

TO: POLICY AND RESOURCES (FINANCE) SUB-COMMITTEE	Subject: Spending Review 2004	
FROM: DIRECTOR OF FINANCE		
Date: 11 October 2004	Ref: JV/LM	

1 Introduction

- 1.1 The Scottish Executive has published its Spending Review plans, launched under the heading "Building a Better Scotland: Spending Proposals 2005-2008: Enterprise, Opportunity, Fairness". These plans outline the total spending of the Scottish Executive, including the resources allocated to local government.
- 1.2 The Scottish Executive will announce in December firm AEF figures for individual councils for each of the three years 2005/06 to 2007/08. The figures for 2005/06 will confirm those previously announced in SR2002, adjusted only for transfers of responsibility, e.g. transfer to DWP for Housing and Council Tax Benefit payments. It should also be noted that the Communities Regeneration Fund, which replaces the Better Neighbourhood Services Fund is outwith AEF, BNSF funding having previously been included in AEF.
- 1.3 Continuing the approach introduced in SR2000 and maintained in SR2002, it is likely that the Scottish Executive will expect councils to announce council tax levels for 2005/06 and indicative levels for 2006/07 and 2007/08 in February 2005.

2 Settlement

- 2.1 Table 1 below summarises the headline settlement for both Revenue and Capital. These are high level announcements giving all-Scotland totals for local government. In respect of the Revenue settlement, it should be noted that the increases shown include specific provision for new burdens, known commitments and expenditure pressures. The published headline figures for 2005/06 are broadly in line with expectations.

Table 1

	2004/05	2005/06	2006/07	2007/08
	£m	£m	£m	£m
Revenue	7737	8028	8306	8504
Yearly increase		291	278	198
% Increase		3.8%	3.5%	2.4%
Capital	385	395	408	414
Yearly increase		10	13	6
% Increase		2.6%	3.3%	1.5%

- 2.2 The overall increase in AEF is 9.9% compared with an increase of 23.6% in non-council spending.

- 2.3 COSLA's submission to SR2004 concentrated on achieving agreement with the Executive on the cost of core local government services. This has been done by listing Scottish Executive funding for 2005/06 through AEF and other initiative funding and the cost of areas recognised by the Executive but where funding has not yet been committed. The figure announced for AEF for 2005/06 is broadly consistent with the amount calculated by COSLA. COSLA also calculated that over £900 million was due from other departmental portfolios and details of this funding have yet to be announced.
- 2.4 COSLA also submitted details of funding required for new policy priorities arising from the partnership agreement (e.g. increasing teaching staff to 53000), specific pay and price issues and areas of significant underfunding from SR 2002 with this amounting to over £420 million. It is understood that the funding for increased teachers will be met from the Education portfolio. However, it is not yet clear to what extent COSLA's requests for additional funding will be met.
- 2.5 The Executive has announced details of funding for Supporting People. North Lanarkshire Council will receive £25.8 million in 2005/06, rising to £26.5 million in 2007/08. The impact will generally be cost neutral although the allocation does not reflect future inflationary pressures.
- 2.6 The detailed assumptions behind the above figures are still awaited and further details will be issued by Scottish Executive departments over the coming weeks. It is extremely difficult at this stage, therefore, to give an accurate assessment of the potential impact of the announcement on North Lanarkshire Council. The following details have been highlighted:
- 2.6.1 Inflation
- The Executive has confirmed that, following representation from councils, an allowance had been made for pay and price inflation. However, the increases provided for are lower than COSLA's estimates of inflation.
- 2.6.2 Efficient Government
- The Efficient Government Plan will be announced shortly. However, the Executive has assumed within the spending plans an efficiency saving of 2% over the three years of the Spending Review period. The Minister for Finance and Public Services has indicated that the Executive has secured £650 million of recurring efficiency savings by March 2008. Almost £250 million of this sum has been targeted at local government although it has been stated that savings made by local councils will be retained by them to be redirected to their frontline services.
- 2.7 The provisions for inflation, therefore, even before taking account of the assumed level of efficiency saving, are not sufficient to meet the inflationary increases facing the Council over the next three years.
- 2.8 The Minister also announced the continuation of Quality of Life funding. £50m has been allowed for in each of the years 2006/07 and 2007/08 compared with £70m committed for 2005/06. The Council is due to receive £4.3 million out of the £70 million in 2005/06. On a pro rata share, the Council stands to lose £1.2 million in 2006/07 and 2007/08 compared with 2005/06.
- 2.9 Increased funding was indicated for a number of specific service areas although details have not been issued at this stage. These include funding for:
- further support in education for families with young children
 - residential and home based care for the elderly to meet the projected demand and for improvements to the service
 - meeting the backlog of roads maintenance
 - environmental programmes to meet higher standards in waste collection and disposal.

- 2.10 It is clear, however, that above inflation increases in certain services are likely to mean reductions in other areas given that the overall budget is barely increasing in real terms.
- 2.11 The conclusion that can be drawn from the information released so far is that the Revenue settlement is very tight and it is likely that challenging budget decisions will have to be faced by the Council.
- 2.12 In determining the grant settlement for councils, the Scottish Executive has assumed an increase in council tax of 2.5% each year. This compares with the Council's planned increase of 3.5% in the Financial Plan.
- 2.13 In terms of Capital, it would appear that the figures are in line with COSLA's submission. The Capital figure includes:
- Cities Growth Fund (£40m / £41m / £42m in 2005/06 to 2007/08)
 - Incentives Fund (£10m each year)
 - £3m in 2006/07 for e-voting systems.

The figure excludes estimated borrowing by councils under the prudential regime of £290.5m / £297.7m / £305.2m in 2005/06 to 2007/08.

3 North Lanarkshire Council Budget Process

- 3.1 The 2005/06 budget process is well underway, taking account of the Council's 3-year Financial Plan that includes a council tax increase of 3.5% and an efficiency savings target of £3.75 million.

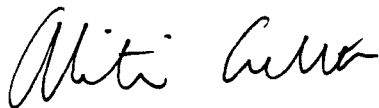
4 Conclusions

- 4.1 The headline figures announced by the Scottish Executive indicate that funding for local government is barely increasing in real terms over the next three years. The impact on North Lanarkshire Council will not be known until December but it is anticipated that the Council's budget will be tight, particularly in 2006/07 and 2007/08.
- 4.2 Progress is on target to produce the Council's budget for 2005/06. In light of the implied assumption within the settlement of council tax increases of 2.5%, the Council may have to consider the continued appropriateness of its current strategy.

5 Recommendation

It is recommended that Committee:

- 5.1 notes the position following the announcement of the Scottish Budget;
- 5.2 notes the progress made to date in compiling the Council's budget for 2005/06.



Director of Finance