

Report
of the
**Revenue Grant
Distribution Group**

May 2002

Introduction

1. At its meetings in March 2001 and May 2001 the Revenue Grant Distribution (RGD) Group discussed a report from the Predictability and Stability sub-group, work arising from that sub-group and the Safety Valve sub-group, and a forward work program for the Formula Review sub-group.
2. Since then the RGD group has met a further 5 times and considered 15 papers.
3. Most discussion since the May 2001 meeting has been about issues related to the review of grant distribution; the Group has also discussed issues relevant to the 2002/03 Settlement process.

Work on Spending Formula

4. Discussion on alternatives to the present SSA formulae has been undertaken in three separate groups : the Education Funding Strategy Group, the Police Allocation Formula Working group and the Formula Review Sub-group. Each of these three groups has produced a draft report setting out the work to date and the options that have been considered by the group; the local authority groups will be making known their views on these reports over the coming weeks. Central government will be undertaking a consultation process on options for reforming the grant distribution mechanism, based on the work carried out in these groups, over the next few months. The LGA noted that the consultation period would allow discussion of the potential for making the grant distribution system simpler and more explicable.

Electronic Dissemination

5. Paper RGD(01)59, considered at the meeting in August 2001, put forward proposals from DTLR for greater use of electronic methods in disseminating the 2002/03 Consultation/Settlement material. When the paper was discussed some reservations were made from the local authority side suggesting that it was still too early to rely principally on electronic methods of distributing consultation /settlement information. However the department pointed out that consultation on the 2001/02 Housing settlement had been based on electronic methods, and that Pipex (who hosted the departmental website) had had no problems with providing access to the Budget material on the Treasury web site.
6. Subsequent events allayed these fears, and following the 2002/03 Settlement the local authority side reported that electronic dissemination had worked very well.

Grants – Ringfencing and Targeting

7. The group considered two papers from the LGA on grants paid in addition to RSG : paper RGD(01)60 on Specific Grants and RGD(02)06 on Ring-fenced grants.
8. Paper RGD(01 60 revisited issues raised in two earlier papers from the LGA. It summarised the case for general grants and suggested instances in which specific grants might nevertheless be appropriate. It suggested a review be set up under the auspices of the Central-Local Partnership.
9. DTLR acknowledged that although individual grant schemes can be beneficial, collectively there were issues which needed to be addressed. DTLR noted that some ring-fenced grants could be transformed into targeted grants as an alternative to rolling them into the RSG/NNDR pot.
10. Paper RGD(02)06 reported the results of an evaluation undertaken by the LGA and a representative group of treasurers which was being fed into the SR2002 process. The evaluation looked at each ring-fenced grant included in the 2002/03 Settlement, to see whether they were suitable for inclusion in SSAs, and if not whether they were suitable for targeted instead of ring-fenced status. The LGA work suggested that 68% of the current grants could go into SSAs, 26% could be targeted grants and 6% should remain ring-fenced.
11. DTLR welcomed the paper, noting that it was a helpful guide to which grants were suitable for inclusion in SSAs and felt it would be useful in determining which grants might be ring-fenced in the context of SR2002. They said that the government was committed to publish the split between targeted and ring-fenced grant in the autumn. DfES said that they may take a slightly different view of the balance between ring-fenced grant and grant that was suggested in the paper. DH said that ultimately Ministers would decide what would be targeted after SR2002.

Smoothing Distributional Changes; Floors and Ceilings; CTSS Split

12. Paper RGD(02)05 from DTLR set out the history of floors and ceilings and explained that it was necessary to produce adjusted base year grant figures to enable a like-for-like, year-on-year, comparison. It outlined the problems arising from splitting CTSS between groups of authorities providing services in an area when there were significant transfers into or out of the SSA/RSG system and suggested three possible ways forward.
13. The LGA was attracted by the third option – that of obtaining a base grant position directly from the SSA adjustments. This provided a neat and simple solution to the problem of transfers to one class of authority affecting other classes of authority, and would improve intelligibility by making it easier to see how adjusted grants came from adjusted SSAs.
14. The ALG believed that predictability and stability were important, and should be considered when making any change to damping. The SDLG felt it was

important that any changes to the floors and ceilings mechanism should be understandable.

15. The LGA raised concerns over interactions between the split of CTSS between authorities supplying services in an area and explicability and understandability of changes in tax shown on the front of the council tax bill. They felt that such changes should just reflect local factors and favoured freezing the CTSS split between groups of authorities at the 2002/03 proportions.

