

Annex D

Changes to English Local Government Revenue Finance Systems

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

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

- 1984 Rate limitation (capping) introduced. During the 1980s, the method of grant allocation was adjusted to provide a disincentive to over-spending.
- 1986 The government published a Green Paper, *Paying for Local Government*, which considered ways of improving the system.
- 1989 Non-domestic rating revaluation. New rateable values came into effect from April 1990
- 1990 Domestic rates were abolished and community charge (poll tax) and nationally determined uniform non-domestic rate introduced. Revenue support grant replaced rate support grant. Aggregate external finance replaced aggregate exchequer grant (AEG). SSAs replaced GREAs. Ring-fenced housing revenue account introduced. Districts collected RSG for the area and passed a portion of this and of community charge to county councils.
- 1991 An additional £140 per charge payer was provided in central government support, thereby increasing the proportion of local government spending funded by central government.
- 1993 Council tax replaced the community charge as the local domestic tax. RSG and non domestic rate entitlements were paid into the General Fund of each billing and major precepting authority rather than into the Collection Fund of billing (formerly charging) authorities.
- 1994 Non-domestic rating revaluation. New rateable values came into effect from April 1995
- 1998 The White Paper *Modern Local Government - In Touch with the People* announced a 3 year review programme for Revenue Grant Distribution aimed at improving its fairness and equity.
- 1999 Pre-announced universal capping limits were discontinued to be replaced with reserve powers, which allowed local authorities budgets to be looked at over more than one year. Non-domestic rating revaluation. New rateable value came into effect from April 2000.
- 2000 'Modernising Local Government Finance: A Green Paper' consulted an option for reform of the revenue grant distribution system