

ANGUS COUNCIL

Finance and Information Technology Committee - 28 January 2003

2003/04 GENERAL FUND REVENUE BUDGET - IMPLICATIONS OF GOVERNMENT GRANT ANNOUNCEMENT AND BUDGET PREPARATION PROGRESS UPDATE

Report By The Director of Finance

ABSTRACT

The purpose of this report is to provide Members with more detail on the anticipated implications for Angus Council arising from the Scottish Executive's Spending Review 2002 announcements.

The Committee is asked to note that :-

- a) The Angus Council AEF allocation for 2003/04 has been set at £147.043 million;
- b) The anticipated budget implications arising from a substantial proportion of the AEF increase consisting of resources over which the Council has little or no discretion regarding the use of;
- c) The Council's **draft** revenue budget is being finalised for Members consideration taking account of the impact of this lack of discretion in the use of resources;
- d) A report will be submitted to Committee for approval recommending a programme of Quality of Life initiatives to be presented to the Scottish Executive for approval.

1. INTRODUCTION

Report 1479/02 advised Members of the implications for Angus Council arising from the Spending Review 2002 as contained in Finance Circular 10/2002. It was noted, however, that additional detail concerning the Spending Review 2002 was still to be provided by the Scottish Executive and that a further report would be submitted to Committee when this was received.

2. AGGREGATE EXTERNAL FINANCEHypothecation and New Burdens

The Angus Council Aggregate External Finance (AEF) allocation for 2003/04 has been set at £147.043 million, an increase of £11.877 million (8.8%) on the 2002/03 allocation. However, within this increase are allowances by the Scottish Executive for :

- hypothecated (ring-fenced) sums in respect of specific government initiatives e.g. national travel concession scheme;
- new burdens which the Council will have to accommodate within its revenue budget e.g. care home fee increases, 1% increase in National Insurance;
- Quality of Life resources to fund initiatives which will require the approval of the Scottish Executive.

[Appendix A](#) provides a departmental analysis of the new burdens etc. which are supported by the £11.877 million AEF increase. Appendix A also categorises the new burdens etc. into :

- resources over which the Council has little or no discretion regarding the use of i.e. these resource are provided in support of particular Scottish Executive initiatives, will be the subject of Local Outcome Agreements with the Executive or are new burdens which will result in the Council incurring additional largely unavoidable expenditure;
- Quality of Life resources which will fund initiatives requiring the prior approval of the Scottish Executive;

- resources over which the Council has full discretion regarding the use of.

This information is summarised in the table below.

	<u>Aggregate External Finance (AEF)</u>		
	<u>2003/04</u>		
	<u>£ million</u>	<u>Increase £ million</u>	
Headline Figures	147.043	11.877	8.8%
<u>Less</u>			
Resources over which the Council has little or no discretion	(8.460)		
Quality of Life	(1.067)		
Adjusted Headline Figures	<u>137.516</u>	2.350	1.7%
2002/03 AEF	135.166		

It may be noted from the table above that of the total AEF increase of £11.877 million, only £2.350 million (which is equivalent to only 20% of the total grant increase) is available for use fully at the discretion of the Council. This sum is all that is available to finance the allowable growth within departmental base budgets such as pay inflation and increments, inflationary pressures and unavoidable new burdens not funded by the Executive. These cost pressures will undoubtedly exceed the £2.350 million available thus making budget cuts and an increase in the Council Tax inevitable in order to bridge the funding gap. However, the Quality of Life resources, although not fully at the Council's discretion, will provide a further source of funding for some budget issues and is to be welcomed.

In a wider budget context it should be borne in mind that the AEF figures referred to above include specific grant for some services, the most significant of which is Police specific grant which covers 51% of eligible expenditure. Accordingly, any budget cuts in services which are covered by specific grant would result in Angus receiving a lower AEF total than that identified by the Scottish Executive.

Floor Adjustment

With the introduction of a three year settlement in the Spending Review 2000 a single overall grant stability arrangement was put in place which guaranteed every Council a minimum level of increase in its grant allocation from the Executive. This "floor adjustment" has continued for the Spending Review 2002.

The floor adjustment is self-funded so that grant is redistributed between Councils to ensure all Councils receive the minimum level of grant increase determined by the Scottish Executive. This means that in effect some Councils contribute grant to other Councils through the stability calculations, albeit indirectly.