Council tax and Resource Equalisation

16. The Group considered 5 papers dealing with council tax levels and resource equalisation.
17. Paper RGD(02)02 from DTLR noted that the substantial difference between the average council tax level and that used in the grant calculations (CTSS) was due to net revenue expenditure being greater than the national SSA total. The paper explained that the difference between the two council tax figures had important distributional consequences – these arose because of large differences in taxbase between and within classes of authority, and because the difference between SSA and NRE varied widely between blocks and sub-blocks.
18. Paper RGD(02)03 from ANEC and SIGOMA considered the growth over time in net revenue expenditure and in SSAs, noting that the last correction to reduce the gap between spending and SSA was in 1991/2. The paper highlighted differences in council tax bills. and included a worked example showing that if the SSA and budget were the same, there would be a £96 per head difference between a low and high taxbase authority. The paper suggested various possibilities for correcting the gap between CTSS and average council tax levels, noting that an additional £3bn would be needed to eliminate the gap and acknowledging that there were a number of different ways this could be achieved, some of which had major distributional consequences. If the gap could not be eliminated without distributional consequences, then their preferred solution was for extra resources to reduce the current gap between spend and SSA, coupled with a new grant to compensate those authorities with a taxbase per head below the national average for spending above SSA.
19. Paper RGD(02)09, produced by Coventry, noted that increasing SSAs, whilst not increasing grant, would transfer resources from authorities with low SSA in relation to taxbase to authorities with high SSA in relation to their taxbase. However the paper argued that this did not involve rewarding high spending authorities.
20. Paper RGD(02)10 from the CCN and SCT, and paper RGD(02)11 from the ALG, set out the views of these bodies on equalisation and the arguments put forward in the earlier papers. The CCN/SCT paper suggested that the present system worked well and that any apparent difficulties were the result of local spending decisions. The ALG paper proposed that any increase in the national control total needed to be matched by an equal increase in central government support, so leaving CTSS unchanged.

21. There was no consensus within the group on equalisation and the differences between CTSS and actual council tax levels, with the SCT, CCN and the ALG expressing opposition to some of the views put forward in the ANEC/SIGOMA papers. The ALG noted that the grant suggestion from ANEC was similar to the low rateable value idea in 1990, they felt that not all spending over SSA was fully justified, and questioned the effect on efficiency incentives of the grant proposed by ANEC/SIGOMA. It was also pointed out that all the London boroughs quoted in the ANEC/SIGOMA paper were Conservative controlled with council tax policies that differed from those of many other London boroughs.

Merging RSG and NNDR into a single grant stream

22. Paper RGD(02)04 from DTLR examined the potential for merging RSG and NNDR for the purpose of distribution, arguing that moving to a single grant stream would increase transparency and accountability. However, full implementation of this proposal would require amending primary legislation, so moving to a single funding stream would be largely cosmetic for the first year or so.
23. The LGA noted that the proposed merging of NNDR and RSG had never been properly debated, and said that there would be significant opposition to this proposal from the local government side. Although government had argued that it would make the system more explicable, many members were not convinced that this was the right way forward, and others felt that the loss of grant for some shire districts was a serious issue as transitional relief only provided help in the short term. The LGA would need to consult their members, and they also felt that there could be concern in the business community over the removal of the link between Business Rates and the level of NNDR returned to an area. Many in the local government community would still like NNDR returned to local control and, presentationally, the proposed merger was a step away from that.
24. The group noted that the proposed merger would be included in the summer consultation process, that localisation of business rates would require primary legislation, and that it would still be possible to calculate the underlying local business rate figures. It was also pointed out that if the merger had taken place for 2002/03 only six shire districts would have been adversely affected, that these six shire districts each had an underlying negative RSG entitlement, and that under the present distribution arrangements the government did not recover negative RSG amounts but raised CTSS to ensure that the total amount paid out matched the amount available.

Moving Forward Post White Paper

25. Paper RGD(02)07 set out the ALG officer views on the formula grant review. Key areas included the need for floor and ceiling levels to be pre-announced up to three years in advance, the potential for regional control totals and the need for a significant safety valve grant mechanism, in excess of £20 million. The LGA also supported the pre-announcement of floors and ceilings.

26. Paper RGD(02)08 from the SDLG outlined the shire districts' key concerns. These included underfunding of EPCS for shire districts, the erosion of local democratic choice as local service provision was moved from a discretionary to statutory basis. the issue of inescapable fixed costs, and the shire districts' opposition to the ceilings mechanism. The SDLG informed the group that the shire districts had recently decided to officially drop the idea of having a separate shire district formula.

Abbreviations:

ALG Association of London Government
ANEC Association of North East Councils
CCN County Councils Network
CTSS Council tax for supported spending
DfES Department for Education and Science
DH Department of Health
DTLR Department for Transport, Local Government and the Regions
LGA Local Government Association
NNDR National Non-Domestic Rates
RGD Revenue Grant Distribution
RSG Revenue Support Grant
SCT Society of County Treasurers
SDLG Shire Districts Liaison Group
SIGOMA Special Interest Group of Municipal Authorities
SR2002 Spending Review 2002
SSA Standard Spending Assessment

Papers considered by the RGD Group

- RGD(01)58 Working Programme for 2003/04 DTLR
- RGD(01)59 Electronic dissemination of the LGF Settlement DTLR
- RGD(01)60 Specific Grants LGA
- RGD(01)61 Review Stocktake DTLR
- RGD(02)01 Replacing SSA DTLR
- RGD(02)02 Council Tax Equalisation DTLR
- RGD(02)03 Resource Equalisation and the SSA Gap SIGOMA/ANEC
- RGD(02)04 Merging RSG and NNDR for the purpose of distribution DTLR
- RGD(02)05 Operation of Floors and Ceilings DTLR
- RGD(02)05 (Update)
- RGD(02)06 Ring-Fenced Grants LGA
- RGD(02)07 Moving forward post-White Paper ALG
- RGD(02)08 Revenue Funding SDLG
- RGD(02)09 SSA Uplift Coventry
- RGD(02)10 Resource Equalisation CCN/SCT
- RGD(02)11 Equalisation in the grant system ALG