

SCOTTISH OFFICE

LOCAL GOVERNMENT FINANCE (SCOTLAND)

**The  
Rate Support Grant  
(Scotland) (No. 2) Order 1975**

*Report by the Secretary of State under sections 3 and 4 of the  
Local Government (Scotland) Act 1966*

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*Ordered by The House of Commons to be printed  
4th December 1975*

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*EDINBURGH*  
HER MAJESTY'S STATIONERY OFFICE

ISBN 0 10 20176 X

## **THE RATE SUPPORT GRANTS FOR SCOTLAND FOR 1975-76 AND 1976-77**

1. Rate support grants are paid under the Local Government (Scotland) Act 1966. The relevant provisions of that Act were extensively amended by the Local Government (Scotland) Act 1975. The Rate Support Grant (Scotland) (No. 2) Order 1975 and this report of the underlying considerations are laid before the House of Commons in accordance with those provisions. The Order does not take effect until it is approved by a resolution of the House. The Secretary of State has consulted the Convention of Scottish Local Authorities before determining the matters dealt with in this report and the Order.

### **Increase of Grants for 1975-76**

2. The considerations leading to the provisions of the Rate Support Grant (Scotland) Order 1975, made last January, were explained in the report on the Order (HC 122 of the 1974-75 session). As explained in that report, all estimates and calculations were first made in relation to the period of 12 months ending 15th May 1976, and a factor of 321/366 was then applied to yield figures relating to the short year 1975-76 (16th May 1975-31st March 1976). The estimate of reckonable expenditure was made at the level of prices, costs and remuneration prevailing at the end of November 1974. Since then reckonable expenditure (now, under the Act of 1975, referred to as relevant expenditure) has been affected substantially by changes in the level of prices, costs and remuneration and the Secretary of State is satisfied that the grant should be increased. The extent of the changes has been assessed from examination of representative sample information supplied by local authorities, from established price indices and from reference to the terms of individual pay awards. The effect on relevant expenditure for each service has been calculated by reference to detailed analyses of the expenditure of local authorities on these services.

3. Relevant expenditure has also been increased as a result of the coming into operation of the District Courts (Scotland) Act 1975. The amount of the increase has been assessed at £0.32 million.

4. Particulars of the increases in costs, of off-setting savings and of the additional expenditure referred to in paragraph 3 are given in Appendix A. The distribution of the amounts among services is shown in Appendix B. The effect on grants is set out in Appendix C.

### **Grants for 1976-77: The Economic Background**

5. The economic background to the financial provision to be made for public services in 1976-77 is well known. It has been referred to particularly in the White Paper "The Attack on Inflation" (Cmnd 6151), which emphasised that the paramount need to move resources into exports and investment made it essential to contain the demands on resources made by the public sector. In the debate on the White Paper on 21st July the Chancellor of the Exchequer reminded the House of Commons that his Budget statement of 15th April had provided for a significant reduction of the previously planned level of local authority expenditure in 1976-77 and stressed the need for severe restraint in spending by local authorities in the years immediately ahead. These considerations were brought to the attention of all local authorities in Scotland by circular.

### **Estimates of Relevant Expenditure for 1976-77**

6. The Act of 1966, as amended, requires the Secretary of State to take into account in determining the rate support grants—

- (a) the latest information available to him as to the rate of relevant expenditure;
- (b) any probable fluctuation in the demand for services giving rise to relevant expenditure so far as the fluctuation is attributable to circumstances prevailing in Scotland as a whole which are not under the control of local authorities;
- (c) the need for developing those services and the extent to which, having regard to general economic conditions, it is reasonable to develop those services; and
- (d) the current level of prices, costs and remuneration and any future variation in that level which in the opinion of the Secretary of State will result from decisions which appear to him to be final and which will have the effect of increasing or decreasing any particular prices, costs or remuneration.

