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## Local Government Finance Settlement: 1999/00: England

The *Local Government Finance Report (England) 1999/2000* was laid before the house on 1 February 1998 and will be debated on 4 February.

This paper looks at Standard Spending Assessments, Revenue Support Grant and other grants for England as a whole and for classes of authority. Figures for individual authorities are available on request from the Social and General Statistics Section. The paper also looks at changes in methodology in this year's settlement and also at the proposed council tax benefit subsidy limitation scheme.

Bryn Morgan

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## I The Local Government Finance System in England

There are three main blocks of local authority spending, funded by central government through three separate systems. The Local Government Finance Settlement is concerned with general revenue expenditure rather than capital expenditure or current expenditure on council housing.

The provisional finance settlement is usually announced in early December followed by a period of consultation before the final settlement in early February.

The process of distributing grants to authorities for these services begins with the government deciding on an overall level of spending by local authorities it is willing to support and how much of this to pay in central grants. This is known as Total Standard Spending (TSS). Around 80% of this is funded by Aggregate External Finance (AEF), which is made up of Revenue Support Grant (RSG), other special and specific grants from central government and redistributed income from the Uniform Business Rate (UBR). The difference is made up by council tax income.

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.

Revenue Support Grant is set for an individual authority such that it equals SSA minus NNDR income (allocated on a per capita basis) minus the income an authority can raise from council tax given its council tax base and a standard level of council tax known as Council Tax at Standard Spending (CTSS). This is the council tax that an authority would need to set if its budget requirement at SSA. Other things being equal, an increase in SSA would lead to an increase in RSG.

Authorities do not have to set their budget requirement at the SSA level. They may set a higher budget but this would involve setting a council tax above CTSS. The Government also reserves the right to cap budget increases that they deem to be excessively high.

Further details of the system are given in the glossary at the back of this note or in the *Plain English Guide to the Local Government Finance Settlement*, published by DETR.

## II The 1999/00 Local Government Finance Settlement

### A. SSAs, AEF and RSG

Table 1 sets out some key statistics from the 1999/00 local government finance settlement:

- Total SSAs will increase 4.8% over the actual level of 1998/99 SSAs and by 5.0% over the adjusted level;<sup>1</sup>
- Education SSAs increased by £1,030 million or 5.3% on an unadjusted basis;
- The total of specific grants will increase by £532 million or 9.9%, with an 9.5% increase in grants for Personal Social Services;
- Total Standard Spending will rise by 5.4%;
- Aggregate External Finance will increase by 5.3%, including an 2.0% increase in Revenue Support Grant and 8.7% in the distributable amount of non-domestic rate income;
- Aggregate External Finance will represent 78.1% of Total Standard Spending, the same as in 1998/99. Total External Support<sup>2</sup> will be 75.1% of the total of Standard Spending Assessments compared with 75.2% in 1998/99;
- Council Tax at Standard Spending will increase by 4.8%, from £635 to £665 per band D dwelling. Standard Tax income, the income required if all authorities spent at their SSA level, is 5.5% higher than in 1998/99.

Tables 2 to 10 give further details on the settlement by class of authority.

#### 1. Methodology changes

There have been some changes to SSA methodology in 1999/00. The most significant is a change to the **Children's Services SSA**. The effect of this was most severe in London, where **Children's Services SSAs** fell by 3.7%. The methodology effects alone would have led to an 8.0% fall but these were offset to some extent by an increase in the aggregate level of this SSA. This change should be looked at in the context of changes in other SSAs. Overall, SSAs in London increased by £333.4 million or 4.2%, with methodology factors having a negative effect of around £40 million or 0.5%.

There were a number of other changes made to SSA methodology, including the introduction of a sparsity indicator into Elderly Domiciliary Services. There were no

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<sup>1</sup> See section later in this chapter on adjustments to 1998/99 SSAs

<sup>2</sup> The total of Revenue Support Grant, Non-domestic rate income, SSA Reduction Grant and Central Support Reduction Grant

changes made to the Area Cost Adjustment, a feature of the system about which there had been much discussion. Table 5 shows by class of authority the effect of changes in the total level of SSAs, methodology changes and data changes. Methodology changes in total had a negative impact of SSAs in London and in shire areas, but increased those in metropolitan areas by around 0.8%, or £83 million.

## **2. Reduction Grant**

There are two elements of reduction grant paid to local authorities in 1999/00. The first is the SSA reduction grant that has been paid in previous years. This grant is given to authorities where the SSA per bend D equivalent dwelling has fallen by more than a specified amount. It is paid in order to phase in the effects of the change.

A new grant, known as Central Support Protection Grant is to be paid for the first time in 1999/00. This will ensure that no authority will receive less government grant than it did in 1998/99. Since the provisional settlement £30 million has been added to the CSPR such that that each education and social services authority will receive at least 1.5% more in grant than it did in 1998/99.

In total, 73 authorities will share around £119 million in these two grants, with around £94 million paid to London authorities.

