (1991) pp77-80; and Hogwood (1992) p35.

centre was in control, and should be in control, of this expenditure" and consequently confrontation between central and local government was "intensified".<sup>50</sup> These two examples illustrate that there are significant policy implications of whatever definition of public expenditure is used. Heald stated it "is easy to deride definitional debates as being tantamount to counting the number of angels which can dance upon a pinhead", but public expenditure definitions "have exerted a major influence upon both decision processes and substantive outcomes".<sup>51</sup>

The problem of methodology is further compounded by the different ways that can be used to measure public expenditure, however defined.<sup>52</sup> Public expenditure can be measured in monetary terms - either cash terms or real terms where inflation is discounted. It can be measured also as a relationship with another variable such as gross domestic product.<sup>53</sup> Notwithstanding these problems of defining and measuring public expenditure there is the problem of collecting the relevant data on public expenditure. Harrison wrote:<sup>54</sup>

"The record of the Conservative Government from 1979 onwards is inconveniently scattered among a host of official papers, many of them - particularly those concerning local government

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<sup>50</sup> Jones (1987) p69. See also Heald (1991) pp80-90; and Hogwood (1992) p35. In 1988 the Conservative Government announced that locally-financed expenditure was to be removed from the public expenditure 'planning total'. See HM Treasury (1988); Lawson (1992) p297; Pliatzky (1989) pp65-71; and Thain & Wright (1990) p11.

<sup>51</sup> Heald (1991) pp75, 90.

<sup>52</sup> See Edgell & Duke (1986) p235; Edgell & Duke (1991) p124; Hogwood (1992) pp37-38; Jordan & Richardson (1987) p223; and Rose (1980).

<sup>53</sup> See table 2.1.

<sup>54</sup> Harrison (1989) p278. On the public expenditure plans of the Labour Government in the 1970s see Hughes (1978).

finance - either incomprehensible or, where apparently comprehensible, misleading."

The most widely used source of data on public expenditure were the annual White Papers on public expenditure produced by the Treasury until the end of the 1980s. However, these White Papers do not assist analysis because public expenditure definitions changed which "makes comparison ... over time almost impossible".<sup>55</sup> In their exhaustive study of public expenditure Thain and Wright argued that because of these methodological obstacles "an objective assessment of what has happened over time to the total of public spending" is "increasingly difficult to make."<sup>56</sup>

There is a significant problem of methodology in defining and measuring public expenditure. There is an armoury of different definitions of public expenditure and different ways of measuring public expenditure. It is not surprising that many writers have different perceptions of public expenditure. Generally those who advocate public expenditure cuts are those who have charted the rising tide of public expenditure, and those who argue for increased public spending are those who have traced cuts in public expenditure. Each observed trend reinforces the prescribed remedy on public expenditure, and each prescribed remedy determines the observed trend of public expenditure. It is important to know who is measuring public expenditure, and why, in order to understand fully the picture of public expenditure. Following Mullard:<sup>57</sup>

"The concept of public expenditure is problematic because, the concept itself is a contestable terrain, representing political positions, where definers are seeking to gain legitimacy for a specific entrenched interest."

Jessop, Bonnett, Bromley and Ling are wrong when they wrote

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<sup>55</sup> Thain & Wright (1990) p11.

<sup>56</sup> Thain & Wright (1990) p10.

<sup>57</sup> Mullard (1987) pp1-2. See also Mullard (1993) p12.

it "is easy to measure votes and opinions, spending and taxation, numbers of civil servants...."<sup>58</sup> Precisely because there are different ways of defining and measuring public expenditure, and significant problems in collecting and interpreting public expenditure figures, it is very difficult to measure public expenditure.

The problems of perception, aggregation and methodology pervade much of the literature on public expenditure, and explain why much of the debate is confused and confusing. It is now possible to focus more specifically on the debate on local government spending, which too is haunted by these same problems.

### The jungle of local government spending

The arguments raging over public expenditure are mirrored over local government spending. These arguments constitute a theoretical and empirical jungle. It is a theoretical jungle because there are a plethora of theoretical positions formulated to explain the trends of local government spending. It is an empirical jungle because the multitude of empirical studies of local government spending have produced a confusing variety of observations.

On the theoretical front the debates focus on the desired and actual levels of local government spending. The prescriptive debates centre on the desired level of local government spending. On one side some advocate that local government spending is too high and should be cut.<sup>59</sup> This

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<sup>58</sup> Jessop, Bonnett, Bromley & Ling (1988) p27.

<sup>59</sup> See Adam Smith Institute (1989); Butler & Pirie (1981); Conservative Party (1979) p8; Conservative Party (1983) p36; Conservative Party (1987b) pp62-63; Conservative Party (1992) pp37-38; Cutler (1982); Department Of The Environment & Welsh Office (1983b); Henney (1984); Ilersic (1975); Institute Of Economic



camp is often supported by the many reports produced by the Audit Commission, which for example, asserted that 'efficiency savings' of nearly £2 billion can be made by local authorities in England and Wales.<sup>60</sup> On the other side some resist the call for spending cuts, and instead argue that spending on services should be substantially increased.<sup>61</sup> This camp often points to the damaging effects of spending cuts upon services. During the 1983 general election campaign the Labour Party promised to "reverse the Tory government's attacks on local authority services."<sup>62</sup> Although these two sides disagree loudly on the desired level of spending, they share an important assumption about the role of local government in the wider political system. Both assume that local government spending is a matter of national choice which should be settled within the priorities and guidelines laid down by central government.<sup>63</sup> This assumption is anathema to the many who

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Affairs (1980); Leigh-Pemberton (1983); Letwin (1992) pp159-198; Minford (1984); Ridley (1988); Ridley (1992); Taylor (1980); Tory Reform Group ((1979); and Walker (1983).

<sup>60</sup> Taken from HM Treasury (1987a) p23. The Conservative Party cited an Audit Commission claim that "some £500 million a year could be saved if all councils followed the practices of the best..." ((1987b) p63; see also Davies (1988) p99).

<sup>61</sup> See Archbishop Of Canterbury's Commission On Urban Priority Areas (1985); Cossey (1984); Elliott & McCrone (1984); Hall (1983); Labour Party (1983); Labour Party (1987); Labour Party (1992); Labour Party Research Department (1979); Liberal Democrats (1992); National Steering Committee Against The Cuts (1977); SDP-Liberal Alliance (1983); SDP-Liberal Alliance (1987); Services To Community Action And Trade Unions (1990); and Whitfield (1992).

<sup>62</sup> Labour Party (1983) p30.

<sup>63</sup> This idea that the level of local government spending should be determined nationally is embedded deeply in Treasury thinking. See Barlow (1981); Barnett (1982) pp74-79; Brittan (1982); Bush (1982) pp4-5; Harrison (1980); Heclo & Wildavsky (1981) pp232-233, 334, 349-350; Jackman (1979); Jackson (1982a); Jones & Stewart (1982a);

argue that the level of spending should be determined by local authorities themselves, since local authority spending is a matter of local choice not national diktat.<sup>64</sup> This debate over the prescribed level of local government spending is relevant not only for its own sake, but more important because its arguments have shaped the actual level of local government spending.

The descriptive debates centre on the actual level of local government spending. There are conflicting views on the direction of local government spending. There are three general viewpoints within these debates. The first view is that local authority spending has been cut, and many explanations have been put forward to explain the cuts in local government.<sup>65</sup> Though the tone of the language shifts gently from cuts to standstill, the overall impression given is one of financial restraint in local government. The second view is that local authority spending has increased, and many theories have been devised to explain

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Jones & Stewart (1982b); Jones & Stewart (1983a); Jones & Stewart (1983c); Jones & Stewart (1985); and Pliatzky (1982) pp117-118, 143-144, 189-190.

<sup>64</sup> See Committee Of Inquiry Into Local Government Finance (1976); Green Party (1987) p16; Green Party (1992a) p10; Green Party (1992b) pp16-17; Jackman (1978) pp268-271; Jackman (1979); Jones & Stewart (1983c); Jones & Stewart (1985); Labour Party (1987) p11; Labour Party (1992) p21; Liberal Democrats (1992) p49; Owen & Steel (1987) pp76-78; SDP-Liberal Alliance (1983) p24; and Tiebout (1956).

<sup>65</sup> See Baxter & Platt (1991); Bundred (1986); Clarke & Cochrane (1989) p48; Duke & Edgell (1986); The Economist (1979a); Edgell & Duke (1986); Edgell & Duke (1991) pp86-116; Foster (1981); Gough (1979) pp130-131; Hall (1983); Jackson (1981); Jones & Stewart (1985) pp11-12; Labour Party Research Department (1979); Midwinter (1984); Midwinter & Page (1981); National Steering Committee Against The Cuts (1977); National Union Of Public Employees (Scotland) (1983); Pickvance (1986); QueenSpark Rates Book Group (1983); Travers (1984a); Travers (1985a); and Wright (1982).

the growth of local government spending.<sup>66</sup> The literature of these two viewpoints offer contradictory accounts of local government spending, though to a certain extent these views can be reconciled if the methodology of how these studies measured local government spending is understood. Unfortunately, in many cases the methodology was rarely explained, and at best was quietly footnoted. As a result a very confusing and vague picture emerges of local government spending. To a certain extent whether local authority has increased or decreased depends on the literature read. The third view is a more sophisticated account of local government spending, and looks at the increasingly hostile financial environment in which local authorities make spending decisions.<sup>67</sup> This camp looks at the intensifying pressures upon local authorities to both increase and decrease their spending. These complex pressures are felt differently by different local authorities in different services at different times. The spending of local authorities is the outcome of these competing pressures and not the product of a single upward or downward trend of spending. Overall, these three general

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<sup>66</sup> See Benington (1976); Committee Of Inquiry Into Local Government Finance (1976) pp14-16; Confederation Of British Industry (1980); Dunleavy (1980) pp57-59; Dunleavy (1984) pp50-56; Foster, Jackman & Perlman (1980) pp77-128; Henney (1984) pp55-104; Jackman (1984) pp89-96; Jackman (1985); Jackson (1973); Jones (1979); King (1980) pp7-10; Letwin (1992) pp165-167; Meadows (1987) p32; Newton (1985); Rhodes (1988) p248; Ridley (1988); Royal Commission On Local Government In England (1969) p130; Sandford (1984) pp244-246; Thatcher (1993) p643; Travers (1987a); Travers (1987d); Travers (1988); Travers (1992); and Walker (1983). Indeed, in its recent general election manifesto, the Conservative Government could only boast that it had prevented "unjustified rises" in local government spending (Conservative Party (1992) p37).

<sup>67</sup> See Bennett (1988); Boddy (1984); Boyne (1988); Cockburn (1977) pp62-66; Greenwood (1981); Greenwood (1982b); Hepworth (1980); Jackson, Meadows & Taylor (1982); Newton (1980); Newton (1981a); Newton & Karran (1985); Page (1986); Rose & Page (1982b); Walsh (1988); and Wolman (1983).

viewpoints provide competing and conflicting observations and explanations about local government spending, and the picture is one of theoretical confusion.

On the empirical front it is impossible to say precisely how much local authorities spend. Following Travers, it "is no longer possible to be precise about what local authorities spend, either individually or in total".<sup>68</sup> This disturbing state of affairs becomes clear when a comparison is made between different observations of local government spending. Apart from academics, there are several bodies who need to measure how much local authorities spend. The Treasury measures local government spending to determine its public expenditure plans; the Department of the Environment measures local government spending to calculate and distribute its grants to local authorities; the Central Statistical Office (CSO) measures local government spending to record its trends; and the Chartered Institute of Public Finance and Accountancy (CIPFA) measures local government spending to provide information to the finance profession in local government. The table below outlines how each of these four bodies measured the spending of local authorities in England in 1984/85.<sup>69</sup>

Table 2.2: Four Measurements of Local Government Spending, 1984/85

	<u>Revenue</u> £m	<u>Capital</u> £m	<u>Total</u> £m
Treasury	25,168	3,736	28,904
DOE	32,840	5,852	38,692

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<sup>68</sup> Travers (1986a) p1010.

<sup>69</sup> The financial year, 1984/85, is chosen because it corresponds to the year on which this research focused in examining spending cuts in four local authorities.

CSO	36,455	4,728	n/a
CIPFA	25,423	3,628	32,274*

\* The amount that local authorities spend in total as calculated by CIPFA cannot be measured simply by adding the amount of revenue and capital spending.

Source: Central Statistical Office (1987); Chartered Institute Of Public Finance And Accountancy (1991c); Department Of The Environment (1986); and HM Treasury (1987b)

These four measurements of local government spending in the same year are incredible given the substantial differences between them. According to the Central Statistical Office local authorities spend well over £10,000 million more than that measured by the Chartered Institute of Public Finance and Accountancy, and nearly £10,000 million more than that measured by the Treasury. Furthermore, the Department of the Environment calculated that the revenue spending of local authorities in 1984/85 amounted to over £32,000 million, but a few pages later it cited a figure of over £39,000 million.<sup>70</sup> This example illustrates the dangers of blindly using these widely cited spending figures without understanding how these figures have been calculated.<sup>71</sup> This danger perhaps partly explains why Likierman and Byrne, cited earlier, provided wildly different figures on how much local authorities spend.

If, as Travers maintained, reliable statistics are "a cornerstone of liberal democracy", then whether local democracy exists or not in Britain becomes a troublesome issue because of the lack of accurate statistics on local

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<sup>70</sup> Department Of The Environment (1986) pp6, 38.

<sup>71</sup> Hampton's book is one of the few textbooks on local government that actually discusses in any depth the vexed issue of methodology of measuring local government spending ((1991) pp93-95).

government spending.<sup>72</sup> The compilation of local authority spending data is riddled with problems, which raise doubts over their overall accuracy. Whatever way is used to measure local authority spending there are considerable difficulties in collecting the appropriate information. Furthermore, the reliability of existing spending data is diminished because some information is simply not available. Travers noted:<sup>73</sup>

"...the quality of the information flowing from local to central government has badly deteriorated. Many authorities' published spending figures are quite different from their actual expenditure on staff and services. Much information is deliberately kept out of sight of civil servants."

The Conservative Government's repeated attacks on local government provoked many local authorities, particularly Labour-controlled local authorities, to either withhold or distort information on their spending given to central government.<sup>74</sup> They saw little gain in giving information to central government if it was used to attack them. They wanted to provide figures which created "a favourable financial environment within the Government's rules."<sup>75</sup> As a result, the spending figures produced by the Treasury, Department of the Environment, and even the Chartered Institute of Public Finance and Accountancy needed to be treated with extreme caution because there are information gaps in the way they measure local government spending.<sup>76</sup> Travers believed that this "statistical picture is a

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<sup>72</sup> Travers (1986a) p1012.

<sup>73</sup> Travers (1985b) p16.

<sup>74</sup> For example, Labour-controlled Knowsley MBC, fearing government reprisals over creative accounting, refused to give information to the Audit Commission (Chief Executive, Knowsley MBC).

<sup>75</sup> Travers (1986a) p1012.

<sup>76</sup> See Edgell & Duke (1991) p99; and Travers (1986a).

mess."<sup>77</sup> These pitfalls of obtaining reliable spending data should not be ignored. There is no purpose served by minimising these data problems as do Newton and Karran, who believed that "local financial statistics in the UK comprise a highly reliable and valid data set."<sup>78</sup> They do not. Instead, the picture of local government spending is one of empirical confusion.

There is much confusion over local government spending stemming from a jungle of literature which presents a muddled and indeed contradictory accounts of how much local authorities spend. This confusion is both theoretical and empirical, and as a result debates on local government spending are often misunderstood. It is important to define local authority spending in order to understand what happened to local government spending.

#### DEFINING LOCAL GOVERNMENT SPENDING

Given the dangers of misunderstanding local government spending it is vital that local government spending is clearly defined in order to understand the making of spending cuts in local government. The questions of what constitutes local government spending, and consequently what is a spending cut will now be addressed. Local authority spending depends on what is being measured, how it is measured, and when it is measured. These three different but related factors will determine the extent and nature of spending cuts in local government.

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<sup>77</sup> Travers (1986a) p1012.

<sup>78</sup> Newton & Karran (1985) p136.

### What local authority spending is measured

What is being measured is of critical importance in calculating whether local authority spending has been cut or not. Following Rose, whether "public spending is said to be rising or falling is a matter of definition, not fact".<sup>79</sup> There are many different types of local authority spending, and therefore as many different types of spending cut. At the time of the financial year, 1984/85, there were at least 15 different types of local authority expenditure, which were the following:<sup>80</sup>

(a) gross expenditure - aggregated expenditure on the provision of local authority services

(b) net expenditure - gross expenditure less specific service income (eg specific and supplementary grants, fees and charges for services, capital receipts)

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<sup>79</sup> Rose (1980) p3.

<sup>80</sup> Mainly taken from Association Of County Councils (1985) pp15-25; Audit Commission For Local Authorities In England And Wales (1985a) pp3-4; Chartered Institute Of Public Finance And Accountancy (1984a); Chartered Institute Of Public Finance And Accountancy (1984b); Chartered Institute Of Public Finance And Accountancy (1984c) pp85-92; Chartered Institute Of Public Finance And Accountancy (1987) pp119-127; Chartered Institute Of Public Finance And Accountancy (1991b) pp194-202; Chartered Institute Of Public Finance And Accountancy (1992) pp207-215; Douglas & Lord (1986) pp61-65; National Audit Office (1985) pp26-27; Newton & Karran (1985) pp131-133; Pickstock (1993) pp89-92; and Travers (1986b). There are sometimes different definitions of the same type of local authority expenditure - see Edgell & Duke (1991) p98; and Travers (1986a) p1012. Some of these types of local authority expenditure have been abandoned as local government finance has been restructured. For example, in April 1986 the system of expenditure targets and grant penalties was disbanded; in April 1990 the standard spending assessment replaced the grant-related expenditure assessment in the calculation of grant to local authorities and the system of capital expenditure controls was also changed - however, both expenditure guidance, grant-related expenditure and prescribed expenditure were prominent features of local authority spending during the period upon which this research is focused.



(c) revenue expenditure - expenditure on the day-to-day running costs incurred in providing services (eg wages and salaries, debt charges)

(d) rate-borne expenditure - revenue expenditure financed from rates (and precepts)

(e) grant-borne expenditure - revenue expenditure financed from grant

(f) section 137 expenditure - expenditure incurred under section 137 of the Local Government Act 1972 for the benefit of inhabitants that is not authorised under other statutory powers

(g) capital expenditure - expenditure on the acquisition of assets (eg land, buildings)

(h) relevant expenditure - revenue expenditure accepted by central government for grant support

(i) current expenditure - relevant expenditure less net financing items (eg debt charges, contributions to housing revenue account)

(j) total expenditure - relevant expenditure less income from specific and supplementary grants and other adjustments made by central government

(k) grant-related expenditure - revenue expenditure assessed by central government to provide a common standard of service

(l) expenditure guidance - expenditure target set by central government within which net expenditure must fall to avoid grant penalty

(m) expenditure level - maximum legal limit of revenue expenditure of a rate-capped local authority set by central government

(n) prescribed expenditure - capital expenditure as defined by central government subject to capital spending controls

(o) non-prescribed expenditure - capital expenditure not prescribed by central government and not subject to capital spending controls

To examine spending cuts in local government it is necessary to look at only those expenditures which approximate the reality and totality of local authority

spending. Many of the above types of expenditures do not correspond to the reality and totality of local authority spending. These types will be briefly discussed before examining in more detail the remaining types of local authority expenditure.

Several types of expenditure do not reflect the reality of local authority spending but are versions of a reality that central government would have liked to have seen. For example, relevant expenditure, current expenditure, total expenditure, grant-related expenditure, expenditure guidance, expenditure level, prescribed expenditure and non-prescribed expenditure were spending constructs made by central government, and though they shaped the spending of local authorities they had little resemblance to the actuality of local authority spending. The Conservative Government used these measures of spending to make its public expenditure plans; to calculate and distribute block grant and capital block authorisations amongst local authorities; and, more important, to control local authority spending. These expenditure types were constructed for purposes other than measuring local authority spending. They must be therefore disregarded as ways of analysing spending cuts in local government, because they did not reflect the reality of local authority spending.

Most of the remaining types of expenditure, though capturing the reality, do not measure the totality of local authority spending. Each of these types captures only a partial view of local government spending. Many of these expenditure types are defined by the way the expenditure is financed. For example, rate-borne expenditure was that financed from rates (and precepts); grant-borne expenditure from grant; and section 137 expenditure from monies raised as if a 'twopenny rate' were levied. These three types of local authority expenditure are defined by how they were

financed, and thus exclude huge chunks of local authority spending. These types of local authority should therefore be discarded for the purposes of examining spending cuts in local government. Similarly, central government used current, relevant and total expenditure figures in its public expenditure plans and grant calculations, but each of these measures disregards particular items of expenditure such as debt charges and spending financed by specific grants. Again, these types of expenditure capture only a partial picture of local authority spending.

One type of local authority expenditure which is commonly used is net expenditure. Net expenditure is the expenditure of a local authority less its specific income (that is, monies received as specific and supplementary grants, and monies raised in fees and charges for services).<sup>81</sup> It is used by both central government and local authorities because they want to calculate how much local authority spending should be financed from national taxation and local taxation. At the time of this research, central government wanted to know how much rate support grant was needed to finance local authority spending, and the level of rates and precepts planned by local authorities before deciding what local authorities were to be rate-capped. Local authorities wanted to know how much they were going to receive in rate support grant from central government and how much they were prepared to raise by levying a rate or issuing a precept before deciding how much they were going to spend.<sup>82</sup> As a result of these calculations, net spending of local authorities is a key determinant of financing and expenditure decisions, and therefore features

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<sup>81</sup> See Danziger (1978b) p59.

<sup>82</sup> Under the Local Government Finance Act 1988 the rate support grant was replaced by the revenue support grant, domestic rates were replaced by the community charge, and non-domestic rates were set by central government; and under the Local Government Finance Act 1992 the community charge was replaced by the council tax.

prominently in documentation produced by both central and local government. As a result of their prominence net spending figures are often mistakenly used by academics as measures of local authority spending. For example, Duke and Edgell continually use net spending of local authorities in their analysis of spending cuts in local government.<sup>83</sup> But net expenditure excludes those expenditures financed from specific service income, and therefore is not a valid measure of local authority spending. It is important not to focus on cuts in net spending because these cuts would include monies raised from increased fees and charges for services and extra monies from specific grants.

The four local authorities - Bedfordshire CC, Kent CC, Knowsley MBC, and Stockport MBC - were more concerned to cut their net spending than gross spending, because they would receive more block grant from central government and keep down the level of rates and precepts. Net spending can be cut by either reducing the amount spent or raising extra revenue from specific service income. Below is a table showing how the four local authorities budgeted to cut their net spending in 1984/85.

Table 2.3: Net Spending Cuts of Four Local Authorities, 1984/85

<u>Committee</u>	<u>Reduced spending</u> £k	<u>Increased income</u> £k
BEDFORDSHIRE CC		
Education	860.0	-
Employment	5.0	-
Environmental Services	15.5	47.5
Leisure	110.0	28.0
Policy & Resources	86.9	45.0
Public Protection	71.3	-
Social Services	217.0	76.0
Other	1940.0	100.0

<sup>83</sup> See Duke & Edgell (1986); Edgell & Duke (1986); and Edgell & Duke (1991) pp86-138.

TOTAL*	<u>3305.7</u>	<u>296.5</u>
KENT CC		
Amenities & Countryside	17.2	-
Education	8522.4	285.6
Fire & Public Protection	393.0	12.6
Planning & Transportation	2392.8	401.4
Police	414.3	525.7
Policy & Resources	944.8	184.8
Social Services	1290.7	983.5
TOTAL*	<u>13975.2</u>	<u>2393.6</u>
KNOWSLEY MBC		
Economic & Development	35.1	27.1
Education	848.5	30.0
Financial Control	88.5	-
General Purposes	49.5	30.0
Housing & Environmental		
Health**	46.1	-
Leisure	30.0	18.3
Manpower & Management		
Services	14.9	-
Policy & Resources	8.6	-
Social Services	365.7	-
Technical Services	239.2	64.1
TOTAL*	<u>1796.1</u>	<u>169.5</u>
STOCKPORT MBC		
Development Services	-	85.2
Education	120.0	96.1
Environmental Health &		
Control	-	47.4
Highways	-	0.2
Housing**	-	0.4
Policy & Resources	-	2.5
Recreation & Culture	7.3	39.5
Social Services	-	-
TOTAL*	<u>127.3</u>	<u>271.2</u>
GRAND TOTAL*	<u>19204.3</u>	<u>3130.8</u>

\* The figures may not add up to the total figures because of rounding up and down. Total figures include some reductions where one committee transfers a spending cut to another committee - one committee's spending cut is another committee's extra spending. These reductions are few and small, and therefore do not change significantly the general picture.

\*\* The figures relating to the housing revenue account have been excluded.

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

The above table shows the four local authorities together cut their net spending by over £22 million. However, over £3 million was cut by increased specific service income - that is, increased fees and charges for services, and grants given to local authorities mainly by central government to finance specified services. For example, increased fees and charges for services constituted 56 per cent of net spending cuts made by Kent CC's Police Committee, 75 per cent by Bedfordshire CC's Environmental Services Committee, and 100 per cent by Stockport MBC's Development Services Committee and Environmental Health and Control Committee. Knowsley MBC's Leisure Committee received extra Urban Aid monies from central government, and thus cut its net spending accordingly (but not its gross spending). Overall, increased specific service income accounted for about 14 per cent of net spending cuts made by the four local authorities. These types of spending cuts confuse the reality of local authority spending, because they are not cuts in actual spending but increased revenues of the local authorities. In order to understand why local authorities cut spending it is important to understand how their spending is financed, but to understand how much local authorities cut spending it is important to examine all items of spending regardless of how they are financed.<sup>84</sup> This research on the making of spending cuts in local government focuses on gross spending and not net spending of local authorities.

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<sup>84</sup> Gross spending of local authorities will always exceed their net spending; and cuts in net spending will always exceed cuts in gross spending. It is important that the terms - gross or net - are clarified in order to prevent a misleading picture of local authority spending being given.

However, it is not a straightforward exercise to measure local authority spending in gross terms. Following Travers, "figures showing gross revenue spending by local authorities can only be constructed with considerable effort, and then only at the estimates stage."<sup>85</sup> There are two significant complications in calculating the gross expenditure of local authorities - the distinction between revenue and capital spending, and the practice of creative accounting. These two financing and accounting complications distort the real picture of local authority spending, and will now be examined.

First, local authority expenditure can be divided into revenue and capital expenditure. Revenue expenditure is that spending on short-life items such as wages and salaries; and capital expenditure is that spending on long-life items such as the building of roads. Though this distinction is blurred, local authorities must prepare both revenue and capital budgets because each type of expenditure is subject to different financing and control mechanisms. At the time of the research, revenue spending was financed from rates, government grants and charges. The level of revenue spending was shaped by local authorities in determining their level of rates and charges, and by central government in controlling the distribution of grants to local authorities and in limiting the spending of selected rate-capped local authorities. Capital spending was financed from loans, capital receipts, grants and revenue contributions. The level of capital spending was controlled by central government in authorising such spending and in restricting the use of capital receipts. The different ways of financing and controlling revenue and capital spending require local authorities to separate them for budgeting and accounting purposes. Nevertheless, it is not possible simply to add together gross revenue and

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<sup>85</sup> Travers (1986a) p1010.

capital spending to find out how much local authorities are spending. This addition cannot be made because there would be much double-counting of certain items of spending. For example, debt charges comprise revenue repayments of the loans borrowed to finance capital spending, and constitute a significant amount of revenue spending.<sup>86</sup> It would not be very useful to deduct debt charges from revenue spending and then add capital spending to calculate the total level of gross spending of local authorities. The reason is that there is a nebulous link between the amount of debt charges paid and the amount spent on the capital programme in any given year. Debt charges of one year include repayments for loans used to finance capital projects which were completed in previous years.

Second, creative accounting was widely practised by local authorities in the 1980s.<sup>87</sup> Smith noted:<sup>88</sup>

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<sup>86</sup> In 1984/85 debt charges accounted for over 7 per cent of gross revenue expenditure of English local authorities (taken from Chartered Institute Of Public Finance And Accountancy (1991b) p8).

<sup>87</sup> See Arnold-Forster (1993); Audit Commission For Local Authorities In England And Wales (1984g); Audit Commission For Local Authorities In England And Wales (1985a); Bailey & Galloway (1993); Barclay (1985); Blackburn (1986); Blunkett & Jackson (1987) pp189-190, 229-231; Brown (1987); Chandler (1991) pp70-71; Clarke & Cochrane (1989) pp51-56; Cochrane (1993) pp36-37; Cook (1993) pp11, 78, 158, 159-160; Cope (1987) pp95-96; Cross (1986); Cross (1990); Cumbria County Council (1985); Davies (1987b); Davis-Coleman (1986); Dillon (1985); Douglas & Lord (1986) pp38-39; The Economist (1986); Elcock (1991) pp146-149; Elcock, Jordan & Midwinter (1989) pp108-111; Gray & Jenkins (1991) pp457-458; Hale (1988); Hodge (1987); Ibrahim & Proctor (1992b) p51; Jacobs (1983); Jacobs (1984); Jones (1990/91) p195; King (1993) p201; Letwin (1992) pp183-184; Local Government Chronicle (1988); Loughlin (1990); Loughlin (1991); Midwinter (1988) pp25-26; Miller (1987b); Miller (1989); Miller (1991); Morley (1986); Murray (1987); National Audit Office (1985) pp16-17; Nicholson (1988); Parkinson (1985b) pp117-120; Parkinson (1986); Pipe (1984); Pipe (1985); Platt (1987); Platt S (1988); Smith (1987); Smith (1988a); Smith (1988b); Stoker (1988) pp166-168; Stoker (1991) pp174-176; Taylor (1987); Travers (1985b); Travers (1986b) p133; Travis



"Accountants have by tradition always attempted a 'true and fair' representation of the finances of an organisation. However, we have recently witnessed the rise of 'creative' accounting in English local government, in which artificial - but perfectly legitimate - accounting devices are employed to enhance a local authority's financial position."

Creative accounting cannot be defined by the accounting methods used, but by the intentions behind the deployment of these methods. It is, according to Pipe, "the manipulation of accounting data for political purposes."<sup>89</sup> Creative accounting is a set of lawful accounting devices designed to circumvent the spending controls imposed on local authorities by central government, thus allowing local authorities to maximise their grant entitlement and to minimise their rate bills, poll tax bills and now their council tax bills. Many creative accounting devices have subsequently been outlawed by the Conservative Government as part of its policy of curbing local authority spending.<sup>90</sup> At the time of this research, however, local authorities used creative accounting as a highly significant way of avoiding making spending cuts. Smith observed that the increased grant gained from creative accounting was "so large as to dwarf all but the most dramatic savings gained from 'efficiency' measures."<sup>91</sup> All

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(1989); Webster (1985a); Webster (1985b); Wolman (1982a) p83; and Wolman (1986).

<sup>88</sup> Smith (1988a) p173.

<sup>89</sup> Pipe (1985) p1333. Lehman and Tinker rejected the portrayal of accounting as "a passive information service, dedicated to faithfully reporting on economic reality" ((1987) p503). Instead they stressed "the significance of accounting as a political activity" ((1987) p519). All accounting, then, is creative accounting.

<sup>90</sup> See Cook (1993) p78; Hale (1988); Jones (1990/91) p195; Letwin (1992) p184; Local Government Chronicle (1988); Loughlin (1990) pp383-388; Miller (1991); and Stoker (1991) pp175-176.

<sup>91</sup> Smith (1988a) p183.

of the four local authorities studied - Bedfordshire CC, Kent CC, Knowsley MBC, and Stockport MBC - practised creative accounting to varying degrees. Creative accounting generally distorted the picture of local authority spending, as can be seen in the following discussion of three creative accounting techniques.

(i) Special funds - all four local authorities established special funds as a way of circumventing the spending controls imposed by central government. For example, in 1983/84 Stockport MBC established the Renewal and Repairs Fund as a way of maximising grant entitlement in future years.<sup>92</sup> This practice was indeed widespread in local government in the 1980s. The Audit Commission observed:<sup>93</sup>

"General use of targets and penalties has brought additional uncertainties for members and officers to take into account when planning more than one year ahead. In the main they have responded rationally to these uncertainties by seeking to create a financial cushion against them. The result has been that rates over the past three years have probably been higher than they need...."

The reason why the creation of special funds helped local authorities to protect their finances is that when money was set aside as a fund in one year it was treated as expenditure in that year even though the money had not been spent in that year. When this money was taken out of the fund in subsequent years it was treated as income in these years even though the money was being spent, and therefore attracted no grant penalties. Thus, monies in one year were counted as spending when not spent, but counted as income when actually spent. The use of special funds, then, allowed local authorities to maximise their block grant entitlement. Given the financial cushion that funds offered it is not surprising that councillors in Knowsley MBC

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<sup>92</sup> Assistant Director of Finance, Stockport MBC.

<sup>93</sup> Audit Commission For Local Authorities In England And Wales (1984g) p27.

referred to them as "cocoa-tins".<sup>94</sup>

(ii) Capitalisation - as mentioned earlier, a distinction is made between revenue and capital expenditure because of the different financing and control mechanisms that exist. Capitalisation is the practice of transferring expenditure normally financed on the revenue side to the capital side. Many local authorities, including Knowsley MBC, moved items of spending from their revenue budgets to their capital programmes.<sup>95</sup> For example, Knowsley MBC's Technical Services Committee cut its revenue spending by transferring wages paid to staff working on capital projects amounting to £30,000 from its revenue budget to its capital programme. As a result of capitalisation the Council was able to increase its block grant entitlement because it reduced revenue spending and therefore attracted less grant penalty, despite the fact that no spending was actually cut since what was lost to revenue was gained by capital. Capitalisation of revenue spending is possible because of the fuzzy distinction between revenue and capital expenditure.<sup>96</sup> Whether an item of spending is revenue (and lasts for a short period of time) or capital (and lasts for a longer period of time) is not always clear. Many councils argue successfully that spending on repairs, maintenance and staff working on capital projects, which has been traditionally seen as revenue expenditure, is capital expenditure and therefore can be capitalised.

(iii) Rescheduling of debt - another common method of creative accounting which reduces revenue spending in the short term is the rescheduling of debt. Local authorities

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<sup>94</sup> Chief Executive, Knowsley MBC.

<sup>95</sup> Borough Treasurer, Knowsley MBC; Director of Leisure Services, Knowsley MBC; and Principal Officer, County Treasurer's Department, Lancashire CC.

<sup>96</sup> See Cook (1993) p158; Hampton (1991) p93; Hepworth (1984) p9; Jackman (1984) p96; and Travers (1986b) p141.

may reschedule their debt so that debt charges are reduced in the short term but increased in the longer term. For example, both Bedfordshire CC and Kent CC rescheduled their debt to reduce their revenue spending in 1984/84.<sup>97</sup> Indeed, Bedfordshire CC rescheduled its debt and cut its spending by £1 million. This rescheduling of debt reduced the amount of revenue spending, and therefore maximised block grant entitlement and prevented any precept increase.

These three methods of creative accounting blur the real picture of local authority spending. The Audit Commission argued that "the true level of local government expenditure has been obscured" by creative accounting.<sup>98</sup> It is important when measuring the spending of local authorities to be aware of these creative accounting devices which generally conceal the reality of local authority spending. With special funds it is necessary to disregard contributions to and from these funds. Though monies in a fund are counted as having been spent for accounting purposes it should be counted as income for the purposes of this research on spending cuts in local government. With capitalisation and the rescheduling of debt these methods reinforce the need to separate revenue spending and capital spending. Their separation allows the identification of these transfers and shifts of money between and within their budgets.

Finally, if spending cuts in local government are to be fully understood it is necessary to look at budgeted spending of local authorities. It is only when budgets of local authorities are examined that the decisions to cut

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<sup>97</sup> Deputy Leader, Liberal Group, Bedfordshire CC; County Treasurer, Bedfordshire CC; and Deputy County Treasurer, Kent CC.

<sup>98</sup> Audit Commission For Local Authorities In England And Wales (1984g) p26. See also National Audit Office (1985) p17; Pipe (1984); and Travers (1987b) p15.

revenue spending can be highlighted. The financial accounts of local authorities record spending under general account headings only, and spending decisions are thus bundled together. It would be a byzantine exercise to trace these decisions within these broad headings. To examine the decisions to cut spending it is then necessary to turn to the budgeted and not the actual spending figures of local authorities. These decisions to cut spending can be traced easily by scrutinising the budgets of local authorities. Though the spending cuts contained in a budget are only planned cuts there is sufficient evidence to show that a budget is a close approximation of the actual outturn of a local authority. This close approximation should not be surprising given that the purposes of budgeting include the forecasting and controlling of spending.<sup>99</sup> Following Wildavsky:<sup>100</sup>

"In the most literal sense a budget is a document, containing words and figures, which proposes expenditures for certain items and purposes.... Presumably, those who make a budget intend that there will be a direct connection between what is written in it and future events. Hence we might conceive of a budget as intended behavior, as a prediction."

There was a high correlation between the budgeted and actual spending in the four local authorities studied, as can be seen from the table below which compares their budget and outturn figures of 1984/85.

Table 2.4: Budgeted and Actual Spending of Four Local Authorities, 1984/85

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<sup>99</sup> See Audit Commission, Local Government Training Board & Institute Of Local Government Studies (1985) pp30-34; Chartered Institute Of Public Finance And Accountancy (1992) pp118-140; Cook (1993) pp33-64; Hepworth (1984) pp209-220; Marshall (1974) pp49-108; and Rawlinson & Tanner (1989) pp48-57.

<sup>100</sup> Wildavsky (1964) p1.

	<u>Budget</u> £m	<u>Outturn</u> £m	<u>Variation</u> %
Bedfordshire CC	242.0	248.3	+2.6
Kent CC	627.7	647.5	+3.2
Knowsley MBC	124.3	124.9	+0.5
Stockport MBC	172.8	172.6	-0.1
TOTAL	<u>1166.8</u>	<u>1193.3</u>	<u>+2.3</u>

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

This table shows that there is only a small variation between the budgeted spending of the four local authorities and their actual spending.<sup>101</sup> The variation between budget and outturn is best explained by overspending or underspending on certain items rather than significant failure to implement any decisions to cut spending. In particular, Kent CC overspent its budget because it increased spending because of "the severe winter conditions" and "policing the miners dispute".<sup>102</sup> Though some quantitative accuracy is lost in looking at budgeted spending, this disadvantage is far outweighed by the advantage of looking at specific decisions to cut spending. Nonetheless, there are two difficulties in measuring and comparing local authority budgets.

The first difficulty is the practice of creative budgeting. Larkey and Smith wrote:<sup>103</sup>

"Government budgets are premised on forecasts of revenues and expenditures. These forecasts are subject to both stochastic error and strategic manipulation. Circumstantial evidence in the budgeting literature and in the popular media suggest that government officials routinely bias

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<sup>101</sup> This close approximation is mirrored by Sharpe and Newton's study of 30 local authorities ((1984) p222).

<sup>102</sup> Taken from Kent CC's Annual Report 1984-85, p5.

<sup>103</sup> Larkey & Smith (1989) p123.

the forecasts underlying budgets."

There is some evidence to suggest that local authorities manipulate the presentation of their budgets for reasons other than forecasting and controlling spending. Smith noted:<sup>104</sup>

"The budget is supposed to reflect the policies and priorities of the authority, as well as determining the revenue the authority needs to raise from local sources. Yet it now serves a crucial additional purpose. It not only determines the grant entitlement in the current year - it also creates a base for future grant entitlement and rate-capping qualification."

In making a budget a local authority has to make certain assumptions about its revenues and expenditures - for example, on how much revenue can be raised to finance spending, on the demands on service provision, and on the costs of service provision. There are times when it may be in the interests of a local authority to make unrealistic assumptions about these matters. Parkinson observed:<sup>105</sup>

"Treasurers can ... affect the shape of revenue budgets by making more or less optimistic assumptions about the way their budgets will eventually turn out. In general, for an authority facing penalties, it is better to be optimistic about the extent to which spending can be contained. If it runs beyond the original predictions, the Department [of the Environment] will eventually claw back the excess grant by withholding it in future years when the accounts are closed. But since the records may take two years to complete, this at least means that the authority has had the advantage of the grant and the interest earned upon it in the meantime."

An example of an optimistic assumption that was fed into Kent CC's revenue budget of 1984/85 was the decision by the Social Services Committee to implement the proposals on restructuring the Social Services Department put forward by the management consultancy firm, Arthur Andersen. The

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<sup>104</sup> Smith (1988b) p13. See also Smith (1987) p897; and Stoker (1991) p177.

<sup>105</sup> Parkinson (1986) p29. See also Wolman & Peterson (1981) p779.

Committee assumed that spending would be cut by £80,000 by implementing these proposals. However, from the outset the Department realised that these savings could never be made, but in order to find its share of spending cuts and to justify the decision to use management consultants it "massaged the figures".<sup>106</sup> The budgeted saving was "the biggest bit of window-dressing and bullshit in the budget proposals".<sup>107</sup> Both the Committee and the Department had no intention of implementing the Arthur Andersen proposals - their implementation was not monitored; and another management consultancy firm, Arthur Young, was later commissioned to make recommendations on the restructuring of the Department.<sup>108</sup> This budgeted spending cut was based on a "highly spurious" assumption, and is an example of creative budgeting.<sup>109</sup>

The second difficulty is the problem of comparing budgets between services and between local authorities. Local authorities adopt different ways of presenting budgets.<sup>110</sup> For example, there are differences between local authorities on what constitutes 'above-the-line' and 'below-the-line' expenditures which makes comparison difficult. Bedfordshire CC treated the spending cuts

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<sup>106</sup> Assistant Director of Social Services, Kent CC.

<sup>107</sup> Assistant Director of Social Services, Kent CC.

<sup>108</sup> Chairman, Social Services Committee, Kent CC; Chairman, Finance and Review Group, Kent CC; Assistant Director of Social Services, Kent CC; and Senior Partner, Arthur Young.

<sup>109</sup> Assistant Director of Social Services, Kent CC.

<sup>110</sup> Since this research there have been moves to standardise the accounting and budgeting procedures of local authorities - see Chartered Institute Of Public Finance And Accountancy (1991a); Cook (1993) pp64-83; Cook, Dunn, Ogley & Beckerleg (1985); Rogers (1984); Tanner (1984); and Whiteoak & Cook (1986). This problem of comparison is also noted in a study of Canadian municipalities - see Krause & Price (1986) pp58-59.



resulting from the rescheduling of debt as 'below-the-line' - that is, they were not apportioned between the budgets of committees; but Kent CC treated them as 'above-the-line' - that is, they were apportioned between the budgets of committees. If, say, the education budgets of the two local authorities are compared then it would appear that Kent CC was making more cuts than Bedfordshire CC, other things being equal.

Notwithstanding these two difficulties of measuring and comparing local authority budgets, given that there is a minimal 'implementation gap' between the budgeted and actual spending of local authorities, it is vital to focus on budgeted spending cuts because decisions to cut spending can be easily identified and therefore examined. Danziger noted:<sup>111</sup>

"There are important research advantages to treating the budget as the decisional output: (1) the budget is seen as a single statement of a complex of interdependent resource allocations; (2) the output is recorded clearly and publicly; (3) it is itemized in great detail; (4) its recorded form alters little from year to year; (5) it is serial (the process and output repeat in each budget period); (6) it is expressed in terms of a single measurement dimension (currency); and (7) the indicators are an interval measurement scale."

However, it is only vital to focus on budgeted revenue spending decisions. Capital spending is different from revenue spending. As well as being financed and controlled differently, capital expenditure consists generally of spending on one-off schemes, such as the building of roads, but revenue spending consists generally of spending on recurring commitments, such as the payment of wages and salaries. Cuts in capital spending involve generally the postponement and possibly the cancellation of capital projects. Once a capital scheme has been completed it is usually financed on the revenue side. A local authority may

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<sup>111</sup> Danziger (1978b) p15.

spend capital money on building a home for the elderly, but once built it spends revenue money on running the home. Thus, capital spending cuts are generally cuts in planned and not actual capital projects. Both Bedfordshire CC and Kent CC, for example, had to defer their planned capital schemes. No capital scheme was actually cut. In contrast, cuts in revenue spending are actual cuts because an expense that would otherwise have been incurred is no longer incurred. Cuts in capital spending are very different from cuts in revenue spending. Because capital spending is essentially non-recurring it is necessary to examine actual capital spending and not budgeted capital spending of local authorities.<sup>112</sup> With the exception of capital spending, therefore, it is necessary to examine budgeted spending of local authorities.

The examination of spending cuts in local government, then, requires the analysis of gross spending of local authorities, of revenue and capital spending of local authorities, and of budgeted revenue spending and actual capital of local authorities.

#### How local authority spending is measured

Generally local authority expenditure can be presented either in absolute or relative terms, of which the absolute form of measurement is more widely used. The most common absolute yardstick is money. Notwithstanding the considerable problem that what is being measured cannot always be converted into money terms, absolute measures are not dependent upon other variables for measurement, and

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<sup>112</sup> Furthermore, capital programmes are notoriously difficult to budget accurately because there are greater problems of controlling capital spending of local authorities, and therefore budgeted spending is a less accurate approximation of actual spending (see Cook (1993) p163; and Cope (1987) pp97-99).

therefore possess the advantage that any measured change can be explained only by a change in the variable measured. There are three general ways in which local authority spending can be measured in absolute terms - in cash terms, in real terms and in volume terms.<sup>113</sup> Each of these absolute terms of measurement will be discussed in turn.

First, spending of local authorities can be measured in cash terms. This method looks at the actual cost of providing local authority services at current prices. However, the cost of goods and services remain rarely at the same value - in times of inflation the price of goods and services increases. Consequently, measuring expenditure in cash terms makes for meaningful comparisons only at a given point in time or in the very unlikely event of constant prices. In the words of Edgell and Duke, it "is the least instructive for historical comparisons".<sup>114</sup> The usefulness of this method of measuring local authority spending is extremely limited.

Second, spending of local authorities can be measured in real terms. This method looks at the constant cost of providing local authority services, and thus any price changes over time are discounted. In order to calculate local authority spending in real terms it is necessary to deflate (or inflate) the value of spending in one year according to the rate of change in prices to make an accurate comparison with spending in previous years. There are several deflators which can be used to measure local authority spending in real terms, ranging from the general but less accurate GDP deflator to the specific and more accurate deflators for local government and local authority

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<sup>113</sup> See Edgell & Duke (1986) p235; Edgell & Duke (1991) p124; Hampton (1991) p94; and Hogwood (1992) p37.

<sup>114</sup> Edgell & Duke (1986) p235.

services.<sup>115</sup> The rate of inflation experienced by government generally and local authorities particularly is often higher than the general rate of inflation as measured by the Retail Price Index (RPI). This difference is known as the relative price effect. Hepworth observed:<sup>116</sup>

"Because of their high labour content, local authority costs generally suffer more from inflation than costs generally...."

The choice of what deflator to use to measure local authority spending in real terms is critical.<sup>117</sup> Measuring expenditure in real terms makes for meaningful comparisons over time. Any changes in spending, then, cannot be attributed to price changes. In the previous section it was argued that the focus of analysing spending cuts in local government should be on the budget and not the outturn figures of local authorities, because it is only in their budgets that decisions to cut spending can be identified. There is another advantage to looking at budgeted spending cuts, which is that comparisons in real terms can be easily made with the previous year's spending. Local authorities present pay and price changes separately as a contingency sum for budgeting purposes, and therefore any budgeted changes in spending are costed on the same price basis as in the previous year. Any changes constitute increases or

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<sup>115</sup> Under-Secretary, Chartered Institute of Public Finance and Accountancy; and Statistician, Chartered Institute of Public Finance and Accountancy.

<sup>116</sup> Hepworth (1984) p24. See also Blore (1987) p76; Committee Of Inquiry Into Local Government Finance (1976) pp26-27; Else & Marshall (1981) pp262-265, 272-273; Heald (1983) pp114-118, 177-186, 200-201; Hepworth (1976) p6; Hogwood (1992) p37; Levitt & Joyce (1987a) pp7-8; Likierman (1988) pp14-15; Newton (1980) pp100-108; Newton (1981a) pp208-210; Newton & Karran (1985) pp84-89; Peters (1980) pp36-37; Pliatzky (1982) pp94, 167-168; Pliatzky (1985) p148; and Rose (1985) p22.

<sup>117</sup> See Hampton (1991) p94; and Hepworth (1984) pp24-25. For example, Edgell and Duke used the GDP deflator which diminished the accuracy of their calculation of local authority spending ((1986) pp235-236).

decreases of spending in real terms. However, the measurement of local authority spending in real terms takes into account only changes in price. It does not take into account any changes in the needs and demands for local authority services.<sup>118</sup>

Third, spending of local authorities can be measured in volume terms. It is possible that local authority spending may have increased in both cash and real terms but may not have kept up with increased needs and demands facing local authorities.<sup>119</sup> Webb and Wistow identified several types of spending cuts, including "the failure to increase services to match growth in need."<sup>120</sup> They argued that the concept of need is essential in understanding the nature of spending cuts in the social services. They wrote:<sup>121</sup>

"... we need to set a benchmark at a constant level of service output. By this we mean a situation in which a constant level of a given quality of service is maintained relative to defined need. It represents a standstill, once changing needs have been taken into account."

However, the task of assessing need and demand is riddled with problems of definition and measurement, which have forever plagued economists, policy analysts and other

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<sup>118</sup> The widespread belief, as cited earlier, that government spending on the social services has fallen, despite the record of real increases of spending, can be explained partly by the view that spending has not kept up with increasing needs and demands for social services - see Schorr (1992); and Webb & Wistow (1982).

<sup>119</sup> See Rhodes (1988) p255.

<sup>120</sup> Webb & Wistow (1982) p501. Marsh and Rhodes noted also that "although expenditure on local services increased, none the less such services did not keep pace with need" ((1992a) p45). Their observation suffers from methodological imprecision because they offered no definition of need.

<sup>121</sup> Webb & Wistow (1982) p501.

social scientists.<sup>122</sup> For example, Bradshaw developed the following useful classification of social need:<sup>123</sup>

(a) normative need - need of an individual is defined by experts (eg professionals, social scientists)

(b) felt need - need of an individual is defined by what the individual says he or she needs and wants

(c) expressed need - need of an individual is defined by converting a felt need into an actual demand

(d) comparative need - need of an individual is defined by a comparison with other individuals

These definitions are problematical. Two examples will be given to illustrate the problematical nature of these concepts of need. Central government and local authorities have both attempted to define and measure spending need.

At the time of this research the Department of the Environment undertook a laborious and contentious exercise to measure the spending needs of local authorities in the calculation of their grant-related expenditures.<sup>124</sup> The

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<sup>122</sup> See Bebbington & Davies (1980a); Bebbington & Davies (1980b); Bennett (1980) pp85-111; Bennett (1982a); Bennett (1982c) pp133-159; Bennett & Stewart (1983); Boaden (1971) pp21-26; Bradshaw (1972); Davies (1968); Davies (1977); Davies (1978); Davies, Bebbington & Charnley (1990); Davies & Challis (1986); Dowding (1991) pp33-35; Doyal (1993); Doyal & Gough (1984-5); Doyal & Gough (1991); Forder (1974) pp39-57; Gough (1994); Hansen (1981); Harvey (1973) pp101-105; Jackman & Sellars (1978); Mellors & Copperthwaite (1987) pp104-107; Nevitt (1977); Page (1990) pp51-57; Schorr (1992); Thomson (1987); Walton (1969); and Wright (1980b) pp151-152.

<sup>123</sup> See Bradshaw (1972).

<sup>124</sup> See Association Of County Councils (1985) pp4-12; Audit Commission For Local Authorities In England And Wales (1984g); Barnett, Levaggi & Smith (1990); Bennett (1982a); Bramley & Evans (1981); Chartered Institute Of Public Finance And Accountancy (1983); Chartered Institute Of Public Finance And Accountancy (1984c) pp26-27; Chartered Institute Of Public Finance And Accountancy (1987) pp43-47; Crispin & Marlsden-Wilson (1986) pp231-239; Crispin,

indicators of spending need included in the complex formula were generally those that could be easily quantified such as road mileage and number of school pupils. The formula excluded many indicators that could not be easily quantified such as local weather conditions. The assessment of spending needs using these crude indicators was packaged as a comprehensive and objective formula, but in reality was little more than an arbitrary and subjective exercise of judgement.<sup>125</sup> This apparent attempt to calculate the spending needs of local authorities was soon made superfluous with the introduction of expenditure targets and grant penalties. Local authorities which spent over their expenditure target were penalised by losing grant even if they spent below their grant-related expenditure assessment. The Conservative Government was never serious in its attempt to measure the spending needs of local authorities because many local authorities were given expenditure targets lower than their grant-related expenditures, which was the Government's assessment of their spending needs.<sup>126</sup> In the words of Jones and Stewart:<sup>127</sup>

"The Government has made and has published an assessment of how much a local authority needs to spend to provide a standard level of service for a standard rate poundage (the GREA). Yet at the same time and on a different basis the Government

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Marslen-Wilson & Bridges (1984); Davies (1983); Department Of The Environment & Department Of Transport (1983); Gibson & Travers (1985); Hepworth (1984) pp59-64; Jones & Stewart (1983b); Jones & Stewart (1985) pp154-155; Livesey (1987) pp53-55; Loughlin (1982) pp255-256; National Audit Office (1985); Newton & Karran (1985) pp116-117; Raine (1985) pp52-54; Smith (1983); Tanner (1986); Travers (1982a) pp18-21; Travers (1983b); and Travers (1986b) pp95-100, 123-136, 160-165, 183-186.

<sup>125</sup> See Travers (1983b).

<sup>126</sup> Chairman, Social Services Committee, Kent CC. See also Cumbria County Council (1985); Gibson & Travers (1985) p20; Smith (1983); and Smith & Stewart (1985).

<sup>127</sup> Jones & Stewart (1983b) p415.

has set spending targets for authorities. These targets require a cut from those authorities already spending less than the Government says through GREA that they ought to spend. A local authority which the Government says, in effect, is spending too little on education will be penalised if it fails to spend even less on education."

This attempt by central government to measure spending need of local authorities was not genuine, and was undertaken only to control local authority spending. Grant-related expenditure assessments should be discarded as a way of calculating the spending needs of local authorities.<sup>128</sup>

Local authorities also attempt to measure their spending needs. In making budgets local authorities generally prepare a base budget.<sup>129</sup> It is essentially a standstill budget. It is the budget required to carry out the existing policies of a local authority updated to reflect not only changes in price but also changes in defined need. The base budgets of local authorities vary as their policies vary. In particular, it is possible that the same spending cuts will be contained within the base budget of one local authority because its policy is to cut spending as the need and demand for services diminishes, but outside the base budget of another local authority with a policy of providing the same service regardless of need and demand. For example, some local authorities, such as Stockport MBC, have a policy of deducting from their base budgets any money savings arising from falling school rolls; but other local authorities, such as Knowsley MBC, have no such

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<sup>128</sup> The same is also true of its albeit much simplified replacement, the standard spending assessment (SSA) - see Chartered Institute Of Public Finance And Accountancy (1992) pp79-86.

<sup>129</sup> See Chartered Institute Of Public Finance And Accountancy (1991b) p120; Chartered Institute Of Public Finance And Accountancy (1992) pp124-127; Douglas & Lord (1986) p36; Elcock (1987a) p254; Greenwood, Hinings, Ranson & Walsh (1976) pp41-43; Hepworth (1984) pp214-215; and Nicholson (1988) p243.



policy and any savings are budgeted outside their base budgets. The calculation of a base budget represents an attempt by local authorities in varying degrees to measure their spending needs. Moreover, any local authority when it makes a budget believes that it reflects need. It assesses both the need to spend and the need not to spend.<sup>130</sup> Following Wildavsky, budgeting "is concerned with the translation of financial resources into human purposes."<sup>131</sup> Changes in spending need are thus built into the budgeting process of local authorities. However, these needs are determined by the local authorities themselves despite a few tentative moves to find out the needs of their consumers, and thus represent a necessarily partisan view of what needs to be spent.<sup>132</sup> Nonetheless, an analysis of budgets generally and base budgets specifically is a useful though limited way of assessing the spending needs of local authorities.

The above two examples demonstrate the partisan nature of defining need. Both central government and local authorities have very different ways of defining needs which reflect their particular interests. These methodological problems of defining and measuring spending need are very much echoed in the more general and recent debates surrounding local government on the ideas of public service orientation and consumerism.

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<sup>130</sup> Cope (1987) p100.

<sup>131</sup> Wildavsky (1964) p1.

<sup>132</sup> The four local authorities studied all claimed in varying degrees that the needs of consumers were built into their budgets - see Miller (1987a); Penn (1984); Rosenthal (1991); and Sabin (1990). Bedfordshire CC, Kent CC, and Knowsley MBC all commissioned surveys to find out what the public thought of their services, and what the public wanted from their services - for example, see Market & Opinion Research International (1987); and Rosenthal (1991).

The Local Government Training Board, now subsumed as part of the Local Government Management Board, pioneered the idea of public service orientation. Stewart and Clarke stated:<sup>133</sup>

"The activities of a local authority are not carried out for their own sake, but to provide service for the public.... The public service orientation recognizes that:

- a local authority's activities exist to provide service for the public
- a local authority will be judged by the quality of service provided within the resources available
- the service provided is only of real value if it is of value to those for whom it is provided
- those for whom services are provided are customers demanding high quality service
- quality of service demands closeness to the customer."

Similarly, the National Consumer Council urged local authorities to become "more consumer oriented."<sup>134</sup> It pleaded with local authorities to embrace consumerism in measuring their performance, and urged:<sup>135</sup>

"Measurement should attempt to relate service provision and quality to consumer and/or community preferences or needs...."

What both public service orientation and consumerism have in common is that the spending needs of a local authority should be determined by the public - either citizens or consumers. However, though this view is appealing to those defenders of local government it ignores or downplays the problems of measuring need. The public may be unable to articulate its needs. Even if its needs can be articulated the public may express competing and conflicting needs. Even if these conflicts of need can be resolved the public may be unable to translate its needs into spending plans.

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<sup>133</sup> Stewart & Clarke (1987) p161. See also Clarke & Stewart (1986); Local Government Training Board (1987); Local Government Training Board (1988); Stoker (1989) pp39-47; and Walsh (1989b).

<sup>134</sup> National Consumer Council (1986) piii. See also Fenwick (1989); and Pollitt (1988).

<sup>135</sup> National Consumer Council (1986) pvii.

The concept of need is subjective - it is a question of whose need. It is consequently difficult to define with any precision. The concept of need is also difficult to measure with any accuracy. Some writers have used very simple indicators of spending need, such as the number of people living in a local authority area and clients consuming a local authority service.<sup>136</sup> However, these indicators are crude measures of spending need, and thus empty the definition of need of any real meaning. Other writers have urged local authorities to develop more sophisticated indicators of need, and have preached over time the virtues of various forms of Planning, Programming, Budgeting Systems (PPBS).<sup>137</sup> Though these indicators may capture the full definition of need, its measurement becomes difficult if not impossible. The central problem is who is to define need and how is need to be measured. Though there are severe problems in operationalising any definition and measurement of local authority spending in volume terms it is still important to recognise that need and demand, however defined and measured, are important concepts in any analysis of spending cuts in local government.

As well as three absolute measures of local authority spending - cash, real and volume measures - it can be measured in relative terms. This second way of measuring local authority spending does not in any way measure the variable itself, but relates it to another variable. The main relative yardsticks are ranking techniques and proportion-share calculations. The principal problem with these yardsticks is that they often reveal more about the variable with which the relationship is being made than the variable being measured. For example, the Conservative Government ranked local authorities according to how much

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<sup>136</sup> See Bennett & Stewart (1983); and Smith (1985).

<sup>137</sup> See Eddison (1975) pp35-83; Foster & Algie (1985); Greenwood & Stewart (1974) pp155-274; and Stewart (1971) pp28-29, 66-68.

they spent. In the Government's rush to isolate the so-called local authority 'overspenders' these league tables say nothing about how much local authorities actually spent, and are consequently misleading.<sup>138</sup> The two most common forms of proportion-share calculations are to measure local authority spending in relation to public expenditure and gross domestic product. However, the calculation of both public expenditure and gross domestic product is littered with considerable obstacles.<sup>139</sup> Notwithstanding these difficulties, measuring a slice of the cake as a share of the whole cake often says more about the size of the cake itself. For example, the Conservative Government stated:<sup>140</sup>

"Our policy is therefore to reduce the share of national income taken by the public sector. In the mid-1970s, public spending peaked at over 49 per cent of our gross national product. In the early 1980s, it peaked at over 47 per cent. In this recession, it is peaking at only 43 per cent."

This presentation of public expenditure cuts is no more than a statistical deception, because though its share of gross domestic product fell, public expenditure in this period actually increased in real terms.<sup>141</sup> This falling share relative to the wider economy is best explained by a growing economy and not by falling public expenditure. Thus, relative measures of spending may raise many important questions, but they need to be carefully answered.

Overall, there are many ways in which local authority

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<sup>138</sup> See Smith (1985); and Travers (1984b).

<sup>139</sup> The problems of measuring public expenditure have already been discussed. On the problems of measuring gross domestic product see Hampton (1991) p94; and Ormerod (1992) p12.

<sup>140</sup> Conservative Party (1992) p6.

<sup>141</sup> See Davies (1993); and HM Treasury (1987b) p32. See also table 2.1.

spending can be measured. These ways are illustrated in the table below, which measures local authority spending using data compiled by the Chartered Institute of Public Finance and Accountancy.

Table 2.5: Local Government Expenditure in Britain,  
1974/75 - 1984/85

	<u>1974/75</u>	<u>1976/77</u>	<u>1978/79</u>	<u>1980/81</u>	<u>1982/83</u>	<u>1984/85</u>
Cash (£b)	12.6	16.4	18.8	25.0	29.1	34.9
Real (£b)*	15.0	14.0	13.0	12.1	12.2	13.3
Share of public sector (%)	32.2	30.4	28.2	27.0	25.7	26.9
Share of GDP (%)	15.9	14.3	12.8	12.2	12.1	12.4

\* Adjusted to 1975 prices

Source: Chartered Institute Of Public Finance And Accountancy (1980); Chartered Institute Of Public Finance And Accountancy (1982); Chartered Institute Of Public Finance And Accountancy (1984d); Chartered Institute Of Public Finance And Accountancy (1989); and Chartered Institute Of Public Finance And Accountancy (1991c)

The table above shows the spending of local government as measured in cash and real terms, and as a share of the public sector and gross domestic product. Different pictures emerge about the state of local government spending depending on the type of measure used. From this table it can be seen that between 1974/75 and 1984/85 local government spending has increased by 277 per cent in cash terms, but decreased by 11 per cent in real terms. Also,

local government spending has been reduced both as a share of the public sector and of gross domestic product, though its share of the public sector fell by 16 per cent whereas its share of gross domestic product fell by 22 per cent. Thus, the type of measurement is critical in measuring local authority spending.

#### When local authority spending is measured

The measurement of local authority spending requires comparison in order to make sense of its size. To say that local authorities spent £34.9 billion in 1984/85 does not mean anything unless it is compared either with previous years, other government bodies, local government in other countries or another variable. The measurement of spending cuts in local government requires a base, from which any change can be quantified. The base chosen is crucial in any presentation of spending cuts. For example, from table 2.5 though local government spending has fallen in real terms from 1974/75 to 1984/85, it has increased from 1978/79 to 1984/85. Thus, local authority spending was cut under the Labour Government while it increased under the Conservative Government, which was committed to curbing local authority spending. It is not surprising that Elcock, for example, refers to "the Thatcher Government's failure, even after seven years of imposing increasing financial rigour, to procure reductions in local authority spending."<sup>142</sup> The choice of the base-year becomes critical in portraying whether cuts have taken place in local government.<sup>143</sup>

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<sup>142</sup> Elcock (1987a) p255. See also Cochrane (1993) pp33-34; Jones (1990/91) p197; Marsh & Rhodes (1992a) pp43-47; Midwinter (1988) p27; Riddell (1983) p129; Rhodes (1988) p248; Rhodes (1992a) p71; Rhodes (1992c) pp58-64; Stewart (1986) pp19-20; and Travers (1987c).

<sup>143</sup> See Jacobs (1979) p1283.

Another example illustrating the significance of the base-year concerns the Kent CC's decision to reorganise its remand facilities. Following a review of its remand facilities in the county the Committee decided to close two of its remand units providing secure accommodation for young offenders, and instead provide restricted accommodation at a smaller closed supervision unit.<sup>144</sup> In Kent CC's revenue budget 1984/85 this decision was presented as a spending cut amounting to £140,000.<sup>145</sup> Thus, compared to the previous year there was a reduction of spending. However, it is important to take a longer look at this spending cut. The reorganisation of remand facilities involved extra spending in closing down the two existing remand homes and establishing the closed supervision unit. In Kent CC's capital programme 1983-84 this decision was presented as increased spending amounting to £90,000.<sup>146</sup> Notwithstanding the difficulties in combining revenue and capital spending of local authorities, the decision to reorganise remand facilities yielded a saving of only £50,000.<sup>147</sup> Furthermore, the two closed remand homes were later sold, raising capital receipts which could be used to

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<sup>144</sup> Assistant Director of Social Services, Kent CC; Policy Officer, Social Services Department, Kent CC; Area Manager, Social Services Department, Kent CC; Officer-in-Charge, Glebelands Close Supervision Unit, Kent CC; and Branch Secretary, National and Local Government Officers Association, Kent. Also, taken from Director of Social Services' Report to the Social Services Committee, Kent CC dated 7 December 1982.

<sup>145</sup> Taken from Kent CC's Revenue Budget And Capital Programme 1984-85, 16 February 1984, p70.

<sup>146</sup> Taken from Kent CC's Budget 1983-84, 17 February 1983, p67.

<sup>147</sup> This saving never fully materialised because of delays in setting up the closed supervision unit (Assistant Director of Social Services, Kent CC; Policy Officer, Social Services Department, Kent CC; Area Manager, Social Services Department, Kent CC; and Officer-in-Charge, Glebelands Closed Supervision Unit, Kent CC).

finance Kent CC's capital programme.<sup>148</sup> Thus, this decision either reduced spending by £140,000 or £50,000 depending on what base-year is chosen. At the time the Social Services Committee made this decision, it incurred extra spending - an example of spending more now to save later.<sup>149</sup> The decision to reorganise remand facilities illustrates the significance of the base-year in measuring local authority spending.

A spending cut can be perceived when spending is measured against a future projection, and even an expectation of future spending. Nicholas Ridley, a former Conservative minister, wrote bluntly:<sup>150</sup>

"Eventually I discovered the meaning of the word 'cuts' in a conversation with some left-wing teachers from my constituency who used the phrase as a sort of war-cry. What they meant went like this: 'This year my budget is £100 million; next year I want £150 million. You have offered me £120 million. Therefore I have had a cut of £30 million.' A purist would call this an increase of £20 million...."

He observed that increased spending can be presented as spending cuts. For example, Bedfordshire CC reduced its repairs and maintenance budget by £850,000 in 1984/85. It first wanted to cut this budget by £1.1 million, but later added an extra £250,000 to the budget. The extra monies can be perceived as increased spending and a reduced spending cut. The Education Committee of Knowsley MBC wanted over £1.5 million extra to spend on service developments, but received only £160,000 extra. This amount can be seen as a slight increase in spending and a substantial reduction from what the Committee wanted. These examples show that

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<sup>148</sup> Policy Officer, Social Services Department, Kent CC.

<sup>149</sup> Osborne and Gaebler argue that "spending money to save money" is a characteristic of enterprising governments, possessing "an "investment" perspective - a habit of gauging the return on their spending as if it were an investment" ((1992) p205).

<sup>150</sup> Ridley (1992) p84.



spending decisions can be presented in language of both cuts and growth. The expectations of the actors involved in making decisions are important in how these decisions are perceived. The Conservative Government claimed to have "held down unjustified rises in the cost of local government."<sup>151</sup> The trend of increasing local authority spending is thus couched in the language of restraint. The base against which spending is measured often includes a psychological calculation of what spending is needed and expected in the future. There is little psychological difference in an expected decision to cut spending and an unexpected decision not to increase spending. The perception of spending cuts involves both financial and psychological calculations of the base.

A base widely used by local authorities for budgetary purposes is the base budget. As already mentioned, the base budget is the budget required to carry out the existing policies of local authorities. There are several advantages of examining the base budgets of local authorities in the analysis of spending cuts in local government. First, it allows decisions to cut spending to be distinguished from other decisions. Second, the base budget is updated to take into account price changes allowing comparisons to be made in real terms. Third, the base budget reflects changes in need as determined by local authorities. The base budget therefore serves as a very useful yardstick against which the spending of local authorities can be measured.

However, one disadvantage of using the base budget as a base is that any comparisons will be short-term. The base budget may be exceptional, and any comparisons with it would be distorted. It is important, then, also to compare local authority spending over a longer period of time. But if local authority spending is compared over a longer

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<sup>151</sup> Conservative Party (1992) p37.

period of time, there is the problem of comparing like with like. The functions provided by local authorities have changed significantly over time. For example, since 1979 local authorities have lost responsibilities in development (to urban development corporations), education (to city technology schools, grant-maintained schools that have opted-out of local authority control, the Polytechnics and Colleges Funding Council and now the Higher Education Funding Council), and housing (to tenants buying their council houses, and housing action trusts), but have gained responsibilities mainly in community care (from health authorities). The Conservative Government seeks to further decimate the functions which local authorities provide by encouraging masses of schools to opt-out of local authority control and restructuring the police service.<sup>152</sup> Indeed, Rogaly predicted:<sup>153</sup>

"Those who look for local government around millennium-time may need a magnifying glass. The great town hall barons of the 1970s, with their direct labour forces, council-house fiefdoms, and monopolies over state education services will have been swept away."

Longer-term comparisons of local authority spending need to be sensitive to these changes of local government functions. Thus, it is necessary to use several bases in order to make both short-term and long-term comparisons.

#### UNDERSTANDING LOCAL GOVERNMENT SPENDING

In discussing public expenditure the problems of perception, aggregation and methodology were examined.

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<sup>152</sup> See Department For Education & Welsh Office (1992); and Home Office (1993).

<sup>153</sup> Rogaly (1992).

These three problems plagued much of the literature on public expenditure, and consequently many of the debates became entangled with misunderstandings. It is important that these problems of local government spending are addressed to understand the nature of spending cuts in local government.

### The perception of local government spending

Duke and Edgell have undertaken useful research on the perception of public expenditure cuts in Greater Manchester.<sup>154</sup> In particular, they examined the public perception of public expenditure cuts and found there "are clear links between the subjective perceptions ... and the 'objective' cuts...."<sup>155</sup> Their research suggests that there is little misperception of public expenditure cuts. However, their finding is flawed on two counts. First, as they admitted, "it is perfectly possible for a service which has been increased nationally to have been cut in the local area."<sup>156</sup> Thus, the perception of cuts is very dependent upon where the perceiver looks. Second, their research focused on public expenditure cuts and not local authority spending cuts. Their research on the perception of cuts in two local authorities must be treated with some caution.

The rhetoric of cuts emanating from the Conservative Government and many local authorities has created a

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<sup>154</sup> See Duke & Edgell (1984); Duke & Edgell (1986); Edgell & Duke (1981); Edgell & Duke (1982); Edgell & Duke (1983); Edgell & Duke (1986); and Edgell & Duke (1991) pp86-138.

<sup>155</sup> Edgell & Duke (1991) p125. See also Edgell & Duke (1981); and Edgell & Duke (1986).

<sup>156</sup> Edgell & Duke (1991) p124. See also Edgell & Duke (1986) p235.

perception that cuts have taken place in local government. The Conservative Government wanted to cut local authority spending, and many local authorities wanted to resist these cuts. The Government believed cuts could be made without damaging services, and local authorities (especially Labour councils) believed cuts could be made only by cutting jobs and services. In the battles between central and local government in the 1980s both sides had a vested interest in people believing their claims. It is hardly surprising that spending cuts occupied a central place on the agenda of local government. But given the literature on local government spending and its many conflicting observations and explanations, there is misperception of local authority spending. For example, the Director of Works of Stockport MBC believed that his department had made cuts, when in fact no cuts were made in his budget.<sup>157</sup> The reality and the perception of local authority spending are often not the same phenomenon. Following Newton and Karran:<sup>158</sup>

"Local finances are infused with political myths, nonsensical beliefs, and increasingly with far-fetched ideological claims."

