

DEPARTMENT OF THE ENVIRONMENT

# Local Government Finance

(ENGLAND AND WALES)

THE RATE SUPPORT GRANT ORDER 1975

Report by the Secretary of State for the Environment  
under Section 3(3) of the Local Government Act 1974

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## **THE RATE SUPPORT GRANTS FOR 1976/77 FOR ENGLAND AND WALES**

### **A. THE TOTAL OF THE RATE SUPPORT GRANTS**

#### *General Requirements*

1. The Rate Support Grant Order 1975 and this report are laid before the House of Commons in accordance with Part I of the Local Government Act 1974. The Order has no effect until approved by a resolution of the House. It covers the year 1976/77.

2. Section 1 of the Act requires the Secretary of State for the Environment to make grants, known as rate support grants, to local authorities in England and Wales.

3. In order to arrive at the aggregate amount of the rate support grants, the Secretary of State is to determine the aggregate of Exchequer grants to local authorities in respect of their relevant expenditure for the year. (Housing subsidies and mandatory awards to students and trainee teachers are outside this aggregate amount.) Under the Local Government Act 1974 the Secretary of State has to prescribe the aggregate amount of supplementary grants for transport purposes and for national parks. These prescribed amounts, together with the estimated amounts of specific grants in aid of revenue expenditure, are deducted from the aggregate amount of Exchequer grants, and the resulting balance is the aggregate of the rate support grants.

4. This aggregate is to be divided into three parts, known as the needs element, the resources element and the domestic element. The needs element is payable to councils of non-metropolitan counties, metropolitan districts and London boroughs, and to the Common Council of the City of London and the Council of the Isles of Scilly. The resources element is payable to any rating authority if its rateable value per head of population of the authority's area falls short of the national standard prescribed for the year in the Order. The domestic element is payable to all rating authorities, who are required by the Secretary of State to reduce the rate level on dwelling houses by amounts prescribed in the Order.

#### *Considerations to be taken into account in determining the annual aggregate of grants*

5. Before determining the amount available for grants and the portions to be allocated to specific grants and to supplementary grants towards expenditure in connection with transport and national parks, the Secretary of State is required to take into account:—

- (i) the latest available information as to the rate of relevant expenditure;

- (ii) any probable fluctuation in the demand for relevant services, to the extent that it is attributable to national circumstances outside the authorities' control;
- (iii) the need for developing those services and the extent to which it is reasonable to do so in the light of general economic conditions; and
- (iv) the current level of prices, costs and remuneration, and any future variation which he considers will result from decisions already taken and which will have an effect on any particular prices, costs or remuneration.

#### *Economic background*

6. In his Budget Statement of 15 April 1975, the Chancellor of the Exchequer made it clear that there was an imperative need to correct the imbalance in the national economy revealed by the public sector borrowing requirement and the balance of payments deficit. The Budget measures provided for the necessary initial action by increasing taxation by more than £1 billion in 1975/76 and by reducing public expenditure by a similar amount in 1976/77.

7. The various sectors of the economy are inescapably interdependent. The trend to put more of our national resources into consumption, public and private, and less into productive investment than other industrialised countries has to be reversed.

8. There is a limit to the extent to which taxation (including local rates) can be increased to finance public expenditure. On the one hand increases in indirect taxation lead to price increases and so contribute to inflation, and on the other, increases in direct taxes can lead to greater demands for wage increases and may thus also be inflationary. Present taxation rates leave little room for manoeuvre.

9. The overall reduction in the planned level of public expenditure in 1976/77 which the Chancellor announced on 15 April is therefore essential.

10. The Consultative Council on local government finance have discussed the implications for local authorities of the Government's revised expenditure plans for 1976/77. Preliminary guidance has already been given in Departmental Circulars (in particular Department of the Environment Circulars 51/75, 67/75 and 88/75). A further Circular will be issued shortly.