7. As usual, forecasts of expenditure were first made by a Committee of officials comprising representatives of the Convention and of the Scottish Office. This proved a more difficult task than in previous years. Returns of actual expenditure in 1974-75, the last year before local government reorganisation, are still far from complete. On this occasion the Committee had at their disposal returns submitted by the new local authorities giving details of their budgets for 1975-76. However, these indicated that provision had been made for expenditure, other than loan charges, equivalent to an annual rate of £810 million, some 8½ per cent higher than the amount (£745.65 million) allowed for in the Rate Support Grant (Scotland) Order 1975. The Committee were unable to regard the returns as providing a reliable indication of the probable out-turn of actual expenditure in 1975-76; and they endeavoured to estimate the extent to which local authorities were inescapably committed to incurring expenditure in the year. Account was taken of factors such as pupil and teacher numbers and such information as was available about recent trends in recruitment of staff where these appeared to be major determinants of expenditure; of the likelihood that in some services the reorganisation of local government was resulting in additional expenditure through attempts to attain the same standard of service throughout each new authority's area; and of the possibilities, in the present economic situation, of restricting or cutting back expenditure without causing undue hardship.

8. It became apparent from this consideration that, partly by reason of the effects of local government reorganisation and of continuing commitments entered into by the former local authorities, the annual rate of expenditure in 1975-76 on the services which are relevant for rate support grant was likely to exceed not only the estimate made for purposes of rate support grant but also the planned level of relevant expenditure in 1976-77—£754 million at November 1974 prices, excluding loan charges—implied by the last Public Expenditure White Paper and the April Budget statement. The official Committee estimated that expenditure in 1975-76 might be equivalent to £791 million in a full year.

9. In recent months the Secretary of State has given general guidance to local authorities as to the manner in which expenditure in the present and following years might be restricted. In his discussions with the Convention the Secretary of State has been concerned that services to comply with statutory obligations should be maintained and adjusted where necessary to take account of the movement of population and the creation of new employment, including those arising from the exploration and exploitation of off-shore oil resources. In the light of the sharp rise in expenditure in 1975-76 he accepts that it would be impracticable to achieve this object without some increase in the planned level of relevant expenditure referred to in the preceding paragraph. Following consideration of the report of the official Committee and discussion with the Convention, the Secretary of State has decided that the authorities should be asked to limit relevant expenditure in 1976-77, exclusive of loan charges, to £780 million at November 1974 prices. It is implicit in this figure that, where local authorities incur unavoidable increases of expenditure on certain services, these should be offset by cutting back the volume of expenditure in other parts of these services or in other services.

10. For the purposes of the Order the sum of £780 million has to be adjusted to November 1975 prices and loan charges have to be added. The figures to be taken into account, and their distribution among the principal services, are shown in columns (2) to (5) of Appendix D.

11. The Secretary of State fully recognises that his decision will have repercussions on most services. Many desirable new developments and improvements of services will require to be deferred. In no service will any significant increase in staff numbers be possible. In some services overall reductions in numbers should be achieved through leaving vacancies unfilled. The implications for individual services are set out in paragraphs 13 to 18 below.

12. Local authority expenditure is met partly from central and partly from local taxation. It is the total of expenditure, rather than the source of taxation, which is of importance to the economy. It is therefore of the utmost importance that all concerned should understand that what is required in present circumstances is severe limitation of spending by local authorities. The Secretary of State trusts that each authority will play its part in ensuring that the figures set out in Appendix D are taken as implying a ceiling on expenditure, and that higher expenditure is not undertaken at the expense of the local ratepayer.

#### **Provision for Services**

13. For the first four principal services listed in Appendix D, estimates made by the official Committee have been accepted. For the remaining services the estimates have been made by the Secretary of State.

#### *Education, Libraries and Museums*

14. Provision has been made for expenditure on teaching costs to meet the standards for primary and secondary schools agreed with the Convention and for non-teaching costs per pupil to be maintained at the 1975-76 level. In other sectors there will be no scope for expansion.

