

ANGUS COUNCIL

Policy and Resources Committee - 8 December 1998

1999/00 General Fund Revenue and Capital Budgets - Update

Report No 1315/98

Report By The Director of Finance

ABSTRACT

This report outlines the latest position in the preparation of the 1999/00 General Fund Revenue and Capital Budgets and includes details of the Government's new Expenditure Guidelines system which has replaced Council Tax capping.

1. RECOMMENDATIONS

The Committee is asked to :

- a) note the latest position in the preparation of the 1999/00 General Fund Revenue and Capital Budgets;
- b) note that an Expenditure Guidelines system has replaced Council Tax capping within the revenue budget process;
- c) note that the impact of this new system (which may be subject to further amendment) on Angus Council cannot be fully quantified at this time but that the early indications are that the new system will neither significantly advantage nor disadvantage Angus Council;
- d) note that further reports to Committee will be made available as the budget process progresses.

2. INTRODUCTION

The preparation of the Council's Revenue and Capital Budgets has been continuing apace following the guidance outlined in Reports 899/98 and 923/98. This report provides an update on where the preparation process stands presently including details of the Government's new Expenditure Guidelines system.

3. 1999/00 REVENUE & CAPITAL BUDGET PREPARATION – PROGRESS UPDATE

Report 923/98 outlined the Budget Co-ordination Group (BCG) process and noted that "options for streamlining the existing BCG process, allowing the BCG to concentrate on the more fundamental issues affecting the 1999/00 budget, are currently under consideration".

This review has been completed and has resulted in the BCG process for each department being separated into two distinct stages – a Technical Validation Group (TVG) and a Budget Review Group (BRG). This has been undertaken in order to separate the technical and strategic issues arising during the budget process, allowing these to be focused on independently in more suitable forums. This two stage review process applies to both the revenue and capital budget submissions of departments, though in the case of the capital budget a further review stage is also undertaken (see below).

3. 1999/00 REVENUE & CAPITAL BUDGET PREPARATION – PROGRESS UPDATE (continued)

Technical Validation Group

TVG meetings chaired by the Head of Financial Services have now taken place for all Council departments and have reviewed the revenue & capital budget submissions made by service directors in relation to the budget guidance issued by the Director of Finance.

Capital Budget Sub-Group (CBSG)

Unlike the revenue budget, departmental allocations within the capital budget can vary markedly from year to year and this tends to make the capital budget preparation process more complex. As a consequence it was considered necessary to undertake an additional review of departmental capital budget submissions after the TVG meetings but before the BRG meetings. This further review was carried out by a Capital Budget Sub-Group, chaired by the Chief Executive. The Sub-Group's main purpose is to establish the total level of potential funds (including alternative funding mechanisms) available to the Council for capital expenditure for the forthcoming financial year and to review initial departmental capital budget proposals prior to submission to the full Budget Review Group (BRG).

The CBSG met in late November to compare departmental submissions with the likely available resources for capital purposes. This comparison showed that departmental submissions were significantly in excess of likely available resources. The main outcome of the CBSG has therefore been to request that service directors review their capital budget proposals downwards to a level more consistent with the likely level of available resources. This review process will be ongoing during December with provisional capital budget (the Financial Plan) proposals being brought before this Committee early in the new year.

Budget Review Group

BRG meetings to be chaired by the Chief Executive are due to take place in the first 2 weeks of December. The BRG's will consider the key and strategic issues relating to departmental revenue budgets and other issues such as Grant Aided Expenditure and Best Value requirements in relation to budgeting.

Attached at Appendix A is a summary of the departmental Provisional Base Revenue Budgets for 1999/00 as validated by the TVG and at Appendix B an indicative timetable for the remainder of the Revenue and Capital Budgets process.

4. REVENUE BUDGET - EXPENDITURE GUIDELINES SYSTEM

The Government's Comprehensive Spending Review made a commitment to abolish the crude and universal capping regime. Indicative details of the new Expenditure Guidelines system have recently emerged and are set out below. It is emphasised that the new Expenditure Guidelines system applies only to the Council's general fund revenue expenditure and does not apply to the Housing Revenue Account or the capital budget. It is also emphasised that the detail of the new Expenditure Guideline system set out in this report is on the basis of a paper presented to a Scottish Office ministerial meeting and is the subject of further discussion with COSLA at present. This may result in changes to the Expenditure Guidelines system as it is currently presented within this report. Any changes arising will be brought to the Committee's attention in early course.

Crude and Universal Capping Regime

- the current capping regime will be abolished;
- the existing capping powers will, however, be held in reserve by the Secretary of State to allow action to be taken should Council's increase spending excessively.

4. REVENUE BUDGET - EXPENDITURE GUIDELINES SYSTEM (continued)

Expenditure Guidelines System

- the Scottish Office will issue each local authority with an Expenditure Guideline which will be based on Grant Aided Expenditure (GAE) levels. The 1999/00 Expenditure Guidelines will be based upon the 1998/99 capping limit and it is anticipated that this will be issued in mid to late December;
- Guidelines will cover all expenditure except movements to/from Funds & Balances and that related to Urban Programme;
- it is intended that local authority revenue budgets will, over time, be brought in line with GAE levels. This will be achieved by scaling down each local authority's annual increase in Guideline Expenditure proportionate to any existing overspend relative to GAE;
- it is intended that Expenditure Guidelines will be issued for 2000/01 and 2001/02 early next year to facilitate the introduction of 3-year budgeting.