## **3. Non-domestic rate income**

The rate applied to rateable values to calculate liability to business rates, will increase by 3.2% in 1999/00, from 47.4 pence to 48.9 pence. However, the distributable amount will increase by 8.7%. The main reason for this difference is that a £634 million surplus is to be carried over from 1998/99. Without this the increase in the distributable amount would have been only 3.6%.<sup>3</sup>

## **4. Adjusted SSAs**

Table 1 compares SSAs in 1999/00 with those from 1998/99 both on an actual and on an adjusted basis. The adjustments are made where changes of function are considered to have a significant effect. The adjustments made in 1999/00 include:

- Subtraction of £40 million from the Other Education sub-block to reflect the funding transfer of discretionary awards;
- Subtraction of £15 million each from Primary and Secondary Education SSAs to reflect a transfer from Education SSAs to Specific Grant;

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<sup>3</sup> HC Deb 7 December 1998 c49w

- Addition of £13.8 million to District level services and of £0.1 million to County level services to reflect new responsibilities for contaminated land and a range of minor changes in function.

In past years, where these adjustments have been very significant SSAs at authority level have also been adjusted. For instance in the 1998/99 settlement, 1997/98 SSAs were adjusted to take account of the Special Transitional Grant (STG) for social services and also the abolition of the nursery voucher scheme. The adjustment was made for STG because one of its features was that an amount equal to the previous year's STG was assumed to be "rolled-in" to the SSA, in effect making the previous year's grant payment recurrent. Although Special Transitional Grant was paid in 1998/99, no adjustment has been made for it. DETR say that because of the Comprehensive Spending Review this comparison is not appropriate.<sup>4</sup>

The situation is confused by the fact the Department for Education and Employment have adjusted SSAs for the factors described above. These adjusted figures, rather than those published by DETR, have been given in reply to Parliamentary Questions and in debates<sup>5</sup>.

Table 7 compares 1999/00 education and personal social services SSAs with adjusted SSAs for 1998/99.

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<sup>4</sup> HC Deb 7 December 1998 c39W

<sup>5</sup> HC Deb 20 January 1999 c989-1002; HC Deb 11 January 1999 c100W

Table 1

**1999/00 Local Government Finance Settlement: Key Statistics**

£ billion

	1998/99 settlement	1998/99 adjusted	1999/00 settlement	Change from 1998/99		Adjusted	
				Settlement £ billion	per cent	£ billion	per cent
<b>Standard Spending Assessments</b>							
Education	19.384	19.316	20.414	+1.030	+5.3%	+1.098	+5.7%
Personal Social Services	7.815	7.815	8.268	+0.453	+5.8%	+0.453	+5.8%
Police	3.137	3.137	3.267	+0.130	+4.1%	+0.130	+4.1%
Fire	1.299	1.299	1.346	+0.047	+3.6%	+0.047	+3.6%
Highway Maintenance	1.767	1.767	1.813	+0.046	+2.6%	+0.046	+2.6%
EPC <sup>(a)</sup>	7.767	7.780	8.073	+0.306	+3.9%	+0.293	+3.8%
Capital Financing	1.499	1.499	1.552	+0.053	+3.5%	+0.053	+3.5%
<b>Total</b>	<b>42.668</b>	<b>42.613</b>	<b>44.733</b>	<b>+2.066</b>	<b>+4.8%</b>	<b>+2.120</b>	<b>+5.0%</b>
<b>Specific Grants</b>							
Education	0.421	0.451	0.787	+0.366	+87.0%	+0.335	+74.3%
Personal Social Services	0.478	0.474	0.524	+0.046	+9.5%	+0.050	+10.5%
Police	3.470	3.470	3.517	+0.048	+1.4%	+0.048	+1.4%
Fire	0.000	0.000	0.000				
Highway Maintenance	0.000	0.000	0.000				
EPC <sup>(a)</sup>	0.984	0.983	1.026	+0.042	+4.3%	+0.042	+4.3%
Capital Financing	0.020	0.020	0.052	+0.032	+161.6%	+0.032	+161.6%
<b>Total</b>	<b>5.373</b>	<b>5.398</b>	<b>5.905</b>	<b>+0.532</b>	<b>+9.9%</b>	<b>+0.507</b>	<b>+9.4%</b>
<b>Total Standard Spending</b>							
Education	19.805	19.767	21.201	+1.396	+7.0%	+1.434	+7.3%
Personal Social Services	8.293	8.289	8.792	+0.499	+6.0%	+0.503	+6.1%
Police	6.607	6.607	6.784	+0.177	+2.7%	+0.177	+2.7%
Fire	1.299	1.299	1.346	+0.047	+3.6%	+0.047	+3.6%
Highway Maintenance	1.767	1.767	1.813	+0.046	+2.6%	+0.046	+2.6%
EPC <sup>(a)</sup>	8.750	8.764	9.099	+0.349	+4.0%	+0.335	+3.8%
Capital Financing	1.519	1.519	1.604	+0.085	+5.6%	+0.085	+5.6%
<b>Total</b>	<b>48.041</b>	<b>48.011</b>	<b>50.639</b>	<b>+2.598</b>	<b>+5.4%</b>	<b>+2.627</b>	<b>+5.5%</b>
<b>Aggregate External Finance</b>							
Revenue Support Grant	19.506		19.902	+0.396	+2.0%		
-of which Specified bodies	0.026		0.027	+0.002	+6.2%		
Receiving bodies	19.480		19.874	+0.394	+2.0%		
Non-Domestic Rates	12.524		13.612	+1.088	+8.7%		
Special and Specific Grants	5.373	5.398	5.905	+0.532	+9.9%		
Damping Grants	0.102		0.119	+0.018	+17.3%		
SSA Reduction Grant	0.102		0.068	-0.034	-33.5%		
Central Support Reduction Grant			0.052				
Reorganisation Grant	0.011		0.000	-0.011	-96.0%		
City Offset	0.007		0.007				
<b>Total</b>	<b>37.522</b>	<b>37.492</b>	<b>39.545</b>	<b>+2.023</b>	<b>+5.4%</b>	<b>+2.053</b>	<b>+5.5%</b>
AEF as % of TSS	78.1%	78.1%	78.1%				
TES as % of SSA	75.2%		75.1%				
<b>Council Tax at Standard Spending</b>	<b>£634.62</b>		<b>£664.88</b>		<b>+4.8%</b>		
City of London							
Inner London							
Outer London							
London FCDA							
Metropolitan Police							
Metropolitan District Councils							
Metropolitan FCDAs							
County councils							
Shire districts							
Unitary authorities							
Isles of Scilly							
Police authorities							