#### *Social Work Services*

15. Provision is made for staffing and running the new residential and day centres which are expected to be brought into operation before 31st March 1977. Further desirable expansion of certain aspects of social work services may require compensating savings elsewhere.

#### *Law, Order and Protective Services*

16. The provision allows for the improved level of recruitment of policemen in 1975-76 to be maintained but it has been assumed that the present restraints on increases in civilian manpower, including traffic wardens, will continue. In the case of the fire service, provision has been made for maintenance of present levels of staffing and support costs. Provision has been made for expenditure on school crossing patrols and civil defence at about the present level and for the administration of the district courts.

#### *Roads and Transport*

17. For the maintenance of roads, a reduction from the likely level of expenditure in 1975-76 to that of 1974-75 has been assumed. This will require reconsideration of maintenance standards and some reduction of staff members by natural wastage. Support for passenger transport services is expected to continue at about the present level, though with a greater proportion of the provision going to the support of rural bus and ferry services.

#### *Water, Sewerage and Environmental Services*

##### *Planning Services*

##### *Recreational Services*

##### *Miscellaneous*

18. In relation to the four principal services already referred to, Appendix D allows for expenditure approximately 12½ per cent higher than in 1973-74, the last year for which actual expenditure figures are at present available. For the remaining services, the figures provide for expenditure to be 20 per cent higher than in 1973-74. This compares with estimated growth in the local authorities' budgets for 1975-76 of 40 per cent and estimates by the official Committee 32 per cent above the 1973-74 level. The Secretary of State understands that sufficient information was not available to the official Committee to enable them to make an accurate forecast or to explain the very high growth rate envisaged by the authorities. He has no doubt that it is mainly in this group of services that a vigorous search has to be made for means of reducing the growth of expenditure. The local authorities will require to take the most stringent steps to restrain expenditure on these services, by slowing down expansion arising from the reorganisation of local government, particularly where functions are exercised concurrently by regional and district councils, by re-examining the standards of services and the charges made to users of them, by delaying the implementation of plans to introduce new services or improve existing ones, and by reviewing the number of staff employed in them.

#### **Loan Charges**

19. For the purpose of estimating loan charges, information was gathered on which to determine representative interest rates for existing local authority debt. Rates of repayment of principal were estimated by reference to the trends

evident from recent statistics on local government expenditure. New borrowing was estimated by reference to central forecasts of capital investment and allowance was made for borrowing at the interest rates generally prevailing at the end of November 1975. The loan charges estimated for 1976-77 are one-sixth higher than the latest 12-month estimate for 1975-76.

#### **Aggregate Amount of Grants**

20. In considering the rate at which grant should be paid, the Secretary of State always has regard to the estimated relevant expenditure of local authorities and to the effect of this expenditure, net of grant, and of non-relevant expenditure on the level of local rates. For 1975-76 the rate of grant was raised to 75 per cent in recognition of certain problems associated with local government reorganisation which were not expected to recur. However these problems will not be entirely overcome during the year and a degree of special assistance continues to be justified in 1976-77. The Secretary of State has therefore decided that the grant for 1976-77 should be 74 per cent of the sum of £1,195 million shown in Appendix D. Details of the grant calculations are given in Appendix E.

21. In the Act of 1975 relevant expenditure is defined as expenditure falling to be paid out of local rates, contributions in lieu of rates and rate support grants, reduced by such payments relating to housing and such payments of other descriptions as the Secretary of State may determine. For the purposes of paragraphs 7 to 20 above, relevant expenditure was taken to comprise the same range as in 1975-76. In discussion with the Convention it has been agreed that expenditure on rent and rate rebates, rent allowances, slum clearance and contributions to housing revenue accounts should continue to be grant-aided separately and be excluded from relevant expenditure. But the Convention have represented that other expenditure on which no specific grants are paid, consisting of the cost of travel concessions and contributions to "trading accounts", should in future be treated as relevant expenditure. They have accepted that the inclusion of this expenditure should not affect the amount of grant prescribed by the Order. The Secretary of State has therefore agreed that the expenditure shown in column (6) of Appendix D should be treated as relevant expenditure. The effect will be that in any increase order relating to 1976-77 the amount of additional grant will, subject to paragraph 30 below, be  $72\frac{1}{2}$  per cent of the amount by which the relevant expenditure set out in column (7) is accepted as being increased.