Another way in which local authority spending is misperceived lies in the way it is interpreted. Too often people make an axiomatic link between the quantity of spending and the quality of service that the spending provides. It is sometimes assumed that the inputs (as measured by money spent) determine the outputs (that is the service provided). Thus, any spending cuts made by local authorities will automatically lead to reduced service provision. Richards in an established textbook on local government stated unequivocally:<sup>159</sup>

"Cuts in public expenditure require cuts in the

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<sup>157</sup> See Stockport MBC's Corporate Plan And Budget 1984-87, March 1984, pp43-47.

<sup>158</sup> Newton & Karran (1985) pxiii.

<sup>159</sup> Richards (1983) preface.

standards of services. Without question local government is in decline."

Likewise, a New Society editorial declared that "there are no cuts in spending without cuts in services."<sup>160</sup> These views see the relationship between spending and services in a very simplistic light - more spending means more and better services, and less spending means less and worse services. This belief pervades much of the media coverage of cuts, and makes for sensational headlines. For example, The Daily Telegraph reported:<sup>161</sup>

"The tendency to blame almost every administrative shortcoming on "the Government Cuts" seems to know no bounds. According to the DUNDEE COURIER, a two-year-old girl from Stirling suffered a lacerated bottom when the seat of a local public lavatory collapsed underneath her. When the child's angry mother, one Sylvia McDonald, telephoned Stirling District Council to express her displeasure she was apparently told: "We can make no repairs because of Margaret Thatcher's cutbacks.""

The link between spending and service provision is complicated on two grounds. First, the link is a question of judgement, whether it is political, professional, managerial or so-called 'common-sense' judgement. To say that spending cuts damaged services is not an objective fact but a subjective judgement. A murder of a young girl sadly illustrates the subjective nature of assessing the impact of cuts upon services. In August 1989 Stephanie Fox, who was under the protection of the Social Services Department of Wandsworth LBC, was murdered by her father. At the time the Department was making substantial cuts. After an inquiry into her death the following headlines appeared in the press:<sup>162</sup>

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<sup>160</sup> New Society (1985) p180.

<sup>161</sup> The Daily Telegraph (1985). See also Ridley (1992) pp83-84.

<sup>162</sup> Taken from Eaton (1990) p5; The Guardian (1990) p4; and Ivory (1990) p5.

"Cuts reduced Stephanie's chances" (Social Work Today)

"Cuts contributed to child's death" (Community Care)

"Death followed council cuts" (The Guardian)

From these headlines the link between spending cuts and service provision is clearly made, but the precise link varies with each of the three headlines. On one hand the cuts merely contributed to her death, and on the other hand the cuts caused her death.

Second, the relationship between spending and services does not take place in isolation from other factors. These other factors, such as laws and expertise of staff, intervene in the relationship between spending and services. Spending is only one input, albeit very important, in the provision of services. According to Rose:<sup>163</sup>

"Programmes are packages of three resources - laws, money and personnel - mobilized by government organizations and converted into outputs. Government is not to be reduced to a single concept or indicator: it is a set of organizations, a set of resources, and a set of programmes. The three interact, influencing each other in a continuing feedback process. In turn, they influence and are subject to a host of social, economic and political influences that collectively affect the volume of resources at hand, the predispositions of organizations, and the content of programmes."

As a result of other factors the simple link between spending and services is broken. Hogwood argued there is "a weak link between changes in the quantity and quality of the final output of a public policy...."<sup>164</sup> Other things being equal, when a local authority cuts its spending its

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<sup>163</sup> Rose (1985) p7. Similarly, Hood argued that spending is only one tool in a government's 'toolshed' ((1983)). See also Dunleavy (1986b) p379.

<sup>164</sup> Hogwood (1992) pp33-34. Similarly, Danziger noted that the "amount of money does not necessarily correspond to either the quality or quantity of service" ((1978b) p59).

services will be reduced, but other things rarely remain equal.

There have been misperceptions of local government spending, both over its size and its impact upon service provision. These misperceptions have made for a very sterile debate on spending cuts in local government. Any perception of local government spending must be grounded in an understanding of how it is measured. This understanding can be gained only from looking at the aggregation and disaggregation of local government spending, and at the methodology of local government spending.

#### The aggregation of local government spending

Most observations on the size of local authority spending have been made at an aggregated level, either of a single local authority or local government generally. The spending within many account headings are added together to arrive at the total spending of a local authority, or the spending of local authorities are added together to arrive at the total spending of local government. However, as Rose warned, this aggregated approach fails to detect all changes in the parts, bundled and added together to calculate the whole.<sup>165</sup> All four local authorities studied made decisions to cut spending, but these cuts were hidden by decisions to increase spending. An aggregated analysis of local authority spending would fail to examine these spending cuts, thus giving a misleading picture. Say, for example, a local authority decides in response to falling school rolls, as many have done, to close a school to save money. The aggrieved parents, pupils and teachers faced with this decision would not in any way be consoled that this decision does not represent a spending cut because the

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<sup>165</sup> Rose (1985) p5.

local authority increased its overall level of spending. Spending cuts occur regardless of the overall trend of local authority spending. It is important to disaggregate local authority spending and focus on the decisions to cut spending.<sup>166</sup>

Rose pioneered 'the programme approach', which is a form of disaggregated analysis.<sup>167</sup> He justified this approach when he wrote:<sup>168</sup>

"The things that most visibly change in government are its programmes; disaggregating government into programmes is therefore a meaningful and necessary way to understand its dynamics."

Though this approach is refreshing it is also limited in the way it can be applied to the analysis of spending cuts in local government. Rose recognised this limitation when he remarked that the "variety of governmental activities poses a strategic question: what is the appropriate level of disaggregation in identifying programmes?"<sup>169</sup> He attempted to answer this question by defining programmes as "a set of government activities related in budgets and organizational structure to a common purpose...."<sup>170</sup> This programme approach assumes that local authorities budget and organise their activities in the same way, and pursue similar objectives. They do not. Though activities are organised into programmes the contents of these programmes

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<sup>166</sup> As argued earlier, these decisions to cut spending can only be disaggregated in the budgets of local authorities. In the financial accounts of local authorities decisions are bundled together in an array of headings; whereas in their budgets decisions are presented as variations from the base budget. See Newton & Sharpe (1977) p70.

<sup>167</sup> See Rose (1984); and Rose (1985).

<sup>168</sup> Rose (1985) p1.

<sup>169</sup> Rose (1985) p9.

<sup>170</sup> Rose (1985) p9.



vary widely between local authorities. For example, in Bedfordshire CC the library service is overseen by its Leisure Committee, and can be regarded as a leisure function; but in Kent CC it is overseen by its Education Committee, and can be seen as an education function. Thus, a comparison of the leisure and education programmes of these two local authorities would not be comparing like with like. The programmes of local authorities display variety in their contents and purposes.<sup>171</sup> Consequently, the programme approach becomes troublesome in analysing spending cuts in local government. It should be rejected in favour of the decision approach, which focuses on the decisions to cut spending. The decision approach is a more sophisticated form of disaggregated analysis of spending cuts in local government.

However, it is also equally important to place any decisions to cut spending in the perspective of the overall trend of local authority spending. This perspective allows meaningful comparisons to be drawn. Any analysis of local authority spending needs therefore to be undertaken at both an aggregated and disaggregated level. By combining both forms of analysis there is no danger of perceiving spending cuts from only one standpoint, because perceiving cuts depends on what is being looked at - government, local government, a local authority, a local authority service, or a specific decision to cut spending.<sup>172</sup> At a

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<sup>171</sup> There is little advantage served by dividing the budgets of local authorities into comparable programme areas. Notwithstanding the tremendous difficulties in tidying up the programmes of local authorities, any reshuffling of spending between committees and departments would blur the decision-making boundaries within local authorities. Committees and departments are key decision-making units in local authorities, and an examination of their interplay at budget time helps to explain the incidence of spending cuts in local authorities.

<sup>172</sup> The failure to specify the level of analysis was seen earlier in Duke and Edgell's research on spending cuts in local government.

disaggregated level of analysis it is possible to examine spending cuts which would have otherwise been swamped at an aggregated level. At an aggregated level it is possible to detect general trends of spending which would not be found in the detailed (and possibly peculiar) analysis at a disaggregated level. The analysis of spending cuts in local government needs to focus on the specific decisions to cut spending but these decisions need to be placed in their wider context of the overall trends of local authority spending.

#### The methodology of local government spending

Given the many different ways to measure local authority expenditure it is perhaps not surprising that the vast mass of literature on local government spending reveals there is no consistent and therefore easily comparable way of measuring the spending of local authorities. As can be seen from table 2.2, the Treasury, the Department of the Environment, the Central Statistical Office and the Chartered Institute of Public Finance and Accountancy produced very different measurements of local government spending because they used different methods to measure the spending of local authorities. The Treasury used current expenditure and net capital expenditure; the Department of the Environment used gross revenue expenditure and gross capital expenditure; the Central Statistical Office used current expenditure but did not explain what method was used to measure capital spending; and the Chartered Institute of Public Finance and Accountancy used gross capital expenditure but did not explain what method was used to measure revenue spending.<sup>173</sup> Furthermore, academics have used different methodologies in measuring local

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<sup>173</sup> See Chartered Institute Of Public Finance And Accountancy (1991c); Department Of The Environment (1986); and HM Treasury (1987b).

authority spending. For example, Edgell and Duke tended to use net expenditure in assessing the perceived impact of cuts; Newton and Karran simply measured local authority spending as a share of both public expenditure and gross domestic product; and Travers often used current expenditure as a measure of local authority spending.<sup>174</sup> There is no consistent framework within which to compare the different measurements of local authority spending. It becomes therefore important to understand the methodology deployed in measuring local authority spending. Too often the methodology is not stated in the literature on local government spending; and, if stated, its significance is not explained.

This research focuses on spending cuts made in 1984/85 in four local authorities - Bedfordshire CC, Kent CC, Knowsley MBC, and Stockport MBC. It is now necessary to summarise and justify the methodology used in the subsequent analysis of spending cuts in these local authorities. Essentially this analysis will focus on the following measures of local authority spending:

(a) gross expenditure - this measure captures the totality of local authority spending regardless of how it is financed;

(b) revenue and capital expenditure - these measures need to be examined separately because they are subject to different financing and control mechanisms, and therefore constitute different though linked decision-making arenas;

(c) actual and budgeted spending - actual spending (outturn) measures the reality of local authority spending, and budgeted spending allows an examination of specific decisions to cut revenue spending;

(d) cash and real spending - cash spending represents the money actually spent, and real spending is the amount spent discounted for inflation which allows for meaningful comparisons

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<sup>174</sup> See Edgell & Duke (1986); Newton & Karran (1985); and Travers (1986b).

over time;

(e) base budget - this measure represents the amount a local authority needs to spend to carry out its existing policies, and thus reflects changing prices, needs and demands as defined by the local authority;

(f) spending in 1984/85 compared to previous years - these measures allow the extent of change to be measured over both a short and longer period of time; and,

(g) aggregated and disaggregated spending - these measures provide context to decisions to cut spending, and focus on the actual decisions themselves.

Though defining and measuring local authority spending represents a methodological nightmare, the methodology above provides the best basis for analysing spending cuts in local government. This methodology has not been applied in any studies of spending cuts in local government, and therefore constitutes an original approach. Having discussed the anatomy of spending cuts in local government the remaining chapters will now examine why and how the four local authorities made spending cuts.

CHAPTER THREE

SPENDING CUTS IN LOCAL GOVERNMENT: CUTS? WHAT CUTS?

For many years central government has attempted to control and curb public expenditure, and in particular local government spending. Local authority spending has become a prime target for central government in its drive to cut public expenditure. As a result of central government's attacks on local authorities there has been much talk about fiscal crisis, fiscal pressure and fiscal stress in local government.<sup>1</sup> Central government, particularly the present Conservative Government, wanted to cut the spending of local authorities, and thus gave itself new statutory powers to curb their spending. Many local authorities, especially Labour-controlled local authorities, in turn complained about these attacks on their spending, and tried to resist making spending cuts and blamed central government on any damage to services caused by the cuts. There was, then, much conflict between central and local government. Many have blamed the Conservative Government for cuts in local government.<sup>2</sup> The aim of this chapter is to examine what spending cuts were made and why cuts were made in local government. First, the chapter assesses the record of revenue and capital spending of the four local

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<sup>1</sup> See Bailey (1981); Baumol (1971); Bennett (1988); Blunkett & Jackson (1987); Boddy (1984); Boyne (1988); Cockburn (1977) pp41-66; Gibson, Watt & Smith (1987); Glassberg (1980); Glassberg (1981); Goldsmith & Villadsen (1986); Gottdiener (1986); Greenwood (1981); Gurr & King (1987); Ibrahim & Proctor (1992b); Jackson, Meadows & Taylor (1982); Jones & Stewart (1985); Levine & Rubin (1980); Midwinter (1988) p21; Mouritzen (1992b); New Statesman & Society (1991); Newton (1980); Newton & Karran (1985); Nicholson (1988); Parkinson (1985b); Parkinson (1988b); Piven & Friedland (1984); Rose & Page (1982b); Rubin & Rubin (1986); Sharpe (1981c); Szelenyi (1984); Terry (1986); and Walsh (1988).

<sup>2</sup> See Baxter & Platt (1991); Blunkett & Jackson (1987); Boddy (1984); Bundred (1986); Burgess & Travers (1980); Clarke & Cochrane (1989) pp47-48; Elliott & McCrone (1984); Gyford (1985) pp30-32; Hall (1983); Labour Party Research Department (1979); Lansley, Goss & Wolmar (1989) pp23-46; Midwinter (1984); Midwinter & Page (1981); National Union Of Public Employees (Scotland) (1983); Platt (1987); Platt S (1988); QueenSpark Rates Book Group (1983); Rodrigues (1980); and Stephen (1993).

authorities studied - Bedfordshire CC, Kent CC, Knowsley MBC, and Stockport MBC - to determine the extent and causes of any spending cuts. Second, the chapter places these specific empirical findings in a wider theoretical context, drawing on the literature on fiscal stress in local government.

### CUTTING LOCAL AUTHORITY REVENUE SPENDING

The methodology to be used in understanding spending cuts in local government was set out in the last chapter. Analysis must focus on gross spending, and not net spending, and must distinguish between revenue and capital spending. With revenue spending it is important to examine both actual and budgeted spending. Only by looking at the budgets of local authorities can the specific decisions to cut spending be identified and therefore analysed. It is also important to measure revenue spending in a variety of ways - for example, in both cash and real terms - and to compare spending over several years. The revenue spending of the four local authorities is shown in the table below.

Table 3.1: Gross Revenue Spending of Four Local Authorities, 1978/79 - 1984/85\*

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
	£m	£m	£m	£m	£m	£m	£m
Bedfordshire CC	140.6	162.1	193.0	215.0	219.3	239.4	248.3
Kent CC	353.3	407.4	481.5	542.8	575.7	601.4	647.6
Knowsley MBC	76.2	88.0	104.9	113.0	119.7	122.0	124.9
Stockport							

MBC	88.3	103.6	136.6	150.6	158.3	165.6	172.6
England	20817.5	24454.7	29376.2	32369.4	34988.5	37352.6	39616.0

\* These figures include spending in the General Rate Fund Account, Housing Revenue Account, and other accounts (less any inter-account transfers), but exclude contributions to and from special funds. The exclusion of fund transfers can be justified because there is no information on contributions to and from funds nationally, and therefore accurate comparisons cannot be made.

Source: Bedfordshire CC; Kent CC; Knowsley MBC; Stockport MBC; and Department Of The Environment (1986)

This table shows that their revenue spending increased substantially between 1978/79 and 1984/85. The trend of increased spending was mirrored at the national level, where spending almost doubled in this period. This picture of increased spending has been painted only in cash terms, and a very different picture emerges when painted in real terms - see tables 3.2 and 3.3 below.

Table 3.2: Gross Revenue Spending of Four Local Authorities, 1978/79 - 1984/85\*

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
	£m	£m	£m	£m	£m	£m	£m
Bedford- sire CC	140.6	140.7	137.1	136.0	129.3	134.1	133.2
Kent CC	353.3	353.6	342.1	343.2	339.4	336.8	347.4
Knowsley MBC	76.2	76.4	74.5	71.5	70.6	68.3	67.0
Stockport MBC	88.3	89.9	97.1	95.2	93.3	92.8	92.6
England	20817.5	21228.0	20871.2	20468.8	20625.1	20921.1	21252.1



\* Adjusted to 1978/79 prices by a deflator specific to local government

Source: Bedfordshire CC; Kent CC; Knowsley MBC; Stockport MBC; and Department Of The Environment (1986)

Table 3.3: Index of Gross Revenue Spending of Four Local Authorities, 1978/79 - 1984/85\*

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Bedfordshire CC	100	100	98	97	92	95	95
Kent CC	100	100	97	97	96	95	98
Knowsley MBC	100	100	98	94	93	90	88
Stockport MBC	100	102	100	98	99	100	105
England	100	102	100	98	99	100	102

\* 1978/79 is the base year.

Source: Bedfordshire CC; Kent CC; Knowsley MBC; Stockport MBC; and Department Of The Environment (1986)

These two tables portray the revenue spending of the four local authorities after adjusting their spending to discount any pay and price changes in local government. These tables show that in real terms revenue spending of local authorities remained roughly constant. In other words, the increased cash spending only kept up with inflation in local government, and thus did not represent real growth. In general, local government spending stood still during this period. However, Bedfordshire CC, Kent CC and Knowsley MBC reduced their spending and Stockport MBC

increased its spending in real terms. The spending of this sample of four local authorities corresponds very roughly to the national picture of spending restraint. In order to explore the causes of this financial restraint the revenue spending of the four local authorities will be examined in detail. The examination focuses on the financial year 1984/85, which was not an exceptional year and fits into the general pattern of local authority spending. Its examination therefore will reveal much about the reasons why local authorities did or did not cut their spending.

In 1984/85 all of the four local authorities reduced their revenue spending in real terms. In particular, Knowsley MBC made a two per cent reduction from its previous year's spending. As argued in the last chapter, it is necessary to turn away from actual spending and look at budgeted spending if the decisions to cut spending are to be understood. The reasons why each of the four local authorities made decisions to cut spending will be explored.

#### Cutting revenue spending in Bedfordshire CC

The County Treasurer asserted that the Council's revenue budget "required reduction of spending on services of approximately 2% in real terms compared to 1983-84."<sup>3</sup> Notwithstanding the fact there was a slight overspend on the budget, this assertion is somewhat confusing on two grounds. First, this reduction was calculated using net spending and not gross spending of the local authority. The reduction included a significant proportion of increased revenue raised from fees and charges for services and

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<sup>3</sup> Taken from Bedfordshire CC's Annual Report And Statement Of Accounts 1984-85, p2.

specific grants.<sup>4</sup> Though these extra revenues have the effect of reducing the level of net spending, they have no such effect on the level of gross spending. Second, the proportion of spending cuts pointed out by the County Treasurer is greatly distorted by the treatment of funds for accounting and budgeting purposes. If money is set aside as a fund in one year it is treated as expenditure in that year even though the money has not actually been spent. If this money is taken out of the fund in another year it is treated as income even though the money has been actually spent. The table below details the gross spending of Bedfordshire CC as adjusted for any fund transfers.

Table 3.4: Gross Revenue Spending of Bedfordshire CC,  
1983/84 - 1984/85

	<u>1983/84</u> £k	<u>1984/85</u> £k	<u>Variation</u> %
Accounted spend	239362	248284	+3.7
Fund adjustment	<u>(7123)</u>	<u>187</u>	
Actual spend	232239	248471	+7.0
Real spend*	232239	237976	+2.5

\* Adjusted to 1983/84 prices

Source: Bedfordshire CC

In 1984/85 Bedfordshire CC increased its actual gross spending by seven per cent compared to the previous year. This increase cannot be seen by looking at the Council's financial accounts because its spending in 1983/84 was artificially increased by making a substantial contribution to its Reserve Fund and in 1984/85 artificially decreased by taking a small amount of money out of the fund. In real terms, rather than the County Treasurer's two per cent

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<sup>4</sup> See table 2.3.

reduction, there was in fact more than a two per cent increase of spending between 1983/84 and 1984/85. Though compared to 1978/79, as table 3.3 illustrates, there was a five per cent real spending reduction in 1984/85. In other words, the spending in 1984/85 represented a modest increase from the previous year, but still a substantial cut from the late 1970s.

Within this overall increase of gross spending in 1984/85 from the previous year the Council made decisions both to increase and to decrease its spending. These decisions, as already mentioned, can be identified only at the budget stage, and the table below summarises these decisions.

Table 3.5: Budgeted Variations of Bedfordshire CC,  
1984/85\*

	<u>1983/84</u>	<u>Reductions</u>	<u>Additions</u>
Gross spending (£k)	232239	(3306)	1760
Variation (%)		(1.4)	0.8

\* Contingency sums, which were set aside mainly for pay and price changes, have been excluded.

Source: Bedfordshire CC

A curious picture emerges from this table because the budgeted spending cuts nearly doubled the budgeted spending increases, and yet the actual spending in 1984/85 increased from that in 1983/84. This apparent contradiction becomes clear when it is remembered that there was a £6 million overspend on the 1984/85 revenue budget, and that certain changes were made to the base budget such as increased financing charges of the Council's capital programme (which did not show up as a budgeted variation).

The revenue budget of 1984/85 reflected to a large extent the 'hung' nature of Bedfordshire CC. The Council has been without majority party control for most of its time since 1973.<sup>5</sup> The budget was made in a very fragmented way, with each of the three main party groups exerting some influence upon its contents and size. As in previous years the budget was essentially a Conservative-Liberal concoction with a few minor amendments from the Labour Group. Consequently, the rationale of the budget strategy was varied and muddled. Each party group pursued different aims and formulated both different and similar strategies in devising their budget proposals. The table below outlines the budgets put forward by the three party groups, and also the budget that was eventually adopted by the Council.

Table 3.6: Budgets of Party Groups of Bedfordshire CC,  
1984/85

	<u>Conservative</u> £k	<u>Liberal</u> £k	<u>Labour</u> £k	<u>Council</u> £k
Net budget	192745	193070	197655	192746
Net reductions	3816	4096	1683	3602
Net additions	1212	1760	3786	1763
Funds used	0	525	3770	527
Balances used	7990	7480	6150	7480
Rate support grant	59000	59040	55500	59040
Precept	126227	126227	132534	126226
Precept				

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<sup>5</sup> See Blowers (1977); Blowers (1982); and Blowers (1986).

increase	0%	0%	5%	0%
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Source: Bedfordshire CC

By looking at the budget proposals of the three main party groups the Conservative and Liberal budgets were most similar, and later formed the basis of the budget adopted by the Council. There were two major considerations which underpinned the making of the revenue budget which was agreed by the Conservative-Liberal majority on the Council.

First, ever since the election of the Conservative Government the Conservative Group on the Council shared the Government's commitment to reduce local authority spending. In response to initial government requests to cut local authority spending, the then Conservative-controlled Council drew up plans drastically to reduce spending over several years. These plans were never fully implemented because the Conservative Group lost control of the Council after the local elections of 1981 and the Council reverted back to a 'hung' council. The Conservative Group, however, was still committed to reducing the Council's spending. This commitment was held not so much out of ideological fixation to cut spending, but more out of a pragmatic realisation that given the Government's financial controls the Council's grant entitlement and precept level should be protected by keeping down its spending. In 1982 the Conservative Group commissioned the management team of chief officers to prepare proposals to reduce spending over two years to the level of grant-related expenditure calculated by the Government.<sup>6</sup> This exercise was carried out because it was assumed the Government would continue to use the system of grant-related expenditure assessments (GREAs) as the basis for distributing block grant and

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<sup>6</sup> See Bedfordshire CC's Getting Down To GREA, 1982.

controlling local government spending. In the event, the Government abandoned this system as a way of curbing spending, and instead introduced a severer regime of expenditure targets and grant penalties. Thus, the 'Getting Down To GREA' exercise was overtaken by events outside the control of the Council, and was "shelved in people's minds".<sup>7</sup>

The system of targets and penalties was based on past expenditure of local authorities, and not on notional expenditure on which the grant-related expenditure assessments were based. A local authority was penalised if it exceeded its expenditure target, and the more it went over target the more it proportionately lost in block grant. The table below outlines the system of targets and penalties which operated in the early 1980s.<sup>8</sup>

Table 3.7: System of Expenditure Targets and Grant Penalties, 1984/85

Excess over expenditure target	1%	2%	3%	4%	5%	10%	20%	50%
Grant penalty*	2p	6p	14p	23p	32p	77p	167p	257p

\* The grant penalty is the amount raised if these penny rates were levied.

Source: Travers (1986b) p131

This table shows that at some point it is no longer financially worthwhile for a local authority to increase

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<sup>7</sup> Deputy Leader, Conservative Group, Bedfordshire CC.

<sup>8</sup> The system of expenditure targets and grant penalties has since been disbanded.

its spending because of the punitive grant penalties incurred.<sup>9</sup> Both the Conservative and Liberal Groups of Bedfordshire CC, like many other local authorities, saw the two per cent over target as the critical threshold beyond which it was not worth spending.<sup>10</sup> Both believed that spending below this threshold prevented a massive precept rise to replace large grant losses, and thus protected services provided by the local authority. The revenue budget of 1984/85, then, was largely determined by the Council's expenditure target, and was "penalty-driven".<sup>11</sup>

Second, and linked to the decision not to exceed greatly the Council's target, was the widespread concern among the Conservative and Liberal Groups to hold down the level of precept. Both recommended there should be no precept rise for 1984/85. The Conservative Group was committed to reducing the spending of the Council in order to toe the Government's line over curbing local authority spending, and also to maintain some financial pressure upon service provision and thus promote efficiency in the Council. Consequently, the Conservative Group favoured keeping the precept at the previous year's level, which many Conservative councillors already thought was "unacceptably high".<sup>12</sup>

The Liberal Group was also committed to not increasing the Council's precept, and thus holding down the level of rates

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<sup>9</sup> Some local authorities, mainly Conservative-controlled, felt that incurring any grant penalty was not prudent, and restricted their spending to within their targets. Other local authorities, such as the now abolished Greater London Council and Inner London Education Authority, spent well in excess of their target and lost their block grant entitlement altogether - see Gibson & Travers (1985).

<sup>10</sup> See Smith & Stewart (1985).

<sup>11</sup> County Treasurer, Bedfordshire CC.

<sup>12</sup> Deputy Leader, Conservative Group, Bedfordshire CC.



in Bedfordshire. This commitment can be best understood by looking at the history of the Liberal Group of Bedfordshire CC. In 1982 the Liberal Group sided with the Labour Group in the making of the budget which led not only to a large precept rise and but also to a supplementary precept.<sup>13</sup> Some Liberal councillors blamed this precept increase for their electoral defeats in the district council elections. Blowers, a Labour councillor, noted:<sup>14</sup>

"The Liberals split when their Deputy leader blamed his party's poor performance in the District Council elections of May 1982 on their high expenditure plans. The Liberals began to lose their appetite for supporting Labour proposals for the restoration of cuts and improvements of services. For the remaining life of the 1981-5 council the Conservatives, with Liberal acquiescence, retained effective control over the budget."

In 1983 two of these councillors left the Liberal Group over a dispute over school closures. This split led to the Liberal Group losing the balance of power on the Council. Following strong pressures from the wider Liberal Party the two councillors rejoined the Group despite rumours that they were to join the Conservative Group. They rejoined on the implicit, but disputed, condition that the Liberal Group recommended a nil precept rise for 1984/85. The two dissenting councillors believed, along with other prominent Liberal councillors, that any precept rise would have adverse electoral consequences for the Liberal Party in the forthcoming district council elections.<sup>15</sup> Thus, the Liberal and Conservative Groups, though holding different motives, both agreed there should be no precept increase for 1984/85.

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<sup>13</sup> This supplementary precept was outlawed retrospectively by the Local Government Finance Act 1982 - see Blowers (1982).

<sup>14</sup> Blowers (1986) p6.

<sup>15</sup> The Education Spokesman of the Liberal Group blamed his defeat in the district council elections on the high level of rates in Bedfordshire.

Overall, then, the spending cuts contained in the revenue budget were the product of Conservative and Liberal thinking to limit both the level of spending and precept. They were able to vote together to pass a budget to fulfil both these aims despite the opposition of the Labour Group. The Labour Group was never in the budgetary frame because its strategy never coincided with that shared by the Conservative and Liberal Groups.

The level of spending reductions required to accomplish the budget strategy adopted by Conservative and Liberal Groups would have been much greater had it not been for the decision to use about £8 million from funds and balances to finance spending. Despite the caution and to some extent resistance of the County Treasurer, all three party groups agreed to raid these monies to keep down the level of precept, to finance additional spending on services, and to reverse several previous decisions to cut spending. Again, the motives of each Group varied.

Both the Conservative and Liberal Groups wanted to hold down the level of spending and precept for a mixture of reasons. Both recommended that monies from funds and balances should be used to keep down the amount of money required to be raised from issuing a precept. The Conservative Group's main concern was one of "strategy not tactics", and was more concerned about the size of the budget rather than its contents.<sup>16</sup> The Liberal Group, however, was concerned about both the size and contents of the budget, and was particularly anxious to protect certain services that were seen as electorally popular in what was to be an election year for the district councils. For this purpose the Liberal Group established a substantial Reserve Fund to be set off against the spending of 1983/84 but was to be actually spent in subsequent years without attracting

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<sup>16</sup> Deputy Leader, Conservative Group, Bedfordshire CC.

grant penalty.<sup>17</sup> The Labour Group wanted to deplete the monies held in the funds and balances because it argued that the spending of these monies on services was more important than holding them in reserve. This preference of the Labour Group, like most of its budget proposals, was not seriously aimed at the other two Groups. It represented an ideal position which was not made in the hope of attracting support from one of the other two Groups so that they may be implemented. Nevertheless, the Labour Group managed to secure the support of both the Conservative and Liberal Groups when it proposed the reversal of several previous decisions to cut spending. These decisions attracted fierce criticism from inside and outside the Council, particularly from trade unions. The criticisms played on the party groups' "sensitivity to the electoral impact" of implementing these cuts, and consequently the cuts amounting to £½ million were reinstated and financed from the Reserve Fund.<sup>18</sup>

The revenue budget of 1984/85 reflected largely Conservative and Liberal thinking oiled by electoral considerations. The budget strategy was to hold down both the level of spending and precept. This strategy meant that net spending of the Council had to be reduced by about £3.6 million. The Council was concerned with cutting net spending because the level of net expenditure determines the amount of block grant received from central government and the level of rates levied on ratepayers. The Council needed net spending to be cut because it wanted to protect its grant entitlement and not increase its precept. Net spending, as already seen in the last chapter, can be reduced by cutting gross spending or increasing specific service income. The Council increased its income by about

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<sup>17</sup> The Deputy Leader of the Liberal Group on the Council confirmed the electoral purposes of this fund by describing it as a "slush fund".

<sup>18</sup> Member, Labour Group, Bedfordshire CC.

£300,000, which meant that gross spending had to be reduced by £3.3 million.

This reduction in net spending was the outcome of the budget strategy determined by the Conservative and Liberal Groups on the Council. The decision not to exceed its expenditure target by more than two per cent and to peg the precept level to the previous year's level necessitated cuts in its budgeted spending. However, it would be too simplistic to ascribe all these spending cuts solely to the Council's budget strategy, because a significant portion of them would have been made regardless of this strategy. It is difficult to measure precisely the scale of these cuts because it is not possible to decide what would have happened without any of the budgetary constraints. Nonetheless, some of these cuts were the outcome of decisions made outside the budget strategy or were fortuitous savings. For example, the Council saved £110,000 because its contribution to the advanced education pooling scheme was lower than expected. This saving would not have been presented as a spending cut if the exact contribution had been known earlier because it would have been written into the base budget. Also, the Council saved £20,000 because there was some slippage on its capital programme and therefore delays in financing that programme from the revenue side. These 'cuts' certainly helped the Council achieve its aim of finding £3.3 million worth of gross spending cuts.

In Bedfordshire CC the making of the revenue budget was a muddled affair which reflected its 'hung' nature. Each of the three main party groups had some influence upon the making of the budget, though essentially it was a Conservative-Liberal budget. The Conservative and Liberal Groups managed to agree on a budget despite having different aims in their budget strategies. This example

shows that a budget serves different purposes.<sup>19</sup> The budget of Bedfordshire CC served a variety of purposes, and the agreed budget fulfilling these purposes contained spending cuts of well over £3 million.

### Cutting revenue spending in Kent CC

In 1984/85 Kent CC spent just under £650 million, which compared to the level of spending in 1978/79, was a two per cent reduction in real terms - see tables 3.1, 3.2 and 3.3. In order to examine the actual level of spending it is necessary to adjust the spending figures to take into account contributions to and from special funds. The table below sets out the adjusted spending of Kent CC in 1984/85.

Table 3.8: Gross Revenue Spending of Kent CC, 1983/84 - 1984/85

	<u>1983/84</u> £k	<u>1984/85</u> £k	<u>Variation</u> %
Accounted spend	601433	647507	+7.7
Fund adjustment	<u>(965)</u>	<u>(2383)</u>	
Actual spend	600468	645124	+7.4
Real spend*	600468	617876	+2.9

\* Adjusted to 1983/84 prices

Source: Kent CC

Table 3.8 shows that in 1984/85 there was over a seven per cent increase of spending compared to the previous year's level. This increase represented roughly a three per cent increase in real terms. Thus, the spending in 1984/85, though a fall from the spending of the late 1970s, was a

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<sup>19</sup> See Wildavsky (1964) pp1-5.

significant rise from the spending of the early 1980s.

The revenue budget of 1984/85 contained both additions and reductions from the base budget. These budget changes are detailed in the table below.

Table 3.9: Budgeted Variations of Kent CC, 1984/85\*

	<u>1983/84</u>	<u>Reductions</u>	<u>Additions</u>
Gross spending (£k)	600468	(13975)	15620
Variation (%)		(2.3)	2.6

\* Contingency sums, which were mainly set aside for pay and price changes, have been excluded.

Source: Kent CC

This table shows that Kent CC decided to make nearly £14 million of spending cuts in 1984/85. These cuts were overshadowed by its decisions to spend more on services to the tune of over £15 million, adjustments to its base budget and a substantial overspend of its budget - see table 2.4.

Though there were no overall cuts in spending, there was a one per cent reduction in net spending from the base budget calculated for 1984/85. In 1983/84 Kent CC spent two per cent over its expenditure target, and in 1984/85 it was determined to get down to only one per cent over target. This aim required roughly a one per cent reduction of net spending. As already stressed, local authorities are more concerned to control their net spending because they want to maximise their grant entitlement and minimise their rates bills. Thus, Kent CC was more concerned to cut its net spending and not gross spending. This concern explains why net spending decreased and gross spending increased.

The budget strategy was determined early in the budgetary cycle, and in the words of the County Treasurer, took the "flavour of the White Paper" on public expenditure. The Conservative-dominated Council always broadly supported the Government's policy of curbing local authority spending. There was a widespread belief within the Conservative Group that public expenditure, including local government expenditure, should be reduced in order to promote economic growth. The former Leader of the Conservative Group explained on behalf of the Council that "we endorse the Government's broad economic strategy, and will therefore continue to play our part to assist its achievement."<sup>20</sup> Though several Conservative councillors felt that Kent CC had been harshly treated by the Government, there was general agreement that spending should be reduced in line with government plans. This agreement was strengthened by the concern to minimise grant losses by exceeding the Council's expenditure target. The County Treasurer calculated that a one per cent reduction of net spending was necessary to bring down spending to only one per cent over target.

Further to the concern to get down to target, the Council has always restricted its precept increases to the general rate of inflation, and that there was to be no exception for 1984/85 especially in view of the county council elections to be held the following year. The precept issued represented an increase of under five per cent from the previous year's level, and was the smallest increase in the previous 15 years. Though electoral considerations played their part in shaping the budget strategy of the Conservative Group, the principal concern was the effect of the rates upon local businesses. The former Leader of the

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<sup>20</sup> Taken from 'Rate rise approved', Kent & Sussex Courier, February 1984.

Conservative Group aired this concern when he argued:<sup>21</sup>

"Our rates in Kent are certainly among the lowest in the country, and our aim has again been to keep them that way. Businessmen are looking to come to Kent because the rates are kept at a reasonable level, and this is important to them."

The prominence of business considerations in setting the precept level reflects the dominance of both company executives and self-made businessmen within the Conservative Group. The Council has moved over the years away from the traditional 'squirearchy' to an authority led by business-minded councillors.<sup>22</sup> The Conservative leadership is particularly "closely in touch with business", and given the commanding position of the leadership within the Conservative Group and the Group in the Council it is certainly not surprising that business interests have a substantial influence upon the decisions of the local authority.<sup>23</sup> The level of precept was not an issue of concern for either the Confederation of British Industry or the London Chamber of Commerce and Industry. These two bodies representing a wide range of business interests in Kent had favourable relations with Kent CC. The Confederation of British Industry believed that the

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<sup>21</sup> Taken from Kent & Sussex Courier, January 1984.

<sup>22</sup> This move in Kent CC reflected the rise of the New Suburban Right within the Conservative Party locally, which espouses business and managerialist values (see Holliday (1991a); Holliday (1991b); Ridley (1988); Saunders (1983) pp209-324; Stoker (1988) pp40-41; and Stoker (1991) pp40-43).

<sup>23</sup> Reporter, Kent Messenger Ltd. Further evidence of the influence of business considerations upon the outlook of the Council lay in the expansion of its economic development activities. Galvanised by the closure of the naval dockyards at Chatham, the Council embarked on a programme to regenerate the local economy. This expansion was heralded by the former Conservative leader as "good news for local business" (taken from Kent & Sussex Courier, January 1984). The Local Government and Housing Act 1989 has since restricted the economic development functions of local authorities.



Council was "not spendthrift".<sup>24</sup> And the London Chamber of Commerce and Industry pointed to the Council's "good history of housekeeping".<sup>25</sup>

Before the firm decision to reduce net spending of the Council all committees were required to identify their proportionate share of net spending reductions. Following this exercise the Conservative Group believed this reduction would not disrupt the provision of services. This view was shared by the two leading officers involved in the making of the budget - the Chief Executive and the County Treasurer. The Chief Executive stressed that the Council adopted a "good housekeeping approach" because savings from efficiency measures rather than from service cuts were sought to achieve the required level of net spending reductions.<sup>26</sup> This view, however, was rejected by the two opposition party groups, who both predicted that the budget would damage the provision of services. The Leader of the Labour Group maintained that "people want the services, they don't want the cuts, they want to pay".<sup>27</sup> Similarly, the Leader of the Liberal Group rejected "the policy of expenditure cuts which reduce service [sic] in the current

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<sup>24</sup> Director (South Eastern Region), Confederation of British Industry.

<sup>25</sup> Secretary (Kent Section), London Chamber of Commerce and Industry.

<sup>26</sup> The Chief Executive admitted there was a limit to how much can be saved through efficiency measures before reducing service provision, but maintained that this limit had not yet been breached. However, there is some ambivalence in this viewpoint because only the previous year he noted that in future years the "possibility of finding reductions by increased efficiency and savings - although not exhausted - will not be sufficient" - see the Kent CC's Report And Accounts 1982-83, p4.

<sup>27</sup> This view was later reinforced by a finding of a MORI survey commissioned by the Council. It found that maintaining services "is a higher priority to Kent residents than keeping rates down" - see Market & Opinion Research International (1987) pvii.

climate of targets and Government grants".<sup>28</sup> Nonetheless, the Conservative Group believed that the budget of 1984/85 would have no adverse effect upon service provision.

In the making of the revenue budget, then, there were three overriding concerns for the Conservative Group - the Council's expenditure target set by the Government, the precept level and its impact upon local business, and the provision of services. These concerns were summed up in the words of the former Leader of the Conservative Group:<sup>29</sup>

"... we have achieved a lot in this budget. We have got nearer to the Government's target, we have kept the precept increase below the rate of inflation, and we will still be providing first-class services in the county in 1984-85."

These budgetary considerations, particularly getting down to the Council's expenditure target and limiting the precept increase to the rate of inflation, meant there had to be a one per cent reduction of net spending. This requirement, in turn, led largely to the making of cuts in gross spending, which amounted to nearly £14 million. These cuts, though, were hidden by the decisions to increase spending by well over £15 million. Kent CC, thus, managed to cut its net spending but increase its gross spending. A significant proportion of these reductions would have certainly been made for other reasons regardless of the budget strategy. For example, there was a budgeted reduction of £500,000 which was based on a substantial underspend in the school meals service. Nevertheless, most of these spending cuts were the outcome of the Council's decision to cut net spending. Table 3.9 reveals that the amount to be reduced was less than the amount to be added to the base budget, but the Council still managed to cut net spending by increasing substantially its specific

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<sup>28</sup> Taken from Kent & Sussex Courier, January 1984.

<sup>29</sup> Taken from Kent & Sussex Courier, January 1984.

service income. In total an extra £2.4 million was raised by increasing charges for services and receiving new or increased grant provision for specific services, eg an education grant from the European Social Fund.<sup>30</sup> Compared to the previous year, Kent CC increased its spending, but hidden within this overall increase lay a large sum of spending cuts.

#### Cutting revenue spending in Knowsley MBC

In 1984/85 Knowsley MBC spent about £125 million which represented an increase from the previous year's level of spending. Though if funding adjustments are taken into account this increase becomes much larger. The table below sets out the actual spending of Knowsley MBC in 1984/85 compared to the previous year.

Table 3.10: Gross Revenue Spending of Knowsley MBC,  
1983/84 - 1984/85

	<u>1983/84</u> £k	<u>1984/85</u> £k	<u>Variation</u> %
Accounted spend	122028	124885	+2.3
Fund adjustment	(2300)	1575	
Actual spend	119728	126460	+5.6
Real spend*	119728	121119	+1.2

\* Adjusted to 1983/84 prices

Source: Knowsley MBC

The above table shows that Knowsley MBC increased its spending in both cash and real terms from the previous year's level. However, this increase must be seen against

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<sup>30</sup> See table 2.3.

a long term trend of falling spending measured in real terms - see tables 3.2 and 3.3. Between 1978/79 and 1984/85 there was a 12 per cent real cut in spending by Knowsley MBC.

Though gross spending increased compared to the previous year, there were some spending cuts made within this increased total. These cuts were more than offset by larger spending increases made in the revenue budget. Most of these increases appeared in the base budget and are therefore difficult to measure, but some appeared as additional items to the base budget. The table below illustrates the budgeted reductions and additions made by Knowsley MBC in 1984/85.

Table 3.11 Budgeted Variations of Knowsley MBC,  
1984/85\*

	<u>1983/84</u>	<u>Reductions</u>	<u>Additions</u>
Gross spending (£k)	119728	(1726)	773
Variation (%)		(1.4)	0.6

\* Contingency sums, which were mainly set aside for pay and price changes, have been excluded.

Source: Knowsley MBC

This table shows that spending cuts of over £1.7 million were made by the Council, representing 1.4 per cent of its spending of the previous year. These spending cuts arose largely from the budget strategy adopted by the Council, though some of which would have occurred in any event. For example, money was saved because of some slippage on the housing capital programme. Nonetheless, the bulk of the spending cuts was the outcome of the deliberate decision taken by the ruling Labour Group of the Council to cut

spending.

From the outset of the budgetary cycle the Council was determined to avoid a large rates rise. In the words of the Borough Treasurer:<sup>31</sup>

"It was clear ... from a very early stage that, if a substantial rate rise was to be avoided, not only would a re-allocation of current resources be necessary but a reduction in net revenue expenditure would also need to be examined."

The clear commitment to only a single-figure rates rise, at first glance, may appear surprising given that Labour-dominated councils such as Knowsley MBC are alleged to be those local authorities which preside over the largest rate increases.<sup>32</sup> This concern to limit the rates increase has to be understood within the context of Knowsley's economy. The area of Knowsley, which includes Huyton and Kirkby, is economically depressed with a very fragile industrial base.<sup>33</sup> Much of Knowsley's industry is in decline - for example, Birds Eye recently closed its factory in Kirkby resulting in more than a 1,000 job losses.<sup>34</sup> Furthermore, industry in Knowsley is dominated by several large international companies such as the Ford Motor Company at Halewood.<sup>35</sup> The Council has embarked on an ambitious

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<sup>31</sup> Taken from Knowsley MBC's Budget 1984/85, p1.

<sup>32</sup> This allegation is commonly made by the Conservative Government as a justification for its measures to curb local authority spending, such as rate-capping.

<sup>33</sup> Knowsley's economic and social deprivation is well chronicled. See Audit Commission for Local Authorities in England and Wales (1984d); Brindle (1993); Brindley, Rydin & Stoker (1989) pp139-157; Carvel (1984); CES Limited (1984); CES Limited, Knowsley Metropolitan Borough Council & Merseyside Metropolitan County Council (1982); Financial Times (1989a); Meegan (1989); and Penn (1984).

<sup>34</sup> See Laurance & Dunn (1989).

<sup>35</sup> See Firth (1992) p89. In 1987 Ford Motor Company paid about £6 million in rates to Knowsley MBC - see Dunn & Wintour (1987).

programme to retain and attract jobs to the local area. A major plank in this programme was to limit the Council's rate levy to a "defensible" level.<sup>36</sup> This view is founded on the belief that the level of rates is a critical factor in both the performance and the location of businesses.<sup>37</sup> Consequently, the Council limited its rates increase to about nine per cent from the previous year's level. This decision placed a firm pressure upon the Council to reduce its spending.

The Labour Group was also concerned that a higher rates rise may have left it open to be rate-capped by the Government. The political complexion of the Labour Group of Knowsley MBC can only be understood with reference to the politics of nearby Liverpool City Council. At the time of making the budget for 1984/85, Liverpool CC was embarking on a campaign against Government measures to cut its spending.<sup>38</sup> There was some pressure upon the Labour Group of Knowsley MBC to give political support to its party colleagues in Liverpool. There were substantial links, not just party links, between the two local authorities.<sup>39</sup> There was some support within the Labour Group to adopt a more confrontational line against the Government, as

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<sup>36</sup> Chief Executive, Knowsley MBC.

<sup>37</sup> This widespread belief is strongly held by the Government and the Confederation of British Industry, and underpinned the idea of rates consultation with representatives of local business, and more recently, the introduction of a national non-domestic rate set by central government.

<sup>38</sup> See Carmichael (1993); Hatton (1985); Midwinter (1985); Militant (not dated); Parkinson (1985a); Parkinson (1985b); Parkinson (1987a); and Parkinson (1988b).

<sup>39</sup> See Kilroy-Silk (1986); and Williams (1985). Until recently the former deputy leader of Liverpool CC, Derek Hatton, was employed by Knowsley MBC and developed extensive links with the Labour Group on the Council. There are also more dubious links between the two councils that have been regularly reported in Private Eye's 'Rotten boroughs' column.

Liverpool CC was doing, but this tactic did not receive the support of the majority in the Group which was assured by officers that the Council could achieve its plans within government spending guidelines. The budget set by the Council remained at four per cent over its expenditure target, which incurred drastic grant penalties. However, according to the Chief Executive, the Labour Group had to do "the right thing politically", and therefore decided deliberately to go into penalty in support of Liverpool CC without facing the severe financial and other consequences of rate-capping, surcharges and disqualification facing the councillors of Liverpool CC.

The second major consideration in making the budget was the widespread concern to protect and develop services. This concern went beyond the normal concern of most local authorities to maintain and improve service provision, and was rooted in alarm over the widespread deprivation of the area. Knowsley "exhibits the social and economic problems of 'outer' estates", which "are comparable with those experienced in the inner city areas of major conurbations...."<sup>40</sup>

The scale of deprivation and the consequent pressures placed upon the Council were described by the Chief Executive in the following words:<sup>41</sup>

"... the Borough faces a combination of economic and social problems which are unique in their

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<sup>40</sup> Taken from Knowsley MBC's Annual Report And Accounts 1984-85, p6.

<sup>41</sup> Penn (1984) p2. The Chief Executive claimed that "the Borough-wide indicators of deprivation would horrify most other authorities in the country" (Penn (1984) p2). In recognition of this deprivation Knowsley MBC was awarded programme status by the Government in 1983, which afforded the Council greater access to grants available under the urban programme. The urban programme was traditionally seen as a way of combatting deprivation in inner city areas, and Knowsley was the first 'outer estate' to be granted programme status.

severity. The low income in the Borough (with exceptionally high dependence on state benefits) means that not only is financial pressure on the authority intense but the range of goods and services from the private sector available in most parts of the country is not available in Knowsley. In consequence, the authority has to make provision where the private sector is not able or willing to play its traditional role."

This widespread economic and social deprivation has placed many demands and pressures upon the services provided by the Council, and in response the Council has adopted an explicit policy of "maintaining jobs and services".<sup>42</sup> In particular, the Council had formulated plans to improve services provided to the unemployed and the elderly, who were seen as the most disadvantaged groups in the area. Consequently, the leeway available to the Council to limit its rates increase was narrowed considerably because of its commitment to protect and develop services.

In making its revenue budget Knowsley MBC was faced with competing pressures both to reduce and to expand spending on services. The Council wanted to limit its rates rise and therefore reduce its spending in order to retain and attract industry to the depressed area, but because the area is depressed there were substantial pressures upon the Council to increase its spending on services. This dilemma was exacerbated by the Council's contracting revenue base because its rateable resources, its grant entitlement and its specific service income were all falling. As the Borough Treasurer pointed out:<sup>43</sup>

"Looking ahead, it is clear that the Council's financial situation will certainly not improve in the shorter-term. Service requirements have not reduced significantly, whilst the three main sources of revenue available to the Council are all in decline.... The future, therefore, holds

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<sup>42</sup> Leader, Labour Group, Knowsley MBC (taken from Knowsley MBC's Annual Report And Accounts 1984-85, p2).

<sup>43</sup> Taken from Knowsley MBC's Annual Report And Accounts 1984-85, p8.



the prospect of trying to match stable or increasing needs with declining resources."

In the past this dilemma has been resolved by various financing and funding adjustments. Though these creative accounting options were dwindling the Council still managed to find a substantial amount from these measures. But the Council still needed to make an overall reduction of £1.3 million of net spending in order to achieve its budget strategy. The Council had committed itself to additional spending, amounting to over £750,000, and therefore had to make a corresponding reduction to facilitate this extra expenditure. Thus, there needed to be a cut of over £2 million of net spending made by the Council to comply with its budget strategy. In fact, only £1.9 million was found, and the rest was made up from a further raid of funds. The net spending cuts included an amount of about £170,000 raised from additional specific service income, and therefore gross spending cuts amounted to just over £1.7 million.

These spending cuts were the outcome of the budget strategy pursued by the Council. The Leader of the Labour Group outlined the budgetary constraints upon the Council:<sup>44</sup>

"No longer is this Council in a position to rely upon funds and balances it has maintained over the years to support these functions. In order to ease the situation other sources of finance are being pursued, including funds from the European Economic Community, and the Council is still committed to developing those areas of service which could be achieved without radically increasing the burden on the Borough's ratepayer. Our planned policies of switching resources from one service to another as the need arises, have allowed us to continue to develop more policies of real relevance to the Borough's inhabitants, to improve the environment in which we live, and to help sustain local industry."

Thus, the budget strategy of limiting the rates increase, of avoiding excessive grant penalties and of reallocating

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<sup>44</sup> Taken from Knowsley MBC's Annual Report And Accounts 1984-85, p2.

resources to priority services led to the requirement that there had to be some spending cuts in the revenue budget of 1984/85.

### Cutting revenue spending in Stockport MBC

In stark contrast to the other three local authorities, the spending of Stockport MBC increased in real terms between 1978/79 and 1984/85 - see tables 3.2 and 3.3. In 1984/85 the Council spent over £170 million, which represented a five per cent real increase from the level of spending in 1978/79. The actual level of expenditure adjusted for contributions to and from special funds is shown in the table below.

Table 3.12: Gross Revenue Spending of Stockport MBC,  
1983/84 - 1984/85

	<u>1983/84</u>	<u>1984/85</u>	<u>Variation</u>
	£k	£k	%
Accounted spend	165592	172571	+4.2
Fund adjustment	(2057)	682	
Actual spend	163535	173253	+5.9
Real spend*	163535	165935	+1.5

\* Adjusted to 1983/84 prices

Source: Stockport MBC

This table shows that in 1984/85 Stockport MBC increased its revenue spending in both cash and real terms compared to the previous year. This increase fits into the general trend of increased local government spending generally - see tables 3.1, 3.2 and 3.3. Within this increased spending there were a few items of expenditure that were cut, but they tended to be masked by the overall growth of spending.

The following table outlines the budgeted reductions and additions of the Council's base budget.

Table 3.13: Budgeted Variations of Stockport MBC,  
1984/85\*

	<u>1983/84</u>	<u>Reductions</u>	<u>Additions</u>
Gross spending (£k)	163535	(127)	1706
Variation (%)		(0.1)	1.0

\* Contingency sums, which were mainly set aside for pay and price changes, have been excluded.

Source: Stockport MBC

This table reveals that the reductions made to the base budget were very small, which hardly registered as a change from the previous year's spending. The budgeted additions were well over ten times the reductions. Rather than examining in detail why only £127,270 of spending was cut it would be more worthwhile to explore the reasons why significant spending cuts were not made. The reason why no sizable cuts were made was that the Council was able to implement its budget strategy without making such cuts. There were three strands to the strategy of the revenue budget for 1984/85.

First, the ruling Conservative Group had never budgeted in excess of its expenditure target set by the Government, and there was to be no such breach for 1984/85. It was broadly sympathetic to the Government's aim of curbing local authority spending. The Chairman of the Development Services Committee revealed this sympathy in a statement on the Government's capital expenditure controls when he

wrote:<sup>45</sup>

"The Government was elected to keep down public spending. If we do not comply we are undermining the democratic process of the country."

Furthermore, the Conservative Group did not want to incur any grant penalties by exceeding the Council's expenditure target. It believed that incurring financial penalty because of its spending plans was no more than "mortgaging this year next year".<sup>46</sup>

Second, the Conservative Group was determined to set a rate less than inflation. The rate levy for 1984/85 amounted to a five per cent increase from the previous year, which was heralded as "an inflation beater".<sup>47</sup> The Conservative Group had always attempted to minimise rates increases, and had decided to use funds and balances to hold down the level of rates. This commitment "has been the cornerstone of Stockport's Tory administration."<sup>48</sup> The principal objective of holding down the rates was to protect ratepayers, especially business ratepayers. This concern is evident in the following words of the Leader of the Conservative Group:<sup>49</sup>

"The need to aim for a thriving commercial and industrial community cannot be overstressed and we must grasp every opportunity that comes our way by wise use of our resources."

The influence of local business over the Council was not expressed in any formal way, and local business associations admitted they carried little weight in the

<sup>45</sup> Taken from Civic Review, December 1984, p4.

<sup>46</sup> Leader, Conservative Group, Stockport MBC.

<sup>47</sup> Leader, Conservative Group, Stockport MBC (taken from Stockport MBC's Civic Review, March 1984, p1).

<sup>48</sup> Public Relations Officer, Stockport MBC (taken from Municipal Review (1984) p205).

<sup>49</sup> Leader, Conservative Group, Stockport MBC (taken from Stockport MBC's Civic Review, March 1984, p4).

running of the Council.<sup>50</sup> There existed, however, informal channels through which the voice of business was heard loudly in the local authority.<sup>51</sup> For example, many councillors of the Conservative Group are businessmen themselves, and are very conscious of the Council's impact upon local business and are able to represent the interests of business inside the Council. As a result, the Conservative Group has always attempted to hold down rate levels, and also has given the Council's economic development function a very high priority. This favourable attitude towards business is captured in the following account of the achievements of Stockport MBC:<sup>52</sup>

"... Stockport's rates have remained relatively low. This factor has been its selling point in attracting industry and commerce. Unemployment is well below national and regional averages and the town now has a diversified industrial portfolio to sustain it for the foreseeable future. Stockport has set its store as the heir apparent to any business that Manchester loses, especially in the retail sector.... Stockport reckons to be winning."

These two strands of the budget strategy - keeping within the Government's expenditure target and limiting the rates rise - were by far its most important components. However, there was a third strand of the Council's budget strategy, which was the concern to protect services. The Conservative Group wanted to maintain the quality of services provided by the Council, but its Leader stressed that spending on services and the standards of service provision "are not synonymous". The Conservative Group was more concerned to

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<sup>50</sup> Later, under the Rates Act 1984, a local authority was obliged to consult representatives of business ratepayers about its budget proposals.

<sup>51</sup> The Assistant Regional Director (North Western Region) of the Confederation of British Industry described the relationship between the Council and the Stockport Chamber of Commerce as a "heavy petting relationship".

<sup>52</sup> Public Relations Officer, Stockport MBC (taken from Municipal Review (1984) p205).

improve services by various efficiency measures than to increase spending on services. Both the opposition party groups complained that the budget of 1984/85, though increasing spending, did not keep up with the increasing need for services. The Leader of the Labour Group believed that the budget offered "no real improvement to services", and the Leader of the Liberal Group argued the Council was "still not meeting the need".<sup>53</sup> After the local elections in May 1984 the Council became 'hung', and the Labour and Liberal Groups injected more money into the budget to improve services. A £20,000 spending cut in school caretaking and cleaning was reversed, and an extra £177,000 was spent to employ more teachers. The Conservative Group was more concerned to protect existing services rather than expand services. In the words of the Chairman of the Finance Sub-Committee, the "fundamental need is to keep rates down to the minimum possible without any reduction in the standard of services provided".<sup>54</sup>

There were, then, three strands to the Council's budget strategy which can be traced in the following statement made by the Leader of the Conservative Group:<sup>55</sup>

"Our aim has been to protect the ratepayers from having to pay extra rates because of grant penalties which are incurred by local authorities for spending above Government targets and to keep rate increases down to a reasonable level. This must be balanced against the provision of adequate services which must be run efficiently for the benefit of our local inhabitants. It is pleasing to be able to report that once again we have achieved these aims in setting our budget and rate for 1984/85 not only within target but below the current rate of inflation."

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<sup>53</sup> Taken from Stockport MBC's Civic Review, March 1984, p4.

<sup>54</sup> Taken from Stockport MBC's Corporate Plan And Budget 1984-87, piv.

<sup>55</sup> Taken from Stockport MBC's Civic Review, March 1984, p4.

The Conservative Group was able to achieve its budgetary objectives without having to make any significant cuts in its spending plans for 1984/85. However, this budgeted picture of few spending cuts is slightly misleading. It is probable, though impossible to be certain, that more spending cuts were made but were disguised by the way the revenue budget was presented. The amount of spending cut was probably significantly higher than the budgeted amount to be cut on two grounds.

First, there is a long record of underspending in Stockport MBC, and spending of 1984/85 was no exception - see table 2.4. For example, in 1983/84 there was a large underspend of over £1 million, which was set aside in a special fund to be spent in subsequent years. Though the underspend of 1984/85 was not so large it still amounted to about £200,000. Much of this underspend lay outside the control of the Council, and did not constitute an actual reduction but an overestimated forecast of spending. In 1983/84, for example, the rate of inflation and interest rates fell sharply during the year, thus leaving some monies set aside as a contingency not spent. However, some of the underspend was the outcome of a deliberate decision by the Conservative Group to freeze vacant staff posts for several months before filling them. In 1974 the Conservative Group set up the Establishment Control Panel which vetted claims to fill vacant posts. This deliberate way of underspending was a form of cutting spending, which was revealed in neither the revenue budget nor the financial accounts of the Council.

Second, the spending cuts discussed so far were those reductions of the Council's base budget. The base budget, as explained in the last chapter, is the budget required to carry out the existing policies of the local authority. The base budget of one year is adjusted to take into account the different conditions under which existing policies are

carried out.<sup>56</sup> The calculation of the base budget is "primarily an officer preparation".<sup>57</sup> Existing policies are costed by service and finance departments and presented to councillors as the base budget. In Stockport MBC any changes to existing policies and new policies are presented to councillors as policy options. If these options are endorsed by councillors, they will be written into the base budget of subsequent years. The distinction between the base budget and policy options is critical, The Director of Education explained:<sup>58</sup>

"A clear distinction is drawn in Stockport between policy options and variations to the base budget. Policy options require a firm decision of the Committee and change the base budget up or down as the case may be. Variations in the base budget happen as a result of policy decisions taken in previous years. Thus, the major savings in the current year's budget do arise directly from decisions taken previously about the treatment of falling school rolls, e.g. reduction in the number of teachers abated by a policy option to retain a number as part of staffing contingency; taking out of use pupil places by the removal of temporary classrooms, closures and amalgamation of schools; reductions in the number of school kitchens in use and economies with regard to the changeover to convenience foods."

This distinction rests on the commonly held assumption that councillors make policy, and therefore consider policy options; and officers administer policy, and thus compile the base budget costing policies already made by councillors. It is not a technical but a political distinction, because it is all about who makes decisions and in this case who makes spending cuts. There is much evidence in Stockport MBC, and in the other three local authorities, that spending cuts sometimes appear in the

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<sup>56</sup> For example, £630,000 was built into education's base budget to reflect extra costs incurred by falling school rolls (Director of Education, Stockport MBC).

<sup>57</sup> Leader, Conservative Group, Stockport MBC.

<sup>58</sup> Taken from a letter dated 24 August 1984.



base budget and not as policy options. Several officers preferred to make cuts at the base budget stage rather than allowing councillors to make cuts at the policy options stage.<sup>59</sup> Officers could then make cuts without interference from councillors. It was not that officers wanted necessarily to make cuts but that if cuts had to be made officers would sooner make them than let councillors make them. For example, a reduction of £65,000 was made in parks base budget, which was to be "achieved mainly by altering the hours, duties and conditions of service in respect of the Games and Watching Attendant duties during evenings and weekends throughout the year".<sup>60</sup> This spending cut could have been presented arguably as a policy option since there was no existing policy within which this change could have been made to the base budget. This example shows that there is considerable discretion in the making of the base budget and that spending cuts can be made within the base budget. The policies of a local authority can be varied in their interpretation, and spending cuts thus may appear both outside and inside the base budget. It is certain that in Stockport MBC there were many spending cuts within the fringes of the base budget made without councillors being fully aware of them despite a few "murmurings" about these cuts.<sup>61</sup>

Therefore, the budgeted reduction of only £127,000 is almost certain to be a substantial under-estimation because of the spending cuts disguised as underspending and as changes to the base budget. Unfortunately it is impossible

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<sup>59</sup> These officers included the Assistant Director of Finance, Stockport MBC; Assistant Director of Housing and Environmental Health, Stockport MBC; and Assistant Director of Recreation and Culture, Stockport MBC.

<sup>60</sup> Assistant Director of Recreation and Culture (Parks and Amenities), Stockport MBC (taken from a letter dated 30 August 1984).

<sup>61</sup> Chairman, Education Committee, Stockport MBC.

to be precise about the scale of these cuts since they are not recorded.

#### CUTTING LOCAL AUTHORITY CAPITAL SPENDING

This section examines the capital spending record of the four local authorities, assesses the extent to which their capital spending has been reduced over time, and explores the reasons why their capital programmes have been trimmed. Like revenue spending, the focus of analysis is on gross spending. But unlike revenue spending, the focus of analysis is on actual spending. Revenue and capital spending are different in nature, requiring the analysis of budgeted revenue spending and actual capital spending.<sup>62</sup> The record of capital spending of the four local authorities is shown in the next three tables.

Table 3.14: Gross Capital Spending of Four Local Authorities, 1978/79 - 1984/85

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
	£m	£m	£m	£m	£m	£m	£m
Bedfordshire CC	11.3	10.4	14.8	12.4	12.5	10.7	11.1
Kent CC	23.8	28.2	27.9	32.0	29.3	33.0	33.1
Knowsley MBC	5.7	7.4	5.5	8.9	12.6	20.0	22.9
Stockport MBC	6.7	11.2	11.2	7.4	12.1	16.6	13.0
England	4011.2	4580.0	4889.1	4623.2	5723.8	6451.4	6866.4

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<sup>62</sup> See chapter two, pp67-68.

Source: Bedfordshire CC; Kent CC; Knowsley MBC; Stockport MBC; and Department Of The Environment (1986)

This table shows that there has been a general increase in the amount spent on capital projects by local authorities. Between 1978/79 and 1984/85 there was over 70 per cent increase capital spending nationally. The capital spending of three of the four local authorities mirrored this national trend of increased spending, the exception was Bedfordshire CC. The next two tables below reveal much more because they show the record of capital spending measured in real terms.

Table 3.15: Gross Capital Spending of Four Local Authorities, 1978/79 - 1984/85\*

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
	£m	£m	£m	£m	£m	£m	£m
Bedfordshire CC	21.3	16.8	20.1	15.4	14.4	11.8	11.8
Kent CC	44.9	45.5	38.0	39.6	33.8	36.5	35.1
Knowsley MBC	10.8	11.9	7.5	11.0	14.5	22.1	24.3
Stockport MBC	12.6	18.1	15.2	9.2	14.0	18.4	13.8
England	7565.6	7388.5	6654.1	5728.1	6608.7	7132.7	7278.4

\* Adjusted to 1985/86 prices by the GDP deflator. The GDP deflator is used because there is no single deflator for local authority capital spending.

Source: Bedfordshire CC; Kent CC; Knowsley MBC; Stockport MBC; and Department Of The Environment (1986)

Table 3.16: Index of Gross Capital Spending of Four  
Local Authorities, 1978/79 - 1984/85\*

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Bedfordshire CC	100	79	94	72	68	55	55
Kent CC	100	101	85	88	75	81	78
Knowsley MBC	100	110	69	102	134	205	225
Stockport MBC	100	144	121	73	111	146	110
England	100	98	88	76	87	94	96

\* 1978/79 is the base year.

Source: Bedfordshire CC; Kent CC; Knowsley MBC; Stockport MBC; and Department Of The Environment (1986)

The two tables above show that though local authority capital spending has increased in cash terms it has been substantially cut in real terms. Between 1978/79 and 1984/85 there was a four per cent real reduction of local authority capital spending across the country. Indeed, in 1985 the Audit Commission calculated that local authority capital spending had "declined by over 40% in real terms since the first oil crisis and the backlog of capital maintenance on local authority assets has been estimated at as much as £15 billion...."<sup>63</sup>

In contrast to this national trend of decreased capital expenditure both Knowsley MBC and Stockport MBC increased

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<sup>63</sup> Audit Commission For Local Authorities In England And Wales (1985a) p1.

their spending in real terms between 1978/79 and 1984/85. Knowsley MBC more than doubled its real spending on capital projects. This large increase was mainly "the result of the application of capital receipts particularly from Council house sales and the maximisation of available grant-aid."<sup>64</sup> The Council, as a programme authority, received substantial capital grants from central government, and like Stockport MBC has benefitted from selling off its council homes which generated large capital receipts. The other two local authorities, Bedfordshire CC and Kent CC, received much less in government grants and capital receipts. For example, in 1984/85 Knowsley MBC financed almost £10 million of its capital spending from capital receipts and nearly £1 million from the Government's urban programme, but Bedfordshire CC financed under £1 million from capital receipts and received next to nothing in government capital grants.

Tables 3.15 and 3.16 show that there has been a real reduction in the capital spending of local authorities generally. Though there was a real decline in capital spending, it increased slightly in real terms in 1984/85 compared to the previous year. From table 3.16 it can be calculated that there was a two per cent real increase in money spent by local authorities on capital projects. Of the four local authorities only Knowsley MBC increased its real level of capital spending. Kent CC reduced its capital spending in compliance with the Government's request to cut local authority capital spending. Stockport MBC reduced its spending by ten per cent in real terms from the previous year. This decrease would not have appeared so dramatic if capital spending in 1983/84 was not unusually high. In this year the Conservative Government wanted to increase spending on home improvements and offered a financial inducement to housing authorities to award more home

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<sup>64</sup> Taken from Knowsley MBC's Annual Report And Accounts 1984-85, p35.

improvement grants.<sup>65</sup> Stockport MBC "more than doubled" its spending on these grants, and spent nearly £7 million.<sup>66</sup> It spent only £3 million in 1984/85.

Looking at the capital spending record of local authorities there have been peaks and troughs within this declining trend of spending.<sup>67</sup> In the 1960s local authority capital spending expanded with the blessing of central government. By the mid-1970s central government curbed this growth of local authority capital spending. But in 1982 the Conservative Government was very concerned about the low level of capital investment, and its impact upon the country's infrastructure and the construction industry. From this concern it urged local authorities to spend more on capital projects. Consequently, the overall level of local authority capital spending increased in the mid-1980s.<sup>68</sup> However, the Government soon changed its tune, and in 1984 called for voluntary restraint of capital spending. Some local authorities, such as Kent CC and Knowsley MBC, observed this call, but other local authorities, such as Stockport MBC, ignored this plea in spite of a threat of a moratorium on capital spending.<sup>69</sup> This request and the consequent uncertainty over future government actions led to a slight downturn in the level of capital spending. Overall, then, there has been a real decline in the amount

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<sup>65</sup> See Audit Commission For Local Authorities In England And Wales (1985a) p13.

<sup>66</sup> Taken from Stockport MBC's Annual Report And Accounts 1983-84, p16.

<sup>67</sup> See Foster (1981); and Travers (1986b) pp142-145.

<sup>68</sup> See Audit Commission For Local Authorities In England And Wales (1985a) pp13-14.

<sup>69</sup> For example, the Borough Treasurer of Knowsley MBC claimed that the Government's call for voluntary restraint in 1984 "contributed to a £0.4m underspend on the capital budget" (taken from Knowsley MBC's Annual Report And Accounts 1984-85, p8). See Audit Commission For Local Authorities In England And Wales (1985a) pp14-15.

spent by local authorities on capital projects, but within this decline there have been "rapid cycles of expansion and contraction".<sup>70</sup> These cycles are very evident from studying tables 3.14, 3.15 and 3.16 which detail the record of capital spending of local authorities.

The rapid changes in the level of capital spending were the outcome of an unpredictable government policy on capital expenditure. Following the Audit Commission:<sup>71</sup>

"A longer-term central government perspective is notable for its absence. The history of capital expenditure controls over the past several years has been of short-term changes generally made to meet the requirements caused by an annual public expenditure system."

The pressures to both increase and decrease capital spending were brought about by government economic policy. The level of capital expenditure has been used, and still is used, by central government as a short-term macro-economic tool to dampen and stimulate the economy. Central government has always exerted more control over the level of capital than revenue spending of local authorities. Central government has claimed that local authority capital spending affects the running of the economy, which it firmly believes is the responsibility of the Treasury and not local authorities.<sup>72</sup> In the words of Tom King, the former Secretary of State for the Environment, there "must be an overall financial umbrella within which central government must control the economy."<sup>73</sup> This justification was outlined by the Layfield Committee when it reported:<sup>74</sup>

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<sup>70</sup> Travers (1986b) pp144-145.

<sup>71</sup> Audit Commission For Local Authorities In England And Wales (1985a) p47.

<sup>72</sup> See Brittan (1982); and Ridley (1988) pp11, 22.

<sup>73</sup> Taken from Travers (1986b) p140.

<sup>74</sup> Committee Of Inquiry Into Local Government Finance (1976) pp120-121. See also Sbragia (1983).

"The amount of local authorities' capital expenditure and how much they borrow to finance it affect the government's responsibility for the overall management of the economy. First, local authorities' borrowing is important for monetary policy. It forms a significant proportion of borrowing in the domestic capital markets.... The scale of local authority borrowing therefore has implications for the control of money supply, the management of financial markets and international confidence. Second, there is the need to secure the government's intended national relationship between investment and consumption. The choice made by local authorities between capital and current spending affects this relationship. The factors that affect the choice local authorities make will not be the same as those which influence the government."

In 1980 the Conservative Government increased its control over local authority capital spending. Before the passing of the Local Government, Planning and Land Act 1980 central government controlled the level of capital borrowing by a loan sanction system. The Act allowed central government to control the level of capital spending regardless of how it was financed.<sup>75</sup> The Department of the Environment calculated the amount a local authority was allowed to spend each year on capital projects. This authorisation, which was divided into several main service areas known as block allocations, applied only to prescribed capital expenditure.<sup>76</sup> This spending was tightly defined in the 1980 Act, and included the major forms of capital projects such as the acquisition of land and construction of buildings. The Act also empowered the Government to define

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<sup>75</sup> See Watt (1982). The Act, however, placed restrictions on local authorities on how local authorities may spend their capital receipts, which are still in operation.