Table 2

**Total SSAs: 1998/99 compared with 1999/00**

£ million

	Total SSA	Total SSA	Change from 1998/99	
	1998/99	1999/00	£ million	Per cent
<b>England</b>	<b>42,668.0</b>	<b>44,733.5</b>	<b>+2,065.5</b>	<b>+4.8%</b>
<b>London area</b>	<b>8,003.8</b>	<b>8,337.2</b>	<b>+333.4</b>	<b>+4.2%</b>
Inner London boroughs incl. City	2,924.1	3,046.8	+122.6	+4.2%
Outer London boroughs	4,042.0	4,226.0	+184.0	+4.6%
London boroughs	6,966.2	7,272.8	+306.6	+4.4%
<b>Metropolitan areas</b>	<b>10,432.9</b>	<b>10,978.3</b>	<b>+545.3</b>	<b>+5.2%</b>
Metropolitan districts	9,298.5	9,797.4	+498.8	+5.4%
Metropolitan fire authorities	342.3	353.3	+11.0	+3.2%
Metropolitan police authorities	792.1	827.5	+35.5	+4.5%
<b>Shire areas</b>	<b>24,228.5</b>	<b>25,415.2</b>	<b>+1,186.7</b>	<b>+4.9%</b>
Shire unitary authorities	6,455.1	6,759.1	+304.1	+4.7%
Shire counties	14,176.3	14,919.8	+743.5	+5.2%
Shire districts	1,996.7	2,057.7	+61.0	+3.1%
Shire police authorities	1,600.4	1,678.6	+78.2	+4.9%

