# Local Government Finance

## Research Paper 97/127

## 28 November 1997

The Government is due to announce provisional details of the English local government finance settlement for 1998/99 in a statement in the first week of December 1997. Initial details of the Scottish and Welsh settlements will be made known at around the same time. This paper describes some of the salient features of the local government revenue finance system. It also places the settlement in the context of the Government's approach to public spending in general and gives a brief guide to the bundle of papers released through the Vote Office at the time of the local

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# I Background[1]

In recent years a statement on the local government finance settlement for England has usually been made shortly after the November budget statement or, prior to 1993, the 'Autumn Statement'.[2] The Autumn Statement or November budget statement by the Chancellor included the results of the Public Expenditure Survey (PES) that has set departmental control totals for the next three years and determined the overall parameters for the local government financial settlement such as Total Standard Spending (TSS) and Aggregate External Finance (AEF).

In 1997, however, the usual PES round has been replaced by a Comprehensive Spending Review (CSR). The CSR is to examine public expenditure and reorder spending programmes to meet the new Government's priorities. There are 24 departmental reviews led by the relevant Secretary of State and involving the Treasury, the Prime Minister's Policy Unit and the Efficiency Unit. There are also six cross-departmental reviews , to ensure that the CSR is not constrained by the current structure of government and that different parts of government are working together efficiently. The review process is due to finish in summer 1998 and will provide the basis for new spending plans in 1999/2000 and beyond. On 25 July 1997 a review of local government finance system was announced by the Local Government Minister Hilary Armstrong. Details of the five main areas to be covered by the review were given in a Department Of The Environment, Transport & The Regions press release:[3]

1. the balance between central direction and local discretion, including the arrangements which will need to be put in place to abolish crude and universal capping while retaining reserve powers to control excessive council tax rises;

2. the current arrangements for local authority revenue raising, including ways of improving the fairness of the distribution of the council tax burden and consulting with business fully about returning the business rate to local control;

3. ways of encouraging cost-effective and efficient delivery of services, including Best Value [the Government's replacement for CCT];

4. measures to reduce needs and resources inequalities through a fair distribution of government grant, looking at the Revenue Support Grant system and the Standard Spending Assessments (SSAs) on which it is based;

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1 Supplied by Robert Twigger, Economic Policy and Statistics Section

2 Separate statements for Scotland and Wales are usually made a little later as the Secretaries of State have the opportunity to allocate their expenditure blocks between services.

3 "Review To Take A Fresh Look At Local Government Finance." 297/ENV, 25.7.97

5. possible improvements to the capital finance system, including how to encourage **local** authorities to make best use of their assets and what change might be made to the capital finance framework to encourage Public Private Partnerships.

In the meantime, as foreshadowed in the Labour Party's election manifesto, expenditure in 1998/99 will be in line with the previously announced control total. However, departments have been encouraged to reorder spending within their existing budgets to reflect the new Government's priorities. The pre-election public expenditure plans provided £35,973 million for AEF (revenue support grant, non-domestic rate distribution and special and specific grants) in England in 1998/99. This represented an increase of just 0.6% in cash terms over the figure for 1997/98.[4]

Since the Election the Government has announced a number of changes which will affect local authorities in 1998/99:

- Within the control total, £1.0 billion has been allocated from the 1998/99 reserve for additional current expenditure on schools. England's share of the new resources is £835 million, which will be paid as additional grant to local authorities.[5]

- £1.3 billion from the Windfall Fund has been allocated to the New Deal for Schools (NDS) and will be spent on repairs to school buildings between 1997/98 and 2001/02. Some £250 million will be available to schools in England in 1998/99. Where major repair work is required, NDS funding may be provided as a direct capital grant or supplementary credit approval. Where schools can contribute (e.g. through fund raising or from accrued balances) they are expected to do so. NDS funding will also be used to develop Public Private Partnerships with the private sector to repair and maintain schools.

- Under the Capital Receipts Initiative the Government is honouring its manifesto commitment to re-invest local authorities' unspent receipts from council house sales. The Government is to release some £610 million in support of the initiative in England in 1998/99. These resources are to provide additional capital spending in 1998/99 and to meet the need for interest payments in respect of the capital spending incurred in 1997/98 and 1998/99. The release of funds will be in the form of Supplementary Credit Approvals. One-third of the resources will be distributed in proportion to authorities' total eligible set-aside receipts and two-thirds on the basis of assessed housing need.[6]

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4 HM Treasury, *Public Expenditure: Statistical Analyses 1997/98*, Cm 3601 table 6.1