#### *Relevant Expenditure 1976/77*

11. It is against this economic background that the Government have decided that local authority current expenditure in 1976/77 should be kept to the level in real terms at which it is estimated local authorities are spending in 1975/76. Local authorities have, in recent years, had a rate of growth in current expenditure at least twice that of the growth in national income. The rate of growth allowed for in 1975/76 was lower than in previous years; but still higher than can be afforded in 1976/77. In 1976/77 the Government propose that there should be a standstill in current expenditure by local authorities in the sense that current expenditure in 1976/77 should not exceed present estimates of 1975/76 outturn.

12. The Government have decided, therefore, that the relevant expenditure to be taken into account for the settlement should be £10,461 million at November 1975 prices.

13. Local authorities will have to examine critically their programmes for 1976/77. Many desirable projects and improvements in levels of service will have to be deferred. Charges and fees made for services which do not at present cover their costs may need to be increased, subject to the Price Code, beyond the amounts necessary to keep in step with price increases.

14. Paragraphs 17 to 34 below set out possible consequences for the main groups of local authority services identified in the Rate Support Grant negotiations. But they are not the automatic consequences of a standstill. The decision on how to contain expenditure is for each individual authority to take in the light of its own knowledge of its own circumstances. In reaching their own decisions the Government hope that local authorities will as far as is compatible with a standstill in expenditure see that the consequences for existing staff are met by natural wastage.

#### *Amount of Grant 1976/77*

15. In determining the amount of the aggregate Exchequer contributions the Secretary of State proposes a grant percentage of 65½ per cent of relevant expenditure. The aggregate of Exchequer Grant is thus £6,852 million.

#### *Application of Cash Limits*

16. The Government have announced that there will be cash limit on the amount of additional grant that will be paid through any Increase Orders made in respect of pay and price increases affecting the 1976/77 settlement. The cash limit proposed for 1976/77 is £480 million. A note outlining the way in which the cash limit is applied to supplementary and rate support grants in 1976/77, together with a description of the circumstances in which the Government would be prepared to review the limit, is at Appendix E.

## **B. IMPLICATIONS FOR SERVICES**

### *Education*

17. The expenditure forecast for education represents an increase of about 2 per cent in real terms in current expenditure over the estimated level for 1975/76. This increase takes account of the expected growth in the number of pupils and students attending schools and colleges. It is intended to provide for a growth in the teacher force in the primary and secondary schools sufficient to maintain staffing ratios at the national levels achieved in the academic year 1975/76, but leaving no scope for any improvement in staffing standards.

18. Unit costs for non-teaching expenditure in schools and colleges are assumed to increase by about  $1\frac{3}{4}$  per cent. This provision is not intended to allow for improvements in standards, but should help local authorities to meet dis-economies resulting from a decline in pupil or student numbers, especially in primary schools. Provision is included for small increases in expenditure on the youth and community services and on financial support for pupils and students, in recognition of the continued increase in numbers in the upper age ranges.

19. In order to accommodate these provisions for increased expenditure within the total, it is assumed that significant economies of operation will be secured wherever possible within the education services.

*Libraries, Museums and Art Galleries*

20. No allowance is provided for any increase in expenditure in real terms.

*Probation and after-care*

21. The forecast for relevant expenditure is some £35 million higher than the estimated outturn of expenditure for 1975/76, but falls about £5 million short of the full provision needed to continue services at the levels implied by developments up to the end of 1975/76. It will be for local authorities to consider in the light of their priorities how this short-fall should be accommodated: savings might be sought in expenditure on administration, research and development and the provision of new telephones; some increase in income from charges might be possible. In general the Government's view is that priority should be given to the maintenance of the effectiveness of the field and domiciliary services, and to securing some expansion of services for children, including specialised residential accommodation and the implementation of the first phase of measures under the Children Act 1975.

