

SCOTTISH OFFICE
LOCAL GOVERNMENT FINANCE (SCOTLAND)

The Rate Support Grant (Scotland) Order 1975

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

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THE RATE SUPPORT GRANTS FOR 1975-76 FOR SCOTLAND

1. The Rate Support Grant (Scotland) Order 1975 and this report of the considerations leading to the provisions of the Order are laid before the House of Commons in accordance with section 3 of the Local Government (Scotland) Act 1966. They relate to 1975-76, the year in which the new regional, islands and district councils become fully functional. The Order does not take effect until it is approved by a resolution of the House.

2. The Order is made under the Local Government (Scotland) Act 1966. The Local Government (Scotland) Bill now before Parliament proposes to make changes to the Act in a number of respects which are referred to later in this report. Clause 18 of the Bill also proposes to change the financial year of local authorities, with the effect that the year 1975-76 would end on 31st March 1976 instead of continuing to 15th May. In order to arrive at amounts of grant and at other amounts prescribed by the Order, all estimates and calculations have been made in relation to the period of 12 months ending 15th May 1976, and a factor of 321/366 has then been applied to yield figures relating to the period 16th May 1975 to 31st March 1976.

Reckonable Expenditure

3. Under the Act the Secretary of State is required to consult the local authority associations before determining the amount of reckonable expenditure, the aggregate amount of Exchequer grant to be made available to local authorities in respect of that expenditure, and other matters dealt with in the Order.

4. Reckonable expenditure as defined in the Act is expenditure falling to be defrayed out of local authority rates, reduced by payments to housing revenue accounts, payments to trading accounts and such other payments as the Secretary of State may determine. Under the latter provision expenditure on rent and rate rebates, rent allowances and slum clearance is excluded from reckonable expenditure and the corresponding grants and subsidies do not form part of the grants to which the Act relates. For 1975-76 there are changes in the treatment of expenditure on transport. Following amendment of section 13 of the Transport Act 1968 by the Local Government (Scotland) Act 1973, grants made by the Strathclyde Regional Council to the Greater Glasgow Passenger Transport Executive and general contributions by other regional councils to their own transport undertakings will be treated as reckonable expenditure. However, for 1975-76, local authority contributions towards the cost of travel concessions will continue to be excluded from reckonable expenditure by virtue of section 138(6) of the Transport Act 1968, though the Local Government (Scotland) Bill proposes that this expenditure should become reckonable in future. The Bill would also replace the term "reckonable" by the term "relevant" and would give the Secretary of State greater discretion regarding the treatment of certain expenditure, particularly contributions to housing revenue accounts.

5. In his consideration of the estimates of reckonable expenditure, the Secretary of State is required to take into account—

- (a) the current level of prices, costs and remuneration, any future variation in that level which can be foreseen, and the latest information available to him as to the rate of reckonable expenditure;
- (b) any probable fluctuation in the demand for services giving rise to reckonable 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; and
- (c) the need for developing those services and the extent to which having regard to general economic conditions it is reasonable to develop them.

The Economic Background

6. The general economic conditions in which the development of services has to be considered were summarised by the Chancellor of the Exchequer in his budget statement on 12th November 1974. He then said that the need to give priority to productive investment and to the balance of payments has important implications, that it is necessary to establish firm control over the call on resources to be made by the public sector as a whole, and that the growth of public expenditure in demand terms must not be allowed to exceed $2\frac{3}{4}$ per cent a year on average over the next four years. As regards the current expenditure of local authorities, which accounts for 20 per cent of total public expenditure, though continued development of standards and services is in itself desirable, for the coming year it is necessary for the local authorities to limit growth to what is absolutely inescapable and, in particular to limit expansion of their staffs. These considerations were brought to the attention of all local authorities by circular in November 1974, in connection with their preparation of budgets for 1975–76, and they were asked to proceed on the assumption that there should be no growth of spending in real terms beyond that arising from decisions previously taken and not capable of being changed. Accordingly in the discussions with the local authority associations about the estimates of reckonable expenditure, the Secretary of State has been concerned to ensure that provision for development of services should not exceed that which results from commitments which are inescapable, including expenditure arising from mandatory statutory obligations, from the servicing and repayment of debt and from changes arising from the movement of population and creation of employment, particularly the exploration and exploitation of off-shore oil resources.

