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Local Government Finance in England

The Secretary of State for the Environment, Transport and the Regions is due to announce provisional details of the English local government finance settlement in a statement on 2 December 1998. Final details will be announced in the new year after a consultation process.

This paper describes some of the salient features of the local government revenue finance system and outlines proposals on finance contained in the White Paper, *Modern Local Government: In Touch with the People* [Cm 4014]. It also discusses some possible changes to the way the Standard Spending Assessment is calculated.

Edward Wood

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Summary of main points

The main features of the local government revenue finance system are as follows.

- Central government grants constitute around 80% of total local authority spending in England.
- Grant is paid in three main forms:

1. **Revenue Support Grant** or **RSG**: the Government's main block grant to local authorities;
2. Redistributed income from the **Uniform Business Rate** (UBR, also known as the National Non-Domestic Rate or NNDR); plus
3. **Special Grants** and **Specific Grants**: Government grants paid for a specific purpose.

- RSG is distributed among the different councils using the **Standard Spending Assessment (SSA)**. This assesses councils' relative need to spend on local services using a range of demographic, geographic and social indicators.

Chapter IV of this paper contains a glossary of technical terms.

The White Paper, *Modern Local Government: In Touch with the People* [Cm 4014, July 1998] contains a number of proposals on local finance, including:

1. Uniform business rate (UBR) to be retained; councils to be given the power to set a small supplementary local rate or to give their business ratepayers a rebate on the national rate
2. Universal capping - the practice of specifying the likely capping limits before councils set their budgets - to be ended.
3. Legislation promised to introduce a "more discriminating" form of capping.
4. Government grant to local authorities to be specified for three years at a time
5. Government subsidy of Council Tax Benefit to be capped
6. Various changes to the capital finance regime, including an enhanced role for the Private Finance Initiative (PFI)

The Secretary of State for the Environment, Transport and the Regions is due to announce provisional details of the English local government finance settlement in a statement on 2 December 1998. Final details will be announced in the new year after a consultation process. Details of the aggregate level of central government grant for the next three years have already been announced as part of the Comprehensive Spending Review.

It is likely that the statement on 2 December will include implementation details for proposals 2,4 and 5. These changes are discussed in Chapter III. Legislation on proposal 3 has been promised in the Queen's speech.

Chapter III also gives details of various proposals for changes to the method by which elements of the SSA are calculated, including the Education SSA, the Children's Social Services SSA, the Sparsity indicator and the Area Cost Adjustment.

CONTENTS

I Revenue Finance: The Current System

Central government grants constitute around 80% of total local authority spending in England. Grant is paid in three main forms:

- **Revenue Support Grant** or **RSG**: the Government's main block grant to local authorities;

- Redistributed income from the uniform business rate (UBR, also known as the National Non-Domestic Rate or **NNDR**); plus

- **Special Grants** and **Specific Grants**: Government grants paid for a specific purpose.

The sum of these grants is known as **Aggregate External Finance (AEF)**.

RSG is distributed among the different councils using the **Standard Spending Assessment (SSA)**. SSAs assess councils' relative need to spend on local services. A range of demographic, geographic and social indicators are used to determine this, for example number of pupils, number of road miles, etc. The unit cost of providing a service is also assessed, using measures such as density of population. SSAs have also provided the benchmark for **Council Tax Capping** in recent years.

II Proposals for Reform: The White Paper

A comprehensive review of the local government finance system was announced shortly after Labour came to power,[1] and on 30 March 1998 the Department of the Environment, Transport and the Regions published three consultation papers on local government finance:

- *Modernising Local Government: Business Rates*
- *Modernising Local Government: Capital Finance*
- *Modernising Local Government: Improving Local Accountability*

A total of six consultation papers in the series *Modernising Local Government* were published in the first part of 1998; the others papers were:

- *Local Democracy and Community Leadership* [9 February 1998]
- *Improving Local Services through Best Value* [3 March 1998]

1 Department of the Environment, Transport and the Regions press release 297/ENV, 25.7.97, "Review to take a fresh look at local government finance"

- *A New Ethical Framework* [7 April 1998]

The consultation papers were followed on 30 July 1998 by a White Paper, *Modern Local Government: In Touch with the People* [Cm 4014].

