

REPORT TO: FINANCE COMMITTEE - 18 DECEMBER 2000

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2001-2004 AND CHANGES TO COUNCIL TAX LEGISLATION

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 712-2000

1 PURPOSE OF REPORT

- 1.1 This report advises members of the recent announcements made by the Finance Minister in respect of the Local Government Finance Settlement for the period 2001 to 2004. The report identifies the City Council's total Aggregate External Finance settlement and Capital Allocations for the three financial years 2001/02, 2002/03 and 2003/04. In addition it details changes to the Council Tax legislation and seeks committee authorisation to alter the current Council Tax recovery procedures.

2 RECOMMENDATIONS

That the Committee:

- 2.1 Notes the Council's 2001/02, 2002/03 and 2003/04 Aggregate External Finance settlement as announced by the Finance Minister on 7 December 2000.
- 2.2 Agrees that Dundee City Council sets its 2001/02 Revenue Budget and Council Tax on 15 February 2001, the common date agreed by COSLA; and its firm Council Tax levels for 2002/03 and 2003/04.
- 2.3 Notes the Council's Capital Allocations for the financial years 2001/02, 2002/03 and 2003/04 and instructs the Director of Finance to bring forward a report to a future Policy & Resources Committee, detailing the Council's Capital programme over that period.
- 2.4 Agrees that for the financial year 2001/02 the first Council Tax payment date be retained as 1 May, and that for every financial year thereafter it should be 1 April, in respect of those persons paying their Council Tax liability by monthly instalments.
- 2.5 Agrees that in respect of the Council Tax collection procedure, a Final Notice will no longer be required to be issued in respect of a debtor where a Reminder Notice has previously been issued in respect of the Council Tax debt.

3 FINANCIAL IMPLICATIONS

- 3.1 The financial implications of the Local Government Finance Settlement 2001 to 2004, cannot precisely be ascertained until the Departments' Provisional Revenue Budgets are available in early January.

- 3.2 The City Council's level of Aggregate External Finance for the financial years 2001/02 to 2003/04, does show a significant increase over previous and current levels. However, members must be aware that these increases include additional provisions for the likely financial implication of implementing various new initiatives including the McCrone and Sutherland Commission recommendations, the details of which are not yet fully known.

4 **LOCAL AGENDA 21 IMPLICATIONS**

None.

5 **EQUAL OPPORTUNITIES IMPLICATIONS**

None.

6 **BACKGROUND**

- 6.1 Earlier this year Scottish Ministers and COSLA Elected Members agreed an agenda for renewing the system of local government finance in Scotland. They agreed shared priorities for certainty, stability and simplification.
- 6.2 The Scottish Executive published their spending plans for the period 2001/02 to 2003/04 at the end of September 2000, which set out the aggregate totals for Scottish Executive support to local government. Since then, to assist with Local Government Best Value arrangements, the Scottish Executive has been working towards the provision of 3 year Local Government Finance Settlement figures for both revenue and capital. The Minister for Finance and Local Government has announced on 7 December 2000, the firm grant allocations for each Scottish local authority for each of the next 3 financial years.
- 6.3 The 3 year Aggregate External Finance (AEF) allocations incorporate a simplified distribution formula for the financial years 2 and 3 ie 2002/03 and 2003/04. Ministers have decided that the existing formula will be used as the baseline for years 2 and 3 of the settlement and updated using population projections. The settlement calculations incorporate stability/smoothing measures which guarantee a minimum level of year-on-year increase in grant for each individual Council. The minimum level or "floor" has been set at 5% for 2001/02, 4% for 2002/03 and 3.4% for 2003/04. The calculation of the floor excludes level playing field support (LPFS) for PFI/PPP financing costs. Contributions to the floor have been calculated pro-rata to Council's AEF totals excluding LPFS before operation of the floor.
- 6.4 In addition the Finance Minister has announced that expenditure guidelines are to be abolished, however, Ministers have retained reserve powers to cap or re-introduce guidelines for individual authorities if they consider their Council Tax rises or expenditure levels to be excessive. In return for 3 year AEF allocations, the Scottish Executive Ministers have instructed Councils to publish firm Council Tax figures for years 2 and 3 when they set their 2001/02 Council Tax level.

