

To: POLICY & RESOURCES (FINANCE) SUB COMMITTEE		Subject: SCOTTISH EXECUTIVE SPENDING REVIEW 2002
From: DIRECTOR OF FINANCE		
Date: 30 October 2002	Ref JV/CP	

1. Introduction

- 1.1 The purpose of this report is to inform the Committee of the Scottish Executive's Spending Review plans for the three years 2003/2004 to 2005/2006.

2. Background

- 2.1 Members will be aware that the Scottish Executive recently announced its Spending Review plans for the forthcoming three year period. The plans were launched under the heading "**Building a Better Scotland: Spending Proposals 2003-06: What the Money Buys**" and the Executive has called for comment by all interested parties. Comments are currently being co-ordinated by the Finance Department on behalf of the Council.
- 2.2 In December, the Scottish Executive will announce firm AEF figures for individual councils for each of the three years 2003/2004 to 2005/2006. In keeping with agreements reached following the last spending review of 2000, the figures for 2003/2004 will remain unaltered except to reflect new funding or transfers of responsibility.
- 2.3 Continuing the approach introduced two years ago, the Scottish Executive expectation is that in February 2003, all councils will announce council tax levels for 2003/2004 and indicative levels for the following two years.

3. Settlement

- 3.1 Table 1 below summarises the headline settlement both for Revenue and Capital. These are high level announcements giving all Scotland totals for local government. In respect of the Revenue settlement, it should be highlighted that the increases shown include specific provision for new burdens, known commitments and expenditure pressures.

Table 1

	2002/2003	2003/2004	2004/2005	2005/2006
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Revenue	6751	7337	7692	8077
Yearly Increase		585	355	385
% Increase		8.7%	4.8%	5.0%
Capital	357	416	424	433
Yearly Increase		59	8	9
% Increase		16.7%	1.8%	2.3%

- 3.2 The detailed assumptions underpinning the above figures are still awaited and, it would be extremely difficult at this stage to give an accurate assessment of the potential impact of the announcement on North Lanarkshire Council. However, it is understood that provision has been included for general pay awards of 2.5% and general price increases of 1.25% as well as full recognition of COSLAs estimate of increased national insurance costs for next year. It is pleasing to note that the Executive have mainstreamed the Better Neighbourhood Service Fund and consolidated Quality of Life resources into the baseline figures.
- 3.3 Also, beyond the main local government announcement, it will be essential that councils have access to resources allocated elsewhere within the Scottish Budget in dealing with areas such as care home fees, waste strategies, delayed discharge, health improvement and transport initiatives.
- 3.4 Putting the announcement into perspective, it is important to place the increases in context. Focussing on the 2003/2004 settlement, once account is taken of ring fenced/centrally directed resources and recognised new burdens such as increased funding for Police, Modernising the Teaching Profession, Free Personal Care, Concessionary Fares Scheme, Quality of Life and National Insurance, the underlying increase is around £153m or 2.3% to fund various spending pressures eg pay awards, price increases, teachers pay agreements, single status, green taxes, demographic movements and the like. Appendix 1 details the extent of new burdens and directed initiatives contained within the increase of £585m or 8.7%.
- 3.5 Furthermore, as part of the Spending Review process, COSLA with the assistance of Directors of Finance, submitted local government's assessment of the cost of maintaining core services provision and funding known policy initiatives and commitments. When comparison is made with the overall announcement over the three year period, a shortfall of £400m is estimated in the funding of local government services. This gap is the subject of continuing dialogue between COSLA and the Scottish Executive.
- 3.6 The conclusion which so far can be drawn from the announcement is one of an extremely tight settlement with the prospect of possible difficult budget decisions ahead.
- 3.7 In terms of Capital resources, the details behind the figures have still to be clarified, although it can be assumed that consents previously acknowledged for 2003/2004 will remain firm. Detailed consents for 2004/2005 and 2005/2006 will also be announced in December. It is intended that Section 94 consents will be abolished in April 2004 through the passage of the Local Government in Scotland Bill and it is hoped that the new system will offer greater flexibility in determining levels of capital expenditure linked to local need and circumstances. Detailed discussion is required on the proposed support arrangements for capital investment from that date and whether it is to be through the current loan charge allocations. In any event, councils will need to have due regard to the new scheme when announcing indicative council tax levels for 2004/2005 and 2005/2006.