<sup>76</sup> The Government continued to exercise detailed control over capital projects within the domain of the Home Office, eg police - see Audit Commission For Local Authorities In England And Wales (1985a) p52. The Local Government and Housing Act 1989 replaced the system of block allocations on prescribed capital expenditure with a system of credit limits on local authority borrowing.



unprescribed capital expenditure, which included the minor forms of capital projects such as repairs of buildings and the purchase of vehicles. This type of capital expenditure escaped the control imposed on local authorities' prescribed capital expenditure. There is evidence suggesting that local authorities increased their non-prescribed expenditure at the expense of prescribed expenditure. For example, Knowsley MBC embarked on a massive £5 million repairs programme in 1984/85 which was excluded as part of its block allocation. In Stockport MBC the Assistant Director of Recreation and Culture maintained that small capital projects were preferred because they no longer had to "go through the full rigours of the capital programme".

However, the bulk of local authority capital spending falls under the controls over prescribed expenditure. There is tolerance over how these limits were applied, and local authorities were allowed to exceed their block allocation by up to ten per cent in any given year but any excess was deducted from either the previous year's 'unspent' allocation or the next year's allocation. Furthermore, local authorities were able to supplement their block allocations by spending, among other things, a proportion of their capital receipts, any profits from trading undertakings, and any allocations given to them from other local authorities. By far the most significant of these enhancements was the use of capital receipts generated from selling off assets such as council homes. The Conservative Government, however, strictly controls the proportion of capital receipts that can be used in any given year. For the financial year 1984/85 local authorities could use only 40 per cent of housing capital receipts and 50 per cent of non-housing capital receipts to finance capital expenditure.<sup>77</sup> Local authorities, and especially housing

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<sup>77</sup> See Audit Commission For Local Authorities In England And Wales (1985a) pp9-10, 39.

authorities, have utilised extensively their capital receipts to finance capital expenditure. Most local authorities have attempted to increase the capital receipts available to spend on capital schemes.<sup>78</sup> For example, the Head of the Property Services Department of Kent CC claimed that priority was given to searching for assets to be sold off in order to generate capital receipts. Housing authorities are in an advantageous position compared to other local authorities because under the Housing Act 1980 many council house tenants have purchased their council homes, which has yielded a massive amount of capital receipts.<sup>79</sup> Stockport MBC was dependent on these capital receipts to finance its capital programme.<sup>80</sup> Other local authorities have fewer capital assets to sell off, but have generated some capital receipts by selling off surplus land such as playing fields.

Despite these legitimate and widespread methods of enhancing the block allocations of local authorities, the Government influenced greatly the amount spent by local authorities on the capital side. These controls certainly depressed the level of local authority capital spending. This squeeze on capital spending can be seen if a comparison is made between what local authorities planned to spend, what central government allowed them to spend, and what local authorities actually spent. This comparison can be made from the table below.

Table 3.17: Index of Planned, Allocated and Actual  
Capital Spending in a Sample of Local

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<sup>78</sup> See Audit Commission For Local Authorities In England And Wales (1985a) pp11-13.

<sup>79</sup> By 1984 local authorities had sold about 650,000, and by 1988 well over one million council homes (taken from Atkinson & Durden (1990) p121).

<sup>80</sup> Assistant Director of Finance, Stockport MBC.

Authorities, 1981/82 - 1983/84

<u>Bid</u>	<u>Allocation</u>	<u>Year</u>	<u>Allocation</u>	<u>Outturn</u>
100	69	1981/82	100	116
100	74	1982/83	100	138
100	61	1983/84	100	148

Source: Audit Commission For Local Authorities In  
England And Wales (1985a) pp59-61

This table shows that in the early 1980s the block allocations of local authorities were about 30 per cent less than their bids, but their actual spending was over 30 per cent more than their allocations. Thus, local authorities tended to spend as much as their plans submitted to the Government, because they enhanced their allocations particularly by tapping into their capital receipts. For example, for 1984/85 Kent CC submitted a capital spending bid of £36.8 million, received an allocation combined of £27.3 million, and actually spent £33.1 million. It is clear that the Government exercised only a loose but significant control over the level of capital spending, and its control played a major part in curbing capital spending. These controls were recognised by the County Treasurer of Kent CC when he noted that the "level of capital expenditure which can be approved for 1984-85 will depend upon capital allocations...."<sup>81</sup>

Though the Government's capital expenditure controls were a significant constraint, its controls over local authority revenue spending were the more important constraint on the level of local authority capital spending. There is a mountain of evidence leading to the conclusion that

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<sup>81</sup> Taken from his Report to Kent CC's Policy and Budget Group, 15 April 1983, p3.

financial pressures on the revenue side, and not those on the capital side, have most dampened down the level of capital spending. For example, the County Treasurer of Bedfordshire CC stated:<sup>82</sup>

"During the year capital investment by the Council amounted to £11.1 million.... Because of the constraints brought about on the revenue budget by the Government's expenditure targets and grant penalties it has again not proved possible to finance any part of the capital programme from revenue resources. The level of the Council's capital programme is substantially governed by the capital allocation control arrangements operated by Central Government and their prescription on local authorities over the use of capital receipts. However, as in 1983-84, in view of the pressures placed upon the council's revenue budgets by the Government's current policy of public expenditure restraint, the revenue consequences of that capital investment programme have become an equally important determinant in setting the annual size of the Council's programme."

In Bedfordshire CC, the Chief Executive and the County Treasurer remarked that the capital programme of 1984/85 was made with explicit emphasis on "the consequential revenue costs (both financing charges and current expenditure) arising upon completion of the programme".<sup>83</sup> There was a clear strategy that new capital projects would be programmed only if their revenue consequences were limited.<sup>84</sup> Thus, the financial pressures on the revenue side meant that not only no revenue contributions could be made but that the revenue consequences of the capital programme had to be minimised. The Council preferred to

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<sup>82</sup> Taken from Bedfordshire CC's Annual Report And Statement Of Accounts 1984-85, p3.

<sup>83</sup> Taken from Bedfordshire CC's County Council Budget 1984-85: Part 1, pv.

<sup>84</sup> Deputy Leader, Conservative Group, Bedfordshire CC; Deputy Leader, Liberal Group, Bedfordshire CC; County Surveyor, Bedfordshire CC; and Principal Assistant, County Surveyor's Department, Bedfordshire CC.

"build roads rather than homes".<sup>85</sup> These revenue constraints were also felt in Kent CC. Its County Treasurer warned:<sup>86</sup>

"The Policy and Budget Group and the Policy and Resources Committee in considering the capital programme expressed their concern at the County Council's ability to continue to sustain the programme at its present level and at the impact that resultant revenue commitments could have on future revenue budgets. The Policy and Resources Committee has therefore given approval in principle only to the 1984-85 programme and has agreed that a detailed review of the entire three year programme 1984-85 to 1986-87 be carried out by members of the Policy and Budget Group before any proposals included for 1984-85 can proceed."

In Knowsley MBC and Stockport MBC there was less concern about the revenue consequences of their capital programmes than that displayed in Bedfordshire CC and Kent CC. In Stockport MBC there was some concern but because the Council could fall back on a large pool of capital receipts the concern was largely expressed as concern for the future. The Chairman of the Finance Sub-Committee remarked that capital spending "invariably generates further revenue expenditure which can cause problems of financing growth when budgets are already tight."<sup>87</sup> In Knowsley MBC the level of concern over the revenue consequences of its capital programme was even lower than that expressed in Stockport MBC. It faced fewer pressures on the capital side because like Stockport MBC it had a large sum of money from selling its council houses, and unlike Stockport MBC it received a large amount of grant as part of the Government's urban programme. The Council, however, ensured that the bulk of this urban programme money was spent on

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<sup>85</sup> Deputy Leader, Conservative Group, Bedfordshire CC.

<sup>86</sup> Taken from Kent CC's Revenue Budget And Capital Programme 1984-85, p3.

<sup>87</sup> Taken from Stockport MBC's Corporate Plan And Budget 1984-87 pv.

capital projects with minimal revenue commitments for future years.

For the financial year 1984/85 the four local authorities faced very different constraints upon their capital programmes. Bedfordshire CC and Kent CC with little in capital receipts were constrained by the revenue consequences of their capital programmes which would produce financial difficulties on the revenue side in subsequent years. Knowsley MBC and Stockport MBC, flush with capital receipts, were more constrained by financial controls on the capital side, particularly the restrictions on the use of capital receipts.

The two major constraints upon the level of local authority capital spending were the controls imposed by the Government on both the capital and revenue sides. However, another less important constraint, and often forgotten, is the possibility and almost probability of slippage of a local authority's capital programme. There are often delays in starting and completing a capital scheme, such as shortage of staff and contract overruns. The slippage of capital projects is widespread in local government. In Bedfordshire CC the Chief Executive and the County Treasurer noted:<sup>88</sup>

"Experience in previous years has shown that due to a number of factors actual capital payments have tended to fall short of the original planned programme and due to late commencement of new projects, payment commitments have slipped into a later year. It seems likely that this situation will occur again during 1984-85 and the position is being monitored in order to be taken into account as and when the Council makes its future capital expenditure decisions."

Also, there was some slippage in Kent CC's capital programme of 1984/85 which allowed the Council to observe the Government's request for restraint without having any

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<sup>88</sup> Taken from Bedfordshire CC's County Council Budget 1984-85: Part 1, pv.

effect on the programme.

Overall, there has been a real decline of local authority capital spending. The pressures on capital spending were summarised in the following words:<sup>89</sup>

"The most significant change is that capital spending by local authorities is now about half of what it was in the late 1960s and early 1970s. At the same time the need for capital investment, particularly in urban areas, has continued to grow, reaching crisis proportions in some areas. Several factors have contrived to reduce spending ability:

- the use of local authority capital spending as an economic regulator by successive governments. A far more rapid downturn in public expenditure figures can be achieved by limiting new starts than by pressuring other areas of spending, where reductions take longer to work through.
- pressures on the rate which limit individual authorities' ability to undertake projects with significant revenue effects.
- artificial limitations on the use of capital receipts to finance new capital expenditure.
- the availability of capital receipts."

These pressures on the level of local authority capital spending were very evident in the four local authorities examined. On one hand, the capital spending of Bedfordshire CC and Kent CC fell in real terms because of the mixture of government controls over capital and especially revenue spending. These two local authorities were unable to expand their capital programmes because the consequent revenue consequences (such as debt charges) would have increased the likelihood of incurring severe grant penalties and also there was only a little pool of capital receipts to finance capital spending. On the other hand, Knowsley MBC and Stockport MBC increased their capital spending in real terms. They were able to use monies to finance their expanding capital programmes that were not available to the other two local authorities. Both local authorities, as housing authorities, were able to generate a substantial yield of capital receipts from selling off council houses.

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<sup>89</sup> Baker (1987) p25.

And Knowsley MBC, as a programme authority, was able to tap government grants to finance its capital programme. Though capital spending of local government generally contracted in real terms, some local authorities (notably housing authorities) increased their capital spending. The pressures curbing capital spending were faced by all local authorities - some local authorities reduced their spending because of these pressures, but other local authorities increased their spending because they were cushioned from these pressures.

#### FISCAL STRESS IN LOCAL GOVERNMENT

The examination of the spending of the four local authorities lends only qualified support to the widespread notion that there were spending cuts in local government between 1978/79 and 1984/85. Both revenue and capital spending of these local authorities and local government generally increased in cash terms, with the exception of Bedfordshire CC's capital spending - see tables 3.1 and 3.14. If the spending figures are adjusted for inflation and measured in real terms, a different picture emerges. On the revenue side, there was a real increase in local government spending, but this national trend of increased spending was mirrored only in the spending record of one of the four local authorities, Stockport MBC - see tables 3.2 and 3.3. The other three local authorities, Bedfordshire CC, Kent CC and Knowsley MBC, reduced their spending. On the capital side, there was a real decrease of local government spending - see tables 3.15 and 3.16. However, two of the four local authorities, Knowsley MBC and Stockport MBC, increased their capital spending in real terms. In general, the national spending picture during this period was one of real expansion on the revenue side,



and one of real contraction on the capital side.<sup>90</sup>

Most observations of local authority spending are aggregated observations. They usually measure the spending of all local authorities or a single local authority. Both measures are aggregated calculations. If aggregated spending is broken down it invariably reveals a more complicated picture. The breakdown of spending of the four local authorities revealed that substantial spending cuts were made but were hidden in the aggregated spending totals by much larger spending increases. The table below outlines the disaggregated changes of revenue spending of the four local authorities.

Table 3.18: Breakdown of Gross Revenue Spending of  
Four Local Authorities, 1983/84 - 1984/85

	<u>Bedford-</u> <u>shire CC</u>	<u>Kent CC</u>	<u>Knowsley</u> <u>MBC</u>	<u>Stockport</u> <u>MBC</u>	<u>Total</u>	<u>Change</u>
	£m	£m	£m	£m	£m	%
1983/84*	232.2	600.5	119.7	163.5	1115.9	
Base budget changes	2.7	4.7	3.0	3.8	14.2	1.3
Budgeted reductions	(3.3)	(14.0)	(1.7)	(0.1)	(19.1)	(1.7)
Budgeted additions	1.8	15.6	0.8	1.7	19.9	1.8
Contingency	8.6	20.9	2.5	3.9	35.9	3.2
Overspend	6.5	17.4	2.2	0.5	26.6	2.4
1984/85*	<u>248.5</u>	<u>645.1</u>	<u>126.5</u>	<u>173.3</u>	<u>1193.4</u>	106.9

\* Adjusted for contributions to and from special funds

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<sup>90</sup> See Travers (1987b).

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

This table above details the changes made to the outturn of 1983/84. From this table it is possible to isolate the decisions which were made to increase spending and to decrease spending of the four local authorities. The spending increases are the base budget changes, budgeted additions and overspend.<sup>91</sup> Furthermore, if the contingency monies are excluded, then, these spending increases and decreases are changes in spending as measured in real terms. Contingency monies were set aside by the local authorities to cover pay and price increases throughout the financial year 1984/85. The table below shows the breakdown of spending increases and decreases of the four local authorities.

Table 3.19: Breakdown of Real Spending Increases and Decreases of Four Local Authorities, 1983/84 - 1984/85

	<u>1983/84</u>	<u>Increases</u>	<u>Decreases</u>	<u>1984/85</u>
Bedfordshire CC (£m)	232.2	11.0	(3.3)	239.9
(%)		4.7	(1.4)	103.3
Kent CC (£m)	600.5	37.7	(14.0)	624.2
(%)		6.3	(2.3)	103.9

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<sup>91</sup> The base budget changes included decisions which reduced spending, as stated earlier, but it is impossible to isolate these reductions from the much greater additions to the base budget. Furthermore, some of the overspend may have been caused by the local authorities under-estimating the amount of contingency needed to cover inflation. Again it is impossible to calculate precisely the share of overspend caused by higher inflation than that forecasted by the local authorities. Given the overwhelming tendency that base budget changes increased spending, and that inflation during this period was stable and therefore easier to forecast it is reasonable to include both base budget changes and overspend as real spending increases.

Knowsley MBC (£m)	119.7	6.0	(1.7)	124.0
(%)		5.0	(1.4)	103.6
Stockport MBC (£m)	163.5	6.0	(0.1)	169.4
(%)		3.7	-	103.6
Total (£m)	1115.9	60.7	(19.1)	1157.5
(%)		5.4	(1.7)	103.7

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

This table shows that the four local authorities reduced budgeted spending by over £19 million in 1984/85, representing nearly two per cent of the level of spending in 1983/84. The amount of budgeted reductions varied between local authorities from Kent CC making a 2.3 per cent cut to Stockport MBC making no significant cuts at all. Table 3.19 reveals that for 1984/85 the four local authorities increased their real spending by over £60 million and cut their spending by over £19 million from the previous year's level. The spending increases more than trebled the spending decreases. As a result, there was overall an increase in the revenue spending of the four local authorities as measured in real terms between 1983/84 and 1984/85.

These findings will now be examined in light of the vast mass of literature on local government spending documented in the last chapter. There are three general viewpoints on the trends of local authority spending - namely that local authorities have cut their spending, that local authorities have increased their spending and that local authorities have faced increasing financial pressures which have led to both growth and cuts in their spending. These views will now be discussed.

The first view catalogues the spending cuts made by local

authorities.<sup>92</sup> This view can be substantiated only by a disaggregated analysis of local authority spending - that is, if spending is broken down. For example, there have been real cuts made in the level of local authority capital spending - see tables 3.15 and 3.16; and also local authorities made specific decisions to cut spending in making their revenue budgets, which were overshadowed by decisions to increase their spending by more than they decided to cut it - see tables 3.18 and 3.19.

The second view focuses on the growth of local authority spending.<sup>93</sup> This view can be substantiated by an aggregated analysis of local authority spending - that is, if spending is seen in total. Local authority spending increased substantially in cash terms, and increased slightly in real terms during the early 1980s - see tables 3.1, 3.2 and 3.3. Furthermore, local authority capital spending increased in cash terms during this period - see table 3.14; and also local authorities made decisions to increase their spending in making their revenue budgets - see tables 3.18 and 3.19.

There is, then, some evidence to support these two contrasting views on local authority spending. However, it is important to understand the methodology of how local authority spending is being measured in order to make sense of the sometimes heated arguments about local authority spending. Though there is some weight behind these two views they are too unwieldy as sophisticated explanations of spending trends in local government. They are rooted in a monolithic assumption of local authority spending - downward or upward - and thus possess no subtlety in explaining why some local authorities increased and others cut their spending, and why local authorities make decisions to increase and cut items of spending at the same

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<sup>92</sup> See chapter two, footnote 65.

<sup>93</sup> See chapter two, footnote 66.

time.

These limitations are avoided in the more complex and robust third view of local authority spending. This view focuses on the increasing pressures facing local authorities in making spending decisions.<sup>94</sup> Whether spending falls or rises depends on the outcome of these pressures, and the outcome varies between local authorities, within a local authority and over time. This view, often couched in the language of fiscal pressure, fiscal stress and fiscal crisis, best explains the patterns of local authority spending. The competing pressures to spend and not to spend have "created a local government resource squeeze of considerable strength."<sup>95</sup> This resource squeeze was described in the following words:<sup>96</sup>

"... while there is a local resource squeeze in Britain, it does not amount to anything resembling crisis proportions, nor is it rooted, ultimately, in financial conditions. Rather, it is caused by local authorities being caught in political cross-fire coming from several directions: from ratepayers fighting to keep rates down; from council tenants, and others, who pay local fees and charges, opposing increases in local authority prices for services and amenities; from the general public as a whole requiring and demanding more and better local services; from central government (consciously or unconsciously, willingly or by default) keeping local government on a shoestring by limiting it to the rates as the only tax; and, most recently of all, from central government using its political power to cut grants and total local government spending. The conditions that cause local financial problems lie less in local or financial circumstances than in national and political ones."

According to Mouritzen, there are three meanings of fiscal

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<sup>94</sup> See chapter two, footnote 67.

<sup>95</sup> Newton (1981a) p196.

<sup>96</sup> Newton (1981a) p225.

stress.<sup>97</sup> First, fiscal stress can be seen as "a socio-economic imbalance", reflecting "a mismatch between what citizens want in relation to what the private sector economy can support."<sup>98</sup> This view says little about the fiscal position of local authorities. Though socio-economic factors shape their financing and spending, local authorities can provide only a part of what citizens want and are only part of government that is sustained allegedly by the private sector. Second, fiscal stress can be defined as "an imbalance between fiscal policies and available resources."<sup>99</sup> This narrower view focuses on the gap between the resources that local authorities possess and their policies they wish to pursue. Third, fiscal stress can be regarded as "an imbalance between demands, needs or wants on the one side and fiscal policies on the other."<sup>100</sup> This view contains a subjective component because fiscal stress is measured when the demands, needs and wants of those perceiving stress are not being satisfied.<sup>101</sup> It is

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<sup>97</sup> Mouritzen (1992a) pp28-30.

<sup>98</sup> Mouritzen (1992a) p29. This political economy approach to defining fiscal stress encompasses the Marxist view of fiscal crisis in capitalist states (for example, see Alcala & Mermelstein (1977); Cockburn (1977) pp41-66; Friedland (1981); Friedland, Piven & Alford (1977); Gough (1979); Gough (1980); Marcuse (1981); O'Connor (1973); Offe (1984); Rubin & Rubin (1986); and Saunders (1980)). It includes also the New Right view of the pernicious effects of increasing government spending (including local government spending) upon the economy (for example, see Bacon & Eltis (1976); Butler & Pirie (1981); Friedman (1976); Friedman & Friedman (1980); Henney (1984); Ilersic (1975); Institute Of Economic Affairs (1980); Minford (1984); Piven & Friedland (1984); Ridley (1988); Rubin & Rubin (1986); Taylor (1980); Tory Reform Group (1979); and Walker (1983)).

<sup>99</sup> Mouritzen (1992a) p29.

<sup>100</sup> Mouritzen (1992a) p30.

<sup>101</sup> Rose noted the subjective nature of fiscal stress when he argued that frustration over public expenditure "is the subjective consequence of a 'squeeze' between what is expected and what is received..." ((1980) p10).

difficult to operationalise given the methodological difficulties in defining and measuring demands, needs and wants.<sup>102</sup> Of the three general definitions of fiscal stress, the second one is most applicable in examining the making of spending cuts in local authorities. It focuses on organisations (eg local authorities), rather than the political economy within which organisations operate. It looks at the policies and resources of organisations, rather than the perceived impact of organisations upon their environment.

Fiscal stress in local government occurs when local authorities must significantly cut their expenditures, increase their revenues, or both cut expenditure and increase revenue.<sup>103</sup> As Wolman and Davis noted:<sup>104</sup>

"We define fiscal pressure as a situation in which a local government, faced with the necessity of achieving a balance between revenues and expenditures, must in time choose either to (1) increase taxes through changes in the tax rate or structure in order to maintain existing real expenditure and service levels, (2) reduce real expenditures from the level of the previous year or (3) engage in some combination of these activities."

Fiscal stress is the symptom of the widening gap between revenues and expenditures of local authorities, reducing their capacity to supply the demand to provide services. The competing pressures facing local authorities in their financing and spending decisions were evident in the four local authorities studied. In making their revenue budgets and capital programmes they were faced with many critical

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<sup>102</sup> See chapter two, pp71-77.

<sup>103</sup> See Barnett (1986); Elcock (1987b) pp7-9; Elcock, Jordan & Midwinter (1989) pp105-116; Newton (1980); Sondheimer (1986); Wolman (1983); Wolman & Davis (1980); Wolman & Peterson (1980); Wolman & Peterson (1981); and Wooldridge (1984). Also, on the measurement of fiscal stress in local government see Boyne (1988) pp16-20; and Clark & Ferguson (1983) pp43-74.

<sup>104</sup> Wolman & Davis (1980) p1.

decisions. On the revenue side, they had to decide by how much, if at all, to exceed their expenditure target, the level of rates or precept to set, and finally the required level of service provision. On the capital side, they had to decide how much to spend on capital projects given their block authorisation, the amount of funds available to finance their projects, and the revenue consequences incurred by their capital programmes. These critical factors weighed very heavily in making their budget decisions. There are two distinctive though related arenas of budgeting in local government, within which the interplay of these factors takes place. They revolve around the level of financial resources available to a local authority, and the level of expenditure required by that local authority. There are competing pressures to spend and not to spend operating in these two arenas, which will now be examined in light of what happened in the four local authorities studied.<sup>105</sup>

### The financial resources of local authorities

The level of resources available to be spent is determined by the amount of revenue and capital resources available to local authorities. At the time of the research revenue resources included income from rates, rate support grant and other grants from central government, council house rents, and fees and charges for services. Capital resources included monies raised from loans, capital receipts, various grants and revenue contributions.

On the revenue side, the two largest sources of income were from rates and the rate support grant (which comprised block grant, and a much smaller domestic rate relief grant)

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<sup>105</sup> For a general discussion of these pressures facing local authorities see Newton (1980); and Newton & Karran (1985) pp52-98.



- see tables 3.20, 3.21 and 3.22. Table 3.20 below details the monies raised from rates and received as block grant by the four local authorities.

Table 3.20: Gross Revenue Income of Four Local Authorities, 1978/79 - 1984/85

	<u>1978/79</u> £m	<u>1981/82</u> £m	<u>1984/85</u> £m
Bedfordshire CC			
- rates	77.2	101.6	125.6
- block grant*	48.6	56.7	61.7
Kent CC			
- rates	174.5	207.0	261.7
- block grant*	99.8	211.0	219.4
Knowsley MBC			
- rates	18.8	23.0	31.6
- block grant*	32.9	39.8	37.9
Stockport MBC			
- rates	29.4	39.6	49.1
- block grant*	35.9	40.3	38.8

\* As the block grant system was introduced by the Local Government, Planning and Land Act 1980 the equivalent figures for 1978/79 are calculated by adding together the needs and resources elements of the rate support grant.

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

Table 3.21 outlines what proportion of spending of the four local authorities was respectively financed from rates and block grant.

Table 3.21: Share of Gross Revenue Income of Four Local Authorities, 1978/79 - 1984/85\*

<u>1978/79</u>	<u>1981/82</u>	<u>1984/85</u>
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			156
	%	%	%
Bedfordshire CC			
- rates	55	47	51
- block grant	35	26	25
Kent CC			
- rates	49	38	40
- block grant	28	39	34
Knowsley MBC			
- rates	25	20	25
- block grant	43	35	30
Stockport MBC			
- rates	33	26	28
- block grant	41	27	22

\* Calculated as a share of gross revenue expenditure

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

The two tables above show that though the amount of block grant given to the local authorities increased during this period, it significantly declined as a share of financing their spending. The table below portrays the national picture of how local government spending was financed.

Table 3.22: Share of Gross Revenue Income of Local Authorities in England, 1980/81 - 1984/85\*

	<u>1980/81</u>	<u>1982/83</u>	<u>1984/85</u>
	%	%	%
Rates	29	33	32
Rate support grant	34	29	26
Specific grants	16	14	21
Council house rents	6	9	5
Charges and other income	15	15	16

\* Calculated as a share of gross revenue expenditure

Source: Department Of The Environment (1986) p7

Table 3.22 shows that the share of revenue spending financed from rate support grant fell, and that from rates rose. This significant shift of financing local authority expenditure took place because the Conservative Government reduced gradually the level of rate support grant given to local authorities as part of its drive to curb their spending.<sup>106</sup> In 1981 Greenwood observed that there "is no evidence ... that cumulative grant loss affects changes in expenditure."<sup>107</sup> He argued that local authorities preferred generally to raise their rates than cut their spending.<sup>108</sup> This observation was also made later by Newton and Karran, who maintained that in response to grant cuts local authorities tended "to fill the hole from other sources of income."<sup>109</sup> Table 3.23 below reveals that this preference was exercised by local authorities in the early 1980s.

Table 3.23: Rate Income and Rate Support Grant of  
Local Authorities in England, 1980/81 -  
1984/85

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<sup>106</sup> The level of rate support grant was not cut evenly between local authorities. In the early 1980s the Government changed the method of calculating and distributing block grant, which was by far the most significant component of rate support grant. This change favoured generally the shire authorities (eg Kent CC) and local authorities with low rateable resources (eg Knowsley MBC) at the expense of urban authorities and local authorities with high rateable resources - see Travers (1986b) pp93-103.

<sup>107</sup> Greenwood (1981) p90. See also Gibson (1982).

<sup>108</sup> Greenwood argued that "loss of grant was important only in 1975/76 and 1976/77", during which "spending decisions were tailored to the exigencies of grant receipts, but not thereafter" ((1981) p89).

<sup>109</sup> Newton & Karran (1985) p111. See also Audit Commission For Local Authorities In England And Wales (1984g) pp7, 9-28; Barnett (1986); Boyne (1990); Elcock, Jordan & Midwinter (1989) pp106-108; Greenwood (1982b); Midwinter (1988) pp25-27; Sondheimer (1986); and Wolman & Goldsmith (1987) p178.

	<u>1980/81</u>		<u>1982/83</u>		<u>1984/85</u>
Rate income (£m)*	7444		8529		8513
		+1085		-16	
Rate support grant (£m)*	8708		7478		6768
		-1230		-710	

\* Adjusted to 1980/81 prices

Source: Department Of The Environment (1986) p7

Between 1980/81 and 1982/83 the level of rate support grant given to local authorities fell by over £1,000 million in real terms, but the level of rate income increased by just under the same amount. However, there is little evidence to suggest that local authorities increased their rates to compensate for grant loss in the mid-1980s. In fact, table 3.23 shows that local authorities not only received less grant in real terms but also received less rate income between 1982/83 and 1984/85. This national picture is not mirrored when the record of the four local authorities is examined - see table 3.24.

Table 3.24: Rate Income and Block Grant of Four Local Authorities, 1978/79 - 1984/85

	<u>1978/79</u>		<u>1981/82</u>		<u>1984/85</u>
Bedfordshire CC					
- rate income (£m)*	77		64		67
		-13		+3	
- block grant (£m)*	49		36		33
		-13		-3	
Kent CC					
- rate income (£m)*	175		131		140
		-44		+9	
- block grant (£m)*	100		133		118
		+33		-15	
Knowsley MBC					
- rate income (£m)*	19		15		17

					159
		-4		+2	
- block grant (£m)*	33		25		20
		-8		-5	
Stockport MBC					
- rate income (£m)*	29		25		26
		-4		+1	
- block grant (£m)*	36		25		21
		-11		-4	

\* Adjusted to 1978/79 prices

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

The table above shows that the four local authorities faced both reductions of their block grant and rate income in real terms during the early 1980s. But in the mid-1980s there is some evidence to suggest that they raised their rates to offset grant losses. Thus, the pattern seen in these local authorities was the reverse of that seen nationally. Nevertheless, the drastic real reductions of rate support grant imposed downward pressures on local authority spending. The scale of spending cuts required of this grant loss was lessened to a limited extent because local authorities raised additional income from other sources, notably the rates. Following Newton and Karran, "the fact remains that grants have been pared down, and that this had the effect of restraining local expenditure."<sup>110</sup> Similarly, the Department of the Environment, though tacitly recognising its failure to cut local authority spending, still believed that spending was lower than it would otherwise have been without expenditure targets and grant penalties.<sup>111</sup>

The amount of rate income was a major constraint upon the

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<sup>110</sup> Newton & Karran (1985) p111.

<sup>111</sup> Taken from National Audit Office (1985) p15. See also Conservative Party (1992) p37.

level of resources available to be spent by local authorities. Until rate-capping was introduced, local authorities determined their own rate levels.<sup>112</sup> The examination of the four local authorities suggested there were two main concerns in setting their rates. They were the concerns over the impact of rates upon business and upon voters. In three of the four local authorities - Kent CC, Knowsley MBC and Stockport MBC - there was explicit concern over the alleged adverse effects of high rates upon business in the local areas. Their assumption was that high rates made local businesses less competitive and deterred new businesses from setting up in their local areas.<sup>113</sup> They attempted consequently to limit their rate increases to protect business interests.

All four local authorities, especially Bedfordshire CC, were concerned to limit their rate increases in order to protect domestic ratepayers, and therefore local voters. This concern was usually expressed in terms of electoral advantage in forthcoming local elections. Newton observed:<sup>114</sup>

"In the past many local authorities have held annual elections, and since it is widely believed among council members that rate and rent increases can have a marked effect on local election results, the tendency has been to hold increases down to a minimum, especially when control of the council is in the balance and could be upset by a small electoral swing."

The widespread belief that the level of rates had a

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<sup>112</sup> Rate-capping first came into effect in 1985/86.

<sup>113</sup> This assumption was challenged by the findings of research commissioned by the Department of the Environment. It found that "local authorities which levy above average rates, or which increase their rates more than others, are probably not damaging their local economies" (Fothergill & Monk (1985) p55). Though Bennett and Fearnough claimed later that high rates "remain for business an important problem" ((1987) p35).

<sup>114</sup> Newton (1981a) p221. See also Elcock (1987a) p248; Ferry (1979); and Midwinter (1988) p26.

decisive effect on local election results is not supported by research on local voting behaviour. The Widdicombe Committee, after commissioning research on local voting, noted:<sup>115</sup>

"... local factors - such as rate increases and school closures - can and do influence elections.... There is, however, little evidence that local issues will be decisive except in authorities which are otherwise very marginal.... National party allegiances and attitudes to national politics play a major part in local election results."

Though the local authorities were concerned about the electoral consequences of their rates, their concern was inversely related to the size of majority of the controlling party group. The rates increases of the four local authorities ranged from the nil increase of Bedfordshire CC to the nine per cent increase of Knowsley MBC. The Conservative and Liberal Groups of 'hung' Bedfordshire CC decided not to increase the Council's precept in order to court popular support in the forthcoming local elections. The large Labour Group of Knowsley MBC increased their rates substantially in the comfort that local election results would not threaten its majority on the Council. The findings of recent research on the effects of rate increases on local voting were confirmed in this study of four local authorities. The general concern over the effects of rates upon voters and business was an important constraint upon the level of resources available to local authorities.

On the capital side, the main sources of finance were loans and capital receipts - see tables 3.25 and 3.26. The table below shows the amount that each major source of capital finance raised by the four local authorities between 1978/79 and 1984/85.

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<sup>115</sup> Committee Of Inquiry Into The Conduct Of Local Authority Business (1986) p39. See also Miller (1988).

Table 3.25: Gross Capital Income of Four Local Authorities, 1978/79 - 1984/85

	<u>1978/79</u>	<u>1981/82</u>	<u>1984/85</u>
	£m	£m	£m
Bedfordshire CC			
- loans	7.2	7.5	10.1
- capital receipts	1.1	0.8	0.9
- grants	1.6	1.3	-
- revenue contributions	0.5	0.9	-
Kent CC			
- loans	20.8	15.4	21.6
- capital receipts	0.7	2.5	4.5
- grants	1.6	6.1	0.7
- revenue contributions	3.0	4.1	3.5
Knowsley MBC			
- loans	n/a*	6.8	12.1
- capital receipts	n/a*	0.6	9.8
- grants	n/a*	0.1	0.9
- revenue contributions	n/a*	0.8	-
Stockport MBC			
- loans	n/a*	6.0	7.8
- capital receipts	n/a*	0.6	3.6
- grants	n/a*	0.4	0.4
- revenue contributions	n/a*	-	-

\* Figures not available from their annual accounts

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

The table above shows that loans and capital receipts were by far the most significant source of capital finance for the four local authorities, as they were nationally. Table 3.26 below details the proportion that each source of capital finance contributed towards capital spending. This table reveals that loans were, and still are, the largest source of capital finance, that capital receipts became increasingly significant as a source of capital finance and that revenue contributions to capital outlay declined over the years because of severe financial pressures on the revenue side.



Table 3.26: Share of Gross Capital Income of Four  
Local Authorities, 1978/79 - 1984/85\*

	<u>1978/79</u>	<u>1981/82</u>	<u>1984/85</u>
	%	%	%
Bedfordshire CC			
- loans	64	60	91
- capital receipts	10	6	8
- grants	14	10	-
- revenue contributions	4	7	-
Kent CC			
- loans	87	48	65
- capital receipts	3	8	14
- grants	7	19	2
- revenue contributions	13	13	11
Knowsley MBC			
- loans	n/a	76	53
- capital receipts	n/a	7	43
- grants	n/a	1	4
- revenue contributions	n/a	9	-
Stockport MBC			
- loans	n/a	81	60
- capital receipts	n/a	8	28
- grants	n/a	5	3
- revenue contributions	n/a	-	-

\* Calculated as a share of gross capital expenditure

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

Local authorities have access to substantial resources to finance their capital programmes though their spending was, and still is, controlled by central government. Within these controls local authorities can tap into a large pool of capital resources from several sources. Local authorities can raise loans either from the Public Works Loan Board or the open money markets. They have few problems, notwithstanding the Hammersmith and Fulham case involving interest rate swaps, in raising loans not least because the Public Works Loan Board acts as a lender of

last resort.<sup>116</sup> At the time of the research the major constraint upon local authority borrowing was the amount of debt charges (that is, payments of both the principal and interest of loans) incurred on the revenue side. This constraint deterred both Bedfordshire CC and Kent CC from borrowing more money to finance their capital programmes. The other major source of capital finance was capital receipts generated from the sale of local authorities' capital assets. As a result of the right-to-buy scheme introduced under the Housing Act 1980, housing authorities such as Knowsley MBC and Stockport MBC received substantial sums of capital receipts from selling off council houses, which were then used to finance their capital programmes.<sup>117</sup> There were other sources of capital finance, such as grants from central government and other bodies, revenue contributions, and leasing arrangements. For example, in 1984/85 Kent CC raised well over £1 million from leasing deals.

Overall, the level of revenue and capital resources created pressures to both increase and decrease local authority spending. Put crudely, the more financial resources a local authority possesses, the more it spends; the less it possesses, the less it spends. The resources of local authorities are subject to an array of financial, economic and political constraints. Financially, Parliament determines the sources of finance upon which local authorities rely - for example, local authorities cannot levy a local income tax. Central government attempted to control the amount of revenue and capital resources available to local authorities - for example, it distributed grants to local authorities, and imposed

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<sup>116</sup> See Hepworth (1984) pp141-144; and Sbragia (1983) pp9-10. On the Hammersmith and Fulham case see Arnold-Forster (1993); Cross (1990); King (1993) p201; Loughlin (1990); Loughlin (1991); Miller (1989); and Travis (1989).

<sup>117</sup> See The Economist (1984).

expenditure targets and grant penalties on the revenue side and block allocations on the capital side. Economically, local authorities were constrained by their perception of the effects of rates upon business. Taxes, which partly finance government grants to local authorities, are very dependent upon the state of the economy. Politically, the Conservative Government generally penalised Labour-controlled local authorities and rewarded Conservative-controlled local authorities in its grant calculations and rate-capping decisions. Local authorities are concerned about the electoral consequences of their financing decisions. The resources available to local authorities are critical determinants of local authority spending.

#### The expenditure requirements of local authorities

The level of required expenditure of local authorities is determined by a variety of influences and controls. The economic, social and political conditions of local government produce pressures on local authority spending.<sup>118</sup> These three types of pressures will be examined in turn.

First, there are very significant economic pressures on local authority spending. Local authorities often spend more or less depending on the state of their local economies. Kent CC, Knowsley MBC and Stockport MBC all expanded their economic development activities in order to regenerate their local economies.

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<sup>118</sup> See Alt (1971); Danziger (1978b); Foster, Jackman & Perlman (1980) pp77-101; Harrison & Smith (1978); Newton (1980); Newton & Karran (1985); Oliver & Stanyer (1969); Radley (not dated); Sharpe & Newton (1984); and Travers (1992). There are also other spending pressures. For example, after the violent storms of 1987 Kent CC spent £22 million clearing up its damage, of which 75 per cent was later reimbursed by central government - see Hedley (1987).

Local authority spending is also dependent on the state of the national and world economy. Inflation is a significant economic pressure facing local authorities which largely lies outside their control, and is rooted in the national and world economies. In times of inflation local authorities have to spend more to provide a constant level of service provision. The costs of providing local authority services have increased over years, which generate pressures upon local authorities to spend more just to stand still. According to Greenwood, one of the main causes of fiscal pressure in local government "was the rapid upward movement of pay and prices."<sup>119</sup> In the 1970s and early 1980s the high rate of inflation forced many local authorities to increase their rates to keep up with the inflationary pressures upon spending and some local authorities to cut their spending. There were two reasons why inflation was felt by some local authorities more than other local authorities. The first reason was that rates did not keep up automatically with inflation like income tax. Local authorities must always increase rates just to keep up with inflation.<sup>120</sup> In times of high inflation local authorities are faced with contradictory pressures of restricting their rates rises and increasing their spending in line with inflation. The second reason is that pay and prices in local government tend to increase more than those in the wider economy.<sup>121</sup> Inflation in local government is generally higher than the general rate of inflation (as

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<sup>119</sup> Greenwood (1981) p79.

<sup>120</sup> See Newton (1981a) pp218-219.

<sup>121</sup> See Committee Of Inquiry Into Local Government Finance (1976) pp26-27; Hepworth (1976) p6; Hepworth (1984) pp14-16, 24-25; Newton (1980) pp99-124; Newton (1981a) pp208-210; and Newton & Karran (1985) pp84-98. According to Baumol, the "progressive and cumulative increases in the real costs incurred" in providing services such as those provided by local authorities are the root causes of the inevitable "urban crisis" ((1971) p108). On the effects of inflation and the relative price effect upon local government see chapter two, pp69-70.

measured by the Retail Price Index (RPI)) because local authorities are large employers and large borrowers. Wage rises and interest rates have exceeded inflation, which have thus exacerbated the spending pressures on local authorities. Bedfordshire CC trimmed its capital programme at a time of high interest rates because it could not afford the debt charges in subsequent years. Inflation, then, "imposes pressures upon a local authority that are more intense than on many other organisations."<sup>122</sup> Following Newton and Karran:<sup>123</sup>

"... local government spending has risen partly because its costs have kept pace with general prices, or even outpaced them. In other words, part of the rise in local government spending is attributable to factors which are beyond the immediate control of local authorities themselves. They do not determine rates of interest, they do not pass laws which oblige them to borrow for a large part of their capital investment, and they do not choose to deal mainly with labour-intensive services."

Second, there are social pressures on local authority spending. Local authorities spend more or less depending on the demographic characteristics of the people living in their areas. For example, many local education authorities made savings as a result of falling school rolls. Generally Travers predicted that "demographic change will result in pressures for higher expenditure over the next eight or 10 years."<sup>124</sup> Knowsley MBC increased its spending in part because it convinced central government that it should receive more grant in compensation for widespread social deprivation in the area. Even the power of the mass media influences local authority spending. In 1984 local authorities faced "a massive leap in compensation claims

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<sup>122</sup> Hepworth (1984) p15.

<sup>123</sup> Newton & Karran (1985) p96.

<sup>124</sup> Travers (1992) p15. See also Newton (1981a) pp202-206. For a general discussion on the effects of demographic change upon public policy, see Hogwood (1992) pp209-219.

involving uneven pavements, potholes and roadworks" after the television character from 'Coronation Street', Stan Ogden, successfully received compensation for stubbing his toe on a raised paving slab.<sup>125</sup>

Third, there are important political pressures on local authority spending. Local authorities spend more or less depending on their political complexion and their political environment. The party political complexion of a local authority is widely regarded as a critical determinant of its spending. It is assumed that Labour-controlled councils spend more and make fewer spending cuts than Conservative-controlled councils - a claim that is widely proclaimed by the Conservative Party at local election time. In the words of Sharpe and Newton:<sup>126</sup>

"... authorities which stay under Labour control increase their spending more than authorities under continuous Conservative control. Authorities which switch to the Conservatives cut their spending in relative terms, but do so slowly. Conservative authorities which switch to Labour control increase their spending, and do so quite rapidly. There is, in other words, a clear party control effect on spending, and the Labour high spending effect is stronger after a change of control than the Conservative low spending effect."

Similarly, Duke and Edgell looked at the spending of a Conservative-controlled and a Labour-controlled council.<sup>127</sup> They found that in response to measures introduced by the

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<sup>125</sup> See Daily Mail (1984) p11.

<sup>126</sup> Sharpe & Newton (1984) p199. See also Alt (1977) p89; Bennett (1982b) pp1009-1015, 1021; Boyne (1990); Elcock (1987a) pp246-248; Elcock, Jordan & Midwinter (1989) pp49-67; Kennett (1980) p63; Newton & Sharpe (1977) p73; Oliver & Stanyer (1969); Page (1990); and Sharpe (1981a). Sharpe and Newton maintained, however, that "the more competitive the party systems the more similar the expenditure patterns of authorities, irrespective of party control" ((1984) p200). See also Alt (1977) pp89-90; Newton & Sharpe (1977) pp73-74; and Sharpe (1981a) pp9-11.

<sup>127</sup> Duke & Edgell (1986); and Edgell & Duke (1991) pp86-116.

Conservative Government to cut local government spending, the spending of the Conservative-controlled council fell and that of the Labour-controlled council rose in real terms. They wrote:<sup>128</sup>

"Torytown has experienced real cuts in gross expenditure..., whilst Labourville's gross expenditure has continued to increase."

This party political effect did not manifest itself among the four local authorities studied - see table 3.27. This table reveals that a Labour-dominated authority, Knowsley MBC, cut its revenue spending the most; and that a Conservative-controlled authority, Stockport MBC, increased its spending the most during this period. Even looking just at 1984/85 there was a larger increase of spending in Conservative-controlled Kent CC and Stockport MBC than Labour-controlled Knowsley MBC. Turning to capital spending, Knowsley MBC increased its spending much more than the other three local authorities.

Table 3.27: Changes of Revenue and Capital  
Spending of Four Local Authorities

<u>Party control</u>		<u>1978/79-1984/85*</u>	<u>1983/84-1984/85**</u>
		%	%
Bedfordshire CC	'hung'		
- revenue		-5	+2
- capital		-45	0
Kent CC	Conservative		
- revenue		-2	+3
- capital		-22	-4
Knowsley MBC	Labour		
- revenue		-12	+1
- capital		+125	+10
Stockport MBC	Conservative		
- revenue		+5	+1
- capital		+10	-25

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<sup>128</sup> Duke & Edgell (1986) p261.

\* Adjusted to 1978/79 prices  
\*\* Adjusted to 1983/84 prices

Source: Bedfordshire CC; Kent CC; Knowsley MBC; and Stockport MBC

From these findings it is perhaps tempting to stand conventional wisdom on its head, and make a case that Conservative-controlled local authorities spend more than Labour-controlled local authorities. This temptation must be resisted.<sup>129</sup> Party control is an important determinant but not the most important determinant of local authority spending. It is less important than, for example, the type of local authority. On the revenue side, the type of local authority - county or district council, and shire or metropolitan council - was an important ingredient in the calculation of rate support grant. On the capital side, the type of local authority - housing or non-housing authority - is a major factor in the yield of capital receipts. Thus, the type of local authority upsets the expected party political pattern of spending that would have otherwise have emerged in the four local authorities.<sup>130</sup>

Furthermore, party labels are somewhat cumbersome analytical tools to explain the political pressures upon local authority spending. Party political analysis of local authority spending can explain only the effects of party politics and not the effects of other forms of politics. There is intra-party politics. There are political differences within a party group which often affect local

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<sup>129</sup> A sample of four local authorities is too small to discredit a general observation.

<sup>130</sup> However, there is a link between type and party control of a local authority - an urban local authority (eg metropolitan district council) is more likely to be Labour-controlled, and a shire authority (eg county council) is more likely to be Conservative-controlled (see Dunleavy (1980) pp87-89).



authority spending. The split in the Liberal Group of Bedfordshire CC reflected to a large extent differences within the Group over how much should be spent on education. There is also pressure politics and community politics which sometimes influence the spending decisions of local authorities.<sup>131</sup> Bedfordshire dropped its proposal to close a library after an "acrimonious" campaign led by a local newspaper.<sup>132</sup>

The political environment of local authorities is very much shaped by central government. Central government is perhaps the most important political constraint upon local authority spending. With one hand it encourages local authority spending, and with the other hand it discourages spending.<sup>133</sup> Central government is schizophrenic in its attitude towards local government. Parts of central government (eg the Treasury) want to constrain local authority spending, and other parts (eg Department for

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<sup>131</sup> See Chandler (1991) pp176-188; Dunleavy (1980) pp150-159; Gyford (1984) pp82-98, 133-136; Kingdom (1991) pp194-210; Pirie (1981) pp11-12; and Stoker (1991) pp114-139.

<sup>132</sup> County Librarian, Bedfordshire CC.

<sup>133</sup> Central government often sent out contradictory messages to local authorities about their spending. Many local authorities wanted to close schools partly in response to pressures from the Department of the Environment to cut spending. If there were objections locally to a proposed school closure, then, the Department of Education and Science was required to approve its closure. However, many local authorities complained over the delay that the Department of Education and Science in making decisions on school closures, thus reducing the planned 'savings' (see Sharratt (1984)). At the same time the Audit Commission accused local authorities of failing to close schools in response to falling school rolls, causing "wasteful spending worth £100 million to £200 million a year" (Carvel (1985)). A few years later the Department for Education also criticised local authorities for not closing enough schools (see MacLeod (1992)). The Conservative Government, via the Funding Agency for Schools, now plans to close many schools (see Bevins (1994); and MacLeod (1994)).

Education) want to champion local authority spending in particular policy areas.<sup>134</sup> The Department of the Environment is a 'two-faced friend' of local government. It defends local government when negotiating the annual grant settlement with the Treasury, but attacks local government when distributing grant between local authorities. Central government is not monolithic but fragmented, and creates competing and contradictory pressures upon the spending of local authorities.

Central government wearing its parliamentary veil requires local authorities to provide many services. Local government provides a range of statutory services such as schooling and policing. Under the Social Security and Housing Benefits Act 1982 housing authorities were required to administer a complex housing benefit scheme to replace the existing system of rate rebates and rent benefits. This scheme, though grant-aided, increased substantially the amount spent by local authorities. In 1984/85 Knowsley MBC spent over £16 million on administering the scheme, but in 1982/83, the year before it came into effect, the Council spent only £7.5 million on administering the equivalent system of rate rebates and rent benefits. Local authorities are outlawed from providing services beyond their statutory powers. Thus, central government through its dominance of Parliament controls the functions that local authorities carry out, and these statutory limitations shape the level of their spending on providing services. In 1984 the now defunct Local Authorities Conditions of Service Advisory Board estimated central government initiatives on local government "added almost 1% to employment between June 1979 and December 1983 compared with the overall reduction of

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<sup>134</sup> See Rhodes (1988) pp103-106. He argued "the service departments are probably the best friends of local government at the centre because their interests coincide either in seeking an increase in funds or in resisting 'cuts'" ((1988) pp104-105).

5½% "135

As well as encouraging spending central government also discourages local authority spending. It possesses an array of financial controls designed to influence the level of spending by local authorities. The advent of the Conservative Government in 1979 witnessed a significant increase in the range and severity of these financial controls.<sup>136</sup> The rationale behind these controls has been seen as part of the Government's drive to reduce public expenditure, and as part of its strategy to reduce the role of government. Boddy argued that this strategy is one in which "macro-economic arguments have been run together with the broader objectives of rolling back the state and the public sector, freeing market forces and individual private enterprise, cutting taxation and privatisation."<sup>137</sup> In a similar light the government policy of cutting local government spending has been viewed as a way of stimulating the private sector and encouraging economic growth. Saunders maintained that local authority spending cuts "are simply one facet of an overall policy designed to increase profitability in the private sector."<sup>138</sup> Leon Brittan, the former Chief Secretary to the Treasury, stated that "it is in the interests of the national economy and of the health and viability of local government to seek to overcome the real problems which repeated overspending brings with it", and that "its damaging effect on the national economy and on industry will soon force any Government to take further steps in the direction of central control."<sup>139</sup> Kenneth

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<sup>135</sup> Local Authorities Conditions Of Service Advisory Board (1984) p4. See also Caulcott (1983) pp75, 78-79.

<sup>136</sup> See chapter two, pp27-28.

<sup>137</sup> Boddy (1984) p215.

<sup>138</sup> Saunders (1980) p550.

<sup>139</sup> Brittan (1982) p61.

Baker, the former Secretary of State for the Environment, accused local authorities of being "high-spending engines of inflation".<sup>140</sup> Rhodes believed central government controls over local government spending were "a substitute for the failure to control central expenditure."<sup>141</sup> The Government wanted to cut local government spending because it believed that cutting local authority budgets would be easier politically than cutting its own budget.<sup>142</sup> Whatever the explicit and implicit rationale behind the Government's financial controls, and whatever the validity of the rationale, the financial controls undoubtedly had a very marked effect on the level of local authority spending.<sup>143</sup>

On the revenue side, the Government set expenditure targets and extracted grant penalties if local authorities exceeded their targets. Bedfordshire CC, Kent CC and Knowsley MBC were not prepared to spend much over their target because of the grant penalties incurred. Bedfordshire CC went two per cent over, Kent CC one per cent over, and Knowsley four per cent over target. Their spending was influenced by the expenditure targets set by central government. The other local authority, Stockport MBC, spent at its target, but instead of curbing its spending actually increased its

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<sup>140</sup> Baker (1993) p112.

<sup>141</sup> Rhodes (1992c) p61.

<sup>142</sup> See Gilmour (1992) p217; Glennerster (1980a) p375; Glennerster (1980b) p186; Jones & Stewart (1985) pp62-71; Jones, Stewart & Greenwood (1981); O'Higgins (1983) p163; Pliatzky (1982) p155; Rhodes (1985a) pp50-51; Thain & Wright (1988) p5; Thain & Wright (1992b) pp219-221; and Wright (1982).

<sup>143</sup> The validity of the rationale of financial controls has been hotly disputed. See Barlow (1981); Boddy (1984) pp227-233; Gilmour (1992) p213; Greenwood, Jones & Stewart (1982) p304; Harrison (1980); Jackman (1979); Jackman (1982); Jackson (1981); Jackson (1982a); Jones & Stewart (1983d); Jones & Stewart (1985) pp51-73; Lawson (1992) pp103-104; Livesey (1987); Newton & Karran (1985) pp123-124; and Powell (1981).

spending to reach target. The Leader of the Conservative Group wanted originally to spend less to set a lower rate, but was persuaded by the Director of Finance to increase spending in order to maximise its grant entitlement.<sup>144</sup> Thus, following Greenwood, local authority spending "was strongly influenced by the government's expenditure targets."<sup>145</sup> In most cases expenditure targets and grant penalties had a depressing effect on local authority spending. This depressing effect on revenue spending was extended to capital spending because local authorities cut their capital spending in order to minimise the revenue consequences of their capital programmes.

Furthermore, though in 1984/85 rate-capping was not in force there is some evidence that some local authorities, particularly Knowsley MBC and to a less extent Bedfordshire CC, were discouraged from spending more than they did in case they were selected for rate-capping in 1985/86 by the Government. The threat of rate-capping, as well as rate-capping itself, restrained local authority spending.

On the capital side, the Conservative Government possessed a set of controls over local authority spending. It regulated the bulk of capital spending by issuing block allocations to local authorities which they could not significantly exceed, and by restricting the use of capital receipts. It "used local authority capital expenditure as an accelerator or as a brake on total public spending."<sup>146</sup> The capital expenditure controls, with the financial controls on the revenue side, forced local authorities to cut their capital spending.

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<sup>144</sup> Chairman, Recreation and Culture Committee, Stockport MBC. On grant maximisation see Elcock, Jordan & Midwinter (1989) pp106-107; and Midwinter (1988) p25.

<sup>145</sup> Greenwood (1981) p84.

<sup>146</sup> Travers (1986b) p142.

Thus, there are economic, social and political pressures which shape the level of local authority spending. These pressures are interlocking. For example, the former National Coal Board (now British Coal), faced with cheap coal imports and a Government committed to privatising the coal, electricity and gas industries, proposed to close many of its collieries thus prompting the miners' strike of 1984/85. The policing of the miners' dispute was coordinated by the National Reporting Centre of the Metropolitan Police, and involved many police forces including those of Bedfordshire CC and Kent CC. The deployment of these police forces led to extra spending, though much of the additional costs were reimbursed later by the Home Office. Kent CC had to find an extra £15 million to police the miners' strike.<sup>147</sup> It was claimed by Bedfordshire CC's Chairman of the Police Committee that there was no detrimental effect on policing in Bedfordshire as a result of these deployments of police officers outside the county.<sup>148</sup> This example shows the inter-connected nature of economic, social and political pressures on local authority spending. The economic pressures took the form of cheaper coal imports forcing the National Coal Board to try and produce more competitive coal to sell to the soon-to-be privatised electricity industry, and the consequent pit closures and miners' strike. The social pressures included

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<sup>147</sup> Principal Administration Officer, Kent County Constabulary, Kent CC. An extra £7 million was paid as increased overtime - see Kent Messenger, 30 November 1984, p5.

<sup>148</sup> See Bedfordshire CC's Questions To Councillor F Lester, Chairman Of The Police Committee From Councillor J Tizard, 19 April 1984. This claim was supported by research commissioned by the Police Foundation - see Waddington (1985). What was interesting in the debate about policing the miners' strike in Bedfordshire CC was that on one hand the police claimed that policing did not suffer as a result of the strike, but on the other hand the police claimed that there was insufficient establishment and wanted more police officers in the following year (Leader, Labour Group, Bedfordshire CC).

the general move away from burning fossil fuels because of its environmental consequences, and the breakdown of mining communities. The political pressures involved the Government's commitment to privatise the electricity and coal industries, and its determination to curb trade union power. Economic, social and political pressures combined to mould the spending of local authorities.

### Explaining fiscal stress in local government

From reading the literature on central-local government relations and from surveying the set of stringent controls in the hands of central government it is tempting to conclude, as many have done, that not only have there been spending cuts in local government but that these cuts were the outcome of the Government's measures to curb local authority spending.<sup>149</sup> For example, Clarke and Cochrane argued that "real cuts in council spending" were the "cumulative effect" of policies pursued by the Conservative Government.<sup>150</sup> Writing about the financial problems of local governments in Western Europe Newton argued:<sup>151</sup>

"... higher levels of government, especially national government, play such an enormously important role in the political economy of local government that it is not too much of an exaggeration to suggest that a large part of the financial problems which beset the localities are attributable not to their own policies and actions, but, on the contrary, to the laws enacted and policies pursued by central government."

These conclusions are wrong. First, there have been no cuts in the total of local government spending. Local authorities have cut spending only if their spending is adjusted for inflation. Also, spending cuts have fallen

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<sup>149</sup> See chapter three, footnote 2.

<sup>150</sup> Clarke & Cochrane (1989) p48.

<sup>151</sup> Newton (1980) p207.

more heavily on capital than revenue spending. Within the total of local government spending local authorities made decisions to cut spending but the amounts cut were overshadowed by the amounts of extra spending. It is important to make these qualifications in any discussion of spending cuts in local government. Second, to blame central government for any spending cuts in local government, however measured, is too simplistic. This mistaken view ignores the complex set of pressures facing local authorities in making financing and spending decisions. In the words of Stewart:<sup>152</sup>

"Local government expenditure has not fallen to the extent sought by central government, which always seemed to demand greater reductions in local government than it was ready to impose on itself.... Nevertheless, there has been a change. The period since 1974/5 has been a period of constraint, whether that constraint was a result of the changed economic climate, government persuasion, grant reduction or the gradual accumulation of central government's powers. Local authorities varied in their response; in some, severe cuts were made in expenditure; in others, expenditure grew for at least part of the period. But in all, the climate has changed, and growth in expenditure year by year could no longer be regarded as the normal condition of local government."

It is important in understanding fiscal stress in local government that local authorities enjoyed a degree of latitude, albeit dwindling, in their dealings with central government, which allowed them to override the Government's wishes to cut local authority spending. Central government was not, and is not omnipotent. The latitude was seen in many different places - the electoral mandate from the local people to protect jobs and services, the choice in setting rates, the use of funds and balances, the spending of capital receipts, and even the reluctance of central government to apply its controls to their full. This understanding is critical in explaining why the

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<sup>152</sup> Stewart (1986) pp19-20.



Conservative Government's intentions to cut local authority spending were never fulfilled.<sup>153</sup> In conclusion, there was a complex array of pressures on the financing and spending of local government, of which central government was only one, albeit very powerful. The interplay of these pressures determined whether local authorities made spending cuts or not.

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<sup>153</sup> See chapter two, footnote 142.

PART B: EXAMINING THE SCENE

CHAPTER FOUR

CUTBACK MANAGEMENT IN FOUR LOCAL AUTHORITIES

Local authorities have faced considerable pressures both to cut their spending and to spend more on services. Their expenditure requirements have surged ahead of their financial resources. There is, then, a significant gap between what spending local authorities were able to finance and what spending they wanted to undertake. This gap widened significantly during the 1970s and 1980s mainly because central government attempted to curb local authority spending. This gap reflected the intensifying fiscal pressure facing local authorities, and represented fiscal stress, and some would say fiscal crisis, in local government. Though central government largely failed to cut local government spending, its measures heralded the era of cutback management in local government. This chapter charts the rise of cutback management generally, and then examines cutback management in the four local authorities and looks at how they made cuts in their revenue and capital spending. This analysis will lay the empirical foundations for the theoretical discussion of cutback management in local government in the final part of the thesis.

### THE RISE OF CUTBACK MANAGEMENT

About 15 years ago an American academic, Levine, observed that "very little" was known about how government agencies made cuts.<sup>1</sup> This ignorance was very much a reflection of the prevailing assumption of government growth. He wrote:<sup>2</sup>

"In this period of expansion and optimism among proponents of an active government, isolated incidents of zero growth and decline have been

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<sup>1</sup> Levine (1978) p316. In 1989 Dunsire and Hood still maintained that little academic attention has been given to "how the difficulties of cutting back government might best be approached" ((1989) p1).

<sup>2</sup> Levine (1978) p316.

considered anomalous; and the difficulties faced by the management of declining agencies coping with retrenchment have been regarded as outside the mainstream of public management concerns."

However, since the 1970s this assumption of growth has been challenged and even shattered.<sup>3</sup> Successive governments, the Labour Government in the 1970s and Conservative Government from the 1980s onwards, have sought increasingly to reduce local authority spending thus overturning any assumptions of growth. Though the Thatcher Government, unlike the preceding Callaghan Government, failed to extract wholesale spending cuts from local authorities, the era of cutback management was born in local government. There may have been no cuts in the total level of local authority spending, but as already seen, local authorities decided to cut certain areas of spending. Furthermore, the Government's attempts to reduce their spending may have failed, but they applied a brake to the rate of increase of local authority spending.<sup>4</sup> The Government's rhetoric of cuts and local authorities' expectation of them unleashed a 'cutback management mentality'. Cutback management became a necessary and vogue concern in government generally and local government particularly, whose spending has attracted more exhortation and control than most other areas of government spending.<sup>5</sup>

According to Levine, cutback management "means managing organizational change toward lower levels of resource

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<sup>3</sup> See Stewart (1980).

<sup>4</sup> See chapter three, p159.

<sup>5</sup> On government generally see Aucoin (1981); Aucoin (1991); Behn (1980); Behn (1983); Dunsire (1991); Dunsire & Hood (1989); Gill & Frame (1990); Greenhalgh & McKersie (1980); Hogwood & Peters (1985) pp146-159; Hood & Wright (1981b); Jørgensen (1987a); Jørgensen (1987b); Levine (1978); Levine (1979); Levine (1980); Levine & Rubin (1980); McTigue (1979); Schick (1986); Schick (1988); Tarschys (1983); and Wright (1980c).

consumption and organizational activity."<sup>6</sup> Cutback management is all about managing with less. It is how organisations manage with less resources, how they reduce and even terminate their activities, and how they pursue more restricted goals. Schick stated:<sup>7</sup>

"Cutback budgeting is the term applied to efforts to reduce spending below the level that would ensure if current policies were continued."

A flood of literature on cutback management in local government has now been published as a testament of changed economic and political times.<sup>8</sup> Much of this literature is rooted in budgetary theory.<sup>9</sup> It recognises that cutback management lies at the heart of the budgetary process. In

<sup>6</sup> Levine (1979) p180.

<sup>7</sup> Schick (1988) p524. As a local authority's base budget is essentially a continuation budget it becomes a very important focus in analysing cutback management in local government.

<sup>8</sup> See Bebbington & Ferlie (1980); Butler & Pirie (1981); Chartered Institute Of Public Finance And Accountancy (1979); Clapham (1983); Cockburn (1977); Cope (1990); Cope (1992); Elcock (1986a); Elcock (1987b); Elcock (1991) pp105-108; Elcock & Jordan (1987); Elcock, Jordan & Midwinter (1989); Ferlie & Judge (1981); Foster & Algie (1985); Glassberg (1980); Glassberg (1981); Glennerster (1980a); Hallows (1975); Hewton (1986); Hinings, Greenwood, Ranson & Walsh (1980); Hood & Wright (1981b); Jacobs (1979); Local Authorities Management Services And Computer Committee (1981); Mouritzen (1992b); Newton (1981a); Pinkham & Platt (1980); Stephenson (1985); Stewart (1977b); Taylor (1980); Terry (1986); Wolman (1983); and Wright (1980c). On cutback management in local government abroad see Banner (1985); Bens (1982); Clark & Ferguson (1983) pp223-261; Glassberg (1978); Glassberg (1980); Glassberg (1981); Gutierrez (1984); Hoggart (1991); Kemp (1983a); Kemp (1983b); Kemp (1984); Levine (1980); Levine & Rubin (1980); Levine, Rubin & Wolohojian (1981a); Levine, Rubin & Wolohojian (1981b); Levine, Rubin & Wolohojian (1982); Lewis & Logalbo (1980); Mouritzen (1992b); Public Management (1982); Rajadhyaksha (1984); Randall & Wilson (1989); Reynolds (1984); Rubin (1982); Smith (1988); Wolman (1982a); Wolman (1983); Wolman (1986); Wolman & Davis (1980); Wolman & Peterson (1980); Wolman & Peterson (1981); and Wynne (1983).

<sup>9</sup> For example, see Elcock, Jordan & Midwinter (1989).

1991 Aucoin noted:<sup>10</sup>

"Restraint budgeting has been the order of the day for all governments in industrialized democracies for over a decade."

The processes of budgeting and cutback management are very much intertwined. An understanding of how budgets are made leads to an understanding of how spending cuts are made.

Following Wildavsky, a budget serves many different purposes, one of which is to act as "a mechanism for making choices among alternative expenditures."<sup>11</sup> Given that the spending demands upon a local authority exceed its financial resources, the making of a budget involves deciding what demands are or are not to be met. Levine argued that cutback management "involves making hard decisions about who will be let go, what programs will be scaled down or terminated, and what clients will be asked to make sacrifices."<sup>12</sup> Cutback management is difficult.<sup>13</sup> Dunsire and Hood saw that "the 'cutback management problem' for government is how to achieve cuts in public expenditure and personnel at minimum cost to political objectives."<sup>14</sup> The scale of this problem was recognised by Behn when he advised:<sup>15</sup>

"The manager of an organization faced with declining resources can do one of two things:

<sup>10</sup> Aucoin (1991) p119.

<sup>11</sup> Wildavsky (1988) p2.

<sup>12</sup> Levine (1979) p180.

<sup>13</sup> Tarschys observed that "most politicians and civil servants find it rather painful to abolish jobs and services" ((1983) p219). See also Greenhalgh & McKersie (1980); and Taylor (1981).

<sup>14</sup> Dunsire & Hood (1989) p1.

<sup>15</sup> Behn (1980) p614. On policy termination see Bardach (1976); Behn (1978a); Behn (1978b); Biller (1976); Brewer (1978); deLeon (1978); deLeon (1983); Frantz (1992); Greenwood (1993); Hogwood & Peters (1985) pp146-159; and Kaufman (1976).

eliminate the organization completely; or cut it back. Termination ... is the easier task; it requires only that the organization be destroyed. In contrast, retrenchment involves turning the organization into one that is smaller, doing less, consuming fewer resources, but still doing something well."

The problems of cutback management will now be examined by looking at how local authorities made spending cuts in their revenue budgets and capital programmes. It is necessary to examine the ways in which local authorities budgeted their spending cuts. This examination will illustrate the immense difficulties experienced by local authorities in making spending cuts.

#### MAKING CUTS IN REVENUE SPENDING

Given that those who cut spending also make budgets, it is therefore important that the budgeting processes of the four local authorities - Bedfordshire CC, Kent CC, Knowsley MBC, and Stockport MBC - is examined to explore how they made cuts in their revenue spending.

##### Making cuts in Bedfordshire CC

Since the reorganisation of local government in the early 1970s Bedfordshire CC has been 'hung' for most of its existence. In Bedfordshire CC budgets tended to be made by the Conservative and Liberal Groups together, leaving the Labour Group on its own.<sup>16</sup> The revenue budget of 1984/85 was essentially a Liberal budget which was supported by the Conservative Group, though towards the end of the budget

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<sup>16</sup> See Blowers (1987) p35.



process a few Labour amendments were written into the budget. It is important to explore the thinking of the three party groups, particularly Conservative and Liberal thinking, to understand how the spending cuts were made in Bedfordshire CC.

The Conservative Group, as the largest group, chaired all the committees, and consequently led the budget discussions in committee and thus revealed its budget plans throughout the formal committee cycle. In contrast, the Liberal and Labour Groups did not formally reveal their budget plans until the Conservative Group had presented its budget. The Liberal Group wanted to put forward a budget likely to secure the support of the Conservative Group. It anticipated Conservative support because its budget was made with the explicit aim of appealing to the Conservative Group.<sup>17</sup> Though the Liberal Group never committed itself to siding with the Conservative and not the Labour Group, it was always more disposed to such an arrangement. This preference emerged following a split in the Liberal Group, which temporarily resulted in the Group losing the balance of power on the Council. Before this split the Liberal Group tended to side with the Labour Group.<sup>18</sup> However, the two councillors leaving the Liberal fold were only persuaded to return if the Group exercised greater financial restraint - an attitude more in line with Conservative than Labour thinking.<sup>19</sup> As a result of this split budget-making in Bedfordshire was dominated by the Conservative and Liberal Groups with the exclusion of the Labour Group.

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<sup>17</sup> Deputy Leader, Liberal Group, Bedfordshire CC; and Education Spokesman, Liberal Group, Bedfordshire CC.

<sup>18</sup> See Blowers (1987) p34.

<sup>19</sup> See Blowers (1986) p6. According to the Deputy Leader of the Conservative Group both councillors considered joining the Conservative Group.

The Conservative Group wanted to reduce the Council's spending. Before the making of the budget of 1984/85 it had undertaken several cost-cutting exercises, the most important of which was the one reluctantly carried out by the Management Group of chief officers.<sup>20</sup> This exercise, like previous ones, was never implemented, but shaped the climate within which subsequent budgets were made. In particular, it sent signals to officers that the Conservative Group wanted to cut spending.

The Conservative Group wanted to keep spending within two per cent over the Council's expenditure target. Towards the end of 1983 the County Treasurer prepared the base budget, which was substantially more than two per cent over target. As a result, the Chief Executive suggested several ways to reduce spending, which were presented to the Conservative Group through the Policy and Resources Committee. He suggested that £1 million could be cut from the base budget if equivalent repayments to the Capital Fund were cancelled. This mild form of creative accounting was readily accepted by the Conservative Group, as indeed it was by the other two groups. He, then, presented three options to reduce net spending. The first option was to reduce the spending of each committee across-the-board in proportion to their net spending of the previous year. The second option was to reduce the spending of committees in proportion to how much particular heads of expenditure exceeded the corresponding components of the Council's grant-related expenditure assessment (GREA). The third option was to reduce committee spending in accordance with the 'Getting Down To GREA' exercise.

These options provided some "realistic conditioning" upon the thinking of the Conservative Group.<sup>21</sup> The Group did not

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<sup>20</sup> See Bedfordshire CC's Getting Down To GREA, 1982.

<sup>21</sup> Deputy Leader, Conservative Group, Bedfordshire CC.

consider any other ways of cutting spending. The three options, though, were framed by the Chief Executive to fit the prevailing mood of the Conservative Group.<sup>22</sup> The Conservative Group, dominated by its leadership, preferred the second option of using the grant-related expenditure assessment as the basis for reducing spending.<sup>23</sup> It believed that this central government computation was a convenient tool for making spending cuts. The Group had no confidence in this calculation of spending need but saw it as an "external measuring stick".<sup>24</sup> According to the Leader of the Conservative Group, it was "a fairer way of making savings" because it came from outside and not from any vested interests inside the local authority. There was, however, one exception to the application of this option. The Conservative Group decided that the police budget would be exempted from this exercise, because it felt that the police force was already stretched for resources.<sup>25</sup>

The Conservative Group was far more concerned with the budget strategy than the budget details.<sup>26</sup> It was concerned about the size and not the contents of the budget. The specific items put forward as spending cuts in the Conservative budget largely came from chief officers.<sup>27</sup> To

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<sup>22</sup> Chief Executive, Bedfordshire CC.

<sup>23</sup> The Leader and the Deputy Leader managed successfully to override a few dissenting voices in the Group. Several councillors opposed this option mainly on the grounds that the committees on which they served (notably the Education Committee) would lose out more under this option than the other two options.

<sup>24</sup> Chief Executive, Bedfordshire CC.

<sup>25</sup> This view was also shared by the Liberal and Labour Groups. At the time many police officers of the Bedfordshire police force were policing the miners' strike.

<sup>26</sup> Deputy Leader, Conservative Group, Bedfordshire CC.