The main proposals on local government finance were as follows:

7. Uniform business rate (UBR) to be retained; councils to be given the power to set a small supplementary local rate or to give their business ratepayers a rebate on the national rate

8. Universal capping - the practice of specifying the likely capping limits before councils set their budgets - to be ended.

9. Legislation promised to introduce a "more discriminating" form of capping.

10. Government grant to local authorities to be specified for three years at a time

11. Government subsidy of Council Tax Benefit to be capped

12. Various changes to the capital finance regime, including an enhanced role for the Private Finance Initiative (PFI)

No major change to the council tax was proposed.

Proposals 2, 4 and 5 do not require primary legislation and are likely to be implemented in the financial year 1999/2000. Legislation on a new capping regime was promised for the current session in the Queen's speech. Most of the proposals on capital finance do not require primary legislation and consultation with interested parties is due to take place on these changes. The Government is continuing to promote and develop the PFI for local authorities.

No timetable has yet been given for business rate reform, which would need primary legislation. The *Rating (Valuation) Bill of 1998-99* received a First Reading in the Commons on 26 November 1998 but this is purely a technical measure concerning the valuation of non-domestic properties. It does not introduce the supplementary local business rate proposed in the White Paper.

The proposals which are expected to be implemented immediately are examined in more detail in the next chapter.

III Local Government Finance Settlement 1999/2000

The settlement for the forthcoming financial year is due to be announced on Wednesday 2 December 1998 by the Secretary of State for the Environment, Transport and the Regions, John Prescott. Three of the proposals in the local government White Paper are likely to be covered in his statement: these are discussed below. In addition, there are likely to be changes to the way the Standard Spending Assessment is calculated. Aspects of the SSA which have proved controversial are also covered below.

A. Universal Capping

Labour made a commitment in its 1997 General Election Manifesto to abolish "crude and universal council tax capping"[2] but stated that it would retain reserve powers to control excessive council tax rises. Universal capping is simply the practice of publishing provisional capping criteria before councils set their budgets. This can be ended without a change in the legislation, leaving the Government free to announce capping principles after councils have set their budgets, and thereby impose caps without prior warning wherever it feels that council tax rises are excessive.

Universal capping has been used by central government since 1991. It enables councils to be sure that the budgets they set will not be capped, if that is what they want to achieve. As the Institute for Fiscal Studies put it, universal capping "allows authorities to budget to avoid capping by effectively capping themselves".[3]

If central government intends to cap budgets which it deems to be excessive, universal capping has advantages and disadvantages for councils. Without the advance publication of provisional capping limits, councils which intend to budget above their standard spending assessments (SSAs) cannot be sure that the Government will not use its reserve capping powers against them and the budgeting process could be described as a kind of blind auction. The disadvantage to councils of being capped formally is that they have to send out revised council tax bills, which is an expensive and wasteful process.

On the other hand, universal capping has the effect of imposing capping across the board by ensuring that the vast majority of councils budget within a predetermined limit specified by the Government. Councils might feel that if capping principles were not announced until after budgets had been set, the Government would use capping as a genuine reserve power, only using it against authorities which set large increases.

The Secretary of State for the Environment, Transport and the Regions, John Prescott, confirmed during the Local Government Finance Statement on 2 December 1997 that the

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2 New Labour: Because Britain Deserves Better, April 1997, p.34

3 Options for 1996: The Green Budget, p.136

Government did not intend to announce provisional capping principles for the financial year 1999/2000.[4] It will still be able to take action against councils which increase their budgets by an amount which the Government considers excessive using the capping provisions contained in Part I, Chapter V of the *Local Government Finance Act 1992.*

The press briefing on the Queen's speech stated that the *Local Government (Best Value and Capping) Bill* would replace the current capping regime with new reserve powers to limit excessive council tax increases:

> These would be more flexible and discriminating. They would be capable of application to individual authorities or larger numbers if that proved necessary.
>
> The new powers would allow for:
>
> - consideration of a council's budget increases over a number of years, allowing ministers to exempt councils which have had small increases in previous years, or to limit budgets which had cumulatively increased by more than a prudent amount
> - councils to reduce their budgets over a number of years, when their increases are limited, rather than always requiring them to make the full adjustment in one year
> - greater financial autonomy for councils meeting certain criteria eg beacon authorities, councils that have support through a referendum or those with small budgets
>
> Where necessary, the new powers would require councils to reduce their budget requirement to below that of previous years or below their standard spending assessment.