SSA Analysts' Databank: 1999/00, DETR

Table 3

## Standard Spending Assessments and Total External Support: 1999/00

£ million

	Total SSA	Income			Total External Support <sup>(a)</sup>	Standard Tax Income	Total External Support as % of Total SSA
		Revenue Support Grant	Non-domestic rate income	Reduction Grant			
<b>£ million</b>							
England	44,733.5	19,874.3	13,612.0	119.2	33,605.5	11,247.1	75.1%
London area	8,337.2	4,486.8	1,977.5	94.3	6,558.6	1,872.9	78.7%
<i>Inner London boroughs incl. City</i>	3,046.8	1,839.2	615.0	62.7	2,516.9	592.6	82.6%
<i>Outer London boroughs</i>	4,226.0	2,029.6	1,142.1	6.7	3,178.4	1,054.4	75.2%
<i>London boroughs</i>	7,272.8	3,868.8	1,757.1	69.4	5,695.3	1,646.9	78.3%
Metropolitan areas	10,978.3	5,729.0	3,086.6		8,815.6	2,162.7	80.3%
<i>Metropolitan districts</i>	9,797.4	5,119.1	2,751.1		7,870.2	1,927.1	80.3%
<i>Metropolitan fire authorities</i>	353.3	190.1	96.0		286.1	67.3	81.0%
<i>Metropolitan police authorities</i>	827.5	419.8	239.5		659.3	168.3	79.7%
Shire areas	25,415.2	9,656.9	8,547.4	24.9	18,229.2	7,210.9	71.7%
<i>Shire unitary authorities</i>	6,759.1	3,026.7	2,107.5	10.9	5,145.1	1,625.0	76.1%
<i>Shire counties</i>	14,919.8	5,518.4	5,026.8	2.2	10,547.4	4,374.6	70.7%
<i>Shire districts</i>	2,057.7	595.2	782.1	6.9	1,384.1	680.5	67.3%
<i>Shire police authorities</i>	1,678.6	516.7	631.1	4.9	1,152.7	530.8	68.7%
<b>Change from 1998/99: £ million</b>							
England	+2,065.5	+394.4	+1,088.0	+17.6	+1,500.0	+583.1	
London area	+333.4	+75.8	+163.0	+3.6	+242.5	+94.5	
<i>Inner London boroughs incl. City</i>	+122.6	+35.9	+51.5	+4.1	+91.5	+35.2	
<i>Outer London boroughs</i>	+184.0	+36.5	+95.1	+6.7	+138.3	+52.4	
<i>London boroughs</i>	+306.6	+72.4	+146.6	+10.9	+229.9	+87.6	
Metropolitan areas	+545.3	+215.0	+228.3		+443.3	+102.0	
<i>Metropolitan districts</i>	+498.8	+199.8	+206.1		+406.0	+92.8	
<i>Metropolitan fire authorities</i>	+11.0	+2.6	+6.0		+8.6	+2.4	
<i>Metropolitan police authorities</i>	+35.5	+12.5	+16.1		+28.7	+6.8	
Shire areas	+1,186.7	+103.6	+696.6	+14.0	+814.2	+386.5	
<i>Shire unitary authorities</i>	+304.1	+50.0	+168.6	+10.9	+229.4	+85.6	
<i>Shire counties</i>	+743.5	+73.5	+423.9	+2.2	+499.6	+246.1	
<i>Shire districts</i>	+61.0	-26.1	+56.9	+2.0	+32.9	+30.1	
<i>Shire police authorities</i>	+78.2	+6.2	+47.2	-1.1	+52.3	+24.8	
<b>Change from 1998/99: per cent</b>							
England	+4.8%	+2.0%	+8.7%	+17.3%	+4.7%	+5.5%	
London area	+4.2%	+1.7%	+9.0%	+4.0%	+3.8%	+5.3%	
<i>Inner London boroughs incl. City</i>	+4.2%	+2.0%	+9.1%	+7.0%	+3.8%	+6.3%	
<i>Outer London boroughs</i>	+4.6%	+1.8%	+9.1%		+4.6%	+5.2%	
<i>London boroughs</i>	+4.4%	+1.9%	+9.1%	+18.5%	+4.2%	+5.6%	
Metropolitan areas	+5.2%	+3.9%	+8.0%		+5.3%	+5.0%	
<i>Metropolitan districts</i>	+5.4%	+4.1%	+8.1%		+5.4%	+5.1%	
<i>Metropolitan fire authorities</i>	+3.2%	+1.4%	+6.7%		+3.1%	+3.7%	
<i>Metropolitan police authorities</i>	+4.5%	+3.1%	+7.2%		+4.5%	+4.2%	
Shire areas	+4.9%	+1.1%	+8.9%	+128.3%	+4.7%	+5.7%	
<i>Shire unitary authorities</i>	+4.7%	+1.7%	+8.7%		+4.7%	+5.6%	
<i>Shire counties</i>	+5.2%	+1.3%	+9.2%		+5.0%	+6.0%	
<i>Shire districts</i>	+3.1%	-4.2%	+7.9%	+40.5%	+2.4%	+4.6%	
<i>Shire police authorities</i>	+4.9%	+1.2%	+8.1%	-18.4%	+4.8%	+4.9%	

