THE POLITICS OF RATE SUPPORT GRANT DISTRIBUTION*

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Local government finance and the rating system has been a persistent problem for the Conservative Government. The 1985 property re-valuation, which altered the balance of tax liability in favour of industrial ratepayers, generated a short-term political crisis which the Government temporarily solved by increasing government grant in the form of direct subsidies to all domestic ratepayers and those small business ratepayers particularly adversely affected, and by promising rating reform in the future.

The revaluation issue received much public and media attention, and it is not unfair to suggest that the reason "something was done" was because of the immediacy of the problem and its adverse implications for the Conservative heartland. Yet another reform, which has equally redistributive implications, the change in the method of distributing rate support grant, received little public attention. In part, this is because the detailed working papers are considered in private by the Distribution Committee of the Working Party on Local Government Finance. Moreover, unlike the immediacy of revaluation the Government and COSLA are in agreement that authorities' 'grant loss' should be moderated in any one year. The political repercussions, therefore, tend to be much less dramatic on a yearly basis, but the financial repercussions can be considerable over a period of years.

The new method, known as the Client Group Approach, is regarded by the Scottish Office as being "technically sounder" than the old demographic approach. Under the previous method, distribution of grant was based on a simple formula dependent mainly on the total population of each authority (about 80% of needs assessment), with weightings for numbers of children, and the elderly, and adjustments for specific factors such as sparsity, density, and acute population decline. The demographic approach cannot be regarded as a serious attempt at needs measurement, had a heavy emphasis on judgment, and no causal model of need was provided to link the factors used with expenditure. As David Heald has observed, the Scottish Needs Element's lack of precision allowed political factors to determine the distribution of resources.

> "It is not too unkind to describe the Scottish Needs Element as a case of the needs formula .. being chosen to 'produce' the desired answer."[(1)]

The simple demographic approach had little to commend it as an attempt at needs measurement. Its virtues were simplicity and stability of grant distribution. The Client Group Approach was first introduced for current expenditure guidelines in 1982-3, and has been described as a simple and defensible way of estimating expenditure need. It has certain key features.[(2)] It allocates a predetermined level of expenditure provision among local authorities; it does not in itself determine the level of provision in absolute terms. The objective of the approach is to estimate what authorities with similar relevant characteristics would need to spend in order to provide a similar standard of service with a similar degree of efficiency.

There are two stages in the calculation. First, a primary indicator is defined for each component of a service, and the predetermined total of expenditure is then distributed among authorities according to the number of clients for that service in that authority. The primary indicator is seen as being the main determinant of demand and having the strongest influence on expenditure.

Secondly, analysis of past expenditure is carried out to identify any characteristics outside the control of authorities which have a systematic effect on expenditure. Secondary indicators, therefore, represent factors which cause local variations in unit costs of provision and/or demand for the service. The technique used is linear multiple regression analysis and expenditure need is redistributed via the incidence of the variable as a secondary effect.

We do not intend to produce a critique of the Client Group method in this paper, but we have done so elsewhere.[(3)] Our view is that, theoretically, major problems exist in the approach due to the lack of clarity, definition and purpose, and uncertainty of measurement. From the emphasis on average service provision in the principles outlined, we would argue that such a system would inevitably lead to increased needs assessment and grant income for past low spenders, and decreases for high spenders.

When the method was first used for current expenditure guidelines,

central-local relationships had reached a new low. The Convention of Scottish Local Authorities (COSLA) had adopted a position of outright opposition to the use of guidelines in any fashion, and therefore was unwilling to see them becoming more soundly based.

The credibility of the guideline system was on the wane with local government. Whilst these were purely indicative, this was unimportant. By 1982-3, the guidelines were being used to identify "high spenders" under the Government's new powers of control. The needs of expenditure control, however, require guidelines to be regarded as "achievable" if authorities are to make any effort to meet them.[(4)] If the Client Group Approach had been introduced in its own right, this could have resulted in considerable variation from the previous year in several cases. Thus the Government had insisted that where the assessment demonstrated a higher need to spend, the local authority was *not* to receive a guideline which encouraged it to increase its spending.