#### **Distribution of Grants**

22. The aggregate amount of grants is distributed in a variety of ways. Part is paid in the form of specific grants. The largest part (known as the needs element) is distributed amongst all authorities and is designed to give general support to their expenditure so as to reduce the amount required to be met from rates; distribution of this part is on a differential basis, to take account of variations in the amounts required to be spent per head of population in different areas. A lesser part (the resources element) augments the rateable resources of authorities so as to bring their effective rateable values up to an equal amount per head of population. A small part (the domestic element) is distributed to regional and islands councils to be used in giving to domestic ratepayers a prescribed measure of relief as compared with non-domestic ratepayers.

### *Specific Grants*

23. Specific grants are made in aid of expenditure on certain services. Each is calculated as a pre-determined percentage of the expenditure actually incurred. Provision is made for such grants only where there are special factors which render inappropriate general assistance through the rate support grant. The estimated total of specific grants is deducted from the aggregate amount available for grant, the balance being the amount of the rate support grants provided in the Order. Details of the specific grants estimated for 1976-77 are given at Appendix F. The largest, for police, is directly related to the police expenditure shown in Appendix D, and represents 50 per cent of estimated expenditure after deduction of local authority expenditure on which grant is not payable and of the contributions due to be made by authorities towards expenditure incurred by the Secretary of State in providing common services. As in previous years, estimates for urban redevelopment grants, housing improvement grants and sewerage grants reflect continuing commitments, with additions for the first payment on new schemes.

### *Needs element*

24. The amount prescribed for the needs element consists of four-fifths of the total of rate support grants after deduction of the domestic element. Of this sum, the Order provides for part to be shared among local authorities incurring extraordinary expenses on infrastructure in connection with off-shore oil exploration and development. The reason for making this provision is that such expenses are likely to be part of the authority's expenditure on a number of services, and therefore difficult to determine in the manner required for purposes of specific grants, and because the amount of special assistance expressed as a percentage of gross expenses which is appropriate may vary from time to time and from case to case.

25. The Order also provides for part of the needs element to be distributed among regions which suffered a loss of rate support grant as a consequence of the new formula which was introduced in 1975-76. This formula gave some regions a larger share of the total needs element than was received by the authorities in the region under the 1974-75 formula while other regions received a smaller share than formerly. In order to mitigate the effect on ratepayers in the regions which lost grant, the sum of £5.26 million (equivalent to £6 million over a 12-month period) was set aside in 1975-76 for distribution among the councils of those regions. This transitional arrangement will continue in 1976-77 with a reduced sum of £3 million.

26. The balance of the needs element will be distributed amongst all local authorities in accordance with the formula prescribed in the Order. The formula which was adopted for 1975-76 has been reviewed by a Committee of officials comprising representatives of the Convention and of the Scottish Office. The Committee accepted that there were defects in the formula but considered that, because of an absence of adequate information on which to revise the formula at the present time, it should be continued in 1976-77 with only minor modifications which they recommended. Their recommendations have been adopted.

27. For the distribution to regional councils, population is weighted according to the proportions of populations aged under 16 and 65 and over, for decline of population, for sparsity, and for density of population in the parts of regions



which were formerly counties of cities. In the case of district councils, the population figures are weighted only in respect of population decline. Islands councils, whose expenditure relates to all local authority services, receive the grant appropriate to a region and to a district with an additional special weighting related to additional costs in the islands areas.

