

Special Budget Meeting of Angus Council - 15th February 2001

INDICATIVE COUNCIL TAX LEVELS 2002/03 AND 2003/04

Report 203/01

Report By The Director of Finance

ABSTRACT

The purpose of this report is to explain the basis for the setting of indicative Council Tax levels for financial years 2002/03 and 2003/04.

1 RECOMMENDATIONS

It is recommended that the Council :-

- a) Note the decisions which have been taken as part of the 2001/02 Council Tax setting process;
- b) Note that these decisions will have an impact onto the final budget figures to be determined for financial years 2002/03 and 2003/04;
- c) Note that Appendices 2 & 3 to this report will be revised in light of the 2001/02 Council Tax decisions and will be issued at the Special Budget Meeting;
- d) Agree that an allowance of 4% for non-collection of the Council Tax be used in the indicative council tax setting calculations;
- e) Determine the estimated contributions to / from Balances and Special Funds to be made for 2002/03 and 2003/04;
- f) Determine the estimated total of budget savings to be made for 2002/03 and 2003/04;
- g) Determine the 2002/03 and 2003/04 indicative Council Tax payable at Band D;
- h) Note that final Council Tax levels for 2002/03 and 2003/04 are not required to be set until, at the latest, 10 March 2002 and 10 March 2003 respectively;
- i) Note that further reports setting out in more detail the budget position for 2002/03 and 2003/04 will be brought to appropriate Committees in due course.

2 INTRODUCTION

Throughout this report, certain financial terminology will be encountered and a Glossary of Terms for the more important items is provided at Appendix 1 to assist readers.

In return for providing a three year Finance Settlement, the Scottish Executive is requiring local authorities to provide indicative Council Tax figures for 2002/03 and 2003/04. These Council Tax levels **will not be firm and binding** but be subject to change on finalisation of each years revenue budget process and setting of the actual Council Tax level. However, variations from these stated intentions when the actual Council Tax is set will require to be justified to local electors and Scottish Ministers.

This report outlines the main financial considerations and the steps necessary to set the indicative Council Tax charges for 2002/03 and 2003/04.

3 BUDGET PROJECTIONS

3.1 Background

The Council is asked to note that the foregoing budget analysis in respect of financial years 2002/03 and 2003/04 is at a broad level and will require to be broken down on a department by department basis in due course.

The broad budget projections which have been carried out should nevertheless give as informed an indication as possible of the Council's likely budget position for 2002/03 and 2003/04 as is available at present. Members are advised however that further detail is required from the Scottish Executive in a number of areas of the grant settlement (e.g. final distribution of McCrone funding) before a full picture will emerge. These issues are discussed in more detail below.

3.2 Government Grant Position into 2002/03 and 2003/04

In providing Councils with firm grant figures for 2002/03 and 2003/04 the Scottish Executive consider that they have provided all of the information which Councils need to set a three year budget for the period 2001/02 to 2003/04. As outlined below there are some issues associated with the grant announcements.

Previous reports have highlighted the difficulties which have been encountered in determining the full implications of the 2001/02 financial settlement particularly as regards new burdens and hypothecation. Whilst additional information from the Executive has clarified the position somewhat for 2001/02 there is still an element of attached risk. This risk has been further compounded by the need to make certain assumptions on new burdens, etc for 2002/03 and 2003/04. The budget projections which have been carried out are therefore an up to date but still somewhat preliminary best estimate which will require to be refined in due course as further information at both a national level but more crucially at a local level is forthcoming.

Based on the projections which have been prepared there will again be a significant shortfall between the uncommitted / unhypothecated grant available to the Council and the cost pressures which will require to be funded.

3.3 Council Budget Position for 2002/03 and 2003/04

Projected expenditure levels into 2002/03 and 2003/04 have used the 2001/02 budget as a starting point. The Council is asked to note however that the 2001/02 budget position will not be fully determined until decisions are made on the setting of the 2001/02 Council Tax. Accordingly the figures shown as "to be determined" in this report for 2002/03 and 2003/04 will require to be established at the Special Budget Meeting once the 2001/02 Council Tax has been set.

Projections of the likely expenditure levels for 2002/03 and 2003/04 have in the main been calculated at a global level for the Council as a whole at present. It will be necessary in due course to flesh this out to determine likely budget levels for individual Council departments.

No major service provision changes (service developments, reconfiguration of services, etc.) other than those being brought about by Scottish Executive initiatives have been included in the projections at present. The projections therefore assume the status quo as regards service levels and service delivery methods.

