

ANGUS COUNCIL

Finance and Information Technology Committee - 29 January 2002
Policy and Resources Committee – 5 February 2002

Report 151/02

2002/03 GENERAL FUND REVENUE AND CAPITAL BUDGETS - IMPLICATIONS OF GOVERNMENT GRANT ANNOUNCEMENT AND BUDGET PREPARATION PROGRESS UPDATE

Report By The Director of Finance

ABSTRACT

The purpose of this report is to advise Members of the detailed implications for Angus Council arising from the 2002/03 local government Finance Settlement. The report also provides an update on the progress being made in preparing the 2002/03 revenue and capital budgets.

The Committee is asked to :-

- a) Note the contents of this report;
- b) Note that the Angus Council AEF allocation for 2002/03 has been set at £130.468 million;
- c) Note the 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;
- d) Note that the Angus Council Section 94 Consent allocation has been confirmed at £6.304 million and thus necessitates no amendment to the draft 2001/2005 Financial Plan and 2002/03 capital budget;
- e) Note that Special Service Committees to consider individual departmental revenue and capital budgets and departmental cuts proposals for 2002/03 are due to be held on 14 February 2002.

1. INTRODUCTION

Reports previously submitted to Committee with regard to the 2002/03 revenue and capital budgets were :

- Report 766/01 to the Policy and Resources Committee of 19 June 2001 which outlined the approach to the preparation of the 2002/03 revenue budget;
- Report 767/01 to the Policy and Resources Committee of 19 June 2001 which outlined the approach to the preparation of the 2001/2005 Financial Plan and 2002/03 capital budget;
- Report 1380/01 to the Finance and Information Technology Committee of 27 November 2001 and Policy and Resources Committee of 4 December 2001 which outlined the arrangements required to set the 2002/03 Council Tax on 14 February 2002 and provided an update on the preparation of the 2002/03 revenue and capital budgets.

Report 1380/01 noted that the Scottish Executive intended to provide local authorities with confirmed and updated financial settlement information for 2002/03 in December 2001. Finance Circular 8/2001 was issued by the Executive on 6 December 2001 providing this information. This information was subsequently subject to a number of relatively minor amendments by the Executive on 17 December 2001.

This report sets out the main points to note from the information contained in Scottish Executive Finance Circular 8/2001 and outlines the implications for Angus Council. This report also provides a 2002/03 revenue and capital budget preparation update.

SCOTTISH EXECUTIVE ANNOUNCEMENTS – REVENUE EXPENDITURE

2. AGGREGATE EXTERNAL FINANCE

Hypothecation and New Burdens

The Angus Council Aggregate External Finance (AEF) allocation for 2002/03 has been set at £130.468 million, an increase of £12.365 million (10.5%) on the 2001/02 allocation. However, within this increase are allowances by the Scottish Executive for :

- the mainstreaming of resources which were previously provided through specific government grant;
- hypothecated (ring-fenced) sums in respect of specific government initiatives;
- new burdens which the Council will have to accommodate within its revenue budget e.g. the financial implications of the McCrone recommendations, transfers from the Department of Work and Pensions and resource increases for other national and local priority service such as Police and Fire.

Appendix A provides a departmental analysis of the new burdens etc. which are supported by the £12.365 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, are new burdens which will result in the Council incurring additional expenditure or are merely the mainstreaming of funding previously provided through specific grant;
- 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>2002/03</u>	<u>Increase</u>
	<u>£m</u>	<u>£m</u>	
Headline Figures	130.468	12.365	10.5%
<u>Less</u>			
Resources over which the Council has little or no discretion	<u>(10.283)</u>		
Adjusted Headline Figures	<u>120.185</u>	2.082	1.8%
2001/02 AEF	118.103		

It may be noted from the table above that of the total AEF increase of £12.365 million only £2.082 million (which is equivalent to only 16.8% of the total sum) 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 £2.082 million available thus making budget cuts and an increase in the Council Tax inevitable in order to bridge the funding gap.