*Police*

22. It is the Government's policy to strengthen the police and the forecast expenditure assumes an average strength of 108,000 police officers in 1976/77 compared with a current strength of 105,800. If the estimate is exceeded, within the limits of authorised establishments, specific grant will be paid on any additional expenditure. A slight fall in civilian manpower is assumed.

*Fire service*

23. The forecast expenditure is based on an estimated current strength of 32,400 full-time firemen.

*Probation and after-care*

24. The forecast expenditure provides for the recruitment in 1976/77 of students now in training.

*Magistrates' courts*

25. The forecast includes some additional expenditure which is likely to be necessary to prevent a breakdown in the work of particular courts.

*Local Transport Services*

26. The policy implications for local authority transport activities will include:—

- i. reductions in expenditure on highway maintenance;
- ii. increases in car parking charges;
- iii. increases in many cases in bus fares at a rate in excess of general movements in prices, particularly in those areas which have not raised fares to keep pace with costs in the past;
- iv. the holding down of administration costs to current levels and the implementation of economies wherever possible;
- v. reductions in capital expenditure as compared with levels allowed for in the 1975/76 settlement.

*Concessionary Fares*

27. The availability of concessionary fares at peak periods adds both to the general difficulties of travel at those times and to costs in resources. The Government therefore consider that that aspect of concessionary fares schemes should be critically examined. The settlement does not allow for all the expenditure forecast on the basis of no change in such schemes, or for the extension, improvement or introduction of schemes in 1976/77.

*Careers Service*

28. Provision is made to cover the increased demands on the service.

*Housing*

29. The total of accepted relevant expenditure contains a forecast of Rate Fund Contributions to local authority Housing Revenue Accounts and other housing expenditure falling directly on the Rate Fund. The forecast is based on the following main assumptions:—

- (i) that there is a standstill on management and maintenance expenditure per dwelling, though the total of this expenditure increases in line with the growth in the housing stock;
- (ii) that in accordance with the White Paper "Attack on Inflation" (Cmnd 6151) local authorities will in 1976/77 raise their rents on average by 60p per week, and will benefit from the special element of subsidy there announced.

30. The standstill on management and maintenance means that authorities which need to spend more on one aspect must make compensating reductions elsewhere. Authorities should themselves decide if and how to make such reductions; one possibility is the transfer to tenants of part of the burden of house maintenance.

#### *Other Environmental Services*

31. In this area, perhaps more than in any other area of local authority activity, local authorities themselves should decide the balance of priorities they wish to observe. The Government cannot therefore set specific consequences which would flow from the proposed level of expenditure. But it is nevertheless likely to mean a continuation of the restrictions on levels of service and pricing policies foreseen for these services at the time of the Rate Support grant settlement for 1975/76.

32. The Government lay considerable importance on the need to increase charges so as not to run at a loss those services which ought to be self-financing. Local authorities at present make some charge for the collection of trade refuse, the use of recreation facilities, smallholdings and allotments, cesspool emptying and drain clearance and cemeteries and crematoria. In each of these sectors a further move to self-financing can be expected.

33. Possible reductions in the standard of services provided are changes in the collection of household waste, the maintenance standards and opening hours of recreation facilities and deferment of proposed extensions to existing areas of smoke control.

34. Each authority should ensure that the manning of environmental services is as effective and economical as possible and that administrative costs are kept to a minimum. It will also need to consider whether the number and distribution of staff devoted respectively to development control and plan making will meet the need for an up-to-date planning framework against which to judge individual applications. Local authorities should co-operate so as to eliminate duplication of work among authorities.

### **C. SPECIFIC GRANTS AND SUPPLEMENTARY GRANTS**

35. The aggregate amount of the rate support grants is arrived at by subtracting from the aggregate Exchequer assistance to local authorities the estimated amounts of the specific grants for the year in aid of revenue expenditure and the amounts of the supplementary grants under the Local Government Act 1974 for national parks and transport as shown in Appendix B.

#### *Specific Grants*

36. The Secretary of State estimates that in relation to the Government proposals for relevant expenditure specific grants will amount to some £643 million for the 1976/77.