A further key factor to be borne in mind concerns the Scottish Executive's assumptions on the cost of new burdens and initiatives. Whilst the Executive may claim to be providing full funding in respect of new burdens it is possible that at a local level Councils may find that the costs they are to incur exceed the Executive's allocations. Past experience has shown that the Executive is somewhat cautious in its estimates of the cost of new initiatives. Any shortfall between what the Executive has provided for new burdens and initiatives and the actual costs locally in Angus could present a budget problem. The budget projections currently assume that there will be no such imbalance between actual costs to be incurred for these specific initiatives and the funding actually provided by the Scottish Executive in respect of all new burdens.

4 MAIN FINANCIAL CONSIDERATIONS

4.1 Estimated Increases In Net Expenditure for 2002/03 and 2003/04

The estimated increase in net expenditure levels for 2002/03 and 2003/04 is set out in the Summary Statements of Net Expenditure attached at Appendices 2 and 3 respectively. It should be noted that the figures in the Appendices exclude the impact of contributions to Special Funds or possible savings requirements.

The Summary Statements of Net Expenditure utilise the 2001/02 revenue budget as a starting point and makes incremental adjustments for various areas of anticipated expenditure increase. These incremental adjustments have in the main been carried out at a global level for the Council rather than being identified with particular departments.

4.2 Aggregate External Finance

The overall level of Aggregate External Finance (Government Grant) allocated to Angus Council for 2002/03 and 2003/04 has been set at £123.154 million and £128.374 million respectively. It should be noted that little information has been provided by the Scottish Executive with regard to the detail of the settlement for these two financial years. It has been necessary therefore to utilise best estimates of the funding provided by the Scottish Executive for initiatives such as McCrone and Long Term Care of the Elderly in preparing revenue budgets for these two years.

4.3 Provision For Inflation

A degree of provision for inflation has been included in the Summary Statements of Net Expenditure (Appendices 2 & 3). This is mainly with regard to pay inflation, although an initial allowance in respect of Job Evaluation and a limited provision for general inflation have also been made.

An allowance for the pay awards of non-teaching employees of £500 per employee (approximately equivalent to 3.7%) for 2002/03 and 4% for 2003/04 has been made. With regard to teachers pay, the allowance for pay award is contained within the overall GAE increase for Education which includes the estimated funding provided by the Scottish Executive in the Finance Settlement for the McCrone Committee recommendations on teachers pay.

Allowance has been made in the 2002/03 and 2003/04 revenue budgets for those unavoidable costs in relation to inflation e.g. rates increases. The impact of other inflationary pressures e.g. general price increases in supplies, will require to be absorbed within departmental cash limited budgets once these are established.

4.4 Contributions to Council Funds and Balances

In terms of contributions to the Council's Funds and Balances in 2002/03 and 2003/04 it may be considered appropriate that a continuing reasonable level of contingency funding in the form of a reserve be set aside. This would provide the Council with the flexibility to meet essential but unforeseen expenditure if and when such expenditure should become necessary. The importance of sustaining such a reserve position is pivotal to the financial framework of the Council given the very tight budgets which have historically had to be set for Council departments and the inherent risk therein.

The contributions to the Council's Funds and Balances will require to be considered as an integral part of the setting of the indicative Council Tax levels for 2002/03 and 2003/04.

4.5 Savings Requirements

The Summary Statements of Net Expenditure (Appendices 2 & 3) currently include no estimate for a departmental or corporate savings requirement. Such savings will require to be determined as an integral part of the setting of the indicative Council Tax levels for 2002/03 and 2003/04.

4.6 Allowance for Non-Collection

An element of non-collection of Council Tax will exist and given recent collection trends it is considered prudent to continue to make a 4% non-collection allowance. Members will be aware that Angus Council also acts, on a fee paying basis, as collection agent for the North Of Scotland Water Authority (NOSWA). The ongoing large increases in NOSWA charges may therefore have an adverse effect on Council Tax collection levels and thus further emphasises the need to make an adequate allowance for non-collection. The allowance for non-collection recommended to be used in setting the 2001/02 Council Tax was 4% also.