4. NLC Budget Process 2003/2004

- 4.1 Members will be aware that the budget exercise for the forthcoming year 2003/2004 is well under way. Reports to the Policy and Resources Committee meetings of the 11th June and the 17th September 2002 set out a framework for combining both the service planning and financial planning processes. The Committee noted that Budget packs were issued to departments on the 19th July 2002 as part of the new integrated procedures and contained requests for CSP details for 2003/004 and indicative figures for 2004/2005 and 2005/2006.
- 4.2 In keeping with the Council's current three year financial strategy, departments have also been requested to bring forward efficiency savings for 2003/2004 totalling £4m and representing 1% of total net revenue expenditure. These savings will be channelled into further enhancing spending in key priority areas.

4.3 The following timetable has been set to enable the budget process to be taken forward:

Detailed departmental budgets and planning totals issued to departments	Mid July 2002
Efficiency Savings returned to Director of Finance	End August 2002
CSP movements returned to Director of Finance	Mid September 2002
Service plans and Revenue budgets to service committees	December 2002/January 2003
Budget Consultation	Mid January 2003
Council to Agree HRA budget and rent levels	End January 2003
Council to determine overall spending plans and set Council Tax levels	13 February 2003

5. **Financial Plans 2003/2004 to 2005/2006**

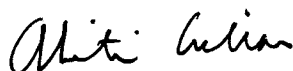
5.1 In developing its Financial Plan for the next three years and in particular the years 2004/2005 and 2005/2006, the Council will have to give consideration to a number of important key strategic matters including :-

- Setting of indicative council tax levels for 2004/2005 and 2005/2006
- Setting of indicative rent levels for 2004/2005 and 2005/2006
- The extent and methodology for determining future efficiency savings to fund annual growth
- The availability of uncommitted surpluses to fund annual one –off growth
- Level of fees and charges
- Capital Plans for next three years including effect of the abolition of section 94 consent

5.2 All of these issues will be developed as the Council's budget strategy progresses.

6. **Recommendation**

6.1 The Committee is requested to note the details of the 2002 Spending review and the matters relating to the forthcoming year's budget. Further detailed reports will be presented to Committee once final details of each authority's settlement are known.



Director of Finance

For further information contact J Verrechia, Head of Accounting Services on 01698 302275.

Increase Allocations for New Burdens & Transfers

	<u>£m</u>
Modernising the Teaching Profession (McCrone)	128
Free personal and nursing care	36
Enhanced concessionary fares scheme	25
Increased funding for Police Service	23.4
Care Services for Home Based Older People	19
Better Neighbourhoods Services Fund	10
School Inclusion	9
Increased Funding for Fire Service	7
Adult Literacy	5
Children's Services Development Fund	5
Carers Services and Respite Care	5
Services for People with Learning Disabilities	4
Supporting People	3
Access to the Countryside	1.8
DWP Transfer: Preserved Rights and Res Allowance	9.9
Total	291.1
Others	
Schools PPP	5
Quality of Life	50
Additional Police Resources	37
Fire Services	9
National Insurance	40
Grand Total	432.1
Spending Review Announcement	585
Balance *	152.9

***Note**

This figure is the balance which needs to fund the following items of expenditure:

- pay, prices, superannuation etc. This will also include single status.
- the gap in the costings between COSLA and Scottish Executive's estimates for initiatives such as the teachers' pay agreement.
- The gap in the costings between COSLA and Scottish Executive's estimates for the funding of core services eg., repairs and maintenance.
- Demographic movements, particularly the elderly.
- Green taxes such as landfill tax.