

POLICY & RESOURCES COMMITTEE - 8 SEPTEMBER 1998**COMPREHENSIVE SPENDING REVIEW: LOCAL GOVERNMENT FINANCE SETTLEMENT
ANNOUNCEMENTS****Report by the Director of Finance****ABSTRACT**

The purpose of this report is to apprise members of the announcements made by the Secretary of State for Scotland on the outcome of the Government's Comprehensive Spending Review and the resulting Local Government Finance Settlement, and to give an initial indication of the possible budgetary implications of these announcements for Angus Council.

1. RECOMMENDATION

It is recommended that the Committee:

- a) notes the content of this report for its interest.
- b) notes that further reports will be brought forward as the 1999/00 budget process progresses

2. INTRODUCTION

Members will be aware that the Government has recently completed its Comprehensive Spending Review, the objectives of which were to look at spending across the various areas for which the Government is responsible, to evaluate what the taxpayer is getting for his/her money, and to examine the effectiveness of the existing distribution systems for the various spending programmes.

This report summarises the main points of note concerning the announcements made by the Secretary of State for Scotland in July 1998 on the outcome of the Comprehensive Spending Review, and the resulting Local Government Finance Settlement for the next three years (1999/00 to 2001/02). It also sets out an initial view on the possible budgetary implications of these announcements for Angus Council.

Whilst the majority of the Comprehensive Service Review announcements concerned revenue expenditure by Councils the announcements also covered issues relating to capital expenditure. The pertinent issues relating to the capital budget are also set out in this report.

3. BACKGROUND

The Local Government Finance Settlement figures which were announced by the Scottish Office in July are intended to provide local authorities with a sound indication of the government's forward spending plans to assist in the development of the three year budgets required under Best Value.

It should be noted, however, that these announcements are at an all-Scotland level only at this stage, and details of individual Council grant allocations for the 1999/00 financial year are not expected to be available until December 1998.

4. GOVERNMENT ANNOUNCEMENTS

The Government announcements comprise three elements - Government Supported Expenditure (GSE), Grant Aided Expenditure (GAE) and Aggregate External Finance (AEF).

To put the levels of projected growth in government spending shown in the tables below into context it is worth noting that the governments estimates for inflation for the period are as follows:-

1998/99 to 1999/00	2.6%
1999/00 to 2000/01	2.5%
2000/01 to 2001/02	2.5%

The tables below show both the headline projected growth figures announced by the government and the percentage growth between years in real terms allowing for the government's own inflation estimates. Should actual inflation run at a rate higher than the government estimates then the projected percentage growth in real terms will be lower.

It should also be noted that the GSE, GAE and AEF estimates for 2000/01 and 2001/02 in particular are dependant upon other government economic targets being achieved. The expected growth between years, both in absolute and real terms, shown below should therefore be viewed with a degree of caution.

Government Supported Expenditure (GSE)

GSE represents the amount of expenditure which the Scottish Office is prepared to support in grant but does not represent the amount of grant to be received. GSE is made up of total Grant Aided Expenditure (GAE) and Loan Charges Grant - its primary purpose is as a measure which the government use in their overall public spending calculations.

The table below summarises the government announcement in relation to total GSE for Scotland as a whole (1998/99 figures are per the 1998/99 Local Government Finance Settlement as adjusted to ensure a like for like comparison).

1998/99 £m	1999/00 £m	Change		2000/01 £m	Change		2001/02 £m	Change	
		Amount £m	% age		Amount £m	% age		Amount £m	% age
6,246.2	6,544.0	+297.8	+4.8%	6,785.0	+241.0	+3.7%	7,026.0	+241.0	+3.6%
%age growth in real terms			+2.2%		+1.2%			+1.1%	

The table shows that GSE is set to potentially grow in real terms by 2.2% between 1998/99 and 1999/2000 and by 1.2% and 1.1% respectively in the 2 forward years thereafter.

Grant Aided Expenditure (GAE)

Grant Aided Expenditure is the basis for distributing to each Council their share of government grant which is termed Aggregate External Finance (AEF). GAE has also been used by the Secretary of State as a basis for calculating local authority Council Tax Capping limits in previous years.

The table below summarises the government announcement in relation to GAE for Scotland as a whole (1998/99 figures are per the 1998/99 Local Government Finance Settlement as adjusted to ensure a like for like comparison).

