

## **EAST AYRSHIRE COUNCIL**

### **POLICY AND RESOURCES COMMITTEE – 30 NOVEMBER 2000**

#### **SCOTTISH PARLIAMENT LOCAL GOVERNMENT COMMITTEE INQUIRY INTO LOCAL GOVERNMENT FINANCE**

##### **Report by Director of Finance**

### **1 PURPOSE OF REPORT**

- 1.1 The purpose of this report is to propose a response to an invitation from the Local Government Committee of the Scottish Parliament to provide a written submission on the current issues in Local Government Finance as part of their examination of the system.

### **2 BACKGROUND**

- 2.1 In responding to the Report of the Commission on Local Government and the Scottish Parliament (The McIntosh Report), the Local Government Committee agreed that a review of the system of local government finance was required. The Scottish Executive was not minded to set up an independent review however and the Committee agreed to conduct its own inquiry into the system.

### **3 PROPOSED RESPONSE**

#### **3.1 Inquiry into Local Government Finance**

This provides a welcome opportunity for authorities to make the Committee aware of the issues which surround a complex system which few fully understand and which has the capacity to generate friction between the Scottish Executive and Local Government on a regular basis. The Council's submission may include the following issues many of which have previously been discussed by Members in various forums.

#### **3.2 The Balance Between Central and Local Funding**

At present only 20% of local government funding comes from council tax. The effect of having 80% of funding determined centrally becomes evident when that funding does not fully recognise spending pressures such as pay awards, general inflation and new burdens. For example, if costs increase by 3% but central funding is increased by 2%, council tax needs to increase by 7% to cover the difference. This is sometimes referred to as the "gearing effect" of the current system.

	Year 1 £m	Year 2 £m	Increase %
Total Spending	500	515	+3%
Central Funds	400	408	+2%
Council Tax	100	107	+7%

### 3.3 **Council Tax Collection**

One of the main difficulties in council tax collection is the fact that domestic water and sewerage charges are not eligible for rebate. Water and sewerage charges are levied by the water authorities but included in council tax bills by statute. This means that a person on income support whilst receiving a full rebate in respect of council tax charges is nevertheless required to pay all of their water and sewerage charges. The requirement for investment by water authorities to be funded from current charges has meant significant increases in these charges in recent years. The absence of any rebate scheme means that all taxpayers have been required to meet all of these additional costs irrespective of their ability to pay. The Council has made formal recommendations at national level on the need for a water and sewerage rebate scheme to be introduced.

### 3.4 **The Non-Domestic Rate**

The present funding formula takes all rates income for Scotland and distributes it to individual authorities on the same basis as central government funds. Authorities with large rates bases have long argued for return of this to local Council control. Whilst such a move would increase the level of local funding to around 45%, the distribution of central funding would require to be amended in some way to take the ability of individual Councils to raise income from that source into account. There is no reason to suppose that this could not be achieved in an equitable way however given that an equalisation scheme which takes account of Councils' varying tax raising ability in relation to council tax is part of the existing system.

### 3.5 **Alternatives to the Council Tax**

Although a number of alternative sources for local government finance and refinements of existing systems have been suggested, the options must be properly researched and the pros and cons discussed before definitive views can be taken.

### 3.6 **Grant and Spending Conditions**

The main element of central funding is in the form of a block allocation of grant. Councils then determine how to use these funds to meet local needs and priorities. An increasing element of annual increase in grant is being linked to expenditure for specific purposes. This is sometimes termed as hypothecation or ring-fencing. Thus while additional money is being provided it is inextricably linked to new and additional spend. This can result in the increase in the resources available to Councils being less after this new

spend is taken into account than is required to meet the cost pressures in the continued delivery of existing services.

There is further concern that the way in which these hypothecated or ring-fenced monies can be spent is too tightly specified at national level and there is insufficient flexibility to take account of variations in local circumstances.

Whilst it is appreciated that Ministers are keen to see demonstrable effects of additional funds, local discretion on methods of meeting shared priorities is essential if scarce resources are to be used in the most efficient way. Councils should be trusted to deliver shared priorities in the way which suits local conditions.

### **3.7 Challenge Funds**

Whilst challenge funds may be seen by Ministers as useful in directing scarce funds to the most deserving projects across Scotland, those authorities with most resources are best placed to prepare detailed bids for them. Whilst this Council has been successful in putting forward persuasive cases in many areas, the work required to put such bids together is often considerable with no guarantee of success. The nature of challenge funding means that whilst all Councils are likely to bid, many will by definition be unsuccessful and there must be a question over whether this represents the best use of local government resources generally. Whilst there may be a place for challenge funding in certain circumstances, only very limited use should be made of it with the needs of Councils rather than their presentation skills being the main factor in decisions on distribution of additional funds.

### **3.8 Inflationary Pressures and New Burdens**

Whilst it is recognised that all of the needs of local government are unlikely ever to be met and prioritisation will always be an issue, greater transparency in the determination of central funding is essential. Each year additional costs arising from inflation and new burdens must be met by local authorities. In determining the level of central funding it is essential that all known additional spending pressures are fully identified and costed in advance. It is accepted that these may not be funded in full from the centre but acknowledgement of that would provide more transparency and accountability. Furthermore, any new responsibilities to be allocated to Councils need to be fully costed in advance and resourced accordingly by central government.

### **3.9 Capping and Spending Guidelines**

The present system of guidelines for local spending being determined by the Scottish Executive should be abandoned. Recent announcements to that effect are therefore welcome. Local Councils are directly accountable to their electorate and the effect at the ballot box of decisions on spending which take account of the balance between services and council tax levels should be trusted to provide sufficient control.

### **3.10 Capital Finance**

Local government has argued for some time that capital expenditure by local authorities is double counted for treasury and control purposes. It is the subject of control under Section 94 regulations which limit the amount, which can be borrowed each year, and in addition the repayment of sums borrowed is counted in revenue expenditure. Removing Section 94 controls would allow Councils to come to a more balanced view on whether borrowing to finance major building or repairs projects represented best value for money in the longer term as the level of consequential annual repayments for individual projects would become an important factor in decision making.

In England the Department of the Environment, Transport and the Regions (DETR) is presently considering these matters. There is no doubt that urgent and significant investment in Council properties and infrastructure assets is necessary and it is vital that the funding of this is addressed.

## **4 RECOMMENDATIONS**

It is recommended that:

- 4.1** the Director of Finance be authorised to respond to the Scottish Parliament Local Government Committee on the Council's behalf incorporating the comments highlighted above; and
- 4.2** otherwise note the contents of this report.

Alex McPhee  
**Director of Finance**

AMcP/DMW  
21 November 2000

### **LIST OF BACKGROUND PAPERS**

Letter dated 9 November 2000 from the Local Government Committee of the Scottish Parliament to all local authority Chief Executives.

Members wishing further information should contact Alex McPhee, Director of Finance, Tel: (01563) 576300.

**AGENDA**