<sup>27</sup> County Treasurer, Bedfordshire CC; and Chairman, Education Committee, Bedfordshire CC. The exception was the making of the education budget where there was more

a certain extent, however, chief officers were likely to put forward cuts they knew were acceptable to the Conservative Group.<sup>28</sup>

Furthermore, given the previous cost-cutting exercises, and especially the 'Getting Down To GREA' exercise, officers and councillors had before them a 'shopping list' of spending cuts.<sup>29</sup> The spending of departments had been already extensively reviewed, and many of the spending cuts contained in the budget of 1984/85 emanated from these exercises. Though these exercises portrayed a high degree of planning in making spending cuts, it is important to stress their limitations by looking at three examples. First, there was no assessment of how much money was required to maintain buildings and roads. The planning of building maintenance was conducted on an ad hoc "annual crisis basis".<sup>30</sup> The planning of roads maintenance was made virtually redundant in this era of spending restraint because it identified only areas where more not less money was needed to be spent.<sup>31</sup> Second, there was no assessment of where spending cuts could be made in the central services save for a "notional exercise" carried out by the County Treasurer recommending across-the-board reductions of departmental budgets controlled by the Policy and

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councillor involvement because of the widespread mistrust of the motives of the Chief Education Officer (Chairman, Education Committee, Bedfordshire CC; Deputy Leader, Liberal Group, Bedfordshire CC; and Assistant Education Officer, Bedfordshire CC). In the past the Chief Education Officer was suspected of deliberately offering recommendations which were politically damaging (Assistant Education Officer, Bedfordshire CC).

<sup>28</sup> County Secretary, Bedfordshire CC.

<sup>29</sup> Director of Social Services, Bedfordshire CC; and Assistant Director of Social Services, Bedfordshire CC.

<sup>30</sup> County Architect, Bedfordshire CC.

<sup>31</sup> County Surveyor, Bedfordshire CC; and Principal Assistant, County Surveyor's Department, Bedfordshire CC.

Resources Committee.<sup>32</sup> Third, the budgets of the four colleges of further and higher education were to be reduced by a prescribed amount, but their governing bodies were to determine where the cuts were to fall.<sup>33</sup> These three examples show that the analysis which underpinned the exercises to cut spending was limited.

Though the Liberal Group deliberately refrained from formally revealing its budget plans, the Conservative Group was still broadly aware of its strategy. Not least was the split in the Liberal Group which sent signals that it wanted to exercise financial prudence in making its budget. There were also informal contacts between the Deputy Leader of the Conservative Group and the Education Spokesman of the Liberal Group, through which each Group learnt of the other Group's thinking. As a result, these two councillors, both influential in making their respective group's budget, were able to formulate a budget likely to appeal to the other group.<sup>34</sup>

The Liberal budget was largely based on the Conservative budget, which in turn was shaped by the 'Getting Down To GREA' exercise. In fact, over 80 per cent of the spending reductions contained in the Liberal budget were found in the Conservative budget. The Liberal Group in making its budget started with the Conservative budget, and then made several changes to suit its own political preferences.<sup>35</sup>

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<sup>32</sup> County Secretary, Bedfordshire CC.

<sup>33</sup> Assistant Education Officer, Bedfordshire CC.

<sup>34</sup> The informal budgetary coalition between the Conservative Group and Liberal Group effectively ended any hopes that the Labour Group may have had in influencing the budget of 1984/85. The Labour Group had no discussions with the other two groups, reducing even further the likelihood that the Labour budget would court their support (Leader, Labour Group, Bedfordshire CC).

<sup>35</sup> Deputy Leader, Liberal Group, Bedfordshire CC; and Education Spokesman, Liberal Group, Bedfordshire CC.

These relatively minor changes occurred in the education, leisure and social services budgets, and reflected Liberal concern not to propose any spending reduction which would damage its electoral fortunes.<sup>36</sup> It rejected several Conservative proposals to cut spending on primary and secondary schools. The local Liberal Party was committed above all else to increase its representation on councils, and hoped to gain control of some councils in Bedfordshire. Consequently, the overriding criterion in making cuts was their perceived electoral impact. This electoral sensitivity was reflected in its concern to hold down the level of precept, and to a less extent to protect certain services which were seen to be electorally popular.<sup>37</sup> The pressure within the Group to test its budget for its electoral impact was further compounded by the way its meetings were structured. They were open to all local party members such as parliamentary candidates, who were primarily interested in the electoral fortunes of the Liberal Party.<sup>38</sup> These strong populist pressures within the local party played a significant part in shaping the budget adopted by the Liberal Group. Its electoral sensitivity explains why the Liberal budget differed from the Conservative budget.<sup>39</sup>

Though the Liberal Group modified the Conservative budget

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<sup>36</sup> Education Spokesman, Liberal Group, Bedfordshire CC; and Social Services Spokeswoman, Liberal Group, Bedfordshire CC.

<sup>37</sup> Education Spokesman, Liberal Group, Bedfordshire CC.

<sup>38</sup> Leader, Liberal Group, Bedfordshire CC.

<sup>39</sup> This sensitivity explained why the Chief Executive believed that the Liberal Group used more subjective criteria than the Conservative Group in making its budget. The Liberal Group relied less on officer advice than the Conservative Group (Deputy Leader, Liberal Group, Bedfordshire CC; Education Spokesman, Liberal Group, Bedfordshire CC; Social Services Spokeswoman, Liberal Group, Bedfordshire CC).

it still wanted to court Conservative support for its budget, otherwise its budget would not be adopted by the Council. There were, therefore, limits to how far the Liberal Group was able to modify the Conservative budget. By waiting until the Conservative Group had revealed its budget the Liberal Group was able to frame its budget in such a way so as to secure Conservative support.<sup>40</sup> In March 1984 the Council met to issue a precept, and consequently to make the budget of 1984/85. The Liberal Group rejected the Conservative budget, but the Conservative Group accepted the Liberal budget. As stated earlier, the Conservative Group was more concerned about the level of precept and spending than the precise contents of the budget. It was therefore able to support the Liberal budget which more or less fitted in with its own budget strategy.<sup>41</sup> The Liberal Group, more concerned about the details of the budget, was unable to support the Conservative budget. Thus, in the Council meeting the Liberal budget was adopted with Conservative support.

The Labour Group so far played no part in the budget process, save for making a tokenistic budget of its own. But later in July 1984 it proposed a budget amendment that over £200,000 of spending cuts contained in the education budget be reversed and financed instead from the Reserve Fund. This amendment was accepted by both the Conservative and Liberal Groups, and the proposed cuts were reinstated in the education budget.

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<sup>40</sup> Though the Conservative Group revealed its budget well in advance of the Council meeting in March 1984, it did not reveal its preferred precept until the meeting. Up to this meeting it had budgeted for a five per cent precept increase, but on the day it suggested using more money from the balances and instead recommended a nil precept increase, believing that it would secure Liberal support (Deputy Leader, Conservative Group, Bedfordshire CC). The Liberal Group, however, was not tempted to support this move.

<sup>41</sup> Deputy Leader, Conservative Group, Bedfordshire CC.

The Leader of the Labour Group justified this amendment on the grounds that funds should be spent on services and not left lying around in bank accounts. However, his justification explains only the general stance of the Labour Group towards spending cuts, and does not explain why these cuts and not others were to be reversed. These cuts included a £56,000 reduction in the cost of employing school caretakers and cleaners, and a £150,000 reduction in the school meals budget. The cuts, if implemented, would have led to the deterioration of the conditions of service of school caretakers, school cleaners and school meals staff. The National Union of Public Employees, representing these staff, pressed the Labour Group to reinstate the cuts and organised industrial action to protest against the cuts.<sup>42</sup> The Labour Group, not wanting to spoil relations with the trade union, proposed that these cuts should be reversed on the grounds that it mitigated the worst effects of the spending reductions contained in the March budget. The close relationship between the trade union and the Labour Party locally, above all else, explains why these cuts were reinstated. However, for these cuts to be reversed the amendment needed the support of one of the two other groups.

When the Liberal Group proposed these spending cuts in the education budget, it wanted the National Union of Public Employees to be consulted over their implementation.<sup>43</sup> Although this consultation exercise was a tokenistic gesture, because the effects of the cuts could not have been cushioned, the Liberal Group's concern over consultation signalled it was not firmly committed to making these cuts. Its wavering commitment was evident in its response to the Labour amendment. It capitulated to the

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<sup>42</sup> Area Officer (1), National Union Of Public Employees. See Local Government Chronicle (1984b).

<sup>43</sup> Education Spokesman, Liberal Group, Bedfordshire CC.



demand because it was concerned not to break nationally negotiated conditions of service, and most important it wanted to silence the most vociferous opposition to its package of cuts.<sup>44</sup> The Liberal Group was primarily concerned about its electoral image, and was thus readily prepared to use monies from the Council's Reserve Fund to reinstate these cuts.<sup>45</sup>

The Conservative Group also supported the Labour amendment because it too was concerned about its electoral image if it was seen to oppose the amendment. Its Leader argued:<sup>46</sup>

"... if one finds oneself in the position where one can establish that you are going to be outvoted, then, unless it is a clear matter of principle, you might as well row in and get whatever political kudos there is a-going."

The Labour Group succeeded in getting its budget amendment accepted because of Conservative and Liberal "sensitivity to electoral impact".<sup>47</sup>

In addition, two further spending reductions were reinstated by the Council at the July meeting. The March budget contained a £38,000 reduction of the adult education budget. This reduction was dependent on a fall in demand for adult education classes, which never materialised. Any rationalisation of course provision became severely limited. In July the Council decided to increase its repairs and maintenance budget by £250,000. To put it differently, the repairs and maintenance budget was cut by only £850,000 and not £1.1 million as initially proposed in the March budget. This increase, or reduced decrease in

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<sup>44</sup> Area Officer (1), National Union of Public Employees.

<sup>45</sup> The Deputy Leader of the Liberal Group revealingly described this fund as a "slush fund".

<sup>46</sup> Taken from a letter dated 13 November 1984.

<sup>47</sup> Member, Labour Group, Bedfordshire CC.

spending, corresponded to the money spent on removing asbestos, which was not included in the March budget. All three party groups supported this injection of money into the repairs and maintenance budget because it was a non-recurring increase of spending. It would not commit the Council to spending more in the future.

Following the Council meeting in July, about £½ million of spending cuts proposed in the March budget were reversed. The budget of 1984/85 was devised by the Liberal Group, supported by the Conservative Group, and later amended by the Labour Group. It was the outcome of the 'hung' politics of the Council.

#### Making cuts in Kent CC

In February 1983 the Conservative Government published its public expenditure plans.<sup>48</sup> For the Policy and Resources Committee these plans "provided an initial framework for the 1984-85 budget...."<sup>49</sup> The Policy and Budget Group, a sub-committee of the Policy and Resources Committee, met to devise a budget strategy. However, the ruling Conservative Group decided to delay the formulation of a formal strategy because of the forthcoming elections in May 1983. It wanted to prevent any debate of spending cuts from taking place in the election campaigns of both the general election and the district council elections.<sup>50</sup>

Nonetheless, an informal budget strategy was developed,

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<sup>48</sup> See HM Treasury (1983).

<sup>49</sup> Taken from Kent CC's, Summons To And Agenda For A Meeting On The 17th November 1983, 1983, pl. Kent CC was the only one of the four local authorities studied formally to incorporate an analysis of the Government's public expenditure plans into the budget process.

<sup>50</sup> Deputy County Treasurer, Kent CC.

which was not formalised as a committee report. The County Treasurer and the Leader of the Conservative Group considered three options as ways of responding to the Government's public expenditure guidelines - namely, a budget representing no growth, a one per cent reduction and a two per cent reduction from the previous year's net spending. By November 1983 the 'one per cent reduction' option was seen as "justifiable" in light of the Government's announcement of the Council's expenditure target.<sup>51</sup> The County Treasurer believed that this option would have a "minimum effect on services", would keep spending "near target" and would require the "right precept increase".

This option was later endorsed by the Conservative Group. Following informal discussions between the Chief Executive, the County Treasurer, the Leader of the Conservative Group and committee chairmen, it was agreed that each committee would draw up plans in line with this option and consider the effects of the other two options. The across-the-board approach reflected the traditional preference of the Conservative leadership in apportioning spending cuts between committees. It represented an "equity of agony", and consequently reduced conflict within the Group on how spending cuts should be made.<sup>52</sup> Each committee chairman tended to defend his committee's budget in Group meetings, and was thus more likely to accept cuts if other chairmen did likewise. However, the Conservative Group realised that "some fine-tuning" may be necessary towards the end of the budget process if some committees experienced problems in finding their share of cuts.<sup>53</sup> Indeed, the Chief Executive justified this approach because it provided the opportunity

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<sup>51</sup> County Treasurer, Kent CC.

<sup>52</sup> Chairman, Development and Transportation Committee, Kent CC.

<sup>53</sup> Chairman, Education Committee, Kent CC.

to "judge the agony" of committees in making cuts, and the flexibility of later adjusting the budgeted cuts to ameliorate any 'agony'.<sup>54</sup>

There was, however, some opposition within the Conservative Group to the traditional across-the-board approach. A prominent business-led faction argued that this approach was a very blunt instrument for making cuts, because it involved only an attempt to assess spending priorities within a committee's budget and not between committees. The Chairman of the Development and Transportation Committee claimed that "the danger during a period of restraint is a sense of siege and defence in employees, particularly in local government, leading to unnecessary 'across the board' reductions in services to the public."<sup>55</sup> The across-the-board approach of apportioning spending cuts assumed that the existing share of the budget that each committee enjoyed should be rolled forward into the future, which to this Conservative faction meant "carrying on mistakes made in history".<sup>56</sup> This faction wanted to reassess the budgetary shares of committees to reflect changing priorities between services. Despite this opposition the preference for the across-the-board approach prevailed in the Conservative Group as the way of implementing the 'one per cent reduction' option.

The next stage of the budget process was the search for

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<sup>54</sup> The Chief Executive claimed that there was a 0.2 per cent safety margin built into the 'one per cent reduction' exercise.

<sup>55</sup> Odling (1984) p52.

<sup>56</sup> Chairman, Social Services Committee, Kent CC. This faction of Conservative councillors later succeeded in appointing a new Leader of the Conservative Group. This coup was an explicit recognition of the abandonment of the traditional across-the-board approach. The new Leader believed that this approach was for those who are "too weak to face up to the realities of life".

spending cuts within committee budgets. The scope for making cuts was generally very limited. Much of the budget is outside the control of committees and is largely determined by outside forces. Much of a committee's budget could not therefore be cut. For example, the Education Committee is obliged by statute to provide schooling; the Fire and Public Protection Committee must provide a fire service capable of responding to demand; and the Police Committee is required to employ an established number of police officers on nationally-determined rates of pay.<sup>57</sup> Consequently, committees could cut only their controllable expenditure, which in the short term represented a small proportion of their budgets.

The spending cuts contained in the budget of 1984/85 were largely made by departments not committees. The Conservative Group displayed little interest in the list of spending cuts proposed by departments.<sup>58</sup> The major exception was the spending reductions which resulted from the implementation of recommendations made by management consultants.

The Council commissioned a plethora of management consultants to review its management and organisation. For example, both Arthur Andersen and Arthur Young reviewed the structure of the Social Services Department; Price Waterhouse reviewed the management of the Education Department; Peat, Marwick & Mitchell reviewed the financial management of bus companies in Kent; Coopers & Lybrand reviewed the organisation and management of the Council's central services; Arthur Young McClelland Moores reviewed

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<sup>57</sup> The Principal Administration Officer of Kent County Constabulary estimated that employee costs accounted for over 80 per cent of the police budget, of which only a small fraction (eg overtime costs) is controllable expenditure.

<sup>58</sup> Chairman, Finance and Review Group, Kent CC.

the management of further education colleges; and Harold Whitehead reviewed the management of the Highways and Transportation Department.<sup>59</sup>

This high level of management consultant activity reflected the increasing domination of businessmen in the Conservative Group, which led one Conservative councillor to describe the Council as being "run like a business".<sup>60</sup> The Conservative Group increasingly believed that spending cuts could be generated only by the restructuring of departments, and that restructuring was more likely to come about with the intervention of management consultants. A leading Conservative councillor argued:<sup>61</sup>

"To reduce unproductive expenditure and not the quality of the service, 'cuts' must be accompanied by a reshaping of organisations and procedures."

The Conservative Group regarded management consultants as convenient vehicles in which its preferred changes could be implemented in departments.<sup>62</sup> The Chairman of the Finance and Review Group believed that they "act as a catalyst for change that we are trying to seek".<sup>63</sup> The Conservative Group employed management consultants as 'mercenaries' to impose its wishes upon departments and to overcome officer resistance to its wishes.<sup>64</sup> In the words of one

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<sup>59</sup> See Hatchett (1990); Holliday (1991b); and Odling (1984).

<sup>60</sup> Chairman, Fire and Public Protection Committee, Kent CC.

<sup>61</sup> Odling (1984) p52.

<sup>62</sup> See Holliday (1991b).

<sup>63</sup> Similarly, the County Treasurer saw the use of management consultants as a "catalyst for change".

<sup>64</sup> Leader, Conservative Group, Kent CC. The Conservative Group clearly preferred to use outside management consultants than the Council's Computing and Management Services Unit. This preference was based on the view that the Unit was too small and did not possess the

Conservative councillor:<sup>65</sup>

"Implementing change is difficult. In some instances it involves moving to new locations, selling redundant sites, operating new procedures. Against a background of posts becoming redundant, it is not surprising that the usual stratagems - such as protecting individuals and existing procedures - have been evident in attempts to preserve the status quo."

He argued that management consultants were often necessary to counter these stratagems. On the Whitehead review of the Highways and Transportation Department he noted:<sup>66</sup>

"Internal studies had been commissioned to seek improvements in financial control for all work in the county organisation and procedures for work done by the districts, but they had only preserved the status quo.... It was ... clear that an external catalyst was essential with a hard cutting edge."

The reports produced by the management consultants usually stimulated much political commitment to change. First, the money spent on commissioning management consultants required justification in the mind of the Conservative Group, and this justification was provided by implementing their recommendations.<sup>67</sup> Second, many Conservative councillors believed in the appropriateness and correctness of reports written by management consultants because they were able to bring private sector expertise into the public sector, and because they operated independently from the department under review and were therefore able to put

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required expertise to undertake these reviews. However, the Conservative Group made no attempt to strengthen this Unit.

<sup>65</sup> Odling (1984) p53.

<sup>66</sup> Odling (1984) p52.

<sup>67</sup> Head, Computing and Management Services Unit, Kent CC; and Principal Performance and Investigation Officer, Computing and Management Services Unit, Kent CC.

forward impartial and objective recommendations.<sup>68</sup> Finally, and most important, management consultants in making recommendations were made aware of what was and what was not acceptable to the ruling Conservative Group. For example, recommendations which, if implemented, produced cost savings were more acceptable than those which incurred additional expenditure.<sup>69</sup> Management consultants were given a remit, both formally and informally, which necessarily shaped their recommendations. They tend to deliver whatever the client wants - or as the saying goes, 'those who pay the piper call the tune'.

Apart from the spending cuts which emanated from the implementation of management consultant reports, decisions about what to cut and what not to cut were made mainly by officers. The role of committees was very much restricted to vetting the proposed lists of spending cuts put forward by departments, and apportioning spending cuts across departments under the formal control of each committee.<sup>70</sup>

There was some variation between departments on how they made spending cuts. Three general patterns emerged. First, in the smaller departments, such as the Planning Department and the Trading Standards Department, the list of spending

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<sup>68</sup> Leader, Conservative Group, Kent CC; Chairman, Finance and Review Group, Kent CC; Head, Computing and Management Services Unit, Kent CC; and Principal Performance and Investigation Officer, Computing and Management Services Unit, Kent CC.

<sup>69</sup> The pressure to produce cost savings was very evident in the implementation of the Arthur Andersen report on restructuring the Social Services Department. The team of management consultants were required to demonstrate cost savings in order maintain "credibility" with the Conservative Group (Assistant Director of Social Services, Kent CC). The recommended savings of £80,000 never materialised when the Arthur Andersen proposals were implemented.

<sup>70</sup> Chairman, Property, Supplies and Services Group, Kent CC; and Assistant Education Officer, Kent CC.



cuts was drawn up principally by the chief officers on the advice of other officers in the department and the County Treasurer's Department. Second, in several larger departments, such as the Social Services Department, the list of spending cuts was largely determined by the departmental management team, which was headed by the chief officer. Third, in other large departments, such as the Highways and Transportation Department and Kent County Constabulary, the chief officer in effect delegated the task of making spending cuts to other officers in the department. Spending cuts in the highways and transportation budget were made by the Manager of the Highways and Transportation Department, who trimmed spending bids from within the department "using engineering common sense". In Kent County Constabulary the spending cuts were drawn up by the Assistant Chief Constable together with the Principal Administration Officer. The role of the Police Committee in making the police budget was marginal, and the role of the Chief Constable limited to setting down general guidelines.<sup>71</sup>

Towards the end of 1983 most committees had identified their share of spending cuts to comply with the 'one per cent reduction' option. Only two committees - the Education Committee and the Police Committee - failed to identify their required share of spending reductions. The Education Committee was required to find more than other committees because of substantial overspending in the previous year. This overspend of £1.9 million was the result of an underestimated forecast of teachers' pay awards, and was required to be clawed back in 1984/85. It exacerbated the difficulties facing the Education Committee to reduce its spending. Indeed, the Education Department (and the Social Services Department) have often overspent their budgets. As a result, they have sought more money to cover their

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<sup>71</sup> Principal Administration Officer, Kent County Constabulary.

overspending much to the chagrin of other departments, which felt these two departments had a deliberate tactic of 'special pleading' with the County Treasurer's Department.<sup>72</sup> However, most departments believed this tactic had since ended and that budgets were realistically negotiated between departments and the County Treasurer's Department.<sup>73</sup> In the past the County Treasurer's Department tended to trim budgets because of suspected padding, and departments tended to pad budgets because the County Treasurer's Department trimmed their bids. The major exception to this realistic conditioning of budget-making was the making of the police budget.

The Police Committee was not required to make its proportionate share of spending cuts because of a carefully prepared strategy by the police force to be excluded from making cuts. The Police Committee played no part in making the police budget save for its statutory but ritual authorisation. According to one police officer, the Police Committee would have "no possible idea how to approach it".<sup>74</sup> Moreover, the Committee was committed to protect and even expand the level of policing in Kent.<sup>75</sup> Its commitment undoubtedly explains why the Assistant Chief Constable described the Police Committee as a "very supportive police

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<sup>72</sup> County Planning Officer, Kent CC; and Assistant Director of Social Services, Kent CC.

<sup>73</sup> Chief Executive, Kent CC; County Education Officer, Kent CC; County Surveyor, Kent CC; County Secretary and Solicitor, Kent CC; Assistant Education Officer, Kent CC; Principal Administration Officer, Kent Fire Brigade; Manager, Highways and Transportation Department, Kent CC; and Finance Officer, Highways and Transportation Department, Kent CC.

<sup>74</sup> Principal Administration Officer, Kent County Constabulary.

<sup>75</sup> The Chairman of the Police Committee wanted to demonstrate the Committee's support towards law and order mainly for electoral reasons (Principal Administration Officer, Kent CC).

authority" which maintained an "excellent relationship" with the police force. This political commitment given to the police force was turned into a budgetary advantage by those making the police budget. A small reduction in the overtime budget was included in the "self-evident" list of spending cuts.<sup>76</sup> This reduction would have been very easy to find in the budget of over £46 million allocated for pay. This small reduction, however, was included to signal to the Police Committee that the budget could not be cut further without reducing police manpower. The Police Committee, already supportive of the police force, therefore never pressed for further spending reductions.<sup>77</sup>

The inability of both the Education Committee and the Police Committee to find their share of spending cuts threatened the across-the-board 'one per cent reduction' option. The Leader of the Conservative Group was reluctant to enforce compliance upon the two committees because of the perceived adverse electoral consequences of cutting these highly visible services. At this point the County Treasurer offered a package of capital financing adjustments which would release more money on the revenue side.<sup>78</sup> This package of creative accountancy was readily accepted by the Conservative Group as a way of sustaining its budget strategy. The monies released by these

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<sup>76</sup> Principal Administration Officer, Kent County Constabulary.

<sup>77</sup> This tactic was also exercised successfully in the making of the budget of 1985/86. The police budget was required to be cut by £2 million. The Assistant Chief Constable argued that only £1 million could be cut without reducing manpower. Again, the Police Committee was excused from complying with the budget strategy because of the Council's commitment to protect the police force, particularly when many of its police officers were deployed to police the miners' strike of 1984/85.

<sup>78</sup> This package included the early repayment of Consolidated Loans Fund debt, the liquidation of the Capital Fund, and the transfer of maintenance expenditure to the Repairs and Renewal Fund.

adjustments were apportioned pro rata between committees. As a result, the 'one per cent reduction' requirement became a '0.6 per cent reduction' requirement, with which all committees were able to comply.

In general, the process of making spending cuts was determined by the outcome of decisions made by three prominent budgetary actors. First, the Conservative Group preferred an across-the-board approach to making spending cuts. This approach did not mean that all budgets were cut equally.<sup>79</sup> The reductions were to be made in the committees' net spending not their gross spending. Net spending can be cut either by reducing gross spending or by raising more specific service income. Table 2.3 in chapter two details the proportions of gross spending cuts that were made and specific service income that was increased by committees of the four local authorities, including Kent CC, in order to cut net spending. The table shows that in Kent CC some committees, eg the Police Committee, were able to raise much more specific service income and therefore make fewer spending cuts than other committees, eg the Education Committee. As a result of their different capacities to raise specific service income, spending cuts were distributed unevenly between committees. Furthermore, committees had discretion over how they apportioned spending cuts between departments under their jurisdiction. For example, the Fire and Public Protection Committee required the Trading Standards Department to reduce its spending more than Kent Fire Brigade. Second, departments largely determined spending cuts contained in the budget of 1984/85. They exercised discretion over how spending cuts were apportioned between headings of departmental budgets. Third, the County Treasurer facilitated the capital financing adjustments which allowed committees to comply

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<sup>79</sup> Also, actual spending cuts of committees varied slightly from the budgeted spending cuts because of underspending and overspending of budgets.

with the 'one per cent reduction' budget strategy. The making of spending cuts in Kent CC was thus dominated by the Conservative Group, departments and the County Treasurer, and the budget of 1984/85 reflected the mutual accommodation between these three dominant actors on the budget stage.

### Making cuts in Knowsley MBC

The making of spending cuts in Knowsley MBC was formally part of the Policy Planning and Budgeting Process 1984/85-1986/87.<sup>80</sup> This process was an explicit attempt to link policy-making and budget-making in the local authority.<sup>81</sup>

In April 1983 the Borough Treasurer reported to the Policy and Resources Committee that the Council's net spending needed to be substantially cut if the Labour Group wanted to achieve its objective of a "single figure rate increase".<sup>82</sup> As a result, the Policy and Resources Committee instructed committees to reduce their net spending. As part of the Policy Planning and Budgeting Process committees were required to develop "priorities for service development bearing in mind the need for financial constraint", and more important to prepare "options to reduce net expenditure by a minimum of 3%".<sup>83</sup> There were thus two elements to the Policy Planning and Budgeting Process - a 'lower expenditure options' exercise to find

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<sup>80</sup> Chief Executive, Knowsley MBC.

<sup>81</sup> The Audit Commission, Local Government Training Board and Institute of Local Government Studies commended this budget process as an example of good management in local government ((1985) p30).

<sup>82</sup> Borough Treasurer, taken from Knowsley MBC's Budget 1984/85, 1984, p2.

<sup>83</sup> Knowsley MBC's PPBP For 84/5: Approach To Lower Options And Service Developments, 1983, p2.

the required spending reductions in 1984/85, and a 'service developments' exercise to plan and prioritise policies over three years.

The Chief Executive and the Borough Treasurer prepared guidelines to assist committees in these two exercises. These guidelines were endorsed by the Policy and Resources Committee. For the 'lower expenditure options' exercise committees were advised to categorise their options according to the following criteria:<sup>84</sup>

- "(a) Nil or least impact on service - eg. increased income not affecting demand
- (b) Acceptable implications on service/declared priorities - eg. re-phasing of schemes
- (c) Unacceptable effect on services - eg. advanced closure of schools"

For the 'service developments' exercise committees were advised to adopt the following criteria:<sup>85</sup>

- "(a) Statutory/declared Priority/Commitments - eg. tertiary college
- (b) High priorities which are cost effective in both service and financial terms - eg. URP [Urban Renewal Programme] schemes which are high priorities in service terms
- (c) Other priority schemes - eg. providing recreation for the unemployed
- (d) Low priority - Not cost effective"

Despite these general guidelines the Policy Planning and Budgeting Process had broken down towards the end of 1983. The breakdown occurred at both the departmental and corporate levels of the local authority.

At the departmental level committees were required to identify specified reductions of net spending and to plan policies over three years. By November 1983 committees had carried out the 'lower expenditure options' and 'service

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<sup>84</sup> Taken from Knowsley MBC's PPBP For 84/5: Approach To Lower Options And Service Developments, 1983, p1.

<sup>85</sup> Taken from Knowsley MBC's PPBP For 84/5: Approach To Lower Options And Service Developments, 1983, p1.

developments' exercises, but at this stage "things started to go wrong".<sup>86</sup> The progress of the budget process is charted in the table below.

Table 4.1: Policy Planning and Budgeting Process of  
Knowsley MBC, 1984/85

<u>Service</u>	<u>Lower expenditure options</u>		<u>Service developments</u>	<u>Net change</u>
	£	%	£	%
ECONOMIC AND DEVELOPMENT				
Department*	(42100)	(4.6)	187860	
Committee**	(42100)	(4.6)	187860	
Budget***	(62150)	(6.7)	36700	(2.8)
EDUCATION				
Department****	(350000)	(0.7)	1535540	
Committee	(378000)	(0.8)	1535540	
Budget	(878500)	(1.8)	162820	(1.5)
FINANCIAL CONTROL				
Department	(88490)	(26.4)	530	
Committee	(88490)	(26.4)	530	
Budget	(88490)	(26.4)	530	(26.3)
GENERAL PURPOSES				
Department	(79500)	(21.9)	56560	
Committee	(79500)	(21.9)	36190	
Budget	(79500)	(21.9)	1630	(21.4)
HOUSING AND ENVIRONMENTAL HEALTH				
Department	(46100)	(4.2)	10620	
Committee	(46100)	(4.2)	10620	
Budget	(46100)	(4.2)	3970	(3.8)
LEISURE SERVICES				
Department	(146040)	(2.6)	138820	
Committee	(146040)	(2.6)	138820	
Budget	(48340)	(0.8)	46300	(0.0)
MANPOWER				

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<sup>86</sup> Borough Treasurer, Knowsley MBC.

SERVICES				
Department	(16320)	(38.2)	35000	
Committee	(14880)	(34.8)	35000	
Budget	(14880)	(34.8)	4000	(25.5)
POLICY AND RESOURCES				
Department	(8620)	(3.8)	11680	
Committee	(8620)	(3.8)	11680	
Budget	(8620)	(3.8)	2500	(2.7)
SOCIAL SERVICES				
Department	(306200)	(3.3)	134177	
Committee	(300000)	(3.3)	134177	
Budget	(365790)	(4.0)	122530	(2.7)
TECHNICAL AND PROFESSIONAL SERVICES				
Department	(295760)	(12.1)	3355790	
Committee	(295760)	(12.1)	3355790	
Budget	(303200)	(12.4)	391590	3.6
TOTAL				
Department	(1379130)	(2.0)	5466577	
Committee	(1399490)	(2.1)	5446207	
Budget	(1895570)	(2.8)	772570	(1.7)

\* Departmental recommendation, November 1983

\*\* Committee recommendation, November 1983

\*\*\* Budget, February 1984

\*\*\*\* The recommended spending reductions identified by the 'lower expenditure options' exercise was made by the Borough Education Officer alone. The Chief Executive and the Borough Treasurer recommended reductions amounting to £1,254,000, which represented a 2.6 per cent reduction of net spending.

Source: Knowsley MBC

In November committees met to determine their responses to the 'lower expenditure options' and 'service developments' exercises. Departments made recommendations to committees on the two exercises. These recommendations were prepared by the Chief Executive, the Borough Treasurer and the respective chief officers of departments, though the views of the committee chairmen were informally fed into their preparation. As shown in the table above, departmental



recommendations were invariably endorsed by committees, not least because the informal input of committee chairmen influenced these recommendations.<sup>87</sup> There were only small variations between departmental and committee recommendations in the education, general purposes, manpower services and social services budgets.

Table 4.1 shows that the 'lower expenditure options' exercise failed to generate the required three per cent reduction of total net spending. The exercise yielded spending reductions amounting to only £1.4 million, which represented about a two per cent reduction. Indeed, the additional spending earmarked for 'service developments' far exceeded the spending cuts identified as 'lower expenditure options'. The 'service developments' exercise generated demands for increased spending of over £5.4 million, of which £3.9 million was regarded as priority spending by committees. This exercise also failed arguably in its attempt to keep policies in line with financial restraint.

The reasons of the breakdown of the Policy Planning and Budgeting Process varied between committees and departments. Table 4.1 reveals that the majority of committees had identified the required amount of spending reductions. It is necessary to examine why these committees were successful in complying with the budget strategy, whereas the Education Committee and the Leisure Services Committee were unsuccessful. The reasons were twofold.

The first reason was the ease with which some committees identified their quota of 'lower expenditure options'. Both the Housing and Environmental Health Committee and the

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<sup>87</sup> The Director of Leisure Services, for example, claimed to put forward only "realistically possible" recommendations, which precluded any recommendations, say, on the contracting-out of services.

Social Services Committee were able to make relatively painless spending cuts. The Housing and Environmental Health Committee was able to reduce its spending by £34,000 because of slippage in its capital programme. The Social Services Committee identified only one 'lower expenditure option' amounting to £300,000, which arose from reduced demand for children's residential accommodation. The 'easy' spending cuts were not spread evenly between committees, and therefore some committees were more able to find their required share of spending reductions than other committees.

Furthermore, some committees were more able to cut net spending by increasing specific service income than other committees. The 'lower expenditure options' exercise required committees to reduce their net spending, which they could do by either cutting their gross spending or increasing specific service income (eg increasing charges for services, receiving extra monies in specific grants). Departments and committees preferred to cut net spending by increasing their income rather than cutting their spending. For example, in the Council's corporate plan the Chief Executive included the following objective:<sup>88</sup>

"Without prejudicing the Council's main policy priorities, takes advantage of the opportunities offered by Knowsley's Programme Status, and other sources of grant - such as derelict land grant, urban development grant, Operation Groundwork and EEC grants."

This strategy of raising additional income, particularly from extra grant funding, played a part in the way committees determined their list of 'lower expenditure options'. This preference is illustrated in the table below.

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<sup>88</sup> Taken from Knowsley MBC's The Strategy For The 1984/5 - 1986/7 Knowsley Plan, 1983, p3.

Table 4.2: Analysis of Net Spending Reductions  
Proposed by Committees of Knowsley MBC,  
1984/85

<u>Committee</u>	<u>Net spending</u> <u>reductions</u>	<u>Increased service</u> <u>income</u>	
	£	£	%
Economic and Development	42100	42100	100
Education	378000	0	0
Financial Control	88490	0	0
General Purposes	79500	30000	38
Housing and Environmental Health	46100	0	0
Leisure Services	146040	40830	28
Manpower Services	14880	0	0
Policy and Resources	8620	0	0
Social Services	300000	0	0
Technical and Professional Services	295760	102380	35
TOTAL	<u>1399490</u>	<u>215310</u>	<u>15</u>

Source: Knowsley MBC

This table shows that the Technical and Professional Services Committee found 35 per cent, the General Purposes Committee 38 per cent, and the Economic and Development Sub-Committee all of its 'lower expenditure options' from additional income. Even the Leisure Services Committee, which was unable to identify the required reductions, found

28 per cent of its net spending reductions from additional income. The Director of Leisure Services commented:<sup>89</sup>

"Leisure Services have been fortunate in being able to expand in spite of cuts through the judicial use of grant from Special Initiatives, Urban Programme, Sports Council, Development Land Grants, Operation Groundwork, etc., thereby mitigating the effect of spending costs on the services offered by the Department."

Committees that enjoyed the discretion to raise additional income preferred to exercise this discretion rather than cut their actual spending. This capacity to raise additional income partially explains why some committees and not others were able to comply with the 'lower expenditure options' exercise. However, there are limits on the amount of additional income that can be raised by committees. For example, the level of grant funding is determined by other bodies, most notably central government. The amount raised by increasing charges for using services is limited by the demand for those services - increased charges may lead to reduced demand for services, and therefore reduced income.<sup>90</sup> Nonetheless, the scope to raise additional income was not evenly spread between committees, and therefore some committees were more able to resist cutting their spending than other committees.

The second reason was the relationships between the service departments and the Chief Executive and the Borough Treasurer, the main architects of the budget strategy. The Chief Executive and the Borough Treasurer were heavily involved with the Policy Planning and Budgeting Process, especially the 'lower expenditure options' exercise. They prepared recommendations jointly with the respective chief

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<sup>89</sup> Taken from Director of Leisure Services' Brief Notes On Expenditure Costs In Local Government.

<sup>90</sup> The income raised by increasing charges depends on the elasticity of demand for local authority services.

officers of the service departments, and thus the implementation of the budget strategy depended on the relationships with their counterparts in the service departments. The Chief Executive and the Borough Treasurer had very close relationships with the departments providing central services, and thus were more able to ensure their compliance with the budget strategy. Indeed, as they ran two of these departments they offered more than their required spending reductions as an example to other departments. As table 4.1 shows, only two departments were unable to identify the three per cent reduction of net spending - the Education Department and the Leisure Services Department. In each case the relationships between the chief officers of the two service departments and the Chief Executive and the Borough Treasurer were less close - relationships were distant for leisure services, and strained with education.

In making the leisure services budget the influence of the Chief Executive and the Borough Treasurer was downgraded because the Director of Leisure Services enjoyed a close relationship with the chairman of the Leisure Services Committee and the Labour Group. Furthermore, Derek Hatton, who at the time was the Deputy Leader of Liverpool CC, was employed in the Leisure Services Department. There was thus a network of influence spreading between the Department, the Committee, the Labour Group and the local Labour Party which insulated the leisure services budget from the demands to cut its spending. The Chief Executive and the Borough Treasurer were thus less able to impose their will upon the Director of Leisure Services who could count upon significant political support.

In making the education budget there was a very tense relationship between the Borough Education Officer, and the Chief Executive and the Borough Treasurer. They were unable to agree on a list of 'lower expenditure options' to

recommend to the Education Committee. Table 4.1 reveals that the Borough Education Officer identified only £350,000, and the Chief Executive and the Borough Treasurer identified £1,254,000 of spending reductions. The Borough Education Officer indicated that "on educational grounds he is not in a position to make any recommendations regarding reductions in expenditure to the Committee, other than those which result from the ongoing effects of existing policy...."<sup>91</sup> The Chief Executive and the Borough Treasurer offered some "sweeteners" in the 'service developments' exercise in the hope of persuading the Borough Education Officer to comply with the 'lower expenditure options' exercise.<sup>92</sup> Despite these 'sweeteners' the Borough Education Officer felt that "enough is enough", and easily persuaded the Education Committee to resist making more spending cuts than he recommended.<sup>93</sup> The inability of the Education Committee to generate the required spending cuts was, in effect, the ruin of the Policy Planning and Budgeting Process, because the education budget accounted for about 70 per cent of the Council's net expenditure. Thus, both the Education Department and the Leisure Services Department were able to resist trimming their budgets because of their substantial support in committee and in the ruling Labour Group.

The budget process collapsed not only at the departmental level but also at the corporate level of the local authority. In the early stages of the budget process the controlling Labour Group, through the Policy and Resources Committee, unleashed two conflicting demands upon

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<sup>91</sup> Taken from Knowsley MBC's Joint Report Of The Chief Executive, Borough Treasurer And Borough Education Officer, 22 November 1983.

<sup>92</sup> Borough Education Officer, Knowsley MBC.

<sup>93</sup> As ward representatives, school governors and teachers, members of the Education Committee were concerned to protect the education budget.

committees - the 'service developments' exercise and the 'lower expenditure options' exercise. The Policy Planning and Budgeting Process was intended to be both policy-led and finance-led. The 'service developments' exercise was designed to plan new policies over three years, which in practice often meant planning for increased spending. The 'lower expenditure options' exercise was designed to identify cuts in net spending, which meant planning for reduced spending. These exercises, when carried out by committees and departments, produced two contradictory sets of spending expectations - one to spend and another not to spend.

The Labour Group was committed to keep the rates down, but did not issue unequivocal guidelines to reduce net spending necessary to realise its commitment. Though committees were required to identify 'lower expenditure options', they were still allowed to plan 'service developments'. The 'service developments' exercise was little more than an invitation to committees to draw up a 'shopping list' of spending, which led to demands for increased spending and thus greater resistance to cut spending.<sup>94</sup> Committees and departments were required both to draw up spending plans and to make immediate spending cuts. These exercises frustrated many chief officers who realised that many of their plans would never materialise because of the overriding requirement to reduce spending. Though the Policy Planning and Budgeting Process was a formal mechanism of service and finance planning, in practice it was no more than a "finance-led exercise" dominated by the need to make spending cuts.<sup>95</sup>

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<sup>94</sup> Chief Executive, Knowsley MBC; Borough Treasurer, Knowsley MBC; Borough Education Officer, Knowsley MBC; and Director of Technical and Professional Services, Knowsley MBC.

<sup>95</sup> Director of Leisure Services, Knowsley MBC. In making the budget of 1985/86 the Policy Planning and Budgeting Process was effectively put "on ice", and

Thus, in the early stages of the budget process the ruling Labour Group failed to develop a clear corporate strategy within which committees and departments could make their budgets. The Labour Group provided no direction to committees and departments on how they should cut spending and by how much. In the words of the Borough Treasurer, the "politicians let us down" because they failed to make a corporate strategy to guide the budget process.

By the end of 1983 the Policy Planning and Budgeting Process had more or less collapsed - the 'lower expenditure options' exercise failed to yield the required spending cuts, and the 'service developments' exercise only created 'spending lobbies'. The budget process so far had been ridden with departmentalism mirrored by the 'committee-mindedness' of councillors. The Chief Officers' Group - the management team of chief officers - was unable to resolve the competing claims of departments.<sup>96</sup> The Leaders' Consultative Committee, a cabal in the Labour Group, was likewise unable to resolve the competing claims of committees. The budget process ran into a logjam, which neither the Chief Officers' Group nor the Leaders' Consultative Committee was able to unlock. Both these groups were dominated by defenders of services, and were thus unwilling to make spending cuts.<sup>97</sup>

The Policy Planning and Budgeting Process had run aground towards the end of 1983. It had collapsed at both the departmental and corporate levels of the local authority, and thus had to be abandoned. Instead, the Leaders' Consultative Committee asked the Chief Executive and

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committees were not required to plan 'service developments' but only to identify 'lower expenditure options' (Borough Treasurer, Knowsley MBC). The process was later scrapped - see Fellows (1990); and Long (1990).

<sup>96</sup> Chief Executive, Knowsley MBC.

<sup>97</sup> Borough Treasurer, Knowsley MBC.



Borough Treasurer to find the spending cuts required to keep the rates down. The Labour Group, in effect, delegated the task of making the budget to these two chief officers. In the words of the Chief Executive, "we're doing the dirty work for them".

This delegated task of making the budget was made easier because of the availability of fund contributions and identification of spending cuts in the earlier 'lower expenditure options' exercise. The Borough Treasurer estimated that "a single figure rate increase required reductions of £2.8m", of which "some £1.5m could be achieved by financing and funding adjustments."<sup>98</sup> These "sizeable contributions" from various funds, such as the Repair, Maintenance and Replacement of Buildings Fund and the Equipment Fund, allowed net spending to be cut without cutting actual gross spending.<sup>99</sup> The decision to utilise these funds was solely in the hands of the Borough Treasurer.<sup>100</sup> His predecessor was more cautious in using funds. As a result, the amount of fund monies built up allowing their utilisation in 1984/85, though as the Borough Treasurer warned, the "scope to utilise funds to reduce expenditure in future years will become increasingly limited."<sup>101</sup>

These funding contributions eased the task of making spending cuts. Furthermore, the spending reductions identified in the 'lower expenditure options' exercise

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<sup>98</sup> Taken from Knowsley MBC's Budget 1984/85, 1984, p2.

<sup>99</sup> Borough Treasurer, Knowsley MBC, taken from Knowsley MBC's Annual Report And Accounts 1984-85, p8.

<sup>100</sup> Chief Executive, Knowsley MBC.

<sup>101</sup> Taken from Knowsley MBC's Annual Report And Accounts 1984-85, p8. However, because of a small overspend in 1984/85 the Borough Treasurer suggested a further £3.35 million could be utilised from these funds in 1985/86 (taken from Knowsley MBC's Budget 1985/86, 1985, p6).

provided the basis of the reductions considered by the Chief Executive and the Borough Treasurer. According to the Chief Executive, these options were examined and placed into four categories - "accept in full", "accept in part", "defer", and "not acceptable". The criteria of categorising the spending reductions were a mixture of political feasibility and impact upon service provision. The judgements made by the Chief Executive and the Borough Treasurer were made after informal discussions with the Leader of the Labour Group, committee chairmen and chief officers, who advised on the political and professional acceptability of the proposed spending cuts.<sup>102</sup> The exception was the making of the education budget where decisions to cut spending were made unilaterally without the agreement of the Borough Education Officer.

Thus, the Chief Executive and the Borough Treasurer relied on the outcomes of the formal 'lower expenditure options' exercise and informal negotiations in putting together a package of spending cuts. The spending cuts were neither evenly distributed nor explicitly apportioned according to some grand plan. The Council's corporate plan remained very much in the background of the budget process. The making of spending cuts in Knowsley MBC started out as a formal, corporate and planned process, but ended up as an informal, fragmented and ad hoc process. When the Policy Planning and Budgeting Process failed to produce the required spending cuts to keep the rates down, the Labour leadership turned to the Chief Executive and the Borough Treasurer to deliver "the coup de grace" in making the spending cuts in the budget of 1984/85.<sup>103</sup>

#### Making cuts in Stockport MBC

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<sup>102</sup> Chief Executive, Knowsley MBC.

<sup>103</sup> Chief Executive, Knowsley MBC.

Stockport MBC has established a three-year corporate planning and budgeting process which is revised each year. The annual Corporate Plan and Budget represents a statement of the Council's policies and budgets, together with the planned changes from the previous year. For each committee there are two main elements in this process - a policy statement and policy options. A policy statement is "the committee's current policies and levels of service including committed changes over the next three years", and policy options are "proposals to change policies or levels of service and set out the resource implications, over the next three years, of adopting them."<sup>104</sup>

In 1984/85 the budget of Stockport MBC was more or less a standstill budget. The budget contained only £127,270 of spending cuts, which constituted about 0.1 per cent reduction from the previous year's spending. However, as discussed in the last chapter, this amount was a significant under-estimation of the amount of spending actually cut. In addition to the spending cuts revealed in the budget, there were spending cuts made in the calculation of the Council's base budget, and in the drive not to overspend its budget and even to underspend on its outturn. Thus, spending cuts appeared not only as policy options but were also found within the policy statements and within the outturn of committees. It is not possible to calculate with any accuracy the extent of the spending cuts made in the policy statements and outturn because they cannot be disentangled from the rest of the spending under various headings in both the budgets and accounts. However, they, along with the spending cuts that appeared as policy options, will be examined to explain how they were made in Stockport MBC.

In Autumn 1983 the task of preparing the Council's base

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<sup>104</sup> Taken from Stockport MBC's Development Services: Policy Statement And Options 1984-87, 1984, preface.

budget was undertaken by the Finance Department and other departments. The base budget is the budget required to sustain existing policies of the Council. It is updated each year to reflect changes in the way agreed policies take effect upon service provision and changes in the cost of administering existing policies. Spending cuts, which were included in the base budget of 1984/85, resulted from policy options of previous years being written into the policy statements of committees. For example, spending cuts were made in the education base budget, because of the existing policy of cutting spending as a result of falling school rolls.<sup>105</sup>

The calculation of the base budget is left to officer negotiations between the service departments and the Finance Department.<sup>106</sup> The negotiations varied from department to department. In some departments there were realistic discussions with the Finance Department, eg Development and Town Planning Department, Housing and Environmental Health Department, and Education Department.<sup>107</sup> In other departments there was a "ritual game" in which the Finance Department would deliberately underestimate budget provision (especially inflation allowances) and service departments would deliberately overestimate their budget requirements.<sup>108</sup> The base budget

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<sup>105</sup> Director of Education, Stockport MBC (taken from a letter dated 24 August 1984). Rosenberg observed the tendency for many spending cuts to be contained in the base budget and thus disguised from councillors ((1985b) p160).

<sup>106</sup> Leader, Conservative Group, Stockport MBC.

<sup>107</sup> Director of Education and Acting Director of Housing, Stockport MBC; Director of Development and Town Planning, Stockport MBC; and Assistant Director of Housing and Environmental Health, Stockport MBC.

<sup>108</sup> Assistant Director of Recreation and Culture, Stockport MBC. The Leader of the Conservative Group condoned an "acceptance level" of padding because it provided flexibility to respond to unforeseen events once the budget has been made.

represented a negotiated settlement between service departments and the Finance Department, and included many adjustments that reduced spending.

The budget process of Stockport MBC is traditionally a finance-led exercise. The Council under the control of the Conservative Group has never started from plans of what spending was needed to provide services, but from a calculation of what money was available to spend on services.<sup>109</sup> This approach has prevented a 'shopping list' of spending demands being drawn up because it was always widely known in the early stages of the budget process what spending could be afforded. The making of the budget of 1984/85 was no exception to this budgetary rule.

The ruling Conservative Group was committed to restricting the rates rise to less than the general rate of inflation, and to keeping the Council's spending within the expenditure target set by central government. Given these commitments the Director of Finance calculated that the budget of 1984/85 would have to remain very close to the base budget.<sup>110</sup> The ramifications of this standstill budget option were discussed by the Leader of the Conservative Group, the Chief Executive and the Director of Finance.<sup>111</sup> This triumvirate, or "three-man band", provided the leadership of the Council.<sup>112</sup>

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<sup>109</sup> Assistant Director of Finance, Stockport MBC.

<sup>110</sup> Taken from Stockport MBC's Revenue Expenditure And Budget Forecast 1983/84 and 1984/85, 1983.

<sup>111</sup> Leader, Conservative Group, Stockport MBC; Chairman, Development Services Committee, Stockport MBC; Chairman, Recreation and Culture Committee, Stockport MBC; Leader, Labour Group, Stockport MBC; and Finance Spokesman, Labour Group, Stockport MBC.

<sup>112</sup> Chairman, Recreation and Culture Committee, Stockport MBC.

On the officer side, the Chief Executive and the Director of Finance dominated the Management Board of chief officers, mainly because other chief officers realised they had considerable backing from the Conservative leadership.<sup>113</sup> On the councillor side, the Conservative Group was dominated by its Leader, largely because no other Conservative councillor was prepared to challenge for the leadership.<sup>114</sup> Thus, the influence of the Chief Executive, the Director of Finance and the Leader of the Conservative Group was highly significant in making the Council's budget strategy.

The Leader of the Conservative Group, together with the Deputy Leader and the Chairman of the Finance Sub-Committee, ensured that the budget achieved the aims of keeping the rates increase within inflation and spending within the Government's target. These three councillors, which constituted the Conservative leadership, met with each committee chairman (and sometimes vice-chairman) in turn to sort out the policy options to be adopted in committee.<sup>115</sup> In this "smoke-filled room" the committee chairman had to persuade the leadership of the necessity of the policy options to be recommended in committee.<sup>116</sup> The policy options were generally initiated by chief officers

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<sup>113</sup> Assistant Director of Finance, Stockport MBC.

<sup>114</sup> Leader, Conservative Group, Stockport MBC; Chairman, Development Services Committee, Stockport MBC; Chairman, Recreation and Culture Committee, Stockport MBC; Leader, Labour Group, Stockport MBC; and Finance Spokesman, Labour Group, Stockport MBC.

<sup>115</sup> Leader, Conservative Group, Stockport MBC; Chairman, Development Services Committee, Stockport MBC; Chairman, Education Committee, Stockport MBC; Chairman, Finance Sub-Committee, Stockport MBC; Leader, Labour Group, Stockport MBC; Director of Development and Town Planning, Stockport MBC; and Assistant Director of Recreation and Culture, Stockport MBC.

<sup>116</sup> Assistant Director of Recreation and Culture, Stockport MBC.

in consultation with the respective committee chairman.<sup>117</sup> However, it was left to the committee chairman of each committee to defend the policy options in front of the Conservative leadership. At this stage many policy options were pruned to comply with the overall budget strategy.

The Conservative leadership performed this 'sweat shop' function because committee chairmen tended to "fall in love with what they are doing", and thus accepted almost blindly the policy options suggested by chief officers.<sup>118</sup> The Leader of the Conservative Group claimed no chief officer, with the exception of the Director of Finance, had ever volunteered a spending cut as a policy option.<sup>119</sup> As a result the Conservative leadership wanted to scrutinise the spending bids of committees. In the words of the Deputy Leader, "we are there to protect the ratepayer".<sup>120</sup> This 'sweat shop' function allowed the Conservative leadership to make spending cuts in a selective manner.<sup>121</sup> To a large extent the leadership adopted 'divide and rule' tactics which prevented the rest of the Conservative Group from effectively challenging its decisions. Indeed, its

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<sup>117</sup> Only £127,270 of spending cuts were presented as policy options, of which £100,000 was a reduction in the budget of Stockport College of Technology. It was left to the college to implement because neither the Education Committee nor the Education Department were concerned how the college made the reduction or even whether the college could make the reduction. The Chairman of the Education Committee, echoing the advice of the Director of Education, "had a feeling that they could find it".

<sup>118</sup> Leader, Conservative Group, Stockport MBC.

<sup>119</sup> The Chief Executive stated the policy and resources budget had been cut in the past as an example to other departments.

<sup>120</sup> Chairman, Development Services Committee, Stockport MBC. He was also the Deputy Leader of the Conservative Group.

<sup>121</sup> Chairman, Development Services Committee, Stockport MBC.

decisions were reported to the Party Executive Group comprising committee chairmen, which in turn reported to the whole Group. The Conservative leadership was thus insulated from the wider Group.

The close relationships between the Conservative leadership (notably the Leader of the Group) on the councillor side and the Chief Executive and the Director of Finance on the officer side strengthened each side in making spending cuts. The Conservative leadership was fed with information from the Chief Executive and the Director of Finance, and in return the Conservative leadership backed the two chief officers in their dealings with other officers. The Conservative leadership in its dominance of the Group provided the political support for the budget strategy, which in turn allowed the Chief Executive and the Director of Finance to secure departmental compliance with the strategy. Both sides were interdependent, and reinforced each other's position in the budget process. Spending cuts were made in a highly centralised and secretive way in Stockport MBC.

So far the making of spending cuts in the policy statements (that is, the base budget) and as policy options (that is, changes to the policy statements) have been examined. The third and final form of making spending cuts was the constant pressure to underspend the Council's budget. Throughout the financial year the Finance Department monitored regularly the spending of departments. In December 1983 the Director of Finance estimated that pay awards would increase by four per cent, and the cost of supplies and materials by five per cent.<sup>122</sup> These inflation allowances were then incorporated into the base budget. However, in June 1984 the Director of Finance reported that

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<sup>122</sup> Taken from Stockport MBC's Revenue Expenditure And Budget Forecast 1983/84 and 1984/85, 1983, p3.



"this provision may not be adequate."<sup>123</sup> By August 1984 he believed that this provision "must be viewed now as ever more likely to be exceeded."<sup>124</sup> At this stage the Director of Finance successfully recommended that funds be used to keep the Council's spending within the Government's expenditure target and therefore avoid grant penalty. By October 1984 the Director of Finance now believed that "the budget in so far as the current year is concerned will prove about right, although there may be a small overspending...."<sup>125</sup>

In fact there was a small budgeted underspend in the Council's outturn, which continued a long record of underspending in Stockport MBC. Though this underspend was partly because of the decision to utilise £682,000 from the Repairs and Renewal Fund, it was also the result of considerable political and administrative pressure upon departments to underspend their budgets.<sup>126</sup>

The main source of pressure to underspend came from the Establishment Control Panel. The Panel comprised a "cabal of three" including the Leader of the Conservative Group.<sup>127</sup> It was set up in 1974, but from 1976 onwards until its eventual abolition, it vetted staffing claims of departments.<sup>128</sup> It had no formal status, reported to no

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<sup>123</sup> Taken from Stockport MBC's Longer Term Financial Outlook, 1984, p1.

<sup>124</sup> Taken from Stockport MBC's Budgetary Control Report, August 1984, p5.

<sup>125</sup> Taken from Stockport MBC's Budgetary Control Report, October 1984, p2.

<sup>126</sup> Leader, Conservative Group, Stockport MBC; and Chairman, Development Services Committee, Stockport MBC.

<sup>127</sup> Director of Administration, Stockport MBC.

<sup>128</sup> The Establishment Control Panel was abolished by the Labour Group and the Liberal Group when the Council became 'hung' after the May 1984 local elections.

other committee and acted in secret.<sup>129</sup> Its main function was to save money by either delaying the filling of vacant posts or rejecting claims to fill vacant posts. The delay in filling vacant posts allowed the Panel to decide whether the vacancy needed to be filled or not.<sup>130</sup> If there were any adverse effects of the post remaining vacant then it would be filled; and if there were no adverse effects then it would probably not be filled. For example, there was significant under-staffing of the engineering section in the Works Department which jeopardised the maintenance programme of roads and sewers. As a result, and following some adverse publicity in a local newspaper, more staff were employed in the engineering section.<sup>131</sup> The Conservative leadership was very aware that staffing costs represented a substantial share of the budget, and therefore needed to be controlled and even reduced if its budget strategy were to succeed. The Establishment Control Panel was an effective budgetary control mechanism, and exercised substantial pressure to underspend the budget. The budget was always made on the basis that all posts would be filled and therefore included the wages and

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<sup>129</sup> Leader, Labour Group, Stockport MBC; Finance Spokesman, Labour Group, Stockport MBC; and Director of Administration, Stockport MBC.

<sup>130</sup> Chairman, Development Services Committee, Stockport MBC.

<sup>131</sup> See Stockport MBC's Report of the Chief Executive and Director of Works, 20 August 1984; and P Robinson, 'Crisis hits the road', Stockport Express Advertiser, 23 August 1984, p1. The Leader of the Conservative Group believed the report was leaked to the local press by the Director of Works as part of a deliberate strategy to press for more staff. He justified the under-staffing of the engineering section on the grounds that work on the sewers may have been reclaimed by the North West Water Authority. As a result, the Chairman of the Transportation and Works Committee argued that the newspaper report was "rubbish", and that the newspaper was run by "a bunch of raving loonies". The Council maintained its agency agreement with the water authority, and later employed more staff in the engineering section of the Works Department.

salaries of those staff. In reality, however, not all the posts would be filled all year round, and consequently a significant underspend was likely. The Establishment Control Panel was a crude but effective way of making spending cuts.

After the local elections in May 1984 the Conservative Group lost control of the Council. The Council became 'hung'. There were two significant changes made to the inherited Conservative budget by the Labour Group and Liberal Group combined. First, the proposed spending reduction of £20,000 in the school caretaking and cleaning budget was reversed. This proposal was opposed by the National Union of Public Employees, which argued that this spending cut threatened the pay and conditions of its members.<sup>132</sup> The trade union was involved in protracted negotiations with the Education Department on the implementation of this reduction. However, after lobbying the Labour Group and the Liberal Group its implementation was suspended. Second, an extra 28 primary school teachers were recruited, which added £177,000 to the education budget. This measure was supported again by both the Labour Group and Liberal Group. Though the measure was justified on educational grounds, it was put forward by the Labour Group before the local elections took place in order to gain electoral advantage.<sup>133</sup>

Despite these two relatively minor changes, the budget of 1984/85 was still essentially the product of the triumvirate which dominated the Council, that is, the Leader of the Conservative Group, the Chief Executive and the Director of Finance. Spending cuts were largely made by this interdependent and powerful group.

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<sup>132</sup> Area Officer (5), National Union of Public Employees.

<sup>133</sup> Leader, Labour Group, Stockport MBC; and Finance Spokesman, Labour Group, Stockport MBC.

### MAKING CUTS IN CAPITAL SPENDING

The four local authorities - Bedfordshire CC, Kent CC, Knowsley MBC and Stockport MBC - had contrasting records of capital spending.<sup>134</sup> Three of the four local authorities had increased their capital spending in real terms between 1978/79 and 1984/85 - the exception was Bedfordshire CC. However, only Knowsley MBC had increased its capital spending in 1984/85 compared with the previous year.

Though a local authority may spend less on its capital programme than in previous years, this reduction does not mean that existing or ongoing projects have been axed before completion, but rather that planned projects have been postponed or even cancelled. Both Kent CC and Stockport MBC spent less in real terms on their capital programmes in 1984/85 than in 1983/84, but no capital project was abandoned. Instead capital projects were re-phased in their programmes. In Kent CC the rephasing of its capital programme was caused more by unforeseen slippage in its existing programme than by financial pressure exerted by central government.<sup>135</sup> Implementation delays in completing capital projects are significant reasons why actual capital spending is less than planned capital spending.<sup>136</sup> Another reason for reduced local authority capital spending is the financial pressure applied by central government. For example, Knowsley MBC's Urban Renewal Programme of 1984/85 was approved and grant-funded by central government, but the "substantial shortfall of available funds relative to the total cost of approved

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<sup>134</sup> See chapter three, pp132-146.

<sup>135</sup> Reporter, Kent Messenger Ltd.

<sup>136</sup> Deputy Leader, Liberal Group, Bedfordshire CC.

schemes required substantial rephasings and deferments."<sup>137</sup> In understanding how a local authority cuts its capital spending it is necessary to examine the way in which its capital programme is formulated as well as how specific capital projects within the programme are determined.

There are several common features in the making of the capital programme evident in the four local authorities, and indeed in local government generally. These features include the availability of resources in financing the capital programme, the degree of planning involved in setting the capital programme, and the centralised manner of making the capital programme. They are important elements in the cutback management of capital projects, and will be now considered.

The first feature to be looked at in the making of capital programmes is the availability of funds to finance capital schemes. As argued in the last chapter, the Government's spending controls plus the capacity to circumvent these controls mainly determined the amount local authorities spent on capital projects. The Government's capital and revenue spending controls depressed the level of local authority spending. Of the four local authorities only Knowsley MBC increased its capital spending. In 1983 Knowsley MBC was granted urban programme status by central government, and consequently received substantial grant funding for its capital projects. The other three local authorities reduced their capital spending compared to the previous year.

Each local authority was subject to a general spending

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<sup>137</sup> Taken from Knowsley MBC's Knowsley Urban Renewal Programme 1985-86, p1.

limit on its capital programme.<sup>138</sup> The limit was determined by a series of notional computations of what each local authority needs to spend under a set of service blocks. The main service blocks were education, housing, social services, transport and other services. These block allocations were calculated by central government after receiving bids under each of the blocks by local authorities. The table below outlines the bids made by a sample of local authorities, the allocations approved by central government and the actual spending of local authorities under the each block.

Table 4.3: Index of Planned, Allocated and Actual  
Capital Spending of Local Authorities,  
1983/84

<u>Block</u>	<u>Bid</u>	<u>Allocation</u>	<u>Outturn</u>
Education	126	100	117
Housing	166	100	149
Social services	103	100	85
Transport	117	100	84
Other services	356	100	408
TOTAL*	<u>163</u>	<u>100</u>	<u>148</u>

\* Total excludes other blocks such as the urban programme.

Source: Audit Commission Of Local Authorities In England And Wales (1985a) pp59-61

Table 4.3 shows that local authority bids under each of the main service blocks greatly exceeded the allocations given

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<sup>138</sup> The exception was capital expenditure on the police, probation and magistrate court services, which was controlled by the Home Office.

to local authorities.<sup>139</sup> This general trend can also be seen in how Kent CC's rolled-forward capital programme compared to its set of block allocations - see table 4.4 below.

Table 4.4: Capital Programme and Block Allocations of Kent CC

<u>Block</u>	<u>1983/84 Allocation*</u> £k	<u>1984/85 Capital Programme**</u> £k	<u>1984/85 Allocation***</u> £k	<u>Excess of Programme over Allocation</u> £k
Highways	13884	17935	16359	1576
Social services	4075	3361	3061	300
Education	4821	7176	4347	2829
Local services	3480	8289	3523	4766
TOTAL	<u>26260</u>	<u>36761</u>	<u>27290</u>	<u>9471</u>

\* 1983/84 outturn prices

\*\* November 1983 prices

\*\*\* 1984/85 outturn prices

Source: Kent CC

Table 4.4 reveals that both Kent CC's education and social services block allocations were reduced compared with the allocations of the previous year. The Social Services Committee "has suffered a reduction of over £1m when

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<sup>139</sup> The Audit Commission of Local Authorities in England and Wales argued that in the case of housing "exaggerated bids" were often made by local authorities "anticipating reductions" in the calculation of their block allocation ((1985a) p35).

compared with the allocation of 1983-84"; and the Education Committee "has in the past 12 months made strong representations to the Department of Education and Science for an increase in capital allocation for Kent but at £4.347m the allocation notified for 1984-85 is nearly 10% lower in cash terms than for 1983-84."<sup>140</sup>

The block allocations of 1984/85 were notified to local authorities in December 1983. Under the Local Government, Planning and Land Act 1980 a local authority was allowed to spend its block allocations how it wanted and was not obliged by law to spend, say, its education block allocation on education. It was allowed to exercise virement between block allocations. However, local authorities tended to spend roughly in line with their block allocations. The Audit Commission found that local authorities "have been reluctant to use this power, fearing it might contradict Department policies and result in lower allocations in future years."<sup>141</sup> The transport block allocation given to Bedfordshire CC was solely allocated to transport projects, because the Council felt if it was not spent on these projects it would be reduced in subsequent years.<sup>142</sup> Kent CC exercised only a limited degree of virement - about £700,000 of its other services block allocation of over £8 million was transferred to other blocks. Knowsley MBC explicitly organised its capital programme around the main service blocks.<sup>143</sup>

The block allocations of a local authority could be

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<sup>140</sup> Taken from Kent CC's Summons To And Agenda For A Meeting On The 16th February 1984, 1984, p2.

<sup>141</sup> Audit Commission For Local Authorities In England And Wales (1985a) p10.

<sup>142</sup> County Surveyor, Bedfordshire CC; and Principal Assistant, County Surveyor's Department, Bedfordshire CC.

<sup>143</sup> See Knowsley MBC's Budget 1984/85, 1984, appendix D.



exceeded in several ways. Under the Local Government, Planning and Land Act 1980 a local authority was able to exceed its total allocation of prescribed expenditure by using a proportion of its capital receipts, block allocations from other local authorities, profits of trading undertakings, and its ten per cent tolerance above its allocations. There were various devices which local authorities used to enhance their "capital expenditure capacity".<sup>144</sup> Local authorities utilised extensively their capital receipts as a way of financing their capital programmes, though their utilisation is restricted by the Government. In Kent CC its Property Services Department undertook much work to identify surplus property which could be sold off to raise capital receipts.<sup>145</sup> In Labour-controlled Knowsley MBC the sale of council houses was encouraged primarily as a way of generating capital receipts to fund its capital programme.<sup>146</sup> The use of these receipts financed over 40 per cent of the Council's capital spending in 1984/85. Likewise, the capital programme of Stockport MBC was heavily dependent on the use of capital receipts.<sup>147</sup> Its Director of Finance stated:<sup>148</sup>

"Taken together the available borrowing powers fall some way short of the approved programme, and approval has been given to the utilisation of capital receipts amounting to £5.516m...."

Another legitimate way of circumventing the Government's capital spending controls was the widespread practice of

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<sup>144</sup> Audit Commission For Local Authorities In England And Wales (1985a) p10.

<sup>145</sup> Head, Property Services Department, Kent CC.

<sup>146</sup> Director of Leisure Services, Knowsley MBC.

<sup>147</sup> Assistant Director of Finance, Stockport MBC.

<sup>148</sup> Taken from Stockport MBC's, Capital Programme 1983-1987, 1984, p2.

leasing.<sup>149</sup> The spending covered by leasing arrangements counted as non-prescribed expenditure, and therefore fell outside capital expenditure controls.<sup>150</sup> Bedfordshire CC and Kent CC embarked upon substantial leasing programmes in order to supplement their block allocations.

Thus, all the four local authorities attempted to maximise their 'capital expenditure capacity' by extensively using sources of capital finance that lay outside the Government's capital spending controls. Table 4.4 shows that Kent CC's capital programme exceeded its block allocations by over £9 million in 1984/85. The Council enhanced its allocations by using its tolerance (notably the carrying forward of 'unspent' allocation from the previous year), capital receipts and leasing finance. These enhancement methods explain why the capital spending of local authorities often exceeded their block allocations - see table 4.3. However, as argued in the last chapter, the 'capital expenditure capacity' of local authorities varies considerably in both the block allocations calculated by central government and funds to enhance these allocations. Housing authorities, such as Knowsley MBC and Stockport MBC, possessed generally more 'capital expenditure capacity' than non-housing authorities, such as Bedfordshire CC and Kent CC, because of the substantial capital receipts generated under the 'right-to-buy'

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<sup>149</sup> See Audit Commission For Local Authorities In England And Wales (1985a) pp56-57; Blackburn (1986); Blunkett & Jackson (1987) pp230-231; Chandler (1991) p71; Chartered Institute Of Public Finance And Accountancy (1984c) pp53-54; Cochrane (1993) pp36-37; Cook (1993) pp159-160; Dillon (1985); Elcock (1991) p149; Gray & Jenkins (1991) p458; Letwin (1992) p184; Midwinter (1988) p26; Stoker (1988) pp166-168; Stoker (1991) pp174-176; and Taylor (1987).

<sup>150</sup> The opportunities for leasing have since been curtailed because the exemption from prescribed expenditure of the leasing of vehicles, plant and equipment, and the substantial tax allowances that lessors could claim and pass onto the lessees have both been removed.

legislation.<sup>151</sup> In general, the 'capital expenditure capacity' of local authorities was a key determinant in setting the level of their capital spending.

The pressures facing local authorities in making their revenue budgets significantly influenced the making of their capital programmes. The Government imposed an expenditure target upon every local authority, which if exceeded attracted punitive grant penalties. Furthermore, it threatened rate-capping of those local authorities which, in the Government's eyes, were seriously 'overspending'. These controls and threatened controls restricted not only the level of revenue spending but also the level of capital spending of local authorities. Local authorities were concerned not to embark upon capital projects which substantially incurred revenue commitments, both in the form of debt charges as repayment of the loans arranged to finance the capital schemes and running costs of the completed schemes. In Bedfordshire CC the Chief Executive and County Treasurer noted:<sup>152</sup>

"In determining the size of the Capital Programme for 1984-85 the Council have placed particular emphasis on the consequential revenue costs (both financing charges and current expenditure) arising upon completion of the programme. With this in mind the recommendation from the Policy and Resources Committee that the programme of new starts for each Programme Committee should be contained within a level of ultimate estimated revenue consequences was adopted by the County Council and this criterion has formed the basis of the Council's approved programme of new schemes for 1984-85."

As a result of this recommendation, each committee was given a target for its capital programme, which was mainly determined by the amount of revenue consequences that could

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<sup>151</sup> See Audit Commission For Local Authorities In England And Wales (1985a) p12.

<sup>152</sup> Taken from Bedfordshire CC's County Council Budget 1984-85: Part 1, pv.

be absorbed in the revenue budget.<sup>153</sup> In Kent CC the County Treasurer observed that "whatever level of capital programme possible within supplemented allocations, the impact on revenue budgets is inhibiting."<sup>154</sup> The Leader of the ruling Conservative Group argued that committees must bear the revenue consequences of their capital schemes otherwise they would have a "licence to print money". The Policy and Budget Group responded to this concern over the revenue implications of the Council's capital programme by undertaking a detailed review. Also Kent CC 'capitalised' some of its highway maintenance expenditure.<sup>155</sup> In Knowsley MBC there was a partially successful attempt to include only capital projects with no or minimal revenue consequences in its Urban Renewal Programme.<sup>156</sup> Furthermore, the Council also 'capitalised' some of its maintenance programme in order to keep down revenue spending.<sup>157</sup> In Stockport MBC the Chairman of the Finance Sub-Committee warned:<sup>158</sup>

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<sup>153</sup> County Surveyor, Bedfordshire CC; and Principal Assistant, County Surveyor's Department, Bedfordshire CC. Many major capital schemes, such as a road bypass, were not started because of the overriding concern to minimise the revenue consequences of the capital programme.

<sup>154</sup> Taken from Taylor (1984a) p768.