As a result, three policy adjustments were added to the Client Group assessments, for multiple deprivation, the discouragement of increased expenditure, and for damping. The effect of this was to align guidelines in general with authorities' own relative expenditure patterns.

Officially, COSLA regarded the new method as no better than its predecessors, and the policy adjustments were described as tampering with the figures for irrelevant reasons such as past expenditure levels or the achievement of stability. Given the known intention to introduce the method for grant distribution, this was a somewhat short-sighted attack on the guidelines.

At this stage micro-politics began to play a key role. Highland Region stood to lose considerably if the new approach was used for grant distribution, and the council lobbied hard to have its guideline increased.[(5)] The credibility of the guidelines was further eroded when the Scottish Office stated that the method could not take proper account of the needs of Highland Region (because of extreme sparsity) and an ad hoc adjustment was made to restore Highland Region to its relative position of 1981-2.

COSLA's lobbying for the removal of the policy adjustments also occurred in 1983-4, and this revealed for the first time the precarious position of Strathclyde Region. Whilst the Council's finance officials had been lukewarm supporters of the Client Group Approach in the deliberative stages, the potential loss of grant income in future hardened its political attitude. Through COSLA, reviews were sought of the impact of sparsity and multiple deprivation on expenditure, and the problem of unmet need.

In 1984-5, the Secretary of State consulted with COSLA as to whether the approach should now be used for grant distribution purposes. Strathclyde Region's political strength in the COSLA Labour Group ensured that COSLA would oppose this, asking for a further year of review and refinement. At this stage, however, it had become clear that a majority of regions would gain from the changeover. We learned of one regional chief executive actively lobbying for the change, including writing to a national newspaper inviting their local government correspondent to seek the views of individual authorities on the matter. When this was done, the divisions in COSLA became public, and the unified case against introduction as presented by the Convention was considerably weakened.

As a result, the Client Group Approach was used as the basis of grant distribution in 1984-5, but with limitations on grant losses at £6.45 per head of population at regional level and £2.58 at district level. Authorities who stood to gain from the Client Group Approach received their 1983-4 grant increased by the residual amount of needs grant available (£1 per head of population for regional councils and 9p for district councils.). This decision has led to continuing disagreement within COSLA, authorities standing to gain resources pressing for immediate implementation, and those likely to lose resources arguing the need for long-term dampening effects and refinement of the formula.

Indeed authorities who gained resources argued their rates were higher than they "should be" because of the phased implementation and vice versa!

Inevitably, local authority attitudes toward the Approach *per se* are coloured by the resource implications for themselves. To examine this, we sent a questionnaire to all 65 directors of finance, and achieved a response rate of 65%.

Two features of the results surprised us. Firstly, only 38% of authorities actually produced a written report for their councils explaining the method and its resource implications, although in several cases this was communicated orally. Secondly, only 24% of authorities had made representations to the Scottish Office about particular service treatments. This would tend to suggest a high degree of acceptability with the method. In our view, however, it also reflects the difficulty officers face who are *not* privy to the deliberations of the Working Party on Local Government

Finance, for in the training seminars we have given on the subject around the country, it has been clear that some directors of finance are unsure about the mechanisms of the approach.

This view is reinforced by more detailed analysis of local authority responses. Where reports were prepared for councils in the majority of cases this amounted to little more than reiteration of the circulated Scottish Office account of the method, and gave little indication of a critical grasp of its essential elements. The responses to our questions on finance directors' views of the method were characterised by two qualities in the majority of cases: imprecision and fatalism.

The imprecision arose from the use of terms such as 'fairer', 'better' or 'technically sounder' than the previous method, without any specification of what those terms meant or what kind of analytical considerations informed such judgments. Equally, those who had complaints about the method in general, or about particular treatments seemed often to be confused about the relative rather than absolute assessment of need produced by the method. The fatalism was expressed in statements about 'the impossibility of an objective assessment of needs' and the Client Group Approach 'being as good as we are going to get'. This pessimism reflects past experience, but it was often advanced on the basis of lack of clarity about the method and its purpose.

