

TO: POLICY AND RESOURCES (FINANCE) SUB-COMMITTEE		Subject: LOCAL GOVERNMENT FINANCE SETTLEMENT 2005/2006	
FROM: DIRECTOR OF FINANCE			
Date: 11 January 2005	Ref: JV/LM		

1 Introduction

1.1 The purpose of this report is to advise Committee of the Local Government Finance Settlement for the three years 2005/06 to 2007/08.

2 Background

2.1 A report was submitted to Committee in October 2004 providing details of the Scottish Executive's three-year spending plans in September 2004 published under the heading "**Building a Better Scotland: Spending Proposals 2005-2008: Enterprise, Opportunity, Fairness**". The report outlined the total resources allocated to local government and indicated that information on the Council's funding would be provided in December 2004.

2.2 The Scottish Executive announced on 8 December figures for each council's Aggregate External Finance (AEF) for the years 2005/06 to 2007/08. These figures were detailed in Finance Circular 08/2004, a copy of which is available in the Members' Library.

3 Settlement Announcement

3.1 The settlement for North Lanarkshire and comparison with the aggregate position for Scotland is as follows:

	Spending Review 2002		Spending Review 2004		
	2004/05 £m	2005/06 £m	2005/06 £m	2006/07 £m	2007/08 £m
Scotland AEF	7669.403	7992.454	8079.720	8343.908	8537.178
Increase %		4.2%	5.3%	3.3%	2.3%
North Lanarkshire AEF	467.360	490.382	496.072	514.383	526.962
Increase %		4.9%	6.1%	3.7%	2.4%

- 3.2 It should be noted that, as with previous spending reviews, the figures for 2005/06 are unchanged from those previously announced, except for additional resources provided for new transfers of responsibility and new burdens. The increase for North Lanarkshire amounts to £5.690m and recognises increases in funding for, for example, Police, Fire and the National Priorities Action Fund. The updated figure for 2005/06 is made up as follows:

	£m
Total per SR2002	490.382
add: <u>New Burdens/Responsibilities</u>	
National Priorities Action Fund	1.585
Police & Fire	1.453
Waste Disposal	0.135
Supporting Young People Leaving Care	0.366
DWP Transfer Residential Allowance	2.049
Money Advice	0.122
Supporting People	0.227
less: Effects of changes in PPP support	<u>-0.247</u>
Total Increase	5.690
Revised AEF per Circular 08/2004	<u>496.072</u>

- 3.3 The AEF announced for the following two years is £514.383m in 2006/07 and £526.962m in 2006/07. The year-on-year increase equates to £18m in 2006/07 followed by a further £12m in 2007/08. While these increases appear relatively favourable, it should be emphasised that the settlement contains earmarked and centrally directed resources amounting to £17m over the two years. This leaves little to fund pay awards, inflation increases and other additional cost pressures at a local level.
- 3.4 The Scottish Executive has continued the previous "Floor" arrangements, which guarantee a minimum level of AEF for all Councils. The Floor has been set at 2% for 2006/07 and 1.75% for 2007/08. The Floor mechanism is self-financing; that is, the increased grant for councils who receive from the Floor is paid for by contributions from authorities above the Floor. North Lanarkshire Council is a contributor to the Floor in both years, having its grant reduced by £1.705m in 2006/07 and by £1.856m in 2007/08. This compares with the Council's contribution to the Floor in 2005/06 of £1.829m. The effect of the Floor is to reduce the Council's grant increase from 4.0% to 3.7% in 2006/07 and from 2.8% to 2.4% in 2007/08.
- 3.5 As for previous Spending Reviews, the Scottish Executive expects councils to publish three-year Council Tax levels – actuals for 2005/06 and indicative figures for 2006/07 and 2007/08. The announcement confirms Ministers' presumption that council tax should increase than by no more than 2.5% in 2006/07 and 2007/08.
- 3.6 The settlement incorporates Efficiency Savings of £58.5m in 2006/07 and a further £55.7m in 2007/08. This amounts to an average efficiency saving of 0.7% each year. This amount has been top-sliced from AEF as a contribution to the Scottish Executive's Efficient Government Agenda.
- 3.7 The settlement also includes an allowance for pay and price increases. The figure of £184.5m falls far short of the figure calculated by COSLA of £474.7m.