#### *National Parks Supplementary Grant*

37. The National Parks Supplementary Grants are payable to County Councils whose area includes the whole or part of a national park in respect of so much of the estimated expenditure on national parks for the year 1976/77 as the Secretary of State considers appropriate.

38. The Government propose a total estimated expenditure for 1976/77 of £4.1 million and the Secretary of State proposes to prescribe a grant on this of £3.1 million.

*Transport Supplementary Grant*

39. The Secretary of State proposes to prescribe £285 million as the aggregate amount of supplementary grants for transport purposes for 1976/77.

#### **D. THE RATE SUPPORT GRANTS**

40. The total of the rate support grants is thus £5,921 million for 1976/77 (£6,852 million minus £931 million specific and supplementary grants). The following paragraph deals with the division of this amount between the three elements into which the grant is to be divided—the needs element, the resources element and the domestic element—as set out in Appendix C.

#### **E. DISTRIBUTION OF THE RATE SUPPORT GRANTS**

41. The distribution of the rate support grants is designed to compensate for differences between authorities in the amounts they need to spend per head of their population and in the rateable resources available to them; and to meet the cost to rating authorities of giving domestic rate relief. The grants consist of three elements—the needs element, the resources element, and the domestic element.

(i) *The Needs Element.* (Article 3(4) and Schedule 1 to the Order)

One authority may need to spend more than another of similar population, either because the volume of services required in its area is greater (for example, because it has a greater number of schoolchildren or old people to cater for) or because the cost of each unit of service in its area is greater (for example, because the population it has to serve is thinly scattered over a wide area). The needs element is distributed on a formula consisting of factors relevant to the volume of services required and the cost of providing them, in order to compensate for differences between different authorities in their spending needs per head of population.

In recent years, the formula has been derived from a “multiple regression analysis” of the variations between local authorities in their actual expenditure per head. This technique enables one to identify objective factors which are associated with such variations and so to weight them that, in combination, they give a formula which matches the variations as closely as possible. The aim is to identify the pattern of spending need which underlines the pattern of actual expenditure, in terms of social and demographic indicators.

The distribution formula for 1976/77 differs in several important respects from the 1975/76 formula, as follows:—

- (a) The assessment of London's spending needs, both as a whole and for individual London boroughs, has always presented problems. London's expenditure was not included at all in the regression analysis on which the 1975/76 formula was based, for fear that, in view of its size and the special conditions which applied in London, it might distort the results of the analysis. For 1976/77, however, this problem has been tackled by carrying out two separate series of analyses. The first of these included the expenditure of all authorities in England and Wales. This enabled a broad comparison to be made of the local authority spending needs of London on the one hand and the rest of the country on the other, as a basis for determining how the needs element total should be divided between London and the rest of England and Wales. (In this process, an adjustment was made to take account of London's very high rateable resources—see (iii) below). Further regression analyses were then made of the spending of authorities outside London and of the spending of the London boroughs and Inner London Education Authority, to produce formulae for the distribution of these overall shares to individual authorities.
- (b) The expenditure figures used for the analyses were authorities' own estimates of their likely expenditure in 1975/76. It was thought that these would provide a more reliable base for the assessment of needs than the 1974/75 estimates, used in the derivation of the 1975/76 formula, which authorities had had to prepare in the midst of local government reorganisation.
- (c) A wider range of social and demographic data were tested in the analyses than ever before. Consequently, the coverage of social needs in the formulae has been much improved, and for the first time indicators of the spending needs associated with new development and growth are included. Factors of special relevance to the circumstances of London boroughs—eg the extra demands of commuters on the services of some inner boroughs—have been included in the London formula.