7 ESTIMATED SERVICE EXPENDITURE (ESE) AND TOTAL ESTIMATED EXPENDITURE (GAE) 2001/02

- 7.1 On 7 December 2000, the Minister for Finance announced that Total Estimated Expenditure (TEE) would be set at a level of £7,255.6m for Scotland for 2001/02. TEE is the combined total of Estimated Service Expenditure (ESE) of £6,351.0m, capital financing (ie Loan and Leasing Charges) of £825.0m, and Housing/Council Tax residual subsidy of £79.6m.
- 7.2 In keeping with the move towards simplification, separate Grant Aided Expenditure (GAE) allocations for individual services are not identified. Details of the assessments which are the building blocks for council AEF allocations and details of the distribution formula for 2001/02 will be set out in the annual local government distribution "Green Book" that will be published later this month. 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 users of those services and as Council Tax payers. The ESE figures relate to revenue expenditure on all services, at outturn prices but excluding Loan and Leasing Charges and is before deducting Specific Government Grants. The total of ESE is apportioned among individual authorities by means of the client group assessment method.
- 7.3 The 2001/02 Estimated Service Expenditure (ESE) figure for Dundee City Council has been announced at £195.441m and its 2001/02 Total Estimated Expenditure (TEE) as £222.366m.

8 AGGREGATE EXTERNAL FINANCE 2001/02

- 8.1 The Minister for Finance also announced that the total distributable amount of Aggregate External Finance (AEF) for Scotland for 2001/02 would be set at £5,962.6m. The distribution of AEF between authorities is calculated by taking Estimated Service Expenditure (ESE) and adding allowances for loan and leasing charges; the net costs of housing and Council Tax benefits rebates and the floor adjustment. The AEF total includes Revenue Support Grant, Specific Government Grants and Non-Domestic Rate Income. Within the total AEF figure of £5,962.6m, Dundee City Council's share was determined as £189.651m. This sum includes the following discrete elements:

	<u>£m</u>
Revenue Support Grant	125.533
Non-domestic Rate Income	<u>43.842</u>
	169.375
Specific Grants	<u>20.276</u>
TOTAL AGGREGATE EXTERNAL FINANCE 2001/02	<u>189.651</u>

The total AEF figure reflects an increase of 6.1% over the 2000/01 allocation.

The above figures will require to be taken into account when setting the 2001/02 Revenue Budget and Council Tax.

9 **AGGREGATE EXTERNAL FINANCE 2003/03 AND 2003/04**

- 9.1 The Finance Minister also announced on 7 December 2000, the City Council's Aggregate External Finance figures for the financial years 2002/03 and 2003/04 of £199.198m and £206.058m respectively. These grant figures are required by the Council in order that it may announce firm Council Tax figures for those financial years. The 2001/02 Revenue Budget will require to include projected Revenue Budgets for the financial years 2002/03 and 2003/04 and the Director of Finance will bring back a further report on the setting of 3 year Revenue Budgets and firm Council Tax levels for 2002/03 and 2003/04.

10 **NON-DOMESTIC RATE INCOME**

- 10.1 All Non-Domestic Rate Income (NDRI) collected by Dundee City Council will be paid into an all-Scotland central pool and thereafter redistributed to the Councils on the basis of their resident population. This arrangement has no effect on the total 2001/02 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 above, Dundee City Council will receive £43.842m from the Non-Domestic Rates Pool in 2001/02.
- 10.2 The Minister for Finance has also announced that the national rate poundage for Scotland has been provisionally set at 47.0p. An announcement on the final Scottish poundage is expected early next year. The Council has made provision for non-domestic rates on its own property within the Provisional 2001/02 Revenue Budget.

11 **SPENDING REVIEW 2000 - MINISTERIAL POLICY ANNOUNCEMENTS**

- 11.1 In their Spending Review announcement on 20 September 2000, the Scottish Executive acknowledged the vital role of local government in providing services and that it is for each local authority to establish its spending and investment priorities from its total allocations.
- 11.2 One of the key objectives of the reform agenda for local government finance was to focus more on service outcomes than on resource inputs to local authorities. The following is a summary of the policy initiatives that have been recognised in setting aggregate local government grant allocations.
- 11.2.1 Police and Fire
The 3 year settlement provides additional resources to support a sustainable increase in police numbers and to enable local authorities to keep pace with the needs of the fire service, particularly for meeting pay and pension costs, but also for the expansion of training and community fire safety initiatives.
- 11.2.2 Community Care
Additional funds have been included to fund the Executive's plans for the care of older people and its response to the Royal Commission on Long Term Care. The Executive will hold further discussions with local government about these measures. The settlement also provides for an increase in funding for Mental Illness.