In 2003/04 Angus, along with 24 other Councils, contributes some of its grant to the overall stability scheme. Only 7 Councils receive grant from the scheme, the most significant in value terms being Glasgow City and the Western Isles. Whilst this scheme may seem detrimental to Angus it should be regarded as an essential ingredient of achieving a three year settlement. Without this stability arrangement a number of Councils would have lost out significantly which in turn would have undermined the basic credibility of the local government finance system. It is emphasised also that each Councils contribution to the stability scheme is calculated pro-rata to its AEF so that the burden is shared equally. Angus Council is therefore contributing no more or less in relative terms than any other of the contributing Councils.

A summary of the financial impact in 2003/04 for Angus Council of the stability arrangements is shown below :-

	2003/04 £ million
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Total Value of Contributions To & Allocations Made By The Stability Scheme	8.889
Angus Council Contribution to The Stability Scheme	0.271 (3.0%)
Percentage Impact of Stability Scheme on Angus Council's AEF	0.2%

3. IMPLICATIONS OF ANNOUNCEMENTS FOR ANGUS COUNCIL

Revenue Budget 2003/04

It was noted in Report 1479/02 that the adjustments required to the 2003/04 revenue budget in light of the Spending Review 2002, were considered to have a generally neutral impact. Only the additional grant in respect of Quality of Life was considered to offer the prospect of room for manoeuvre to the Council.

Departmental budgets for 2003/04 have now been adjusted to reflect the implications of Finance Circular 10/2002. As envisaged in Report 1479/02, the impact of the Spending Review 2002 has been generally cost neutral with the additional resources made available being matched by expenditure commitments.

The Council had previously addressed the issue noted above of having insufficient resources at its discretion through the identification of budget cuts of £1.750 million and an indicative Council Tax increase of £76 for 2003/04. In light of the lack of flexibility provided through the Spending Review 2002, it will be necessary to implement this level of budget cut. Although many key decisions with regard to the 2003/04 revenue budget will not be made until the budget setting day (13 February 2003), it seems likely at this stage that an increase in Council Tax will also be required to balance the budget.

Quality of Life

Angus Council has been awarded resources in respect of "Quality of Life" through the Spending Review 2002 for 2003/04 – 2005/06 as follows :-

Quality of Life	£ million
2003/04	1.067
2004/05	1.274
2005/06	1.484
Total	<u>3.825</u>

The Scottish Executive have asked local authorities to provide a submission, for their approval, of proposed initiatives for 2003/04 and indicative ones for 2004/05 and 2005/06 by 20 February 2003. Initiatives are required to adhere to a number of policy themes under the broad headings of :-

- Improving the local environment;
- Increasing opportunities for children and young people.

In order to provide a response in accordance with the Scottish Executive's deadline, a consultation process is currently ongoing involving Members and Chief Officers with a finalised submission to be brought to Committee for consideration. It is intended that this will be done as part of the budget setting process.

4. 2003/04 REVENUE BUDGET PREPARATION UPDATE

Report 1479/02 provided an update on the revenue budget process to the stage of the Budget Strategy Group meeting on 12 December 2002.

Budget Strategy Group 7 January 2003

The Budget Strategy Group met on 7 January 2003 to consider issues raised at the BRG meetings and finalising the Council's strategy for the 2003/04 revenue budget. The outcomes from this process will be forthcoming as part of the budget setting process.

Member / Officer Meetings

Meetings took place on the 14 and 16 January 2003 with Budget Strategy Group members and departmental Convenors, Vice Convenors and Chief Officers to finalise departmental revenue budgets for 2003/04 prior to the setting of the Council Tax.

Cycle of Special Service Committee Meetings & Council Tax Setting Meeting

The Uniform Council Tax setting day is 13 February 2003 and a series of special service Committee meetings will take place on this day culminating in the special meeting of the Council to set the Council Tax. Members are advised that the Council will require to set a final 2003/04 Council Tax on that date as well as indicative Council Tax increases for 2004/05 and 2005/06.

2004/05 and 2005/06 Revenue Budgets

Budget projections are currently being prepared by the Finance Department and it is currently intended that these will be issued along with the papers regarding the 2003/04 revenue budget for the Council Tax setting meeting on 13 February 2003.

5. HUMAN RIGHTS

There are no human rights implications arising directly from this report.

6. CONSULTATION

The Chief Executive and Director of Law & Administration have been consulted on the terms of this report.

7. CONCLUSION

Detail of the Spending Review 2002 has now been received from the Scottish Executive. The amendment of the 2003/04 revenue budget to reflect the increased resources contained therein and the impact on departmental budget has, as anticipated, had an overall neutral impact on the Council.

DAVID S SAWERS
Director of Finance

Background Papers :- The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, were used in the preparation of this report :-

Finance Circular 10/2002 issued on 4 December 2002 by the Scottish Executive.