4.7 Balance of 2002/03 and 2003/04 Estimated Net Expenditure to be met from Council Tax

A more detailed analysis of the estimated net expenditure to be met from Council Taxes is set out in the Council Tax Calculation Statement included as part of Appendices 2 & 3. A summary is given in the table below:

	£'000	£'000
Net Expenditure (per Appendices 2 & 3)	<u>to be determined</u>	<u>to be determined</u>
Adjustments Required In Light of 2001/02 Council Tax Decisions	<u>to be determined</u>	<u>to be determined</u>
<u>Deduct</u> Aggregate External Finance (AEF) - as adjusted	123,154	(128,374)
Net Expenditure to be met by Council Tax (Before Balances)	<u>to be determined</u>	<u>to be determined</u>
Add Further Contribution to / from Council Funds and Balances	<u>to be determined</u>	<u>to be determined</u>
Less Departmental and Corporate Savings Requirement	<u>to be determined</u>	<u>to be determined</u>
Net Expenditure to be met by Council Tax	<u>to be determined</u>	<u>to be determined</u>
Tax Base for Council Tax Calculation Purposes (@ 96% collection)	37,452*	37,452*

* if the Band D Council Tax were £1 it would yield £37,452 of income

4.8 Council Tax Valuation Bandings

The Council is required to set the Council Tax based on Valuation Band D. The Council Tax Charge for properties in the other Valuation Bands is calculated with reference to Band D. The Valuation Bandings used in the calculation of Council Tax are shown in Appendix 4 for information.

5 FURTHER STEPS TO BE TAKEN TO DETERMINE THE INDICATIVE 2002/03 AND 2003/04 COUNCIL TAX

In order that the Council may determine the 2002/03 and 2003/04 indicative Band D Council Tax charges, a number of decisions require to be taken as follows :-

- Approval of the estimated level of non-collection of the Council Tax to be used in calculating the estimated effective pound product of Charge. A non-collection allowance of 4% is recommended for both years.
- Determination of any contributions to or from Council Funds and balances considered necessary for 2002/03 and 2003/04;
- Determination of any departmental and corporate savings requirement in 2002/03 and 2003/04.

6 CONSULTATION

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

7 HUMAN RIGHTS IMPLICATIONS

There are no human rights implications arising as a result of this report.

8 CONCLUSION

The setting of indicative Council Tax levels for 2002/03 and 2003/04 has been required by the Scottish Executive in return for a three year Finance Settlement. The estimated net expenditure totals have been prepared on the basis of the best information available at present.

Amendment may subsequently be necessary to these figures to reflect those additional funds to be forthcoming from the Scottish Executive in respect of the McCrone committee recommendations and Long Term Care of the Elderly.

DAVID S SAWERS
Director of Finance

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in the preparation of this report.

il/sjm, 09/02/01, Council Tax Setting Report.Doc

GLOSSARY OF TERMS

Aggregate External Finance (AEF)

This is the funding which is outwith Council control, i.e. is determined by Central Government. The Government sets the level for public expenditure, including the Scottish Executive allocation for local authorities, during its budgeting exercise, and thereafter there is an allocation to each of the local authorities. AEF includes Revenue Support Grant, Non-Domestic Rate Income and Specific Grants and is paid by the Executive to help finance the cost of services.

Council Tax/Council Tax Band

The Council Tax is a part property related tax and a part personal tax, a combination of the previous rates system and community charge. In respect of property, however, the tax is not related to an estimated rental income (as rates were) but to an estimated capital value which should be more readily assessed. In addition, there is a "personal" element retained in the tax in that there is a 25% reduction where there is only a single occupant in a property. The government has set eight basic valuation bands for the Council Tax within which property is grouped. The valuations range from Band A (up to £27,000) which incurs two-thirds of the basic charge (Band D), to Band H, the highest range (property valued at over £212,000), which incurs twice the Band D level of charge.

Council Tax Base

So that the tax level can be estimated, there has to be a conversion of the different numbers of properties in the various bands to the number of properties in the basic band, Band D. So for every Band H house there will be "two Band D houses" and similarly, for every three Band A houses there will be only two Band D houses, so far as tax base estimation is concerned.

Grant Aided Expenditure (GAE)

The Scottish Executive determine each year a level of expenditure in relation to all Scottish local authorities. This expenditure is determined and allocated through a complex formula known as Client Group Assessments of Relative Need. In order to provide a 3 year grant settlement covering 2001/02 to 2003/04, the formula has been amended for the two later years for estimates of population change only with other variables remaining fixed. GAE forms the basis for grant allocations to local authorities.

GAE is a term not now being used by the Scottish Executive but it is helpful to retain it for budget analysis purposes at a local authority level.

Renewal and Repairs (R & R) Fund

Funds maintained by the Council into which contributions can be made and from which there can be money made available for unforeseen items of expenditure. The Council currently has six R & R Funds for unforeseen items of a repair or renewal nature in the areas of Property, Roads, Information Technology, Equipment, Vehicles and Print & Design Unit.

