

SCOTTISH OFFICE

LOCAL GOVERNMENT FINANCE (SCOTLAND)

Notional Amounts Report 1996

Report by the Secretary of State for Scotland
under Section 94A of the Local Government
Finance Act 1992

*Ordered by The House of Commons to be printed
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Introduction

1. This Report by the Secretary of State for Scotland is laid before the House of Commons in accordance with section 94A of the Local Government Finance Act 1992 ("the 1992 Act") (as inserted by section 24 of the Local Government etc. (Scotland) Act 1994 ("the 1994 Act")) for approval by resolution of the House. It follows consultation with the Convention of Scottish Local Authorities (COSLA).

Effect

2. In terms of Schedule 7 to the 1992 Act, the Secretary of State may in certain circumstances propose a reduction in the council tax set by a Scottish local authority. One of the relevant circumstances is where the Secretary of State considers there to have been an excessive increase in the total estimated expenses of a local authority for the financial year compared with those expenses for the immediately preceding year. In view of the reorganisation of Scottish mainland local authorities due to take effect on 1 April 1996 the 1994 Act inserted section 94A into the 1992 Act, under which the Secretary of State may specify in a report the amounts which, as regards financial year 1996-97 and the councils constituted under section 2 of the 1994 Act ("a new authority"), should in his opinion be used as the basis of comparison for the purposes of the test referred to in the foregoing sentence. Section 94A does not extend to Orkney Islands, Shetland Islands and Western Isles. Amounts specified in the Report will therefore (in the event of approval of the Report by the House) be compared with the total estimated expenses for financial year 1996-97 of the new authority in question.

3. The Secretary of State hereby specifies that, as regards the financial year 1996-97 and each new authority specified in column 1 of Annex 1 to this Report, the amount which in his opinion should be used as the basis of comparison for the purposes of paragraph 1(1) of Schedule 7 to the 1992 Act is the amount specified in column 2 of that Annex opposite the name of the new authority in question.

Explanation of calculation of amounts

4. The amounts shown in Annex 1 ("notional amounts") have been calculated in the following manner.

5. Firstly, there has been taken for each regional and district council ("the old authorities") the amount of their total estimated expenses for 1995-96 mentioned in section 93(3) of the 1992 Act. From these amounts, there have been deducted any estimated expenses attributable to the functions in respect of domestic sewerage, referrals to children's panels, river purification boards and elections under section 5(2) of the 1994 Act.

6. Secondly, the figures arrived at under paragraph 5 above have been split down in those cases where the area of an old authority is being divided between the areas of 2 or more new authorities. This disaggregation exercise has been carried out in accordance with principles set by the Secretary of State after consultation with COSLA. These principles were set out in Scottish Office Finance Circular No 16/1995 dated 13 April 1995 and an extract of the relevant part of that Circular is at Annex 2 to this Report.

7. Thirdly, the notional amount for each new authority has been determined by adding together (a) the amount determined under paragraph 5 above in respect of any old authority, the area of which lies completely within the area of the new authority; and (b) the amount determined under paragraph 6 above as being applicable to that part of the area of the disaggregating old authority which lies within the area of the new authority.

8. The intention has thus been that the notional amount for each new authority should represent the expenditure planned by the old councils in 1995-96 in the area of the new authority.

ANNEX 1

New Authority	<i>NOTIONAL AMOUNT £000</i>
Aberdeen City	202,484
Aberdeenshire	201,628
Angus	105,178
Argyll & Bute	104,552
Clackmannanshire.	48,972
West Dunbartonshire	116,276
Dumfries & Galloway	152,773
Dundee City	176,033
East Ayrshire	122,900
East Dunbartonshire	97,602
East Lothian	80,196
East Renfrewshire.	74,043
Edinburgh City	418,673
Falkirk	133,326
Fife	349,893
Glasgow City	800,138
Highland	234,571
Inverclyde	96,974
Midlothian	81,875
Moray	85,001
North Ayrshire	135,130
North Lanarkshire	327,768
Perth & Kinross	126,006
Renfrewshire	179,046
Scottish Borders	107,026
South Ayrshire	108,964
South Lanarkshire	294,836
Stirling	85,495
West Lothian	154,004

ANNEX 2

PRINCIPLES TO BE APPLIED TO THE 1995-96 REVENUE BUDGET DISAGGREGATION EXERCISE

Introduction

1. It was agreed at the Distribution Committee meeting on 23 February that it would be desirable for the actual 1995-96 budgets of the 10 "disaggregating" authorities - namely, Central, Grampian, Lothian, Strathclyde and Tayside Regions and Dumbarton, Dundee, Glasgow, Renfrew and Strathkelvin Districts - should be apportioned to the new council areas on as uniform a basis as possible. Arising from this, the following "principles" for disaggregation have been prepared in consultation with the above 10 authorities.