Council Tax Benefit Subsidy Limitation

- the Government is to introduce a new mechanism to make each individual local authority in Scotland bear the extra costs to national taxpayers of increases in Council Tax Benefits which are caused by what the Scottish Office view as excessive Council Tax rises;
- it is anticipated that the Scottish Office will specify an acceptable level of annual Council Tax increase. A local authority exceeding this level of increase will not receive Council Tax benefit grant subsidy from the government on the excess element of Council Tax increases.

5. COMMENTARY ON EXPENDITURE GUIDELINES SYSTEM

The Expenditure Guidelines system will continue to give the Secretary of State power to adjust/cap a local authority's Revenue Budget. Local authorities are not, therefore, to gain full autonomy over their financial affairs. Indeed, as the Expenditure Guideline will cover more of a local authority's expenditure than that evident under capping, it may be argued that the degree of control that can be exercised by the Secretary of State has in fact increased. The acid test of the control exercised by the Secretary of State will be if a Council sets a Budget above its Guideline.

The Committee will be aware that the previous capping regime perpetuated the historic spending bias towards city areas. Since the starting point for the calculation of Expenditure Guideline figures for 1999/00 will be the capping limits for 1998/99 historic spending patterns will initially be retained under the new system. The Guideline system is however designed to address this historic spending bias which allows some authorities to spend significantly above GAE. Through the Guideline mechanism year on year increases to Guideline will be scaled downwards depending on how far above GAE a Council spends. For Angus Council the scaling down of Guideline increases will be minimal since the Council has only ever been allowed to spend marginally above its GAE allocation. Despite the scaling down of year on year guideline increases for those authorities, such as Dundee City, which currently spend significantly above GAE it may, depending on the eventual rules applied, take between 15 and 20 years before this scaling back of guidelines will cause spend to be equivalent to GAE.

It is not anticipated that the introduction of Council Tax Benefit Subsidy limitation will effect prudent local authorities, such as Angus. It will on the other hand force imprudent authorities to bear some of the impact of their Council Tax rises. While this may be viewed as a hindrance to autonomy of local authorities, it will ensure that the benefit cost of Council Tax increases by one authority does not result in less resources being available nationally for all other authorities.

6. POSSIBLE IMPACT ON ANGUS COUNCIL 1999/00 REVENUE BUDGET

It is not possible at this stage to provide a detailed assessment of the likely impact on the Council's 1999/00 Revenue Budget, of the introduction of Expenditure Guidelines. However, in general terms the following points may be made ;

- due to the scaling of increases in Guideline Expenditure Angus Council will not receive its full increase in spending power. As indicated previously, it is not anticipated that this will have an onerous impact on Angus. Appendix C outlines an illustrative example showing the effect of this for a council such as Angus (close to GAE) and a hypothetical council which is considerably above GAE. As may be seen, the scaling effect has a marginal impact on the former but a more significant impact on the latter;
- the Guidelines system will continue to place restrictions on the Council's Revenue Budget. Although the impact cannot be quantified at present, in general terms it would appear that there will still be a need for financial prudence on the part of the Council.

7. CONSULTATION

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

8. CONCLUSION

The General Fund revenue and capital budget preparation processes are now well underway and are progressing to timetable. The next major issue affecting the revenue budget will be the announcement of Angus Council's government grant allocation and expenditure guideline figure. This announcement is expected in late December and will be reported through the appropriate Committee(s) as soon as possible thereafter.

The new Expenditure Guidelines system will replace the previous regime of crude and universal capping. While indicative information only is available at the present time, it would appear that the new system will continue to mean the Council having to budget with restricted financial resources.

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 :-

Expenditure Guidelines And Council Tax Benefit Subsidy Limitation Arrangements LGFS(M)(98) 11 published by the Scottish Office (November 1998).

IL/SJM
03 December 1998
Bud Updte Rpt to P&R.Doc

ANGUS COUNCIL 1999/00 REVENUE BUDGET

<u>Department</u>	<u>1998/99 Final Budget £'000</u>	<u>1999/00 Provisional Base Budget £'000 (Note 1)</u>	<u>Allowable Contractual Additions To Budget £'000</u>	<u>Other Additions To Budget £'000</u>	<u>Total Budget Growth £'000</u>
Education (Note 5)	48,856	49,581	580	145	725
Social Work	21,537	22,475	543	395	938
Roads (Note 5)	5,514	5,555	41	-	41
Cultural Services	2,071	2,083	12	-	12
Environmental & Consumer Protection	4,863	4,930	67	-	67
Planning & Transport	2,049	2,056	3	4	7
Recreation Services	5,393	5,348	(56) (Note 2)	11	(45)
Miscellaneous Other Services		(Note 3)			
Other Housing		(Note 3)			
Chief Executive	1,164	1,215	48	3	51
Economic Development	504	513	9	-	9
Finance - General	1,332	1,388	56	-	56
Finance - Revenues (Note 4)	1,282	1,311	29	-	29
Law & Administration	2,001	2,236	90	145	235
Information Technology	1,030	1,061	31	-	31
Personnel	782	825	13	30	43
Training Services	173	283	9	101	110
Property Services	1,234	1,279	45	-	45
Local Offices	196	196	(36) (Note 2)	36	0
Total	99,981	102,335	1,484	870	2,354