This strengthens our argument that councils' attitudes were determined more by financial considerations than considerations of methodology and techniques. In fact, councils divided *exactly* on support for the introduction of the method. Councils can 'gain' in two ways. Firstly, they can receive an increase in their needs assessment, which permits higher expenditure for guideline purposes. Secondly, councils can gain in increased grant, which allows lower rates poundages. What we discovered from our survey was of those councils supporting the introduction of the Client Group Approach, the majority were potential "winners".

TABLE 1

IMPACT OF CHANGE OF METHOD ON AUTHORITIES IN FAVOUR OF THE INTRODUCTION OF THE CLIENT GROUP APPROACH

	Need	Resources	Both
% Gaining	65%	70%	55%
% Losing	20%	25%	15%
No Change	15%	5%	30%

In short, 85% of those supporting the introduction of the Client Group Approach stood to gain or the method had no impact on them.

For those in opposition to the introduction, the survey revealed quite clearly that *loss of resources* was significantly related to opposition to the introduction of the method.

TABLE 2

IMPACT OF CHANGE OF METHOD ON AUTHORITIES OPPOSED TO THE INTRODUCTION OF THE CLIENT GROUP APPROACH

	Need	Resources	Both
% Gaining	90%	30%	30%
% Losing	10%	65%	5%
No Change	–	5%	60%

This may seem a strange contrast to the previous table, but in fact it is consistent with the political position adopted by COSLA. Eleven Strathclyde districts who stood to gain in terms of their assessed need, but whose ratepayers would lose as Strathclyde Region ratepayers, opposed the introduction of the approach. Why was it that the most rural, and the most urban regions stood to lose most from the changeover? In part, the answer lies in the nature of the Client Group Approach, with its emphasis on average spending and services. Authorities with unusual characteristics are unlikely to have their needs fully compensated for under the regression method, or through assessments based on broad population groups only. This can be examined further by comparing the treatments of sparsity and urban decline under the demographic and Client Group method. Under the demographic method, the judgmental weightings concentrated resources in authorities which were heavily urban or rural. Table 3 shows that Highland Region and the three Islands councils benefitted most from these adjustments for sparsity, and Strathclyde, and to a lesser extent Lothian, from the urban weightings.

At district level, resources were also concentrated on the extremely rural councils, and only *six* councils received weightings, Badenoch and Strathspey, Lochaber, Ross and Cromarty, Skye and Lochalsh, Sutherland and Argyll and Bute. For the urban factor, only *four* councils received weightings for population decline, Clydebank, Cumnock and Doon Valley, Glasgow and Inverclyde, and only *five* councils for density, Aberdeen, Edinburgh, Bearsden, Clydebank and Glasgow.

TABLE 3

WEIGHTINGS FOR POPULATION DECLINE, SPARSITY AND DENSITY UNDER THE DEMOGRAPHIC METHOD OF GRANT DISTRIBUTION 1983-4 (£ per capita)

Authority	Decline	Sparsity	Density
Borders	–	9.10	–
Central	–	–	15.07
Dumfries and Galloway	–	10.28	–
Fife	–	–	12.30
Grampian	–	2.47	12.34
Highland	–	93.22	–
Lothian	–	–	25.43
Strathclyde	22.00	2.28	47.98
Tayside	–	–	13.33
Orkney	–	27.98	–
Shetland	–	30.43	–
Wester Isles	–	82.85	–
Scotland	**10.22**	**6.04**	**29.77**

Thus although a *greater proportion* of needs assessment is based on sparsity factors under the present approach, these resources are spread more widely, and 'average' authorities (such as Fife and Central Regions) gain resources via the Client Group method.

This had dramatic results for Highland, Strathclyde and Lothian Regions, for whereas the demographic weightings gave additional resources to some, the client group weightings also *took resources away* from others.

These results in 1984-5, however, reflect the relatively successful outcome of the review of sparsity and the less successful results in the review of multiple deprivation. By 1984-5, when the method finally formed the basis of grant distribution, various measures of sparsity effects had been introduced. In fact, seven regional and three district service treatments had adjustments for sparsity factors. By contrast, only three regional and two district service treatments had adjustments for population density and deprivation. Although Strathclyde gained some modest additional resources from the deprivation adjustments, it lost more through the sparsity adjustments.