Estimates of Reckonable Expenditure

7. As usual, forecasts of expenditure were first made by a Committee of officials comprising representatives of the local authority associations and of the Secretary of State's Departments. Having regard to the considerations already mentioned, the Committee were concerned to establish the likely level of expenditure in 1974–75 and the extent to which local authorities were inescapably committed to incurring higher expenditure in 1975–76. Account was taken of factors considered relevant, e.g., the provision of additional services in

connection with off-shore oil developments, the likelihood that in some areas the reorganisation of local government may imply additional expenditure as the standards of service provided by existing authorities are co-ordinated within the new regions and districts, and factors such as pupil and teacher numbers and the latest information about recent trends in recruitment of workers where these appeared to be major determinants of expenditure. Following his consideration of the report of the Committee and discussion with the associations, the Secretary of State has accepted that it is necessary to allow for growth of 3·8 per cent in real terms over the estimated outturn of expenditure for 1974–75, exclusive of loan charges.

8. In accordance with the usual practice, these estimates were made in the first place at the level of prices, costs and remuneration current at the end of November 1973 and subsequently were adjusted to take account of changes in prices, costs and remuneration up to the end of November 1974. These adjustments were made by the Committee of officials after detailed examination of information supplied by the local authorities, of movements of established prices indices and of the terms of individual pay awards. The effects of these changes were calculated by reference to the headings under which local authority analyses of their expenditure have been obtained. No provision is made in the estimates for possible price changes after 30th November 1974; these fall to be considered in the context of a subsequent increase order.

9. For the purpose of estimating loan charges, which amount to over one-sixth of reckonable expenditure, information was gathered 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 by the local government sector in Scotland and allowance was made for borrowing at the interest rates generally prevailing at the end of November 1974. The loan charges estimated for a full year are some 21 per cent higher than the latest estimate for 1974–75.

10. The reckonable expenditure to be taken into account for the purposes of the Rate Support Grant (Scotland) Order 1975, at the level of costs and prices prevailing at the end of November 1974, is shown in Appendix A.

11. Excluding the provision for loan charges, and after making allowance for non-recurrent factors, local authority current expenditure has increased in recent years by an annual average of about 6 per cent in real terms. The reduction of the rate of growth by about one-third will have repercussions on most services. Some desirable new developments and improvements of services will require to be deferred, and no significant increase in present staff numbers will be possible. The Secretary of State has already advised local authorities that increases in staff complements on local government reorganisation cannot normally be considered to be justified. The implications for individual services are set out in paragraphs 12 to 20 below. It is most important in the interests both of the economy and of restraining the growth of rates that the expenditure of local authorities should not in total exceed the planned amount. The Secretary of State will refrain from asking authorities to undertake new commitments which are not provided for in the figures in Appendix A. A circular to all authorities will draw attention to the estimates for individual services and to the limited allowance for growth of expenditure.

Development of Services

Education and Libraries

12. In the forecast of expenditure for education, provision has been made for increased expenditure proportionate to the growth in pupil and teacher numbers and for the continued improvement in the pupil-teacher ratio in secondary schools and for some improvement in the level of non-teaching costs per pupil or student in schools and further education establishments and in other sectors of the education and library services.

Social Work

13. Expenditure on personal social services has continued to grow at a very high rate, and in 1974-75 is about 40 per cent higher in real terms than in 1971-72. This is faster than was expected even for a new service. For the future it has been assumed that the same criteria of restraint in public expenditure will be applied to this service as to others. Nevertheless, to allow for unavoidable commitments such as the absorption of social workers now in training, the increased revenue expenditure resulting from capital expenditure on new residential and day centres, and the full year effects of programmes initiated in 1974-75, provision has been made for an increase of about 8 per cent in real terms in the level of expenditure. Allowance has also been made for the effects of the transfer of hospital social workers from the area health boards. The reduced rate of growth will mean postponement of the achievement of objectives for parts of the service and some redeployment of resources within the service to meet urgent priorities. No allowance has been made for further expansion of the home help services nor for any general levelling-up of standards of services within the new regions; these would be possible within the forecast only at the expense of development in other fields.