As for 1975/76, however, steps have been taken to prevent the changes in the formulae from causing too violent changes in the grant payable to individual authorities. This was thought to be particularly important at a time when the whole future of local government finance was still under review by the Committee of Inquiry into Local Government Finance. The formulae derived from the new regression analyses have therefore been scaled down so as to distribute only one-third of the total amount of the needs element allocated to London and the rest of the country respectively. The remainder is to be distributed in proportion to the authorities' needs element entitlements for 1975/76.

The needs element arrangements for 1976/77 are set out in full in Appendix D.

(ii) *The Resources Element.* (Article 3(6) of the Order)

The resources element is designed to compensate for differences between authorities in their rateable value per head of population. Without it, for example, an authority with relatively few high-valued industrial and commercial properties in its area, would, other things being equal, have to levy a very much higher rate in the pound than a neighbouring authority whose area included a large number of modern office blocks or factories.

The resources element is paid to those rating authorities whose rateable value per head falls short of a "national standard" level prescribed for the year, and has the effect of enabling such authorities to keep their rate poundage down to the level they would require if their own rateable value per head were truly the same as the national standard. Further details are given in Appendix D.

For 1976/77, the national standard has been set at £176, compared with £170 for 1975/76. Only a small number of rating authorities in England and Wales have an actual rateable value per head in excess of this figure, and all but a handful of these are in London (see below). The resources element will account for 32½ per cent of the aggregate of the needs and resources elements—the same proportion as in 1975/76.

(iii) *The Treatment of London's High Resources*

London's total rateable value per head, taking account of the effect of the resources element for those boroughs which receive it, is about £280, compared with the "national standard" of £176. This rateable wealth is heavily concentrated in certain inner London boroughs, but the benefit is felt to a considerable extent by the rest of London (particularly Inner London) as a result of the financing arrangements for certain services and of the London Rate Equalisation scheme. All other things being equal, therefore, the rate poundages levied in London would be substantially below those required elsewhere. For that reason, in determining London's total share of the needs element (sub-paragraph (i) (a) above) an offsetting adjustment has been made.

However, London's high rateable value per head is not an unmixed advantage for London's ratepayers, because the rateable value of individual properties there tends to be very high in comparison with that of similar properties elsewhere. That means that the average householder's rate bill would be higher in London than in other parts of the country even if the rate poundage levied were the same. The adjustment has therefore been fixed not at the whole amount of the advantage in rate revenue the London authorities enjoy from their extra rateable value but rather at only one-third of that amount.

The net effect will be a significant increase in London's share of the aggregate of the needs and resources elements from about 12.4 per cent in 1975/76 to about 14 per cent in 1976/77.

(iv) *The Domestic Element.* (Article 3(5) of the Order)

Rating authorities are required to levy lower rates on domestic than on non-domestic properties. The domestic element is distributed in such a way as to make up the losses the authorities incur as a result of this requirement. Following strong representations from local government interests,

the Government have decided to fix the amounts in the pound of domestic rate relief for 1976/77 at the same level as for 1975/76, namely 18.5p in England and 36p in Wales.

#### **F. DISTRIBUTION OF TRANSPORT SUPPLEMENTARY GRANTS**

42. The amount of grant received by an individual county will depend upon the amount of its accepted estimated expenditure, the amount by which this exceeds the prescribed threshold, and the rate of grant.

43. The amount of accepted estimated expenditure for each county will depend on the view taken by the Secretary of State on the progress they have made in formulating and implementing suitable transport policies for their area.

44. The threshold above which a county's accepted estimated expenditure will qualify for grant will be whichever of two, prescribed by formula, will give the greater amount of grant to that authority.

45. The first or normal threshold will be based on an allowance of £9.4174 per head of population in the authority's area.

46. The second or "safeguard" threshold is devised in recognition of the fact that many authorities are committed by contractual arrangements, entered into before the introduction of the transport supplementary grant system in the expectation that they would receive specific grant on such expenditures. The "safeguard" threshold ensures that accepted estimated expenditure of these types falls above the threshold and so earns grant.