Notes

1. It should be noted that the 1999/00 Provisional Base Budget figures shown above have been through the TVG process but have still to go through the BRG process and may therefore be subject to further changes. The BRG discussion will include a review of those additions to the budget which are not of an "allowable contractual" nature.

2. Net reduction reflects lower budgetary requirement for property maintenance in 1999/00 as advised by the Director of Property Services.

3. 1999/00 Provisional Base Budget not yet available.

4. Excludes cost implications of Housing & Council Tax Benefit integration.

5. Education & Roads budgets exclude CFCR of £530k and £1.050m respectively

**REVENUE & CAPITAL BUDGET PREPARATION – INDICATIVE TIMETABLE FOR
REMAINDER OF PROCESS**

<u>Date</u>	<u>Action</u>
1998	
Late November/Early December	Provisional Revenue Base Budgets and Capital Estimates submitted to Joint Board Sub-Committees for consideration
3 rd /8 th /9 th December	Budget Review Group meetings – Revenue & Capital budgets to be considered
11 th December	Revised 1998/2002 Financial Plan submission to be made to Director of Finance in line with targets
18 th December	Full minutes of Budget Review Group to be issued for review. Final version to be issued no later than 24 th December
Mid-Late December	Scottish Office issue Angus Council Grant Aided Expenditure (GAE) figures and Aggregate External Finance (AEF). GAE/AEF figures and Angus Council budget position reviewed by Chief Executive and Director of Finance
1999	
January	Scottish Office announcements reported to relevant Committees.
Dec. '98 - January '99	Finance Department prepare draft Provisional Revenue Budgets and Savings Summary Volumes (if required), for review by Chief Officers and Conveners.
Mid-February	Anticipated Scottish Office announcement of Section 94 Consent allocation
Mid-February	Provisional Revenue Budgets, Service Developments/New Burdens, Review of Charges and BCG adjustments reported to Special Service Committees along with any necessary savings proposals..
Mid-February	Provisional Revenue Budgets and any necessary savings proposals reported to Joint Boards.
w/c 1 st March	Special meeting of Angus Council considers Minutes of February Special Meetings and report by Finance Convener and agrees the level of 1999/00 Council Tax.
April	Finance Department co-ordinate preparation of the Final Revenue & Capital Budget Volume and the Budget Guide.

ILLUSTRATIVE EXAMPLES OF EXPENDITURE GUIDELINES SYSTEM

<u>COUNCIL A (which spends close to GAE)</u>		<u>£000</u>	<u>£000</u>
Increase in GAE expenditure (say)			5,000
Scaling Factor :	GAE level (say)	125,500	
		divided by	
	GAE expenditure (guideline)	126,500	99.21%
Increase in Expenditure Guideline (increase in GAE * Scaling Factor)			<u>4,960</u>
Effect of Scaling			-40 (0.8% of GAE increase)

Effect of Scaling on Spend & GAE - Council A

Current GAE	125,500	
Current Spend (Guideline)	<u>126,500</u>	
Excess of Spend Above GAE	<u>1,000</u>	0.8%
Increased GAE	130,500	
Increased Spend (Guideline)	<u>131,460</u>	
Excess of Spend Above GAE	<u>960</u>	0.7%

Council B (which spends significantly above GAE)

		<u>£000</u>	<u>£000</u>
Increase in GAE expenditure (say)			5,000
Scaling Factor :	GAE level (say)	90,000	
		divided by	
	GAE expenditure (guideline)	100,000	90.00%
Increase in Expenditure Guideline (increase in GAE * Scaling Factor)			<u>4,500</u>
Effect of Scaling			-500 (10% of GAE increase)

Effect of Scaling on Spend & GAE - Council B

Current GAE	90,000	
Current Spend (Guideline)	<u>100,000</u>	
Excess of Spend Above GAE	<u>10,000</u>	11.1%
Increased GAE	95,000	
Increased Spend (Guideline)	<u>104,500</u>	
Excess of Spend Above GAE	<u>9,500</u>	10.0%

It will be noted from the above that the effect of the scaling adjustment is more marked on Council B, whose ability to spend above GAE has been moved downwards from 11.2% to 10.0%. In the case of Council B a marked convergence of spend towards GAE has occurred which will over time bring that Councils spend equal to GAE. The spend of Council A will also move closer to GAE but because this Council is already close to GAE the convergence effect each year will be minimal.

It should also be noted that in the above examples an increase in GAE of £5m has been assumed which equates to a 4% increase for Council A and a 5.6% increase for Council B. the convergence of spend towards GAE will take a much longer period of time if year to year growth in GAE is at a lower level.