<sup>155</sup> Manager, Highways and Transportation Department, Kent CC; and Finance Officer, Highways and Transportation Department, Kent CC.

<sup>156</sup> Chief Executive, Knowsley MBC; and Borough Treasurer, Knowsley MBC.

<sup>157</sup> Director of Leisure Services, Knowsley MBC. The Audit Commission for Local Authorities in England and Wales found that in maintaining school buildings "some authorities have been capitalising repairs ... to avoid revenue penalties" ((1985a) p29).

<sup>158</sup> Taken from Stockport MBC's Corporate Plan And Budget 1984-87, 1984, pv. However, the Assistant Director of Finance pointed out that at this time no capital project had been halted because of this concern to minimise the revenue consequences of the Council's capital programme. The Council was cushioned to a certain extent because of

"Expenditure on capital schemes invariably generates further revenue expenditure which can cause problems of financing growth when budgets are already tight."

All four local authorities in making their capital programmes were therefore constrained by the Government's controls on both capital and revenue spending. The size of their capital programmes was determined by their 'capital expenditure capacity' and limited by the revenue consequences incurred by their capital spending. The making of the capital programme was very largely a finance-led exercise dominated by resource considerations. The Audit Commission observed that resource considerations are mainly determined by central government and not local authorities, and argued:<sup>159</sup>

"... local members cannot be reasonably be held accountable for the size of the total programme, for local priorities between services and projects, and for methods of financing and quality standards...."

The second feature to be examined is the degree of planning involved in setting the capital programmes of local authorities. The making of a capital programme requires much planning by a local authority because of the large-scale nature of most capital schemes. The Audit Commission noted:<sup>160</sup>

"Capital projects take several years to complete.... [E]ven relatively small schemes can take 15-24 months in preparation before contracts are let. Feasibility studies, sketch designs, working drawings and specification of bills of quantities and evaluating tenders all take time - and involve up to 10% of the eventual project cost. So local authorities need at least a three year planning horizon to feel confident."

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capital receipts it was able to utilise to finance its capital programme.

<sup>159</sup> Audit Commission For Local Authorities In England And Wales (1985a) p37.

<sup>160</sup> Audit Commission For Local Authorities In England And Wales (1985a) p37.

Of the four local authorities, Bedfordshire CC, Kent CC and Stockport MBC had a three-year capital programme, and Knowsley MBC had only a two-year capital programme. Stockport MBC planned and prioritised its capital programme according to the following sections:<sup>161</sup>

"Base Programme (Green Pages)

This includes all ongoing schemes and thus expected to be committed by 31st March 1984. It represents a reappraisal of the current year's programme and shows its impact on future years.

Starts List (Yellow Pages)

This consists of all schemes planned to start in 1984/85, which will be the subject of individual implementation reports to the Council during the year.

Design List (Pink Pages)

This includes schemes planned to start in 1985/86. The Council has demonstrated a degree of commitment to these schemes by authorising design effort and in some cases advance expenditure on them during 1984/85.

Preliminary List (Blue Pages)

This includes schemes which are not expected to start before 1986/87. Inclusion on this list will enable the client Division to undertake feasibility studies without committing major design effort or any advance expenditure."

However, all four local authorities experienced considerable difficulties in planning their capital programmes. In Kent CC the Highways and Transportation Department developed a four-year rolling programme of highways maintenance. This exercise was part of the Department's corporate strategy, and attempted to orientate its maintenance programme to the corporate objectives of the Department.<sup>162</sup> The Department wanted to find a "more consistent and objective way" of managing its activities.<sup>163</sup> Despite this rationalist intention the

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<sup>161</sup> Taken from Stockport MBC's Capital Programme 1983-1987, 1984, pp1-2.

<sup>162</sup> County Surveyor, Kent CC.

<sup>163</sup> Manager, Highways and Transportation Department, Kent CC.

Department's maintenance programme was often disrupted because of uncertainty about its financing, and more important, the severe limits on what could be financed in each immediate year.<sup>164</sup> This financial pressure stemmed directly from central government. The Government calculated capital allocations and revenue expenditure targets of local authorities for only one year in advance, and consequently much uncertainty was created for local authorities planning their capital programmes. Local authorities were very anxious not to over-commit themselves in future years on both the capital and revenue sides, because they did not know whether they could finance these future spending commitments. In the words of the Audit Commission:<sup>165</sup>

"The present capital control systems do not provide ... longer term perspective. Government's intentions as set out in the Public Expenditure White Paper now only provide details of planned total local government capital expenditure for one year ahead; and one year capital allocations only reach local authorities around the turn of the year - less than three months before the beginning of the period to which they apply."

Thus, the need for local authorities to plan their capital programmes is undermined by financial uncertainties and the immediate financial constraints imposed upon them by central government. This uncertainty surrounding the making of capital programmes is prevalent in the short term as well as the longer term. In July 1984 the Government requested that local authorities should voluntarily curb their capital spending otherwise a moratorium would have to

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<sup>164</sup> Manager, Highways and Transportation Department, Kent CC; and Finance Officer, Highways and Transportation Department, Kent CC.

<sup>165</sup> Audit Commission For Local Authorities In England And Wales (1985a) p14.

be imposed.<sup>166</sup> This request set against a background of a threatened moratorium created much short-term uncertainty in financing capital programmes of local authorities. Though many local authorities ignored it, both Kent CC and Knowsley MBC complied with the request.<sup>167</sup> In Kent CC some of its planned building maintenance programme had to be shelved.<sup>168</sup> In Knowsley MBC the decision to comply with the call for voluntary restraint "contributed to a £0.4m underspend on the capital budget."<sup>169</sup> The four local authorities attempted to plan their capital programmes both in the short and long term, but the degree of planning was severely diminished because of uncertainties about the financing of such plans.

The third feature to be discussed is the centralised manner of making the capital programmes of local authorities. In the four local authorities the formulation of the capital programme was conducted largely at the centre. In Bedfordshire CC the Capital Programme Working Group was established to coordinate and review the Council's capital programme. This Group was largely dominated by the Leader of the Conservative Group and the County Treasurer.<sup>170</sup> It set targets within which committees made their capital budgets.<sup>171</sup> In Kent CC the Policy and Budget Group, a sub-committee of the Policy and Resources Committee, performed

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<sup>166</sup> See Audit Commission For Local Authorities In England And Wales (1985a) pp14-16; and Travers (1986b) p144.

<sup>167</sup> See Audit Commission For Local Authorities In England And Wales (1985a) p14.

<sup>168</sup> Head, Property Services Department, Kent CC.

<sup>169</sup> Borough Treasurer, Knowsley MBC, taken from Knowsley MBC's Annual Report And Accounts 1984-85, p8.

<sup>170</sup> Assistant to the Chief Executive, Bedfordshire CC.

<sup>171</sup> County Surveyor, Bedfordshire CC; and Principal Assistant, County Surveyor's Department, Bedfordshire CC.



a similar function.

Officers played the leading role in making the capital programmes of the four local authorities. Their influence was prevalent in two critical stages of formulating the capital programme. First, the specific capital projects were primarily determined by officers within the service departments under the general but loose guidance of committees.<sup>172</sup> Second, the method of financing capital projects and the rules governing local authority spending are very complex.<sup>173</sup> This financial complexity increased the influence of the finance departments at the centre over both the service departments and councillors. The technical and financial expertise needed in making a capital programme reinforced the leading role of officers who possessed such expertise, notably the specialised staff of service departments and the finance department. The influence of officers over councillors is further compounded by the lack of time that a local authority has in which to formulate a capital programme. The Audit Commission argued:<sup>174</sup>

"The need for rapid decisions on what to cut from capital programmes means that members are forced to rely on their officers' judgement to an unhealthy extent."

The centralised manner of making the capital programme was to a significant extent a reflection of the increasing role of finance departments in local authorities during times of cutback management. Given the financial pressures facing

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<sup>172</sup> County Treasurer, Bedfordshire CC. However, in Knowsley MBC the Director of Technical and Professional Services noted with some surprise that councillors were more involved in the making of the capital budget than the revenue budget, but as seen earlier, councillors abdicated any role in the making of the revenue budget of 1984/85.

<sup>173</sup> See Audit Commission For Local Authorities In England And Wales (1985a) pp63-64.

<sup>174</sup> Audit Commission For Local Authorities In England And Wales (1985a) pp39-40.

local authorities, the finance department was increasingly charged to plan their capital and revenue spending, to control strictly the level of capital spending and to review regularly the progress of capital projects.<sup>175</sup> Local authorities thus required a centralised group, largely dominated by professionals (particularly finance professionals), to plan, control and review their capital programmes.

The making of capital spending cuts in the four local authorities was characterised by considerable financial stringency, a diminished degree of planning and a centralised manner of decision-making. The financial stringency largely led to financial uncertainty, thus compounding the lack of effective planning and degree of centralised control involved in making capital programmes. The making of a capital programme was essentially resource-led, which severely limited the effectiveness of longer-term planning. The only way to contain this uncertainty was to centralise the manner in which capital budgets were made in order to impose a degree of certainty, and therefore control, in the budget process.

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<sup>175</sup> In Stockport MBC, for example, its capital programme was "under constant review" (taken from Stockport MBC's Capital Programme 1983-1987, 1984, p2).

CHAPTER FIVE

THE DISSECTION OF A SPENDING CUT

It is important, as argued in chapter two, to examine the making of spending cuts in local government at both an aggregated and disaggregated level of analysis. The previous two chapters looked at the making of spending cuts in four local authorities. The reasons for making, and the ways of making, spending cuts were explored in these local authorities. It is now necessary to complement these forms of aggregated analysis with a case study on a specific decision to cut spending. Only at this disaggregated level can the making of spending cuts in local government be fully understood. This chapter focuses on the decision by Kent CC to privatise its school cleaning. Contracting-out is now firmly established on the local government agenda. The New Right has consistently argued that contracting-out of local authority services leads to both improved service provision and reduced costs of providing services. Its argument is underpinned by the belief that the private sector is inherently more efficient than the public sector in providing services.<sup>1</sup> This argument influenced the Conservative Government, which has encouraged local authorities to contract-out work to private sector.<sup>2</sup> The Local Government, Planning and Land Act 1980, the Local Government Act 1988 and the Local Government Act 1992 imposed compulsory competitive tendering onto local government. Under this legislation local authorities are required to tender out certain prescribed areas of work, such as road building and refuse collection. The workforces of local authorities, organised as direct labour organisations or direct service organisations, must compete with private contractors to undertake work traditionally carried out by themselves. Given the financial pressures facing local authorities, many have accepted bids from

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<sup>1</sup> See Adam Smith Institute (1982); Adam Smith Institute (1989) pp6-8; Beresford (1987); Forsyth (1981); Forsyth (1982a); Forsyth (1982b); Forsyth (1983); Minford, Savas & Mays (1985); and Pirie (1988).

<sup>2</sup> See Ridley (1988).

private contractors because they have been lower than those from their own workforces. These local authorities have regarded contracting-out as a significant way of cutting their spending. Contracting-out is thus a tool of cutback management in local government. The decision by Kent CC to contract-out school cleaning will be examined as a case study to assess the effectiveness of contracting-out as a way of cutting local authority spending. The chapter assesses the usefulness of the case study approach, discusses the decision to contract-out school cleaning in Kent CC, and considers contracting-out as a cutback management strategy. This case study examines the interplay of actors in making the decision to privatise school cleaning, and thus provides further empirical analysis which will underpin the theoretical analysis of cutback management in the final part of the thesis.

#### RESCUING THE CASE STUDY

According to Stoecker, case studies include "studies of any individual persons, organizations, communities, or societies".<sup>3</sup> The analysis of the decision of Kent CC to privatise its school cleaning fits into this broad definition of the case study. The analysis focuses on a specific decision made by a single organisation. The validity of case studies has been questioned by many social scientists.<sup>4</sup> Stoecker argued there are two general critiques of the case study method. The first critique challenges the internal validity of the case study.

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<sup>3</sup> Stoecker (1991) p88.

<sup>4</sup> For example, see Eckstein (1975).

Stoecker observed:<sup>5</sup>

"Case study research, since it does not provide experimental controls and therefore is assumed to not allow for 'scientific distance', has no built-in corrective against the researcher's possible biases."

This critique is not peculiar to case study research, and applies to other research in social science generally, and political science particularly. It is highly questionable whether social science research can ever achieve the scientific rigour of other sciences, because of the complexity of variables studied and difficulties in constructing experiments in the economic, political and social worlds. The 'internal validity' critique alone does not provide a sufficient excuse to abandon case study research, but warns only of the methodological dangers in undertaking such research.

The second critique challenges the external validity of the case study. Stoecker noted that "the case study does not allow us to generalize our findings to other settings."<sup>6</sup> This critique is far more damning of the case study method than the first critique, because it applies only to case study research. It is founded on the inductive-deductive debate which pervades many discussions on research methodology in the social sciences.<sup>7</sup> The debate rests on the merits of whether a social scientist should deduce the particular from a general theory or induce the general from a particular observation. Kennedy wrote:<sup>8</sup>

"We have two situations: the special case and the general case. And we have methodologies for

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<sup>5</sup> Stoecker (1991) p91. See also Dror (1968) pp73-77; Eckstein (1975) pp124-131; and Yin (1989) p21.

<sup>6</sup> Stoecker (1991) p91. See also Dror (1968) p74; Eckstein (1975) pp124-131; and Subramaniam (1980) p92.

<sup>7</sup> See Popper (1972) pp42-46; and Sayer (1992) pp153-159, 169-173, 226-231.

<sup>8</sup> Kennedy (1979) p661.

studying each. But the relationship between these two has continued to plague social scientists. There are situations in which knowledge of the general case is used to explain or predict a specific case. And there are situations in which knowledge of a specific case may be generalized to great segments of the population."

She argued that the "serious drawback in the single-case study methodology that has prevented it from being widely applied is the lack of generally accepted rules for drawing causation and generalization inferences from the data."<sup>9</sup> It is important to recognise the vagaries of the case study method before analysing the case study on school cleaning in Kent. Whilst acknowledging the dangers of generalising from a single case study there are two advantages from deploying the case study method.

First, the analysis of a case study assists in explaining the specific case itself. Thus, the following case study seeks only to explain why and how Kent CC contracted-out its school cleaning. It increases the pool of empirical findings requiring explanation. The case study seeks no more than an explanation of the privatisation of school cleaning in Kent. It does not seek to make generalised observations and explanations about making spending cuts in local government.

Second, the analysis of a case study assists in explaining the general case. Yin argued:<sup>10</sup>

"... case studies, like experiments, are generalizable to theoretical propositions and not to populations or universes. In this sense, the case study ... does not represent a "sample," and the investigator's goal is to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization)."

If the case study is not unique, then, it can be used to

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<sup>9</sup> Kennedy (1979) p663.

<sup>10</sup> Yin (1989) p21.

make generalised observations and explanations about cutback management in local government. The decision to privatise school cleaning, though controversial, was not atypical of other decisions to cut spending in Kent CC, and to a less extent, other local authorities. Kent CC made a series of decisions to cut spending in 1984/85 that reflected the commitment of the Conservative-controlled local authority to privatisation as a strategy of cutback management. For example, it commissioned management consultants to review its management processes and structures, thus providing a conduit for private sector management ideas to be conveyed to the local authority. It coopted a voluntary body into a partnership agreement to run day centres for the elderly. The decision to contract-out school cleaning was typical of Kent CC's increasing preference to use privatisation strategies as ways of making spending cuts. The analysis of this case study can be used to make useful generalisations about cutback management in local government. Furthermore, with school cleaning now subject to compulsory competitive tendering it can be used to offer valuable insights into the processes of compulsory competitive tendering and contracting-out generally.<sup>11</sup> Because the decision to privatise school cleaning is not unique, then, it is possible and desirable to make certain qualified generalisations from its analysis as a case study. Stoecker believed that the case study "is the best way by which we can refine general theory".<sup>12</sup>

The disadvantages of the case study method can be avoided if either its explanatory power is narrowed to the specific case itself or the case study is chosen carefully to

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<sup>11</sup> The Local Government Act 1988 required a range of services, including school cleaning, to be subject to the requirements of compulsory competitive tendering.

<sup>12</sup> Stoecker (1991) p109.



reflect a general trend. Platt wrote:<sup>13</sup>

"... case studies can do a whole variety of things. But some case studies do not do any of them well, and this is often because no particular rationale has dictated the choice of case. It is only too easy to study a case merely because it is convenient, and hope that something of more general interest will come of it...."

The choice of analysing Kent CC's decision to contract-out school cleaning was made carefully to allow more generalised observations to be made from the specific case study.

The case study is also necessary because, as argued earlier, to understand fully the making of spending cuts in local government it is necessary to undertake both aggregated and disaggregated analysis of spending cuts.<sup>14</sup> Aggregated analysis allows the identification of general trends, and disaggregated analysis allows the identification of specific decisions to cut spending. The case study is a useful form of disaggregated analysis, allowing the examination of the making and impact of spending cuts. Newton and Sharpe argued:<sup>15</sup>

"... total budgets for most major services are, after all, little more than accounting devices in the sense that the main operational unit of government tends to be the subfunctional bureau or agency rather than the whole department.... Expenditure decisions do have a department-wide ambit on occasion; but, in general, conventional expenditure totals probably have little meaning in policy-making terms for either politicians or bureaucrats, except at budget-making time. They have little meaning at all for the general public, apart from the transitory publicity given to them when the local tax is set, or when major cuts are announced. Just as we need to disaggregate in order to get closer to the reality of public services in relation to their quality, so, too, we need to disaggregate in

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<sup>13</sup> Platt J (1988) p20.

<sup>14</sup> See chapter two, pp89-92.

<sup>15</sup> Newton & Sharpe (1977) p70.

order to get to grips with the operational reality of the services; that is to say, the subfunctions around which the sources of variation - party ideology, public demand, the personal values of political and bureaucratic leaders, local traditions - are likely to focus."

Aggregated analysis is often a cumbersome tool to examine specific decisions to cut spending because they are often hidden from view by other decisions, including those to increase spending. Disaggregated analysis allows an examination of specific spending cuts, and provides answers to the questions of why spending was cut, how spending was cut and what effects the cuts had. The case study on school cleaning in Kent is disaggregated analysis, which complements the more aggregated analysis of the preceding chapters.

#### SCHOOL CLEANING IN KENT

In early 1984 Kent CC decided to contract-out the cleaning of more than 500 schools and colleges in the county, which at the time heralded one of the largest acts of contracting-out in local government. Before making this decision the Council wanted to reduce the non-teaching aspects of its education budget. The teaching side of the budget was more electorally sensitive, and was therefore shielded from drastic spending cuts. The concern not to cut spending on the teaching side thus exposed the non-teaching side to cuts. On the decision to contract-out school cleaning the Chairman of the Education Committee remarked:<sup>16</sup>

"Savings in this area will enable us to protect the 'sharp end' of education - teaching staff,

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<sup>16</sup> Taken from Kent CC's Public Relations Office, News Release: Private Contractors To Handle School Cleaning, 23 February 1984.

books, stationery and apparatus - in fact, the important creative area of the classroom and lecture room."

As a result of this desire not to damage Conservative electoral fortunes the focus for spending cuts was always firmly on the non-teaching side of the education budget.<sup>17</sup> Indeed in 1979 the Council decided to reduce cleaning standards in its schools and colleges to make savings of over £2 million each year.<sup>18</sup>

As part of the across-the-board exercise to reduce spending the Conservative Group again focused on the school cleaning budget. This focus partly resulted from a series of complaints from councillors and teachers about poor standards of cleaning in schools.<sup>19</sup> Towards the end of 1983 several Conservative councillors considered the option of privatising the cleaning of schools, and in October 1983 the Education Committee invited tenders for contracts to clean schools.<sup>20</sup>

It would be mistaken to see the decision to privatise school cleaning as purely an ideological move asserting the supremacy of the private over the public sector, though the decision undoubtedly "was in tune with the council's

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<sup>17</sup> County Education Officer, Kent CC.

<sup>18</sup> Taken from County Education Officer's Report to Kent CC's Education Committee, 10 October 1983. See National Union Of Public Employees (Kent) (1983) p4.

<sup>19</sup> Head, Computing and Management Services Unit, Kent CC; Principal Performance and Investigation Officer, Computing and Management Services Unit, Kent CC; and Honorary Secretary (Kent Federation), National Association of Schoolmasters and Union of Women Teachers.

<sup>20</sup> Assistant Education Officer, Kent CC. School cleaning now falls under the compulsory competitive tendering provisions of the Local Government Act 1988. On compulsory competitive tendering and contracting-out in Kent CC see Frater (1988); and Griffiths (1988).

general policies."<sup>21</sup> According to one officer, ideology was "not an overriding motivation" in making this decision.<sup>22</sup> The overriding criterion was the concern to cut spending.<sup>23</sup> Before the decision was made to privatise school cleaning the County Education Officer reported that a "major consideration in Members' minds will no doubt be the scope for making savings."<sup>24</sup> On contracting-out school cleaning the Audit Commission observed:<sup>25</sup>

"Significant cost savings are claimed by ... LEAs [local education authorities] as achievable once the service has settled down."

The decision to contract-out school cleaning was driven more by the potential financial savings to be made than an ideological preference to privatise services.<sup>26</sup> Indeed, the

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<sup>21</sup> Reporter, Kent Messenger Ltd. This view was echoed by the Chairman of the Education Committee; the Honorary Secretary (Kent Division) of the National Union of Teachers; the Area Officer (2) of the National Union of Public Employees; the Regional Organiser of the General, Municipal, Boilermakers and Allied Trades Union; and the Regional Manager of ICC Cleaning Services Ltd.

<sup>22</sup> County Caretaking and Cleaning Services Officer, Kent CC.

<sup>23</sup> Chairman, Education Committee, Kent CC; Chairman, Fire and Public Protection Committee, Kent CC; and County Caretaking and Cleaning Services Officer, Kent CC.

<sup>24</sup> Taken from the County Education Officer's Report to Kent CC's Education Committee, 10 October 1983.

<sup>25</sup> Audit Commission For Local Authorities In England And Wales (1984a) p47. See also Coombs (1983) p3.

<sup>26</sup> It is difficult to separate the arguments based on cost savings from the arguments founded on ideology in the ongoing debate on contracting-out, because proponents of contracting-out claim that the private sector can provide better services more cheaply than the public sector. See Adam Smith Institute (1982); Adam Smith Institute (1989) pp6-8; Banham (1985); Bennett & Johnson (1981); Beresford (1987); Butler (1985); Contract Cleaning And Maintenance Association (not dated (a)); Contract Cleaning And Maintenance Association (not dated (b)); Coombs (1983); Forsyth (1981); Forsyth (1982a); Forsyth (1982b); Forsyth (1983); Hartley & Hubby (1985); Minford, Savas & Mays (1985); Pirie (1981) pp14-15; Pirie (1985) pp43-50; Pirie

Conservative Group wanted to use the Council's own workforce if sufficient savings could be made.<sup>27</sup> In January 1984 the Council secured a draft agreement with the trade unions involved (most notably the National Union of Public Employees) which guaranteed the continued use of direct labour to clean schools on the condition that £1 million was 'saved' from the budget.<sup>28</sup>

There was, however, much disagreement between the Council and the trade unions about the ways in which this saving could be made, and as a result there was disagreement between the trade unions over their response to the Council's proposals. The Council proposed to make the savings by reducing the pay and conditions of service of its school cleaners.<sup>29</sup> The trade unions were concerned not only to protect the pay and conditions of employment of its members but also to protect their jobs. Furthermore, the National Union of Public Employees was committed to opposing any form of privatisation in its campaign to defend public services.<sup>30</sup> The trade unions felt they were

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(1988) pp140-156; Public And Local Service Efficiency Campaign (1989); Public And Local Service Efficiency Campaign (not dated); Ridley (1988); and Savas (1987).

<sup>27</sup> This preference corresponds generally to moves by many local authorities offering the recommended savings to their workers (see Ascher (1987) p244).

<sup>28</sup> See Draft Agreement Between Manual Workers And Kent County Council, February 1984. See also Contract Services (1984c).

<sup>29</sup> According to the Assistant Education Officer, the Council proposed to make savings by reducing the hours of work and bonus payments, and not the wage rates and holiday entitlements of its workforce.

<sup>30</sup> See Bickerstaffe (1985); and National Union Of Public Employees(not dated). This platform is perhaps as much to do with retaining its membership as about protecting public services because the trade union finds it more difficult to retain or recruit employees of private contractors to its membership. See Public Service Action (1985). The Government's privatisation policy is an attack

placed in an invidious position of having to reduce their members' conditions of employment in order to protect their jobs. As one trade union official put it, they were in a "no-win situation" because they were "invited to tender for our own jobs."<sup>31</sup> The trade unions reluctantly submitted a proposal which produced the required savings and was therefore acceptable to the Council.

However, on the day the Finance and General Purposes Sub-Committee, a sub-committee of the Education Committee, was to meet to award the contracts for cleaning schools the trade unions withdrew their tender. As a result the Council awarded the contracts to several private contractors. The Conservative Group was inclined to use direct labour if significant savings could be made, but were 'forced' to privatise school cleaning because there was no direct labour bid on the table. The Deputy Leader of the opposition Labour Group believed that the Conservative Group "didn't want to do it". The Chairman of the Education Committee claimed to have given informal assurances to the trade unions that the Council would continue to use direct labour even if the savings produced were slightly less than those produced by using private contractors.<sup>32</sup> This claim was disputed by some trade union officials who believed that no such assurance was ever given to the trade

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on public sector trade unions. See Ascher (1987) pp32-42, 97-134; Evans (1985) pp108-110; Forsyth (1982a); Halford (1983) p56; Painter (1991); Stoker (1991) pp218-219; and Walsh (1989a) pp33-34.

<sup>31</sup> Area Officer (2), National Union of Public Employees.

<sup>32</sup> The Deputy Leader of the Labour Group and both Area Officer (3) and Area Officer (4) of the National Union of Public Employees acknowledged this assurance was given to the trade unions.

unions.<sup>33</sup>

The trade unions withdrew their bid because of much infighting within their ranks. On one side, there was a view most forcefully expressed by one official of the National Union of Public Employees that there was no way trade unions representing direct labour could compete with private contractors, and that the Council would only repeatedly threaten to privatise school cleaning to trim the nationally negotiated pay and conditions of its workforce.<sup>34</sup> This faction believed, correctly as it turned out, that if school cleaning were privatised the private contractors would employ fewer cleaners on lower pay and conditions of employment.<sup>35</sup> It wanted therefore to make a

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<sup>33</sup> Area Officer (2), National Union of Public Employees; and Regional Organiser, General, Municipal, Boilermakers and Allied Trades Union.

<sup>34</sup> Area Officer (2), National Union of Public Employees. Following Stoker, many local authorities "have used threats of privatisation to re-establish firm control over their in-house staff and trade unions" ((1988) p187). See also Ascher (1987) pp244-245; Coombs (1983) p2; Kline (1983-4); Minogue & O'Grady (1985a) p49; Minogue & O'Grady (1985b) p89; Walsh (1991) pp111-113; and White & Palmer (1987).

<sup>35</sup> This view needs to be placed within the ideological battle raging between the vested interests of labour and business. On one side there is a (mainly left-wing) view that any financial savings accruing from contracting-out are largely the result of lower labour costs of providing services - see Ascher (1987) pp102-111, 209-246; Bartlett (not dated); Benlow, Ramage, French, Simmonds & Whitfield (1983); Benlow & Scott (1983); Bickerstaffe (1985); Centre For Public Services (1992); Community Action (1983) pp16-26; Douglas & Lord (1986) p47; Dunleavy (1986a); East Sussex Trade's Union (1984); Evans (1985); Greater London Council (1983); Halford (1982); Halford (1983); Hastings & Levie (1983); Kline & Mallaber (1986); Labour Research Department (1985); Labour Research Department (1986); LGIU Special Briefing (1993) p1; Minogue & O'Grady (1985a) pp40-41; Minogue & O'Grady (1985b) pp84-85; National Union Of Public Employees (not dated); National Union Of Public Employees (Kent) (1983); Painter (1991) pp218-219; Public Services Privatisation Research Unit (not dated) pp19-22; Services To Community Action And Trade Unions (1985);

stand against the Council's strategy, and urged members to withdraw their bid and organise industrial action.<sup>36</sup> On the other side, there was a view supported by the other trade union officials that the trade unions had to submit a tender in order to protect the jobs of their members, even if the pay and conditions of service of their members deteriorated as a result of winning the contract (because they would deteriorate even further if private contractors won the contract).<sup>37</sup> These two sides represented a fundamental dilemma facing trade unions in the competitive tendering process. Stoker argued:<sup>38</sup>

"In highly unionised and militant areas ... unions have refused to cooperate with management and attempted to use industrial action and public

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Services To Community Action And Trade Unions (1988); Services To Community Action And Trade Unions & Hillingdon Trade Union Support Unit (1985); Society Of Metropolitan Treasurers (1984); Sonnet (1985); Stoker (1988) pp173-191; Stoker (1991) pp205-229; Szymanski & Wilkins (1993); Trades Union Congress (1984); Walker & Moore (1983); Walsh (1989a) pp51-52; Whitfield (1992) pp268-278; Williams (1984); Wolman (1982a) p75; and Wolman & Peterson (1981) p795. On the other side there is a (mainly right-wing) view that financial savings are also the result of increased efficiency of private contractors - see Adam Smith Institute (1982); Adam Smith Institute (1989) pp6-8; Banham (1985); Bennett & Johnson (1981); Beresford (1987); Butler (1985); Contract Cleaning And Maintenance Association (not dated (a)); Contract Cleaning And Maintenance Association (not dated (b)); Coombs (1983); Forsyth (1981); Forsyth (1982a); Forsyth (1982b); Forsyth (1983); Knapp (1988); Minford, Savas & Mays (1985); Pirie (1981) pp14-15; Pirie (1985) pp43-50; Pirie (1988) pp140-156; Public And Local Service Efficiency Campaign (1989); Public And Local Service Efficiency Campaign (not dated); Ridley (1988); Royal Institute Of Public Administration (1984); Savas (1987); and Spann (1977).

<sup>36</sup> Area Officer (2), National Union of Public Employees.

<sup>37</sup> Area Officer (3), National Union of Public Employees; Area Officer (4), National Union of Public Employees; and Regional Organiser, General, Municipal, Boilermakers and Allied Trades Union.

<sup>38</sup> Stoker (1988) p187. See also Halford (1983) p56; and Painter (1991).



campaigning to oppose privatisation. In other areas unions have found themselves working to win the contract for in-house employees. Both strategies have major disadvantages. Unions run the danger of losing localised oppositional campaigns, while 'playing the contractual game' can lead to cooperation in a process of job cutting."

The trade unions in trying to formulate a response to the Council's invitation to tender for the contract were faced with the quandary - do they refuse the invitation and oppose any move to privatise school cleaning, but risk the work being contracted-out; or do they accept the invitation and compete against the private sector, and therefore trim the conditions of service of their members but if successful ameliorate the conditions of service compared to those in the private sector?

The more militant faction within the trade union ranks organised a series of meetings for members to reject the direct labour option, and to organise industrial action against the Council's wish to privatise school cleaning. This stance was opposed by the more moderate faction, but was "outmanoeuvred" by the militant faction.<sup>39</sup> One trade union official of the moderate faction accused the other faction of holding 'rigged' meetings "set up to say 'no'."<sup>40</sup> The turning point in this dispute came when the Council proposed that the bonus scheme of its cleaners should be further trimmed.<sup>41</sup> This proposal exposed the position of the moderate faction, and pushed the school cleaners into the militant camp. The trade unions were "not

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<sup>39</sup> Area Officer (3), National Union of Public Employees.

<sup>40</sup> Regional Organiser, General, Municipal, Boilermakers and Allied Trades Union.

<sup>41</sup> See Local Government Chronicle (1984a). This proposal may be construed as evidence that the Council always wanted to privatise school cleaning, but, according to the Council, this proposal was only a suggestion for discussion and not a firm offer.

prepared to talk about bastardising national agreements", and thus withdrew their tender and organised industrial action.<sup>42</sup>

On 23 February 1984 the Council decided to privatise school cleaning, and awarded the contracts to several companies - Cleaners Ltd, Provincial Cleaning Services Ltd, Automagic Cleaning Services Ltd, ICC Cleaning Services Ltd, and Andmarc Cleaning Services Ltd.<sup>43</sup> This decision was made amidst allegations of collusion between the private contractors in 'carving up' the contracts.<sup>44</sup> These allegations were denied by both the Council and the private contractors.<sup>45</sup> The Council almost by default was 'forced' to privatise school cleaning despite an abortive rescue bid

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<sup>42</sup> Regional Organiser, General, Municipal, Boilermakers and Allied Trades Union. The threatened industrial action never materialised save for a 'mass' lobby before the Council meeting at which the decision was made to privatise school cleaning (Area Officer (3), National Union of Public Employees; and Area Officer (4), National Union of Public Employees).

<sup>43</sup> See Contract Services (1984c). The contracts came into effect on a staggered basis - half the contracts began in June 1984, and the other half in September 1984 with the exception of the Tunbridge Wells contract which was later awarded to Pall Mall Cleaning Group Ltd. On the main private contractors operating in the public sector see Ascher (1987) pp54-96; Greater London Council (1983); Labour Research Department (1986); Public Services Privatisation Research Unit (not dated) pp48-49; Services To Community Action And Trade Unions & Hillingdon Trade Union Support Unit (1985); and Stephenson (1988).

<sup>44</sup> Regional Organiser, General, Municipal, Boilermakers and Allied Trades Union. See Hartley (1990) p195. Savas argued that these allegations are a predictable response of trade unions because "contracting is such a threat to the affected union that allegations of corruption are likely to be hurled in the heat of battle to sway the media and public" ((1987) p257).

<sup>45</sup> Senior Assistant, Education Department, Kent CC; Operations Director (2), Pritchard Services Group plc; Regional Manager, ICC Cleaning Services Ltd; and Secretary General, Contract Cleaning and Maintenance Association.

from the trade unions.<sup>46</sup> According to one trade union official, "politically it was a very easy to make a decision" to contract-out school cleaning because there was no direct labour tender.<sup>47</sup>

This outcome is widespread whenever trade unions have confronted this dilemma over competitive tendering. Ascher explained this dilemma:<sup>48</sup>

"The experiences of Gloucester and Wandsworth nicely illustrate two of the most difficult facts for the unions to accept. The first is that where they have cooperated in the tendering process ... they have frequently been successful in retaining the contract. Often the in-house bid has been selected over cheaper bids from private contractors, as was the case in Gloucester, suggesting that many authorities are still willing to pay a premium to retain direct control over their services. The converse has been equally hard for the unions to swallow. Where local branches have refused to cooperate with either efficiency reviews or with competitive tendering, they have rarely retained the service. In Bath, the unions' refusal to implement the efficiency review recommendations and to cooperate with tendering led directly to privatisation. As Bath's city engineer noted: 'The great tragedy of this thing is that if the men had followed the agreed route they would still be working for me.'"

In Kent CC, the Deputy Leader of the Labour Group acknowledged this dilemma and believed that "staff didn't need to be sacked". The choice facing the trade unions over the Council's decision to tender out school cleaning, it seems, was either to lose or to lose badly. They could either submit a competitive bid and accept a deterioration in their members' conditions of employment, or they could oppose the Council and probably see their members lose

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<sup>46</sup> Area Officer (3), National Union of Public Employees; and Area Officer (4), National Union of Public Employees.

<sup>47</sup> Regional Organiser, General, Municipal, Boilermakers and Allied Trades Union.

<sup>48</sup> Ascher (1987) pp244-245.

their jobs though some would be re-employed by the private contractors on worse terms of employment than if they had won the contract. In withdrawing their tender the trade unions paved the way for the Council to privatise school cleaning.

The Council made well over 2,000 school cleaners redundant.<sup>49</sup> The costs of redundancy payments and other costs of terminating its direct labour operations were borne by the Council's Efficiency Fund. This fund was set up by the Council in recognition that some cost-saving decisions incur short-term costs before yielding longer-term savings. Departments were able to borrow from this fund to finance the short-term costs of decisions, and then repay the 'loan' over a five-year period.<sup>50</sup> The Education Department borrowed over £1 million from the Efficiency Fund to finance the redundancy costs arising from the decision to contract-out school cleaning.<sup>51</sup> Many, but by no means all, of the redundant school cleaners were re-employed by private contractors.<sup>52</sup> The private contractors

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<sup>49</sup> See Kent CC's Public Relations Office, News Release: Private Contractors To Handle School Cleaning, 23 February 1984. See also Fretwell (1988) p23; and Trades Union Congress (1984) p16.

<sup>50</sup> Former Leader, Conservative Group, Kent CC; Chairman, Finance and Review Group, Kent CC; County Treasurer, Kent CC; Deputy County Treasurer, Kent CC; Assistant Director of Social Services, Kent CC; and Senior Assistant, Education Department, Kent CC.

<sup>51</sup> Former Leader, Conservative Group, Kent CC; Assistant Education Officer, Kent CC; and Senior Assistant, Education Department, Kent CC.

<sup>52</sup> The Chairman of the Education Committee believed that the private contractors were obliged to recruit the redundant school cleaners before recruiting other cleaners. However, this obligation was not written into the contract. The Regional Manager of ICC Cleaning Services Ltd said that his company employed over a half of their school cleaners from the former Council workforce. Cleaners Ltd wanted to recruit the former cleaners of the Council in order to minimise the disruptive effects of change, but later

were obliged to implement the 'Fair Wages Clause' which the Council incorporated into the contract to protect its former workforce. The contract stated:<sup>53</sup>

"The contractor shall pay rates of wages and observe hours and conditions of work not less favourable than those established for the trade or industry in the district where the work is carried out by machinery of negotiation or arbitration to which the parties are organisations of employers and trade unions...."

This nebulous clause had no statutory force.<sup>54</sup> As a result, private contractors were allowed to employ the redundant cleaners on lower pay and conditions of employment than those of the Council. At the time the County Caretaking and Cleaning Services Officer remarked that the cleaners' rates of pay had generally fallen from the nationally negotiated rate of £1.96 per hour to between £1.60 and £2.00 per hour

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admitted that this recruitment strategy was a mistake because of the poor relations between the cleaners formerly employed by the Council and the 'new' cleaners (Operations Director (1), Pritchard Services Group plc; and Operations Director (2), Pritchard Services Group plc). Andmarc Cleaning Services Ltd gave the redundant school cleaners "first consideration for continued employment by the company" (Contract Services (1984b) p26). Forsyth argued more generally that "there is usually an arrangement to give ex-council employees the first crack at the new jobs" ((1983) p17; see also Minogue & O'Grady (1985a) p42; Minogue & O'Grady (1985b) p86; Pirie (1985) p43; Pirie (1988) p142; and Savas (1987) p258).

<sup>53</sup> Taken from Kent CC's Cleaning Services In Educational Establishments: Conditions Of Contract, p8.

<sup>54</sup> County Caretaking and Cleaning Services Officer, Kent CC. The Fair Wages Resolution which governed wages of many public sector workers was rescinded in 1983. Though this resolution did not apply to local authorities "the vast majority of authorities have for many years included their own version of a fair wages clause in outside contracts" (Ascher (1987) p107; see also Minogue & O'Grady (1985a) p40). Furthermore, under the provisions of the Local Government Act 1988 this clause and certain other form of contract compliance are now outlawed because 'non-commercial matters' cannot be considered by local authorities in the process of compulsory competitive tendering, which encompasses school cleaning.

paid by the private contractors.<sup>55</sup>

The savings resulting from the decision to privatise school cleaning stem from the private contractors employing fewer cleaners on lower pay and conditions of employment than the Council. In February 1984 the County Education Officer estimated the savings that would be made from contracting-out school cleaning, which are reproduced in the table below.

Table 5.1: "Savings from Contracting-Out"

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>
	£	£	£	£
Total savings based on recommended tenders	925,650	1,389,760	1,389,760	464,110
<u>less</u>				
supervision costs	(109,500)	(127,000)	(107,100)	(29,870)
lump sum termination costs	(1,069,450)	-	-	-
<u>CASH FLOW</u>	(253,300)	1,262,760	1,282,660	434,240

Source: County Education Officer's Report to Kent CC, 23 February 1984

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<sup>55</sup> Area Organiser (2), National Union of Public Employees; Regional Organiser, General, Municipal, Boilermakers and Allied Trades Union; Operations Director (1), Pritchard Service Group plc; Operations Director (2), Pritchard Services Group plc; Marketing Director, ICC Cleaning Services Ltd; and Regional Manager, ICC Cleaning Services Ltd. See also Kline & Mallaber (1986) p2; National Union Of Public Employees (Kent) (1983); and Trades Union Congress (1984) p16. In general, contracting-out and the deterioration of the pay and conditions of employment hurt workers already lowly paid, and in cleaning, lowly paid women in part-time work. See Community Action (1984b) pp14-27; Minogue & O'Grady (1985a) p49; Minogue & O'Grady (1985b) p89; Services To Community Action And Trade Unions (1985) pp41-42; Stoker (1988) p188; Webster (1985a) pp30-32; and White & Palmer (1987) p45.

In the Council's revenue budget of 1984/85 £1 million was earmarked as the savings produced from the privatisation of school cleaning.<sup>56</sup> The Education Committee secured a sizable loan from the Council's Efficiency Fund to offset the costs of winding down the direct labour operations (eg redundancy payments), and thus was able to present the decision to contract-out the cleaning of schools as a significant spending reduction. The trade unions believed that this £1 million saving was a 'paper saving' because the real costs of privatisation were hidden by the contribution from the special fund.<sup>57</sup> The National Union of Public Employees argued:<sup>58</sup>

"We are told that the decision has been taken for "financial and not political" reasons. We are told that this is due to the financial prospects for 1984/85. But just how can this be true? Let us examine the arithmetic presented in the documents in front of the Committee:

"Savings" from privatisation: £1,300,000 to £1,600,000

Total cost of redundancy: £1,265,000 to £1,725,000

In fact, the total cost of redundancy could actually exceed the "savings" from privatisation by £425,000. So privatising school cleaning would cost Kent's ratepayers more money in 1984/85."

Below is a table summarising the many costings of 'savings' made by the Council's decision to privatise school cleaning.

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<sup>56</sup> More than twice this amount could have been saved if the Council had awarded the contracts to the companies submitting the lowest tenders (Assistant Education Officer, Kent CC).

<sup>57</sup> Area Officer (2), National Union of Public Employees; Area Officer (3), National Union of Public Employees; and Area Officer (4), National Union of Public Employees.

<sup>58</sup> National Union Of Public Employees (Kent) (1983) p7.

Table 5.2: Costings of 'Savings' of Contracting-Out  
School Cleaning, 1984/85

<u>Source</u>		<u>'Savings'*</u> £
(i)	Kent CC	1,000,000
(ii)	Kent CC (fund contribution excluded)	(253,300)
(iii)	NUPE (fund contribution excluded)	(425,000)
(iv)	Public Service Research Centre	1,100,000
(v)	Public Service Research Centre	1,389,760
(vi)	Public Service Research Centre	843,647
(vii)	<u>Contract Services</u>	800,000
(viii)	<u>Contract Services</u>	925,650
(ix)	<u>Local Government Chronicle</u>	1,389,760
(x)	<u>Local Government Chronicle</u>	1,000,000

\* 'Savings', unless otherwise noted, include the contribution from Kent CC's Efficiency Fund.

Source: (i) Kent CC's Revenue Budget And Capital Programme 1984-85, 16 February 1984, p10; (ii) County Education Officer's Report to Kent CC, 23 February 1984; (iii) National Union Of Public Employees (Kent) (1983) p7; (iv) Public Service Review (not dated (a)) p4; (v) Public Service Review (not dated (b)) p7; and Public Service Review (not dated (c)) p5; (vi) Public Service Review (not dated (d)) p6; (vii) Contract Services (1984a) p4; (viii) Contract Services (1984d) p34; (ix) Hardingham (1984) p706; and (x) Fretwell (1988) p23

This table above shows there is considerable dispute between the various bodies about the precise amount of money saved from using private contractors to clean schools in Kent. On one side, the trade unions (notably the National Union of Public Employees) argue that the decision to privatise school cleaning cost the Council more than if it had used direct labour. On the other side, the private contractors in the guise of the Public Service Research Centre claim that considerable savings resulted from the



privatisation.<sup>59</sup> In between these two sides, the Council realised that in the short term contracting-out incurred additional costs (eg redundancy payments), but beyond the short term it cut spending on school cleaning.

On the decision to privatise school cleaning the Chairman of the Education Committee stated:<sup>60</sup>

"We have stressed all along that we would only be interested in a scheme which would ensure that existing standards in our schools would be maintained or improved."

The Council had four weapons at its disposal to protect the standards of cleaning in its schools.<sup>61</sup> The first weapon was the specifications ('Specification Documents') laid down in the contract stipulating the standards with which the private contractors must comply.<sup>62</sup> According to the Chairman of the Education Committee these specifications were "very hard-nosed" designed to maintain existing cleaning standards in schools. One officer believed that the standards of cleaning laid down in the contract were of

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<sup>59</sup> The Public Service Research Centre maintained close links with the Public and Local Service Efficiency Campaign (PULSE), a body set up and financed by private contractors and potential private contractors to campaign for contracting-out in health and local authorities.

<sup>60</sup> Taken from Kent CC's Public Relations Office, News Release: Private Contractors To Handle School Cleaning, 23 February 1984.

<sup>61</sup> See Newman (1986).

<sup>62</sup> These specifications were drawn up by the Council after undertaking a work study exercise carried out by its own officers (Assistant Education Officer, Kent CC; County Caretaking and Cleaning Services Officer, Kent CC; Head, Computing and Management Services Unit, Kent CC; and Principal Performance and Investigation Officer, Computing and Management Services Unit, Kent CC). Also, Kent CC sent a team of officers to Cambridgeshire CC and Dudley MBC to learn from their experience of privatising school cleaning (Assistant Education Officer, Kent CC; and County Caretaking and Cleaning Services Officer, Kent CC). At the time Cambridgeshire CC was selling its contract at £200 (Assistant Education Officer, Kent CC).

a "more even standard than we had before" because standards had never been systematically set nor rigorously applied in schools.<sup>63</sup> The second weapon used was the appointment of several officers to monitor and supervise the cleaning of schools by private contractors, and to enforce the conditions of the contract upon the private contractors. The third weapon was the requirement upon head teachers of schools to complete fortnightly satisfaction notes ('Certificates of Satisfaction'). If head teachers were not satisfied, penalties would be extracted from private contractors, and in extreme cases the contract would be terminated.<sup>64</sup> The fourth weapon was the review of the contracts by the Council after three years. In fact, after this period the Council terminated all of the contracts, and as a result of the "lessons learned" from contract cleaning made "important changes in the conditions of contract and cleaning specifications."<sup>65</sup>

The Council regularly monitored the cleaning of its schools by private contractors. In June 1984 the Council found:<sup>66</sup>

"Reports indicate that the contract cleaning service in educational establishments in Dover and Gravesham Divisions is running much as would be expected at this stage, with some minor problems. There are some areas in the Shepway, Dartford, Swale and Maidstone Divisions where the

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<sup>63</sup> County Caretaking and Cleaning Services Officer, Kent CC.

<sup>64</sup> These satisfaction notes were based on the subjective and sometimes impressionistic judgements of head teachers. Head teachers were more likely to complain if cleaning standards were lower than those before privatisation than if the cleaning standards fell below those specified in the contract. Private contractors could appeal against decisions to fine them, and in "mitigating circumstances" the penalty may be waived (County Caretaking and Cleaning Services Officer, Kent CC).

<sup>65</sup> County Education Officer, Kent CC. Taken from a letter dated 25 August 1987.

<sup>66</sup> Taken from Kent CC's Public Relations Office, News Release: Contract Cleaning, 15 June 1984.

contractors had difficulty in recruiting staff.... The company with the contract for the Canterbury Division has had rather more serious recruitment difficulties for a minority of the establishments in that Division, and has, as a temporary measure, had to bus staff in from outside the area."

The Chairman of the Education Committee believed that the problems of privatising the cleaning of schools amounted to no more than "some teething troubles" with the exception of the Canterbury contract.<sup>67</sup>

In September 1984 the Council noted:<sup>68</sup>

"It would be fair to say that in ten of the Divisions, contract cleaning is working satisfactorily and in two of those 10 very well indeed. The contractors are having recruitment problems in parts of the Tonbridge and Malling and Sevenoaks Divisions in the West Kent area where the contracts started only last week.... The problem in Canterbury when they occurred last term received urgent and serious attention from the Authority and are currently being closely monitored."

In October 1984, a month later, the councillor, who largely pioneered the Council's move to privatise school cleaning, confirmed:<sup>69</sup>

"Of the 13 Divisions where contract cleaning is now in operation, we have significant problems in only three. The most difficult problem is still in the Canterbury Division."

In fact, because of the continuing problems with the Canterbury contract the Education Committee decided to terminate the contract with Provincial Cleaning Services Ltd, and award the contract instead to Automagic Cleaning

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<sup>67</sup> Taken from Kent CC's Public Relations Office, News Release: Contract Cleaning, 15 June 1984.

<sup>68</sup> Taken from Kent CC's Public Relations Office, News Release: Private Contract Cleaning, 14 September 1984.

<sup>69</sup> Taken from Kent CC's Public Relations Office, News Release: Contract Cleaning Of Schools And Colleges, 8 October 1984.

Services Ltd.<sup>70</sup>

In December 1984 the County Education Officer reported that "the general standard of cleaning is much the same as it was before contract cleaning started, with a better standard of cleaning in some and a worse standard in others."<sup>71</sup> By March 1984 the County Education Officer had overseen a more systematic survey of cleaning standards in the Council's schools. Below is a table summarising the findings of the survey.

Table 5.3: Survey of Standards of Contract Cleaning in Kent CC's Schools and Colleges

<u>Division</u>	<u>Schools satisfactorily cleaned</u>	
	<u>Pre-privatisation*</u>	<u>Post-privatisation**</u>
	%	%
Dartford	100.0	77.1
Gravesham	97.6	95.2
Medway	97.3	98.7
Gillingham	100.0	97.4
Swale	95.3	100.0
Canterbury	88.9	77.8
Dover	96.8	100.0
Thanet	97.0	97.0
Sevenoaks	87.0	87.0
Tonbridge and Malling	94.9	n/a
Maidstone	96.4	89.3
Ashford	100.0	92.8
Shepway	92.6	100.0
TOTAL***	95.9	93.6

\* As found in early 1984

\*\* As found in mid-January 1985

\*\*\* This total excludes the Tunbridge Wells Division, whose cleaning of schools was later privatised.

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<sup>70</sup> Taken from Kent CC's Public Relations Office, News Release: Private Contract Cleaning, 31 October 1984.

<sup>71</sup> Taken from County Education Officer's Report to the Finance and General Purposes Sub-Committee of Kent CC's Education Committee, 5 December 1984.

Source: Kent CC

Table 5.3 reveals there was "a very slight general deterioration in standards" of cleaning in the Council's schools and colleges.<sup>72</sup> This picture did not change significantly up to August 1987 when the contracts were terminated in favour of new-style contracts. The County Caretaking and Cleaning Services Officer wrote that "cleaning standards remained as they were...."<sup>73</sup> Though there was a slight improvement in the performance of private contractors cleaning standards were still lower than those before privatisation.<sup>74</sup> Overall, there was a general consensus within the Council that the privatisation of school cleaning led to a slight diminution of cleaning standards in its schools, though they varied widely between schools and between divisions.<sup>75</sup>

This view was largely shared by the local newspaper reporter covering the Council's affairs. In the beginning of contract cleaning there was a "fair bit of adverse press

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<sup>72</sup> County Education Officer, Kent CC. Taken from County Education Officer's Report to the Education Committee, 18 March 1985.

<sup>73</sup> Taken from a letter dated 25 August 1987.

<sup>74</sup> This improvement was measured by the gradual reduction of the amount of penalty deducted from the private contractors for unsatisfactory cleaning. At the start of contract cleaning the penalty rate was about four per cent of the total contract value (Assistant Education Officer, Kent CC). At the end of the contracts the penalty rate had fallen to less than three per cent (County Caretaking and Cleaning Services Officer, Kent CC - taken from a letter dated 25 August 1987).

<sup>75</sup> Chairman, Education Committee, Kent CC; and County Caretaking and Cleaning Services Officer, Kent CC.

coverage."<sup>76</sup> But over time the journalist believed "the change only led to a swings and roundabouts situation."<sup>77</sup>

Turning to the trade unions and private contractors, they not surprisingly painted very different pictures of the standards of cleaning in Kent's schools. On one hand, the trade unions were far more critical of the poor standards of school cleaning. The teachers' trade unions complained of "dirty" schools<sup>78</sup>; of "absolutely dreadful" standards of cleanliness in schools<sup>79</sup>; of "patchy" results<sup>80</sup>; and of privatisation leading to "a further fall in standards"<sup>81</sup>. The National Union of Public Employees was even more disparaging of the standards of contract cleaning in schools, and produced a booklet as part of the "Dirty, Disgraceful, And Disgusting" series on the privatisation of school cleaning in Kent.<sup>82</sup> It pointed out that the savings were made "by undercutting the rates of pay and conditions of school cleaners, and by reducing the service."<sup>83</sup> The trade unions also argued:<sup>84</sup>

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<sup>76</sup> County Caretaking and Cleaning Services Officer, Kent CC. For example, see P Balow, 'Dust flies in rumpus over school cleaning', Kent Messenger, 12 October 1984.

<sup>77</sup> Reporter, Kent Messenger Ltd.

<sup>78</sup> Honorary Secretary (Kent Federation), National Association of Schoolmasters and Union of Women Teachers.

<sup>79</sup> Honorary Secretary (Kent Branch), Assistant Masters and Mistresses Association.

<sup>80</sup> Honorary Secretary (Kent Division), National Union of Teachers.

<sup>81</sup> Convenor, Secondary Heads Association.

<sup>82</sup> See National Union Of Public Employees (Kent) (1983).

<sup>83</sup> National Union Of Public Employees (Kent) (1983) p8. See also Kline & Mallaber (1986) p2; and Trades Union Congress (1984) pp16-17.

<sup>84</sup> East Sussex Trade's Union (1984) p2.

"There is massive evidence of the failures of privatisation in Kent but the Council there is trying to cover up the real situation for political reasons to keep from the ratepayer the magnitude of their mistaken policy."

The trade unions were not impressed with the claims from the Council that money had been saved and that cleaning standards had fallen only marginally as a result of privatising school cleaning.

On the other hand, the private contractors believed that there were some 'teething problems' but as a result of the learning experience these problems had more or less disappeared, and that the standards of school cleaning had gradually improved.<sup>85</sup> Indeed private contractors blamed the poor specifications drawn up by the Council as the main cause of the initial problems of contract cleaning.<sup>86</sup> One private contractor complained that the contract specification "was not comprehensive enough to tackle the job."<sup>87</sup> The private contractors claimed that its cleaners were cleaning up to and even above the required standards laid down in the contract, but because these standards were not wholly accepted by the head teachers, complaints were made about the standards of cleaning rather than the standards of cleaning specified in the contract. Thus, the reduction of cleaning standards in schools was less about private contractors not fulfilling the contract specification but more about the lower standards of

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<sup>85</sup> Regional Manager, Provincial Cleaning Services Ltd; Operations Director (1), Pritchard Services Group plc; Operations Director (2), Pritchard Services Group plc; and Regional Manager, ICC Cleaning Services Ltd.

<sup>86</sup> Operations Director (1), Pritchard Services Group plc; Operations Director (2), Pritchard Services Group plc; and Regional Manager, ICC Cleaning Services Ltd.

<sup>87</sup> Operations Director (1), Pritchard Services Group plc.

cleaning specified in the contract.<sup>88</sup> Furthermore, a private contractor remarked that head teachers were far more aware of the cleaning of their schools because of its privatisation.<sup>89</sup> As a result of this heightened awareness they were more likely to inspect their schools more thoroughly, and find fault in their fortnightly satisfaction notes. The County Education Officer observed that because of "the advent of contract cleaning, attention has undoubtedly focussed [sic] more sharply on the cleanliness of educational establishments."<sup>90</sup> The same dust unnoticed before privatisation was noticed because of privatisation. The private contractors were not convinced they should be blamed for the decline of cleaning standards in schools. They cited the widely anticipated 'teething problems', the standards specified in the contract, and the increased attention upon school cleaning because of privatisation, as the key reasons for the slight reduction of cleaning standards.

Whether savings were made from privatising school cleaning and whether standards of school cleaning fell or not as a result of privatisation depends very much on whose side is taken - the Council, trade unions or private contractors.

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<sup>88</sup> Operations Director (1), Pritchard Services Group plc; Operations Director (2), Pritchard Services Group plc; and Regional Manager, ICC Cleaning Services Ltd. The two officers involved in drawing up the contract specification confirmed that the cleaning standards had been lowered as well as evened out in schools (Head, Computing and Management Services Unit, Kent CC; and Principal Performance and Investigation Officer, Computing and Management Services Unit, Kent CC).

<sup>89</sup> Regional Manager, ICC Cleaning Services Ltd.

<sup>90</sup> Taken from County Education Officer's Report to the Finance and General Purposes Sub-Committee of Kent CC's Education Committee, 5 December 1984. The Honorary Secretary (Kent Branch) of the Assistant Masters and Mistresses Association acknowledged that teachers were generally more aware because of the decision to contract-out the cleaning of schools.



The Council admitted there was a slight fall in cleaning standards in its schools, but justified this fall with the significant savings made from the privatisation of school cleaning. The trade unions wanted to defend the pay and conditions of employment of their members, and also to retain their membership. They, therefore, dismissed the claims that contract cleaning was cheaper than direct labour, and stressed the diminished standards of school cleaning arising from its privatisation. The private contractors wanted to win the contracts to make profit.<sup>91</sup> As a result, they had to deliver financial savings to the Council and clean schools to the standards specified in the contract. The private contractors claimed they cleaned schools not only cheaper but also better than direct labour.

This case study on the decision made by Kent CC to contract-out school cleaning provides a very useful form of disaggregated analysis of spending cuts in local government. The decision to privatise school cleaning was essentially made in order to cut spending. However, there was no agreement on how much money was saved by contracting-out school cleaning. The many calculations of how much was saved were tainted by the vested interests of the dominant actors - the ruling Conservative Group of Kent CC, the Education Department of the Council, the trade unions, and the private contractors. These dominant actors defended and promoted their interests. Their analyses of the case for and against contract cleaning, of the savings

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<sup>91</sup> Cleaners Ltd forecasted a 2½-4 per cent profit margin in its tenders for the contracts (Operations Director (1), Pritchard Services Group plc; and Operations Director (2), Pritchard Services Group plc). Other private contractors were reluctant to reveal their profit margins. However, the Secretary General of the Contract Cleaning and Maintenance Association, the trade body of contract cleaners, estimated that contracts generally contain a profit margin of between three to four per cent of the contract value.

yielded from contract cleaning, and the standards of contract cleaning were coloured by their material interests. Each actor interpreted and manipulated the evidence to suit its interests and masked its self-interest by pointing to wider benefits gained from its position.

### CUTTING BY PRIVATISING

Privatisation is a strategy reducing the role of government in society. According to Heald, privatisation is "an umbrella term for very many different policies, loosely linked by the way in which they are taken to mean a strengthening of the market at the expense of the state."<sup>92</sup> Privatisation encompasses a variety of methods including the sale of government assets, deregulation of public and private sector activities, buying of goods and services from the private sector and injection of private sector management techniques into the public sector.<sup>93</sup> More narrowly, Dunleavy defined privatisation as "the permanent transferring of service or goods production activities previously carried out by public service bureaucracies to private firms or to other forms of non-public organization, such as voluntary groups."<sup>94</sup>

The New Right have rallied under the banner of privatisation, and encouraged governments to experiment with privatisation. The Conservative Government has attempted to privatise local government as part of its

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<sup>92</sup> Heald (1983) p298. See also Savas (1987) p3; and Veljanovski (1987) p1.

<sup>93</sup> See Whitfield (1992) p129; and Young (1986).

<sup>94</sup> Dunleavy (1986a) p13.

wider privatisation programme.<sup>95</sup> One of the main forms of privatisation in local government is contracting-out.<sup>96</sup> Contracting-out involves the private sector providing goods and services to a public sector organisation. The public sector determines (usually in a contract) the goods and services to be provided, pays the private contractor to provide the goods and services, and retains responsibility for their provision to the wider public. Ascher wrote:<sup>97</sup>

"The term 'contracting out' describes the situation where one organisation contracts with another for the provision of a particular good or service. It is essentially a form of procurement, in the sense that contractors may be considered 'suppliers', but in common usage it has come to refer more specifically to the purchase of an end product which could otherwise be provided 'in-house' by the purchaser himself."

Many local authorities have contracted-out services to private contractors, especially since the advent of compulsory competitive tendering.<sup>98</sup> Contracting-out is widely regarded as a way of cutting costs in providing local authority services. Fiscal stress in local government precipitated the rise of contracting-out in local government. Ascher argued that "in both North America and Western Europe increasingly stringent financial constraints upon local authorities have focused attention upon the

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<sup>95</sup> See Ascher (1987) pp209-246; Cochrane (1993); Kingdom (1991) pp40-47; and Stoker (1991) pp205-229.

<sup>96</sup> Contracting-out needs to be distinguished from compulsory competitive tendering, which requires local authorities to compete with private contractors to carry out work in prescribed areas. Compulsory competitive tendering involves contracting-out only if private contractors win the contract.

<sup>97</sup> Ascher (1987) pp7-8. See also Minogue & O'Grady (1985a) p35; Minogue & O'Grady (1985b) p83; Pirie (1985) p43; Pirie (1988) p140; and Savas (1987) p68.

<sup>98</sup> For example, see Fretwell (1988); Hardingham (1984); Rallings & Thrasher (1989); Whitehead (1985); Whitehead (1986); and Whitehead (1987).

protected position of local authority workers and have stimulated interest in alternative methods of service provision."<sup>99</sup> Most local authorities, like Kent CC with school cleaning, contracted-out to reduce costs of service provision.<sup>100</sup>

However, it is very problematical to calculate accurately the extent of cost savings resulting from contracting-out of service provision. Marsh surveyed the many studies of contracting out and competitive tendering and concluded that their introduction "has led to significant cost savings", but noted that the studies "have major problems: different methods are used to calculate savings; often the studies assess expected savings rather than measuring actual ones; and sometimes the data are collected from interested parties, councils with an ideological commitment to privatize or even contractors who have won contracts".<sup>101</sup> These three problems were very evident in the case study on Kent CC's decision to contract-out school cleaning. Table 5.2 reveals eight different calculations of the 'savings' resulting from contracting-out of school cleaning in Kent, ranging from £1,389,760 'saved' to £425,000 'wasted'.

First, the calculations were based on different ways of measuring the cost savings. The Education Department borrowed money from Kent CC's Efficiency Fund, which was repaid over a period of five years. Most calculations excluded this fund contribution. Furthermore, the amount of 'savings' depended on the timescale of the measurement. If

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<sup>99</sup> Ascher (1987) p209. See also Chandler & Feuille (1991) p16; Hamer (1993); Kolderie & Humphrey (1982); Minogue & O'Grady (1985a) p49; Minogue & O'Grady (1985b) p89; and Savas (1987) p256.

<sup>100</sup> Halford (1983) pp55-56.

<sup>101</sup> Marsh (1991) p466. See also Kolderie (1987) pp9-10; and Savas (1987) pp258-262.

the fund contribution is excluded from the calculation, then, more money would appear to be 'saved' each year over a five-year period than a one-year period because in the first year of the contracts Kent CC incurred the costs of redundancy. Furthermore, a comparison of the cost of cleaning schools before and after privatisation must compare like with like. On contracting-out Kent CC changed the standards of school cleaning, thus making comparison difficult. The calculation of cost savings resulting from contracting-out is confounded by these methodological problems.<sup>102</sup>

Second, the measurement of cost savings accruing from contracting-out was further confounded by measuring estimated and not actual 'savings'. In chapter two it was argued that it is necessary to examine budgeted spending cuts because decisions to cut spending can be more easily identified and therefore analysed.<sup>103</sup> However, using budgeted savings runs the risk that they will not materialise, making their measurement invalid. With contracting-out this danger is minimised because the local authority, notwithstanding any extraordinary circumstances (eg contract termination), will pay no more than the bid of the successful private contractor. The budgeted savings are, therefore, the actual savings. Nonetheless, the local authority still incurs costs in monitoring the contract. Kent CC estimated that in the first three years costs of

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<sup>102</sup> See Hartley (1990) p190; Minogue & O'Grady (1985a) pp44-45; Minogue & O'Grady (1985b) pp86-87; Savas (1987) pp258-262; and Society Of Metropolitan Treasurers (1984) pp6-7. For a debate on the methodological difficulties in measuring the cost savings arising from contracting-out refuse collection in local government, see Audit Commission For Local Authorities In England And Wales (1984f) pp20-22; Bennett & Johnson (1981) pp43-47; Cubbin, Domberger & Meadowcroft (1987); Domberger, Meadowcroft & Thompson (1986); Domberger, Meadowcroft & Thompson (1988); Ganley & Grahl (1988); Szymanski & Wilkins (1993); and Walsh (1991).

<sup>103</sup> See chapter two, pp62-68.

supervising the school cleaning contracts would exceed over £100,000 each year.<sup>104</sup> For an accurate comparison before and after privatisation these costs must be included in the calculation.<sup>105</sup>

Third, most of the figures cited in table 5.2 were calculated by actors closely involved with the decision to privatise school cleaning. Kent CC, the National Union of Public Employees, and the contract cleaning industry (represented by its trade journal, Contract Services, and the Public Service Research Centre) had different interests, which explain why their costings varied. Kent CC wanted to ensure that the decision to contract-out school cleaning did yield savings, thus justifying its decision. The National Union of Public Employees, whose members lost out with the decision to privatise, wanted to expose the private contractors as being more expensive than direct labour. Private contractors wanted to demonstrate that the private sector is cheaper to drum up further business from local authorities. Minogue and O'Grady observed:<sup>106</sup>

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<sup>104</sup> See table 5.1.

<sup>105</sup> The bid submitted by the private contractor may reflect the costs incurred by the local authority, but not reflect the actual costs incurred by the private contractor. Marsh noted there was "little doubt that initial bids by private contractors were loss-leaders" ((1991) p466; see also Domberger, Meadowcroft & Thompson (1986) pp82-83; Forsyth (1983) pp15-16; Savas (1987) p262; Society Of Metropolitan Treasurers (1984) p23; Szymanski & Wilkins (1993) pp126-127; and Turner (1982) p1287). There was no evidence that Kent CC accepted 'loss-leader' bids from private contractors. The submission of 'loss-leader' bids is a strategy of winning contracts in the short term and getting the local authorities' workforces disbanded, thus reducing competition and paving the way for profitable bids to be submitted in the longer term. Their existence invalidates a true comparison of costs between a local authority and private contractor.

<sup>106</sup> Minogue & O'Grady (1985a) p45. They added that when "commitment to contracting out arises from strong ideological or political views it is doubtful whether a competent and unbiased verdict can emerge" ((1985a) p46).

"The decision to contract out is charged with highly emotional (and therefore political) overtones. It can be an all or nothing matter for members of the existing workforce under threat of redundancy. It can threaten the integrity of bureaucratic empires and the career advancement of those whose promotion is linked to the number of people they have working under them. Moreover the consequent publicity that surrounds any decision to go ahead and purchase service from another agent of supply, rebounds to the certain discredit of the purchaser should anything go wrong with the way the new service is managed. And things are likely to go wrong, especially at the time of change-over, since it takes time for any new contractor to get acclimatized to the precise requirements of the contract and of the locality."

Given so much at stake, local authorities, trade unions and private contractors distort the calculation of 'savings' resulting from contracting-out in order to defend their interests.<sup>107</sup> Furthermore, analysis by others more detached from contracting-out decisions (eg academics) are highly dependent on data supplied by vested interests.<sup>108</sup>

Kent CC contracted-out school cleaning to save money. Its decision yielded cost savings over the three-year term of the contract.<sup>109</sup> However, it is far more difficult to ascertain whether standards of school cleaning deteriorated during this period. Marsh claimed there "is considerable debate as to whether or not the standard of services has

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<sup>107</sup> See Halford & Wheen (1982) p9.

<sup>108</sup> Savas observed "many researchers rely on data that are easy to find instead of working hard to obtain the data they really should use" ((1987) p124).

<sup>109</sup> Table 5.2 reveals only two calculations suggesting that Kent CC incurred extra costs from contracting-out school cleaning. Both excluded the fund contribution, and therefore included the significant redundancy costs. If these costs were spread over the three years of the contract the decision to contract-out would yield cost savings of well over £2 million - see table 5.1.

declined as contractors cut costs".<sup>110</sup> The National Union of Public Employees and private contractors came to opposite conclusions. Kent CC monitored the performance of private contractors cleaning its schools and found a slight deterioration of school cleaning standards.<sup>111</sup> Their assessments were tainted again by their respective interests. They were not comparing like with like, since cleaning standards changed in the specifications laid down in the contract. Furthermore, the assessment of cleanliness is subjective. Kent CC relied largely on a few officers and its head teachers to assess the cleanliness of schools. Councillors, caretakers, pupils, parents, governors, ratepayers, local voters and cleaning 'experts' were not involved in assessing the cleanliness of schools, and if they were, would undoubtedly have different opinions.

Though contracting-out affected adversely, albeit unevenly and indeterminately, the cleaning standards in schools, the greatest impact of the decision to privatise school cleaning fell on the cleaners previously employed by Kent CC. They were sacked, and most of those re-employed by private contractors were recruited on lower pay and conditions. As a result of privatisation there were net job losses and lower wage bills for cleaning schools in Kent. The cost savings arising from the contracting-out of school cleaning derived largely from the reduced costs of employing labour.<sup>112</sup> As Minogue and O'Grady observed, "the

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<sup>110</sup> Marsh (1991) p466. Savas noted that "costs are generally easier to measure than service quality" ((1987) p123).

<sup>111</sup> See table 5.3.

<sup>112</sup> This finding corresponds to other studies of contracting-out - see Ascher (1987) pp102-111, 209-246; Dunleavy (1986a); Halford (1982); Halford (1983); Hartley & Hubby (1985); Minogue & O'Grady (1985a) pp40-41; Painter (1991) pp218-219; Society Of Metropolitan Treasurers (1984); Stoker (1988) pp173-191; Stoker (1991) pp205-229; Szymanski & Wilkins (1993); Walsh (1989a) pp51-52; Wolman (1982a) p75; and Wolman & Peterson (1981) p795. Even the



feasibility of securing gains from contracting out is in many ways closely associated with a situation of high unemployment and low economic growth".<sup>113</sup> Unemployment and low economic growth created greater downward pressures on labour costs in the contract cleaning industry where pay and conditions are negotiated locally than in local authorities where pay and conditions were nationally negotiated. The pay of cleaners employed by private contractors tended to be lower than those employed by local authorities. In times of unemployment the supply of cleaners greatly exceeds the demand for cleaners. Private contractors were able to employ cleaners on lower pay, and offer significant cost savings to local authorities. The school cleaners and trade unions realised that outright opposition to Kent CC's decision to tender out school cleaning by striking or not submitting a bid would push Kent CC to privatise school cleaning and lead to redundancy and lower pay and conditions.

Jørgensen argued "organizations vary with regard to their chances of shoving costs and problems on to others."<sup>114</sup> Kent CC exported spending cuts to its school cleaners, who felt the full brunt of their effects with redundancy, lower pay and conditions if recruited by the private contractors,

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New Right recognise that lower labour costs contribute towards the cost savings of contracting-out (see Forsyth (1983)). These cost savings may disappear if the Government is forced to concede that the European Community's Acquired Rights Directive, protecting the conditions of employment of workers involved in a transfer of an undertaking, applies to undertakings transferred from the public to the private sector (eg contracting-out of local authority services) - see LGIU Special Briefing (1993).

<sup>113</sup> Minogue & O'Grady (1985a) p38. See also Minogue & O'Grady (1985b) p84.

<sup>114</sup> Jørgensen (1987a) p199. See also Jørgensen (1987b) p22.

and possible unemployment if not recruited.<sup>115</sup> Much attention has been paid to the widely observed cutback management strategy of transferring spending cuts to another actor's budget.<sup>116</sup> Less attention has been paid to precisely where the spending cuts are transferred. There is no gain for an organisation making spending cuts by cutting another organisation's budget if the recipient organisation can retaliate. Kent CC cut its school cleaning budget by sacking its school cleaners and privatising school cleaning. The cleaners were in a weak position to retaliate because they provided a support service largely invisible to the wider public (eg parents of school children). They had few defenders. Furthermore, the trade unions representing the cleaners were divided and withdrew their bid to win the school cleaning contract. Kent CC exported the spending cut to its cleaners, most of whom received lower wages when employed by the private contractors. Wolman and Peterson predicted when spending cuts are made "services will be maintained, to the extent possible, at the expense of ancillary and support functions."<sup>117</sup> They added:<sup>118</sup>

"Departments ... cut back on activities considered "frills" which have low visibility and weak political support."