5 Source: DfEE Budget 97 press notice

6 Source: DETR, *Capital Receipts Initiative: Guidance to Local Authorities*, October 1997

Authorities will also be affected by the macro-economic situation. Since the pre-election spending plans were announced in November 1996, there have been changes to assumed levels of inflation in 1996/97, 1997/98 and 1998/99. Price levels, as measured by the GDP deflator, are now expected to be some 1¾% higher in 1998/99 than under the November 1996 forecast. If this increase is reflected in local authorities' costs it will reduce the volume of services that can be provided for a given cash sum. The Conservative Party has also drawn attention to the effect which the changes in the treatment of advanced corporation tax on pension funds announced in the July 1997 Budget may have on local authority budgets.[7]

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[7] See, for example, William Hague, question to the Prime Minister. HC Deb Vol 297, 9.7.97, cc 928-30.

# II A Brief Introduction to Local Government Revenue Finance

This chapter does not set out to be a comprehensive guide to local government finance. It attempts to explain some of the key terms which are relevant to the local government finance settlement, pointing out how these concepts are linked. After a short description of the revenue finance system a glossary is provided. The definitions used here are those which applied in 1997/98, but some changes in respect of 1998/99 may be announced in the December 1997 statement, particularly in the way Government grant is distributed (see especially **Social Index and Economic Index**; and **Enhanced Population**).

The local government finance system in Wales is similar to that in England in most respects, but the **Standard Spending Assessment** is not broken down into different service blocks. The Scottish system is also similar but the mechanism for allocating grant has significant differences. In Scotland the basis of that mechanism is called **Grant Aided Expenditure** rather than the **Standard Spending Assessment**.

## A. Summary

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 (**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 also provide the benchmark for **Council Tax Capping**.

## B. 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 successful business rates appeals or business failure), **RSG** will be adjusted upwards to compensate when the books are balanced.

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

**All Other Services SSA**

This is one of the seven major components of the **Standard Spending Assessment**. The All Other Services SSA 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 All Other Services block.. Most of the services provided by shire district councils fall under the All Other Services SSA. That is why this particular SSA is particularly important for district councils.

Some of the indicators which are used to calculate the All Other Services SSA have aroused controversy in recent years. These include the **Social Index** and the treatment of visitors to an area in the calculation of the SSA (**enhanced population**).

**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. The previous Government commissioned an independent review of the Area Cost Adjustment late in 1995 but stated that it had no plans to abolish it altogether.[8] 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 exemplifications calculated by the review team showed that these proposals would not automatically benefit all authorities in the North and Midlands and neither would they lead to a reduction in grant for all authorities in London and the South East. There was no change in the method of calculating the Area Cost Adjustment in 1997/98. Further research was carried out in 1997 and the Labour Government commissioned research into an alternative method of calculating the ACA in October 1997 in order to enable further discussion of this issue in 1998, ie. before the 1999/2000 settlement.[9]

**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**

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8 HC Deb Vol 264, 17.10.95, cc185-6W; HC Deb Vol 264, 8.11.95, cc 983-4W

9 DETR Press Release 401/ENV "Area cost adjustment - new research announced" 16.1.0.97

## 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).[10] 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.

[10] The eight bands in Scotland and Wales have different values. In Scotland these range from up to £27,000 (A) to more than £212,000 (H). In Wales the bands range from up to £30,000 to more than £240,000. The different values were based on estimates of average property prices in each of the three countries.

**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**.

The present Government will, for the time being, follow the practice of the previous administration in announcing provisional capping limits for the next financial year in the Local Government Finance Statement. Limits are announced with regard to two different criteria, excessive increase and absolute excessiveness. Both limits use **SSAs** as a point of reference. The criteria announce in advance that an authority will be capped if it spends *x* per cent more than its SSA (absolute excessiveness) but also that an increase in spending of *y* per cent will be considered excessive if the resulting total is *z* per cent above SSA (excessive increase).

To give a fairly simple example, in 1995-96 the capping limits for counties, districts and metropolitan and outer London Boroughs were as follows:

**Capping Limits 1995-96 (most authorities)**

a) EXCESSIVE INCREASE
Any budget increase of more than 0.5% will be excessive if the resulting budget exceeds the SSA level;

b) ABSOLUTE EXCESSIVENESS
Any budget more than 12.5% above SSA will generally be considered excessive

In subsequent years the excessive increase capping principles have been further developed to ensure that authorities which are already spending at their capping limits are allowed to spend in full any increases in those SSAs which have been prioritised by the Government (eg. education). This has become known as "passporting".

