

**2001/02 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 advise Members of the detailed implications for Angus Council arising from the 2001/02 local government Finance Settlement. The report also provides an update on the progress being made in preparing the 2001/02 budget.

The Committee is asked to :-

- a) Note the contents of this report;
- b) Note that the Angus Council AEF allocation for 2001/02 has been set at £116.684 million;
- c) Note that all Chief Officers have identified savings options for consideration and that corporate savings are currently being investigated;
- d) Note that Special Service Committees to consider individual departmental revenue budgets and departmental savings proposals for 2001/02 are due to be held on 15 February 2001;
- e) Note that the Council Tax setting day is planned for 15 February 2001.

**1. INTRODUCTION**

Reports previously submitted to Committee with regard to the 2001/02 revenue budget were :

- Report 683/00 to the Finance and Information Technology Committee of 13 June 2000 and Policy and Resources Committee of 20 June 2000 which outlined the approach to the preparation of the 2001/02 revenue budget;
- Report 943/00 to the Finance and Information Technology Committee of 29 August 2000 and Policy and Resources Committee of 5 September 2000 which updated Members on the on-going revenue budget initiatives intended to identify possible budget savings options and on the preparation of the 2001/02 revenue budget;
- Report 1181/00 to the Finance and Information Technology Committee of 17 October 2000 and Policy and Resources Committee of 24 October 2000 which detailed the Scottish Executive's Spending Review 2000 announcement;
- Report 1243/00 to the Finance and Information Technology Committee of 28 November 2000 and Policy and Resources Committee of 5 December 2000 which outlined the arrangements required to set the 2001/02 Council Tax on 15 February 2001 and provided an update on the preparation of the 2001/02 revenue budget;
- Report 1290/00 to Angus Council on 14 December 2000 which outlined, in general terms, the implications of the 2001/02 local government Finance Settlement for Angus Council.

It was indicated in Report 1290/00 that a more detailed report regarding the local government Finance Settlement and its implications would be brought to the current committee cycle.

This report sets out the main points to note from the information contained in Scottish Executive Finance Circular 13/2000 and outlines the implications for Angus Council. The report takes account of the amendments to Finance Circular 13/2000 notified to the Council in the Scottish Executive's letter of 19 January 2001. This report also provides a 2001/02 revenue budget preparation update.

## 2. REVENUE BUDGET SPENDING CONSTRAINTS

With the removal of Expenditure Guidelines, the Council's revenue budget will no longer be controlled by an externally imposed spending limit. Rather, budget spending levels will now be determined by the amount of revenue resources which are available to the Council. These resources will be forthcoming through grant funding from central government (Aggregate External Finance) and income raised locally through the Council Tax. In addition the Council may augment these resources on an ad-hoc basis from General Fund balances. It is emphasised that the abolition of Expenditure Guidelines will not mean that the Council has significantly more resources available, rather it means that the Council has more flexibility in how it chooses to use these resources and set its budget.

It should be noted, however, that when considering the level of resources which can be made available from increases in the Council Tax the Council must have regard to the Scottish Executive's Benefit Subsidy Limitation scheme. This scheme penalises any local authority that increases its Council Tax by more than 5% or £50 to that proportion by which the Band D Council Tax level exceeds the all-Scotland average Council Tax level in that year.

## 3. AGGREGATE EXTERNAL FINANCE

### Hypothecation and New Burdens

The Angus Council Aggregate External Finance (AEF) allocation for 2001/02 has been set at £116.684 million, an increase of £6.157 million (5.6%) on the 2000/01 allocation. However, within this increase are allowances by the Scottish Executive for :

- hypothecated (ring-fenced) sums in respect of specific government initiatives within Education and Social Work;
- new burdens which the Council will have to accommodate within its revenue budget e.g. the financial implications of the McCrone recommendations, resource increases for Police and Fire. It should be noted that, in the main, only the national totals of recognised new burdens have been provided by the Scottish Executive and consequently the allowances made in the Angus Council settlement in respect of these new burdens have required to be estimated.

Thus, of the £6.157 million increase £1.345 million is hypothecated, £3.994 million is to cover new burdens and £0.096 million is in respect of a reduced allowance to cover an anticipated fall in capital financing costs. After allowing for these adjustments a year to year increase in AEF of £0.914 million (0.8%) is available to the Council to fund budget pressures. This information is summarised in the table below.

	<u>Aggregate External Finance (AEF)</u>		
	<u>2001/02</u>		
	<u>Increase</u>		
	<u>£m</u>	<u>£m</u>	
Headline Figures	116.684	6.157	5.6%
<u>Less</u>			
Hypothecated Resources for Education/Social Work	(1.345)		
New Burdens	(3.994)		
Decrease in Loan Charges Grant	0.096		
Adjusted Headline Figures	111.441	0.914	0.8%
2000/01 Figures (adjusted for comparison)	110.527		

It should be noted that in some instances recognised new burdens have been fully funded by the Scottish Executive through additional government grant support (AEF). However, in other instances new burdens have not been fully supported through additional government grant support. In such cases, the full amount of the new burden has been removed in the above table in recognition of the actual impact the new burden will have on the Council's revenue budget.

