

## C5 Changes to English local government revenue finance systems

Before 1900, most of the spending of local bodies was financed locally. With the exception of police forces (which were supported by a 50 percent Home Office grant) and some primary education grants, there were few grants from central government. Various rates were levied for specific services (for example highway rates, poor rates and school rates) and not all were assessed in the same way. Following the abolition of the separate poor rate in 1929, rates became a single unified tax. By then, sizeable central government grants were being paid to encourage different areas to provide services of a consistent standard. These were usually made for specific purposes, rather than as general (unhypothecated) financial support for local spending.

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| The position in 1945 | Nearly 80 percent of central government grants were in the form of specific grants. The remaining 20 percent was an unhypothecated or block grant. Approximately equal amounts obtained from government grants and local rates.   |
| 1948                 | Transfer of responsibility for the setting of rateable values of all properties to the Inland Revenue Valuation Office. Previously, each local authority set its own rateable values, resulting in substantial differences between average rateable values for similar properties in different parts of the country.  |
| 1948                 | Block grant to be paid only to authorities whose means or rate resources were below the national average and renamed Exchequer Equalisation Grant.  |
| 1958                 | Many specific grants replaced by General Grant, a new form of unhypothecated block grant so specific grants accounted for less than 30% of government grants. Exchequer Equalisation Grant renamed Rate Deficiency Grant.   |
| 1966                 | General Grant, Rate Deficiency Grant and specific grants for school meals and milk incorporated into Rate Support Grant (RSG) with three elements: domestic, needs and resources.   |
| 1971                 | Rating revaluation. New rateable values came into effect from April 1972.   |
| 1974                 | Following structural reorganisation, proportions of resources and domestic elements of RSG increased. Needs element paid to upper tier, resources and domestic elements payable to lower tiers. More specific grants incorporated into RSG. About 20% of government grants were specific grants. Ratio of government grants: local rates approximately 17:10. |
| 1981                 | Needs and resources elements of RSG became Block Grant - payable to both upper and lower tiers - and calculated to penalise high spending authorities for the first time. Its distribution was based on each authority's Grant-Related Expenditure (GRE) as calculated by the Department of the Environment.  |
| 1984                 | Rate limitation ( <b>capping</b> ) introduced. During the 1980s, the method of  |

- grant allocation was adjusted to provide a disincentive to over-spending.
- 1986 The government published a Green Paper, *Paying for Local Government*, which considered ways of improving the system.
- 1989 Non-domestic rating revaluation. New national rating system came into effect from April 1990.
- 1990 Domestic rates were abolished and community charge (poll tax) and nationally determined uniform non-domestic rate introduced. **Revenue Support Grant** replaced rate support grant. **Aggregate external finance (AEF)** replaced aggregate exchequer grant (AEG). **SSAs** replaced GREAs. Ring-fenced housing revenue account introduced. Districts collected RSG for the area and passed a portion of this and of community charge to county councils.
- 1991 An additional £140 per charge payer was provided in central government support, thereby increasing the proportion of local government spending funded by central government.
- 1993 **Council tax** replaced the community charge as the local domestic tax. RSG and non domestic rate entitlements were paid into the General Fund of each billing and major precepting authority rather than into the Collection Fund of billing (formerly charging) authorities.
- 1998 The White Paper *Modern Local Government - In Touch with the People* announced a 3-year review programme for Revenue Grant Distribution aimed at improving its fairness and equity.
- 1999 Pre-announced universal capping limits were discontinued to be replaced with reserve powers, which allowed local authorities budgets to be looked at over more than one year. Non-domestic rating revaluation. New rateable value came into effect from April 2000. **Central Support Protection Grant** introduced to ensure minimum levels of grant support for billing and precepting authorities.
- 2000 *Modernising Local Government Finance: A Green Paper* consulted on options for reform of the revenue grant distribution system.
- For authorities with education and social service responsibilities, damping of changes in grant support based on the floor and ceiling mechanism instead of through Central Support Protection Grant.
- 2001 The White Paper *Strong Local Leadership – Quality Public Services* published in December 2001.
- 2002 A new formula grant distribution system was introduced, based on **Formula Spending Shares (FSS)**, instead of SSAs, from 2003-04.
- 2003 The Local Government Bill 2003 received Royal Assent on 18 September. The Act is a deregulatory measure which includes new borrowing freedoms, expenditure grants designed to allow all authorities more flexibility in the use of existing resources, the introduction of the

new small business rate relief, powers to charge for discretionary services, new trading powers, the introduction of Business Improvement Districts, and the introduction of a fixed 10-yearly cycle for council tax revaluation.

From 2003-04 local authorities' final accounts were required to comply in full with Financial Reporting Standard 17 (FRS17) on retirement benefits. This requires future liabilities for retired benefits to be recognised in the accounts for all the main categories of local government employees (other than teachers).

- 2006 A new formula grant distribution system was introduced, based on the four-block model, from 2006-07. Funding for schools was transferred from formula grant to a new **Dedicated Schools Grant**. The first step in the move to three-year settlements took place, with the settlement announcement covering the two years 2006-07 and 2007-08.
- 2008 **Area Based Grant (ABG)**, a new non-ringfenced grant, was introduced from 2008-09 replacing a number of grants previously reported as specific grants.
- 2009 Since 2009-10 local authorities have accounted for PFI schemes in accordance with International Financial Reporting Standards (IFRS). This brought most PFI schemes 'on balance sheet' in the authorities' own accounts. However, for National Accounts purposes, the capital expenditure and financing of PFI schemes were attributed to an authority only where it held the economic ownership of the asset.