Urban Programme

14. Provision has been made for a moderate increase in expenditure under the urban programme to enable projects in the pipeline to go ahead.

Police

15. The net recruitment of police in 1974-75 has been in line with last year's forecast but in some critical areas forces are still very much below the authorised establishment. The forecast for 1975-76 makes provision for filling some of these vacancies and assumes a net recruitment of about 200 police plus supporting civilian staff.

Fire

16. The forecast makes provision for a limited expansion in the fire service to allow for some deficiencies in establishments to be made up. In addition allowance has been made for the additional manpower required in the implementation of the 48-hour working week.

School-crossing Patrols, Registration of Electors, and Civil Defence

17. Provision has been made for expenditure at or about the same level as in 1974-75 in real terms.

Administration of Justice

18. No provision has been made for new expenditure on district courts under the legislation at present before Parliament; this will be considered in connection with an increase order.

Roads and Transport

19. The forecast for roads and road lighting expenditure marginally exceeds the cutback level for 1974-75 in real terms and includes an element for maintenance costs arising from North Sea oil developments. Support for transport services which were covered by earlier orders continues at the same real level. The forecast for urban passenger transport services, which become reckonable for the first time in 1975-76, mainly covers contributions to the city transport undertakings and by Strathclyde Regional Council towards the Greater Glasgow Passenger Transport Executive's payment to British Rail for suburban rail services.

Local Environmental and Other Services

20. It is estimated that expenditure in real terms on these services grew at about 3 per cent in 1974-75 as against a forecast, after the reductions of December 1973, of no growth. The forecast for 1975-76 allows growth of 4.2 per cent for inescapable commitments including the need to service new housing and industrial developments, new statutory duties and transfer of responsibility to local authorities of full responsibility for the careers service.

Aggregate Amount of Grants

21. Having regard to the estimated reckonable expenditure of local authorities in 1975-76, having considered with the local authority associations the implications of other expenditures which fall to be defrayed out of rates, including expenditure on travel concessions and contributions to the housing revenue account, and having in mind the desirability of restraining the average increase in rate poundages, the Secretary of State has decided that the aggregate amount of grants should be 75 per cent of the estimated reckonable expenditure, compared with 68 per cent in 1974-75. Details of the calculations are given in Appendix B.

Distribution of Grants

22. The 1966 Act provides that the aggregate amount of grants is to be divided and distributed in three different ways to serve three different purposes—

- (a) The major part, distributed amongst all authorities, is designed to give general support to their expenditure so as to reduce the amount required to be met from rates. Distribution is on a differential basis, to take account of variations in the amounts required to be spent per head of population in different areas.
- (b) A lesser part (the resources element) is distributed among those authorities whose standard penny rate product exceeds their actual penny rate product, and is designed to augment the rateable resources of those

authorities so as to bring them up to an equal amount per head of population.

- (c) A small part (the domestic element) is distributed among rating authorities (regional and islands councils) to be used in giving to domestic ratepayers a prescribed measure of relief from the standard rate poundage.

Domestic Element

23. For 1974–75 the domestic rate relief was 17p in the £. The relief prescribed for 1975–76 is 21p in the £ (equivalent to 24p in the £ over a 12-month period) and the amount of the domestic element is calculated to meet the cost to local authorities of providing this relief.