47. The categories of expenditure included in the safeguarding arrangements are:—

- i. grant aided principal road schemes started before 1 April 1975;
- ii. grant aided public transport infrastructure projects started before 1 April 1975;
- iii. accepted estimated payments by metropolitan counties in respect of their Passenger Transport Executives' contractual commitments (under S.20 of the Transport Act 1968) to support rail services.

48. The effective grant rate will be approximately 70 per cent in respect of accepted expenditure, expressed at November 1974 prices, lying above the appropriate threshold.

## APPENDIX A

### *Rate Support Grant, England and Wales 1976/77* *Relevant expenditure*

The Table below shows the broad pattern of the forecasts of current expenditure to be adopted for the purpose of the Order. The amounts are given at November 1975 prices.

<i>Service</i>	<i>£m</i>
Education (including school meals and milk) ... ..	5,296
Libraries, Museums and Art Galleries ... ..	178
Port Health ... ..	2
Personal Social Services ... ..	874
Concessionary Fares ... ..	62
Police ... ..	837
Fire ... ..	216
Urban Programme ... ..	26
Administration of Justice* ... ..	95
Other Home Office Services† ... ..	20
Local Transport Finance ... ..	1,078
Refuse ... ..	279
Recreation Parks and Baths ... ..	291
Town and Country Planning ... ..	201
General Administration ... ..	264
Housing ... ..	348
Miscellaneous Services‡ ... ..	394
Total ... ..	10,461

\*Magistrates' Courts, Other Courts, Probation and After-Care, Probation Homes and Hostels.

†School Crossing Patrols, Registration of Electors, Civil Defence.

‡Includes Consumer Protection, Environmental Health, Land Drainage, Smallholdings, Careers Service, Sheltered Employment, Coast Protection, Allotments, Contributions to Trading Services, etc.

## APPENDIX B

### *Estimated specific and supplementary grants for 1976/77*

	£m. (at November 1975 prices)
<i>Specific grants</i>	
Police ... ..	416.9
Magistrates' courts ... ..	38.0
Probation and after-care ... ..	33.1
Commonwealth immigrants ... ..	15.4
Urban programme ... ..	19.7
Civil Defence ... ..	2.2
Open Space and Derelict land ... ..	1.7
Clean air ... ..	2.3
Urban redevelopment ... ..	9.0
Transitional Town Development subsidy ... ..	0.2
Improvement grants and area improvement grants ... ..	82.7
Slum clearance ... ..	18.3
Smallholdings ... ..	0.5
Sheltered employment ... ..	3.3
Total ... ..	643.3
<i>Supplementary grants</i>	
Transport Supplementary Grant ... ..	285.0
National Parks Supplementary Grants ... ..	3.1
*TOTAL OF SPECIFIC & SUPPLEMENTARY GRANTS ... ..	931.4

\*Deducted from the aggregate of Exchequer assistance in Appendix C.

## APPENDIX C

### *Rate Support Grants, England and Wales, 1976/77*

The Table below shows the calculation of the total rate support grants and the amount of the 3 elements of the grant. Figures are at November 1975 prices.

	£m.
(1) Estimated relevant expenditure (Appendix A) ...	10,461
(2) Aggregate Exchequer Grant at 65·5 per cent ...	6,852
(3) Total of Specific Revenue and Supplementary Grants (Appendix B) ... ..	931
(4) Rate Support Grant [Item (2) minus Item (3)] ...	5,921
(5) Needs ... ..	3,565
(6) Resources ... ..	1,716
(7) Domestic ... ..	640

## APPENDIX D

### *The Distribution Arrangements for the Needs and Resources Elements*

(a) *The needs element*

1. Councils of non-metropolitan counties, metropolitan districts, London boroughs, the City of London and Isles of Scilly will all receive

$$£1.36 \times \frac{\text{the 1975 mid-year population of the authority}}{\text{population of the authority}}$$

2. In addition, all these councils except London borough councils and the City of London will receive further amounts, calculated by reference to the following factors and multipliers: —