1998/99 £m	1999/00 £m	Change		2000/01 £m	Change		2001/02 £m	Change	
		Amount £m	% age		Amount £m	% age		Amount £m	% age
5,517.4	5,777.6	+260.2	+4.7%	5,990.5	+212.9	+3.7%	6,193.8	+203.3	+3.4%
%age growth in real terms			+2.1%		+1.2%			+0.9%	

The table shows that GAE is set to potentially grow in real terms by 2.1% between 1998/99 and 1999/2000 and by 1.2% and 0.9% respectively in the 2 forward years thereafter.

4. GOVERNMENT ANNOUNCEMENTS (continued)

Aggregate External Finance (AEF)

AEF is the general grant paid by the government in support of expenditure on local services. The Secretary of State decides in the GAE settlement how much he considers the Council should be spending on services, this figure is then adjusted for loan and leasing charges and other items to derive each Council's total AEF allocation.

The table below summarises the government announcement in relation to AEF for Scotland as a whole (1998/99 figures are per the 1998/99 Local Government Finance Settlement as adjusted to ensure a like for like comparison).

1998/99 £m	1999/00 £m	Change		2000/01 £m	Change		2001/02 £m	Change	
		Amount £m	% age		Amount £m	% age		Amount £m	% age
5,293.6	5,512.0	+218.4	+4.1%	5,672.0	+160.0	+2.9%	5,823.0	+151.0	+2.7%
% age growth in real terms			+1.5%			+0.4%			+0.2%

The table shows that AEF is set to potentially grow by 1.5% between 1998/99 and 1999/2000 and by 0.4% and 0.2% respectively in the 2 forward years thereafter.

5. INDIVIDUAL SERVICE GAE ASSESSMENTS

As well as announcing total GAE for the next three years the government have also indicated how they see that total breaking down over the main local authority services. The table below summarises the GAE growth by service.

	1998/99 £m	1999/00 £m	Change		2000/01 £m	Change		2001/02 £m	Change	
			Amount £m	% age		Amount £m	% age		Amount £m	% age
Education	2,436.8	2,591.0	+154.2	+6.3%	2,703.0	+112.0	+4.3%	2,810.0	+107.0	+4.0%
Social Wk	1,049.7	1,101.0	+51.3	+4.9%	1,144.0	+43.0	+3.9%	1,180.0	+36.0	+3.1%
Police	691.0	715.0	+24.0	+3.5%	742.0	+27.0	+3.8%	763.0	+21.0	+2.8%
Fire	170.0	178.0	+8.0	+4.7%	187.0	+9.0	+5.1%	194.0	+7.0	+3.7%
Other Ser	1,169.9	1,192.6	+22.7	+1.9%	1,214.5	+21.9	+1.8%	1,246.8	+32.3	+2.7%
Total	5,517.4	5,777.6	+260.2	+4.7%	5,990.5	+212.9	+3.7%	6,193.8	+203.3	+3.4%

It is clear from the above that the government intend putting particular emphasis on the Education, Social Work, Police and Fire services.

Even allowing for the government estimates for inflation it will also be noted that over the three year period the GAE for all other Council services will reduce in real terms.

6. NEW BURDENS & EXPENDITURE PRESSURES

The Scottish Office have indicated that the settlement figures announced include provision for a number of expenditure pressures including the increased superannuation costs falling on local authorities because of the abolition of Advanced Corporation Tax credits, additional resources for spending on Community Care in Social Work and additional resources to deal with the Year 2000 computer problem. Provision has also been made for what the Scottish Office have termed unidentified new burdens.

7. POSSIBLE BUDGETARY IMPLICATIONS FOR ANGUS COUNCIL

The governments forward expenditure plans are set at an all Scotland level so it is difficult to estimate with certainty what the effect might be on Angus Council. In addition until it becomes clear what the new system of expenditure guidelines will entail it is very difficult to carry out an informed assessment of what impact it may have on Angus Council. Despite this lack of certainty it is possible to make some broad assumptions as to the impact of the recent announcements for Angus Council. These are summarised below:-

