

**REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 10 FEBRUARY 2005
SPECIAL FINANCE COMMITTEE - 10 FEBRUARY 2005**

**REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2005/06 AND
INDICATIVE COUNCIL TAX 2006/07 & 2007/08**

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 120-2005

1 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2005/06 to 2007/08 Revenue Budgets and to remind members of those factors requiring decisions in order to set the Final 2005/06 Revenue Budget and Council Tax. The report also outlines the latest position regarding the announcement of indicative Council Tax levels for 2006/07 and 2007/08.

2 RECOMMENDATIONS

- 2.1 The Committees are asked to note the procedures for setting the 2005/06 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 17 January 2005 and as set out in Appendix A to this report.
- 2.2 The Committees are asked to note the contents of the Provisional 2005-2008 Revenue Budget Volume (Report 118-2005).
- 2.3 The Special Finance Committee is asked to note those factors which it requires to consider when setting the final Revenue Budget and Council Tax for 2005/06, as detailed in paragraphs 6.1 to 14.2 of this report.
- 2.4 The Special Finance Committee is asked to note the latest position regarding the announcement of indicative Council Tax levels for 2006/07 and 2007/08, as set out in paragraphs 15.1 and 15.2 of this report.

3 LOCAL AGENDA 21 IMPLICATIONS

None.

4 EQUAL OPPORTUNITIES IMPLICATIONS

None.

5 BACKGROUND

- 5.1 The Policy & Resources Committee on 17 January 2005 considered Report 56-2005 by the Depute Chief Executive (Finance). This report detailed the Local Government Finance Settlement for the three year period 2005-2008, as announced by the Minister for Finance and Public Services on 8 December 2004. The report also detailed the proposed procedures to be followed by the various Committees on Council Tax setting day (10 February 2005). These procedures were agreed and, for ease of reference, are reproduced at Appendix A to this report.

6 PROVISIONAL 2005-2008 REVENUE BUDGETS

- 6.1 Over the past nine months the Depute Chief Executive (Finance), in conjunction with the other Chief Officers, has been reviewing and refining the detailed Revenue Budgets for 2005/06, 2006/07 and 2007/08. The outcome of this exercise is reflected in the Provisional 2005-2008 Revenue Budget Volume (Report 118-2005). The total Revenue Budget requirement for each of the three financial years is shown on page 1 of the volume. It is emphasised, however, that these figures are before any budget amendments or budget savings have been identified, approved and incorporated. The 3-Year Revenue Budgets agreed by the Police, Fire and Valuation Joint Boards on 31 January 2005 are incorporated with the Budget Volume.

7 DRAFT REVIEW OF CHARGES 2005/2006

- 7.1 A draft 2005/06 Review of Charges document has also been prepared (Report 119-2005). This shows additional income of £347,000 in 2005/06, reflecting an overall inflationary increase of around 3%. The projected additional income is already included in the Provisional 2005-2008 Revenue Budget Volume. It is stressed, however, that the final decision on the review of charges, and any other savings, is a matter for the Special Policy & Resources and Finance Committees on 10 February 2005.

8 NEW MONIES

- 8.1 The Provisional 2005-2008 Revenue Budget includes all items of new monies previously announced by the Scottish Executive in respect of 2005/06. Further items of new monies for 2006/07 and 2007/08 were announced by the Executive following the 2004 Spending Review. In light of the Council's significant funding shortfall in these two years, these additional new monies have not yet been included in the Provisional 2005-2008 Revenue Budget. (In any event, further clarification is required from the Scottish Executive on some of these items). This matter will be revisited at the next review of the Provisional Revenue Budgets for 2006/07 and 2007/08. It is emphasised, however, that sufficient provision does currently exist for the 3-Year Revenue Budgets agreed by the Police, Fire and Valuation Joint Boards on 31 January 2005.

9 PAY AWARDS, PRICE INFLATION ETC

- 9.1 The Provisional 2005-2008 Revenue Budget Volume includes allowance for agreed and anticipated pay awards over the period for all categories of staff, including Teachers. Allowance has also been made for specific and general price inflation.