The policy debate on capping, and the current legal procedures, are considered in Research Paper 98/66.

B. Three Year Budgets

The White Paper set out the Government's intention to introduce a three year moratorium on changes to the way the Standard Spending Assessment is calculated. In combination with the three year announcement of the aggregate level of central government grant this is intended to improve local financial accountability by helping people understand better "the link between their council's spending decisions and the council tax bills which they face" [para 5.14]. At present, changes to the council tax may simply reflect changes to the SSA rather than a deliberate decision to spend more or less on services (ie. if the SSA falls, council tax must rise if spending is to remain constant). In theory, under a three

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4 HC Deb Vol 302, c167. See also HC Deb Vol 305, 5.2.98, c1254; HC Deb Vol 314, 16.6.98, c244

year system, council tax changes in years two and three would reflect such decisions, although changes in year one might still reflect changes to the SSA.

In practice, this accountability might be undermined by two factors. First, the moratorium will only cover changes to SSA methodology, ie. the formulae used to calculate SSAs. It does not cover changes to the raw data which are fed into those formulae, such as changes in pupil numbers. In certain circumstances data changes might alter the level of council tax an authority judged necessary in order to maintain services at the same level. SSA formulae are intended as a proxy for relative spending needs but cannot represent spending needs precisely. If a given indicator falls this will not necessarily enable a council to make painless cuts in its services, so council tax increases might be judged necessary to compensate for the resulting fall in grant.

Second, in recent years central government has provided a damping grant to assist councils affected by large changes in SSA. Depending on the magnitude of any SSA changes which occur before the moratorium begins, the damping arrangements announced at the same time as the settlement on 2 December might also have the effect of blurring the relationship between council tax and central government grant, especially if the transitional relief lasted two or more years.

Many local authorities are concerned that if their SSAs are not "perfect" at the time the moratorium is introduced, they will have to wait three years to get a chance to put things right. However, many authorities have long standing grievances regarding their SSAs and the existence of annual settlements does not enable all authorities to achieve all of the changes to their SSAs which they would like. Three year settlements, on the other hand, may offer better prospects for discussing changes to SSAs in a more considered manner, perhaps supported by longer term research than the current annual changes allow.

C. "Capping" Council Tax Benefit Subsidy

Local authorities administer council tax benefit (CTB) which helps people with low incomes to meet the cost of the council tax. Those on Income Support receive 100% of their council tax costs through CTB. Councils receive a direct subsidy from central government of 95% of the cost of providing CTB. It therefore follows that the higher the council tax an authority sets, the more the government's subsidy will be. The White Paper states that, on average, a fifth of any increase in council tax is met by the Exchequer through CTB subsidy. The Government intends to change the arrangements for CTB subsidy as part of its drive to increase local financial accountability:

> A council which levies high council taxes should not be able to rely in this way on the national tax payer to pick up the bill in its entirety for the escalating council tax benefit costs resulting from its own decisions. Moreover, the more fully the national tax payer meets such costs, the more obscured is the link between local spending and local taxation.

> The Government will, therefore, set each year a guideline increase in council tax which would be eligible for council tax benefit subsidy, but above which any increase will be partly ineligible. [paras 5.18-19]

The restriction on the subsidy of councils' CTB bills above a certain level will not affect the amount of benefit received by individuals.

One argument against capping council tax benefit subsidy is that it may penalise deprived areas: since these have a higher proportion of council taxpayers in receipt of CTB, any restriction of CTB subsidy will have a greater effect on them. The White Paper states that poorer areas will be protected:

> Councils with above average proportions of residents receiving council tax benefit [will not be] affected more severely than a council with an average proportion of residents in receipt of the benefit [para 5.19].

The Government's proposal will undoubtedly affect higher spending councils, many of which will be in poorer areas. The extent of the effect will depend on the threshold for the partial withdrawal of CTB subsidy: the higher the threshold is set, the fewer councils will be affected. The Local Government Association opposes CTB subsidy capping:

> The effect will be to increase the "gearing rate" of council expenditure for those areas with relatively high numbers of residents in receipt of council tax benefit, potentially to push council taxes still higher in these areas, to meet benefit costs, and to complicate further an already complicated system.[5]

D. Possible Changes to the Standard Spending Assessment (SSA)

The following section is based on information contained in the SSA Sub-Group Report for 1999/2000, which was published by the Department of the Environment, Transport and the Regions in August 1998. It is available on the internet from the DETR's local government home page at:

> www.local.detr.gov.uk

The SSA Sub-Group is the forum for discussions between the local authority associations (principally the Local Government Association) and central government departments about possible changes in the formulae for SSAs. The report does not indicate the Government's opinion on any of the proposals contained therein.