TABLE 4

REGIONAL WEIGHTINGS FOR SPARSITY, DENSITY AND URBAN DECLINE AS A PROPORTION OF NEEDS ASSESSMENTS UNDER THE DEMOGRAPHIC AND CLIENT GROUP APPROACHES

	1983-4	1984-5
Borders	+ 3.4%	+ 3.58%
Central	+ 5.8%	− 1.5%
Dumfries	+ 4.2%	+ 4.0%
Fife	+ 5.0%	+ 0.1%
Grampian	+ 6.0%	+ 0.1%
Highland	+26.4%	+ 4.8%
Lothian	+ 9.7%	− 1.3%
Strathclyde	+23.0%	− 0.4%
Tayside	+ 5.3%	− 1.2%
Orkney	+ 6.0%	+ 8.2%
Shetland	+ 7.1%	+ 7.3%
Western Isles	+15.0%	+ 8.3%

TABLE 5

PROPORTION OF NEEDS ASSESSMENT BASED ON WEIGHTINGS FOR SPARSITY, DENSITY, AND URBAN DECLINE UNDER THE DEMOGRAPHIC AND CLIENT GROUP APPROACHES

Factor	1983-4 (Demographic)	1984-5 (Client Group)
Sparsity	2.1%	6.4%
Density	10.3%	4.2%
Decline/Deprivation	3.5%	7.9%

These sparsity adjustments were particularly important for Highland Region and for the rural districts. Not only did they restore Highland to its 1981-2 position in terms of assessed need, it actually increased their relative position. The three islands councils have also gained considerably, as have most of the rural districts, some having quite dramatic increases from the adjustments, with Sutherland District topping the bill with an 80.8% increase in three years, compared to the Scottish average of 14.2%.

These changes are recorded for regional councils, along with the rural settlement pattern measure (proportion of populations living in settlements of less than 10,000) in Table 6 below.

TABLE 6

PERCENTAGE CHANGE IN GUIDELINES AND NEEDS ASSESSMENTS FOR REGIONAL AND ISLAND COUNCILS BETWEEN 1982-3 AND 1985-6

Authority	(Settlement Pattern)	Guidelines	Needs Assessment
Borders	(70.8)	+16.9	+21.1
Central	(26.8)	+20.4	+15.8
Dumfries	(70.3)	+18.1	+20.7
Fife	(46.7)	+14.0	+21.3
Grampian	(49.3)	+17.2	+17.7
Highland	(73.8)	+26.4	+26.4
Lothian	(22.4)	+15.6	+10.3
Strathclyde	(17.1)	+13.9	+11.6
Tayside	(31.3)	+17.6	+17.6
Orkney	(100.0)	+24.1	+27.5
Shetland	(100.0)	+70.0	+56.0
Western Isles	(100.0)	+28.0	+33.5
Scotland	(30.6)	+17.4	+14.2

The pattern in this Table is quite clear. The island and regional rural councils gained considerably from the changes in the Client Group treatments since 1982-83, with Strathclyde and Lothian Regions (the two largest) the main losers. This is inevitable given the size and characteristics of Strathclyde. If Strathclyde benefits from a change, almost everyone else will lose. (This state of affairs must be less than useful to Strathclyde in the deliberations of the Distribution Committee). Some considerable increases also occurred to rural districts from the changes, and these are recorded in Table 7.

The final factor we have to take account of is the impact of withdrawing the specific allowance for oil-related expenditure. This was withdrawn on the theoretical assumption that the Client Group Approach would systematically and comprehensively take account of need. In fact, with the limits of the regression analysis, even if tests were carried out it is doubtful