Kent CC regarded school cleaning as a 'frill', where

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<sup>115</sup> The redundant school cleaners, if unemployed, increased the demands placed on budgets of other government agencies, such as the then Department of Health and Social Security and even the Social Services Department within the same local authority (see Rhodes (1985a) p35).

<sup>116</sup> See Glennerster (1980a) p375; Glennerster (1981) p186; Jordan (1987) p16; Levine, Rubin & Wolohojian (1981b) p190; Pinkham & Platt (1980) p21-22; Rosenberg (1985a) p67; Wolman & Davis (1980) pp17, 52-53; and Wolman & Peterson (1980) p77.

<sup>117</sup> Wolman & Peterson (1980) p78. See also Wolman (1983) p259.

<sup>118</sup> Wolman & Peterson (1981) p813. See also Wolman (1983) p259.

slightly lower standards of school cleaning were acceptable provided contracting-out produced substantial cost savings.

The costs of contracting-out school cleaning were borne largely by the school cleaners. Dunleavy argued:<sup>119</sup>

"It is perfectly consistent with the general bureau-shaping motivation that policy-level staffs in almost all types of agency should co-operate in shedding low-level or routine functions to contractors. After all, what does it matter to senior bureaucrats who changes the towels in the office washrooms, so long as they do get changed and they do not have to engage in delicate industrial relations negotiations with the washroom attendants?"

He argued that senior bureaucrats, contrary to the budget-maximisation thesis, are not concerned to protect all of their organisation's budget because their welfare is not dependent on large parts of the budget.<sup>120</sup> Dunleavy maintained:<sup>121</sup>

"... the pursuit of privatization affords great unprecedented opportunities for policymakers in delivery agencies to effect radical transformations in their agency's character and status. An increasing shift to a control agency format effectively insulates policy-level staff from reliance on continued high levels of budget appropriations in order to maintain their welfare levels. The costs of privatization are borne overwhelmingly by rank and file state workers, whose job security, hours of work, working conditions, access to union protection, and wage rates may all come under drastic downward pressure. Equally, policy-level bureaucrats have little to lose if there are qualitative changes in service provision, service standard reductions or decreased public or consumer control over the format of service provision as a result of privatization. These costs are born [sic] chiefly

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<sup>119</sup> Dunleavy (1986a) p21.

<sup>120</sup> On the budget-maximising model see Blais & Dion (1991); Dunleavy (1991) pp147-173, 210-248; Niskanen (1971); Niskanen (1973); and Niskanen (1975). On the bureau-shaping model see Dunleavy (1985); and Dunleavy (1991) pp174-248.

<sup>121</sup> Dunleavy (1986a) p21.

by consumers and service recipients."

By contracting-out school cleaning Kent CC moved, albeit slightly, from a delivery agency to a control agency. It no longer cleaned schools, but controlled private contractors that cleaned schools. The school cleaners were thus vulnerable to cuts imposed on them by senior officers and councillors. The cleaners made redundant by Kent CC's decision to contract-out school cleaning were largely women, poorly educated and trained, and unskilled. They were mainly working class women. Dunleavy suggested that privatisation "advances the (class) interests of central and policy-level officials at the expense of job losses and worsened conditions of rank and file state workers."<sup>122</sup> Webster observed that women "are likely to be the most affected by cuts in jobs and services which result from reductions in local authority spending."<sup>123</sup> She argued that spending cuts fall in areas where women occupy lowly paid, routine and unskilled jobs in local authorities.

This case study on school cleaning supports neither the observation that spending cuts are "made within departments in a manner that minimizes the loss of employment for existing employees"<sup>124</sup>, nor the claim that "bureaucrats prefer to identify new projects and policies in which staffing is maximized."<sup>125</sup> The case study lends support to the argument that contracting-out "must be seen as a

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<sup>122</sup> Dunleavy (1986a) p31. More generally Dunsire and Hood maintained that "blue-collar workers suffered more than white-collar workers during the recent retrenchment" in central government ((1989) p107).

<sup>123</sup> Webster (1985) p19. See also Edgell & Duke (1983); Hunt (1987); and Turner (1979).

<sup>124</sup> Wolman & Peterson (1980) p80.

<sup>125</sup> Blore (1987) p82. Furthermore, Boyne found the staff-maximisation model to be "without empirical foundation" in local government ((1987) p100). See also Boyne (1986); Boyne (1989); Boyne (1991); Gibson (1988); Gibson (1990); and Gibson (1991).

continuation of the strategies already well developed by senior policy-level bureaucrats for advancing their class (and frequently gender) interests against those of rank and file state workers and service consumers."<sup>126</sup> The examination of Kent CC's decision to privatise school cleaning reveals that class and gender politics were significant in its making.

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<sup>126</sup> Dunleavy (1986a) p30.

PART C: EXPLAINING THE SCENE

CHAPTER SIX

CUTBACK MANAGEMENT IN LOCAL GOVERNMENT: A RATIONALIST VIEW .

Many theories of cutback management have been put forward to explain how organisations manage in hard times.<sup>1</sup> There are essentially two dominant decision-making paradigms within which these theories of cutback management have been developed. They are the rationalist and incremental models of decision-making. These models have dominated the literature on decision-making.<sup>2</sup> As making cuts involves hard decisions it is not surprising the two models have also dominated the literature on cutback management. It is therefore necessary to test these two models of cutback management to examine how plausible they are in explaining the making of spending cuts in local government. This chapter will examine the rationalist model, and the next chapter the incremental model of cutback management. These two models will be tested by applying them to the empirical findings outlined in the chapters three, four and five. The aim of the chapter is to develop and test the rationalist model of cutback management. In the chapter the rationalist model of decision-making will be explored to identify a series of rationalist traits of cutback management. These traits will be examined to see whether they were displayed in the way the four local authorities - Bedfordshire CC, Kent CC, Knowsley MBC and Stockport MBC - made spending cuts. This examination will be used as the basis for constructing and surveying a rationalist theory of cutback management in local government.

#### RATIONALIST MODEL OF DECISION-MAKING

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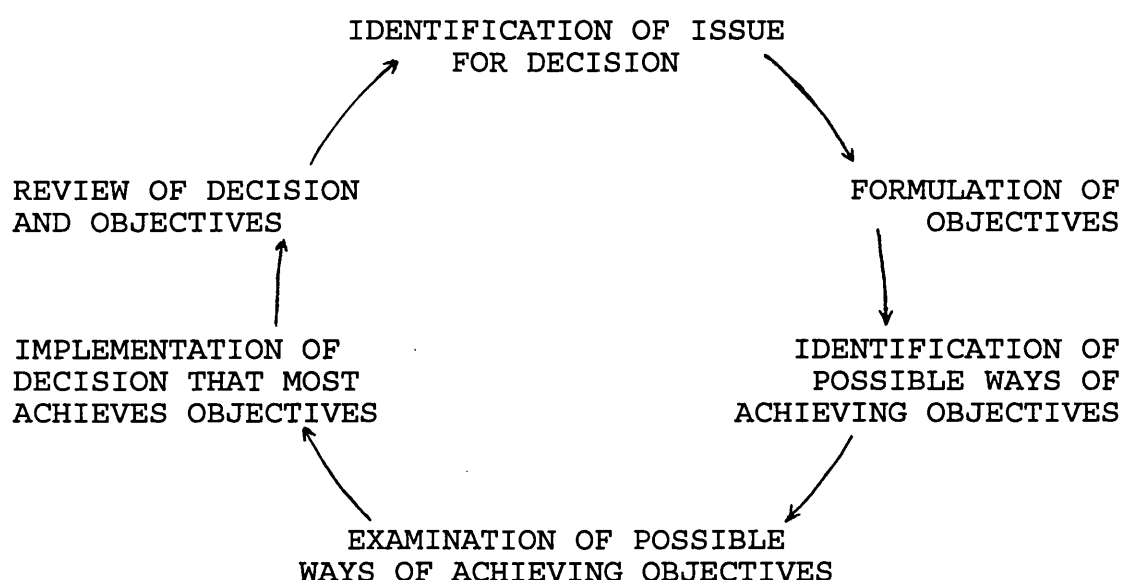
<sup>1</sup> See chapter four, footnotes 5, 8, and 15.

<sup>2</sup> See Braybrooke & Lindblom (1970); Burch & Wood (1989) pp24-33; Elcock, Jordan & Midwinter (1989) p10; Frohock (1979) pp23-63; Ham & Hill (1993) p80; Hogwood & Gunn (1984) pp42-64; Hudson (1992) pp195-196; Ibrahim & Proctor (1992b) p50; Leach (1982) p6; Lindblom (1959); Lindblom (1965); Manzer (1984); and Smith & May (1980) p147.



The rationalist model of decision-making involves the making of a decision in an analytical and comprehensive manner. The model, according to Haynes, "is founded on the need for regular comprehensive analysis".<sup>3</sup> It is widely portrayed as a series of cyclical stages through which a decision is made.<sup>4</sup> The diagram below outlines the stages of the rationalist model of decision-making.

Diagram 6.1: Rationalist Model of Decision-Making



The rationalist model of decision-making is built upon the foundations of analysis, and in particular, means-ends

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<sup>3</sup> Haynes (1980) p103. See also Braybrooke & Lindblom (1970) p38; and Lane (1993) p74.

<sup>4</sup> See Allison (1971) pp29-30; Banfield (1962) pp71-73; Booth (1988) p4; Brown & Steel (1979) pp177-178; Burch & Wood (1989) pp24-27; Dahl (1991) pp140-141; Dror (1968) pp132-141; Haynes (1980) p78; Hogwood & Gunn (1984) p45; Ibrahim & Proctor (1992a) pp14, 25; Jackson (1982b) pp88-91; Jordan & Richardson (1987) pp9-10; Lindblom (1965) pp137-138; Richardson & Jordan (1985) p19; Smith (1976) pp33-38; Spiers (1975) pp144-150; Stewart (1971) p30; and Thompson & McEwen (1958) p25.

analysis.<sup>5</sup> In the rationalist camp Self argued this model yielded three different though related meanings of rationality. He wrote:<sup>6</sup>

"First, it stands for the notion of reflection as a prelude to action. Instead of acting upon hunch, the decision-maker should analyse the situation carefully, consider alternative options, list their pros and cons, and so on.... Secondly, rationality is an instrumental value concerned with the maximisation of some goal or the application of some value judgement.... Finally, rationality stands sometimes for a principle of harmony between conflicting aims or values.... At a more mundane level this sense of rationality is expressed as the popular idea of 'reasonableness'."

The rationalist model of decision-making assumes the ends to be achieved are determined, and then the means to achieve these desired ends are decided upon. The model involves the setting of goals, objectives and priorities, and the making of the decision that most achieves the given ends. The Bains Committee, reporting on management in local authorities, believed "policy decisions should be based on planning and analysis of objectives and the means of attaining them."<sup>7</sup>

The rationalist model of decision-making is also built upon the foundations of comprehensiveness. It assumes there is a comprehensive pool of knowledge, resources and time from which the decision-maker can make a decision. According to Lindblom, "rational-comprehensive analysis leaves out nothing important."<sup>8</sup>

The rationalist model thus assumes a decision is made on

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<sup>5</sup> See Greenaway, Smith & Street (1992) p15; and Lane (1993) p210.

<sup>6</sup> Self (1975) pp196-197.

<sup>7</sup> Department Of The Environment (1972) p12.

<sup>8</sup> Lindblom (1959) p84. See also Braybrooke & Lindblom (1970) p39.

the basis of comprehensive analysis. The decision is analytically and comprehensively designed to achieve desired purposes. Analysis and comprehensiveness are therefore the critical traits of the rationalist model of decision-making. However, this model has been refined in response to the limitations to its application, of which there are two significant limitations.

The first limitation refers to the assumption built into the rationalist model that there are objective criteria by which the ends can be formulated and the means designed to achieve the ends examined. In his attack on the policy sciences Fay pointed to "the difficulty of drawing a sharp and enduring distinction between what is an end and what is a means", and argued "every means is an end relative to the means required to achieve it, so that any given course of action may be either a means or an end depending upon the point of view which one adopts."<sup>9</sup> Likewise, Dunleavy argued that "the essential relativism of any means/end distinction makes this ideal incapable of realisation; any given 'means' for one set of actors or interests may always involve their consideration as 'ends' by some other actor."<sup>10</sup> The distinction between means and ends is an artificial abstraction of reality existing in the minds of only those making the distinction.<sup>11</sup> Oakeshott believed:<sup>12</sup>

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<sup>9</sup> Fay (1975) p51. See also Braybrooke & Lindblom (1970) pp51-57; Dahl & Lindblom (1976) pp26-27; Hogwood & Gunn (1984) pp48-49; Jackson (1982b) p106; Lane (1993) pp210-211; Lindblom (1959) pp81-84; Lindblom (1965) pp139-143; Self (1975) pp150-151; Simon (1957a) pp62-66; and Smith (1976) p142.

<sup>10</sup> Dunleavy (1980) p165.

<sup>11</sup> Furthermore, Oakeshott argued that an end cannot be formulated in advance of the means necessary to achieve it ((1962) pp1-36, 80-136). The rationalist model of decision-making presupposes that an end can be formulated in advance of the means necessary to achieve it. But he believed that if indeed an end can be constructed it can only flow from the available means, and that the means cannot therefore, as rationalists believe, spring from the given end.

"In political activity, then, men sail a boundless and bottomless sea; there is neither harbour for shelter nor floor for anchorage, neither starting-place nor appointed destination."

Notwithstanding this important philosophical argument that there may be no objective criteria upon which to construct these ends and means, the assumption has to be also challenged on practical grounds. A single decision-maker may be able to calculate criteria to make a decision, but several decision-makers together will find it more difficult if not impossible to agree upon the criteria by which a decision can be made. Spiers argued:<sup>13</sup>

"... one could say that politics tends to limit rationality in group decision-making, because (even assuming rationality on the part of persons) each person tends to have different preferences and preference ratings, so that the combined decision tends to consist in the reconciliation of these differences."

For the rationalist model to be practicable there must be

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Oakeshott argued vehemently that it "is an error to call an activity 'rational' on account of its end having been specifically determined in advance and in respect of its achieving that end to the exclusion of all others, because there is in fact no way of determining an end for activity itself; and if there were, the spring of activity would still remain in knowing how to act in pursuit of that end and not in the mere fact of having formulated an end to pursue" ((1962) p91). He noted that a "cook is not a man who first has a vision of a pie and then tries to make it; he is a man skilled in cookery, and both his projects and his achievements spring from that skill" ((1962) p91).

<sup>12</sup> Oakeshott (1962) p127.

<sup>13</sup> Spiers (1975) p146. See also Booth (1988) p5; Braybrooke & Lindblom (1970) pp23-36; Brown & Steel (1979) p175; Dahl & Lindblom (1976) p83; Jackson (1982b) pp105-108; Self (1975) p150; Simon (1957a) pp70-73; and Smith (1976) p142. Furthermore, collective action problems may result when more than one decision-maker makes a decision. McLean noted that a collective action problem is "any situation in which players' individually rational actions lead to an outcome which could have been bettered if players had chosen differently" ((1991) p500; see also Dowding (1991) pp84-114; and Dunleavy & O'Leary (1987) pp79-82).

agreement between decision-makers on the criteria by which the ends and means are formulated. However, given there can be only subjective criteria by which decisions are made it is very unlikely that decision-makers, possessing different preferences and representing different interests, can easily agree on the criteria to be used to make a decision. Simon illustrated this clash of rationalities between decision-makers when he wrote:<sup>14</sup>

"... in terms of what objectives, whose values, shall rationality be judged? Is behavior of an individual in an organization rational when it serves his personal objectives, or when it serves the organizational objectives? Two soldiers sit in a trench opposite a machine-gun nest. One of them stays under cover. The other, at the cost of his life, destroys the machine-gun nest with a grenade. Which is rational?"

Decision-makers must agree upon the ends to be achieved and the means to achieve the given ends, without which the rationalist model of decision-making is severely limited.

The second limitation concerns the high degree of comprehensiveness assumed by the rationalist model of decision-making. Decision-making resources are scarce, which drastically limits the degree of comprehensiveness that can be achieved in making a decision. A decision-maker may not have sufficient knowledge, money or time to analyse a complex set of objectives, all ways of achieving the objectives and every consequence of a decision.<sup>15</sup> In the words of Simon:<sup>16</sup>

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<sup>14</sup> Simon (1957a) p76. See also Ham & Hill (1993) p81.

<sup>15</sup> See Braybrooke & Lindblom (1970) pp48-50; Hogwood & Gunn (1984) pp50-52; Ibrahim & Proctor (1992a) p15; Lindblom (1959); Lindblom (1965) pp138-139; Lindblom (1979) p518; March & Simon (1993) pp157-192; Simon (1957a) pp68-70, 80-84; Wildavsky (1964) p146; Wildavsky (1967) pp121-123; and Wildavsky (1986) p10.

<sup>16</sup> Simon (1957a) p81. See also Booth (1988) p6; Braybrooke & Lindblom (1970) pp32, 50-51; Dahl & Lindblom (1976) pp59-64; Frohock (1979) pp50-51; Greenaway, Smith & Street (1992) p21; Ham & Hill (1993) p82; Hogwood & Gunn

"Rationality implies a complete, and attainable, knowledge of the exact consequences of each choice. In actuality, the human being never has more than a fragmentary knowledge of the conditions surrounding his action, nor more than a slight insight into the regularities and laws that would permit him to induce future consequences from a knowledge of present circumstances."

Decision-makers must sacrifice a degree of comprehensiveness because of scarce decision-making resources. This sacrifice represents another significant limitation in the application of the rationalist model of decision-making.

These two limitations upon the rationalist model over the degree of analysis and comprehensiveness that can be achieved have been widely acknowledged by both its proponents and opponents. Rationalists have refined the model in response to these limitations.<sup>17</sup> Leach argued the "appropriate response to these criticisms is not to reject the model per se, but to accept the boundedness of rationality and to be prepared to use the rational model flexibly."<sup>18</sup> The refined model, according to rationalists, captures a limited form of rationality. They concede readily the rationalist model of decision-making cannot be applied perfectly, but maintain the model can be applied in a limited way. The decision-maker should, and indeed often

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(1984) p48; Ibrahim & Proctor (1992a) p12; Lindblom (1965) p139; Smith (1976) pp160-173; Spiers (1975) pp145, 151; and Weiss & Woodhouse (1992) p256. Limited information available to decision-makers is compounded by risk and uncertainty where "the outcomes of some or all available actions depend on unpredictable chance events" (Harsanyi (1977) p8; see also Dahl (1991) p141; Heath (1976) pp7-18, 75-90; Jackson (1982b) pp101-102, 112-118; and Simon (1976) pp133-135, 142-144). Following Harsanyi, the rationalist model "is largely restricted to the case of certainty" ((1977) p8).

<sup>17</sup> For example, see Dror (1964); Dror (1968); Etzioni (1967); Leach (1982); March (1986); and Simon (1957a).

<sup>18</sup> Leach (1982) p7.

does, follow the steps of the rationalist model as far as possible given the limitations. This limited application of the rationalist model constitutes "bounded rationality".<sup>19</sup> Simon argued the theory of bounded rationality is concerned with "the behavior of human beings who satisfice because they have not the wits to maximize."<sup>20</sup> Leach recommended "the idea of selective rationality" which makes the rationalist model "more feasible".<sup>21</sup> This view of bounded rationality is the closest and practical approximation to the application of the rationalist model of decision-making. It still recognises that analysis and comprehensiveness are integral components of decision-making, but 'satisfices' rather than optimises the level of analysis and comprehensiveness involved in decision-making.

Given this outline of the rationalist model of decision-making it is possible to construct a rationalist model of cutback management in local government. Cutback management in local government would be portrayed by a high degree of analysis and comprehensiveness. In particular, it would be characterised by the following series of rationalist traits:

(a) a local authority would calculate its reduced provision of resources, and assess the effects upon its policies and plans

(b) a local authority would review and reformulate its objectives in light of its declining resources

(c) a local authority would explore a wide range of options to achieve its refined objectives

(d) a local authority would examine the consequences of its cutback options

(e) a local authority would implement the package of cuts which minimises the harmful effects and

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<sup>19</sup> Simon (1957a) pxxiv.

<sup>20</sup> Simon (1957a) pxxiv.

<sup>21</sup> Leach (1982) p13.

maximises the beneficial effects upon its objectives

(f) a local authority would plan its future resource levels, service demands and policy objectives

(g) a local authority would set up centralised reviews to formulate, coordinate and oversee its cutback management strategy

(h) a local authority would rely on expert advice in making and implementing its package of cuts

These traits stem directly from the rationalist model of decision-making, and thus constitute the rationalist model of cutback management in local government. If these traits are found in local authorities, the rationalist view of cutback management is an applicable and plausible way in which to understand the making of spending cuts in local government.

#### RATIONALIST MODEL OF CUTBACK MANAGEMENT

The rationalist model of cutback management, as delineated by the above set of cutback management traits, will be examined to measure the extent to which the four local authorities cut spending in a rationalist manner.

(a) A LOCAL AUTHORITY WOULD CALCULATE ITS REDUCED PROVISION OF RESOURCES, AND ASSESS THE EFFECTS UPON ITS POLICIES AND PLANS

Budgeting in the four local authorities was essentially a resource-led exercise. Each of the four local authorities constructed a base budget, which is the proposed amount of money required to carry out the existing policies of the local authority. The base budget of the local authority is



its previous budget plus the changes in the cost of maintaining existing services. It is largely a standstill budget.

Each local authority then considered the financial implications of its base budget. In particular, the local authorities examined the amount of money they would receive in central government grant, and the amount they needed to raise in rates if they were to continue providing their present level of services. At this stage the local authorities tentatively decided upon how much they wanted to spend on services. These decisions were based more on resource than service considerations. The local authorities wanted to see what money was available to spend before deciding what spending was needed to provide services.

All four local authorities set a ceiling below which their rates (or precepts) were to be kept; and three of the four local authorities wanted to keep their spending at or close to central government's expenditure target in order to protect their grant entitlements.<sup>22</sup> The four local authorities wanted to maximise central government grant and minimise their rate bills. These two concerns over financial resources outweighed the concern to protect and develop services.

Budget-making was resource-driven in the four local authorities. In Bedfordshire CC both the Conservative and Liberal Groups wanted to limit the precept increase, and to keep spending within two per cent of central government's expenditure target. In Kent CC the ruling Conservative Group wanted to keep the precept increase below the inflation rate, and spending within one per cent of target. In Knowsley MBC the ruling Labour Group wanted a single-figure rates increase, and its spending no more than four

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<sup>22</sup> Knowsley MBC exceeded the expenditure target set by central government.

per cent over target in the hope of avoiding rate-capping. In Stockport MBC the ruling Conservative Group wanted to keep the rates increase below the inflation rate, and spending at target. All four local authorities determined their capital programmes according to their block allocations from central government, their capital receipts from the disposal of assets, and the revenue consequences of proposed capital schemes. Budgets, therefore, were set according to the level of resources available to the local authorities and not to the level of service provision preferred by the local authorities. Hender observed that local authority services were "tailored to meet financial constraints".<sup>23</sup>

Local authorities had access to a variety of financial resources (eg rates, charges, government grants, loans and capital receipts), which could be utilised to provide services. However, local authorities were subject to considerable government controls and other outside pressures which significantly limited their access to these resources. The resources available to local authorities were limited by central government in the form of grant penalties and rate-capping on the revenue side, and block allocations and restrictions on the use of capital receipts on the capital side. The availability of resources was also limited by other outside pressures, most notably local ratepayers and business. These pressures, however, were often anticipated rather than actually felt by the four local authorities. For example, the Liberal Group of Bedfordshire CC did not want to increase the precept because of the anticipated adverse consequences of such an increase upon its electoral fortunes. The Conservative

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<sup>23</sup> New Society (1984) p264. This resource-led form of budgeting corresponds closely to findings of other studies of local authority budgeting. See Elcock (1991) pp114-117; Elcock & Jordan (1987); Elcock, Jordan & Midwinter (1989); Greenwood (1979); Greenwood (1983); and Greenwood, Hinings, Ranson & Walsh (1976).

Group of Stockport MBC wanted to hold down the level of rates because of the anticipated benefits in attracting business to Stockport (as opposed to Manchester).<sup>24</sup>

As a result of these outside controls and pressures the four local authorities decided to limit their spending. This widespread concern largely outweighed any attempt to calculate how much spending was needed to provide a desired range of services. The decisions on how much to spend on each service followed the decision on how much to spend in total on services. In the four local authorities the concern to limit spending unleashed a round of spending cuts. Three local authorities, though not Stockport MBC, wanted to cut spending lower than their base budget. At this stage they knew that there would be service implications of their chosen budget strategies.

The Bains Committee argued that fiscal stress "has ... led to more attention being paid to monitoring and review by restricting the resources available for growth."<sup>25</sup> Contrary to this observation, the concern of the four local authorities to limit spending preceded any analysis of service provision. Furthermore, there was no wholesale analysis of the effects upon service provision at the time of their decisions to limit spending. For example, in Bedfordshire CC the management team of chief officers undertook the cost-cutting 'Getting Down To GREA' exercise which formed the basis of many of the spending cuts identified in the budget of 1984/85, but this exercise took place two years before the adoption of this budget. In Knowsley MBC the 'lower expenditure options' exercise generated some of the spending cuts in its revenue budget of 1984/85, but the Chief Executive and the Borough Treasurer were required to rescue this exercise when it

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<sup>24</sup> Leader, Conservative Group, Stockport MBC.

<sup>25</sup> Department Of The Environment (1972) p14.

failed to deliver sufficient spending cuts.

There are two general features that need to be stressed about the way the four local authorities analysed the effects upon service provision of the proposed rounds of spending cuts.

First, whatever analysis was undertaken took place at the departmental not the corporate level. This level of analysis reflects the dominant position of professionalism in local government.<sup>26</sup> Despite the rise of corporate management in the late 1960s and 1970s and the emergence of consumerism in the 1980s and early 1990s, local authorities are still generally organised and managed along professional lines. Greenwood argued:<sup>27</sup>

"The traditional, or orthodox, ideology was based upon 'professionalism'. This conceived the role of the local authority as the administration of a series of services each treated and organised as essentially independent, and as a product of statutory requirement. Policy development and review occurred within professionally staffed departments in which professional judgement was the instinctive and preferred method of analysis and choice.... The orthodox and widely prevailing ideology, in short, was a conjunction of essentially limited domain responsibilities (provision of statutorily determined services) and a mode of organising which stressed the separateness of services and the relevance of professional principles for guiding administration and choice."

In the four local authorities there was very little synoptic analysis of the effects upon service provision of cutting spending. In Bedfordshire CC's 'Getting Down To GREA' exercise the analysis was fed into the process by the

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<sup>26</sup> There is a rich vein of literature on the influence of professions in local government. See Dunleavy (1980) pp110-119; Elcock (1983); Elcock (1986b) pp298-303; Elcock, Jordan & Midwinter (1989) pp79-86; Kingdom (1991) pp137-154; Laffin (1986a); Laffin (1986b); Laffin & Young (1990); and Rhodes (1988) pp187-191.

<sup>27</sup> Greenwood (1984) p291.

service departments, and the management team compiled the report.<sup>28</sup> Even in the two local authorities which adopted formal corporate processes of policy-making - Knowsley MBC and Stockport MBC - analysis was largely undertaken by professionals in service departments, and not by those in central departments. Thus, the analysis undertaken before making spending cuts was not centralised and therefore not strategic, but decentralised and therefore fragmented.

Second, departmental analysis of the proposed service cuts was undertaken more to identify where the spending cuts should fall rather than to assess the feasibility of the budget strategy of the four local authorities. The decisions about the level of spending which could be financed from rates and central government grants were parameters of analysis. The analysis was not designed to question and review these parameters but only to decide where the spending cuts should fall. Schick argued that "the most budget-relevant test for a cutback is the amount of money it saves."<sup>29</sup> In the few instances where the identified spending cut proved to be not feasible other means of financing (such as the use of special funds) were found to reverse the proposed cut. Bedfordshire CC reinstated a package of spending cuts in its budget by using monies from its Reserve Fund. Knowsley MBC used various fund monies to ease the pain of finding the required amount of spending cuts. The use of funds was preferred as a way of reversing spending cuts because their use did not decrease the local authorities' grant entitlement nor increase their rates (or precepts).

Thus, the fragmented analysis of spending cuts undertaken by the four local authorities had minimal influence upon the setting of the budget strategy of the local

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<sup>28</sup> Assistant to the Chief Executive, Bedfordshire CC.

<sup>29</sup> Schick (1988) pp528-529.

authorities. The decision to cut spending was made without any systematic analysis of the consequences of such spending cuts. Though there was much analysis of the amount of resources available to provide services, there was little analysis of the consequences upon service provision before the decision to cut spending.

(b) A LOCAL AUTHORITY WOULD REVIEW AND RE-FORMULATE ITS OBJECTIVES IN LIGHT OF ITS DECLINING RESOURCES

Under the rationalist model of cutback management local authorities would examine their objectives as a result of their reduced level of resources available to achieve their objectives. Existing objectives of service provision may no longer be realistic because of the decision to reduce spending. Objectives thus need to be reviewed and perhaps refined to reflect the reduced provision of resources. In the words of McTighe:<sup>30</sup>

"An examination of the mission(s) of the organization is central to the development of a workable cutback strategy."

According to several observers of cutback management in local government the requirement to cut spending leads to the increased review of the activities and therefore the objectives of local authorities.<sup>31</sup> In the words of Elcock:<sup>32</sup>

"... in recent years the growth of output budgeting techniques combined with the increasingly severe financial restraints imposed by the central government have encouraged local authorities to examine their budgets more

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<sup>30</sup> McTighe (1979) p88.

<sup>31</sup> See Elcock (1986b) pp180-192; Elcock (1991) p121; Foster & Algie (1985); Greenwood (1983); Greenwood, Hinings, Ranson & Walsh (1976); Greenwood, Hinings, Ranson & Walsh (1980) pp25-48; Pendlebury (1985); and Stewart (1983) pp198-211.

<sup>32</sup> Elcock (1986b) p183.

fundamentally."

According to this view, local authorities faced with the need to cut spending and armed with new budgetary techniques have increasingly examined their spending. Greenwood observed the "greater willingness at the centre to review existing expenditures and activities."<sup>33</sup> Pendlebury found that nearly one-half of the local authorities surveyed regularly reviewed their base budgets.<sup>34</sup> These studies have demonstrated consistently that when local authorities make cuts they increasingly scrutinise their existing spending commitments. In other words, they increasingly analyse their base budgets. Greenwood, Hinings, Ranson and Walsh noted:<sup>35</sup>

"... the experiences of local government are that conditions of a sustained decline in resources prompt the examination of increasing percentages of the base. The parameters of budgetary review are widened."

The experience of cutback management in the four local authorities does not correspond to this observation of increased base budget analysis in local government. All four local authorities constructed a base budget which amounted to little more than last year's spending updated for inflation. None of the local authorities examined its base budget in any significant sense.<sup>36</sup> The evidence from the four local authorities challenges the prevailing orthodoxy of increased analysis of the base in times of financial restraint.

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<sup>33</sup> Greenwood (1983) p161.

<sup>34</sup> Pendlebury (1985) p30.

<sup>35</sup> Greenwood, Hinings, Ranson & Walsh (1980) p38.

<sup>36</sup> A few service departments attempted to scrutinise their base budgets, but this scrutiny was not undertaken each year. In Bedfordshire CC the Director of Social Services and the Assistant Director of Social Services claimed over a period of several years they had scanned all of their department's budget.

Though Kent CC, Knowsley MBC and Stockport MBC subscribed to various corporate planning processes, which ostensibly reviewed the objectives enshrined in the budget, none of these processes proved effective in practice of undertaking such analysis.<sup>37</sup> The corporate plans of Kent CC and Stockport MBC were little more than descriptions of how the money budgeted was to be spent rather than why it was being spent. In Knowsley MBC the Policy Planning and Budgeting Process collapsed in the face of administrative resistance and political inertia. The only form of base budget analysis undertaken in the four local authorities was the ritual negotiation between the finance and service departments in compiling the base budget. However, this analysis rarely extended to a review of objectives because it focused only upon the amount of money needed to carry out existing policies and not upon why these policies needed to be carried out. Objectives were not seriously questioned nor even stated during these inter-departmental negotiations.

Stockport MBC probably reviewed the objectives enshrined in its base budget more than the other three local authorities.<sup>38</sup> Stockport MBC pursued a strategy of making significant spending cuts in constructing its base budget. This strategy involved the limited review of its objectives. The 'sweat shop' function, performed by the

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<sup>37</sup> Indeed, two leading councillors of Kent CC - the Chairman of the Development and Transportation Committee and the Chairman of the Finance and Review Group - lamented the absence of analysis of the base budget, and cited the lack of time to undertake such analysis. As Elcock, Jordan and Midwinter noted, "the demands that scrutiny of the budget 'base' imposes on both officers and politicians is [sic] excessive" ((1989) pp183-184).

<sup>38</sup> This finding corresponds to the observation made by Greenwood, Hinings and Ranson that the parameters of budgetary review are widened if the chief executive is powerful and the ruling party group is highly organised, both of which were more evident in Stockport MBC than in the other three local authorities ((1977) pp38-45).



political and administrative leadership, reviewed objectives by scrutinising the spending of committees. Also the Establishment Control Panel in deciding whether vacant posts were to be filled or not reviewed to some extent the objectives of the post.<sup>39</sup> However, the ad hoc review of objectives in Stockport MBC was undertaken primarily to find spending cuts and not to review explicitly the objectives of its policies. Any review of objectives resulting from the pressure to cut spending came about more by default than design.

The findings of cutback management in the four local authorities supports Schick's claim that cutback budgeting "has not generally been based on assessment of existing programs."<sup>40</sup> The Principal Administration Officer of Kent County Constabulary admitted to "working to a figure rather than working to a need". The need to make spending cuts by the local authorities became the overriding objective, and the review of other competing objectives, such as those of service provision, was secondary and even redundant because of the pressing need to reduce spending.<sup>41</sup> The four local authorities reviewed their capital programmes in an attempt to minimise the revenue consequences of capital projects. These reviews were resource-driven - capital projects were being programmed in order to achieve the objective of limiting revenue spending. The four local authorities did not systematically review and reformulate their objectives in times of fiscal stress.

(c) A LOCAL AUTHORITY WOULD EXPLORE A WIDE RANGE OF OPTIONS TO ACHIEVE ITS REFINED OBJECTIVES

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<sup>39</sup> On the role of these special panels in reviewing base budgets see Greenwood (1983) p158; and Tomkins (1982) p25.

<sup>40</sup> Schick (1988) p528.

<sup>41</sup> See Cope (1987) pp88-101.

The degree of option analysis varied widely between the four local authorities. In Bedfordshire CC the Chief Executive prepared three options to reduce the Council's spending. Before making the revenue budget of 1984/85 the Council had conducted several cost-cutting exercises - a four per cent reduction exercise in 1979<sup>42</sup>; a six per cent reduction exercise in 1981<sup>43</sup>; and the 'Getting Down To GREA' exercise in 1982<sup>44</sup>. These exercises produced a shopping list of spending cuts which was used as a set of options by the party groups in making their respective budgets.

Knowsley MBC carried out its 'lower expenditure options' exercise with the formal aim of making committees and departments put forward spending cuts as options, which would be later sifted in a corporate way to reflect the priorities of the Council. Though the process broke down, it yielded at least some options for the Chief Executive and the Borough Treasurer in drawing up their cuts package.

In Kent CC the ruling Conservative Group adopted an across-the-board approach to making spending cuts, whereby committees had to cut their spending by the same proportion. It considered three budgetary scenarios - budgets representing no growth, a one per cent reduction and a two per cent reduction from the previous year's spending.<sup>45</sup> The Conservative Group examined no options on how to cut spending between services, though it examined and implemented a considerable number of options on how to

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<sup>42</sup> Bedfordshire CC's Policy And Resources Committee, Expenditure Levels For 1979/80 And 1980/81, 17 October 1979.

<sup>43</sup> Leader, Conservative Group, Bedfordshire CC.

<sup>44</sup> Bedfordshire CC's Getting Down To GREA, 1982.

<sup>45</sup> This method is an example of the "'extended' form of percentage pool" (Greenwood (1979) pp81-82); or of "option percentage planning" (Greenwood (1983) p153).

cut spending within services. Management consultants were widely deployed to review its management and organisation. School cleaning was contracted-out to private contractors. The Social Services Department experimented with and pioneered many community care initiatives.<sup>46</sup> These moves were feasible only if they produced cost savings. The rationale for the contracting-out of school cleaning was the demonstrated cost savings over direct labour.<sup>47</sup> Likewise, the decision to finance Age Concern-run day centres for the elderly had to be justified as a cost saving.<sup>48</sup> The Social Services Department estimated that Age Concern could run day centres at substantially less cost than the Council, and calculated that £25,000 could be saved.<sup>49</sup> The decisions to contract-out school cleaning and day centres were facilitated by the existence of the Efficiency Fund, from which departments were able to borrow money to finance the initial costs of implementing decisions that produced longer-term cost savings, and then

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<sup>46</sup> See Butler, Oldman & Greve (1983) pp153-154; Cervi (1990); Challis & Davies (1980); Challis & Davies (1981); Challis & Davies (1985); Challis & Davies (1986); Chesterman (1988); Davies (1980); Davies, Bebbington & Charnley (1990) pp328-330; Davies & Challis (1980); Davies & Challis (1986); Forsyth (1981) p10; Grugeon (1981); and Kemp (1987).

<sup>47</sup> Chairman, Education Committee, Kent CC; Chairman, Fire and Public Protection Committee, Kent CC; County Caretaking and Cleaning Services Officer, Kent CC; Deputy Leader, Labour Group, Kent CC; and Regional Organiser, General, Municipal, Boilermakers and Allied Trades Union.

<sup>48</sup> Assistant Director of Social Services, Kent CC; Development Officer, Social Services Department, Kent CC; and County Organiser, Age Concern Kent.

<sup>49</sup> The Assistant Director of Social Services predicted this saving was unlikely to materialise because the calculation was based on Age Concern taking over all existing day centres, whereas in fact Age Concern embarked upon a pilot project involving only several day centres.

repay the 'loan' over a period of five years.<sup>50</sup> The Efficiency Fund enhanced the number of options available to the Council in making spending cuts because the 'payback' time period was significantly extended - options which yielded longer-term savings could be examined as well as those which produced immediate savings.<sup>51</sup> This fund widened substantially the scope of choice of the local authority.

In Stockport MBC the ruling Conservative Group adopted a variant of the across-the-board approach seen in Kent CC. Each committee had to prepare a standstill budget which was then scrutinised at its margins by the triumvirate of the Leader of the Conservative Group, the Chief Executive and the Director of Finance.

The number and type of options canvassed by the four local authorities were dependent on two factors. First, the options tended to be put forward by officers - budget options on how spending should be cut were prepared by the chief executive and treasurer; and policy options on where spending should be cut were prepared by professionals in service departments. Second, all four local authorities wanted to limit and even reduce their spending. As a result the options suggested by officers had to fit into this prevailing political objective. The budgetary and policy options considered were restricted to those that complemented this objective. Policy objectives were generally subsumed under the imperative to limit spending.<sup>52</sup> In general, officers needed to frame their

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<sup>50</sup> For example, the redundancy payments made to the school cleaners employed by the Council were financed from this Efficiency Fund.

<sup>51</sup> See Behn (1978a) pp406-407.

<sup>52</sup> The major exception is when local authorities are forced by law to provide a new service - the statutorily-defined objective of a new policy then overrides the objective to limit spending, eg. the legal requirement under the provisions of the Local Government, Planning and

advice within the political preferences of the ruling party group.<sup>53</sup>

There were limits to the range and type of options explored by the four local authorities in cutting spending. The limitations were imposed internally and externally upon the local authorities.<sup>54</sup> Rose and Page calculated "53 per cent of revenue and 83 per cent of local authority expenditure is principally determined by external forces - central government, national market trends and international economic forces."<sup>55</sup> Danziger stated the "impact on the budget of inflation and of nationally determined wages and salary scales were relatively uncontrollable for local budgeters."<sup>56</sup> Central government imposes spending controls upon local authorities, allocates grants to local authorities, makes laws affecting local authorities, sets many standards of service provision and controls interest rates. As a result of these external constraints Honey believed a local authority "has little room for manoeuvre."<sup>57</sup> Though Stewart questioned this view he recognised this "myth of statutory constraint is a powerful

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Land Act 1980 to publish annual reports must be satisfied (at least in a minimalist sense) regardless of the cost of complying with this requirement.

<sup>53</sup> In Bedfordshire CC, however, the Chief Executive observed that officers were not always aware of the preferences of the party groups, and therefore preferred to suggest options for deliberation rather than as recommendations for decision. This sensitive advice was less likely to offend any of the party groups represented on the 'hung' Council.

<sup>54</sup> See Cope (1987) p92; Danziger (1978b) pp148-149, 210-211; Greenwood (1983) p160; Hogwood (1987) p158; Newton (1980) p185; and Stewart (1983) pp143-211.

<sup>55</sup> Rose & Page (1982a) p2. See also Rosenberg (1985b) p157.

<sup>56</sup> Danziger (1978b) p210.

<sup>57</sup> Honey (1979) p27. See also Stephen (1993).

influence in many local authorities."<sup>58</sup> Nonetheless, his argument still recognises that many limits on the options considered by local authorities are in fact determined by themselves. This self-inflicted limitation of examining options to cut spending may often be perpetuated by certain vested interests in the local authority. Professionals in service departments and councillors serving on service committees press the argument that there is little scope for finding spending cuts in their budgets because of these perceived external constraints, and therefore their budgets should be immune from any rounds of spending cuts. For example, in Kent CC the County Fire Officer argued more spending was needed to comply with the minimum standards of fire service provision laid down by the Home Office. This claim reinforced the belief of the Chairman of the Fire and Public Protection Committee that there were "very little margins" for cutting fire service spending, and consequently more spending cuts fell on the trading standards service. The perpetuation of the belief that much of a budget is uncontrollable is often advantageous to certain interests represented in a local authority. A final example of a constraint imposed upon local authorities in examining options to cut spending are their existing policies. Like many local authorities Bedfordshire CC operated a 'no redundancy policy' which, in effect, restricted the options open to the local authority on what spending can be cut.<sup>59</sup> The Council was unable, for example, to explore the option of contracting-out its services. Thus, other competing objectives pursued by a local authority restricts the range and type of options that can be considered in the pursuit of the objective to reduce spending.

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<sup>58</sup> Stewart (1983) p146.

<sup>59</sup> County Personnel Officer, Bedfordshire CC; and Convenor, Bedfordshire Joint Public Service Union Committee.

Greenwood believed that in times of sustained fiscal squeeze a local authority examines an increasing range of options to cut spending, and that this examination forces a review of the objectives and priorities of a local authority. He argued:<sup>60</sup>

"In the early years of restraint the relative suddenness of the fiscal problem had taken authorities by surprise and forced them to adopt procedures that failed to discriminate between services. The need for quicker decisions, coupled with the absence of a managerial framework geared to the allocation of fewer resources, warranted the application of relatively crude and undifferentiated cuts 'across the board'.... But there were signs in 1976 that sustained fiscal pressure could not be dealt with by persistent failures to define priorities between services. Members and officers were beginning to criticize crude percentage cuts and make the case for setting priorities."

This move away from crude percentage cuts was not seen in the four local authorities. Kent CC, Knowsley MBC and Stockport MBC relied on across-the-board percentage cuts as ways of reducing their spending though there was fine-tuning made to these cuts towards the end of the budget process.<sup>61</sup> Even in Bedfordshire CC there was no attempt to prioritise objectives corporately as a way of examining options to cut spending. Priority setting was largely confined to the service departments, and was a departmental not a corporate process. Knowsley MBC attempted to set priorities in its Policy Planning and Budgeting Process,

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<sup>60</sup> Greenwood (1983) p161. See also Greenwood (1979) pp84-92; and Greenwood, Hinings, Ranson & Walsh (1976) pp45-54.

<sup>61</sup> The Conservative Group of Kent CC on changing its leadership abandoned this across-the-board approach for a more targeted approach in making spending cuts in subsequent years. The across-the-board approach, according to the Chairman of the Development and Transportation Committee, guaranteed an "equity of agony" between committees. But, in the words of the Chairman of the Social Services Committee, it only carried on the "mistakes made in history". As the new Leader of the Conservative Group maintained, this across-the-board approach is only fair if the base is correct in the beginning.

but its attempt failed largely because of departmental resistance. Greenwood's assertion that the range of option analysis was widened because of the increasing prevalence of priority setting was seen only in isolated pockets of the four local authorities. Generally option analysis was limited.

(d) A LOCAL AUTHORITY WOULD EXAMINE THE CONSEQUENCES OF ITS CUTBACK OPTIONS

According to Haynes the rationalist model of decision-making "requires a complete knowledge and anticipation of the consequences that will follow on each choice."<sup>62</sup> The consequences of the limited range of options were assessed by the four local authorities. Professionals in service departments analysed the service consequences of the options to cut spending. They were generally concerned to protect existing levels of service provision. This concern explains why the Borough Education Officer of Knowsley MBC resisted attempts to cut education spending. The finance departments scrutinised the financial consequences of the options. They were generally concerned that the options proffered by the service departments yielded the required cost savings. They scanned the spending estimates prepared by the service departments to ensure they were not padded. But, as the Borough Treasurer of Knowsley MBC acknowledged, the finance department is often very dependent on information provided by service departments and therefore not always able to question their spending bids. The councillors considered the political consequences of the options. They were generally concerned to protect and indeed enhance their support. For example, the Liberal Group of Bedfordshire CC scrutinised the Conservative package of spending cuts and weeded out those cuts it believed would damage the electoral fortunes of the Liberal

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<sup>62</sup> Haynes (1980) p73.



Party. The trade unions examined the personnel consequences of the options. They were concerned to protect the pay and conditions of employment of their members. For example, the National Union of Public Employees resisted successfully an option canvassed by Stockport MBC to reduce the school caretaking and cleaning budget because it threatened the pay and conditions of its members.

The feasibility of options was analysed by these key actors on the budgetary stage. However, the feasibility tests were disjointed exercises - actors were left to analyse the consequences of the options to cut spending from their own partisan standpoints. Only the consequences that affected these vested interests were examined. The examination of other consequences was largely ignored. Despite the rituals of corporate management displayed in local authorities, such as Knowsley MBC and Stockport MBC, there was very little corporate analysis of the consequences of the options to reduce spending.<sup>63</sup>

(e) A LOCAL AUTHORITY WOULD IMPLEMENT THE PACKAGE OF CUTS WHICH MINIMISES THE HARMFUL EFFECTS AND MAXIMISES THE BENEFICIAL EFFECTS UPON ITS OBJECTIVES

Under the rationalist model of decision-making the decision-maker implements the decision that best achieves the desired objectives. Following Pfiffner, this rationalist model assumes that "human beings respond to situations in such a manner as to maximize their own self-interests."<sup>64</sup> The problem of testing this rationalist trait is that there is no objective way of concluding that the

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<sup>63</sup> The Bains Committee noted committee estimates "are cut all round ..., with no attempt made to evaluate the relative consequences of cuts in the different services which those estimates represent" (Department Of The Environment (1972) p13).

<sup>64</sup> Pfiffner (1960) p130.

decision made was, in fact, the best decision. The best decision is the one that achieves the desired objectives, but a decision-maker often pursues competing and conflicting objectives. The four local authorities wanted both to reduce their rate bills and thus reduce spending, and to provide services and thus increase spending.<sup>65</sup> Their budget decisions could not decrease and increase spending at the same time. Thus the criteria used to decide how much to spend reflected the different but subjective values attached to these conflicting aims.

Though there is no objective test there are subjective tests of the 'best' decision. The 'best' decision for each local authority is the one which most satisfies its preferred mix of goals. If more than one goal is being pursued Dahl and Lindblom argued that "an action is rational to the extent that it is correctly designed to maximize net goal achievement."<sup>66</sup> However, each local authority is not a single decision-maker. There are many decision-makers both inside and outside the local authority, eg professionals, local politicians, trade unionists, national politicians, and civil servants. These actors possess their own interests and pursue their own goals. As a result there are competing rationalities in the making of spending cuts in a local authority.<sup>67</sup>

For example, Kent CC slashed its grant contributions given to district councils to promote provision of warden schemes in sheltered housing. In 1957 the then Ministry of Housing and Local Government issued a circular to encourage county

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<sup>65</sup> This dilemma confronts all budget-makers in local government despite the limited scope provided by additional grant-funding, creative accounting and 'efficiency savings' to mask it.

<sup>66</sup> Dahl & Lindblom (1976) p38.

<sup>67</sup> See Glennerster (1980a); Glennerster (1981); and Kelly (1989) p208.

councils to finance such warden schemes.<sup>68</sup> This provision has long been regarded by central government as part of its community care policy. In 1963 the county and district councils in Kent entered into an agreement which outlined the scheme and conditions of this grant funding.<sup>69</sup> This agreement reflected the prevailing conventional wisdom by recognising that the provision of sheltered homes for the elderly is more than a housing function (a district council responsibility), but is also a social services function (a county council responsibility).<sup>70</sup> In 1983 this joint approach towards community care was formally reaffirmed by Kent CC and the district councils in a joint report.<sup>71</sup>

Kent CC terminated its grant funding to the district councils for warden schemes in sheltered housing. This spending cut of £435,000 appealed to the ruling Conservative Group because it was a sizeable and an easy cut to make.<sup>72</sup> The spending cut was, in effect, exported to the 14 district councils - they had to decide whether to make good the lost grant or to run down their warden services in sheltered housing.<sup>73</sup> When the withdrawal of the

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<sup>68</sup> Ministry Of Housing And Local Government (1957).

<sup>69</sup> See Kent CC's Accommodation And Care Of Old Persons, 1963.

<sup>70</sup> See Age Concern England (1980) pp39-40; and Lauerman (1982) p50. The Audit Commission for Local Authorities in England and Wales questioned the usefulness of sheltered housing, and advised social services departments to consider "the overall budgetary implications" before embarking on such ventures ((1985b) p41).

<sup>71</sup> Joint Working Group On Services For Elderly People And Their Families, Working Together: A New Deal For Older People In Kent, 1983.

<sup>72</sup> Assistant Director of Social Services, Kent CC.

<sup>73</sup> Wolman and Peterson predicted that in making spending cuts governments "will attempt to shift expenditure burdens to other levels of government" ((1980) p77). See also Glennerster (1980a) p375; Glennerster (1981) p186; Jordan (1987) p16; Jørgensen (1987a) p199; Jørgensen

grant contributions was announced Kent CC faced a hostile reaction from the district councils. Two district councils, Thanet DC and Ashford BC, threatened legal action to reverse the decision. The Chairman of the Social Services Committee consulted with the district councils before the announcement to withdraw grant funding. He believed that the district councils, who were "fairly flush" with money from the sale of council houses, could easily take over the warden services but though "privately no sweat" they "publicly will have to make noise". Like Kent CC, all district councils, except Maidstone BC, were Conservative-controlled. The close party links between the county and district councils diluted the reaction of the district councils to little more than "sabre-rattling".<sup>74</sup> The Policy Officer of the Social Services Department confirmed that there were some "political deals behind the scenes". On the decision by Thanet DC not to take legal action, its Director of Planning and Housing wrote:<sup>75</sup>

"... once the matter started to become a political issue there was a meeting called by the leader of the Kent County Council with leaders of all the District Councils in Kent ... and it would appear ... that a consensus view was arrived at which was that the Local Authorities involved would not seek to take action against each other."

The officers inside the Social Services Department were more alarmed at the withdrawal of grant funding for warden services than the Conservative Group of Kent CC. The Social Services Department was concerned this spending cut would alienate the district councils at the time joint action was

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(1987b) p22; Levine, Rubin & Wolohojian (1981b) p190; Pinkham & Platt (1980) pp21-22; and Wolman & Davis (1980) pp17, 52-53.

<sup>74</sup> Assistant Director of Social Services, Kent CC.

<sup>75</sup> Taken from a letter dated 19 August 1985.

being urged by both the county and district councils.<sup>76</sup> It was worried it would lose influence over sheltered housing placements because the grants that were given to the district councils were used as "leverage" in the discussions on placements.<sup>77</sup> Also, the Department was concerned that sheltered housing service for the elderly would be run down, and that district councils would "dump them onto social services".<sup>78</sup> Indeed, several district councils threatened to withdraw travelling warden schemes because they could no longer be afforded. The Social Services Department believed that with fewer sheltered housing placements provided by district councils there would be increased demand for the Department to provide more expensive residential care for the elderly.<sup>79</sup>

The district councils responded in two ways to the withdrawal of county council monies for the provision of warden services in sheltered housing. First, in the short term all district councils continued to provide the warden schemes, despite threats to withdraw them.<sup>80</sup> The district

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<sup>76</sup> Assistant Director of Social Services, Kent CC. The Director of Planning and Housing of Thanet DC believed this loss of grant funding would have a "quite catastrophic" effect on county-district relations, and cited an example where his Council refused to cooperate with the county council on another scheme because of Kent CC's "bad faith shown on the warden support" (taken from a letter dated 12 April 1985).

<sup>77</sup> Policy Officer, Social Services Department, Kent CC.

<sup>78</sup> Policy Officer, Social Services Department, Kent CC.

<sup>79</sup> The Audit Commission for Local Authorities in England and Wales questioned this belief when it noted that many elderly in sheltered housing do not need residential care ((1985b) p41).

<sup>80</sup> Chief Health and Housing Officer, Shepway DC. Three district councils threatened to withdraw provision of warden services - Ashford BC, Dover DC, and Thanet DC. Another three district councils had never developed these warden services in the first place - Swale BC, Tonbridge and Malling BC, and Tunbridge Wells BC.

councils stepped in to provide such schemes by financing them from their housing revenue accounts. Furthermore, many tenants of sheltered homes receive housing benefit, and therefore any increased rents set by the district councils to offset the lost grant monies would not directly fall on these elderly persons but on central government.<sup>81</sup> Second, in the longer-term several district councils, such as Shepway DC and Sevenoaks DC, developed centralised call alarm systems for the elderly to replace travelling wardens.<sup>82</sup>

This example demonstrates the competing rationalities of the interested parties in the making and implementation of the decision by Kent CC to terminate its subsidy for the provision of warden schemes in sheltered housing. These competing rationalities are summarised in the table below.

Table 6.1: Competing Rationalities of the Decision to Cut Spending on Warden Schemes in Sheltered Housing

<u>Actor</u>	<u>Objective/interest</u>	<u>Verdict on decision</u>
Conservative Group, Kent CC	Reduce Spending	Good
Social Services Department, Kent CC	Provide Services	Bad
District Councils	Maintain Grant Funding	Bad
Department of Health	Promote Community Care	Bad

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<sup>81</sup> This example illustrates the ways in which local authorities attempt to shift expenditure burdens onto other bodies. The spending cut announced by Kent CC was in effect exported to the district councils, which in turn partially exported it to the Department of Health and Social Security (now the Department of Social Security).

<sup>82</sup> Chief Health and Housing Officer, Shepway DC. See Butler, Oldman & Greve (1983) pp154-155.

Department of Social Security	Administer Social Security Benefits	Bad
Department of the Environment	Reduce Local Government Spending	Good
Audit Commission	Promote Value-For-Money In Local Government	Good
Age Concern	Improve Welfare Of Elderly	Bad

From this table the ruling Conservative Group of Kent CC wanted to reduce spending, and therefore terminating these grants to the district councils was a means to this end. The spending cut hit a "relatively soft target".<sup>83</sup> The Social Services Department was concerned about the effects of this spending cut upon services for the elderly, and believed the Conservative councillors had "shut their eyes to the consequences".<sup>84</sup> The district councils wanted to maintain grant funding but their opposition was muted because of a financial cushion and their close political links with the county council. They responded generally by either continuing the travelling warden service or replacing this service with new technology. Central government promoted a policy of community care on one hand, and a policy of curbing government spending on the other hand. The Audit Commission was established to promote value-for-money in local government. Though it would be perhaps concerned about its effects upon the effectiveness of services for the elderly, it would welcome the opportunity taken by some innovative district councils to develop a cheaper and effective alternative to travelling warden schemes. Age Concern is interested to promote the interests of the elderly, and would possibly regret the decision to cut grant funding because of the consequent

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<sup>83</sup> Borough Housing Officer, Gravesham BC.

<sup>84</sup> Policy Officer, Social Services Department, Kent CC.

threat to the travelling warden service in Kent and to the prospects of joint action between the county and district councils in caring for the elderly.

Whether the decision by Kent CC to withdraw funding from the provision of sheltered housing minimised the harmful effects and maximised the beneficial effects upon objectives depends on "whose side we are on."<sup>85</sup> Different actors have different interests and pursue different objectives, and therefore make different judgements on the rationality of a decision. Whether a decision minimises the harmful effects and maximises the beneficial effects upon objectives depends on where the decision-maker stands. The Chief Executive of Kent CC commented:<sup>86</sup>

"The constant drive for efficiency is again reflected by a reduction in staff numbers during the year, this time by over 2,000 staff. This means that in the last five years the Council has shed over five thousand posts, or over 10% of its total workforce. While it has not been possible to make all of these savings without affecting some services and staff, few can doubt that there has been a very real improvement in productivity and efficiency during this period...."

His comments must be doubted because the 2,000 staff shed were largely the school cleaners made redundant by the Council's decision to contract-out school cleaning. As argued in the previous chapter, assessment of the consequences varied considerably depending on the interests of the actors involved in the decision to privatise school cleaning. The rationalist trait that local authorities evaluate the consequences of spending cuts before and after cutting spending raises critical political questions of whose harm, whose benefit and whose objectives are being considered.

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<sup>85</sup> Becker (1967) p239.

<sup>86</sup> Taken from Kent CC's Annual Report 1984-85, 1985, p3.



(f) A LOCAL AUTHORITY WOULD PLAN ITS FUTURE RESOURCE LEVELS, SERVICE DEMANDS AND POLICY OBJECTIVES

A local authority in making spending cuts would place its decisions within a planned framework of future resource levels, service demands and policy objectives. Stewart wrote:<sup>87</sup>

"The case for comprehensive planning in government is easily made. It rests upon the interrelationships between the problems, issues and needs confronted by government and upon the interrelationship between the activities undertaken by government.... The case for comprehensive planning is only frustrated by its impossibility. No planning process can encompass all the interrelationships."

This rationalist trait of building the future into the decision made enhances the degree of comprehensiveness achieved in the decision-making process.

In the four local authorities, however, there was little rationalist planning incorporated into budget-making. They encountered grave obstacles in planning their capital programmes, and even graver obstacles in planning their revenue budgets. Bedfordshire CC, Kent CC and Knowsley MBC made annual budgets, and decisions to cut spending were made for only one year in advance. The Chief Executive of Bedfordshire CC remarked that budget planning had become "distinctly more difficult".<sup>88</sup> Only Stockport MBC regularly forecasted its spending. Each year it produced a one-year budget incorporating the policy changes made to the previous year's budget, and then projected this budget

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<sup>87</sup> Stewart (1977a) p163. See also Booth (1988) p4; Department Of The Environment (1972); Eddison (1975); Self (1974); Skitt (1975); Stewart (1971) pp64-68; and Stewart (1974) pp9-71.

<sup>88</sup> These difficulties in planning were echoed by the Education Spokesman of the Liberal Group. The Council attempted to plan its budget in the 'Getting Down To GREA' exercise but never implemented the plan because of the vagaries of planning, notably the 'hung' nature of the Council and repeated changes of central government policy.

forward for a further two years taking into account changing demands upon existing services. This projection was adjusted for neither inflation nor future policy changes. It was a projection of how much existing policies of the Council would cost in the future at current prices.

The main obstacle experienced by local authorities in planning their spending was uncertainty created by central government. Central government announced grant settlements, expenditure targets and block allocations of local authorities for one year in advance only, which restricted effective policy planning. Financial uncertainty breeds policy uncertainty because there is no guarantee that existing policies, never mind new policies, can be financed in the future. Policy planning by local authorities became almost a redundant exercise. For example, the County Architect of Bedfordshire CC believed that its repairs and maintenance programme was made on an "annual crisis basis", and that there was only "planned neglect". Knowsley MBC embarked on a 'service developments' exercise as part of its Policy Planning and Budgetary Process, but soon disbanded this exercise when it was unable to adapt to the climate of financial restraint.

In general the four local authorities engaged in only short-term planning. They planned spending cuts for only one year in advance. This absence of longer-term planning is mirrored in other studies of local authority budgeting.<sup>89</sup> The Audit Commission observed "few local authorities plan more than twelve months ahead at least so

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<sup>89</sup> See Adams (1986); Audit Commission For Local Authorities In England And Wales (1984g); Audit Commission For Local Authorities In England and Wales (1985a); Clapham (1983) pp29-30; Cope (1987); Elcock (1991) pp117-119; Elcock & Jordan (1987); Hepworth (1984) pp211-214; Midwinter (1988) p27; National Audit Office (1985) pp22-24; Pendlebury (1985) pp25-26; Personal Social Services Council (1979) p1; and Pinkham & Platt (1980) p22.

far as current expenditure is concerned."<sup>90</sup> However, a discordant note was sounded by Greenwood who argued:<sup>91</sup>

"There is some evidence, therefore, that despite the absence in most authorities of a fiscal forecast local authorities were stretching their financial horizons beyond the traditional budget. The annual budget may have retained its central (and legally enshrined) place within the resource allocation process but it was increasingly set within a forecast, however imperfect, of where the trend of expenditure was moving."

Only Stockport MBC approximated this observation of local authorities increasingly forecasting their future spending commitments. In the other three local authorities spending was not forecasted beyond the traditional one-year horizon.

There was, however, a widespread assumption fuelled by noises from central government that resources available to local authorities were going to be further squeezed. As a result local authorities were reluctant to embark upon spending in the immediate year which committed them to heavy spending in future years. The four local authorities reviewed their capital programmes to minimise future revenue consequences of completed capital projects. Local authorities, therefore, avoided making decisions with longer-term financial implications. This assumption about the level of future resource availability in no way constitutes planning as Greenwood observed in his study of local authority budgeting. These four local authorities engaged in only short-term planning - that is, one-year planning of resource levels, service demands and policy objectives.

#### (g) A LOCAL AUTHORITY WOULD SET UP CENTRALISED REVIEWS TO

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<sup>90</sup> Audit Commission For Local Authorities In England And Wales (1984g) p9.

<sup>91</sup> Greenwood (1983) p157. Hepworth noted "there is an increasing emphasis on longer-term budgets" ((1984) p209). See also Webb & Wistow (1983).

# FORMULATE, COORDINATE AND OVERSEE ITS CUTBACK MANAGEMENT STRATEGY

Under the rationalist model the local authority would centralise budget-making in order to achieve a coherent set of goals to be pursued and to make decisions which best achieve those goals. In the words of Behn:<sup>92</sup>

"Retrenchment necessarily centralizes decision-making.... For retrenchment, ... allocating resources involves cuts, and the various organizational components cannot be expected to volunteer them. A central decision-making authority must both develop the alternatives and choose between them.... Thus, retrenchment necessitates not only centralized decision-making but also centralized leadership."

The centre needs the analytical capacity to set objectives, determine priorities, collect information, consider options, make decisions and review policies if organisational rationality is to be achieved. Analysis, according to this rationalist trait, is centralised, corporate and strategic. In 1972 the Bains Committee, proclaiming the virtues of corporate management, urged local authorities "to adopt a corporate approach to their affairs in order to ensure that their resources are most effectively deployed."<sup>93</sup> Similarly, Greenwood, Hinings, Ranson and Walsh argued that with corporate planning, "departments are allocated cuts based upon the results of strategic and issue analysis...."<sup>94</sup>

In the context of central-local government relations the Widdicombe Committee believed retrenchment "can only be

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<sup>92</sup> Behn (1980) p619. See also Aucoin (1991) p121; and Behn (1983) pp318-322.

<sup>93</sup> Department Of The Environment (1972) pxv.

<sup>94</sup> Greenwood, Hinings, Ranson & Walsh (1980) p39.

achieved by a drawing in of power to the centre."<sup>95</sup> This centralisation of power has been widely observed in local authority budgeting in times of fiscal stress. In the United States local governments faced "marked pressures to centralize in order to carry out retrenchment."<sup>96</sup> In Britain Elcock concluded that "budgeting is usually controlled by small numbers of leading politicians and senior officers."<sup>97</sup>

There are two significant elements in the formulation and coordination of a cutback management strategy - the making and implementation of the strategy. The making of the strategy involved questions of how much and how to cut spending; and its implementation involved questions of where to cut spending. The making of the cutback management strategy was more centralised than its implementation in the four local authorities. The political and administrative leadership of the local authorities, the centre, was more concerned in making the cutback management strategy; and committees and departments, the periphery, were more involved in its implementation.

In Kent CC the centre adopted an across-the-board strategy of making spending cuts, and the periphery was required to identify the required amount of spending reductions. In Stockport MBC the centre imposed a standstill budget upon the periphery, but also vetted the detailed budget changes made by the periphery. In Knowsley MBC the centre formulated a general strategy but was unable to implement it because of resistance from the periphery, and as a

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<sup>95</sup> Committee Of Inquiry Into The Conduct Of Local Authority Business (1986) p54.

<sup>96</sup> Levine, Rubin & Wolohojian (1981b) p201. See also Glassberg (1978) p328; Levine, Rubin & Wolohojian (1981a).

<sup>97</sup> Elcock (1987a) p255. See also Clapham (1983); Elcock (1991) p126; Elcock, Jordan & Midwinter (1989); Greenwood (1983); and Pendlebury (1985) pp28-29.

result the centre intervened and more or less imposed spending cuts upon the periphery. In Bedfordshire CC there was no centre because the Council was 'hung'. There were several strategies formulated by the party groups - the Conservative Group preferred giving the periphery general guidelines within which it was to make spending cuts; and the Liberal Group intervened in the implementation of this strategy and modified where the spending cuts fell. The administrative centre played only a cameo role in formulating the cutback management strategy. On the capital side, the making of the capital programmes was centralised in all four local authorities.

Overall, the centre was more involved in the formulation of a cutback management strategy; and the periphery more involved in the detailed application of the general strategy. However, this generalised observation needs to be qualified on two counts. First, the centre influences and sometimes intervenes in determining the application of the cutback management strategy. In Knowsley MBC and Stockport MBC the centre intervened in decisions where spending cuts fell. Second, the periphery influences and sometimes resists the budget strategy drawn up by the centre. In Knowsley MBC the periphery resisted implementing the strategy formulated by the centre, which resulted in the collapse of the budget strategy. In Kent CC the Education and Police Committees faced difficulties in implementing the budget strategy, and as a result the centre modified the strategy to overcome these difficulties. The extent of centralisation involved in making the cutback management strategy not only varies between local authorities but also varies between the stages of making the strategy.

(h) A LOCAL AUTHORITY WOULD RELY ON EXPERT ADVICE IN MAKING AND IMPLEMENTING ITS PACKAGE OF CUTS

The rationalist model of decision-making posits that

decisions are made in an analytical and comprehensive manner. Experts possess knowledge and experience which decision-makers require to make decisions in this rationalist way. They give both analysis and comprehensiveness to the decision-maker. The rationalist model of decision-making is very dependent upon expertise.<sup>98</sup>

The making of spending cuts in the four local authorities shows the prominent role of 'experts' in deciding how and where to cut spending. The types of expertise used in the four local authorities were threefold. First, there is professional expertise based on knowledge of service provision. Professionals in service departments influenced decisions where to cut spending. Most of the decisions to reduce spending emanated from senior officers in service departments. Second, there is financial expertise based on knowledge of the complexities of local authority finance. The role of finance officers, and the finance department in particular, was central in making spending cuts. Finance departments reviewed the base budgets of the service departments, translated political preferences into budgetary strategies, suggested other ways of financing to avoid making spending cuts, and monitored the implementation of revenue budgets and capital programmes. The resource squeeze in local government greatly enhanced the power of finance professionals, and local authorities are increasingly reliant upon their financial expertise.<sup>99</sup>

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<sup>98</sup> Greenaway, Smith and Street noted the rationalist decision-maker "will tend to hold the expert in high esteem; the professional will be at a premium over the layperson" ((1992) p20).

<sup>99</sup> See Aucoin (1991) p122; Barclay (1985); Chartered Institute Of Public Finance And Accountancy (1992) pp144-150; Clarke & Cochrane (1989); Cook (1993) pp25-27; Danziger (1978b) pp192-196; Elcock (1986b) pp180-192; Elcock & Jordan (1987); Elcock, Jordan & Midwinter (1989) pp181-182; Humphrey & Scapens (1992); Parkinson (1985b) pp79-105; Rosenberg (1984); Rosenberg (1985b); Rosenberg

Third, there is managerial expertise based on knowledge of the administration of local authorities. Managers in service and central departments of local authorities were used extensively to identify cost savings. In Kent CC management consultants were widely commissioned to recommend cost savings. On the use of management consultants generally the Labour Research Department observed:<sup>100</sup>

"Management consultants are generally brought in for a number of reasons. At best they can provide some specialist technical information that the company may lack.... However, they are more likely to be asked to find ways of cutting costs and raising productivity."

Management experts, both local authority managers and management consultants, often suggested the restructuring of the organisation and management of local authorities - their intention was invariably to find different but cheaper ways of providing services. Overall, local authorities were very dependent upon the professional, financial and managerial expertise possessed by their officers in the making of spending cuts.<sup>101</sup>

Though experts were very influential in making spending cuts in the four local authorities they were not

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(1989); Rosenberg & Tomkins (1983); Rosenberg, Tomkins & Day (1982); Terry (1986); Tomkins (1982) p58; and Travers (1985b).

<sup>100</sup> Labour Research Department (1988) p7. See also Arthur Young (1987) pp155-158; Aucoin (1991) pp124-126; Behn (1978a) pp402-403; Cope (1992) pp51-52; Henkel (1991) pp70-91; Herchert (1983); Kline (1983-4) pp97-98; Odling (1984); Pattenauode (1979); and Transport And General Workers Union (1983).

<sup>101</sup> The Audit Commission observed the "need for rapid decisions on what to cut from capital programmes means that members are forced to rely on their officers' judgement to an unhealthy extent" ((1985a) pp39-40). Similarly, Tomkins agreed with the view that councillors rely on officer advice in deciding where to cut spending but noted Conservative councillors tend to accept officer advice more readily than Labour councillors ((1982) pp57-58).



omnipotent. In the words of Self:<sup>102</sup>

"Politicians are the ultimate controllers of administrative systems.... Control in this sense does not mean simply (or primarily) making sure that policies which have been made are faithfully executed. It has also the converse meaning of so holding the reins of office that the decisions of administration can always (if necessary) be overruled or amended. It means also establishing an atmosphere in which administrators will continually be aware of political guidelines and constraints."

The many experts involved in making spending cuts were generally operating within guidelines laid down by local politicians. For example, the Director of Leisure Services of Knowsley MBC realised there was little gain in recommending the privatisation of leisure services to the ruling Labour Group because it was not politically acceptable. The recommendations of experts needed to be politically feasible if they were to be acceptable to the controlling politicians. In Bedfordshire CC expert advice was rejected because it was not politically feasible when the County Treasurer cautioned the Liberal Group over its plans to use balances to avoid increasing the Council's precept. The County Treasurer was, in the words of the Deputy Leader of the Liberal Group, "semi-obstructive". His advice was rejected because of the Liberal Group's commitment to hold down the precept. Experts were generally conditioned by the prevailing political climate to give politically feasible advice.

Expert advice is often conflicting. Experts operate in a competitive arena seeking political sanction for their proposals. Politicians often mediate between experts in conflict. In making spending cuts there are conflicts between professionals between and within departments - service professionals, finance officers and managers have

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<sup>102</sup> Self (1977) p161.

competing interests and make competing demands.<sup>103</sup> In Knowsley MBC there was the perennial conflict between the service departments (especially the Education Department) which wanted to spend more money on services and the central departments which wanted to trim their spending plans. The ruling Labour Group was forced to intervene in this dispute, and eventually sided with the 'trimmers' against the 'spenders'. In Stockport MBC the political leadership, assisted by the Chief Executive and the Director of Finance, intervened to adjudicate between the spending claims of the service departments.