<i>Factor</i>	<i>Multiplier</i>
(a) Education units (see below) in excess of 205 per 1,000 population	£132.03
(b) The acreage of their area, in excess of 1.5 per head of population	£ 2.18
(c) The decline in population of their area, mid-1970 to mid-1975	£ 0.037 × <u>population of the area</u> 1000
(d) The number of new permanent dwellings started in their area (public and private sectors) during 1975/76	£363.20

The following social need factors: —

(e) The number of persons of pensionable age living alone in the authority's area (1971 census) in excess of 20 per 1,000 population	£177.29
(f) The number of persons living in permanent buildings at a density greater than 1½ persons per room (1971 census) in excess of 10 per 1,000 population	£67.83
(g) The number of persons in households without exclusive use of the basic amenities (1971 census) in excess of 10 per 1,000 population	£14.68
(h) The number of lone parent families with dependent children (1971 census) in excess of 5 per 1,000 population	£530.08

The needs element the authority is receiving for the current year;

(i) the authority's 1975/76 needs element entitlement, as calculated under the Rate Support Grant (No. 2) Order 1974	83.86%
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3. In addition to the amount at 1 above, each Outer London borough council will receive amounts calculated as follows: —

<i>Additional factor</i>	<i>Multiplier</i>
(a) Education units (see below) in excess of 223 per 1,000 population	£77·21
(b) The decline in population in their area, mid-1970 to mid-1975	$\frac{£0·255 \times \text{population of the area}}{1000}$
(c) The number of new permanent dwellings started in their area (public and private sectors) during 1975/76	£1,346·30
(d) The number of persons of pensionable age living alone in the authority's area (1971 census) in excess of 17 per 1,000 population	£222·80
(e) The number of persons living in permanent buildings at a density greater than 1½ persons per room (1971 census) in excess of 10 per 1,000 population	£56·57
(f) The number of children in care in the authority's area (March 1974) in excess of 67 per 100,000 population	£1,587·30
(g) Daytime population of the area (1971 census) in excess of 819 per 1,000 population	£4·35
(h) The growth in population of their area, 1970/75	$\frac{£1·922 \times \text{population of the area}}{1000}$
(i) The mid-1975 population of their area	£5·81
(j) The authority's 1975/76 needs element entitlement, as calculated under the Rate Support Grant (No. 2) Order 1974	98·08%

4. In addition to the amount at 1 above, each Inner London borough and the common Council of the City of London will receive amounts calculated as follows: —

<i>Additional factor</i>	<i>Multiplier</i>
(a) Education units in Inner London (see below) in excess of 223 per 1,000 of Inner London's population	$\frac{£77·21 \times \text{'the population ratio'}}{1000}$
(b) The decline in the population of Inner London, mid-1970 to mid-1975	$\frac{£0·014 \times \text{'the population ratio'} \times \text{Inner London's population}}{1000}$

(c) Persons living in permanent buildings in Inner London at a density greater than 1½ persons per room, in excess of 10 per 1,000 of Inner London's population	£56.57 × <i>'the population ratio'</i>
(d) The number of new permanent dwellings started in Inner London (public and private sectors) during 1975/76	£378.90 × <i>'the population ratio'</i>
(e) The decline in population of the borough's area, mid-1970 to mid-1975	£0.240 × <u><i>borough's population</i></u> 1000
(f) The number of new permanent dwellings started in the borough's area (public and private sectors) during 1975/76	£967.40
(g) The number of persons of pensionable age living alone in the borough's area (1971 census) in excess of 17 per 1,000 population	£222.80
(h) The number of children in care in the borough's area (March 1974) in excess of 67 per 100,000 population	£1,587.30
(i) Daytime population of the borough (1971 census) in excess of 819 per 1,000 population	£4.35
(j) The mid-1975 population of the borough's area	£5.81
(k) the borough's 1975/76 needs element entitlement, as calculated under the Rate Support Grant (No. 2) Order 1974	98.08%

- Notes: (i) unless otherwise specified, 'population' means the authority's mid-1975 population, as estimated by the Registrar General.  
(ii) 'the population ratio' means the borough's population, divided by the total population of Inner London.

