

REPORT TO: POLICY & RESOURCES COMMITTEE - 14 JANUARY 2002

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2002/03 AND 2003/04

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 50-2002

1 PURPOSE OF REPORT

- 1.1 This report advises members of the recent announcements made by the Minister for Finance and Public Services in respect of the revised Local Government Finance Settlement for 2002/2003 and 2003/2004. The report identifies the City Council's revised Aggregate External Finance settlement for those financial years and also outlines the current projected position on the Revenue Budget and Council Tax for 2002/2003 and 2003/2004.

2 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Notes the Council's revised Aggregate External Finance settlement for 2002/2003 and 2003/2004, as recently announced by the Minister for Finance and Public Services.
- 2.2 Notes the current projected position on the Revenue Budget and Council Tax for 2002/2003 and 2003/2004.

3 FINANCIAL IMPLICATIONS

- 3.1 Based on the expenditure figures shown in the Provisional Revenue Budget volume and the revised grant settlement figures, the Council is facing a Band D Council Tax increase of £169 (16.2%) in 2002/2003. The indicative Council Tax figure for 2003/2004 is a further increase of £119 (9.8%). It must be stressed that these increases are **before** any savings have been identified and agreed.
- 3.2 Under the Council Tax Benefit Subsidy Limitation arrangement, the Council would incur a real financial penalty through a reduction in Council Tax Benefit Subsidy if it increases its Council Tax by more than 5% and £50 in 2002/2003.

4 LOCAL AGENDA 21 IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 BACKGROUND

- 6.1 In December 2000, the Scottish Executive announced 3-year Financial Settlement figures covering the period 2001-2004. This was a fundamental aspect of the agenda agreed between Scottish Ministers and COSLA elected members for renewing the system of local government finance in Scotland. In return, Councils were required to agree Revenue Budgets and Council Tax levels for the same 3-year period, albeit the figures for years 2 and 3 of the

period were to be "indicative". Members will recall that these requirements were addressed at the Special Finance Committee meeting on 15 February 2001.

- 6.2 The Revenue Budget and Council Tax figures for years 2 and 3 of the 3-year settlement period (ie 2002/2003 and 2003/2004) require to be revisited and updated by 14 February 2002.

7 PROVISIONAL REVENUE BUDGET 2002/2003 AND 2003/2004

- 7.1 Over the past few months the Director of Finance, in conjunction with the other Chief Officers, has been reviewing and refining the detailed Revenue Budgets for 2002/2003 and 2003/2004. The outcome of this exercise is reflected in the Provisional Revenue Budget volume, which was issued by the Director of Finance on 24 December 2001.
- 7.2 The revised net expenditure totals for 2002/2003 and 2003/2004 are shown on page 1 of the Provisional Revenue Budget volume as £242.659m and £257.994m. These figures represent the amounts required to continue to provide the current level of service, and also to resource the new initiatives for which the Scottish Executive have provided additional funding (see paragraph 9.1). Provision has been made for the agreed level of pay awards (including the McCrone Teachers Pay Settlement) and for specific and general price inflation.

8 REVISED GRANT SETTLEMENT 2002/2003 AND 2003/2004

- 8.1 On 6 December 2001, the Minister for Finance and Public Services announced revised Local Government Finance settlement figures for 2002/2003 and 2003/2004. Some minor adjustments to these figures were subsequently notified on 17 December 2001.
- 8.2 Total Estimated Expenditure (TEE) has been set at a level of £7,929.4m for Scotland for 2002/2003. TEE is the combined total of Estimated Service Expenditure (ESE) of £6,987.6m, Capital Financing (ie loan and leasing charges including PPP support) of £859.7m, and Housing/Council Tax residual subsidy of £82.1m. In keeping with the move towards simplification agreed last year, the settlement focuses on each Council's total grant allocation. Separate Grant Aided Expenditure (GAE) allocations for individual services are not identified. It is up to each local authority to decide the level of services reasonably required in its area having regard to the interests of the local community, both as service users and as Council Tax payers.
- 8.3 The Estimated Service Expenditure (ESE) figures relate to revenue expenditure on all services (at outturn prices) before the deduction of Specific Government Grants. The total of ESE is apportioned between individual Councils using the client group assessment method. The 2002/2003 ESE figure for Dundee City Council has been announced at £214.095m and the TEE figure as £242.284m.
- 8.4 The Minister for Finance and Public Services also announced that the total distributable amount of Aggregate External Finance (AEF) for Scotland for 2002/2003 would be set at £6,551.2m. AEF is distributed between Councils so as to produce a uniform difference between TEE and AEF per Band D equivalent property across Scotland.

- 8.5 Within the total AEF figure of £6,551.2m, Dundee City Council's share has been determined as £207.689m. This sum includes the following discrete elements:

	<u>£m</u>
Revenue Support Grant (RSG)	139.243
Non-domestic Rate Income (NDRI)	<u>47.936</u>
	187.179
Specific Grants	<u>20.510</u>
TOTAL AGGREGATE EXTERNAL FINANCE 2002/2003	<u>207.689</u>

Income from Specific Grants is already included in the Provisional Revenue Budget volume. Accordingly, it is the RSG/NDRI total of £187.179m which requires to be taken into account when setting the 2002/2003 Council Tax.

- 8.6 The Council's revised settlement figures for 2003/2004 were announced as; ESE £225.264m, TEE £254.674m and AEF £218.110m (of which RSG/NDRI is £197.226m). The RSG/NDRI total of £197.226m will require to be taken into account when setting the indicative 2003/2004 Council Tax.