In general, the four local authorities extensively deployed expert advice but this advice was shaped by the political environment. Experts had considerable influence within the general guidelines and constraints laid down by local politicians.

#### RATIONALIST THEORY OF CUTBACK MANAGEMENT

The rationalist model of decision-making is founded upon analysis and comprehensiveness. A series of eight rationalist traits of cutback management was deduced from this rationalist model, and then applied to the way in which the four local authorities made spending cuts.

The first rationalist trait suggests local authorities analyse the effects of their budgets upon their policies and plans. All four local authorities assessed how much money they had to spend before deciding how much they needed or wanted to spend on providing services. There was very little analysis of the impact upon service provision

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<sup>103</sup> See Elcock, Jordan & Midwinter (1989) pp79-86; and Kingdom (1991) pp137-154.

of their budgets. Analysis in the four local authorities was more financial than policy analysis. The second trait posits that local authorities review their objectives because of the financial squeeze. The four local authorities failed largely to review their objectives, and were concerned primarily to control their spending. The third trait assumes local authorities canvas systematically all options to achieve their objectives. In the four local authorities the analysis of proposed spending cuts was confined largely to departments, despite attempts by two local authorities to develop corporate analysis of their options to cut spending. The fourth trait argues local authorities examine the consequences of options to cut spending. Though the predicted consequences of spending cuts were assessed in the four local authorities, assessment was disjointed and partisan rather than coordinated and corporate. The fifth trait postulates that local authorities implement spending cuts that maximise achievement of their objectives. Each of the four local authorities comprised many actors possessing different interests and pursuing competing goals. Whether spending cuts maximised the achievement of objectives depends on the goals of the actors. The example of Kent CC's withdrawal of grant funding for sheltered housing placements illustrated the pursuit of competing and conflicting goals within local authorities. The sixth trait cites that local authorities plan their policies and resources. There was very little planning in the four local authorities. The only planning found was the minimal plan to set a budget for one year in advance. The seventh trait predicts that local authorities conduct centralised reviews to make and implement their cutback management strategies. The four local authorities generally centralised the making but not the implementation of their cutback management strategies. The political and administrative leadership within the local authorities was dominant in setting, and service committees and departments dominant in executing, the cutback management strategy. The

eighth trait claims local authorities rely on expert advice in cutting spending. The four local authorities used considerable expert advice, provided that it was politically feasible.

Surveying the rationalist traits of cutback management suggests that the rationalist model of cutback management provides a weak basis on which to understand how local authorities make spending cuts. There are only a few rationalist traits which predicted how the four local authorities cut their spending. Generally there was very little analysis and comprehensiveness found in the local authorities when they made spending cuts. Wright noted "there is some evidence that suggests that local authority budgetary processes have become less incremental and more economically rational as a response to the restraint of public expenditure."<sup>104</sup> The experience of cutback management in the four local authorities lends very little support to this observation, and suggests that the rationalist theory of cutback management in local government has a bleak future. The rationalist theory of cutback management will be tested in more detail in the concluding chapter.

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<sup>104</sup> Wright (1981) p21. See also Greenwood (1979); Greenwood (1983); Greenwood, Hinings, Ranson & Walsh (1980); and Kelly (1989) p208.

CHAPTER SEVEN

CUTBACK MANAGEMENT IN LOCAL GOVERNMENT: AN INCREMENTAL VIEW

In the previous chapter the rationalist model of cutback management was developed and tested in light of the empirical findings surveyed in chapters three, four and five. The rationalist model of decision-making is one of the dominant paradigms within which decision-making is often understood. This chapter will explore the other dominant decision-making paradigm - namely, the incremental model of decision-making. The aim of the chapter is to develop and test the incremental model of cutback management. In the chapter the incremental model of decision-making will be examined to identify a series of incremental traits of cutback management. These traits will be surveyed to assess the extent to which they were found in the four local authorities when they cut spending. This survey will be used to develop an incremental theory of cutback management in local government.

#### INCREMENTAL MODEL OF DECISION-MAKING

In response to the limitations of the rationalist model of decision-making some writers were reluctant to abandon it, and instead offered a refined rationalist model grounded on a view of bounded rationality. However, other writers rejected outright the rationalist model, and preferred to develop other models of decision-making. The most robust of these models is the incremental model of decision-making. The theory of incrementalism was pioneered by Lindblom in the late 1950s, and later refined by Lindblom and other writers.<sup>1</sup> It is not an easy model to capture, because there

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<sup>1</sup> See Braybrooke & Lindblom (1970); Dahl & Lindblom (1976) pp82-85; Lindblom (1959); Lindblom (1964); Lindblom (1965); Lindblom (1979); and Lindblom (1988) pp137-259.

are "numerous conceptions of incrementalism."<sup>2</sup> Berry argued that incrementalism "now means so many different things that it has lost its utility for academic research."<sup>3</sup> This argument is misplaced, and ignores a rich tradition of research carried out within the framework of incrementalism.<sup>4</sup> Incrementalism is rooted essentially in the philosophical and practical objections levelled at the rationalist model of decision-making.<sup>5</sup> Whereas the rationalist model emphasises analysis and comprehensiveness, the incremental model stresses interaction and selectiveness. The incremental model of decision-making does not reject analysis and comprehensiveness, but maintains that their applicability is severely limited and often redundant.

Lindblom argued the rationalist model "often breaks down in its handling of values or objectives."<sup>6</sup> This breakdown of analysis occurs because the rationalist model rests on the falsehood that there are objective criteria by which ends can be formulated and means devised to achieve them. Following Lindblom, the criteria by which decisions are made "have no universal validity other than they were agreed upon."<sup>7</sup> A decision cannot be made on the basis of

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<sup>2</sup> Berry (1990) p193. See also Goodin & Waldner (1979); Gregory (1989) p140; and Jordan (1987) p10.

<sup>3</sup> Berry (1990) p193. See also Weiss & Woodhouse (1992) p255.

<sup>4</sup> For example, Wildavsky has undertaken some very influential work on budgeting, using the theory of incrementalism - see Davis, Dempster & Wildavsky (1966); Heclo & Wildavsky (1981); Wildavsky (1964); Wildavsky (1986); and Wildavsky (1988).

<sup>5</sup> See Ibrahim & Proctor (1992a) p11; and Jackson (1982b) p146.

<sup>6</sup> Lindblom (1959) p81. See also Ham & Hill (1993) p82; Ibrahim & Proctor (1992a) p12; and Simon (1957a) pp45-78.

<sup>7</sup> Lindblom (1959) p83.

objective analysis because this objectivity does not exist. The pursuit of objective rationality is a chimera. Rationality can only ever be subjective - that is, in the minds of those making the judgement. The values held by a person are not founded upon any abstract analysis, but are instead rooted in the concrete interests of that person. Each person holds different values and pursues different goals because each person has different interests. Therefore, there can be no absolute distinction between the ends and means of a decision because there is no objective rationality by which they can be distinguished. One person's rationality is often another person's irrationality.

The formulation of ends and means cannot be undertaken by analysis alone if there are conflicting values held by decision-makers. Analysis can be used only if there are shared values held by decision-makers, without which it is redundant. In the words of Lindblom:<sup>8</sup>

"Analytical solutions to policy questions thus require a harmony of interests or values among individuals and groups in society."

For incrementalists interaction is an alternative to analysis in making decisions. Lindblom added:<sup>9</sup>

"As problem-solving and policy-making processes, interactions constitute an alternative to analysis. In governmental policy making, political interactions can always replace analysis and indeed often reach solutions when analysis cannot."

Interaction represents an effective way of reconciling different objectives, priorities and values of decision-makers. It can take many forms. Lindblom defined interaction as partisan mutual adjustment, which involves "the mutual impact of groups upon each other even where

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<sup>8</sup> Lindblom (1980) p19. See also Lindblom & Woodhouse (1993) p19.

<sup>9</sup> Lindblom (1980) p27. See also Lindblom & Woodhouse (1993) pp15-22.



they are not in communication."<sup>10</sup> Interaction includes not only overt forms such as bargaining, but also covert forms of interaction such as anticipated reactions. Whenever more than one person is involved, which is usually the case, interaction is an effective way of securing agreement on the decision to be made. Interactive devices of decision-making are more likely to shift decision-makers to an agreed line than analytical devices. Analysis, however, cannot be discounted. Decision-makers often use analysis to protect their interests. This partisan analysis is often used as a tool of persuasion, and thus can be regarded as an instrument of interaction.<sup>11</sup>

Under the rationalist model a decision cannot be made if there is no agreement on the ends to be achieved and the means to achieve the ends. However, under the incremental model there does not have to be agreement on the ends of a decision but only agreement on the decision itself. A decision can be made without agreement on its ends provided there is agreement on the means to achieve the conflicting ends. The key test in decision-making "is agreement on policy itself, which remains possible even when agreement on values is not."<sup>12</sup> The incremental model avoids the analytical tangles of distinguishing between ends and means that bedevil the rationalist model of decision-making.

Incrementalists eschew any rationalist claim that decisions are made in a comprehensive manner. Instead, they advocate a selective approach to decision-making, recognising that there are too many constraints upon a decision-maker to

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<sup>10</sup> Lindblom (1959) p85. See also Ham & Hill (1993) pp86-87; and Lindblom (1965) pp19-84.

<sup>11</sup> See Lindblom (1980) pp11-39.

<sup>12</sup> Lindblom (1959) p83. See also Booth (1988) pp5-6; Ibrahim & Proctor (1992a) p11; Lindblom & Woodhouse (1993) pp25-26; and Richardson & Jordan (1985) pp22-23.

adopt a comprehensive approach.<sup>13</sup> Lindblom argued decision-makers "must use simplifying strategies."<sup>14</sup> As a simplifying strategy analysis is "drastically limited".<sup>15</sup> A decision-maker cannot embark upon an analytical and comprehensive tour of the ends and means of a decision. Ends and means are intertwined, and a decision-maker "chooses among values and among policies at one and the same time."<sup>16</sup> A decision-maker ignores deliberately many areas of possible analysis because "an exhaustive search for the maximum, for the best of all possible policies, usually costs more than it is worth."<sup>17</sup> Instead, a decision-maker selects only those areas for analysis which marginally vary from the existing policy. This process of decision-making is widely called the process of successive limited comparisons, which is the method of continuously comparing limited changes to the present position. As a result of this simplifying strategy the decision-maker makes only marginal adjustments to the existing policy.<sup>18</sup>

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<sup>13</sup> Wildavsky stated "time is in short supply, man's ability to calculate is limited, and there are few theories and no a priori bases that would enable ... [budget-makers] ... to predict the consequences of alternative actions" ((1964) p146). See also Hirschman & Lindblom (1962) p216.

<sup>14</sup> Lindblom (1980) p37. Similarly, Wildavsky believed they "take short cuts" ((1964) p147). See also Davis, Dempster & Wildavsky (1966) p529; Ibrahim & Proctor (1992a) pp11, 15-16; Jackson (1982b) pp148-150; Lindblom & Woodhouse (1993) pp26-30; Weiss & Woodhouse (1992); and Wildavsky (1967) p114.

<sup>15</sup> Lindblom (1959) p81. See also Braybrooke & Lindblom (1970) pp88-93; and Lindblom & Woodhouse (1993) pp15-22.

<sup>16</sup> Lindblom (1959) p82. See also Braybrooke & Lindblom (1970) pp93-98.

<sup>17</sup> Lindblom (1980) p37.

<sup>18</sup> In response to the Dror's criticism that incrementalism is inherently conservative Lindblom contended that it is possible to have large change through a rapid series of small changes - see Dror (1964); and Lindblom (1964). Some academics claimed a defining characteristic of incrementalism is decision-making that

Davis, Dempster and Wildavsky argued "this year's budget is based on last year's budget, with special attention given to a narrow range of increases or decreases."<sup>19</sup> In making its annual budget a local authority invariably considers only marginal changes to its previous year's budget rather than reviewing its entire budget each year. This limited analysis occurs because a local authority does not have the resources, such as staff and time, to appraise its whole budget. Also future conditions are likely to remain more or less the same as past conditions within which a local authority makes a budget, and therefore the previous year's budget is likely to work again in future years.<sup>20</sup> However, without such stability in the budgetary environment this simplifying strategy becomes less appropriate as a method of decision-making. Generally incrementalists maintain that there is a significant degree of stability to allow

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produces only marginal change (see Alt (1977) pp86-88; Burch & Wood (1989) pp27-28; Danziger (1976); Danziger (1978b) pp125-146; Dye (1992) pp34-36; Jones (1975); Jordan & Richardson (1987) pp224-225; Schulman (1975) p1354; and Wanat (1974) p1227). Burch and Wood believed that decision-making is incremental if "policy makers do not wander far from the status quo" ((1989) p27). Danziger argued incrementalism "is basically a theory about change" ((1978b) p127). The degree of change cannot be used as a defining characteristic of incrementalism because it is possible that a decision made incrementally can produce large change, and a decision made non-incrementally can produce small change. Marginal change is not incremental change. Weiss and Woodhouse believed "the concept of incrementalism can be rescued from its unfortunate association with 'small steps'" ((1992) p270; see also Gregory (1989) pp144-145; and Lane (1993) p73). Marginal change is only a descriptive trait and not a defining characteristic of incrementalism. Incrementalism as a theory of decision-making must be defined by the processes and not the outputs of decision-making.

<sup>19</sup> Davis, Dempster & Wildavsky (1966) pp529-530. See also Downs (1967) pp249-251; Greenwood (1983) pp150-151; Ibrahim & Proctor (1992a) p16; LeLoup (1978) p509; Niskanen (1971) p40; Wildavsky (1964) p15; Wildavsky (1978); and Wildavsky (1986) pp10-11.

<sup>20</sup> See Downs (1967) pp250-251; and Ibrahim & Proctor (1992a) pp14-15.

decision-makers successfully to adopt this strategy. In the words of Dahl and Lindblom:<sup>21</sup>

"Incrementalism is a method of social action that takes existing reality as one alternative and compares the probable gains and losses of closely related alternatives by making relatively small adjustments in existing reality, or making larger adjustments about whose consequences approximately as much is known as about the consequences of existing reality, or both."

Another simplifying strategy is deliberately to ignore analysing every possible consequence in advance of making a decision.<sup>22</sup> This selectiveness can be justified on the grounds that any adverse consequences will soon become apparent when the decision is implemented, and the decision can then be modified or even reversed.<sup>23</sup> This strategy runs the risk that any adverse effects of a decision may not be ameliorated, and that a decision may not be reversed. However, incrementalists argue that this risk is minimal because the decision is only a marginal adjustment of a previous policy. Lindblom maintained "given the limits on knowledge within which policy-makers are confined, simplifying by limiting the focus to small variations from present policy makes the most of available knowledge."<sup>24</sup>

Following this sketch of the incremental model of decision-making it is possible to develop an incremental model of

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<sup>21</sup> Dahl & Lindblom (1976) p82. See also Banfield (1962) p76; Booth (1988) pp7-8; Ibrahim & Proctor (1992a) p11; Jordan & Richardson (1987) p11; Lane (1993) p73; Lindblom (1959); Lindblom (1979) pp517, 519-520, 522; and Wildavsky (1964) p147.

<sup>22</sup> See Braybrooke & Lindblom (1970) pp124-127; Brown & Steel (1979) p191; Ham & Hill (1993) p85; and Wildavsky (1967) pp121-123.

<sup>23</sup> See Booth (1988) p8; Braybrooke & Lindblom (1970) pp120-124; Dahl & Lindblom (1976) p83; Goodin (1982b) pp34-37; and Goodin & Waldner (1979) pp20-24.

<sup>24</sup> Lindblom (1959) p85. See also Wildavsky (1964) pp146-147.

cutback management in local government. Cutback management in local government would comprise a high degree of interaction and selectiveness. In particular, it would be marked by the following series of incremental traits:

(a) a local authority would cut spending as a result of much interaction between different decision-makers

(b) a local authority would be riddled with conflict between different decision-makers over what activities to cut

(c) a local authority would attempt to secure agreement only on the decisions to cut spending not the objectives of these decisions

(d) a local authority would examine cutback options that only marginally varied from existing activities

(e) a local authority would undertake only short-term analysis of its cutback options

(f) a local authority would carry out only limited and partisan analysis in cutting spending

These cutback management traits stem from the incremental model of decision-making. If these traits are exhibited in the four local authorities, then, the incremental view of cutback management provides a useful and robust understanding of how local authorities make spending cuts.

#### INCREMENTAL MODEL OF CUTBACK MANAGEMENT

The incremental model of cutback management, as characterised by the above set of cutback management traits, will be explored to assess the extent to which the four local authorities made spending cuts in an incremental way.

(a) A LOCAL AUTHORITY WOULD CUT SPENDING AS A RESULT OF MUCH INTERACTION BETWEEN DIFFERENT DECISION-MAKERS

Under the incremental model of cutback management a local authority would not rely on analysis as a device for cutting its spending, but instead would display much interaction between actors in making spending cuts. Lindblom described this interaction between interested actors as partisan mutual adjustment, which "takes the form of fragmented or greatly decentralised political decision-making in which the various somewhat autonomous participants mutually affect one another (as they always do)".<sup>25</sup> Elcock, Jordan and Midwinter argued:<sup>26</sup>

"Budgeting is characterised by close interaction between Council leaders, committee chairmen or spokespersons interacting with officers."

There are two forms of interaction that can be found in a local authority when cutting spending - overt and very visible forms such as negotiation and persuasion, and covert and less visible forms of interaction such as accommodation and trust. These forms of interaction have been well charted in many studies of local authority budgeting.<sup>27</sup> Elcock, Jordan and Midwinter noted:<sup>28</sup>

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<sup>25</sup> Lindblom (1979) p522.

<sup>26</sup> Elcock, Jordan & Midwinter (1989) p67.

<sup>27</sup> See Clapham (1983); Clarke & Cochrane (1989); Danziger (1978b); Elcock (1986a); Elcock (1986b) pp180-192; Elcock (1987a) pp243-255; Elcock (1987b); Elcock, Jordan & Midwinter (1989); Greenwood (1979); Greenwood (1983); Greenwood, Hinings, Ranson & Walsh (1976) pp60-65; Hepworth (1984) pp209-237; Hogwood (1987) pp155-160; Marshall (1974); Rawlinson & Tanner (1989); Rosenberg (1984); Rosenberg (1985b); Rosenberg (1989); Rosenberg & Tomkins (1983); Rosenberg, Tomkins & Day (1982); and Tomkins (1982).

<sup>28</sup> Elcock, Jordan & Midwinter (1989) p84. However, they largely ignored the less visible forms of interaction in their study of local authority budgeting. This neglect is surprising given Heclo and Wildavsky's pioneering work on central government which stressed the importance of these forms of interaction ((1981)).

"Invariably the budgeting process involves bargaining between departmental Chief Officers and their committee chairmen on the one hand, with the leading councillors and senior officers, especially the Treasurer, on the other."

The interaction displayed in the budgetary process took place in three main arenas in a local authority - the political, administrative and political-administrative arenas. These arenas were not self-contained because interactions taking place within them were mediated by outside actors (eg central government, political parties, professional associations, trade unions and interest groups). However, these wider influences were exercised upon the decision-makers in a local authority operating in these arenas. The three decision-making arenas will be examined to understand the extent and nature of the interaction found in the four local authorities.

In the political arena interaction took place between councillors in making decisions to cut spending.<sup>29</sup> In 'hung' Bedfordshire CC the decisions to cut spending were supported by the Conservative and Liberal Groups. Leach and Stewart argued "inter-party bargaining" is inherent in the budgetary process of 'hung' local authorities.<sup>30</sup> However, in contrast to this conventional wisdom there was no bargaining between the two party groups in Bedfordshire CC in making the revenue budget of 1984/85. There was no overt interaction between party groups in agreeing upon the package of spending cuts. Instead there was covert interaction. Each Group was aware it depended on the support of the other to get its budget adopted. Furthermore, each Group was aware of the budget preferences

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<sup>29</sup> For a wider discussion on the impact of local politics upon budgeting see Elcock, Jordan & Midwinter (1989) pp49-67; and Sharpe & Newton (1984).

<sup>30</sup> Leach & Stewart (1988) p44. See also Temple (1993). In Bedfordshire CC Blowers observed "a long process of negotiation" in its decision-making process ((1977) p309).

of the other, and therefore its budget was made in such a way as to appeal to the other Group.<sup>31</sup> Both the Conservative and Liberal Groups anticipated the reactions of each other, and accommodated these anticipated reactions into their budget plans. In Kent CC there was some interaction within the Conservative Group over the method of allocating spending cuts between committees. The Conservative Group adopted an across-the-board approach whereby committees had to reduce their spending by the same proportion. The Leader of the Conservative Group preferred the across-the-board method of cutting spending, and managed to secure sufficient support for this method from committee chairmen and the wider Group.<sup>32</sup> In Knowsley MBC the Leader of the Labour Group was under pressure from some Labour councillors and local party members to confront the Conservative Government by overshooting the Council's expenditure target.<sup>33</sup> The Labour Group, as a result of this pressure, decided to go deliberately into penalty to

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<sup>31</sup> This form of partisan mutual adjustment was lubricated by the friendship between the Deputy Leader of the Conservative Group and the Education Spokesman of the Liberal Group (Deputy Leader, Conservative Group, Bedfordshire CC).

<sup>32</sup> Chairman, Property, Supplies and Services Group, Kent CC; Chairman, Finance and Review Group, Kent CC; Chairman, Police Committee, Kent CC; and Chairman, Fire and Public Protection Committee, Kent CC. The Conservative Group elected an advisory group, whose role was to advise the regular meetings of committee chairmen (Chairman, Property, Supplies and Services Group, Kent CC; and Chairman, Fire and Public Protection Committee, Kent CC). This advisory group provided an important conduit between the leadership and membership of the Conservative Group in which support was built for the across-the-board approach.

<sup>33</sup> The Chief Executive believed this faction was "looking for a scrap" in light of the confrontation between Liverpool CC and the Conservative Government. On the influence of Militant Tendency upon the politics of the Labour Group of Knowsley MBC see Kilroy-Silk (1986); and Williams (1985). Derek Hatton, the former Deputy Leader of Liverpool CC at the time of the confrontation with the Conservative Government, was employed by Knowsley MBC.



appease this faction within the local party.<sup>34</sup> In Stockport MBC a 'sweat shop' was established by the Conservative leadership in which the committee chairmen had to defend their budget plans. The package of spending cuts emerged from this series of 'sweat shop' negotiations.<sup>35</sup>

In the administrative arena the main lines of interaction were drawn between the service and finance departments of local authorities. In the wake of Wildavsky's work on budgeting these relations can be seen as between advocates of expenditure and guardians of revenue.<sup>36</sup> The service departments generally advocate more spending on services, and finance departments generally stand guard and trim these spending bids. Though this distinction is simplistic, it is still useful because it defines the "underlying emphasis or boundaries of the relevant posts."<sup>37</sup>

These lines of interaction between the service and finance departments were etched over the process of making spending cuts in the four local authorities. Their base budgets were largely negotiated settlements between service and finance

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<sup>34</sup> Chief Executive, Knowsley MBC.

<sup>35</sup> These informal meetings were more of a 'sweat shop' than a 'Spanish Inquisition'. A 'Spanish Inquisition' involves the scrutiny of the base budget. However, in practice the distinction between a 'sweat shop' and a 'Spanish Inquisition' becomes blurred. See Elcock (1987a) pp252-253; Elcock (1987b) p2; Elcock (1991) p55; Elcock, Jordan & Midwinter (1989) pp88-91, 184; Greenwood (1979) pp87-88; Greenwood (1983) pp162-165; and Greenwood, Hinings, Ranson & Walsh (1976) pp66-67.

<sup>36</sup> See Wildavsky (1964) pp160-161; and Wildavsky (1986) pp11-14.

<sup>37</sup> Rosenberg & Tomkins (1983) p63. See also Aucoin (1991) pp126-127, 137; Elcock (1991) pp121-124; Ibrahim & Proctor (1992a) p14; Rosenberg (1984); Rosenberg (1985b); Rosenberg (1989); Rosenberg, Tomkins & Day (1982); Schick (1988) p524; Tarschys (1983) pp220-222; and Tomkins (1982).

departments.<sup>38</sup> As a result of these bilateral discussions some spending cuts were made in the budgets. In Bedfordshire CC the management team of chief officers identified many spending cuts contained in the budget of 1984/85.<sup>39</sup> In Knowsley MBC the budgeted spending cuts were the outcome of a series of sometimes acrimonious negotiations between chief officers of service departments on one side, and the Chief Executive and the Borough Treasurer on the other side. In both local authorities spending cuts emerged from these inter-departmental negotiations sanctioned by councillors. Service and finance departments also haggled over inflation allowances, which are the financial adjustments made to the base budgets to offset the changes in the cost of providing services.<sup>40</sup> Schick observed that a squeeze on inflation adjustments was a common budgetary technique to cut spending "by forcing agencies to absorb a portion of the inflationary increase in operating expenses."<sup>41</sup>

In addition to these overt forms there were covert forms of

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<sup>38</sup> Director of Social Services, Bedfordshire CC; Chief Arts and Recreation Officer, Bedfordshire CC; Assistant Director of Social Services, Bedfordshire CC; County Planning Officer, Kent CC; County Education Officer, Kent CC; Assistant Director of Social Services, Kent CC; Assistant Education Officer, Kent CC; Principal Administration Officer, Kent Fire Brigade, Kent CC; Chief Executive, Knowsley MBC; Borough Treasurer, Knowsley MBC; Borough Education Officer, Knowsley MBC; Director of Leisure Services, Knowsley MBC; Director of Education and Acting Director of Housing, Stockport MBC; Director of Development and Town Planning, Stockport MBC; Assistant Director of Finance, Stockport MBC; Assistant Director of Housing and Environmental Health, Stockport MBC; and Assistant Director of Recreation and Culture, Stockport MBC.

<sup>39</sup> Bedfordshire CC's Getting Down To GREA, 1982.

<sup>40</sup> Assistant Education Officer, Kent CC; Assistant Director of Finance, Stockport MBC; and Assistant Director of Recreation and Culture, Stockport MBC.

<sup>41</sup> Schick (1988) p525. See also Rosenberg (1989) p235.

interaction between service and finance departments. Each side adjusted its position to take into account the position of the other side. One classic example of this form of partisan mutual adjustment is the practice of padding budgets. Jordan noted:<sup>42</sup>

"Departments pad to protect themselves against automatic cuts; the centre automatically cuts because departments pad...."

In the four local authorities departments often padded their budgets in anticipation of their budgets being trimmed by the finance department.<sup>43</sup> For example, the County Trading Standards Officer of Kent CC admitted he padded some budget headings after reorganising his department. He realised the finance department was in a weak position to challenge the spending estimates because the reorganisation had left past spending as a poor guide to future spending requirements. The chief officer adopted this tactic in anticipation of future demands by the finance department to trim spending.

This ritual game played between service and finance departments sometimes gave way to relations based on trust. Departments reached shared understandings within agreed 'rules of the game' which facilitated close and honest inter-departmental relations. On relations based on mutual trust Wildavsky wrote:<sup>44</sup>

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<sup>42</sup> Jordan (1987) p9. See also Cowart (1976); Cowart, Hansen & Brofoss (1975) p556; Goodin (1982a) p26; Jackson (1982b) p153; and McLean (1987) p97.

<sup>43</sup> Chief Arts and Recreation Officer, Bedfordshire CC; County Education Officer, Kent CC; County Trading Standards Officer, Kent CC; Assistant Director of Social Services, Kent CC; Assistant Education Officer, Kent CC; Leader, Conservative Group, Stockport MBC; Assistant Director of Recreation and Culture, Stockport MBC; and Assistant Director of Finance, Stockport MBC.

<sup>44</sup> Wildavsky (1986) pp90-91. See also Heclo & Wildavsky (1981); and Jackson (1982b) p150. Though Wildavsky's view was based on budgeting in central and federal governments his analysis has been applied to local government - see

"The bedrock of British political administration is the importance of personal trust. By trust one means personal dependability, "soundness," and a feeling that here is a person in whom one can reliably place his confidence. Mutual trust is considered paramount by officials who know they will be doing business with each other year after year on issue after issue.... A Treasury man wants to know whether the department official can keep his side of the bargain."

Service and finance departments sometimes entered into a 'truce', and forged relations based on mutual trust about how much money was required to provide services.<sup>45</sup> This 'truce' is a form of partisan mutual adjustment, and emerged over a period of time between departments during the routines of budgeting. Furthermore, relations between departments changed in times of financial restraint. This prevailing financial climate altered the expectations of service departments because they anticipated successive rounds of spending cuts and therefore were less likely to obstruct the search for cuts by padding their budgets. The fiscal squeeze of local authorities created a 'new realism' in relations between departments at budget times. As a result Tomkins argued that "the Treasury role as a guardian against excessive spending actually became easier to perform and advocates for expenditure from spending departments became more moderate in their demands."<sup>46</sup>

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Rosenberg (1984); Rosenberg (1985b); and Rosenberg (1989).

<sup>45</sup> Director of Social Services, Bedfordshire CC; Assistant Director of Social Services, Bedfordshire CC; County Education Officer, Kent CC; County Planning Officer, Kent CC; Assistant Director of Social Services, Kent CC; Assistant Education Officer, Kent CC; Principal Administration Officer, Kent Fire Brigade, Kent CC; Director of Leisure Services, Knowsley MBC; Senior Assistant Education Officer, Lancashire CC; Director of Education and Acting Director of Housing, Stockport MBC; Director of Development and Town Planning, Stockport MBC; and Assistant Director of Housing and Environmental Health, Stockport MBC.

<sup>46</sup> Tomkins (1982) p10.

There are an array of overt and covert interactions in the administrative arena mainly centred on the relationship between service and finance departments of local authorities. In the words of Rosenberg and Tomkins:<sup>47</sup>

"While guardianship is the underlying objective of the treasury budget liaison officer's function, and advocacy that of his spending department counterpart, the processes attached to each role involve aspects of mutual questioning, negotiation, gaming and support...."

In the political-administrative arena interaction took place largely between leading councillors and officers of the local authority on two fronts - first, between chief officers at the centre (most notably the chief executive and treasurer) and leading councillors; and second, between chief officers of service departments and leading councillors. Officers advise councillors - from the chief executive and the treasurer, advice on how much to cut and how to cut spending; and from the chief officers of service departments, advice on what spending to cut. However, the leading councillors - that is, the leader of the ruling party group and committee chairpersons - give direction to the officers and set guidelines within which officers frame their advice.<sup>48</sup> There is a mutual dependence between councillors and officers. Councillors depend upon officers

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<sup>47</sup> Rosenberg & Tomkins (1983) p62.

<sup>48</sup> In 'hung' local authorities such as Bedfordshire CC the number of leading councillors expands to include the leaders of the main party groups and committee spokespersons of the party groups (see Temple (1993)). But there are not surprisingly competing and conflicting directions and guidelines from these councillors to officers. Relations between councillors and officers are fluid and uncertain (see Blowers (1977); Blowers (1982); Blowers (1986); Blowers (1987); and Temple (1991) p38). Blowers argued that in 'hung' local authorities officers may "exert considerable influence, exploiting political divisions and using initiative confident of some support", or may "become more circumspect, anxious to influence affairs but unwilling to venture opinions and proposals that, if unheeded, will undermine their credibility with at least part of the council" ((1982) p18).

for expertise to advise and implement their decisions; and officers depend upon councillors for support to structure and sanction their advice. These mutually dependent relations were observed in Clarke and Cochrane's study of finance professionals in Labour-controlled local authorities. They found treasurers and Labour councillors "are able to reinforce each other's position: treasurers offer solutions to apparently insoluble problems, by squaring the circle of cuts in government grant and increased demand for services, while council leaders are able to offer support to detailed financial scrutiny of departmental spending budgets."<sup>49</sup> The relations between treasurers and leading councillors have become more prominent in recent times because of the increasing number of central government controls upon local government spending. Treasurers have (or at least are perceived to have) the expertise to dilute the impact of these controls and even to bypass the controls. Central government controls have heralded an era of creative accounting in local government. Indeed, the former Leader of Sheffield CC, David Blunkett, praised the ingenuity of treasurers and believed "creative accounting has saved the day in many local authorities."<sup>50</sup>

Interaction between leading councillors and officers was largely conducted in informal groups and not formal committees. In Stockport MBC the Leader of the ruling Conservative Group, the Chief Executive and the Director of Finance presided over informal meetings during which committee chairmen and chief officers defended their budgets. These informal settings have been well documented in studies of local authority budgeting. Elcock, Jordan and

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<sup>49</sup> Clarke & Cochrane (1989) pp48-49.

<sup>50</sup> Taken from Barclay (1985) p3.

Midwinter argued:<sup>51</sup>

"Within the informal leadership groups which commonly effectively make budgets, leading councillors and senior ... officers' roles tend to blur almost to vanishing point."

In addition to these overt forms there were covert forms of interaction. The relations between councillors and officers were shaped by a game of anticipated reactions played by officers in the local authorities. Officers often anticipated the reactions of councillors before recommending cuts in spending. There were two main ways in which officers anticipated the reactions of the ruling party group. In the first way, officers were usually aware of the prevailing views of the party group, and thus recommended spending cuts which fitted in with them. Many officers realised there was nothing to gain by putting forward recommendations that were politically unacceptable.<sup>52</sup> Officers wanted to know what was and what was not acceptable to the controlling party group. These preferences then determined the parameters within which they advised the party group on how much, how and where to cut spending.<sup>53</sup> Their advice was framed in anticipation of the reactions of the leading councillors. In the second way, some officers deliberately put forward spending cuts which conflicted with the views of the ruling party group in anticipation that these politically unacceptable spending cuts would not be implemented, and furthermore

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<sup>51</sup> Elcock, Jordan & Midwinter (1989) p184. See also Elcock & Jordan (1987).

<sup>52</sup> County Secretary, Bedfordshire CC; Manager, Highways and Transportation Department, Kent CC; Finance Officer, Highways and Transportation Department, Kent CC; and Director of Leisure Services, Knowsley MBC.

<sup>53</sup> For example, in Bedfordshire CC the Deputy Leader of the Conservative Group realised that by asking the management team of chief officers to undertake the 'Getting Down To GREA' exercise the Conservative Group sent signals out to officers that spending cuts were on its agenda.

that they would be relieved of finding other spending cuts as replacements. On budgeting in central government Heclo and Wildavsky observed:<sup>54</sup>

"Departments propose offsetting savings which they know must be put back. Some officials call this 'the sore thumb' or 'beggar's sores' technique (you don't want to hit or touch it). The skilled practitioner agrees to offer compensatory savings but chooses items which are sure to reawaken painful memories of the political consequences that allegedly occurred the last time a cut was applied or proposed in this area. Ministers are unlikely to agree to it."

In the four local authorities there were several accusations that this 'sore thumb' trick was being used by officers. Officers generally denied the allegations of using this tactic, not least because anything other than a denial would diminish not only its effectiveness but also their credibility.<sup>55</sup> The risk of using the 'sore thumb' technique is that what is anticipated as politically unacceptable is in fact politically acceptable.<sup>56</sup> However, there was one confessed example of the 'sore thumb' technique found in the four local authorities.<sup>57</sup> The police force in Kent was aware the ruling Conservative Group would not cut police manpower levels (especially at the time of the miners' dispute). The Assistant Chief Constable anticipated this reaction, and claimed the police force was

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<sup>54</sup> Heclo & Wildavsky (1981) p91. See also Elcock, Jordan & Midwinter (1989) p178; Glennerster (1980a) p372; Glennerster (1981) p183; and Jönsson (1984) p137. Elcock, Jordan and Midwinter distinguished between the 'sore thumb' trick and 'shroud-waving', in which "dire warnings of the consequences of persisting with demands for spending cuts are uttered: pointing out the 'sore thumbs' which result from cuts or 'shroud-waving': warning of problems that will result from them" ((1989) pp177-178).

<sup>55</sup> Assistant Education Officer, Bedfordshire CC; and Chief Executive, Knowsley MBC.

<sup>56</sup> Assistant Education Officer, Kent CC.

<sup>57</sup> Principal Administration Officer, Kent County Constabulary, Kent CC.



unable to find the required savings without cutting manpower levels. In the mistaken belief that the police force was at "the edge of a precipice" the Conservative Group, as anticipated, backed off from making the police force find its share of spending cuts.<sup>58</sup> Overall, in the political-administrative arena interactions between councillors and officers were both overt and covert.

In the political, administrative and political-administrative decision-making arenas there was much overt and covert interaction in making spending cuts. Spending cuts were the outcome of interaction between key actors of the four local authorities. Spending was cut on the grounds of political and administrative feasibility rather than rationalist analysis. The notion of feasibility was determined by the interactions of the key actors in the budgetary process. Greenwood argued that local authorities "have increasingly sought to inform the process of budgetary choice through the use of rational rather than political analysis."<sup>59</sup> This rationalist argument fails to understand that political analysis in the form of interaction is still dominant in making local authority budgets.

(b) A LOCAL AUTHORITY WOULD BE RIDDLED WITH CONFLICT BETWEEN DIFFERENT DECISION-MAKERS OVER WHAT ACTIVITIES TO CUT

There are many significant actors involved in the making of spending cuts in local government. Inside local authorities there are the ruling party groups (or the coalition of party groups in 'hung' local authorities) on the councillor side, and departments on the officer side. Outside local

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<sup>58</sup> Principal Administration Officer, Kent County Constabulary, Kent CC.

<sup>59</sup> Greenwood (1979) p94.

authorities there are central government, political parties, trade unions, professional associations, pressure groups, business, voters, ratepayers, the media and other bodies (such as the Audit Commission).

These actors possess different interests and thus pursue different goals. As a result there will be much conflict in budgeting. Wildavsky argued:<sup>60</sup>

"Budgeting is translating financial resources into human purposes. Behind currencies stand human limitations; unless nations possess an alchemist's stone for turning base metals into gold, resources are limited. But human desires are not. Hence, some way must be found to apportion available funds among competing people and purposes. Behind every government budget - which necessarily takes revenues from some citizens and distributes them to others - lies conflict."

Budgeting is about choice - choosing between competing demands upon limited resources. It is about who gets and who does not get what they want. As Wildavsky wrote, if "politics is regarded in part as conflict over whose preferences shall prevail in the determination of national policy, then the budget records the outcomes of this struggle."<sup>61</sup> Conflict is inherent in the budgetary process. In times of growth the likelihood of conflict is decreased because more spending demands can be financed from the growing pool of resources. In times of restraint, however, the likelihood of conflict is increased because fewer demands can be satisfied from the dwindling pool of resources. Stewart predicted:<sup>62</sup>

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<sup>60</sup> Wildavsky (1986) p7. See also Greenwood, Hinings & Ranson (1977) p25; Ibrahim & Proctor (1992a) p15; Natchez & Bupp (1973) p955; Schick (1983) p23; Schick (1988) p527; and Wildavsky (1964) pp1-5.

<sup>61</sup> Wildavsky (1964) p4.

<sup>62</sup> Stewart (1980) p22. See also Elcock (1986b) p183; Gill & Frame (1990) p532; Gurr & King (1987) p17; Schick (1983) p23; Schick (1988) p527; and Tarschys (1983) pp219-220.

"There are likely to be growing conflicts and difficulties in resource allocation. Consensus cannot be bought by growth."

The decision to cut spending exacerbates conflict within a local authority. There is likely to be much resistance by actors whose interests are threatened by the spending cuts.<sup>63</sup>

In making spending cuts there was much conflict between central government and local authorities and also within local authorities. First, there was increased confrontation between central government and local government over cutting local authority spending. The Conservative Government wanted to curb the spending of local authorities. Kenneth Baker, the former Secretary of State for the Environment, noted that when "the first Thatcher Government came to power, a clash with local government became inevitable."<sup>64</sup> Local authorities generally wanted to resist moves by central government to impose spending cuts upon them.<sup>65</sup> Though none of the four local authorities

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<sup>63</sup> As Levine argued, when "confronting possible cuts, managers and political leaders will have to choose between resisting these cuts or smoothing them out by limiting their impact on the organization's most important functions, procedures and long-term capacity" ((1979) p182).

<sup>64</sup> Baker (1993) p112.

<sup>65</sup> Local authorities may choose to comply with requests from central government to curb their spending either because they want to comply or because they have to comply despite their resistance. For a wider discussion on local government resistance to central government controls see Barnett (1986); Bassett (1982); Blunkett & Jackson (1987); Boddy & Fudge (1981); Boddy & Fudge (1984); Butcher, Law, Leach & Mullard (1990) pp55-77; Clarke & Cochrane (1989); Cochrane (1984-5) pp46-47; Cochrane (1993) pp28-47; Community Action (1984a); Duncan & Goodwin (1988); Dunleavy & Rhodes (1986); The Economist (1983); Elcock (1986a); Elcock (1987a) pp250-252; Elcock (1987b); Elcock (1991) pp106-107; Elcock, Jordan & Midwinter (1989) pp16-48, 95-105; Elliott & McCrone (1984); Glassberg (1980); Glassberg (1981); Goldsmith (1986a); Goldsmith (1986b); Gyford (1985) pp28-33; Hampton (1991) pp93-113, 173-189; Hatton (1985);

adopted 'brinkmanship' strategies, as Liverpool CC did against central government, Knowsley MBC went deliberately into grant penalty to support its Merseyside neighbour, and Bedfordshire CC and Kent CC also incurred grant penalties.

Second, there was increased conflict within local authorities in making spending cuts. Conflict arose between councillors, between officers, and between councillors and officers. The most prevalent conflict was between the advocates of spending and guardians of revenue. Wildavsky argued:<sup>66</sup>

"... agencies are advocates of their own expenditures, not guardians of the nation's purse. They all want more. And the job of a finance ministry ... is to see that they don't get it."

This tension corresponds almost to that between 'generalists' and 'specialists'.<sup>67</sup> 'Generalists' are more concerned with the whole of the local authority and its overall spending on services. 'Specialists' are more concerned with parts of the local authority and its spending on particular services. Stewart recognised these tensions, and noted:<sup>68</sup>

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Jacobs (1979); Kingdom (1991) pp172-193; Lansley, Goss & Wolmar (1989) pp23-46, 175-192; Midwinter (1984); Midwinter (1988) pp23-25; Militant (not dated); Newton (1980); Newton & Karran (1985); Parkinson (1985a); Parkinson (1985b); Parkinson (1987a); Parkinson (1987b); Preston (1984); Ranson, Jones & Walsh (1985); Rayner & Conway (1981-2); Rhodes (1984); Rhodes (1985a); Rhodes (1988); Rodrigues (1980); Saunders (1980); Saunders (1982); Saunders (1986a); Sharpe (1981c); Short (1984) pp88-89; Sondheimer (1986); and Stoker (1991) pp140-204.

<sup>66</sup> Wildavsky (1986) pp12-13.

<sup>67</sup> See Elcock (1991) pp27-28; and Elcock, Jordan & Midwinter (1989) p182. It is important to understand that these distinctions are aimed at 'moving targets'. For example, the director of social services can be seen as an advocate for spending and 'specialist' by a chief executive, but a guardian of revenues and 'generalist' by social workers.

<sup>68</sup> Stewart (1983) p83.

"There are lines of possible conflict between those with interests in the overall working of the authority (leader and chief executive) and those with interests in particular services (chairman and chief officers).... There are lines of possible conflict between those at the centre of the organisation (leading councillors and chief officers) and those at the periphery of the organisation (fieldworkers and backbenchers) with middle management bearing the pressure of that conflict."

'Generalists' tend to guard revenues against the claims advocated by 'specialists'.

The conflict between the guardians and the advocates was seen in the party groups of the four local authorities. There was much tension within party groups between the leader who was more concerned with the overall budget strategy on one side, and the committee spokespersons who were more concerned with their specific budgets on the other side. The 'sweat shop' mechanism found in Stockport MBC was an arrangement to resolve these tensions.

This conflict of roles between guardians and advocates was seen between and within departments of the four local authorities. There were many disputes between the central departments headed by the chief executive and the treasurer, and the service departments. The central departments were concerned primarily with the overall budget strategy whereas the service departments were far more concerned to protect their share of the budget. Rosenberg captured this tension when he wrote:<sup>69</sup>

"In an era where cuts in service departments' budgets ... are expected the Treasurer felt his organisational relationships with other Chief Officers was both one of co-operation and one of conflict and tensions. He alone had to speak the language of accountancy and 'real cuts' in those Chief Officers' meetings in which other officers were protesting and speaking another language of services and clients."

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<sup>69</sup> Rosenberg (1985b) p159.

In Knowsley MBC bitter conflicts between the Chief Executive and the Borough Treasurer on one side, and the Borough Education Officer on the other side were symptomatic of this inherent tension between guardians of revenue and advocates of spending. This tension also prevailed within departments, as there were perennial conflicts between those concerned with the overall departmental budget and those more concerned with the details of the budget.<sup>70</sup>

Finally, this conflict was seen in relations between councillors and officers. Councillors in pressing for spending cuts often encountered 'shroud-waving' officers. A chief officer faced with demands to cut departmental spending sometimes resorted to special pleading in the hope that the axe fell upon other departments.<sup>71</sup> In Kent CC the Education Department and the Social Services Department admitted to making a special case to be treated differently from other departments in the budget-making process.<sup>72</sup> In Knowsley MBC the Education Department made a vigorous case to be exempt from making the required amount of spending cuts.<sup>73</sup>

In general, the conflicts between key actors in cutting local authority spending can be explained because of their competing and conflicting interests, and consequently their competing and conflicting objectives. In making spending cuts there is much conflict between the vested interests

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<sup>70</sup> Principal Administration Officer, Kent County Constabulary, Kent CC; Manager, Highways and Transportation Department, Kent CC; and Finance Officer, Highways and Transportation Department, Kent CC.

<sup>71</sup> See Cope (1987); and Elcock (1987a) pp253, 255.

<sup>72</sup> County Education Officer, Kent CC; and Assistant Director of Social Services, Kent CC.

<sup>73</sup> Borough Education Officer, Knowsley MBC.

represented in local authorities.<sup>74</sup>

(c) A LOCAL AUTHORITY WOULD ATTEMPT TO SECURE AGREEMENT ONLY ON THE DECISIONS TO CUT SPENDING NOT THE OBJECTIVES OF THESE DECISIONS

Agreement upon decisions to cut local authority spending is facilitated if the actors involved have interests that coincide, which does not necessarily mean that interests have to be shared. According to the incremental model of decision-making, decision-makers do not need to agree on the objectives of a decision but need only to agree on the decision itself.

A variety of creative accounting devices have been used by local authorities to bypass central government controls of their spending.<sup>75</sup> Generally Conservative and Labour party groups in local authorities adopted these creative accounting measures but for very different reasons. The Conservatives wanted to keep down rates bills, and Labour wanted to protect spending on services. Though both sides disagreed on the objectives in making decisions on creative accounting, they agreed on the decisions themselves. For example, in Bedfordshire CC the Conservative and Liberal Groups agreed upon the budget even though each had different aims for this budget. Both did not want to increase the Council's precept, but the Liberal Group wanted to spend more on services than the Conservative Group. The Conservative Group wanted to keep spending close to central government's expenditure target and thus

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<sup>74</sup> In looking at spending cuts made by social services departments of local authorities Kelly reached a similar conclusion. He explained the incidence of spending cuts in terms of the "micro-political interests of politicians, managers, professionals and consumers" and "their capacity to mobilise power to pursue their competing rationalities" ((1989) p208).

<sup>75</sup> See chapter two, footnote 87.

restrict the Council's net spending. Both Groups had different aims, but both agreed on the budget because the decision taken to use special funds allowed their aims to be achieved - namely, the shared aim of holding down the precept, the Liberal aim of spending more on services, and the Conservative aim of reducing net spending. This example demonstrates that in making decisions what is required is agreement on the decision itself and not agreement on the objectives of the decision.

Wolman noted that spending reductions "will be made in activities ... which will minimize conflict and disruption."<sup>76</sup> The pressures to cut spending require local authorities to make decisions on how much, how and where to cut spending. These decisions were made largely on the basis of agreements struck by key decision-makers in the local authorities. The need to secure agreement between decision-makers, thus, minimises the amount of conflict. Though conflict increased as local authorities made spending cuts, the process of agreeing only on the decisions made to cut spending facilitated the making of these decisions, whereas agreement on the objectives of a cutback management strategy would exacerbate conflict between decision-makers and reduce the likelihood of decisions being made. Agreement on objectives may facilitate but does not guarantee agreement on the means to achieve the objectives. The key actors of the four local authorities neither agreed nor attempted to agree upon the objectives of their budget containing spending cuts. They needed only to agree on the decisions to cut spending not the objectives of these decisions.

(d) A LOCAL AUTHORITY WOULD EXAMINE CUTBACK OPTIONS THAT ONLY marginally varied from existing activities

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<sup>76</sup> Wolman (1983) p259.



In making spending cuts, according to the incrementalist model, the local authority would not review its entire budget, but would consider only marginal adjustments to its existing budget. Wildavsky argued:<sup>77</sup>

"Budgeting is incremental, not comprehensive. The beginning of wisdom about an agency budget is that it is almost never actively reviewed as a whole every year in the sense of reconsidering the value of all existing programs as compared to all possible alternatives. Instead, it is based on last year's budget with special attention given to a narrow range of increases and decreases. Thus the men who make the budget are concerned with relatively small increments to an existing base. Their attention is focused on a small number of items over which the budgetary battle is fought."

This budgetary practice is an example of what Lindblom has called the method of successive limited comparisons whereby policy change is limited to "those policies that differ in relatively small degree from policies presently in effect."<sup>78</sup> The local authority would cut spending at the margins of its budget; and would embark upon a process of 'decremental budgeting'.<sup>79</sup>

An understanding of the base and the margin are critical in examining this incremental trait of cutback management.<sup>80</sup> Wildavsky defined the concept of the base as the "commonly held expectations among participants in budgeting that programs will be carried out at close to the going level of expenditures."<sup>81</sup> He argued the base "refers to accepted

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<sup>77</sup> Wildavsky (1964) p15.

<sup>78</sup> Lindblom (1959) p84. Later Lindblom referred to this process as "simple incremental analysis" ((1979) p517).

<sup>79</sup> See Aucoin (1991) p121; Burton (1985) pp85-86; Hood & Wright (1981a); Schick (1988) p524; Tarschys (1981); Tarschys (1984); and Wright (1981) p12.

<sup>80</sup> See Gist (1977).

<sup>81</sup> Wildavsky (1986) p11. See also Davis, Dempster & Wildavsky (1966) p530.

parts of programs that will not normally be subjected to intense scrutiny."<sup>82</sup> The base is the past rolled into the future. In budgeting the base is the existing budget with the widespread expectation among budgetary actors that it will be almost automatically rolled forward into future budgets. The base budget is a standstill budget.

The concept of the margin is more difficult to define because it is a relative term. The margin can be measured only in relation to the base. A margin is relatively small compared to the whole base. This definition raises significant methodological questions of measuring the size of change and determining whether a change is marginal or not.<sup>83</sup> The concept of the margin is difficult to delimit because, as Dempster and Wildavsky claimed, "there is no magic size for an increment".<sup>84</sup> Without wanting to delve too deeply into this methodological jungle it is important to operationalise the concepts of the base and the margin in order to test the incremental model of cutback management in local government.

The base is easier to operationalise because all local authorities, including Bedfordshire CC, Kent CC, Knowsley MBC and Stockport MBC, construct a base budget at the start of the budget process. Nicholson asserted:<sup>85</sup>

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<sup>82</sup> Wildavsky (1986) p11.

<sup>83</sup> See Bailey & O'Connor (1975); Berry (1990); Booth (1988) pp13-14; Braybrooke & Lindblom (1970) pp62-65; Burch & Wood (1989) p30; Dempster & Wildavsky (1979); Goodin (1982b) p22; Ibrahim & Proctor (1992a) pp16-17; Kelly (1989) p207; Lane (1993) pp72-73; and Wanat (1974).

<sup>84</sup> Dempster & Wildavsky (1979) p371. They argued that "it is the regularity or irregularity of the changes in size that matter, not the absolute amount of the changes themselves" ((1979) p375). See also Burch & Wood (1989) p30.

<sup>85</sup> Nicholson (1988) p243. See also chapter two, footnote 129.

"Almost all local authority budgets take as their base the position of the previous year. There is an in-built preference for the status quo...."

The four local authorities did not systematically review their base budgets. The political and administrative leadership formulated a budget strategy which was implemented (or sometimes not implemented) by the committees and departments. Any detailed analysis of the base budget was undertaken at the departmental not the corporate level. Furthermore, most departments rarely scrutinised their budgets, and only a handful of departments scrutinised their budgets in a systematic way. For example, in Kent CC the Highways and Transportation Department introduced a budget planning process to assess departmental priorities.<sup>86</sup>

The limited review of the base budget conducted by the four local authorities is mirrored in other local authorities. Greenwood observed:<sup>87</sup>

"Local authorities do not systematically re-examine their expenditures. The pattern of service provision changes remarkably little from one year to the next, and only a small proportion of expenditures are reviewed at any time."

However, several writers observed that in an era of financial restraint local authorities increasingly review their base budget over time in their search for spending cuts. Greenwood, Hinings, Ranson and Walsh noted "a contraction in the supply of resources widens the parameters of budgetary review".<sup>88</sup> This observation needs

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<sup>86</sup> County Surveyor, Kent CC.

<sup>87</sup> Greenwood (1979) p94. See also Elcock (1987a) p254; Greenwood, Hinings, Ranson & Walsh (1980) pp25-26; Pendlebury (1985) p30; and Stewart (1983) pp198-211.

<sup>88</sup> Greenwood, Hinings, Ranson & Walsh (1980) p46. See chapter six, footnote 31. This research project is a study of how four local authorities cut spending in 1984/85, and is not therefore a longitudinal study of budgeting. It is not possible to test the hypothesis that the parameters of budgetary review widen over time.

to be placed in perspective because though local authorities may increasingly review their budgets there is still, as witnessed in the four local authorities, little systematic review of budgets. Though there may be more scrutiny there is still little scrutiny of budgets.

Instead of reviewing their base budgets local authorities tended to scrutinise the proposed changes to their budgets. In Bedfordshire CC departments compiled a 'shopping list' of spending cuts as a result of several cost-cutting exercises. In Kent CC the ruling Conservative Group required committees to find across-the-board reductions to their budgets. In Knowsley MBC the Chief Executive and the Borough Treasurer scrutinised only the spending cuts identified by the departments in the 'lower expenditure options' exercise. In Stockport MBC the Conservative leadership scrutinised only the changes to committee budgets.

In all the local authorities scrutiny of budgets was focused on changes made to the base budget and not the base budget itself. Compared to their spending of the previous year the spending cuts made by the four local authorities ranged from 0.1 per cent in Stockport MBC to 2.3 per cent in Kent CC.<sup>89</sup> In 1984/85 the four local authorities together cut their spending by 1.7 per cent from their spending in 1983/84. Notwithstanding the methodological problems of operationalising the concept of the margin, the amount of spending cuts extracted in the four local authorities was marginal relative to the size of their budgets. The local authorities examined only small changes to their existing budgets. There are three explanations of this incremental trait of budgeting in local government.

First, there are constraints in scrutinising each item of

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<sup>89</sup> See chapter three, tables 3.5, 3.9, 3.11 and 3.13.

spending proposed in the annual budget made by a local authority. Danziger argued that the "decision-maker, constrained by his own cognitive capacity, by time pressures, by the availability of information and by the costs of analysis, responds by identifying only a few marginal alterations from the status quo and then by selecting one of these alternatives."<sup>90</sup> The budget-maker rarely possesses the resources - time, money and information - to analyse the budget in a comprehensive manner, and must confine analysis to its margins.

Second, the base budget of a local authority is essentially a negotiated settlement between the service departments and finance department. It is unlikely to change much unless there are significant changes in the power-relations between these budgetary actors. Powerful actors will try to prevent any analysis of the budget threatening their interests. Service departments are often resistant to analyse their budgets if the outcome of such analysis is to be used by finance departments to trim their spending. For example, in Kent CC the newly-reorganised Trading Standards Department resisted successfully attempts by the County Treasurer's Department to scrutinise its budget, because the costs of running the department could not be directly compared with its costs before reorganisation.<sup>91</sup> As Danziger argued, since "the cognitive costs of fundamental reassessments ... and the political costs of eliminating the current programs are high, most existing allocations are taken as the starting point, the 'base'."<sup>92</sup>

Third, any rationale for the comprehensive analysis of the

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<sup>90</sup> Danziger (1976) pp335-336. See also Danziger (1978b) pp125-126; Downs (1967) pp247-252; Lindblom & Woodhouse (1993) p28; Tarschys (1981) p56; and Wildavsky (1964) pp146-147.

<sup>91</sup> County Trading Standards Officer, Kent CC.

<sup>92</sup> Danziger (1976) p336.

budget is made redundant if the local authority has little control over its spending. There is no point in scrutinising an item of spending if that money has to be spent in a prescribed way. Newton wrote:<sup>93</sup>

"The room for financial manoeuvre on the part of local government when it tries to adapt to increasingly tight financial circumstances is limited. The constraints to which it is subject are of four main kinds, namely: social and demographic trends and pressures in society at large; economic and financial pressures created by the nature of its activities and the institutional structure within which it works; government laws and regulations which largely determine what local government does, and how it should finance these activities; and political pressures which mainly derive from the revolution of rising expectations."

In general, the four local authorities did not embark on a comprehensive, planned and systematic scrutiny of their budgets. Scrutiny focused on the margins of their budgets. As Elcock, Jordan and Midwinter intimated in the title of their book, budgeting in local government is all about "managing the margins".<sup>94</sup>

(e) A LOCAL AUTHORITY WOULD UNDERTAKE ONLY SHORT-TERM ANALYSIS OF ITS CUTBACK OPTIONS

The incremental model of cutback management prefers short-term over long-term analysis. The model "eschews any real attempt at long-range planning".<sup>95</sup> This aversion to, or at

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<sup>93</sup> Newton (1980) p185. See also chapter six, footnotes 54 and 55.

<sup>94</sup> Elcock, Jordan & Midwinter (1989). See also Alt (1977) pp86-88; Arthur Young (1987) pp47-48; Danziger (1976); Danziger (1978b) pp125-146; Elcock (1986b) p185; Elcock (1987b) p11; Elcock (1991) p126; Greenwood (1979) p94; and Ibrahim & Proctor (1992b) p58.

<sup>95</sup> Leach (1982) p7. See also Brown & Steel (1979) p191; and Spiers (1975) p152.

least discounting of, long-term planning stems from the high degree of uncertainty surrounding the budget-making process. Budget-makers can often neither control nor predict what is going to happen in the longer term, and therefore prefer to make budgets on the basis of short-term calculations. The high degree of uncertainty was the reason why local authorities did not look too far ahead beyond the traditional one-year budget. Central government in the way it calculated and distributed grants to local authorities, and in the way it set spending targets and block allocations for local authorities, created much of the uncertainty faced by local authorities in making budgets.<sup>96</sup>

As a result of this financial uncertainty the making of spending cuts in the four local authorities was driven by short-term considerations. Their revenue budgets were annual budgets - only Stockport MBC attempted to project its spending beyond this one-year horizon. Budget-making in Bedfordshire CC was made even more difficult to plan because the local authority was 'hung'. Its Chief Executive remarked that he was "more concerned with keeping the machinery running" than with planning ahead. The capital budgets of the four local authorities were dominated by the revenue consequences of their capital programmes. For example, the County Treasurer of Kent CC noted:<sup>97</sup>

"The Policy and Budget Group and the Policy and Resources Committee in considering the capital programme expressed their concern at the County Council's ability to continue to sustain the programme at its present level and at the impact that resultant revenue commitments could have on future revenue budgets. The Policy and Resources Committee has therefore given approval in

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<sup>96</sup> See Adams (1986); Audit Commission For Local Authorities In England And Wales (1984g); Audit Commission For Local Authorities In England And Wales (1985a); Cope (1987) pp99-100; Elcock (1991) pp117-119; National Audit Office (1985) pp22-24; and Stewart (1983) p209.

<sup>97</sup> Taken from Kent CC's Revenue Budget And Capital Programme 1984-85, 16 February 1984, p3.

principle only to the 1984-85 programme...."

The Audit Commission observed that uncertainty facing local authorities drove out any longer-term planning of budgets and policies, and found that longer-term planning "has remained in abeyance in many authorities".<sup>98</sup> Pinkham and Platt noted:<sup>99</sup>

"In many, if not most, authorities cuts exercises are an object lesson in the 'crisis style of management'. We don't ask "what do we want to cut?" so much as "what can we cut in the next few weeks"?"

This view was countered by Greenwood, who argued that in times of financial restraint local authorities increasingly plan their resources.<sup>100</sup> The only significant form of planning found in the four local authorities was cash planning. Any policy planning was firmly driven by cash planning.<sup>101</sup> Local authorities were increasingly concerned to identify future financial implications of any policy developments. The capital programmes of the four local authorities were scanned to calculate the financial implications for their revenue budgets. Furthermore, because of the fiscal uncertainty created by central government local authorities were forced to create several possible future scenarios of their revenues and expenditures rather than attempt to formulate a single detailed plan. Overall, the little planning undertaken in the four local authorities was concerned with spending not services, and with the short-term not the long-term. Planning was finance-driven in the four local authorities.

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<sup>98</sup> Audit Commission For Local Authorities In England And Wales (1984g) p27. See also chapter six, footnote 89.

<sup>99</sup> Pinkham & Platt (1980) p22.

<sup>100</sup> See Greenwood (1983) p157. See also Hepworth (1984) p209.

<sup>101</sup> See Cope (1987) p100; Elcock (1986b) p184; and Elcock (1991) pp118-119.



(f) A LOCAL AUTHORITY WOULD CARRY OUT LIMITED AND PARTISAN ANALYSIS IN CUTTING SPENDING

The incremental model of cutback management suggests that if any analysis takes place it will be always limited and partisan. The limited nature of analysis is best understood with reference to Lindblom's threefold typology of incremental analysis.<sup>102</sup> First, there is "simple incremental analysis" which involves the "consideration of alternative policies all of which are only incrementally different from the status quo."<sup>103</sup> Second, there is "disjointed incrementalism" which is analysis "marked by a mutually supporting set of simplifying and focusing stratagems".<sup>104</sup> Third, there is "strategic analysis" which is analysis of "any calculated or thoughtfully set of stratagems to simplify complex policy problems."<sup>105</sup> These forms of incremental analysis all fall short of the comprehensive analysis assumed under the rationalist model.

The four local authorities tended to scrutinise only the margins of their budgets. They did not have the capacity nor the motivation to analyse their entire budgets. In Bedfordshire CC the Education Spokesman of the Liberal Group lamented the lack of information and time for the analysis of the budget. Similarly, the Chairman of the Police Committee of Kent CC regretted the lack of time to analyse the base budget of the police force. The scrutiny of only the margins of their budgets is simple incremental

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<sup>102</sup> See Ham & Hill (1993) pp92-93; and Lindblom (1979) pp517-518.

<sup>103</sup> Lindblom (1979) p517. See also Lindblom & Woodhouse (1993) pp27-28. This form of analysis corresponds to the process of successive limited comparisons - see Lindblom (1959).

<sup>104</sup> Lindblom (1979) p517. See also Braybrooke & Lindblom (1970) pp81-110; and Hirschman & Lindblom (1962) pp215-216.

<sup>105</sup> Lindblom (1979) p518.

analysis.

The analysis of spending cuts made by the four local authorities was also disjointed. It involved many different actors, and took place at different times in the budgetary process. The political and administrative leadership of the four local authorities dominated the making of the budget strategy; and service committees and departments dominated its implementation. Thus, the centre largely engaged in macro-analysis of the making of the budget strategy; and the periphery engaged in micro-analysis of the detailed spending cuts contained in the budget. In contrast to the rationalist trait of centralised analysis, much of the analysis carried out in the local authorities was decentralised and fragmented.<sup>106</sup> The centre did not have the capacity to monopolise the scrutiny of the budget. Even in Knowsley MBC where the Chief Executive and the Borough Treasurer largely made the budget they relied heavily on departmental analysis emanating from the derailed 'lower expenditure options' exercise. Thus, the decentralised and fragmented analysis of spending cuts in the four local authorities is disjointed incrementalism.

Both disjointed incrementalism and strategic analysis involve the widespread use of simplifying strategies to make a complex task more manageable for decision-makers. There were many simplifying strategies used by the four local authorities in making spending cuts. For example, Kent CC adopted an across-the-board approach in apportioning spending cuts. Each committee had to find the same proportionate share of spending cuts. Furthermore, a 'safety margin' was built into this exercise so that committees having difficulties in finding the required

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<sup>106</sup> See Braybrooke & Lindblom (1970) pp104-106, 120, 127-131; Burch & Wood (1989) pp29-30; Dryzek (1987) pp427-428; Greenaway, Smith & Street (1992) pp25-26; Lindblom & Woodhouse (1993) pp30-31; and Wildavsky (1964) p147.

spending cuts could be later cushioned from making such cuts.<sup>107</sup> This tactic is based on the assumption that all committees have the same ability to protest about the cuts, and to turn their protests into concessions of not making spending cuts. Jørgensen argued that the tactic presupposes that every actor "has the same ability to scream" and that every "scream is equally legitimate."<sup>108</sup> This technique is, according to Glassberg, the "simplest way" to reduce spending.<sup>109</sup> It has the superficial appearance of fairness and therefore reduces conflict amongst budget-makers, but it assumes departments have equal capacity to make these spending cuts.<sup>110</sup> Levine argued:<sup>111</sup>

"Sharing the pain of cuts by allocating them across-the-board to all units may minimize pain, help to maintain morale, and build a good team spirit in the organization; but it is not responsible management. Not every unit in an organization or every agency in a government contributes equally to the goals, purposes, and basic functions of that organization or government."

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<sup>107</sup> Chairman, Education Committee, Kent CC; and Chief Executive, Kent CC.

<sup>108</sup> Jørgensen (1987a) p192.

<sup>109</sup> Glassberg (1980) p3.

<sup>110</sup> See Danziger (1976) pp339, 347; Danziger (1978b) pp133, 139; Danziger (1991) pp177-178; Glassberg (1980) p3; Glassberg (1981) p183; Glennerster (1980a) p374; Glennerster (1981) p185; Greenwood (1979) pp81-85; Greenwood, Hinings, Ranson & Walsh (1976) pp46-49, 65-67; Greenwood, Hinings, Ranson & Walsh (1980) p39; Hogwood & Peters (1985) pp151-152; Hood & Wright (1981a) pp203-207; Ibrahim & Proctor (1992b) pp55-58; Jordan (1987) p15; Jørgensen (1987a) p192; Jørgensen (1987b) pp21, 65-66; Levine (1978) p320; Levine (1979) p182; Levine, Rubin & Wolohojian (1981b) p202; Rosenberg (1985b) p173; Rosenberg (1985c) p204; Rosenberg (1989) p50; Schick (1983) p19; Schick (1988) p525; Tarschys (1983) pp216-217; Tarschys (1984) p242; Wildavsky (1986) pp78-80; Wolman (1983) pp258-259; Wolman & Davis (1980) pp22-23; Wolman & Peterson (1980) p79; Wolman & Peterson (1981) pp805-806; and Wright (1981) p15.

<sup>111</sup> Levine (1979) p182. See also Durham & Smith (1982) pp386-388.

In Bedfordshire CC the Conservative Group wanted to apportion spending cuts between services using the Grant-Related Expenditure Assessment (GREA) calculated by central government. This method is another simplifying strategy because it avoided the complex and conflict-ridden task of deciding where spending cuts should fall, and enabled them to blame central government.

The relations between finance and service departments were also governed by rules which simplified their complexity. They were often founded upon mutual trust - the finance department trusted service departments to prepare their budgets in an honest way; and service departments trusted the finance department to accept their spending estimates without arbitrarily cutting them. This trust simplifies decision-making. As Wildavsky argued:<sup>112</sup>

"Personal trust ... is one invaluable aid to calculation. With such trust, each sum need not be redone; many details can be confidently overlooked; advance warnings can reduce uncertainty; informal chats will distinguish the real fire from smokescreen issues; and political administrators more confidently can bypass most of what goes on."

Another, though more crude, simplifying strategy found in relations between finance and service departments is the practice of reducing the amount of monies that the finance departments allocate to service departments to offset inflation.<sup>113</sup> Schick found that budget-makers have often "saved money by forcing agencies to absorb a portion of the inflationary increase in operating expenses."<sup>114</sup>

One simplifying strategy adopted in incremental analysis is

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<sup>112</sup> Wildavsky (1986) p91.

<sup>113</sup> Assistant Director of Finance, Stockport MBC.

<sup>114</sup> Schick (1988) p525. See also Glennerster (1980a) pp375-376, 381; Glennerster (1980b) pp18-19; Glennerster (1981) pp186-188, 194; Wolman (1982a) p77; and Wolman & Peterson (1980) p81.

the application of "a sequence of trials, errors, and revised trials."<sup>115</sup> Incremental analysis is heuristic. Lindblom argued:<sup>116</sup>

"Policy is not made once and for all; it is made and re-made endlessly. Policy-making is a process of successive approximation to some desired objectives in which what is desired itself continues to change under reconsideration."

An example of this 'trial and error' method is the decision of Kent CC to enter into a partnership with Age Concern Kent to run four day centres for the elderly as a two-year pilot scheme. Kent CC believed considerable financial savings would be made by tapping into the resources of Age Concern Kent rather than providing its own day centres.<sup>117</sup> The Social Services Department calculated Age Concern Kent would run day centres at less than one-third of the cost than if the Department ran the centres.<sup>118</sup> Hailed as an "interesting experiment" by Age Concern England, Kent CC hoped that if the partnership were successful the scheme

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<sup>115</sup> Lindblom (1979) p517.

<sup>116</sup> Lindblom (1959) p86. See also Booth (1988) p7; Braybrooke & Lindblom (1970) pp99-102; Burch & Wood (1989) p29; Danziger (1978b) p127; Greenaway, Smith & Street (1992) p25; Jackson (1982b) p152; Lindblom & Woodhouse (1993) pp29-30; and Wildavsky (1964) p147.

<sup>117</sup> For example, Age Concern Kent are able to use the assistance of unpaid volunteers and receive voluntary financial contributions from the elderly in their own day centres. Generally using voluntary bodies to provide local authority services has often been seen as a way of cutting spending. Elcock observed that "hard-pressed local authorities may find it cheaper to award a grant to a voluntary body to provide a service than to provide the service themselves" ((1987a) p249). See also Caulcott (1985) p14; Forsyth (1981) pp9-10; Glennerster (1980a) p376; Glennerster (1981) p188; Hadley & Hatch (1981) p94; Harman (1983) pp46-51; Jordan (1987) p16; Lawrence (1982-3) p18; Pinkham & Platt (1980) pp21-22; Raine & Webster (1985) p17; and Rich (1981) p59.

<sup>118</sup> Assistant Director of Social Services, Kent CC; Policy Officer, Social Services Department, Kent CC; and Development Officer, Social Services Department, Kent CC.

would be extended to cover other day centres.<sup>119</sup> The pilot scheme was monitored and evaluated by the Social Services Department and Age Concern Kent separately; by them both together as the County Partnership Forum; and by the Department of Health and Social Security's Social Work Service. Kemp of the Age Concern Institute of Gerontology found there were mutual benefits for both Kent CC and Age Concern. She stated:<sup>120</sup>

"Each agency has its own agenda, some items of which coincide, such as the wish to provide high quality and appropriate day services to the elderly population of Kent. For Age Concern, the elderly are their *raison d'être*, whilst Social Services have to compete with other departments of the County Council, and even then the resources have to be shared amongst many differing groups of people. Social Services obviously have an interest in methods whereby services can be provided more cost effectively and Age Concern groups welcome an increase in resources, particularly where this lessens the uncertainty about continued provision of a service."

However, there were several problems which emerged from the pilot scheme. The £25,000 saving that Kent CC was hoping to realise never materialised in the financial year 1984-85, mainly because of 'teething problems' and over-optimistic budgeting - new schemes, such as this partnership scheme, often have to be justified on the grounds that they save money as well as improve services, which leads their proponents to exaggerate the savings likely to accrue from their implementation.<sup>121</sup> As a result of these evaluation exercises both Kent CC and Age Concern Kent modified and

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<sup>119</sup> Director, Age Concern England.

<sup>120</sup> Kemp (1987) p127.

<sup>121</sup> Assistant Director of Social Services, Kent CC. This 'saving', which failed to materialise, illustrates the observation that though "the claim that voluntary services are cheaper is commonly made, there is little evidence to support the proposition" (Leat (1986) p310).

extended the pilot scheme.<sup>122</sup> The development of the partnership scheme is a clear example of the heuristic method of incremental analysis.