- 3.8 As previously reported, there will be a reduction in Quality of Life funding in 2006/07 and 2007/08. £50m has been allocated across Scotland in each of the years 2006/07 and 2007/08 compared with £70m previously provided by the Scottish Executive for 2005/06. As a result of this reduction, North Lanarkshire Council will receive £3.116m in each of the two years as opposed to the previous level of £4.343m, a reduction of £1.2m. The Council has used this Fund to support its growth plans in areas such as roads, environmental improvements and vehicle replacement over the last three years. The level of reduction may be balanced by the removal of spend that has previously been earmarked on a one-off basis.
- 3.9 Grant is also provided outwith AEF of approximately £1,100m in each of the next three years. Details of this funding and its allocation will be confirmed to councils in due course. Most of this funding relates to specific Scottish Executive initiatives in areas such as Supporting People, Communities Regeneration Fund, Changing Children's Services Fund and Strategic Waste Fund. It is anticipated that the majority of this funding will be ring-fenced for particular services. However, there may be elements over which the Council will have some discretion to channel toward the delivery of core services.
- 3.10 In his announcement to Parliament, the Minister for Finance and Public Service Reform acknowledged that councils had expressed concern about the settlement for 2007/08. He stated that he will consider representations "in the context of the overall Scottish Budget and local government's progress on Efficient Government". He also indicated that he would consider COSLA representation on the allocation of the funding arising from the budget consequential of the Chancellor's assistance to English local government.
- 3.11 The Non Domestic Rate poundage has been set at 46.1p for 2005/06. This compares with the figure of 48.8p in 2004/05. The reduction takes account of the revaluation of non domestic rateable values and amounts to an average increase of 2%.

4 Revenue Budget 2005/06

- 4.1 The 2005/06 budget process is well underway and all departmental budgets have already or are in the process of being submitted to the respective committees. As is normal practice, a final budget report will be presented to Council during February, which will enable consideration of the Council's financial strategy for the next three years.

5 Preliminary Budgets 2006/07 and 2007/08

- 5.1 In my earlier report, I advised Committee of the headline settlement announcement in terms of the all-Scotland totals for local government. I am now able to inform Committee of the detailed figures at individual council level.
- 5.2 The Council will receive an increase of 3.7% in 2006/07 and 2.4% in 2007/08, which is slightly above the national average as detailed in section 3 above. Work is underway in developing preliminary budgets for 2006/07 and 2007/08 and more details of these will be reported in due course, together with the impact of the settlement on the Council's overall financial position over these two years.
- 5.3 Early indications suggest that the announcement presents an extremely tight settlement for the Council. It is highly likely, therefore, that savings beyond the level previously set will be required if the Council wishes to maintain council tax increases at similar levels to those announced over the last several years.
- 5.4 In developing the Financial Plan for the next three years and in particular 2006/07 and 2007/08, the Council will require to give consideration to a number of important strategic matters including:

- Setting indicative council tax levels for 2006/07 and 2007/08;
- Determining its budget for 2006/07 and 2007/08 in light of the information set out in the recent settlement;
- The extent and methodology for determining future efficiency savings;
- Given the tightness of the settlement, consideration of how best the Council can maximise all of its funding sources (including centrally directed initiative funding) in order to meet the increasing level of cost pressures and service demands;
- How to provide for additional growth pressures.

6 Ring-Fencing and Central Direction

- 6.1 The settlement includes provision for new initiatives and centrally directed resources in each of the three years amounting to £17.429m in 2005/06, £9.750m in 2006/07 and £7.701m in 2007/08. The Council may wish to take a flexible approach in making the best use of these resources in determining its overall budget strategy. The Scottish Executive has emphasised that, apart from specific grants, these additional resources are not ring-fenced or hypothecated and it is for each council to determine the spending and investment priorities from its total allocations.

7 Recommendation

It is recommended that Committee:

- 7.1 notes the details of the financial settlement for North Lanarkshire Council, the ongoing work in finalising the budget for 2005/06 and developing the Financial Plan for the next three years.



Director of Finance