5 Memorandum to the Environment Sub-Committee relating to its inquiry on Local Government Finance, HC1126 of 1997-98, p68

1. Education

The aspect of the Education SSA which has dominated discussions this year is the additional educational needs (AEN) index. The Education SSA incorporates adjustments designed to reflect the increased costs associated with additional educational needs (AEN). AEN includes special educational needs (SEN) but also includes learning problems such as those associated with a language other than English being spoken at home. The way that the level of AEN is estimated through the SSA has a significant impact on the amount of government grant which is available for the single most costly service provided by local government. The Government fears that feeding indicators of low attainment directly into the SSA would provide a perverse incentive for poor performance by authorities, so an alternative means of assessing the prevalence of AEN is needed.

According to the 1999/2000 SSA Sub-Group Report, research has shown that children who come from areas of relative deprivation are more likely to need extra help in acquiring literacy and numeracy skills. The research "does not say that deprivation causes children to have literacy and numeracy problems, but it acknowledges that there is a strong statistical link between deprivation and low academic achievement" [para 2.1.10]. A technical working group looking at the issue of AEN indicators reached the conclusion, however, that many of the available measures of deprivation are not closely correlated with current indicators of special educational needs (such as numbers of children statemented, etc). This may be due, in part, to the subjective nature of measures of SEN and the impact which local policies can have on such measures. The working group proposed the use of deprivation factors which are independent of, but correlated with, low attainment in Key Stage tests, "since it could be shown statistically that certain factors and combinations of factors were associated with children with learning difficulties, as measured by the Key Stage tests" [para 2.1.16]. This approach would avoid the kind of perverse incentive described above, since "no school would… be adversely financially affected as a result of improving the examination success of its pupils" [ibid].

The use of deprivation factors associated with low attainment would probably lead to cuts to the London boroughs' Education SSAs (especially in Inner London). However, there is likely to be some form of transitional protection for authorities which suffer SSA reductions.

2. Personal Social Services

The aspect of the social services SSA which has received most attention this year is that which relates to expenditure on children in need. All of the exemplifications in the Sub-Group Report use the "York Model" which attempts to identify local costs involved in providing children's services more accurately than at present. There would appear to be widespread approval for the use of the York model by authorities outside London, but large losses to the London Boroughs (especially Inner London) would probably result from such a change. The London authorities have proposed adjustments to take account of their claim that fostering costs are higher in the capital.

The 1998/99 settlement introduced an indicator of elderly social services costs based on numbers eligible to receive Attendance Allowance. A number of authorities have called for this indicator to be supplemented with data on numbers eligibile for the newer benefit, Disability Living Allowance.

3. Sparsity

The Standard Spending Assessment is adjusted to take account of the additional costs of providing services in sparsely populated areas. The sparsity indicator is therefore of particular interest to local authorities in rural areas. Following a commitment in the white paper *Rural England*[6] the previous government commissioned research designed to provide better information on the factors which give rise to higher costs in both sparsely and densely populated areas. Conflicting research was presented by the Association of District Councils and no agreement on ways to improve the sparsity indicator was reached in time for the 1997/98 settlement. More recently there has been lobbying by the Rural Services Partnership, a coalition of local authorities from sparsely populated areas, and the SSA Sub-Group has considered research commissioned by the County Councils Network. It would appear, however, that no consensus for change currently exists among local authorities as a whole.

4. The Area Cost Adjustment

This element of the SSA is designed to take account of different costs (principally wages) which might arise in different parts of the country. It is used in the SSAs for all local authority services. A review of the ACA was started in 1995 after many councils complained that the ACA over-compensated authorities in London and the South East. The review started from the premise that there would continue to be some kind of adjustment for different costs: some authorities call for the total abolition of the ACA, but this would not appear to be a realistic option.