The analysis that took place in the four local authorities in making spending cuts corresponded to the threefold typology of incremental analysis devised by Lindblom - namely, simple incremental analysis, disjointed incrementalism, and strategic analysis. Analysis was thus limited.

According to the incremental model of cutback management analysis is also partisan. Lindblom defined partisan analysis in the following words:<sup>123</sup>

"In partisan mutual adjustment and all politics, participants make heavy use of persuasion to influence each other; hence they are constantly engaged in analysis designed to find grounds on which their political adversaries or indifferent participants might be converted to allies or acquiescents."

Analysis, according to the incremental model, is not neutral. It is commissioned by partisan actors; it is undertaken by partisan actors; and it is used by partisan actors.

For example, Kent CC made extensive use of management consultants as a way of restructuring its organisation and management. The Conservative-controlled Council commissioned management consultants partly to overcome officer resistance to change. The agenda of the Conservative Group included the incorporation of 'business' methods into the local authority and the pursuit of cost

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<sup>122</sup> Chairman, Social Services Committee, Kent CC; Assistant Director of Social Services, Kent CC; Policy Officer, Social Services Department, Kent CC; Development Officer, Social Services Department, Kent CC; and County Organiser, Age Concern Kent. See Kemp (1987).

<sup>123</sup> Lindblom (1979) p524. See also Simon (1957a) pp61-78.

savings. As a result the management consultants framed their analysis within the parameters of this agenda. Their analysis was used only if it suited the interests of the Conservative Group, and consequently their recommendations were implemented only if cost savings resulted. Analysis was commissioned, undertaken and used in a partisan way. This example illustrates the partisan nature of analysis.

Analysis, then, is built into decision-making. It is not a neutral exercise but very much a partisan activity - analysis takes sides.<sup>124</sup> Analysis is always partisan. The incremental model of cutback management offers a very plausible view of the role of analysis in decision-making. Following Lindblom, analysis is "drastically limited" in its objectiveness and its comprehensiveness.<sup>125</sup>

#### INCREMENTAL THEORY OF CUTBACK MANAGEMENT

The incremental model of decision-making is based on interaction and selectiveness. A series of six incremental traits of cutback management was deduced from this incremental model, and then applied to the manner in which the four local authorities cut spending.

The first incremental trait assumes decision-makers within local authorities interact to make spending cuts. In all four local authorities there was much interaction between councillors and officers, and also between the local authorities and outside actors (eg central government and trade unions) in deciding how much should be cut, how

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<sup>124</sup> See Simon (1957a) pp61-78. See also Becker (1967); Lindblom (1980) pp11-39; Meltsner (1972); and Young (1977).

<sup>125</sup> Lindblom (1959) p81.



spending should be cut and where spending cuts should fall. The second trait cites that cutback management in local authorities would be ridden with conflict between decision-makers. There was much conflict between central government and local government, and between decision-makers in the four local authorities. The conflict centred largely around those actors who wanted to impose spending cuts and those who wanted to resist spending cuts. The third trait suggests local authorities agree only on decisions to cut spending and not the objectives of decisions. In the four local authorities there was very little attempt to identify and agree upon objectives when making spending cuts. Though Knowsley MBC and Stockport MBC embarked upon formal corporate exercises in setting their budgets, the budget process in Knowsley MBC collapsed and the budget process in Stockport MBC was dominated by the 'sweat shop' where changes in spending and not objectives of spending decisions were scrutinised. Spending cuts were made because key actors agreed to cut spending despite their different objectives in agreeing upon these decisions. The fourth trait claims that local authorities make spending cuts that only differ marginally from their previous year's spending. The four local authorities did not scrutinise their whole budgets, and scrutinised only the margins of their budgets. Spending cuts were marginal compared to their whole budget. The fifth trait predicts that local authorities would not engage in any significant planning of the process of cutback management. All four local authorities undertook very little planning, and at most planned one year ahead; and undertook financial rather than policy planning. The sixth trait argues local authorities would analyse decisions to cut spending in a limited and partisan manner. Analysis was confined to the margins of their budgets, and was structured, conducted and interpreted by partisan actors. The example of the partnership between Kent CC and Age Concern Kent to run day centres for the elderly emphasises both the limited and partisan nature of analysis

in making spending cuts.

Examining the incremental traits of cutback management suggests that the incremental model of cutback management offers a useful way of explaining how local authorities cut spending. The experience of cutback management in the four local authorities corresponded with the traits expected to be displayed under the incremental model of cutback management. In their study of local authority budgeting Elcock, Jordan and Midwinter concluded:<sup>126</sup>

"For budgets do not lend themselves to technocratic or ideological solutions. Bargaining and negotiation, compromise and pragmatism, incrementalism and marginal changes remain the order of the day."

The incremental theory of cutback management appears to provide a plausible basis on which to understand the making of spending cuts in local government. The concluding chapter will examine incrementalism as a theory of cutback management in more detail.

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<sup>126</sup> Elcock, Jordan & Midwinter (1989) p188. See also Cope (1992); Elcock (1991) pp119-121; Ibrahim & Proctor (1992a); and Ibrahim & Proctor (1992b) pp54, 58.

CHAPTER EIGHT

CONCLUSION

This concluding chapter assesses the plausibility of both the rationalist and incremental models of cutback management outlined in the previous two chapters. The examination of rationalist and incremental traits of cutback management suggests the incremental model provides a better basis than the rationalist model of cutback management in explaining how the four local authorities cut spending. However, cutback management traits, whether rationalist or incremental, do not constitute a theory of cutback management. They assist in describing and observing how local authorities made spending cuts without explaining why they cut spending in the way they did. This chapter compares the two models of decision-making in order to construct a framework of analysis. It then examines the strengths and weaknesses of the rationalist and incremental theories of cutback management. It argues that, though more plausible than the rationalist model, the incremental model faces significant shortcomings in explaining cutback management in local government. As a result a more robust and sophisticated theory of cutback management in local government is developed and examined. The chapter provides theoretical analysis to complement the preceding empirical analysis of cutback management in local government.

#### RATIONALIST AND INCREMENTAL DECISION-MAKING COMPARED

Theories of cutback management have been largely rooted in either rationalist or incremental theories of decision-making. Much nonsense has been written on these two theories of decision-making. It is important this nonsense is exposed before assessing the viability of these two models of cutback management in local government. It is necessary to avoid the pitfalls into which others have fallen. There are three main areas of confusion in the

debate between the rationalist and incremental camps.

First, the rationalist model of decision-making is often presented in ideal terms of what should be the case, whereas the incremental model is often seen in terms of what is the case. As a result the two models are often not applied at the same level. The rationalist model is usually applied at a prescriptive level, and the incremental model at a descriptive level.<sup>1</sup> It is widely argued budgeting in local authorities is best explained by the incremental model, but they should aspire to the rationalist model. The rationalist model of decision-making "may be a lot more useful in policy justification than in policy derivation."<sup>2</sup> It is important that the rationalist and incremental positions are presented in a comparable light. The rationalist and incremental models of cutback management have been outlined and explored in the previous two chapters. This chapter compares their viability in explaining cutback management in local government in the light of empirical analysis.

Second, both rationalists and incrementalists claim rationality on their side. Rationalists, with a slip of their pen, often write about the rational model of decision-making as if they have a monopoly claim on the idea of rationality.<sup>3</sup> The patent on the concept of rationality does not belong solely to the rationalists. Incrementalists, such as Dahl and Lindblom, talk about "rational incrementalism", but are generally more modest

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<sup>1</sup> See Booth (1988) p13; Brown & Steel (1979) pp174-196; Hudson (1992) p196; and Smith & May (1980) pp154-156.

<sup>2</sup> Leach (1982) p9.

<sup>3</sup> For example, see Leach (1982).

about their claims on the idea of rationality.<sup>4</sup> A rational action is widely regarded as an action designed to achieve a purpose. Following Laver, rationality "is seen as trying to get what you want, whatever that may be."<sup>5</sup> According to Dahl and Lindblom:<sup>6</sup>

"An action is rational to the extent that it is "correctly" designed to maximize goal achievement, given the goal in question and the real world as it exists."

The label of rationality in a decision-making context is attached to the decision itself not to the way in which it was made. A decision is rational in the sense that it achieves some given and desired purpose of the person making the judgement. Rationality is therefore concerned with the substance rather than the procedure of decision-making. It is concerned with the outcome not the method of decision-making.

Both the rationalist and incremental models are methods of decision-making. Some writers, such as Simon, have made the distinction between substantive and procedural

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<sup>4</sup> Dahl & Lindblom (1976) p85. They argued that incrementalism is an important aid to rational calculation. ((1976) pp57-92).

<sup>5</sup> Laver (1981) p25.

<sup>6</sup> Dahl & Lindblom (1976) p38. This view of rationality corresponds to the 'thin theory' of rationality which "leaves unexamined the beliefs and the desires that form the reasons for the action whose rationality we are assessing", unlike the 'broad theory' which requires that "the beliefs and desires be rational in a more substantive sense" (Elster (1983) p1). On rationality see, for example, Carley (1980) pp10-20; Dahl & Lindblom (1976) pp38-40; Dillon (1976) p52; Dowding (1991) pp17-29; Downs (1957) pp4-11; Dryzek (1987); Elster (1986) p6; Harsanyi (1976) pp89-117; Harsanyi (1977); Hindess (1988); Hindess (1989) pp44-65, 122-140, 167-184; Laver (1981) pp21-38; Levine, Musheno & Palumbo (1975) pp89-90; McLean (1987) pp3, 196; Oakeshott (1962) pp80-110; Self (1975) pp196-197; Simon (1955); Simon (1957a) pp75-77; Smith (1976) pp23-25; and Spiers (1975) pp144-145.

rationality.<sup>7</sup> Substantive rationality is concerned with the decision itself, and procedural rationality with the way the decision was made. If this distinction is possible, the rationalist and incremental models of decision-making are perhaps forms of procedural rationality. But this claim falls down because the distinction between substantive and procedural rationality is artificial. The outcome of decision-making (its substance) cannot be separated from the method of decision-making (its procedure). Following Dowding:<sup>8</sup>

"Outcomes are the results of processes and processes are the outcomes of other processes. We cannot study one without the other."

A rational procedure can make only a rational decision. If an irrational decision is made, the procedure itself cannot be rational. The procedure of decision-making can be rational only if it produces rational decisions. The test of rationality is the decision itself, that is, the substance not the procedure of decision-making. Rationality is a label attached to the outcome not to the method of decision-making. The rationalist and incremental methods of decision-making are not inherently rational, and can be judged rational only to the extent that they produce decisions which satisfy the desired goals. They are not roads to the citadel of rationality, but simply different ways of making decisions which may or may not be rational. They are not guarantees of rational decision-making. Both rationalists and incrementalists cannot therefore claim rationality on their side in advance of the decisions being made.

Third, the rationalist and incremental models are often presented as static and contradictory views of decision-

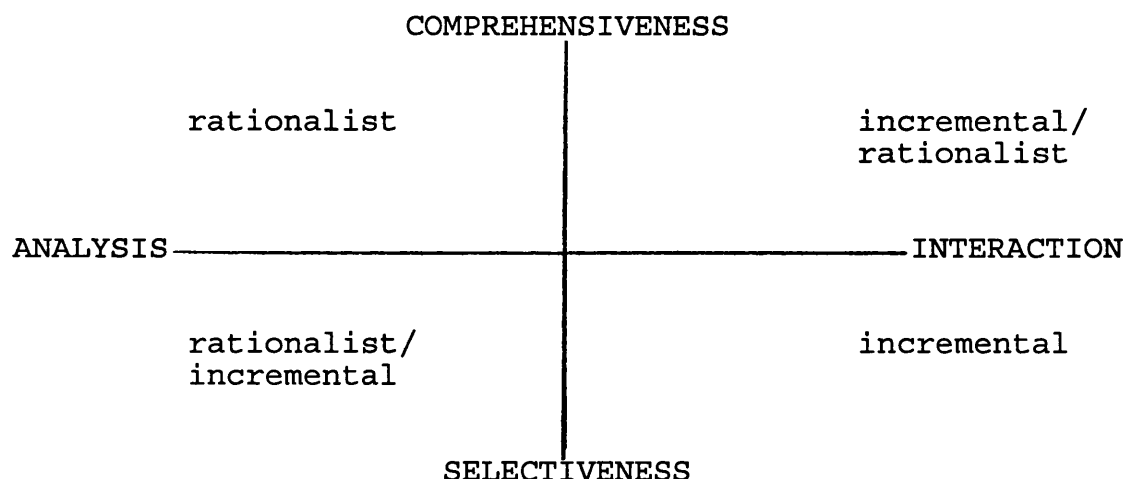
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<sup>7</sup> See Simon (1976); and Simon (1982).

<sup>8</sup> Dowding (1994) p112.

making.<sup>9</sup> This presentation is misleading because the two models are only competing paradigms of decision-making. They are not mutually exclusive, though they are sufficiently distinctive to each form the basis of an analytical framework.<sup>10</sup> The models are best understood by dissecting them along the lines of two critical dimensions - namely, the level of analysis and interaction and the level of comprehensiveness and selectiveness involved in making a decision. These two dimensions are portrayed in the diagram below.

Diagram 8.1: Dimensions of the Rationalist and Incremental Models of Decision-Making



From this diagram a rationalist decision is characterised by a high level of analysis and comprehensiveness, and an incremental decision by a high level of interaction and selectiveness. Furthermore, if a decision is characterised by a high level of analysis and selectiveness or a high level of interaction and comprehensiveness, the decision is part rationalist and part incremental. The rationalist and

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<sup>9</sup> See Booth (1988) p13.

<sup>10</sup> See Manzer (1984).



incremental models are not polarised views of decision-making. Indeed, Simon wrote about 'bounded rationality', and Lindblom about 'incremental analysis'.<sup>11</sup> The rationalist and incremental models are merely competing rather than contradictory views of decision-making. Both models will be tested as theories of cutback management in local government.

#### RATIONALIST AND INCREMENTAL CUTBACK MANAGEMENT COMPARED

In the previous two chapters the rationalist and incrementalist traits of cutback management were identified and applied in the way Bedfordshire CC, Kent CC, Knowsley MBC and Stockport MBC made spending cuts. Furthermore, existing research and literature on cutback management in local government were surveyed and tested in light of the empirical evidence collected from the four local authorities. This section compares and assesses the rationalist and incremental theories of cutback management in local government.

As argued, it is a mistake to see the rationalist and incremental models as two opposing views of cutback management. The two models are competing and alternative but not opposite views of cutback management. On one hand the rationalist model stresses the importance of analysis and comprehensiveness, and on the other hand the incremental model stresses the importance of interaction and selectiveness in decision-making. There are many links between the two models.

First, it is difficult if not impossible to make a rigid

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<sup>11</sup> See Simon (1957a) pp61-109 and Lindblom (1979) respectively.

separation between analysis and interaction in the decision-making process.<sup>12</sup> Though analysis is often portrayed as a guarantee of rationality and interaction of feasibility, they are intertwined. The empirical examination of how the four local authorities cut spending illustrates the interplay between analysis and interaction. Analysis of spending cuts was never a technical exercise carried out in a neutral and objective manner. Analysis was always partisan. The interaction of actors in making spending cuts was invariably underpinned by analysis, especially analysis carried out by officers employed by the local authorities. However, the analysis used by the actors was incremental analysis, which fell short of the synoptic analysis assumed by the rationalist model.<sup>13</sup> It never possessed the completeness of rationalist analysis.

Second, it is not very useful to make a distinction between comprehensiveness and selectiveness because the ideal of comprehensiveness can never be attained.<sup>14</sup> The limited pursuit of comprehensiveness is inherently recognised in Simon's concept of 'bounded rationality'.<sup>15</sup> Indeed, Lindblom argued:<sup>16</sup>

"No person, committee, or research team, even with all the resources of modern electronic computation, can complete the analysis of a complex problem. Too many interacting values are at stake, too many possible alternatives, too many consequences to be traced through an uncertain future - the best we can do is achieve partial analysis or, in Herbert Simon's term, a "bounded rationality"."

Incrementalists, such as Lindblom, prefer realistic

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<sup>12</sup> See Gregory (1989) pp140-146.

<sup>13</sup> See Lindblom (1979).

<sup>14</sup> See Braybrooke & Lindblom (1970) p39; Holtham & Stewart (1981) pp21-23; and Leach (1982) pp13-14.

<sup>15</sup> Simon (1957a) pxxiv.

<sup>16</sup> Lindblom (1979) p518. See also Wildavsky (1986) p10.

selectiveness to idealistic comprehensiveness, and regard a variety of simplifying strategies as necessary ways of managing complexity in decision-making.

Third, the rationalist and incremental models of decision-making both assume decision-makers are goal-directed. In the rationalist model decision-makers determine their goals before searching for and implementing the means that best achieves the desired ends. In the incremental model though decision-makers need not agree on the goals to be achieved they do pursue goals, often implicitly stated, in agreeing upon decisions. Many critics of incrementalism argue it discounts the pursuit of goals by decision-makers.<sup>17</sup> Forester believed "the incrementalist formulation could have us cross and recross intersections without knowing where we are going."<sup>18</sup> However, Lindblom has always argued decision-makers are goal-directed. He noted "one simultaneously chooses a policy to attain certain objectives and chooses the objectives themselves."<sup>19</sup> The incremental and rationalist models accept that goals direct the behaviour of decision-makers, but differ on how the goals are articulated in decision-making.

There is common ground between the rationalist and incremental models of decision-making. However, it is imperative to resist the temptation of constructing a fused model combining the facets of both models. Their fusion would represent only a conceptual nicety, because the two models are sufficiently distinctive in application.

According to Forester, the rationalist and incremental models are both applicable in different situations. He

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<sup>17</sup> For a review of the criticisms, see Weiss & Woodhouse (1992) pp258-260.

<sup>18</sup> Forester (1984) p23. See also Etzioni (1967) p387.

<sup>19</sup> Lindblom (1959) p82.

argued "what is practical - and rational - to do in a situation depends in part upon the structure of that situation."<sup>20</sup> The rationalist model is applicable only when decision-making is "at its most simple."<sup>21</sup> Forester explained:<sup>22</sup>

"Assume that there is only one agent to consider and that he or she is a utility-maximizing, economically rational actor, the decision-maker. The setting is simply the decision-maker's office, by assumption a closed system unto itself. The problem is well-defined; its scope, time horizon, value dimensions, and chains of consequences are clearly given or available from the closest file drawer. Information is perfect, accessible and comprehensible. Time is infinitely available."

As a situation becomes increasingly complex, the rationalist model becomes increasingly redundant and the incremental model gains explanatory force. The rationalist model breaks down as a plausible explanation of decision-making as the number of decision-makers increases, as the range of interests represented widens, as the issue becomes more intricate to understand, as information is exhausted and as time runs out. Complexity is the enemy of the rationalist model of decision-making. The incremental model is better equipped to handle complexity in decision-making. Forester argued:<sup>23</sup>

"Thrown into situations of great complexity, decision makers need theories to simplify their worlds, to suggest what is most important to attend to, what can safely and decently be neglected."

The applicability of the two models is dependent on the

<sup>20</sup> Forester (1984) p25.

<sup>21</sup> Forester (1984) p25.

<sup>22</sup> Forester (1984) p25.

<sup>23</sup> Forester (1984) p30. See also Danziger (1978b) pp125-126; Frohock (1979) pp50-52; Ibrahim (1993) p35; Ibrahim & Proctor (1992a) pp11, 13-14, 15; Jackson (1982b) p148; and Wildavsky (1964) pp11-16.

context of the decision-making situation. A combined model would fail to understand the context-dependent nature of decision-making.

In comparing the traits of the rationalist and incremental models, the four local authorities cut spending in ways that approximated the incremental model more than the rationalist model of cutback management. The rationalist model has very little explanatory power. There was very little analysis and comprehensiveness as assumed by the rationalist model on display in the four local authorities. Its main contribution to understanding how local authorities cut spending is that decision-makers pursue goals, and that experts play a key role in making decisions to reduce spending. But both these rationalist traits contain only a superficial element of plausibility, and can be better explained within the incremental model.

The incremental model accepts decision-makers pursue goals, by stressing the process of interaction between decision-makers representing different interests and thus pursuing different goals. But whereas the rationalist model focuses its attention upon these goals in the form of means-end analysis, the incremental model focuses on the decision itself and not the goals achieved by the decision. The incremental model explains the prominence of experts in decision-making by the process of interaction in which decision-makers make spending cuts. Experts, most notably the highly professionalised officers employed by local authorities, possess information upon which councillors are very dependent in making decisions. Experts, therefore, exercise much influence over decisions to cut spending. The two most plausible rationalist traits that decision-makers pursue goals and experts are prominent in making spending cuts are better explained by the incremental model of cutback management.

The spending cuts made by the four local authorities were the outcome of interactions between different decision-makers such as leading politicians and professionals in local authorities, ministers and civil servants in central government, and trade unionists. As watchdogs of particular interests they defended and promoted their interests. The decisions to cut spending reflected the balance of power between decision-makers. Their power varied widely from the more powerful ruling councillors and professional officers to the less powerful trade unionists and clients of local authority services. Clapham argued local authorities made spending cuts "where they were administratively and politically feasible, rather than where they could be most effectively made in terms of client need."<sup>24</sup>

None of the four local authorities assessed the needs and demands of its clients in making spending cuts. They claimed spending cuts would not significantly harm service provision and therefore hurt their clienteles, but these claims were largely made to legitimise the decisions made by vested interests in the local authorities. Clients of local authority services generally have little power to protect their interests in the rounds of spending cuts. In making budgets service departments frequently warn of the dire consequences of threatened spending cuts to warn off the preying eyes of finance departments and councillors searching for spending cuts. It is, according to Jørgensen, "a typical trait of retrenchment protest to parade the client consequences."<sup>25</sup> However, after the budget has been spent the same departments often congratulate themselves on how they have managed to maintain service provision despite spending cuts.

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<sup>24</sup> Clapham (1983) p31.

<sup>25</sup> Jørgensen (1987a) p197. See also Burton (1985) pp89-90.

For example, the Chief Executive of Kent CC warned future spending cuts could not be made without affecting service provision because "the possibility of finding reductions by increased efficiency and savings - although not exhausted - will not be sufficient."<sup>26</sup> But later the Chief Executive praised the Council's "constant drive for efficiency" which produced many of the savings required to restrain its spending, and proclaimed "a very real improvement in productivity and efficiency" though acknowledging that "it has not been possible to make all of these savings without affecting some services and staff".<sup>27</sup> These contrasting statements made by the Chief Executive illustrate the ways in which claims about 'looking after the interests of the client', 'putting the consumer first' and 'serving the public' are manipulated to support the interests of more powerful actors. Officers flag up the interests of their clients when they defend their budgets, and flag them down when they account for their spending. The dominant decision-makers within local authorities in pursuing their interests need to legitimise their self-interested actions by sheltering behind altruism and ideology - the caring concern for client needs and the ideology of consumerism provide useful cloaks for shelter.

Budgeting is "the institutionalised form of bargaining for resources within councils".<sup>28</sup> This process of bargaining, as seen in the four local authorities, was almost monopolised by a few decision-makers. Stewart believed that in budgeting the "most powerful influences lie inside the local authority, in the dominant interests and in the values, assumptions and beliefs written by those interests

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<sup>26</sup> Taken from Kent CC's Report And Accounts 1982-83, p4.

<sup>27</sup> Taken from Kent CC's Annual Report 1984-85, p3.

<sup>28</sup> Clarke & Cochrane (1989) p43. See also Greenwood, Hinings & Ranson (1977) pp25, 27; and Natchez & Bupp (1973) p955.

into the workings of the local authority."<sup>29</sup> Budgets reflect the power-struggle between dominant decision-makers, and the outcomes of these struggles depend on the structure of the budgetary arena. A useful comparison between Kent CC and Stockport MBC demonstrates that the budgetary arena shapes budgetary outcomes.

Both Kent CC and Stockport MBC wanted to reduce the school cleaning budget.<sup>30</sup> In Kent CC the ruling Conservative Group overcame trade union resistance and privatised school cleaning to cut spending. In Stockport MBC the ruling Conservative Group wanted to negotiate a productivity deal with the trade unions to make cost savings. It failed to secure an agreement with them because the trade unions enlisted the support of the Labour Group and the Liberal Group. When the Council became 'hung' the decision to reduce the school cleaning budget was overturned. In Kent CC the Conservative Group was not dependent upon the support of trade unions and other party groups; in Stockport MBC the Conservative Group was dependent on the support of other party groups. Thus, the same decision to reduce the school cleaning budget, made by the same political party controlling the two local authorities, and opposed by the same trade union in both local authorities produced different budget outcomes because of the different structure of bargaining in the two local authorities.

The examination of how the four local authorities cut spending tends to support the thesis of incrementalism. The theory of incrementalism remains robust enough to explain how local authorities make decisions to cut spending. The robustness of incrementalism is not surprising given the complexity involved in making these kind of decisions.

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<sup>29</sup> Stewart (1983) p200.

<sup>30</sup> On Kent CC's decision to contract-out school cleaning see chapter five; and on Stockport MBC's review of its school cleaning budget see chapter four, p229.



Competing actors, conflicting interests, information gaps, time pressures, resource constraints and statutory controls complicated decision-making in the local authorities. The rationalist model of decision-making cannot handle such complexity.<sup>31</sup> Incrementalism is a way of simplifying the making of complex decisions. Danziger noted the "incremental approach characterizes the decision-maker's response to a complex problem."<sup>32</sup> Faced with complexity decision-makers turn to incremental strategies of making decisions.

The incremental model of cutback management provides a plausible explanation of how local authorities made decisions to cut spending.<sup>33</sup> This view sits uncomfortably with the conventional wisdom about the nature of local authority budgeting in times of fiscal stress. There is an emerging but dominant view that budgeting becomes less incremental and more rationalist in times of sustained financial restraint.<sup>34</sup> The conventional wisdom pervading both American and European literature argues that though budgeting is still essentially incremental it is less incremental. According to Bozeman and Straussman, the "explanatory power of incrementalism is diminished" in times of shrinking budgets.<sup>35</sup> Greenwood argued incrementalism has lost some of its potency in the era of cutback management. He concluded "fiscal pressure is commonly associated with a limited but discernible movement away from incrementalism."<sup>36</sup> Similarly Greenwood, Hinings,

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<sup>31</sup> Forester (1984).

<sup>32</sup> Danziger (1976) p335.

<sup>33</sup> See chapter seven, footnote 126.

<sup>34</sup> See chapter six, footnote 104.

<sup>35</sup> Bozeman & Straussman (1982) p514.

<sup>36</sup> Greenwood (1983) p168.

Ranson and Walsh argued:<sup>37</sup>

"Budgetary famine ... decreases the likelihood of incremental budgeting."

In Britain much of the conventional wisdom has stemmed from the work of the Institute of Local Government Studies (INLOGOV). Its rationalist leanings are not surprising given the 'INLOGOV camp' played a major role in promoting corporate management in local government in the 1970s, which was seen as the embodiment of the rationalist model of decision-making.<sup>38</sup> The conventional wisdom has been bolstered by the theoretical work of Jorgensen, which has been applied by several writers on cutback management.<sup>39</sup> Jorgensen constructed a phasing model of cutback management, which assumes cutback management becomes less incremental and more rationalist over time. He outlined three phases of cutback management - the 'incrementalist phase', the 'management phase' and the 'strategic phase'.

In the 'incrementalist phase' the decision-maker experiences retrenchment for the first time, and in the belief that it is a temporary phenomenon the decision-maker adopts the quick and easy methods of incrementalism in making cutbacks. Jorgensen argued:<sup>40</sup>

"The retrenchment demand is experienced as an isolated occurrence [sic], and it is thought, perhaps, that the problem can be solved by a little hike in next year's estimates. Thus the time horizon is narrow. There is no need,

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<sup>37</sup> Greenwood, Hinings, Ranson & Walsh (1980) p46.

<sup>38</sup> See Dearlove (1979) pp113-259; Department of the Environment (1972); Greenwood, Hinings, Ranson & Walsh (1976); Greenwood & Stewart (1974); Greenwood, Walsh, Hinings, and Ranson (1980); Stewart (1971); and Stewart (1974).

<sup>39</sup> See Jorgensen (1984); and Jorgensen (1987b). On its application see Dunsire & Hood (1989) pp170-186; Jordan (1987) pp16-17; and Midwinter (1988) p24.

<sup>40</sup> Jorgensen (1987b) pp20-21.

therefore, for drastic considerations about reprioritizing, the structure of the organization's objectives and the like. In such a situation it may be expected that the search process will be marginal, since the decision-making costs are hereby rendered minimal."

In the 'management phase' the incremental search for cutbacks has been exhausted, and the decision-maker looks to greater managerial efficiency as a way of coping with continuing retrenchment. Jorgensen noted:<sup>41</sup>

"Whereas in the incremental phase whittling away here and there at isolated objects, where the consequences are least felt, reflects a conception of the organization as consisting of a number of loosely connected and independent activities, the organization is conceived of in the management phase as a production system consisting of interlocking activities.... This means that the retrenchment search process is directed towards securing internal productivity. This can be done in two ways. Firstly, internal conditions can be regulated to maintain the same production with fewer costs.... On the output side the service level can be "adjusted" by gradual reductions, standardization and the like.... In both cases the search process is directed towards the organization's structure and processes."

In the 'strategic phase' the managerial search for greater efficiency has become bogged down as actors defend their budgets, the decision-maker then turns to the more "troublesome" but "necessary" task of establishing "genuine priorities among objectives."<sup>42</sup> Jorgensen contended:<sup>43</sup>

"The retrenchment search process is now characterized by two conditions: an increasing demand on the part of one or more interested parties for rational decision-making, and increased conflict. When the need to prioritize means choosing [sic] between activity X and activity Y, the tendency to use the "tools of rationality" (planning, cost-benefit analysis, information systems and the like) will be fortified...."

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<sup>41</sup> Jorgensen (1987b) pp22-23.

<sup>42</sup> Jorgensen (1987b) p23.

<sup>43</sup> Jorgensen (1987b) p24.

The examination of cutback management in Bedfordshire CC, Kent CC, Knowsley MBC and Stockport MBC does not support the rationalist view of cutback management even if expressed in the more sophisticated terms of Jorgensen's phasing model. Though the research was not a longitudinal study of cutback management, there was no discernible evidence that the four local authorities were entering into a 'management phase' or a 'strategic phase' after a sustained period of fiscal pressure going back to the 1970s. Jordan also questioned the applicability of Jorgensen's model of cutback management.<sup>44</sup> In applying this phasing model at the level of central government Dunsire and Hood concluded:<sup>45</sup>

"No great confidence can be placed in the exercise."

The rationalist model of cutback management, however formulated, is a flawed view of how local authorities cut spending. It is built on comprehensiveness and analysis. In a local authority there are many competing decision-makers protecting their conflicting interests in the rounds of spending cuts. The rationalist model is both simplistic and apolitical. It is simplistic because comprehensiveness can never be achieved. A decision-maker is constrained by a lack of time, money, information and other resources.<sup>46</sup> The rationalist model is apolitical because analysis is never confined to a single decision-maker with a single set of goals, objectives and priorities.<sup>47</sup> There are many decision-makers representing different interests which

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<sup>44</sup> See Jordan (1987) pp16-17.

<sup>45</sup> Dunsire & Hood (1989) p187.

<sup>46</sup> At most a decision-maker can strive for a form of 'bounded rationality' or 'selective rationality'. See Leach (1982) p13; and Simon (1957a) pxxiv.

<sup>47</sup> For example, Spiers argued apolitically that "value systems ... count as limits on the circumstances within which any choice may be made" ((1975) p146).

necessarily politicise the analysis underpinning decisions to cut spending. The proponents of the conventional wisdom do not dig deep enough for explanation. Moves towards a rationalist style of cutback management in local authorities, say, by increasing the analysis of the base budget and centralising the manner of decision-making, were only moves by decision-makers to protect their interests by restructuring the decision-making process. Greenwood, Hinings, Ranson and Walsh witnessed the emergence of 'corporate rationality' in their study of local authority decision-making.<sup>48</sup> But, as Cockburn forcefully argued, moves towards corporate management were instituted by dominant interests in local government to "keep down costs" and "manage scarce resources".<sup>49</sup>

The incremental model, in contrast, provides a more robust view of cutback management in local government. It captures the essence of selectiveness and interaction prevalent in cutback management. Tarschys acknowledged:<sup>50</sup>

"Classic incrementalism has shown great staying power and remains the dominant form of budgeting in virtually all political systems."

The incremental model offers the idea of 'cuttability' as a useful way of understanding how and where spending cuts fall - what is and what is not 'cuttable' depends on the power-relations of the decision-makers making spending cuts.<sup>51</sup> 'Cuttability' has an inverse correlation with the power of the watchdog defending a particular item of

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<sup>48</sup> Greenwood, Hinings, Ranson & Walsh (1976).

<sup>49</sup> Cockburn (1977) p65. See also Clapham (1983); and Dearlove (1979) pp113-256.

<sup>50</sup> Tarschys (1981) p52. See also Elcock, Jordan & Midwinter (1989) p117; Greenwood (1984); Ibrahim & Proctor (1992a) p11; Kelly (1989) p187; LeLoup (1978) p488; Schick (1983); Wildavsky (1964); Wildavsky (1978); Wildavsky (1986); and Wildavsky (1988).

<sup>51</sup> See Clapham (1983) p31; Pinkham & Platt (1980) p22; and Tarschys (1984) p255.

spending. What is cut is not determined by any rationalist calculation of what needs to be cut but is determined by the interplay of decision-makers defending their interests. Glennerster argued the "first instinct of any service manager or spending department minister is to protect what exists."<sup>52</sup> The more powerful decision-makers will deflect the axe to cut spending onto budgets defended by less powerful decision-makers in the budget process.

This idea of 'cuttability' explains why local authorities cut capital spending far more drastically than revenue spending.<sup>53</sup> Wolman and Peterson predicted:<sup>54</sup>

"Expenditure reductions will be made in spending areas of least public visibility or whose consequences can be deferred to the future. Expenditure reductions will come first in areas such as maintenance and capital outlays where the consequences of cutbacks are not immediately visible."

The County Architect of Bedfordshire CC conceded there was no lobby defending the repairs and maintenance budget unlike the social services, and as a result proportionally more cuts were made to his budget. There are no visible consumers of capital spending - there are no tenants renting council houses not built, no motorists driving on roads not constructed, and no elderly living in residential homes not established. There are no visible producers of capital spending - there are no workers to sack nor contracts to terminate if future capital projects are

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<sup>52</sup> Glennerster (1980a) p373. See also Glennerster (1981) p184.

<sup>53</sup> The Audit Commission charted the massive cuts made in the capital spending of local authorities ((1985a) p1).

<sup>54</sup> Wolman & Peterson (1980) p80. See also Glennerster (1980a) p373; Glennerster (1981) p184; Kemp (1984) p13; Wildavsky (1964) p103; Wolman & Davis (1980) p24; and Wolman & Goldsmith (1987) p181.

postponed or cancelled.<sup>55</sup> Consequently, planned capital schemes are prime targets for cutback because there are few defenders and only potential, rather than actual, beneficiaries of such schemes. Glennerster added:<sup>56</sup>

"Deferred building programmes do save real money now and will result in lower debt charges. They are certainly easiest to make in political terms, since no one need be sacked and few people will notice."

The determining factor in how local authorities make spending cuts is 'vulnerability'.<sup>57</sup> Jørgensen formulated a useful typology of organisational vulnerability, which is reproduced in the diagram below.

Diagram 8.2: Organizational Typology Based on Dimensions of Vulnerability

		OPERATIONAL VULNERABILITY	
		<u>High</u>	<u>Low</u>
POLITICAL VULNERABILITY	<u>High</u>	squeezed	broad-shouldered
	<u>Low</u>	sensitive but secure	thriving

Source: Jørgensen (1987a) p200

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<sup>55</sup> Only in times of recession does the construction industry make calls on central government to undertake a major investment programme of the country's infrastructure and relax capital expenditure controls facing local authorities.

<sup>56</sup> Glennerster (1981) p184. See also Glennerster (1980a) p373.

<sup>57</sup> See Jørgensen (1987a) pp193-201; Jørgensen (1987b) pp66-78; Rubin (1982) pp121-124; Wolman (1982a) p77; and Wolman & Peterson (1980) p80.

Political vulnerability refers to the political support which organisations (or programmes) have, and operational vulnerability refers to the consequences of cutback upon organisations (or programmes). The thesis put forward by Jørgensen is that spending cuts will fall on those organisations (or programmes) that have the highest political and operational vulnerability. The research on how the four local authorities managed cutbacks largely fits this thesis, though political vulnerability was clearly more decisive than operational vulnerability in determining where spending cuts fell in the local authorities. In the words of Jørgensen:<sup>58</sup>

"If the budget authority takes a 'Machiavellian' approach, it will demand cut-backs where political vulnerability is highest. The screams will not be loud, the resistance will be modest, and the level of conflict will be low. From a politico-administrative viewpoint the task will be easy. It will affirm the so-called Matthew Effect: to those who have, more will be given; from those who have not, what little they have will be taken from them."

For example, Kent CC's decision to privatise school cleaning confirmed the 'Matthew Effect'.<sup>59</sup> The money saved from lower wages paid to the school cleaners employed by the private contractors went ultimately to the private contractors as higher profits and Kent ratepayers as lower rates bills. Furthermore, in a survey of local authority spending cuts in social services the Personal Social Services Council found:<sup>60</sup>

"Little apparent attempt has been made to protect the most vulnerable groups."

The 'vulnerability' thesis is an extremely useful tool in understanding cutback management, and fits with the incremental view of cutback management.

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<sup>58</sup> Jørgensen (1987a) p199.

<sup>59</sup> See chapter five.

<sup>60</sup> Personal Social Services Council (1979) p2.



The incremental model provides a more plausible explanation of how local authorities make spending cuts than the rationalist model of cutback management. However, Greenwood, Hinings and Ranson argued:<sup>61</sup>

"[Incrementalism] ... is depressingly weak as an explanatory theory, despite its considerable predictive force. There is no convincing narrative contained in the literature ... that can explain either why incrementalism occurs at all, or why some systems are less incremental than others.... The implication is that incrementalism could be avoided, or reduced, by increasing the intellectual capacity of budgetary actors, or by reducing the complexity of the information at his disposal (e.g. by using a computer). That kind of explanation, however, simply will not do. Political theorists and organizational theorists are well aware that budgets are the outcome of clashes between entrenched interests.... A more adequate theory of budgeting, in other words, will have to be based upon the political features of organizational life, rather than upon the cognitive deficiencies of decision actors."

Though this critique contains a flawed conception of incrementalism, it points to the weaknesses of the incremental model in explaining decision-making.<sup>62</sup> For example, from within the incrementalist camp Elcock, Jordan and Midwinter developed a 'cutback management ladder', which is reproduced below.<sup>63</sup>

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<sup>61</sup> Greenwood, Hinings & Ranson (1977) pp26-27. See also Jackson (1982b) pp157-164; Rosenberg (1985c) p205; and Rosenberg (1989) p51.

<sup>62</sup> This conception is flawed because it largely defines incrementalism as a response to the constraints upon a decision-maker to make decisions in a comprehensive manner. However, as argued in chapter seven, the incremental model of decision-making is characterised by interaction and selectiveness. Greenwood, Hinings and Ranson ignored interaction as a defining characteristic, which if included in their analysis, would have added a political dimension to their understanding of incrementalism.

<sup>63</sup> Elcock, Jordan & Midwinter (1989) pp177-179. See also Danziger (1991); Elcock (1987b) pp7-9; Elcock (1991) pp124-126; Glennerster (1980a) pp370-380; Glennerster (1981) pp181-193; Hogwood & Peters (1985) pp150-152; Jordan (1987) pp17-21; Midwinter (1988) p24; Newton (1980) p185;

Diagram 8.3: Ladder Of Cutback Management

Means adopted by local authorities to cope with financial pressure, in approximate order of severity.

SERVICE CUTS, COMPULSORY REDUNDANCIES  
 SERVICE CUTS, VOLUNTARY REDUNDANCIES  
 CASH LIMITS  
 USE PRIVATE SECTOR OR VOLUNTARY ORGANISATIONS TO SHIFT COSTS  
 EFFICIENCY SAVINGS ('CUT BUREAUCRACY')  
 CUT CAPITAL SPENDING  
 CREATIVE ACCOUNTANCY  
 'SORE THUMBS'/'SHROUD-WAVING'  
 BUY TIME ('FAIRY GOLD')

Source: Elcock, Jordan & Midwinter (1989) p178

According to Elcock, Jordan and Midwinter, "as financial pressure increases, local authorities will be driven more or less reluctantly up a 'ladder' of actions which will cause progressively disruption and damage to the services they provide and the work conditions of their staff."<sup>64</sup> This approach provides only a superficial understanding of how local authorities cut spending. The empirical examination of cutback management in the four local authorities, though not constituting a longitudinal study, offers little supporting evidence for the existence of a 'cutback management ladder' in local government. All four local authorities restricted capital spending before adopting wholesale 'sore thumb' and 'shroud-waving' tactics. Kent CC made many of its workers redundant in its decision to privatise school cleaning. Knowsley MBC used creative accounting in response to the 'shroud-waving' of its Education Department and Education Committee. The

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Tarschys (1983); Wolman (1982a) pp73-77; Wolman (1983); Wolman & Davis (1980); Wolman & Peterson (1980); and Wolman & Peterson (1981).

<sup>64</sup> Elcock, Jordan & Midwinter (1989) p177. See also Elcock (1991) p124.

'cutback management ladder' is too generalised to explain the considerable variations between and within local authorities in making spending cuts.

The incremental model of cutback management, as illustrated above, is vague on specifying the conditions within which decision-makers make decisions to cut spending. It is agnostic in explaining why decision-makers become involved, why they pursue their goals, and how power is distributed between them in making spending cuts. Nonetheless, incrementalism injects a necessary antidote to the rationalist trappings contained in much of the literature on cutback management. There is no science of cutback management; there is only politics of cutback management.

#### THEORISING ABOUT CUTBACK MANAGEMENT IN LOCAL GOVERNMENT

The theory of incrementalism is firmly part of the pluralist tradition.<sup>65</sup> Another pluralist theory, the power-dependence model, has been extensively used to examine interorganisational relations, and especially relations between central and local government.<sup>66</sup> This model, combined with the incremental model, provides the foundations of a more resilient model of cutback management in local government. According to Rhodes, the power-

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<sup>65</sup> See Brown & Steel (1979) p191; Dahl & Lindblom (1976); Dunleavy & O'Leary (1987) pp54-57; Greenaway, Smith & Street (1992) p27; Jordan (1990); Jordan & Richardson (1987); Lindblom (1979) pp522-523; Lindblom (1980); Lindblom & Woodhouse (1993); Low (1991) pp82-131; Richardson & Jordan (1985); Rosenberg (1985c) p206; Rosenberg (1989) p52; and Self (1985) pp95-98.

<sup>66</sup> See Rhodes (1981); Rhodes (1985b); Rhodes (1986b); and Rhodes (1988) pp42-43.

dependence model contains five propositions:<sup>67</sup>

"a) Any organisation is dependent upon other organisations for resources.

b) In order to achieve their goals, the organisations have to exchange resources.

c) Although decision-making within the organisation is constrained by other organisations, the dominant coalition retains some discretion. The appreciative system of the dominant coalition influences which relationships are seen as a problem and which resources will be sought.

d) The dominant coalition employs strategies within known rules of the game to regulate the process of exchange.

e) Variations in the degree of discretion are a product of the goals and the relative power potential of interacting organisations. This relative power potential is a product of the resources of each organisation, of the rules of the game and of the process of exchange between organisations."

These propositions of the power-dependence model, designed to analyse interorganisational relations generally and intergovernmental relations specifically, will be adapted to explain cutback management in local government. The refined model contains four main propositions:

1. Actors (either individuals or organisations) have interests and pursue goals that defend or promote their interests in making decisions. Actors without interests do not get involved in making decisions.

2. Actors possess resources that are used to protect their interests. Actors have resources of two kinds - resources that other actors want, and resources that other actors do not want. Actors with no resources cannot further their interests.

3. Actors are dependent upon other actors for their resources. Actors exchange resources to pursue their goals. Actors give resources that other actors want or do not give resources other actors do not want in exchange for resources.

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<sup>67</sup> Rhodes (1981) pp98-99.

4. Actors make decisions. Decisions reflect the balance of power between the actors involved. Those actors whose interests coincide, and together possess sufficient resources, impose their decision on others outside this winning coalition. The outcome of decision-making is determined by the interests of the actors and the resources of the actors involved.

The first proposition states that actors possess interests, and therefore pursue goals to protect their interests. Polsby noted that "coming to an understanding of what the interests are of people in a community is not necessarily as easy as reading a gas meter."<sup>68</sup> He summarised this complex debate by looking at two general views on what constitutes an interest. The first view is essentially liberal, which "accepts the choices or other revealed preferences of actors as defining their interests."<sup>69</sup> This more conventional view assumes actors determine their own interests. The second and more radical view "maintains that observers are entitled to assert what conduct and what choices are in the interests of actors, regardless of the actors' own choice behavior."<sup>70</sup> This view asserts that

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<sup>68</sup> Polsby (1980) p222. For a wider understanding of the concept of interest see, for example, Balbus (1971); Benton (1981); Blowers (1984) pp215-222, 240-242, 251-252; Connolly (1972); Connolly (1983) pp45-83; Dowding (1991) pp30-46; Gurr & King (1987) pp13-20; Ham & Hill (1993) pp72-78; Hindess (1989) pp36-41, 66-85; Lukes (1974) pp34-35; Polsby (1980) pp219-232; Saunders (1983) pp21-65; Self (1975) pp108-112; Thomson (1987) pp63-76; and Wall (1975).

<sup>69</sup> Polsby (1980) p222. Lukes argued this view "takes men as they are and applies want-regarding principles to them, relating their interests to what they actually want or prefer, to their policy preferences as manifested by their political participation" ((1974) p34). He adds a second more reformist but still liberal view by acknowledging that interests "may be revealed in more indirect and sub-political ways - in the form of deflected, submerged or concealed wants and preferences" ((1974) p34).

<sup>70</sup> Polsby (1980) p222. Lukes argues that "men's wants may themselves be a product of a system which works against their interests, and in such cases, relates the latter to what they would want and prefer, were they able to make the

actors cannot determine their own interests because of wider structural constraints preventing or manipulating their articulation.

Both views are useful in understanding what actors get involved in making spending cuts in local government. The liberal view is useful because actors become involved in decision-making when their self-determined interests are affected. Greenwood, Hinings and Ranson adopted this view when they defined an interest as "a motivation to defend or enhance particular organizational resources."<sup>71</sup> In decision-making an interested actor thus has a disposition to act in one way over other ways in order to secure advantage. The key actors involved in making spending cuts in local authorities were the ruling party groups (or the coalition of party groups in 'hung' local authorities) on the councillor side, and departments on the officer side. These leading actors possessed different interests, which manifested themselves in the pursuit of different goals. The ruling party group was concerned primarily to preserve its rule. It therefore needed to secure sufficient electoral support to win elections, party support to retain the backing of the wider political party, and administrative support to provide services. The department was concerned primarily to provide services. It therefore needed to secure sufficient professional support to shape policy, bureaucratic support to deliver services, and political support to sanction service provision. The ruling party group and departments were dependent upon each other for support.<sup>72</sup> Their power was dependent upon mutual support.

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choice" ((1974) p34).

<sup>71</sup> Greenwood, Hinings & Ranson (1977) p30.

<sup>72</sup> Stoker labelled this coalition between leading councillors and officer as the 'joint élite' (see (1988) pp86-89; and (1991) pp92-95).

These key actors were also dependent upon more distant but still influential actors, such as trade unions, professional associations, pressure groups, businesses, voters, ratepayers, local and national media, consumers of local authority services, school governors, local authority associations, political parties, courts, central government and other government agencies (eg the Audit Commission). This casting list constitutes what Dunleavy called the 'national local government system', and what Rhodes called the 'national world of local government'.<sup>73</sup> Dunleavy argued that local authorities "do not make decisions about most aspects of policy in isolation", and that they are part of "the complex web of inter- and supra-authority relations which can exert a strong influence on the policies pursued in particular localities."<sup>74</sup> Thus, there were starring actors within local authorities who interacted over decisions to cut spending, and not-so-far behind the scenes there were other actors influencing the lines of the lead actors. Central government controls over local government spending unleashed rounds of spending cuts in local authorities. Professional associations, such as the Chartered Institute of Public Finance and Accountancy, shaped the advice that officers gave to councillors on making spending cuts.<sup>75</sup> As a result of the influence of these outside actors, their interests were represented inside the local authority.

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<sup>73</sup> See Dunleavy (1980) pp105-110; Hampton (1991) pp154-172; Rhodes (1983); Rhodes (1986c); and Rhodes (1988). These concepts though useful are limited because of international actors which increasingly impinge on local authorities, eg European Union, multinational companies.

<sup>74</sup> Dunleavy (1980) p105.

<sup>75</sup> See Clarke & Cochrane (1989); Dunleavy (1980) pp110-119, 146-147; Elcock (1983); Elcock (1986b) pp298-303; Elcock, Jordan & Midwinter (1989) pp79-86; Kingdom (1991) pp137-154; Laffin (1986a); Laffin (1986b); Laffin & Young (1990); Rhodes (1988) pp187-191; Rosenberg (1984); Rosenberg (1985b); and Rosenberg (1989).

The radical view of what constitutes an interest is helpful in understanding who gets involved in decision-making. It recognises that some potential actors do not get involved because they are not aware of their 'real' interests. Notwithstanding the considerable methodological problems in identifying these budding actors and their 'real' interests, this view provides at least a useful counter to the more conventional liberal view by acknowledging that some actors did not participate in making decisions to cut local authority spending because they were unaware of their interests or their interests were affected by what was going on in the local authorities. This view is a necessary antidote to the sometimes complacent assumptions made by pluralist and other liberal writers. For example, Lindblom once observed "every important interest or value has its watchdog."<sup>76</sup> Newton countered that pluralism "tends to work on the assumption that each and every interest is equally capable of organizing and defending itself."<sup>77</sup> Though this observation has been qualified by many writers, including Lindblom later, there is still a tendency in much research on decision-making to focus solely on the actors involved in making decisions without understanding why some actors are involved and others are not.<sup>78</sup> The exclusion of some actors is not simply a matter of powerlessness but also a matter of non-determination of interests. The radical view challenges the conventional view of what constitutes an interest, and suggests there are some actors whose interests are not articulated or represented in the decision-making process. Hence the perception of interests was a crucial determinant of who became involved in the

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<sup>76</sup> Lindblom (1959) p85.

<sup>77</sup> Newton (1976) p228.

<sup>78</sup> See Bachrach & Baratz (1963); Bachrach & Baratz (1970) pp39-51; Dunleavy & O'Leary (1987) pp13-71, 271-318; Ham & Hill (1984) pp22-44, 61-75; Lindblom (1980); and Saunders (1975).



making of decisions to cut local authority spending.<sup>79</sup>

The perception of interests by the actors involved in making spending cuts often led to conflict. Generally conflicts between the key actors in cutting local authority spending can be explained because of their competing and conflicting interests, and consequently their competing and conflicting objectives they pursued. In making spending cuts there was much conflict (and latent conflict) between actors representing different interests in local authorities.<sup>80</sup>

The second proposition of the model suggests that actors deploy resources in their possession to protect their perceived interests and further their goals. Dahl defined resources as "anything that can be used to sway the specific choices or the strategies of another individual."<sup>81</sup> There are many kinds of resources, such as force, money, expertise, skill, reputation, legal authority, organisational control and popular support.<sup>82</sup> Resources, however, are not fixed. They are what other actors want, and therefore can be deployed as inducements; or they are what other actors do not want, and therefore

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<sup>79</sup> In this research on making spending cuts in four local authorities it was not possible to operationalise the radical view by identifying actors who were not involved but perhaps should have been involved if they had realised their real interests. However, the radical view at least raises important questions about who gets involved even if it cannot provide answers.

<sup>80</sup> In looking at spending cuts made by social services departments of local authorities Kelly reached a similar conclusion. He explained the incidence of spending cuts in terms of the "micro-political interests of politicians, managers, professionals and consumers" and "their capacity to mobilise power to pursue their competing rationalities" ((1989) p208).

<sup>81</sup> Dahl (1961) p226.

<sup>82</sup> See Burch & Wood (1989) pp53-83; Dowding (1991) p67; Rhodes (1981) pp100-101; and Rhodes (1988) pp90-91.

can be deployed as threats.<sup>83</sup> Actors possess resources, though some have more resources at their disposal than others. Furthermore, actors can accumulate resources. Dahl noted:<sup>84</sup>

"Political man can use his resources to gain influence, and he can then use his influence to gain more resources. Political resources can be pyramided in much the same way that a man who starts out in business sometimes pyramids a small investment into a large corporate empire."

Resources were not distributed evenly between actors. Councillors of the ruling party group controlled the statutory authority to take decisions in council meetings, and had a degree of electoral support to legitimise its decisions. Chief officers of service departments possessed professional expertise to provide services, exerted managerial control within their departments, and had access to councillors. Chief executives and treasurers possessed expertise (notably financial expertise), and developed links with service departments and party groups (with privileged access to their leadership).

In a game of cards the players (actors) are dealt a hand of cards (resources). As the game progresses the cards that the players hold changes to the advantage of some players at the expense of others. Some players are more skilled in playing the same hand of cards than others. The skill involved in playing cards constitutes a resource possessed by those players. Morriss stated:<sup>85</sup>

"When considering epistemic power we ... need to consider the skill with which the actor can handle his resources. Muscles alone do not make champion shot-putters; rich men can conduct take-over bids stupidly; and large and well-equipped

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<sup>83</sup> Morriss noted most resources "are resources only if others recognize them as such; if the things that they can be used to provide are valued by the potential recipients" ((1987) p139).

<sup>84</sup> Dahl (1961) p227.

<sup>85</sup> Morriss (1987) p138.

armies ... can be routed by far inferior forces." Actors possess different skills and choose different tactics in the way they deploy their resources to protect their interests. Furthermore, actors do not always know the tactics and resources of other actors.<sup>86</sup> The leading actors involved in cutting spending of the four local authorities possessed different skills in deploying their resources. These tactical skills were another resource that was deployed in making spending cuts. For example, in Kent CC the skill of the trade unions representing the school cleaners must be questioned.<sup>87</sup> Several councillors of the ruling Conservative Group, plus a few officers in the Education Department, wanted school cleaning to remain in-house. The trade unions, by withdrawing their bid, gave the Council little choice other than to award the school cleaning contracts to private contractors.

The third proposition of the model cites that actors are dependent upon each other for resources. No actor is entirely independent of others. The interdependence between actors is asymmetrical because of the unequal distribution of resources between actors. Heath argued:<sup>88</sup>

"The basis for exchange ... is that each side has something that the other wants."

As a result of interdependence actors must interact with each other to defend and promote their interests. Councillors possessing the legal authority to make decisions relied upon officers to advise and implement their decisions - service departments possessed specialised knowledge to provide services, and central departments

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<sup>86</sup> Dowding noted "the actual importance of reputation in game theory arises from asymmetries in players' knowledge", and "if all players had complete and perfect information then reputation would no longer be important" ((1991) p76).

<sup>87</sup> See chapter five.

<sup>88</sup> Heath (1976) p19.

possessed vision to make corporate strategy. Officers though possessing expertise depended upon councillors for authority to implement their schemes. As a result councillors and officers deployed and exchanged resources to achieve their goals. Each side traded resources that the other side wanted or did not exchange resources that the other side did not want in return for resources it wanted. When their interests coincided, councillors exchanged approval in return for expertise from officers; and officers exchanged expertise in return for approval from councillors. When interests clashed, councillors and officers exchanged resources to win such conflicts. Councillors denied approval of what officers wanted, and authorised a different course of action; and officers denied councillors their expertise, and implemented a different decision from what councillors wanted.

This simplistic scenario, however, was complicated by the presence of many different actors possessing different interests and pursuing different goals. For example, in Stockport MBC if the finance department suspected that service departments were inflating their budgets, it directed the attention of the ruling Conservative Group to this padding.<sup>89</sup> In Knowsley MBC the Borough Education Officer sought support for his resistance to cut spending from the Education Committee. This committee with its statutory quota of co-opted representatives drawn from the education world supported the chief officer in his conflict with the Chief Executive and the Borough Treasurer. But the Education Committee was later overruled by the ruling Labour Group which instructed the Chief Executive and the Borough Treasurer to cut the education budget. These two examples show the exchange of resources between different actors protecting their different interests. The outcome of these exchanges reflected the distribution of resources

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<sup>89</sup> Assistant Director of Finance, Stockport MBC.

between actors and their interests in trading resources.

The fourth proposition of the model argues that a decision reflects the balance of power between the actors involved. Understanding what power is remains ambiguous, elusive and contested.<sup>90</sup> Dowding distinguished "between the ability of one actor to bring about or help bring about an outcome and the ability of someone else to stop them."<sup>91</sup> He argued:<sup>92</sup>

"The distinction between 'power over' and 'power to' may be described as 'outcome power' and 'social power': the first because it is the power to bring about outcomes; the second for it necessarily involves a social relation between at least two people. Both are a species of political power and may be defined:

'outcome power' = the ability of an actor to bring about or help to bring about outcomes,  
 'social power' = the ability of an actor deliberately to change the incentive structure of another actor or actors to bring about, or help bring about outcomes."

Power, whether outcome power or social power, cannot be measured by measuring the resources of actors involved in making decisions. Being powerful involves more than mobilising resources; it also involves effecting and securing intended outcomes of decision-making, shaping and manipulating interests of other actors, controlling and filtering agendas of decision-making, and creating and maintaining structures of decision-making.<sup>93</sup> Following

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<sup>90</sup> On power see, for example, Bachrach & Baratz (1970) pp3-38; Boulding (1989); Clegg (1989); Connolly (1983) pp85-137; Cox, Furlong & Page (1985); Crozier (1973); Dahl (1957); Dahl (1991) pp12-48; Dowding (1991); Elcock (1991) pp189-203; Ham & Hill (1993) pp65-79; Hindess (1989) pp25-43; Lukes (1974); Morriss (1987); Pfeffer (1981); Polsby (1980); Poulantzas (1978); and Wrong (1979).

<sup>91</sup> Dowding (1991) p90.

<sup>92</sup> Dowding (1991) p48.

<sup>93</sup> See Lukes (1974).

Morriss:<sup>94</sup>

"One obvious way to start studying power is by cataloguing the actors' resources. Doubtless some sociologists who have tried this have carelessly claimed or implied that resources themselves were power, thus falling into the vehicle fallacy.... Wealth is not political power ... since, whilst some people use their wealth to collect politicians, others can only collect paintings.... But there is a big difference between committing the vehicle fallacy by identifying power with the resources that give rise to it and acknowledging that resources can be useful evidence in reaching assessments of power.... So power, as a dispositional concept, is neither a thing (a resource or vehicle) nor an event (an exercise of power): it is a capacity."

Decisions are made by powerful coalitions of interdependent actors.<sup>95</sup> Dowding argued:<sup>96</sup>

"... individuals within different coalitions may bargain across coalition lines, which is what makes solutions unstable. One coalition may try to entice an individual from another if this will strengthen the former coalition. That individual will be enticed only if she can get that coalition to adopt a policy closer to the one she prefers than the policy of the coalition she leaves."

Coalitions range from stable to unstable, though all are temporary. For example, in Stockport MBC there was a stable coalition comprising the political and administrative leadership, which successfully imposed its wishes upon

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<sup>94</sup> Morriss (1987) pp18-19. See also Dowding (1991) pp54-55.

<sup>95</sup> The idea of coalitions between interdependent actors is the micro-level equivalent of the meso-level concept of policy networks. Benson defined a policy sector as "a cluster or complex of organizations connected to each other by resource dependencies and distinguished from other clusters or complexes by breaks in the structure of resource dependencies" ((1982) p148). On policy networks see, for example, Atkinson & Coleman (1992); Benson (1975); Dowding (1991) pp118-124; Jordan & Schubert (1992); Marsh & Rhodes (1992c); Rhodes (1986b); Rhodes (1988) pp77-87, 235-366; Rhodes (1990); Smith (1993); and Wright (1988).

<sup>96</sup> Dowding (1991) p80.

other actors; whereas in Knowsley MBC the same coalition was less stable because the ruling Labour Group was divided over budget strategy. Coalitions form and change within party groups. In Kent CC a business-led faction of councillors took over the leadership of the ruling Conservative Group, which resulted in different budget tactics reflecting a more 'business-like' management style. In Bedfordshire CC two Liberal councillors nearly defected to the Conservative fold, and only remained because of assurances given by the rest of the Liberal Group on budget strategy.

In general, decisions to cut spending in the four local authorities were made by the interactions of interdependent actors exchanging resources to protect their interests. Those actors able to agree on decisions formed coalitions, and the coalition with the most resources imposed its preferred decision upon actors outside the dominant coalition. The winning coalition was not dependent upon these actors, and therefore their agreement on the decision was not needed. Agreement on a decision was needed only from actors of a winning coalition. Decisions to cut local authority spending were made because there was sufficient agreement on these decisions between a sufficient number of interdependent actors possessing sufficient resources. An agreement is no more than a negotiated and temporary settlement between a dominant coalition of interdependent actors.

In conclusion, the model postulates that actors have interests, and possess resources to further their interests. Their resources are dependent upon other actors, and are therefore traded between interdependent actors. Actors then interact and exchange resources to forge agreements on decisions. Decisions to cut spending in the four local authorities were made only if sufficient interdependent actors mobilising sufficient resources

agreed to make spending cuts. The model explains how the four local authorities made spending cuts given the interests of the actors involved, resources of the actors and structures of decision-making.<sup>97</sup>

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<sup>97</sup> This model is pitched at the micro-level, and thus requires both meso-level and macro-level analysis to understand the formation of interests, distribution of resources and configuration of structures. See Benson (1975); Benson (1982); Crozier (1972); Dowding (1991) pp147-163; Ham & Hill (1993) pp174-188; Rhodes (1981) pp97-133; and Rhodes (1986b).



# APPENDIX A: INTERVIEW PROGRAMME

The following were interviewed in undertaking the research on making spending cuts in local government, the positions of whom were those held at the time of the interview.

## Bedfordshire

Baimbridge C - Convenor, Bedfordshire Joint Public Service Union Committee  
 Barley J F - Chairman, Education Committee, Bedfordshire CC  
 Blowers A - Member, Labour Group, Bedfordshire CC  
 Brown A W - County Surveyor, Bedfordshire CC  
 Browning D P J - Chief Education Officer, Bedfordshire CC  
 Burnage A G - Chairman, Social Services Committee, Bedfordshire CC  
 Clifton D J - Director of Social Services, Bedfordshire CC  
 Corder R F K - County Secretary, Bedfordshire CC  
 Crabb E G - County Personnel Officer, Bedfordshire CC  
 Davies J - Social Services Spokeswoman, Liberal Group, Bedfordshire CC  
 Dixon I L - Deputy Leader, Conservative Group, Bedfordshire CC  
 Elven J W - Chief Executive, Bedfordshire CC  
 Gibbons B K W - Leader, Liberal Group, Bedfordshire CC  
 Griffin A M - County Planning Officer, Bedfordshire CC  
 Haley R A - Chief Fire Officer, Bedfordshire Fire Brigade  
 Hendry A P - Leader, Conservative Group, Bedfordshire CC  
 Hughes V - Administration Officer, Bedfordshire Police Constabulary  
 Hurst J - Assistant Education Officer, Bedfordshire CC  
 Lennon J V - Deputy Leader, Liberal Group, Bedfordshire CC  
 Lukes D - Assistant County Planning Officer, Bedfordshire CC  
 Muris C - County Librarian, Bedfordshire CC  
 Owen S H M - Education Spokesman, Liberal Group, Bedfordshire CC  
 Phillips K W - County Trading Standards Officer, Bedfordshire CC  
 Phillips V F - County Treasurer, Bedfordshire CC  
 Sell P - Area Officer (1), National Union of Public Employees  
 Shepherd M C - Chairwoman, Public Protection Committee, Bedfordshire CC  
 Sloane A K - Chief Constable, Bedfordshire Police Constabulary  
 Smith C - Principal Assistant, County Surveyor's Department, Bedfordshire CC  
 Smith P - Chief Arts and Recreation Officer, Bedfordshire CC  
 Sollars A R - Chairman, Leisure Committee, Bedfordshire CC

Sutherland I - Assistant to the Chief Executive,  
Bedfordshire CC  
Tizard J N - Leader, Labour Group, Bedfordshire CC  
Waterhouse R - Assistant Director of Social Services,  
Bedfordshire CC  
White K - Chairman, Environmental Services Committee,  
Bedfordshire CC  
White N H - County Architect, Bedfordshire CC

### Kent

Armstrong M - Chairman, Property, Supplies and Services  
Group, Kent CC  
Barchi W A - Chief Health and Housing Officer, Shepway DC  
Bate C - Senior Partner, Arthur Young  
Bennett J R - Borough Housing Officer, Gravesham BC  
Bicker D - Area Trading Standards Officer, Kent CC  
Bignell A - Reporter, Kent Messenger Ltd  
Bishop A - Policy Officer, Social Services Department, Kent  
CC  
Bowden I A - Regional Manager, Provincial Cleaning Services  
Ltd  
Bradley N - Area Officer (2), National Union of Public  
Employees  
Bryan R E - Honorary Secretary (Kent Federation), National  
Association of Schoolmasters and Union of Women  
Teachers  
Clark J R - Senior Trading Standards Inspector, Kent CC  
Clayton D F - Head, Property Services Department, Kent CC  
Cobb S M - Secretary (Kent Section), London Chamber of  
Commerce and Industry  
Condon P L - Assistant Chief Constable (Administration and  
Supply), Kent County Constabulary  
Corfield P - Principal Performance and Investigation  
Officer, Computing and Management Services Unit, Kent  
CC  
Cottell M N T - County Surveyor, Kent CC  
Cousins J - Operations Director (1), Pritchard Services  
Group plc  
Deakin W H - County Planning Officer, Kent CC  
DeKnop J G P - County Supplies Officer, Kent CC  
Detheridge V - Officer-in-Charge, Glebelands Closed  
Supervision Unit, Kent CC  
Dixon B - County Trading Standards Officer, Kent CC  
Edwards G - Area Trading Standards Officer, Kent CC  
Fitzgerald F - Operations Director (2), Pritchard Services  
Group plc  
Freeman C - Management Consultant, Harold Whitehead &  
Partners  
Goldsmith W - Regional Manager, ICC Cleaning Services Ltd  
Green E - Marketing Director, ICC Cleaning Services Ltd\*  
Greengross S - Director, Age Concern England\*  
Gregory S G - Convenor, Secondary Heads Association  
Griffiths J - Regional Organiser, General, Municipal,  
Boilermakers and Allied Trades Union

Hall J H - Secretary General, Contract Cleaning and Maintenance Association  
 Hart A H - Leader, Conservative Group, Kent CC  
 Hill R - Area Manager, Social Services Department, Kent CC  
 Hillier A - Honorary Secretary (Kent Division), National Union of Teachers  
 Hopkin W G - County Secretary and Solicitor, Kent CC  
 Humphrey R - Branch Secretary, National and Local Government Officers Association  
 Hunter D J - Chairman, Finance and Review Group, Kent CC  
 Jackson W U - Chief Executive, Kent CC  
 Jenkinson R A - Head, Computing and Management Services Unit, Kent CC  
 Jones J A V - Secretary of Kent Liaison Committee, National Association of Teachers in Further and Higher Education  
 Lauerman M W - Assistant Director of Social Services, Kent CC  
 Lee H W - Leader, Labour Group, Kent CC  
 Light D R - County Personnel Officer, Kent CC  
 Little J F - Deputy Leader, Labour Group, Kent CC  
 MacKichan I D S - Director (South Eastern Region), Confederation of British Industry  
 Mallett J - County Organiser, Age Concern Kent  
 Martin P - Deputy County Treasurer, Kent CC  
 McNeill W J - Chairman, Education Committee, Kent CC  
 Mill T - Finance Officer, Highways and Transportation Department, Kent CC  
 Neame R H B - Former Leader, Conservative Group, Kent CC  
 Newman G - Assistant Education Officer, Kent CC  
 Norman R S - Chairman, Social Services Committee, Kent CC  
 Notman B - County Caretaking and Cleaning Services Officer, Kent CC  
 Oatley B - County Education Officer, Kent CC  
 Odling M F - Chairman, Development and Transportation Committee, Kent CC  
 Parker D - Finance Officer, Social Services Department, Kent CC  
 Percival R H - Manager, Highways and Transportation Department, Kent CC  
 Pooley A R - Area Officer (3), National Union of Public Employees  
 Pounds H W - Principal Administration Officer, Kent County Constabulary  
 Rawlings-Smith S - Development Officer, Social Services Department, Kent CC  
 Ritchie A - Senior Trading Standards Inspector, Kent CC  
 Smith J - Principal Administration Officer, Kent Fire Brigade  
 Spence J A - Chairman, Police Committee, Kent CC  
 Stevenson B - Member (Kent Branch), Assistant Masters and Mistresses Association  
 Taylor W B - County Treasurer, Kent CC  
 Thomas J L - Chairman, Fire and Public Protection Committee, Kent CC  
 Tolmie E M - Honorary Secretary (Kent Branch), Assistant

### Masters and Mistresses Association

Tuckey R - Assistant Education Officer, Kent CC  
 Wheeler P - Policy Officer, Social Services Department,  
 Kent CC  
 Whitworth G D N - County Fire Officer, Kent Fire Brigade  
 Willcox B - Area Officer (4), National Union of Public  
 Employees  
 Williams N - Principal Assistant County Secretary, Kent CC  
 Williamson R - Senior Assistant, Education Department, Kent  
 CC

### Knowsley

Brackley R - Director of Technical and Professional  
 Services, Knowsley MBC  
 Neafsey P M - Borough Education Officer, Knowsley MBC  
 Overland J - Deputy Director of Leisure Services, Knowsley  
 MBC  
 Pearson A - Director of Leisure Services, Knowsley MBC  
 Penn R - Chief Executive, Knowsley MBC  
 Redmond A G - Borough Treasurer, Knowsley MBC

### Stockport

Ashworth J M - Leader, Liberal Group, Stockport MBC  
 Beardmore D - Assistant Director of Housing and  
 Environmental Health, Stockport MBC  
 Bradbury B - Finance Spokesman, Labour Group, Stockport MBC  
 Burgon V - Chairman, Recreation and Culture Committee,  
 Stockport MBC  
 Cooke J H - Chairman, Education Committee, Stockport MBC  
 Curley M - Assistant Director of Finance, Stockport MBC  
 Dobson S A - Director of Administration, Stockport MBC  
 Fitton N J - Director of Education and Acting Director of  
 Housing, Stockport MBC  
 Hargreave R - Director of Development and Town Planning,  
 Stockport MBC  
 Hodgkinson C - Assistant Regional Director (North Western  
 Region), Confederation of British Industry  
 Howe J G - Chairman, Development Services Committee,  
 Stockport MBC  
 Jones D - Branch Administrator, National and Local  
 Government Officers Association  
 Lawton J - Assistant Corporate Planner, Stockport MBC  
 Lloyd J - Leader, Conservative Group, Stockport MBC  
 MacCarron J A - Chairman, Finance Sub-Committee, Stockport  
 MBC  
 Mobbs A - Leader, Labour Group, Stockport MBC  
 Rupa S - Area Officer (5), National Union of Public  
 Employees  
 Simpson N A - Assistant Director of Recreation and Culture,  
 Stockport MBC  
 Whitehead H B - Chairman, Transportation and Works  
 Committee, Stockport MBC

Williams C S - Branch Secretary, National and Local  
Government Officers Association  
Wilson A L - Chief Executive, Stockport MBC  
Wroe D - Director of Works, Stockport MBC

Other

Astling A V - Chief Executive, Walsall MBC  
Bennett J - Senior Assistant Education Officer, Lancashire  
CC  
Groves R - Administration Officer, Lancashire CC  
Hale R - Under-Secretary, Chartered Institute of Public  
Finance and Accountancy  
Henig R - Vice-Chairwoman, Finance Sub-Committee,  
Lancashire CC  
Ramsdale P - Statistician, Chartered Institute of Public  
Finance and Accountancy\*  
Rymer R - Principal Officer, County Treasurer's Department,  
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Waring T H - Personnel and Management Services Officer,  
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