Table 4

## Standard Spending Assessments by major service block: 1999/00

£ million

	Education	Personal Social Services	Police	Fire	Highways	EPC <sup>(a)</sup>	Capital	Total
<b>£ million</b>								
England	20,414.0	8,268.0	3,266.8	1,346.0	1,813.3	8,073.2	1,552.2	44,733.5
London area	3,313.8	1,679.8	783.8	270.5	223.2	1,749.8	316.2	8,337.2
<i>Inner London boroughs incl. City</i>	1,186.8	792.9	25.3		82.6	834.1	125.0	3,046.8
<i>Outer London boroughs</i>	2,127.0	886.9			140.6	897.1	174.4	4,226.0
<i>London boroughs</i>	3,313.8	1,679.8	25.3		223.2	1,731.2	299.5	7,272.8
Metropolitan areas	4,914.8	2,107.4	819.8	342.9	398.7	1,860.4	534.2	10,978.3
<i>Metropolitan districts</i>	4,914.8	2,107.4			398.7	1,860.4	516.0	9,797.4
<i>Metropolitan fire authorities</i>				342.9			10.5	353.3
<i>Metropolitan police authorities</i>			819.8				7.7	827.5
Shire areas	12,184.1	4,480.5	1,663.1	732.3	1,191.3	4,462.4	701.4	25,415.2
<i>Shire unitary authorities</i>	3,398.6	1,330.8		197.6	312.0	1,341.4	178.8	6,759.1
<i>Shire counties</i>	8,785.6	3,149.7		534.7	879.3	1,043.5	526.9	14,919.8
<i>Shire districts</i>						2,077.5	-19.8	2,057.7
<i>Shire police authorities</i>			1,663.1				15.5	1,678.6
<b>Change from 1998/99: £ million</b>								
England	+1,030.0	+453.3	+129.5	+47.1	+46.0	+306.4	+53.1	+2,065.5
London area	+171.5	+53.5	+17.7	+9.9	+6.4	+59.3	+15.2	+333.4
<i>Inner London boroughs incl. City</i>	+58.7	+23.2	+0.1		+2.5	+33.4	+4.8	+122.6
<i>Outer London boroughs</i>	+112.8	+30.3			+3.9	+27.7	+9.3	+184.0
<i>London boroughs</i>	+171.5	+53.5	+0.1		+6.4	+61.0	+14.2	+306.6
Metropolitan areas	+223.7	+164.6	+35.3	+10.0	+4.8	+73.2	+33.6	+545.3
<i>Metropolitan districts</i>	+223.7	+164.6			+4.8	+73.2	+32.5	+498.8
<i>Metropolitan fire authorities</i>				+10.0			+1.0	+11.0
<i>Metropolitan police authorities</i>			+35.3				+0.1	+35.5
Shire areas	+634.8	+235.3	+76.5	+27.2	+34.8	+173.9	+4.2	+1,186.7
<i>Shire unitary authorities</i>	+168.4	+77.1		+7.1	+7.4	+45.9	-1.8	+304.1
<i>Shire counties</i>	+466.4	+158.2		+20.1	+27.4	+45.1	+26.2	+743.5
<i>Shire districts</i>						+82.8	-21.9	+61.0
<i>Shire police authorities</i>			+76.5				+1.7	+78.2
<b>Change from 1998/99: per cent</b>								
England	+5.3%	+5.8%	+4.1%	+3.6%	+2.6%	+3.9%	+3.5%	+4.8%
London area	+5.5%	+3.3%	+2.3%	+3.8%	+2.9%	+3.5%	+5.0%	+4.2%
<i>Inner London boroughs incl. City</i>	+5.2%	+3.0%	+0.3%		+3.1%	+4.2%	+4.0%	+4.2%
<i>Outer London boroughs</i>	+5.6%	+3.5%			+2.8%	+3.2%	+5.7%	+4.6%
<i>London boroughs</i>	+5.5%	+3.3%	+0.3%		+2.9%	+3.7%	+5.0%	+4.4%
Metropolitan areas	+4.8%	+8.5%	+4.5%	+3.0%	+1.2%	+4.1%	+6.7%	+5.2%
<i>Metropolitan districts</i>	+4.8%	+8.5%			+1.2%	+4.1%	+6.7%	+5.4%
<i>Metropolitan fire authorities</i>				+3.0%			+10.2%	+3.2%
<i>Metropolitan police authorities</i>			+4.5%				+1.9%	+4.5%
Shire areas	+5.5%	+5.5%	+4.8%	+3.9%	+3.0%	+4.1%	+0.6%	+4.9%
<i>Shire unitary authorities</i>	+5.2%	+6.2%		+3.7%	+2.4%	+3.5%	-1.0%	+4.7%
<i>Shire counties</i>	+5.6%	+5.3%		+3.9%	+3.2%	+4.5%	+5.2%	+5.2%
<i>Shire districts</i>						+4.2%	-1049.8%	+3.1%
<i>Shire police authorities</i>			+4.8%				+12.6%	+4.9%

(a) Environmental, Protective and Cultural Services  
SSA Analysts' Databank: 1999/00, DETR

Table 5

**1999/00 SSAs: Components of change**

£ million

	SSA 1998/99	SSA 1999/00	Change from 1998/99		<i>Components of change</i>		
			£ million	Per cent	<i>Control total</i>	<i>Methodology</i>	<i>Data effects<sup>(a)</sup></i>
Total SSA							
England	42,668.0	44,733.5	+2,065.5	+4.8%	+4.8%	-0.0%	+0.0%
London area	8,003.8	8,337.2	+333.4	+4.2%	+4.6%	-0.5%	+0.0%
<i>Inner London boroughs incl. City</i>	2,924.1	3,046.8	+122.6	+4.2%	+4.7%	-0.5%	+0.0%
<i>Outer London boroughs</i>	4,042.0	4,226.0	+184.0	+4.6%	+4.8%	-0.4%	+0.1%
<i>London boroughs</i>	6,966.2	7,272.8	+306.6	+4.4%	+4.8%	-0.4%	+0.1%
Metropolitan areas	10,432.9	10,978.3	+545.3	+5.2%	+4.9%	+0.8%	-0.5%
<i>Metropolitan districts</i>	9,298.5	9,797.4	+498.8	+5.4%	+5.0%	+0.8%	-0.5%
<i>Metropolitan fire authorities</i>	342.3	353.3	+11.0	+3.2%	+3.6%	+0.0%	-0.4%
<i>Metropolitan police authorities</i>	792.1	827.5	+35.5	+4.5%	+4.1%	+0.6%	-0.2%
Shire areas	24,228.5	25,415.2	+1,186.7	+4.9%	+4.9%	-0.2%	+0.2%
<i>Shire unitary authorities</i>	6,455.1	6,759.1	+304.1	+4.7%	+4.9%	-0.1%	-0.1%
<i>Shire counties</i>	14,176.3	14,919.8	+743.5	+5.2%	+5.1%	-0.2%	+0.3%
<i>Shire districts</i>	1,996.7	2,057.7	+61.0	+3.1%	+3.9%	-1.1%	+0.2%
<i>Shire police authorities</i>	1,600.4	1,678.6	+78.2	+4.9%	+4.1%	+0.4%	+0.3%