Resources Element

24. The Local Government (Scotland) Bill proposes to change the method of calculating the resources element, but without changing the principle of augmenting up to a standard amount per head of population the effective resources available to each local authority. The proposal is that each regional, islands and district council whose product of a rate of 1p in the £ is less than their standard penny rate product (i.e. the product of the population of the area and of a “national standard amount per head” prescribed in the rate support grant order) should receive by way of resources element the product of the difference between the standard and actual penny rate products (in effect a credited notional rateable value) and the rate poundage determined by the authority. However, for 1975–76 the previous method remains unchanged. Each authority qualified to receive resources element is paid the proportion of its “relevant local expenditure” which the difference between the standard and actual penny rate products bears to the standard penny rate product.

25. The 1966 Act provides that the relevant local expenditure of an authority for this purpose is to be assessed by reference to notional rent income if this is higher than actual rent income. The rate support grant order is required to prescribe the basis on which notional rent incomes are to be calculated. For 1975–76 the notional rent income is prescribed as 85 per cent of the gross annual values of relevant subjects, taking account of the shorter period to which the order relates.

Specific Grants and Needs Element

26. The part of the aggregate amount of grants referred to in paragraph 22(a) is distributed in a number of ways. First, specific grants are made in aid of expenditure on certain services. Each of these grants 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. Under section 2(2) of the 1966 Act, the aggregate estimated amount of specific grants is deducted from the aggregate amount available for grant, the balances being the amount of the rate support grants. Details of the specific grants estimated for 1975–76 are given at Appendix C. The largest specific grant, for police, is directly related to the police expenditure shown in Appendix A, 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 of new schemes. From the beginning of 1975-76 specific grants in respect of youth employment and local authority contributions to the operation of rural bus and ferry services and transport services are to be discontinued and the services concerned will be supported exclusively through the rate support grants.

27. Paragraph 5 of Schedule 2 to the Local Government (Scotland) Bill makes provision for special assistance to local authorities incurring extraordinary expenses. The expenses intended to be covered are those relating to infrastructure in connection with off-shore oil exploration and development. Since these expenses are likely to be part of the authorities' expenditure on a number of services and would therefore be difficult to determine in the manner required for purposes of a specific percentage grant, 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, the Bill provides for the assistance to be given by means of a special distribution of an earmarked portion of the rate support grants. For 1975-76, under paragraph 3 of Part I of Schedule 1 to the Act of 1966, provision has been included in the Order for such a special distribution of part of the aggregate amount of grants related to expenditure on oil-related infrastructure.

28. Under the same provision of the Act of 1966, the Order provides for the special distribution of part of the extra grant which results from increasing the grant percentage, as explained in paragraph 32 below.

29. By paragraph 5 of Part I of Schedule 1 to the Act of 1966 and regulations made thereunder, certain expenses met by local authorities on behalf of local authorities generally or in providing services which serve a wider area are "pooled", that is, they are shared amongst all authorities of the classes concerned through adjustments of the payments of rate support grants. The arrangements for pooling expenditure following local government reorganisation are being examined in co-operation with the local authority associations, and meantime the present arrangements will continue. It is intended that the payment of certain sums to outside bodies by a single local authority on behalf of all local authorities, the amounts being pooled, should be replaced by subsections (6) and (7) of the new section 2 of the 1966 Act which is proposed in Schedule 2 to the Local Government (Scotland) Bill, under which the Secretary of State may make such payments on behalf of local authorities in consultation with their associations and deduct the whole or part of the amount so paid from the amount available for rate support grants.

30. The part of the sum referred to in paragraph 22(a) remaining after deduction of the estimated amounts of specific grants is known as the needs element of rate support grant. The amount of the needs element for 1975-76, less the sums referred to in paragraphs 27 and 28 above, is to be distributed amongst all local authorities in accordance with a formula prescribed in the Order. The formula which applied in 1974-75 is not suited to the new local government structure and a new formula has been adopted after careful

examination, in conjunction with representatives of the local authority associations, of estimates of the expenditure likely to be incurred by the various new authorities. The formula is based on population as at 30th June 1974, weighted to take account of factors which affect the need to incur expenditure. The operation of these new distribution arrangements will be reviewed before the order relating to 1976-77 is made.