A fuller description of the capping process is given in **Research Paper 97/89**

**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. Although it is generally accepted that visitors and commuters increase the need for certain services (such as street cleaning), the cost adjustment factors which are applied to enhanced population have proved controversial in recent years, in particular the **Social and Economic Indices**. In essence, the enhanced population indicator currently assumes that visitors to an area share the same social and economic features as the resident population.

**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.

**Grant Aided Expenditure**

The Scottish equivalent of the **Standard Spending Assessment**. See section E on Scotland and Wales.

**Government Supported Expenditure (GSE):** The Scottish equivalent of **TSS**.

**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** (**AEF**, which is the total of 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.

### Social Index and Economic Index

It is assumed by the Government that the cost of providing certain services is likely to depend in part on the social and economic conditions of local residents (and visitors). The mechanisms used to take account of this in the calculation of **SSAs** include the **Social Index** and the **Economic Index**. The indices currently cover the following factors:

#### Social Index

- The proportion of households living in rented, purpose-built flats in residential buildings;
- The proportion of people in accommodation which is not self-contained or is non-permanent;
- The proportion of people living in accommodation with more than one person per room;
- The proportion of people born outside the UK, the Republic of Ireland, the Old Commonwealth, and the USA; and
- The number of homeless households of more than one person accepted as in priority need for permanent accommodation, as a proportion of the population.

#### Economic Index

- Total number of people unemployed as a percentage of the total population of working age;
- The proportion of unemployed people who have been unemployed for more than a year;
- The number of housing benefit claimants as a proportion of the population;

- The standardised mortality ratio for people under 75 years of age; and
- The proportion of people living in a lone parent family with at least one dependent child.

The social and economic indices are used in the calculation of the **All Other Services SSA**. Similar indices are used in the calculation of the Personal Social Services SSA. It has been claimed widely that the City of Westminster obtains disproportionate benefit from the Social Index. The borough rates as the 4th most deprived authority under the Social Index; Kensington and Chelsea is 12th and Barnsley 326th (out of 357).

### The Sparsity Indicator

This is another of the factors used in the calculation of **SSA**s. It is designed 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**[11] 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. The 1998/99 report of the Standard Spending Assessments Sub-group suggests that there has been little significant progress on this issue since then.

### 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.[12]

### 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 also provides the yardstick for **council tax capping**. This means that councils which dispute the

[11] Cm 3016, October 1995, p25

[12] 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.

fairness of their SSAs have only 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.[13] 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?

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 All Other Services (see separate entry)
- 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

[13] See entry on **RSG** for the precise mechanism used

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].

The 1997 Labour Manifesto stated: "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" If the Government decides to address this issue in time for the 1998/99 settlement, the most likely areas for change within the SSA system are the **Social Index** and **Enhanced Population**, which is part of the mechanism for the treatment of visitors for grant purposes.

The Scottish equivalent of the Standard Spending Assessment is **Grant Aided Expenditure** (see separate section on Scotland and Wales).

**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

In the Labour Party's response to last year's local government finance statement, attention was drawn to the effect of the fall in AEF in relation to TSS on council tax levels.[14]

The Scottish equivalent of TSS is **Government Supported Expenditure** or GSE.

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

[14] See for example Frank Dobson, HC Deb Vol 286, 27.11.96, cc 343-4

## C. Scotland and Wales

The local government finance system in Wales is similar to that in England but the **Standard Spending Assessment** is not broken down into separate service blocks. The Government has reached agreement with the Welsh Local Government Association that independent research into the grant distribution system in Wales will be commissioned. The results of that research will be available to the proposed Welsh Assembly (see below) but no fundamental change to the grant system is likely before the Assembly is established.

The overall local government finance system in Scotland is also similar but the distribution mechanism for **RSG** has significant differences. In Scotland the basis of that mechanism is called **Grant Aided Expenditure**. GAE attempts to measure expenditure needs for different services using a primary indicator for each service; these are usually based on the population which will be using the service, with adjustments for secondary indicators which are weighted to take account of past spending patterns. This is known as the *client group approach.* As in England, the distribution of RSG takes account both of relative spending needs (through GAE) and the ability of each council to raise money through the council tax. Thus, in theory, if each authority in Scotland were to set band D council tax at the standard level prescribed by the Government it would be able to provide the same standard level of service.

It is important to note that GAE only claims to measure *relative* need: it takes a pre-determined sum and divides it up amongst all Scottish local authorities. Arthur Midwinter suggests that

> a proper attempt to cost a standard level of service would begin by defining the standard, and then calculate the cost of achieving it.[15]

The Scottish equivalent of **Total Standard Spending** is *Government Supported Expenditure* (GSE). This figure is the total of GAE and the estimated loan and leasing charges payable by local authorities over the year.