- The Secretary of State expects local authorities to continue to make savings to help meet pay and price increases to ensure that the additional resources identified for priority areas are not simply swallowed up by pay / price rises. The Secretary of State believes such efficiency savings are possible if Councils embrace the opportunities afforded them by Best Value.
- The replacement of capping with an 'expenditure guidelines' system is unlikely to yield significant new flexibility in terms of spending in real terms. The Scottish Office have estimated that the all Scotland average Council Tax level will increase by around 5% per annum over the next three years and it seems likely that the new expenditure guidelines system will be geared towards holding Council Tax increases at this sort of level. The Council will therefore continue to have to operate in a tight financial environment.
- Education, Social Work, Police and Fire are the government's key areas and it seems inevitable that they will look for evidence that the new resources are being directed towards these services. The Scottish Office may make further use of specific grants to ensure resources are being targeted in accordance with government policy but this will lessen the flexibility for Councils to use the new resources as they think appropriate.
- In terms of "Other Services" - Roads, Environmental Health, Cultural and Recreation Services, etc. - the year on year increases identified by the government are insufficient to meet even the governments own inflation estimates over the period. This will mean less GAE resources in real terms for these services which may in turn put greater pressure on the Council's budget as a whole.
- It will be noted that the year on year increases in AEF (the actual government grant to be paid) are below the increases indicated for GAE. This means that if Councils across Scotland increase their expenditure in line with the GAE increases given by the government, not all of that increased expenditure will be funded by government grant. In other words the low level of growth in AEF in real terms will put continued upward pressure on Council Tax levels in all authorities including Angus.
- Angus Council has met pay awards and other inflation from "efficiency savings" in the last three years budget exercises. Some of the savings measures have been of a one-off nature / short term expediencies which may be difficult to deliver on an ongoing basis. Some of the additional resources which will now flow through could therefore be required simply to make good previous years cuts which are no longer sustainable.
- The announcement of these new resources could lead to more pressure for higher wage awards particularly in areas like teaching. Private sector pay settlements are currently running at around 5% on average and this will no doubt make it more difficult to achieve restraint on public sector pay rises particularly after several consecutive years of pay restraint. ***If the new resources available to Education and Social Work are to be used to finance new initiatives, Councils may have to make substantial efficiency savings to pay for what might be an escalating paybill. The real terms reduction in GAE resources for other Council services suggests that significant efficiency savings may also be required in these areas to fund pay increases.***

8. GOVERNMENT ANNOUNCEMENTS - CAPITAL EXPENDITURE

The Secretary of State controls the capital expenditure of local authorities by issuing capital expenditure consents in terms of Section 94 of the Local Government (Scotland) Act, 1973. It is understood the Secretary of State will not invite bids from local authorities for 1999/2000 and that Section 94 Capital Consents will be issued automatically. However, the Secretary of State as part of the Comprehensive Spending Review has issued the total available capital sums for the Scottish Block to cover all Public Services for the next three years. The Secretary of State is raising capital investment for a fixed period of three years in order to tackle a backlog of under investment but has stressed that current spending will grow by no more than two per cent per annum in real terms. The allocation to be made available over the next three years to Local Government is still to be announced and the Angus Council Allocation will follow through thereafter. Against this background and in the interests of prudent financial planning it is envisaged that Angus Council should continue to produce Financial Plans for the forthcoming three year period.

Further, with effect from 1st August, 1998, the Secretary of State as part of the Comprehensive Spending Review is allowing local authorities to augment their consent levels on Non Housing Programmes by the full amount of capital receipts. In relation to the Non Housing Programme for 1999/2000 the Scottish Office have indicated a total allocation of £310 million for distribution which has been reduced on a comparable basis from a figure of approximately £324 million from the previous year to take account of the removal of capital receipt set aside rules. However, in the case of the Housing Revenue Account Programme it will still be only 25 per cent of the value of the receipt - subject to certain exceptions which permit augmentation at 50 per cent and 100 per cent.

9. CONSULTATION

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

10. CONCLUSION

Although the announcement of additional resources for local government brings a welcome change from the severe financial constraint of the last few years it seems likely that much of these new resources will be targeted by the government at their priority areas. This will mean local Councils not having complete flexibility to determine how the new resources will be spent. Of particular concern is the real terms reduction in the "Other Services" GAE as this may put further budgetary pressure on services such as Roads, Environmental Health, Cultural and Recreation Services, etc.

It is worth noting also that the main budgetary issue for Angus Council in previous budgets has been the restrictive and inequitable capping limits which have been applied. Unless the new system of expenditure guidelines takes into account the failings of the capping system towards prudent Councils, such as Angus, the Council may continue to find itself in the position of having to make budget reductions in some services.

In summary it is considered that some degree of budgetary difficulties will still face the Council into future years and the need for financial constraint will therefore continue.

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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 15/98, issued by the Scottish Office on 14 July 1998