31. For the distribution to regional councils, population is weighted according to the proportions of populations aged under 16 and over 64, for decline of population, for sparsity and for density of population in the parts of regions which are at present counties or cities. In the case of district councils, the population figures are weighted only in respect of population decline. Islands councils, whose expenditure will relate to all local authority services, will receive the grant appropriate to a region and to a district with an additional special weighting related to additional costs in the islands areas.

32. The new formula is designed primarily to reduce necessary expenditure net of needs element to approximately the same amount per head of population in each region and islands area. This will give some regions a larger share of the total needs element than was received by the authorities in the region under the old formula; conversely the share of other regions will be less than formerly. The change is indicative of the difficulties of achieving a satisfactory distribution under the old local government structure. In the regions receiving increased grant the average increase of rate poundages in 1975-76 should in consequence be lower than the national average. However, larger than average rate increases will be required in the regions where the share of needs element is reduced, and in order to mitigate the effect on ratepayers in these regions the Secretary of State has, in accordance with the undertaking he gave a year ago, included within the increase of the grant rate from 68 to 75 per cent a transitional special augmentation equal to some half of 1 per cent, and the Order provides for the amount in question to be distributed among the councils of these regions.

APPENDIX A

RECKONABLE EXPENDITURE AT NOVEMBER 1974 PRICES

Service	Expenditure		Expenditure 16.5.75- 15.5.76	Expenditure 16.5.75- 31.3.76
	loan charges unallocated	Loan charges allocated		
	£m	£m	£m	£m
Education	389.86	66.16	456.02	399.95
Libraries and Museums	11.08	1.28	12.36	10.84
Social Work	76.03	4.47	80.50	70.60
Urban Programme	1.94	0.23	2.17	1.90
Police	64.81	3.66	68.47	60.05
School crossing patrols .	2.23	0.00	2.23	1.96
Fire	17.77	0.97	18.74	16.44
Registration of Electors	1.02	0.00	1.02	0.90
Civil Defence	0.24	0.00	0.24	0.21
Highways, Road Light- ing and Road Safety .	52.07	20.98	73.05	64.07
Transport	14.23	0.00	14.23	12.48
Cleansing	35.03	3.00	38.03	33.35
Sewers and Drains	9.89	24.11	34.00	29.82
Parks	19.72	3.13	22.85	20.04
Other Public Health	17.05	2.70	19.75	17.32
Planning	6.07	17.10	23.17	20.32
*Other Services	26.61	14.56	41.17	36.11
Total	745.65	162.35	908.00	796.36
Add loan charges	162.35			
	908.00			

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

APPENDIX B

RATE SUPPORT GRANTS, SCOTLAND 1975-76

	Period 16.5.75 to 15.5.76 £m	Period 16.5.75 to 31.3.76 £m
1. Reckonable expenditure taken into account (Appendix A)	908.00	796.36
2. Aggregate Amount of Grants at 75 per cent of (1)	681.00	597.27
3. Specific Grants (Appendix C)	48.02	42.12
4. Rate Support Grants ((2) minus (3))	632.98	555.15
5. Domestic Element	37.00	32.37
6. Resources Element	119.20	104.56
7. Needs Element	476.78	418.22
of which:—		
(a) extraordinary expenses portion	2.85	2.50
(b) transitional portion	6.00	5.26
(c) general portion	467.93	410.46

APPENDIX C
SPECIFIC GRANTS

	Period 16.5.75 to 15.5.76	Period 16.5.75 to 31.3.76
	£m	£m
Police	33.76	29.63
List D Schools	0.30	0.26
Urban Programme	1.62	1.42
Civil Defence	0.19	0.17
Urban Redevelopment	3.00	2.63
Housing Improvement	7.08	6.21
Clean Air	0.25	0.22
Sewerage	0.54	0.47
Port Health	0.05	0.04
Sheltered Workshops	0.34	0.30
Open Space, Countryside, War Works Removal	0.29	0.25
Town Development	0.55	0.48
Planning Consultations	0.05	0.04
Total	48.02	42.12

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