SSA Analysts' Databank: 1999/00, DETR

Table 6

**Education SSAs: 1999/00**

£ million

	Primary Education	Secondary Education	Post-16 Education	Under 5 Education	Other Education	Total Education
<b>£ million</b>						
England	8,750.4	8,585.9	1,171.5	1,281.8	624.4	20,414.0
London area	1,423.3	1,299.7	198.0	258.1	134.8	3,313.8
<i>Inner London boroughs incl. City</i>	517.8	439.2	61.9	107.1	60.9	1,186.8
<i>Outer London boroughs</i>	905.5	860.5	136.1	151.0	73.9	2,127.0
<i>London boroughs</i>	1,423.3	1,299.7	198.0	258.1	134.8	3,313.8
Metropolitan districts	2,113.8	2,088.4	236.7	322.4	153.5	4,914.8
Shire areas	5,212.8	5,197.2	736.8	701.2	336.1	12,184.1
<i>Shire unitary authorities</i>	1,476.2	1,440.7	165.0	211.2	105.5	3,398.6
<i>Shire counties</i>	3,736.6	3,756.5	571.8	490.0	230.6	8,785.6
<b>Change from 1998/99: £ million</b>						
England	+530.1	+450.0	+33.8	+107.7	-91.6	+1,030.0
London area	+91.8	+67.9	+7.7	+23.7	-19.5	+171.5
<i>Inner London boroughs incl. City</i>	+32.3	+21.7	+3.2	+10.4	-8.8	+58.7
<i>Outer London boroughs</i>	+59.5	+46.2	+4.6	+13.3	-10.7	+112.8
<i>London boroughs</i>	+91.8	+67.9	+7.7	+23.7	-19.5	+171.5
Metropolitan districts	+114.6	+106.6	+6.7	+19.8	-24.0	+223.7
Shire areas	+323.7	+275.6	+19.3	+64.3	-48.1	+634.8
<i>Shire unitary authorities</i>	+84.0	+75.4	+4.6	+19.9	-15.4	+168.4
<i>Shire counties</i>	+239.7	+200.2	+14.7	+44.4	-32.7	+466.4
<b>Change from 1998/99: per cent</b>						
England	+6.4%	+5.5%	+3.0%	+9.2%	-12.8%	+5.3%
London area	+6.9%	+5.5%	+4.1%	+10.1%	-12.6%	+5.5%
<i>Inner London boroughs incl. City</i>	+6.6%	+5.2%	+5.4%	+10.7%	-12.6%	+5.2%
<i>Outer London boroughs</i>	+7.0%	+5.7%	+3.5%	+9.6%	-12.7%	+5.6%
<i>London boroughs</i>	+6.9%	+5.5%	+4.1%	+10.1%	-12.6%	+5.5%
Metropolitan districts	+5.7%	+5.4%	+2.9%	+6.5%	-13.5%	+4.8%
Shire areas	+6.6%	+5.6%	+2.7%	+10.1%	-12.5%	+5.5%
<i>Shire unitary authorities</i>	+6.0%	+5.5%	+2.9%	+10.4%	-12.8%	+5.2%
<i>Shire counties</i>	+6.9%	+5.6%	+2.6%	+10.0%	-12.4%	+5.6%

Table 7

**Education SSAs: 1999/00: compared with adjusted SSAs for 1998/99**

£ million

	1998/99	1998/99	1999/00	Change from actual		Change from adjusted	
	Actual	Adjusted	Actual	£ million	Per cent	£ million	Per cent
England	19,384.0	19,314.0	20,414.0	+1,030.0	+5.3%	+1,100.0	+5.7%
London area	3,142.3	3,129.0	3,313.8	+171.5	+5.5%	+184.8	+5.9%
<i>Inner London boroughs incl. City</i>	1,128.1	1,122.6	1,186.8	+58.7	+5.2%	+64.2	+5.7%
<i>Outer London boroughs</i>	2,014.2	2,006.4	2,127.0	+112.8	+5.6%	+120.6	+6.0%
<i>London boroughs</i>	3,142.3	3,129.0	3,313.8	+171.5	+5.5%	+184.8	+5.9%
Metropolitan districts	4,691.1	4,673.9	4,914.8	+223.7	+4.8%	+240.9	+5.2%
Shire areas	11,549.3	11,511.1	12,184.1	+634.8	+5.5%	+673.0	+5.8%
<i>Shire unitary authorities</i>	3,230.2	3,218.4	3,398.6	+168.4	+5.2%	+180.2	+5.6%
<i>Shire counties</i>	8,319.2	8,291.5	8,785.6	+466.4	+5.6%	+494.0	+6.0%