TABLE 7

PERCENTAGE CHANGE IN GUIDELINES AND NEEDS ASSESSMENT FOR RURAL DISTRICTS BETWEEN 1982-83 AND 1985-86

Authority	(Settlement Pattern)	Guidelines	Needs
Berwick	52.7	26.1	9.8
Ettrick	24.2	39.2	12.8
Roxburgh	25.4	33.8	11.1
Tweedale	35.6	21.9	18.5
Annandale	35.3	35.1	9.1
Nithsdale	24.1	23.2	10.4
Stewartry	51.6	27.7	26.1
Wigtown	49.3	40.7	26.6
Badenoch	52.5	36.5	53.5
Caithness	38.4	17.1	29.5
Inverness	21.6	26.1	11.9
Lochaber	37.8	20.6	31.6
Nairn	23.6	22.3	9.6
Ross and Cromarty	42.6	40.0	45.6
Skye and Lochalsh	85.6	54.4	59.7
Sutherland	76.2	42.0	80.8
All Districts	11.2	17.4	14.2

if these would reveal anything given the *small* number of councils affected. The only way to ensure allowance is made for such factors would be via a specific allowance. The scheme of special financial assistance to local authorities incurring extraordinary expenses in connection with offshore petroleum developments was introduced in 1975-6 in recognition of the fact that the existing Rate Support Grant system did not adequately cater for the heavy expenditure which certain local authorities had to meet to provide the oil infrastructure.

In rating terms, the grant was really significant for only two authorities, Grampian and Highland Regions. The Government argued, however, that it had become progressively more difficult to judge the need for the continuation of the grant. They argued, moreover, that the Client Group Approach allowed a 'much more precise' measurement of

expenditure needs on individual services, and thus removed the need for special arrangements. Whatever the accuracy of this observation, the financial implications of it were considerable, for Grampian Region, the equivalent of a 5.5p rate, and of 11p for Highland Region. When it was withdrawn for 1984-5, the result overall changed Grampian's position from being a net gainer of resources to a marginal one, and the benefits of the additional resources gained by Highland for sparsity factors were eliminated, with the authority also being a net 'loser' in terms of grant income. We are not in a position ourselves to make any realistic assessment of the arguments made for the withdrawal of grant, but we remain sceptical of the ability of the Client Group Approach to take account of such factors when they only affect a few authorities.

CONCLUSION

The distribution of rate support grant remains a highly political game. Understanding of the critical elements of the Client Group Approach is relatively weak in local government, and therefore those who chose to support its use for grant distribution were informed more by considerations of financial gain than the provision of a robust, analytical methodology. Our view is that in the long run some of those authorities may regret it, for as we have shown elsewhere, many of the existing treatments are highly suspect and capable of refinement and improvement. Indeed, there have been regular changes in service treatments for the past two years.

Our research also reveals an increased awareness and concern for the Client Group methodology in several authorities. Representations to the Scottish Office with complaints about specific treatments is becoming more common.

We feel, however, that if the whole process whereby treatments are generated were made more open prior to the application of particular treatments in grant distribution, this would improve the situation. At the present moment authorities can only suggest a refinement, criticism or alternatives to treatments *after* they have been accepted by the Distribution Committee. This can only serve to further politicise the arguments, as authorities are inevitably forced into a critical stance on treatments that significantly affect their ratepayers.

Finally, we feel that COSLA ought to have its own equivalent of the Scottish Office's Central Research Unit, to provide for balance on the local authority's side. At the moment, the local authority representation is composed of directors of finance and chief executives nominated by their respective professional associations, and two technical advisers, both qualified planners. These are all, however, employees of particular local authorities, and their contributions to discussion invariably reflect the local implications of the proposals for change.

In the zero-sum game of grant distribution, the interests of the involved parties will often conflict. Our view is that efforts to provide a set of systematically developed and objectively defended treatments is the only possible way to confer legitimacy on the resulting grant distribution and a central analytical capacity within COSLA would provide a further check on the inevitable partisanship of the current form of local consultation and representation.

Moreover, there should be far greater discussion with the relevant authorities during the development and refinement of treatments *in advance* of submission of proposed treatments to the Committee.

Where resources are fixedly and increasingly limited, political behaviour in decision-making is inevitable. It is in the wider public interest, however, that it should be contained, and the possibilities for more detached comment and more widespread observation be pursued.

*This paper is drawn heavily from a research report prepared for the Chartered Association of Certified Accountants.

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