5. The Education Unit figures will be calculated as follows: —
- |  |         |
|--|---------|
| (i) Primary and nursery school pupils, January 1976                        | × 1.00  |
| (ii) Secondary and special school pupils, January 1976: —                  |         |
| Under 16 years on 31 December 1975   | × 1.68  |
| 16 years and over on 31 December 1975                                      | × 2.61  |
| (iii) Direct grant grammar school pupils, January 1976: —                  |         |
| Under 16 years on 31 December 1975   | × 1.176 |
| 16 years and over on 31 December 1975                                      | × 1.827 |
| (iv) Non-advanced further education establishment pupils, November 1975: — |         |
| Full-time  | × 2.90  |
| Part-time  | × 0.58  |
| Evening only   | × 0.29  |

*(b) The resources element*

6. The calculation procedure is laid down in the Local Government Act 1974. The resources element is payable to a rating authority if its rateable value per head is less than the "national standard rateable value per head" prescribed for the year (£176 for 1976/77). Where this is so, the area's population is multiplied by the national standard rateable value per head, and its actual rateable value subtracted from the result to yield the "local deficiency in rateable value". This figure is then multiplied by the authority's general rate poundage for the year (strictly speaking, by its "uniform rate" as defined in the Act). The result is the amount of the resources element payable to the authority.

7. Rateable values with effect from April 1975 or earlier taking account of adjustments made by 31 March 1976, and population estimates for June 1975, will be used in the calculations of resources element for 1976/77.

8. Further details of the data used in the calculation of the needs and resources elements are set out in the Rate Support Grant Regulations 1975.

## APPENDIX E

### *Cash Limits*

1. The cash limits on rate support grant and supplementary grants will provide a ceiling for the amounts which may be paid in due course by way of any Increase Orders in respect of pay and price increases after November 1975. The basis of the cash limits is the Government's policy, agreed with the Trades Union Congress, of keeping all pay settlements up to July 1976 within a maximum of £6 a week, with the year-on-year increase in prices following a downward course to no more than 10 per cent by late summer of 1976 and to single figures by the end of 1976. The £6 pay policy is by far the most important factor in determining cash limits for 1976/77. This will determine the bulk of the increase in expenditure which local authorities will have to meet in respect of their own staff. It can also be expected to have a dominant effect on the increases in prices which local authorities will have to face during 1976/77.

2. The composition of the initial cash limit of £480 million on total additional grants is as follows:—

	£m.
Increase in grant (representing 65½ per cent of additional costs in 1976/77 arising from pay and price changes after November 1975) ... ..	480
Comprising:	
Specific grants ... ..	45
Supplementary grants ... ..	23
Rate support grant ... ..	412

3. The Government have decided that because of their open-ended nature and because of the inter-action between them and the rate support grant, payments of specific grants would not be restricted to the amount corresponding to specific grants in the initial cash limit.

4. Cash limits require spending authorities, in managing their budgets, to take full account of changing pay and price levels. But there should not be an intolerable degree of uncertainty in the arrangements. The limit on rate support grants in 1976/77 will therefore be varied as necessary to take account of certain variations in costs (which are particularly uncertain). These are:—

- (i) loan charges;
- (ii) certain elements in the Housing Revenue Account which affect the rate fund contribution.

5. The cash limit on grants to local authorities in 1976/77 will also be reviewed:—

- (i) if new legislation is enacted, or brought into operation, after November 1975 which entails an increase in local government expenditure, or

- (ii) if changes are made in Government policy which entail an increase in local government expenditure, or
- (iii) if the pace of inflation generally or the rate of cost increases affecting local authority expenditure were substantially higher than those implied in the cash limit.





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