#### *Resources Element*

28. The Order provides for one-fifth of the amount of rate support grants, after deduction of the domestic element, to be devoted to the resources element. In future the amount of resources element payable to any authority will be calculated by reference to its rate poundage instead of to its actual expenditure. The other element in the calculation will continue to be the amount by which its standard penny rate product exceeds the actual product of a rate of 1p in the £. The standard penny rate product will be the population of the area multiplied by a national standard amount per head of population, which is prescribed in the Order at 80p for 1976-77.

#### *Domestic Element*

29. For 1975-76 the domestic rate relief was 21p in the £ (equivalent to 24p in the £ over a 12-month period). The relief prescribed for 1976-77 is 27p in the £ and the amount of the domestic element is calculated to meet the cost to local authorities of providing this relief.

#### **Cash Limits**

30. In accordance with a policy which is being applied as widely as possible to Government expenditure, the rate support grants will be subject to cash limits. The effect is that the amount of any increase order in respect of changes in prices, costs and remuneration after November 1975 will be subject to an upper limit announced in advance, save that the amount of the limit will be reviewed in the event of any change of Government policy affecting it or in the rates of interest affecting loan charges. The limit for 1976-77 will be £55 million. This sum has been derived from an assessment of the effect in 1976-77 of changes in prices, costs and remuneration up to the end of 1976-77 on the assumption that the Government's policies for pay and prices are adhered to. The Secretary of State will be recommending local authorities to apply cash limits also to their own expenditure.

## APPENDIX A

Changes in prices, costs and remuneration taken into account in the re-determination of grants for 1975-76

<i>Pay Awards</i>	£m	£m
Teachers . . . . .	69.72	
Manual workers . . . . .	10.56	
Administrative, professional, technical and clerical staff . . . . .	9.60	
Police (pay and allowances) . . . . .	7.42	
Firemen (pay and allowances) . . . . .	0.73	
Other pay awards (including allowances) . . . . .	1.38	
		99.41
<i>Other Increases in Costs</i>		
Loan charges . . . . .	0.29	
National Insurance Contributions . . . . .	8.60	
Pensions and Superannuation . . . . .	9.64	
Supplies and services . . . . .	11.76	
Property costs . . . . .	24.24	
Payments to other bodies and persons . . . . .	10.38	
Plant, vehicle and transport costs . . . . .	6.32	
Revenue contributions to capital . . . . .	1.19	
Other increases in costs . . . . .	12.92	
		85.34
Contributions to Transport Undertakings . . . . .		2.80
District Courts . . . . .		0.32
		187.87
<i>Offsetting Increases in Income</i> . . . . .		16.38

APPENDIX B

RELEVANT EXPENDITURE 1975-76

Service (1)	Reckonable Expenditure forecast for the Rate Support Grant (Scotland) Order 1975 (2)	Increases in costs (3)	Offsetting increases in income and reductions in costs (4)	Relevant Expenditure forecast for the Rate Support Grant (Scotland) (No. 2) Order 1975 (5)
	£m.	£m.	£m.	£m.
Education . . . . .	399.95	119.70	3.90	515.75
Libraries, Museums and Art Galleries . . . . .	10.84	1.93	0.11	12.66
Social Work . . . . .	70.60	11.20	1.28	80.52
Urban Programme . . . . .	1.90	0.30	—	2.20
Police . . . . .	60.05	12.22	0.79	71.48
School-crossing Patrols . . . . .	1.96	0.18	—	2.14
Fire . . . . .	16.44	1.81	0.08	18.17
Registration of Electors . . . . .	0.90	0.17	0.01	1.06
Civil Defence . . . . .	0.21	0.04	—	0.25
Highways, Road Lighting and Road Safety . . . . .	64.07	11.72	2.92	72.87
Transport . . . . .	12.48	2.80	—	15.28
Cleansing . . . . .	33.35	5.56	0.68	38.23
Sewers and Drains . . . . .	29.82	2.26	0.42	31.66
Parks . . . . .	20.04	3.85	1.28	22.61
Other Public Health . . . . .	17.32	3.44	0.77	19.99
Planning . . . . .	20.32	2.00	0.73	21.59
Other Services* . . . . .	36.11	8.37	3.41	41.07
District Courts . . . . .	—	0.32	—	0.32
<b>Total . . . . .</b>	<b>796.36</b>	<b>187.87</b>	<b>16.38</b>	<b>967.85</b>

\*Includes coast protection and flood prevention, house improvements, weights and measures, registration of births, etc., collection of rates, lands valuation, footpath lighting, youth employment, sheltered workshops, etc.