The AEF total of £130.468 million includes £10.532 million to cover loan charges and £1.341 million in respect of other expenditure which is not covered under GAE.

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.

Pay and Price Inflation

The Scottish Executive's Finance Settlement is understood to include allowances for pay inflation of 2% and price inflation of 1.25%. However, it may be noted that these allowances are below prevailing rates of pay and price inflation (circa 3% and 2% respectively) and that this funding gap will require to be bridged from the revenue budget resources available to the Council.

McCrone Committee Recommendations

The Scottish Executive's Finance Settlement for 2002/03 includes a further increase in the funding provision to meet the additional costs of the ongoing implementation of the recommendations of the

McCrone Committee on teacher's pay and conditions. It should be noted, however, that the Executive's claim to be providing full funding is based on their estimated costs and some of these have been challenged by CoSLA. Whilst the Executive's cost estimates for McCrone may be reasonable it is local authorities who will carry the budget risk if costs turn out to be greater than the funding provided and such a scenario would create a budget problem for the Council as a whole and the Education department in particular.

Department of Work and Pension Transfers

The Scottish Executive's Finance Settlement for 2002/03 includes provision for the transfer of funding from the Department of Work and Pensions for People with Preserved Rights to residential and nursing home care and for new Residential Allowance cases. A similar issue exists with these funding transfers as with McCrone above in that there are concerns that costs incurred locally may exceed national assumptions of funding requirements for each local authority. Again this may be a budget problem for the Council as a whole and the Social Work department in particular.

Free Personal and Nursing Care for Older People

The Scottish Executive's Finance Settlement includes provision nationally for the full funding, based on their costing, for the introduction of this initiative in 2002/03. However, local authorities have not yet been notified of the amounts to be distributed at a local level. The Council has progressed its 2002/03 revenue budget on the assumption that this initiative will have a neutral impact. However, it should be noted that whilst the Executive may claim to be providing full funding in respect of this initiative nationally it is possible that at a local level Council's may find that the costs they are to incur exceed the Executive's allocations. Any shortfall between what the Executive has provided and the actual costs locally in Angus could present a budget problem for the Council as a whole and the Social Work department in particular.

The Council will require to maintain a watching brief with regard to the implementation of these three major initiatives and further reports will be brought forward to appropriate Committees to outline the implications for the departments affected if and when required.

3. IMPLICATIONS OF ANNOUNCEMENTS FOR ANGUS COUNCIL

Budget Cuts

It was noted above that the increase in government grant support (AEF) provided by the Scottish Executive is significantly curtailed when account is taken of the mainstreaming of specific grants, hypothecation and new burdens. This adjusted AEF increase of £2.082 million is insufficient to meet those budget pressures identified for 2002/03. It has been necessary, therefore, to undertake a revenue budget cuts exercise in order to provide the Council with options for consideration to permit a balanced budget to be set. Departmental cuts proposals have been sought from service Directors for consideration at the Special Service Committee on 14 February 2002.

Under-funding of Estimated Service Expenditure Increase

The Scottish Executive makes an assessment of the amount which each Council requires to spend on delivering its services termed Estimated Service Expenditure (ESE). The Council's ESE increase for 2002/03 has not been fully funded by the Scottish Executive through additional grant support (AEF). Thus, outwith any consideration of the possible under-funding of new burdens, the Finance Settlement includes an inherent requirement for the Council to increase its Council Tax if it is to fulfil the ESE spending requirements contained therein.

4. 2002/03 REVENUE BUDGET PREPARATION UPDATE

Report 1380/01 provided an update on the revenue budget process to the stage of the Budget Review Group (BRG) meetings in December.