2. Existing local authority Departments and Services which will not have any direct financial impact on the new Councils (eg domestic sewerage, River Purification Board contributions, Children's Hearing System and all expenditure included on the POBE form under Part 1B (Total Other Expenses)), should be ignored for the purposes of the disaggregation exercise. However, expenditure on Capital for Current Revenue (CFCR) and care in the community should both be included.

3. It is recommended that the disaggregation exercise should be undertaken at a detailed level ie Departmental Sectors analysed by subjective summary classification ie staff costs, property cost etc.

4. Where possible, common apportionment bases should be used by all authorities. It is anticipated that extensive use will be made of population statistics and GAE indicators.

5. It is proposed that the 1995-96 GAE indicators (converted to the new Council boundaries) should be applied and that the 1993 Home population statistics adjusted for the new Council boundaries (as provided by the Population Statistics Branch, GRO) should be adopted by all authorities in this exercise. Note, the most relevant population statistics should be used eg population aged under 16 for children's services.

Explanation of Principles to be applied

6. **When undertaking the exercise, the following general principles should be applied in the order listed:**

PRINCIPLE 1: Direct Allocation of Budgets

For geographically devolved services, Cost Centre Budgets should be assigned to the appropriate new Council where at all possible.

The extent to which the principle can be applied will depend upon the extent of devolved budgeting which has been implemented by existing authorities.

Extensive use of this technique can be made where departmental ledgers or budget models are already structured along an "area" basis.

In cases where Departments have certain operations based on the existing authority boundaries which are themselves affected by reorganisation, adjustments will require to be identified and carried out.

PRINCIPLE 2: Apportionment of Budgets for Authority-wide Resources

Where authority resources are based in one area of a disaggregating authority, but currently serve the whole authority area, the assumption should be made that all new Councils will continue to make use of the facilities and should therefore have a share of the budget.

Examples may include Resource Centres, Day-Care Centres etc. Such budgets should therefore be allocated to the new Councils using a suitable client group indicator.

PRINCIPLE 3: Apportionment of Budgets

Budgets which are not readily identifiable with a single new Council boundary (eg Service HQ budgets) should be apportioned on what it considered to be the

best available indicator as to how the budget should be split - advice from the service Directors concerned, should form the basis of decisions in such cases. Where a suitable client group indicator is not available, population ratios should be used.

An example might be use of weighted population estimates (eg population aged 16 and under) for central Social Work Department children's services, insured property values for Property Department expenditure etc.

PRINCIPLE 4: Treatment of Centrally Held Budgets

Centrally held budgets (eg Energy Costs) should be split on the basis of actual expenditure (average of 3 latest full years data) for each new Council area, adjusted for the proposed boundary changes.

PRINCIPLE 5: Apportionment of Service Department Administration Costs - Geographically Devolved Services

Departmental Administration Costs within a Service Department should be apportioned pro-rata to the Department's disaggregated budget.

PRINCIPLE 6: Treatment of Centralised Service Departments

Service Departments which do not operate on an "Area" basis should be apportioned where possible on an actual cost basis (averaged over 3 years) and, failing that, on a population basis (after adjusting for any boundary changes).

PRINCIPAL 7: Treatment of "Central Support" Departments

With certain exceptions, the budgets of central departments such as the Chief Executive's, Legal, Administration, Personnel, Management Services, Finance and Information Processing Services should be apportioned using the estimated 1993 home population figures for the new Council boundaries, unless a local agreement can be reached on a more equitable basis.

Whilst it could be argued that this approach is over-simplistic, it must be borne in mind that the central departments tend to be almost exclusively based in HQ's and by definition have centralised budgets. There are likely to be detailed proposals for the structuring of such departments in the new Councils which will be costed in due course. In the absence of these proposals at present, it is considered that any detailed attempts to second-guess the proposals would be unproductive and therefore a straightforward method of allocation is sought ie population.

One exception to this general method of apportioning the costs of central support departments is the method which should be used to apportion the net expenditure of the revenues function of the Finance Department. Within this service area, the collection costs of Council Tax, Non-Domestic Rates, Miscellaneous Income and Community Charge should be apportioned on the bases of Number of dwellings valued, Number of rateable subjects, Adjusted Population and Analysis of Community Charge debt by area respectively.

Other exceptions will depend on the budgeting and management information arrangements within individual authorities.

PRINCIPLE 8: Joint Boards etc Contributions

Whilst the Police and Fire Services will be administered by Joint Boards, it is anticipated that there will be a direct financial impact on the new Councils arising from the difference between the total expenditure on these Services and the level of grant aid currently provided by The Scottish Office, ie 51% in the case of Police Services. The budgeted net expenditure on Police, Fire and Assessors Services under current arrangements should therefore be included in the exercise and apportioned between the new Councils firstly on an actual cost basis (averaged over 3 years) and thereafter by applying Principles 1 to 7 in the order listed.

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