APPENDIX C

REVISED GRANTS FOR 1975-76

	Rate Support Grant (Scotland) Order 1975	Rate Support Grant (Scotland) (No. 2) Order 1975
	£m.	£m.
(1) Reckonable expenditure taken into account (Appendix B) . . . . .	796.36	967.85
(2) Aggregate amount of Grants (75 per cent of (1)) . . . . .	597.27	725.89
(3) Specific Grants . . . . .	42.12	49.02
(4) Rate Support Grants ((2) minus (3))	555.15	676.87
(5) Amount of increase . . . . .	—	121.72
(6) Domestic Element . . . . .	32.37	32.37
(7) Resources Element . . . . .	104.56	128.90
(8) Needs Element . . . . .	418.22	515.60
of which—		
a. Extraordinary expenses portion	2.50	2.50
b. Transitional portion . . . . .	5.26	5.26
c. General portion . . . . .	410.46	507.84

APPENDIX D

RELEVANT EXPENDITURE 1976-77

Service (1)	Expenditure other than loan charges at November 1974 prices (2)	Expenditure other than loan charges at November 1975 prices (3)	Loan charges (4)	Relevant Expenditure (1975-76 definition) (5)	Travel concessions and contributions to trading accounts (6)	Relevant Expenditure (1976-77 definition) (7)
	£m.	£m.	£m.	£m.	£m.	£m.
Education, Libraries and Museums . . . . .	412.7	550.9	77.3	628.2	—	628.2
Social Work Services . . . . .	82.8	101.5	5.5	107.0	—	107.0
Law, Order and Protective Services . . . . .	89.4	111.4	5.3	116.7	—	116.7
Roads and Transport . . . . .	66.6	82.5	27.7	110.2	11.0	121.2
Water, sewerage and environmental services . . . . .	70.0	86.2	33.7	119.9	10.0	129.9
Planning services . . . . .	7.0	8.9	18.0	26.9	—	26.9
Recreational services . . . . .	22.0	27.1	5.8	32.9	—	32.9
Miscellaneous . . . . .	29.5	36.4	16.8	53.2	3.7	56.9
Total . . . . .	780.0	1,004.9	190.1	1,195.0	24.7	1,219.7

APPENDIX E

GRANTS FOR 1976-77

	£m.
1. Relevant expenditure taken into account (Appendix D) . . . . .	1,195·0
2. Aggregate amount of Grants (See paragraphs 20 and 21) . . . . .	884·3
3. Specific Grants (Appendix F) . . . . .	61·6
4. Rate Support Grants ((2) minus (3)) . . . . .	822·7
5. Domestic Element . . . . .	43·1
6. Resources Element . . . . .	155·9
7. Needs Element . . . . .	623·7
of which—	
a. Extraordinary expenses portion . . . . .	4·9
b. Transitional portion . . . . .	3·0
c. General portion . . . . .	615·8

APPENDIX F

SPECIFIC GRANTS 1976-77

	£m.
Police . . . . .	44.5
List D Schools . . . . .	0.4
Urban Programme . . . . .	2.1
Civil Defence . . . . .	0.2
Urban Redevelopment . . . . .	3.6
Housing Improvement . . . . .	8.1
Clean Air . . . . .	0.2
Sewerage . . . . .	0.7
Sheltered Workshops . . . . .	0.6
Open Space, Countryside, Port Health, War Works Removal . . . . .	0.5
Town Development . . . . .	0.7
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Total . . . . .	61.6
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