11.2.3 Education

In addition to the cost of living increase for teachers, the settlement figures include an element to meet part of the costs of the McCrone recommendations. The Executive have, however, indicated that they are willing to fund the full cost of the package, provided that the changes secured in teachers' conditions of service are sufficient to justify that cost.

Additional provision has also been included for the Excellence Fund Core Programme and Special Programmes which are 100% specific grant funded.

11.2.4 Drug Rehabilitation

Additional provision has been included to expand support for drug rehabilitation services.

11.2.5 Transport

Provision has been included in years 2 and 3 to fund the provision of free local off-peak bus travel within existing concessionary scheme boundaries from October 2002.

11.3 Strategic Funds

Provision will be made outwith the settlement allocations for strategic revenue and capital funding for a number of policy initiatives, including:-

- Strategic Waste Fund, to support improvements in local waste management services;
- Additional investment in school buildings;
- Additional support to deprived communities, through the Better Neighbourhoods Fund; and
- The Children's Change Fund, to encourage better integrated services for vulnerable children.

12 **CAPITAL ALLOCATIONS 2001/02 TO 2003/04**

12.1 The Finance Minister announced on 7 December 2000, the Council's General Services Capital Allocations for each of the three financial years 2001/02, 2002/03 and 2003/04, as follows:-

	<u>£M</u>
2001/02	8.409
2002/03	8.489
2003/04	9.413

12.2 The 2001/02 allocations have been updated for the following 2 years so that Councils will receive the same percentage increase in line with their formula allocation for 2001/02.

12.3 The Council is able to augment these borrowing allocations by applying any capital receipts it may generate through the sale of land and property. These augmented allocations, after other minor technical adjustments, are the total funding available for the Council's capital expenditure.

12.4 The Director of Finance has already circulated Departments' current Capital Plans, asking them to update these in light of current expenditure plans. A report detailing the outcome of this exercise will be brought back to a future meeting of the Policy & Resources Committee.

13 COUNCIL TAX LEGISLATION AMENDMENTS

- 13.1 Following consideration of Accounts Commission reports on "Council Tax Collection" along with a study comparing Council Tax billing and collection arrangements in Scotland with those applying in England and Wales, the Scottish Executive has amended the legislation controlling the powers available to a local authority in the billing, collection and recovery of Council Tax.
- 13.2 Council Tax is payable by 10 monthly instalments from 1 May to 1 February each financial year. With effect from the financial year 2001/2002 a local authority has the option as to whether the first instalment from each Council Tax payer should be due on the 1st April or the 1st May. In respect of monthly instalments the number of instalments remains at 10.
- 13.3 In order to facilitate the earlier instalment dates it will be necessary to advance the normal Council Tax setting date. As has been the practice in recent years, COSLA has agreed a common Council Tax setting date. This has been fixed as 15 February 2001.
- 13.4 The Director of Finance and the Director of Information Technology are currently in the process of implementing a new integrated Council Tax and Benefits computer system. In light of this it is not recommended that monthly instalments are brought forward to 1 April until the financial year 2002/03. Appropriate publicity material will be issued to advise monthly payers of this change in payment date. This advance notification will give Council Taxpayers an opportunity to plan for the new arrangements.
- 13.5 The Government has withdrawn the legal obligation to issue a separate Final Notice prior to an application being made for a Summary Warrant. At present a Final Notice would be issued after either one or at most two Reminders (depending on the debtor's payment history) had been issued. In future the Reminders will continue to be issued but will also act as a Final Notice. The Reminder Notice will clearly state the consequences of not paying in a wording similar to that of the current Final Notice. This measure will reduce the number of stages involved in recovering debt and will shorten the timescale under which recovery action is taken.

14 CONSULTATION

- 14.1 The Chief Executive and the Director of Support Services have been consulted on the preparation of this report.

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DAVID K DORWARD
DIRECTOR OF FINANCE

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DATE

BACKGROUND PAPERS

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.