

# Chapter 14

## Merging RSG and Redistributed Non-Domestic Rates into a single grant stream (Formula Grant)

### *The Current System*

231. Local authorities currently receive support from central government through two principal forms of unhypothecated general grant. These are redistributed national non-domestic rates (NNDR – some £16.6 billion in 2002/03) and Revenue Support Grant (RSG – about £19.9 billion in 2002/03). Each funding stream has its own basis of distribution with redistributed national non-domestic rates (NNDR) distributed as an amount per head. However, as NNDR is distributed to all authorities and more than one authority supplies services in an area the common national amount (£333 per person in 2002/03) has to be split between classes of authority. RSG is then paid so that, if all authorities were to spend at their formula amount, then all taxpayers in a given council tax band could face the same national level (£769 for a band D property in 2002/03).

232. Having two forms of general support with different bases of distribution makes the system difficult to explain to councillors, MPs, council tax payers, business ratepayers and most other stakeholders. The complexity involved in having two support streams, each of which has to be split between those authorities supplying services in an area, often leads to stakeholders concentrating on RSG and ignoring the broader support position. This can lead stakeholders to believe that there have been reductions in funding when all that has occurred is a shift in the relative importance of business rates and RSG.

### *The New System*

233. Central government support for local authority spending would be much simpler for stakeholders to understand with a single integrated funding stream. An authority's grant amount would then simply be the authority's share of centrally-supported spending less the amount which that authority could raise by setting the appropriate standard level of council tax for the services which it supplies.

234. The Government considers that the advantages of simplicity and transparency from having a single support stream justify combining RSG and NNDR support into a single Formula Grant from 2003/04 onwards.

235. Moving to a single basis of distribution will achieve the same result as having two grant streams, whilst having no effect on the total level of support and virtually no effect on the distribution of that support between authorities. The only authorities that would be able to detect any change are those few high resource shire districts with low levels of formula spending which might otherwise have had a negative RSG amount under present arrangements.

Such authorities – there were just 6 in 2002/03 – will be protected from any sudden change in support by the floor and ceiling damping arrangements.

236. Moving to a single grant stream would have no effect on the way in which non-domestic rate receipts and central government support payments are handled.

237. Nor would the proposed change have any impact on business ratepayers. Government would still calculate the Distributable Amount, with the Formula Grant being described in the annual report to parliament as ‘£z billion of Formula Grant, which includes the Distributable Amount of £y billion’. And government would continue to produce an annual account for the Comptroller and Auditor General showing how business rates contribute towards support for local authority spending.

238. Initially the single Formula Grant would be administered under existing legislation. So local authorities would still be told of their NNDR and RSG amounts. For the longer term the government would, subject to space in the Parliamentary timetable, look to amend the existing legislation to remove the requirements to notify individual authorities of separate RSG and NNDR amounts.

### ***Questions***

239. We would like your views on:

- i) **Do you consider that merging RSG and NNDR into a single grant stream would helpful in improve transparency and intelligibility?**