If a Scottish Parliament and Welsh Assembly are created, the task of deciding upon the grant distribution mechanism will fall to these bodies rather than central government. The Scottish Parliament will also have the power to make more fundamental changes to the local government finance system. It will have, for example, the ability to replace or supplement the current forms of local taxation, **council tax** and the **uniform business rate**. The Welsh Assembly will have more limited powers, but provision exists within section 5 of the *Local Government Finance Act 1992,* for example, to alter substantially the impact of the council tax by changing the banding system by means of secondary legislation.

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[15] Local Government in Scotland: Reform or Decline? 1995, p37

## D. Other sources of information

**1. Department of the Environment, Transport and the Regions local government finance website:**

http://www.local.doe.gov.uk

This contains a great deal of useful information. The detailed figures on the 1998/9 settlement will be put on the internet and will be available through this site.

**2. The Encyclopaedia of Local Government Finance:** Peter Blair/ADC

**3. Councillors' Guide to Local Government Finance:** CIPFA

**4. Local Government Finance: Law and Practice.** Andrew Arden QC & Caroline Hunter (a more detailed looseleaf encyclopedia)

## E. Papers Relating to the Local Government Finance Statement

The local government finance statement for 1998/99 is expected to be made by the Deputy Prime Minister John Prescott, the Secretary of State for the Environment, Transport and the Regions. It is likely that the large bundle of papers giving provisional details of the settlement will be released through the Vote Office when the statement begins. Copies of the statement itself are not expected to be released until the Deputy Prime Minister has finished speaking. This year the Government also intends to write to each Member giving brief details of the settlement as it relates to local authorities in his or her area.

The bundle of papers contains a large amount of vital information on local government finance, but the sheer volume of this document can be overwhelming. Those parts of the bundle which are likely to be of particular interest to Members are listed below. It should be noted, however, that many of the tables have not, in previous years, included information on the previous financial year. A useful source of information on local government finance in 1997/98 is the DETR website mentioned in Section D above.

**1. Revenue Support Grant for 1998/99 and Related Matters: Consultation paper**

Main white section of bundle. Describes the main features of the settlement, including changes to the **SSA**. Likely to contain annexes providing useful information, including:

- list of *Specific Grants within* ***AEF*** (see Glossary) and *1998/99 Settlement Key Statistics*;

- draft of the *Special Grant Report* relating to SSA Reduction Grant (see **Special Grants**), including details of the *Amounts Payable to Authorities*;

- *1998/99 Provisional Standard Spending Assessments (SSAs) and Business Rate, Revenue Support Grant and Special Grant Entitlements*. Gives total SSA figures for individual authorities;

- *1998/99 Provisional Standard Spending Assessments (SSAs) at Major Service Block Level*. Breaks down the SSAs for each authority into the SSAs for education and the six other major service blocks (see **SSA** in Glossary for details of service blocks).

### 2. Limitation of Council Tax and Precepts 1998/99

Yellow section of bundle. Gives details of the *Provisional (Capping) Criteria for 1998/99* (see **Council Tax Capping** in Glossary). These are likely to be summarised in the statement itself. Contains a table showing *Local Government Finance Settlement 1998/99: Capping Exemplifications*, showing (inter alia) the *permitted increase in budget* for each authority under the capping rules

### 3. Local Government Changes for England (Council Tax) (Transitional Reduction) Regulations 1997

Small green section after pink section. Gives details of the scheme designed to protect council tax payers in shire districts which are subject to local government reorganisation.

### 4. Draft Police Grant Report

Second white section. Contains a table showing *Allocation of Police Grant* for 1998/99.

Recent Research Papers on related subjects include:

| | | |
|---|---|---|
| 97/114 | The Greater London Authority (Referendum) Bill [Bill 61 of 1997-98] | 06.11.97 |
| 97/89 | Council Tax Capping in England | 16.07.97 |
| 97/82 | The local elections of 1 May 1997 | 27.06.97 |
| 97/80 | The PFI and the Local Government (Contracts) Bill, 1997-98 Bill 5 | 20.06.97 |
| 97/74 | The Local Government Finance (Supplementary Credit Approvals) Bill [Bill 2 of 1997/98] | 03.06.97 |
| 97/69 | The Code of Practice on Access to Official Information | 03.06.97 |
| 96/98 | The Local Government and Rating Bill 1996/97 [Bill 2 of 1996/97]: Local Government in Rural Areas | 01.11.96 |