The AEF total of £116.684 million includes £9.826 million to cover loan charges and £1.300 million to cover 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 savings 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 includes allowance for pay inflation of 2% and price inflation of 1.25%. This is a welcome amendment to the policy of previous years whereby no allowance for inflation was made by the Scottish Executive in the Finance Settlement. 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 includes provision to meet the costs of the recommendations of the McCrone Committee on teacher's pay and conditions. Additional top-up resources will be forthcoming from the Executive to provide full funding, based on their costing, for those elements of the McCrone recommendations which are entirely new (local authorities will be required to meet certain costs such as those of incremental progressions). 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. Further reports with regard to this matter will be forthcoming to Committee when more detail is available.

#### Long Term Care of the Elderly

The Scottish Executive's Finance Settlement includes full funding, based on their costing, of the proposals for long term care of the elderly. Whilst the Executive may claim to be providing full funding in respect of this initiative it is possible that at a local level local authorities may find that the costs they are to incur exceed the Executive's allocations. Any shortfall between what the Executive has provided for the funding of the long term care of the elderly proposals 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. Further reports with regard to this matter will be forthcoming to Committee when more detail is available.

## **4. IMPLICATIONS OF ANNOUNCEMENTS FOR ANGUS COUNCIL**

#### Budget Savings

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 hypothecation and new burdens. This adjusted AEF increase of £0.914 million is insufficient to meet those budget pressures identified for 2001/02. It is necessary, therefore, to undertake a revenue budget savings exercise in order to provide the Council with various options to enable a balanced budget to be set per :

- departmental savings totalling £1.1 million based on 1% of 2001/02 Provisional Base Budgets for consideration at the Special Service Committee on 15 February 2001;
- corporate savings in order to restrict the amount being sought from departmental budgets. These corporate savings have still to be identified but are currently being investigated.

## Transfer in Tax Burden

It was noted above that the new burdens recognised in 2001/02 by the Scottish Executive have not been fully funded through grant support (AEF). In addition, the Finance Settlement includes an underlying assumption of a transfer in the tax burden from a national to a local level between 2000/01 and 2001/02. Thus, outwith any consideration of the under-funding of new burdens, the Finance Settlement includes a reduction in government grant support (AEF) between 2000/01 and 2001/02 on the expenditure the Council was incurring in 2000/01. Such a decrease in grant support necessitates, all other things being equal, the Council increasing its Council Tax merely to permit the budget remaining in a stand still position. The actual impact onto the Council of the transfer in tax burden is still being investigated and will be reported to Committee when this is concluded.

If the level of savings required to be made by the Council is to be limited there is, therefore, an upward pressure on the Council Tax through a transfer in the tax burden in addition to the less than full funding of new burdens recognised in the Finance Settlement.

## **5. 2000/01 REVENUE BUDGET PREPARATION UPDATE**

Report 1243/00 provided an update on the revenue budget process to the stage of the Budget Review Group (BRG) meetings in December.

Subsequent to Report 1243/00, service Directors have been requested to identify and prioritise realistic and achievable budget savings in line with the 1% savings requirement outlined above. Service Directors have now submitted prioritised savings proposals and these, together with the base budgets and various corporate savings, are intended to be submitted to the Special Service Committees due to take place on 15 February 2001 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 1243/00 that a COSLA "Uniform Budget Day" of 15 February 2001, approximately 3 weeks earlier than in previous years, has been agreed to facilitate the advancement of the Council Tax payment schedule for those local authorities which wish to do so. The Council's budget timetable has been drawn up in accordance with this date.

## **6. HUMAN RIGHTS**

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

## **7. 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 2001/02 via the budget review process.

## **8. CONCLUSION**

The Scottish Executive have increased Angus Council's grant support (AEF) by £6.157 million. After allowing for acknowledged new burdens and hypothecated (ring-fenced) resources a balance of £0.914 million is available to the Council to meet identified budget pressures. This sum is insufficient to meet identified budget pressures and has necessitated, therefore, savings options being investigated to allow the Council to set a balanced budget.

There is the possibility of a disparity between that funding the Scottish Executive have provided in the Finance Settlement for McCrone and the proposals in relation to long term care of the elderly and those

costs that will actually be incurred by the Council. Further reports will be submitted to Committee when more detail is available.

The Committee should also be aware that there has been a continuation of the transfer in the tax burden from a national to a local level. This, combined with new burdens placed on the Council but not fully funded through grant, means that in order to restrict the level of budget savings required upward pressure will be placed on the 2001/02 Council Tax.

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 15 February 2001.

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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 13/2000 issued on 7 December 2000 by the Scottish Executive.  
Scottish Executive letter of 19 January 2001 amending Finance Circular 13/2000.

SJM

23 January 2001

Local Govt Finance Settlement - Fin & IT Jan 2001