SSA Analysts' Databank: 1999/00, DETR

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Table 8

**Education SSAs per pupil: 1999/00**

	SSA per pupil		Increase from 98/99 (£)		Increase from 98/99 (%)	
	Primary Education	Secondary Education	Primary Education	Secondary Education	Primary Education	Secondary Education
England	£2,372	£3,031	+£144	+£159	+6.4%	+5.5%
London area	£2,867	£3,646	+£185	+£190	+6.9%	+5.5%
Inner London boroughs incl. City	£3,349	£4,316	+£209	+£213	+6.6%	+5.2%
Outer London boroughs	£2,649	£3,378	+£174	+£181	+7.0%	+5.7%
Metropolitan districts	£2,353	£3,020	+£128	+£154	+5.7%	+5.4%
Shire areas	£2,273	£2,912	+£141	+£154	+6.6%	+5.6%
Shire unitary authorities	£2,326	£2,981	+£132	+£156	+6.0%	+5.5%
Shire counties	£2,252	£2,886	+£145	+£154	+6.9%	+5.6%

SSA Analysts' Databank: 1999/00, DETR

Table 9

**Personal Social Services SSAs: 1999/00**

£ million

	Children	Elderly Residential	Elderly Domiciliary	Other PSS	Total PSS
<b>£ million</b>					
England	1,900.0	2,995.0	1,770.0	1,603.0	8,268.0
London area	537.8	494.5	270.2	377.4	1,679.8
<i>Inner London boroughs incl. City</i>	287.6	210.6	111.9	182.8	792.9
<i>Outer London boroughs</i>	250.2	283.9	158.2	194.6	886.9
<i>London boroughs</i>	537.8	494.5	270.2	377.4	1,679.8
Metropolitan districts	501.8	798.1	426.2	381.3	2,107.4
Shire areas	860.4	1,702.3	1,073.6	844.3	4,480.5
<i>Shire unitary authorities</i>	313.6	472.1	285.6	259.4	1,330.8
<i>Shire counties</i>	546.8	1,230.2	787.9	584.8	3,149.7
<b>Change from 1998/99: £ million</b>					
England	+70.7	+198.4	+115.1	+69.2	+453.3
London area	-20.8	+40.0	+17.7	+16.6	+53.5
<i>Inner London boroughs incl. City</i>	-14.5	+19.5	+9.8	+8.4	+23.2
<i>Outer London boroughs</i>	-6.3	+20.5	+7.9	+8.2	+30.3
<i>London boroughs</i>	-20.8	+40.0	+17.7	+16.6	+53.5
Metropolitan districts	+44.8	+67.8	+37.4	+14.6	+164.6
Shire areas	+46.8	+90.6	+60.0	+38.0	+235.3
<i>Shire unitary authorities</i>	+20.5	+26.6	+18.9	+11.1	+77.1
<i>Shire counties</i>	+26.3	+64.0	+41.1	+26.9	+158.2
<b>Change from 1998/99: per cent</b>					
England	+3.9%	+7.1%	+7.0%	+4.5%	+5.8%
London area	-3.7%	+8.8%	+7.0%	+4.6%	+3.3%
<i>Inner London boroughs incl. City</i>	-4.8%	+10.2%	+9.6%	+4.8%	+3.0%
<i>Outer London boroughs</i>	-2.5%	+7.8%	+5.2%	+4.4%	+3.5%
<i>London boroughs</i>	-3.7%	+8.8%	+7.0%	+4.6%	+3.3%
Metropolitan districts	+9.8%	+9.3%	+9.6%	+4.0%	+8.5%
Shire areas	+5.7%	+5.6%	+5.9%	+4.7%	+5.5%
<i>Shire unitary authorities</i>	+7.0%	+6.0%	+7.1%	+4.5%	+6.2%
<i>Shire counties</i>	+5.0%	+5.5%	+5.5%	+4.8%	+5.3%