The report of the *Review of the Area Cost Adjustment*, by Professor Robert F Elliot, David McDonald and Roy MacIver of Aberdeen University, was published in July 1996. Some changes to the calculation of the ACA were recommended, but the review team's new method would not have benefited all authorities in the North and Midlands and neither would it have led to a reduction in grant for all authorities in London and the South East. Further research was discussed by the SSA Sub-Group this year and the 1999/2000 report contains a lengthy description of the various proposals which have emerged in recent years, together with 21 exemplifications based on these proposals [chapter 9]. There does

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6 Cm 3016, October 1995, p25

not appear to be a consensus on which model should be adopted, but some authorities will have lobbied Ministers to introduce changes before the three year moratorium on SSA changes commences.

IV Glossary

Aggregate External Finance (AEF)

AEF is the sum of the Government's main block grant to local authorities (**Revenue Support Grant** or **RSG**); redistributed income from the uniform business rate (**NNDR**); plus **Special Grants** and **Specific Grants**, Government grants paid for a specific purpose. That is to say, it is the total amount of Government support paid to local government as a whole (or to an individual authority).

The Government specifies in advance the level of AEF for a given year and this is honoured come what may. Thus if NNDR income is less than expected in a given year (due, for example, to high levels of business failure or successful business rate appeals), RSG will be adjusted upwards to compensate when the books are balanced.

(**AEF = RSG** + **NNDR** + **Special Grants** + **Specific Grants**)

All Other Services SSA: see **Environmental, Protective and Cultural Services SSA**

Area Cost Adjustment

This is one of the factors used in the calculation of **SSA**s. It is designed to take account of variations in costs (principally wages) in different areas. Since it has the effect of increasing the SSAs of authorities in London and the South East at the expense of other councils, it is widely criticised by authorities outside that region. See previous chapter.

Budget Requirement

The budget requirement is the technical term for the budget which councils must set every March, and is the figure to which the **council tax capping** limits apply. Revenue generated by spending council reserves or charging for services does not count for the purposes of the budget requirement. In theory, therefore, if a council had inexhaustible balances it would not be affected by capping. In practice, many authorities which have in the past used their reserves to shield them from the effects of capping are now finding that their reserves are severely depleted.

Business Rates: see **National Non-Domestic Rate**

Council Tax

This replaced the ill-fated community charge (or "poll tax") in April 1993. It is usually described as a property tax with a personal element, or in other words, a cross between the rates and the poll tax. Each domestic property is placed in one of eight valuation bands, ranging from band A (up to £40,000) to band H (over £320,000). The local authority sets a basic council tax which applies to band D properties. Tax on other properties is payable according to fixed ratios, eg. band A council tax is 2/3 of the local band D tax and band H is two times the local band D tax. There is a 25% discount for properties occupied by a single person and a 50% discount for second/empty homes. Various other discounts are available. Councils must set their council tax for the forthcoming financial year in March or earlier, at the same time as they set their **Budget Requirement**.

Council Tax at Standard Spending (CTSS)

Every year the Government specifies for each type of authority a standard level of band D council tax. It then arranges the distribution of **RSG** so that if an authority sets its budget at the level of its **SSA** it will only have to set the council tax at the standard level. The total income which would be raised if all councils set council tax at this level is known as CTSS. Thus, at the global level,

CTSS = TSS - AEF

The Government has the power to set the level of **AEF**, **TSS** and CTSS, but all three must be held in balance in accordance with the above equation. For example, if the Government wished to protect overall local government spending but also wished to reduce its own contribution, it could reduce AEF by cutting RSG, while keeping TSS constant, in which case CTSS would rise. In other words, council tax, as opposed to income tax, business rates and other taxes, would fund a greater proportion of local expenditure.

The term CTSS also refers to the income which is raised locally if an authority sets its band D council tax at the level which the Government specifies as standard for an authority of that type. As such it forms an important part of the mechanism by which **RSG** is distributed to authorities:

RSG = SSA - CTSS - NNDR

That is, an amount of RSG is paid to each local authority so the authority's funds match its SSA, once it has received its share of the income from the business rate and assuming it sets its band D council tax at the standard level.

Council Tax Capping (sometimes referred to as *Ratecapping*)

The capping mechanism limits councils' budgets (see **budget requirement**) rather than imposing explicit limits on the level of council tax they may set. Although this may seem like a fine technical distinction, authorities have on occasion been able to increase council tax by quite large amounts whilst having their budgets limited by capping, due to a combination of the way the capping process works and the **gearing effect**.