Final Budget 2001/02	£ 000
Net Expenditure 2001/02 (excluding Funds and Balances)	145,779
Contribution to Funds and Balances in 2001/02	to be determined
Final Budget 2001/02	<u>to be determined</u>

Calculation of 2002/03 Indicative Council Tax	£ 000	£ 000
Starting Position (2001/02 Final Budget per above) *		to be determined
<u>Add : Estimated Cost Pressures for 2002/03</u>		
A. Increases based on GAE increases		
Education	3,376	
Social Work	1,647	
Environmental and Consumer Protection	97	
Planning and Transport	464	
Joint Boards	<u>876</u>	6,460
B. Pay awards and other staffing cost pressures not in A. above		
Pay Awards (Non-Education and Social Work)		1,430
C. Other		
General Inflation Allowance	900	
Other Allowable Additions	570	
Increased Capital Financing Costs	<u>460</u>	1,930
Total Estimated Cost Pressures		9,820
Total Net Expenditure 2002/03 (excl. Funds and Balances and Savings)		<u>to be determined</u>
Adjustment to Previous Year's Contribution to Funds and Balances		to be determined
Estimated Budget Savings to be Identified		<u>to be determined</u>
Final Budget 2002/03		to be determined
Less : Aggregate External Finance		(123,154)
Net Expenditure to be met from Council Tax		<u>to be determined</u>
		Divided
		By
<u>Calculation of Council Tax Base</u>	<u>No.</u>	
Council Tax Base (Band D equivalent number of dwellings)	39,012	
Less: Recommended Provision for non-collection (4%)	<u>(1,560)</u>	
Revised Tax Base		37,452
		<u>2001/02</u>
Angus Council Indicative Council Tax 2002/03		<u>to be determined</u> to be determined
Increase from 2001/02		to be determined

* note that this figure will not be available until decisions have been taken with regard to the 2001/02 Council Tax

Calculation of 2003/04 Indicative Council Tax	£ 000	£ 000
Starting Position (2002/03 Final Budget per Appendix 2) *		to be determined
<u>Add : Estimated Cost Pressures for 2003/04</u>		
A. Increases based on GAE increases		
Education	1,741	
Social Work	1,634	
Environmental and Consumer Protection	68	
Planning and Transport	580	
Joint Boards	644	4,667
B. Pay awards and other staffing cost pressures not in A.		
Pay Awards (Non-Education and Social Work)	1,643	
Corporate Funding of Education and Social Work Pay Awards	292	1,935
C. Other		
General Inflation Allowance	900	
Other Allowable Additions	500	
Increased in Capital Financing Costs	500	
A92 Private Finance Initiative Level Playing Field Support	850	2,750
Total Estimated Cost Pressures		9,352
Total Net Expenditure 2003/04 (excl. Funds and Balances and Savings)		to be determined
Adjustment to Contribution to Funds and Balances		to be determined
Estimated Budget Savings to be Identified		to be determined
Final Budget 2003/04		to be determined
Less : Aggregate External Finance		(128,374)
Net Expenditure to be met from Council Tax		to be determined
		Divided By
<u>Calculation of Council Tax Base</u>	<u>No.</u>	
Council Tax Base (Band D equivalent number of dwellings)	39,012	
Less: Recommended Provision for non-collection (4%)	(1,560)	
Revised Tax Base		37,452
Angus Council Indicative Council Tax 2003/04		to be determined
		to be determined
Increase from 2002/03		to be determined

* note that this figure will not be available until decisions have been taken with regard to the 2001/02 and 2002/03 Council Tax

COUNCIL TAX BANDINGS

By law, properties subject to Council Tax have to be related to a Band D property valuation level, (referred to as the Council Tax Base). Band D refers to properties valued at between £45,001 and £58,000.

The following table indicates bands, the relationship of the Council Tax level at Band D to other Bands.

VALUATION	BAND	COUNCIL TAX
Up to £27,000	Band A	6/9 ^{ths} of Band D
£27,001 to £35,000	Band B	7/9 ^{ths} of Band D
£35,001 to £45,000	Band C	8/9 ^{ths} of Band D
£45,001 to £58,000	Band D	1 or 9/9 ^{ths} of Band D
£58,001 to £80,000	Band E	11/9 ^{ths} of Band D
£80,001 to £106,000	Band F	13/9 ^{ths} of Band D
£106,001 to £212,000	Band G	15/9 ^{ths} of Band D
Over £212,000	Band H	18/9 ^{ths} of Band D

The committee should note that the legislation allows them only to determine the level of Council Tax at Band D and that the relationship between Band D and the other bands are fixed and cannot be adjusted.