Subsequent to Report 1380/01 the Budget Strategy Group met on 7 January 2002 to consider issues raised at the BRG meetings, finalise the Council's strategy for the 2002/03 revenue budget and give initial consideration to the Council's strategy for the 2003/04 revenue budget. Departmental base budgets and

cuts proposals are intended to be submitted to the Special Service Committees due to take place on 14 February 2002 for consideration and determination.

The Local Government Finance Act 1992 requires that the Council Tax Band D level be set on or before the 10th of March of the year preceding the financial year to which it will apply. It was noted in Report 1380/01 that a COSLA "Uniform Budget Day" of 14 February 2002 has been established. The Council's budget timetable has been drawn up in accordance with this date.

SCOTTISH EXECUTIVE ANNOUNCEMENTS – CAPITAL EXPENDITURE

5. SECTION 94 CONSENT

The Council's Section 94 Consent for 2002/03 of £6.304 million is unchanged from that sum previously intimated by the Scottish Executive. This figure was utilised in preparing the Council's draft 2001/2005 Financial Plan and thus necessitates no revision of the draft 2002/03 capital budget.

The Council was recently notified that it has been awarded additional Section 94 Consent in 2001/02 of £2.8 million for the Montrose Bridge Replacement project. As this project is not anticipated to commence until the 2003/04 financial year, the Council may have problems in carrying this sum forward to future years in accordance with the Scottish Executives rules. The Council is, therefore, seeking alternative arrangements to permit this Section 94 Consent to be carried forward to permit it being utilised when expenditure will be incurred. It should be noted that even with this additional Section 94 Consent, if more support is not forthcoming from the Scottish Executive there will still remain a funding issue for the Council to address. This matter will be subject of future reports to Committee.

6. 2001/2005 FINANCIAL PLAN PREPARATION UPDATE

Report 1380/01 provided an update on the Financial Plan process to the stage of the Budget Review Group (BRG) meetings in December. It was noted that a capital budget for 2002/03 has been established in line with estimated resources but that the capital programmes for 2003/04 and 2004/05 were currently significantly over-subscribed.

Subsequent to Report 1380/01 the Budget Strategy Group met on 7 January 2002 to consider issues raised at the BRG meetings and agree amendments to the 2003/04 and 2004/05 capital programmes to reduce them to more manageable levels. Departmental Financial Plan submissions are intended to be submitted to the Special Service Committees due to take place on 14 February 2002 for consideration and determination.

7. HUMAN RIGHTS

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

8. CONSULTATION

The Chief Executive and Director of Law & Administration have been consulted on the terms of this report. In addition all Chief Officers have been consulted on their base budget submission for 2002/03 via the budget review process.

9. CONCLUSION

The Scottish Executive have increased Angus Council's grant support (AEF) by £12.365 million in 2002/03. After allowing for the mainstreaming of specific grant, new burdens and hypothecated (ring-fenced) resources a balance of £2.082 million is available to the Council to meet identified budget pressures. This sum is insufficient to meet identified budget pressures and has necessitated, therefore, the consideration of cuts proposals to provide the Council with options for consideration to permit a balanced revenue budget to be set.

There is the possibility of a disparity between that funding the Scottish Executive have provided in the Finance Settlement for McCrone, free personal and nursing care for older people and transfer from the

Department of Work and Pensions and those costs that will actually be incurred by the Council. These represent potential budget risks for the Council.

The Committee should also be aware that the continued under-funding of the Council's Estimated Service Expenditure increase places pressure on the Council to increase its Council Tax if it is to fulfil the ESE spending requirements.

The next stage in the revenue budget process will be the Special Services Committees and the setting of the Council Tax which are scheduled to take place on 14 February 2002.

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 8/2001 issued on 6 December 2001 by the Scottish Executive.
Scottish Executive letter of 17 December 2001 amending Finance Circular 8/2001.

SJM, 24 January 2002, F:\Corporate Finance\Revenue Budget (A)\Rev Bud 2002-03 (RB 02-03)\Corporate Reports\Local Govt Finance Settlement - Fin & IT Jan 2002.doc