Enhanced Population

Enhanced population is one of the indicators used in the calculation of the **All Other Services SSA**. It attempts to measure any additional demand for services which might be imposed by visitors to an area, including commuters, day visitors and overnight visitors. The 1998/99 settlement made changes to the way enhanced population is measured, in response to criticisms that some authorities (notably Westminster) benefited unduly from this indicator.

Environmental, Protective and Cultural Services SSA

This is one of the seven major components of the **Standard Spending Assessment**. It was previously known as the All Other Services SSA. It attempts to measure authorities' relative need to spend on two groups of services. The first is a group of services provided predominantly by district councils; the second is a group of services provided predominantly by county councils:

<u>District-Level Services include</u>

- concessionary fares; economic development; environmental health; museums and galleries; parking; the performing arts; planning; recreation; refuse collection; etc

<u>County-Level Services include</u>

- Civil defence; consumer protection; libraries; magistrates' and coroners' courts; probation; subsidy of bus services; refuse disposal; registration of births, deaths and marriages; etc

Those councils which provide all or most local government services in an area (unitary authorities, London and metropolitan boroughs) receive an SSA in respect of both sets of services under the EPCS block.. Most of the services provided by shire district councils fall under the EPCS block, which explains why districts regard this SSA as being particularly important.

The Gearing Effect

In the context of local government finance, this usually refers to the consequences of the ratio between **AEF** (total Government grant to local authorities) and income generated by the **council tax**. That is to say, if council tax generates (say) 20% of a council's income or **budget requirement**, then AEF accounts for the remaining 80%. Consequently if the authority wanted to increase its budget by 4% it would have to raise its council tax by 20%.

Conversely, a cut in AEF of 5% would require a 20% increase in council tax to produce a standstill budget, without taking account of inflation. This phenomenon accounts for occasional claims by councils that they have to introduce budget cuts at the same time as increasing the council tax.

The gearing effect exercises a significant *political* restraint on local authority expenditure, quite apart from the statutory restraint imposed by capping.

National Non-Domestic Rates (**NNDR**, also known as Uniform Business Rates or UBR).

In 1990 business rates were removed from local control, whilst domestic rates were abolished altogether (to be replaced with the poll tax until 1993 and then the council tax). The Chancellor of the Exchequer works out an NNDR *multiplier* (the level of rates "in the pound") to apply across the country. Under the *Local Government Finance Act 1988* the potential national yield from business rates may never rise in real terms: the multiplier must be set to allow for an average increase at or below the RPI for September in the previous financial year. Business rates are collected by *billing authorities* (shire districts and unitaries, London boroughs and metropolitan boroughs) and the money raised is passed to the Government, which redistributes it to all local authorities on a per capita basis. The sum shared out in this way is known as the *distributable amount.*

Many commentators suggest that this makes NNDR more like another form of government grant than a local tax. The mechanism for central funding of local government lumps NNDR in with **RSG** under **Aggregate External Finance** (total government grant to local authorities), reinforcing this analysis.

Revenue Support Grant (RSG)

This is the main form in which government grant is paid to local government. The Government also pays various **Special Grants** and **Specific Grants**. RSG is the biggest single source of income for local government. The Government pays RSG to each authority in a block and has no control over how it is spent: it is not hypothecated, or "ringfenced" for a specific purpose. The national total for RSG is divided among the different councils using **SSAs**. At the level of an individual authority,

RSG = SSA - CTSS - NNDR

That is, an amount of RSG is paid to each local authority so the authority's funds match its SSA, once it has received its share of the income from the business rate and assuming it sets its band D council tax at the standard level.

Sparsity

SSAs are adjusted to take account of the additional costs of providing services in sparsely populated areas. Many rural authorities claim that insufficient account is taken of sparsity-related costs and coalitions of authorities such as the Rural Services Partnership have campaigned on this issue.