9 NEW INITIATIVES, TRANSFERS AND OTHER ADJUSTMENTS

- 9.1 The revised grant settlement includes significant headline increases from the figures previously issued in December 2000, viz:

	<u>2002/2003</u> <u>£000</u>	<u>2003/2004</u> <u>£000</u>
<u>New Initiatives/Transfers of Responsibility</u>		
Adult Literacy	191	369
Supporting People	139	222
Out-of-School Care	58	58
Rough Sleepers Initiative	240	240
DWP Transfer (Residential Allowances/Preserved Rights)	2,540	2,774
Stop Now Orders	<u>6</u>	<u>6</u>
	3,174	3,669
<u>Other Adjustments</u>		
Pre School Education Funding (transfer of grant)	3,856	3,856
McCrone Teachers Pay Settlement	1,575	4,647
Other Miscellaneous	<u>(34)</u>	<u>(36)</u>
Total	<u>8,571</u> <u>(4.3%)</u>	<u>12,136</u> <u>(5.9%)</u>

- 9.2 The above increases in grant have required to be matched by a corresponding increase in the respective financial years' Revenue Budgets. The impact of the additional grant in terms of the Council Tax levels is, therefore, neutral.
- 9.3 The Scottish Executive have previously expressed the view that the grant settlement is a generous settlement for Scottish Local Government. For the City Council the year on year increase of AEF is 8.49% and 5.02% for 2002/2003 and 2003/2004 respectively. This compares with respective average Scottish increases of 8.64% and 5.60% for 2002/2003 and 2003/2004. Further, once the new initiatives/transfers of responsibilities and other adjustments are accounted for the "real" increase in AEF for the City Council reduces to 4.01% and 3.44% for 2002/03 and 2003/04 respectively.

- 9.4 It should be noted that the recently announced grant figures do not include the Council's share of the £125m which has been made available by the Scottish Executive in both years to provide for free personal and nursing care for older people. The arrangements for allocating these resources are currently being considered by the Scottish Executive and COSLA. Once the allocation of these additional grant monies are known, the appropriate amounts will be added to the Council's Revenue Budget and to the grant figures and therefore will have a neutral effect on the Council Tax for 2002/03 and 2003/04.

10 COUNCIL TAX 2002/2003 AND 2003/2004

- 10.1 Taking the expenditure figures shown in the Provisional Revenue Budget Volume and the revised grant settlement figures, it is then possible to calculate the resultant Council Tax levels in 2002/2003 and 2003/2004. The projected Band D Council Tax level is £1,215 for 2002/2003 and £1,334 for 2003/2004. These figures represent year-on-year increases of £169 (16.2%) and £119 (9.8%) respectively. **It should be noted, however, that these figures are before any budget savings have been identified and agreed.**
- 10.2 As has been the practice in recent years, COSLA has agreed a common Council Tax setting date. This has been fixed as 14 February 2002. On that date the Council will be required to set its 2002/2003 Revenue Budget and Council Tax and its indicative Council Tax level for 2003/2004.
- 10.3 Members are reminded that, in line with the decision taken by the Finance Committee on 18 December 2000, the first 2002/2003 Council Tax payment date will be 1 April 2002 for those persons paying their Council Tax by monthly instalments. In order to achieve this date, the City Council will require to issue Council Tax bills in March and, therefore, it is essential that the Council Tax level for 2002/2003 is set on 14 February 2002.

11 COUNCIL TAX BENEFIT SUBSIDY LIMITATION

- 11.1 The Scottish Executive has continued the mechanism introduced in 1999/2000 to make Scottish local authorities bear a proportion of the Council Tax benefits costs associated with above average Council Tax increases. For 2002/2003, the Council Tax Benefits Subsidy Limitation mechanism will apply if a Council increases its Council Tax by more than 5% and £50, and the resultant Council Tax level is above the all-Scotland average. If the mechanism does apply, the Council will have to contribute 50% of the benefit costs associated with that element of spending above the threshold. The Government has made a special provision to ensure that Councils with above average numbers of benefit claimants are not unfairly penalised by the subsidy limitation mechanism. Such Councils will continue to receive full subsidy for the benefit paid to the excess number of claimants above the Scottish average.
- 11.2 It should be noted that the arrangement does not affect payments to the recipients of Council Tax benefit. Individual claimants' benefit entitlement is unaffected.

12 NON-DOMESTIC RATE INCOME

- 12.1 The Non-Domestic Rate Income (NDRI) collected by Dundee City Council will be paid into an all-Scotland central pool and thereafter distributed to the Councils on the basis of their resident population. This arrangement has no effect on the total 2002/2003 Aggregate External Finance (AEF) which each authority will receive, as the AEF is decided first and any NDRI received from the "pool" effectively reduces the level of Revenue Support Grant payable to each Council. As shown in paragraph 8.5 above, Dundee City Council will receive £47.936m from the Non-Domestic Rates Pool in 2002/2003.
- 12.2 The Minister for Finance and Public Services has also announced that the national rate poundage for Scotland for 2002/2003 has been provisionally set at 47.8p. An announcement of the final Scottish poundage is expected early next year. The Council has made provision for non-domestic rates on its own property within the 2002/2003 and 2003/2004 Provisional Revenue Budget.

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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 preparing the above Report.