Table 10

Police Funding for England & Wales 1999/2000							£ million
	Police grant	1 Grant <sup>(a)</sup>	SSA Reduction SSA	Capital Grant <sup>(b)</sup>	Financing SSA	Total <sup>(c)</sup>	total from 1998/99
Avon & Somerset	84.4		82.8		1.2	168.4	+2.5%
Bedfordshire	30.9		30.3		0.2	61.4	+0.8%
Cambridgeshire	37.7		37.0		0.1	74.8	+3.9%
Cheshire	54.9		53.9		0.1	109.0	+4.1%
City of London	25.8		25.3	4.4		55.5	-2.9%
Cleveland	41.1		40.3		0.4	81.7	+1.7%
Cumbria	30.2		29.6		0.2	60.1	+1.9%
Derbyshire	51.2		50.2		0.7	102.1	+4.5%
Devon & Cornwall	87.8		86.2		0.4	174.3	+4.1%
Dorset	35.1		34.5		0.5	70.1	+3.4%
Durham	40.9		40.1		0.3	81.3	+4.0%
Essex	80.9	2.0	79.4		0.8	163.0	+2.9%
Gloucestershire	31.3		30.7		0.3	62.4	+1.4%
Greater Manchester	189.2		185.6		0.9	375.7	+3.0%
Hampshire	98.0		96.2		0.3	194.5	+2.8%
Hertfordshire	48.9	3.0	47.9		0.2	100.0	+6.4%
Humberside	56.8		55.8		0.4	113.0	+2.2%
Kent	92.1		90.4		0.7	183.1	+2.4%
Lancashire	89.7		88.0		0.5	178.2	+1.9%
Leicestershire	51.3		50.4		0.6	102.3	+3.3%
Lincolnshire	31.4		30.8	0.8	0.4	63.4	+4.4%
Merseyside	118.7		116.5		1.1	236.3	+1.2%
Metropolitan Police	949.1		758.5	24.9	11.4	1,743.9	+1.7%
Norfolk	41.9		41.1		0.4	83.4	+3.1%
North Yorkshire	38.9		38.2		0.5	77.6	+2.6%
Northamptonshire	32.8		32.2		0.3	65.3	+3.8%
Northumbria	106.6		104.6		1.8	213.0	+3.7%
Nottinghamshire	63.2		62.1		1.1	126.3	+2.7%
South Yorkshire	85.9		84.3		1.0	171.3	+3.5%
Staffordshire	56.7		55.6		0.7	113.0	+1.7%
Suffolk	34.6		34.0		0.1	68.6	+4.1%
Surrey	40.5	7.0	39.7	4.1	0.6	91.9	+9.1%
Sussex	83.6		82.1		0.7	166.4	+2.3%
Thames Valley	112.7		110.6		1.3	224.6	+2.4%
Warwickshire	26.1		25.6		0.5	52.2	+2.0%
West Mercia	56.6		55.5		0.9	113.0	+2.8%
West Midlands	191.3		187.7		1.5	380.6	+2.3%
West Yorkshire	143.8		141.1		1.3	286.3	+2.4%
Wiltshire	32.6		32.0		0.3	64.9	+2.4%
Total England	3,505.3	12.0	3,266.8	34.2	34.6	6,852.8	+2.5%

Notes: (a) Special payments for transitional costs associated with changes to the boundaries of the Metropolitan Police District from 1 April 2000.

(b) Sum of SSA Reduction Grant and Central Support Reduction Grant.

(c) Figures for the City excludes other SSAs (eg Capital Financing) and Central Support Reduction Grant. These are allocated to the Common Council of the City of London as a whole in respect of all its function.

Sources: *Police Grant Report 1999/00*  
*DETR data on disk*

## B. Related issues

The provisional settlement for the forthcoming financial year was 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 *Modern Local Government: In Touch with the People* [Cm 4014, July 1998] were covered in his statement: these are discussed below.

### 1. Universal Capping

Labour made a commitment in its 1997 General Election Manifesto to abolish "crude and universal council tax capping"<sup>6</sup> 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".<sup>7</sup>

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 Government did not intend to announce provisional capping principles for the financial year 1999/2000.<sup>8</sup> 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 *Local Government Bill* was given a second reading on 12 January 1999.<sup>9</sup> Part II will replace the current capping regime with new reserve powers to limit excessive council tax increases.

During the debate the Minister for Local Government Hilary Armstrong said

The Bill provides for new and more flexible ways to regulate budget levels and allows for a more managed approach by councils that have to reduce their

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<sup>6</sup> New Labour: Because Britain Deserves Better, April 1997, p.34

<sup>7</sup> Options for 1996: The Green Budget, p.136

<sup>8</sup> HC Deb Vol 302, c167. See also HC Deb Vol 305, 5.2.98, c1254; HC Deb Vol 314, 16.6.98, c244

<sup>9</sup> HC Deb Vol 323, c124-210.

budgets if the Secretary of State or the Assembly determines that a council's budget requirement is excessive.<sup>10</sup>

The Bill is described in Research Paper 99/1. The new capping powers are likely to be available in time for the financial year 2000/1.

## **2. 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 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.

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.

## **3. Council Tax Benefit Subsidy Limitation**

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.

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<sup>10</sup> HC Deb Vol 323, c130-1

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.

The Local Government Association opposes CTB subsidy limitation:

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.<sup>11</sup>

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 scheme will be implemented mainly by means of amendments of secondary legislation but some consequential provision is included in clause 24 of the *Local Government Bill*. The clause is necessary to the scheme to provide for the transfer of payments between precepting authorities and billing authorities. Further information on the scheme is covered in Research Paper 99/1.

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<sup>7</sup> Memorandum to the Environment Sub-Committee relating to its inquiry on Local Government Finance, HC1126 of 1997-98, p68

### III 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.

$$(\text{AEF} = \text{RSG} + \text{NNDR} + \text{Special Grants} + \text{Specific Grants})$$

**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 **SSAs**. 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,

$$\text{CTSS} = \text{TSS} - \text{AEF}$$

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:

$$\text{RSG} = \text{SSA} - \text{CTSS} - \text{NNDR}$$

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:

### District-Level Services include

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

### County-Level Services include

- 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,

$$\mathbf{RSG = SSA - CTSS - NNDR}$$

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.<sup>12</sup>

## 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.<sup>13</sup> 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

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<sup>12</sup> 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.

<sup>13</sup> See entry on **RSG** for the precise mechanism used

- 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.

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**