Special Grants and Specific Grants

In addition to **RSG**, the Government also pays various grants for specific purposes. Some of these are paid every year, others only as the need arises. Many of these grants can only be spent on the specific service for which they were intended, for example Police Grant and Community Care Grant. These are known as Specific Grants. Others, known as Special Grants, are directed towards general shortfalls in local authority finances rather than specific services, eg. the SSA Reduction Grant, which is a transitional grant paid to authorities whose **SSA** has fallen dramatically, to cushion them against a sudden large reduction in RSG.[7]

The Standard Spending Assessment (SSA)

The Standard Spending Assessment serves a number of important functions. It is the main component of the mechanism by which **RSG** is divided among individual local authorities. It has also provided the yardstick for **council tax capping**, and may continue to do so in the future. This has meant that councils which dispute the fairness of their SSAs have only had limited freedom to increase their income by means of additional local taxation (this is compounded by the **gearing effect** which results from the high ratio of central grant to council tax in the funding of local authorities)

The SSA is said to work by determining what an authority needs to spend in order to provide a "standard level of service". RSG is then distributed to councils with the aim of ensuring that they only need set the standard level of council tax prescribed by the Government in order to spend at the level of their SSAs.[8] It is important to note, however, that the SSA only provides a relative assessment of need: it is the basis of the mechanism by which the Government divides up the sum which it has set aside for RSG rather than the starting point for the calculation of the RSG. The size of the financial settlement is, of course, influenced by political and economic considerations as well as Ministers' assessment of the needs of local government. Where councils complain about their SSAs this could be a claim that their SSAs are unfair in absolute or in relative terms, or both: ie. is a council claiming that its SSA does not represent the true level of local need because of the paucity of the overall settlement or, more pragmatically, because its SSA treats the council unfairly in relation to other authorities?

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7 The distinction between Special and Specific Grants can be confusing as both types are paid under section 88B of the *Local Government Finance Act 1988* and, in legal terms, are both known as Special Grants.

8 See entry on **RSG** for the precise mechanism used

The means by which the SSA for each authority is calculated are complex. An SSA is composed of seven major service blocks:

I Education
II Personal Social Services
III Police
IV Fire
V Highway Maintenance
VI Environmental, Protective and Cultural (formerly All Other Services)
VII Capital Financing

The education and social services blocks are further broken down into sub-blocks (eg. the education sub-blocks are primary, secondary, post-16, under 5 and other education). Authorities receive an SSA only in respect of the particular services they provide (eg only police authorities receive the police SSA). The Capital Finance SSA attempts to indicate authorities' need to meet interest payments on outstanding debt (interest payments are met from the revenue account).

A range of demographic, geographic and social indicators are used to assess needs within the different service blocks, for example number of pupils, number of road miles, etc. The unit cost of providing a service is also assessed, and in some cases this is adjusted to take account of factors which could affect the unit cost such as density of population. The indicators used in SSAs come from a wide range of sources including the 1991 Census, OPCS population estimates, the New Earnings Survey, unemployment figures, etc. The basic method of calculation of each SSA block for the forthcoming financial year is given in the draft Local Government Finance Report which is contained in the bundle of papers released at the time the finance settlement is announced [main white section]. Major changes to SSA methodology are highlighted in the consultation paper to which the draft report is appended.

In 1998/99 there were changes to the SSA methodology following a commitment in the 1997 Labour Manifesto: "The funnelling of government grant to Conservative-controlled Westminster speaks volumes about the unfairness of the current grant system. Labour is committed to a fair distribution of government grant"

Total Standard Spending (TSS)

This is what local government as a whole would spend if each authority spent at the level of its **SSA** (and set council tax at the standard level). Because many authorities continue to spend above SSA, and few with substantial budgets spend below it, the actual total of local authority spending is higher than TSS.

(**TSS = CTSS+AEF**)

The Government has the power to set the level of **AEF**, **TSS** and **CTSS**, but all three must be held in balance in accordance with the above equation. For example, if the Government wished to protect overall local government spending but also wished to reduce its own contribution, it could reduce AEF by cutting RSG, while keeping TSS constant, in which case CTSS would rise. In other words, council tax, as opposed to income tax, business rates and other taxes, would fund a greater proportion of local expenditure.

The level of AEF and TSS in England since the introduction of the council tax is shown in the table below:

Aggregate External Finance and Total Standard Spending
settlement figures: £ million: England

	AEF	TSS	AEF as % of TSS
1993/94	33,274	41,168	81%
1994/95	34,313	42,664	80%
1995/96	34,686	43,507	80%
1996/97	35,652	44,927	79%
1997/98	35,767	45,666	78%

Note: figures are not directly comparable from year to year due to changes in function and coverage

Sources: DoE Settlement Key Statistics

Opposition parties have tended in recent years to draw attention to the effect on council tax levels of the level at which AEF is set in relation to TSS.

Uniform Business Rate: see **National Non-Domestic Rate**