10 CONTINGENCY PROVISION

- 10.1 The Provisional 2005-2008 Revenue Budget Volume includes a General Contingency of £200,000 per annum. The purpose of this contingency is to provide cover for any unforeseen or emergency expenditure that may occur during the course of the financial year. The Depute Chief Executive (Finance) is of the opinion that this is the minimum level of General Contingency that the City Council should have in its annual Revenue Budget.
- 10.2 The Provisional 2005-2008 Revenue Budget Volume also includes a Contingency of £900,000 in 2006/07 and £1,800,000 in 2007/08 to cover anticipated increases in Pension Costs. The actuary of the Tayside Superannuation Fund will carry out a triennial valuation of the Fund as at 31 March 2005. This is likely to result in a recommendation to implement further increases in the employers contribution rate, with effect from 1 April 2006. The estimated increases will add 0.6% and 1.2% to the Council's payroll costs in 2006/07 and 2007/08 respectively. The Contingency provision will be adjusted (if required) and allocated to departmental budgets once the actuarial results are announced by the Fund Actuary.

11 CAPITAL FINANCING COSTS/INTEREST ON REVENUE BALANCES

- 11.1 The total annual budgetary allowances for Capital Financing Costs/Interest on Revenue Balances are shown on page 1 of the Provisional 2005-2008 Revenue Budget Volume. These allowances are based on the actual level of capital debt outstanding at 31 March 2004 plus the net new borrowing shown in the approved General Services Capital Plan. The projected average annual interest rate is 6.05% over the three-year period 2005-2008. The Depute Chief Executive (Finance) is of the opinion that the projected interest rate is at the minimum prudent level and cannot be reduced to a lower level.

12 AGGREGATE EXTERNAL FINANCE (AEF)

- 12.1 The Council's Aggregate External Finance (AEF) can be analysed into two distinct elements, being RSG/NDRI and Specific Grants:

	<u>2005/06</u> £m	<u>2006/07</u> £m	<u>2007/08</u> £m
a Revenue Support Grant (RSG)	172.299	N/A	N/A
Non Domestic Rate Income (NDRI)	<u>53.674</u>	<u>N/A</u>	<u>N/A</u>
TOTAL RSG/NDRI	225.973	231.354	238.164
b Specific Grants	<u>24.137</u>	<u>24.791</u>	<u>25.662</u>
TOTAL AGGREGATE EXTERNAL FINANCE	<u>250.110</u>	<u>256.145</u>	<u>263.826</u>

The above figures represent the best-estimate of the total AEF that will be available to the Council and incorporate recent revisions to the figures that were previously announced by the Scottish Executive on 8 December 2004. The additional support in respect of the Council's Schools PPP Project is also included in the above figures (estimated at £1.093m in 2006/07 and £4.367m in 2007/08).

- 12.2 Estimated income from Specific Grants is already included in the Provisional 2005-2008 Revenue Budget Volume. Accordingly, it is the RSG/NDRI total of £225.973m that requires to be taken into account when setting the 2005/06 Council Tax.

13 RESERVES AND BALANCES

- 13.1 Section 12(1) of the Local Government in Scotland Act 2003 states that "It is the duty of a local authority to observe proper accounting practices". CIPFA have issued guidance on Local Authority Reserves and Balances, and this guidance is considered to constitute proper accounting practice. The key requirements of the revised guidance, as they affect the Council, are two-fold:

- i the setting out of a clear protocol covering the purpose, utilisation, management, control and review of reserves and balances.
- ii the inclusion in the annual budget report of a statement on reserves and balances detailing the proposed strategy over the budget period, after taking into account the strategic, operational and financial risks facing the Council.

- 13.2 The Policy & Resources Committee on 9 February 2004 agreed Report 70-2004 (Revised Guidance on Reserves and Balances) by the Depute Chief Executive (Finance). This report included a protocol for the operation of the Council's various Reserves and Balances, thereby addressing the first key requirement detailed in paragraph 13.1 above. The proposed protocol includes the following element which in itself addresses the second key requirement detailed in paragraph 13.1 above:

In the annual budget report that is considered by the Policy & Resources and Finance Committees on Council Tax setting day, the Depute Chief Executive (Finance) shall include the following:

- i a statement showing the estimated opening and closing General Fund balances for the financial year ahead.
- ii a statement advising as to the adequacy of the General Fund balances over the budget period(s) under consideration, after taking into account the strategic, operational and financial risks facing the Council.
- iii a statement reporting on the annual review of earmarked Reserves.

13.3 In accordance with the element of the proposed protocol that relates to the annual budget report, the following statements are made by the Depute Chief Executive (Finance):

- i the Council's Audited Statement of Accounts 2003/04 showed a General Fund balance of some £8.18m at 31 March 2004, excluding the amounts reserved for schools participating in the Devolved School Management Scheme. The sum of £1.65m was taken from these balances and used in setting the 2004/05 Council Tax. Also, there were underspends in 2003/04 that related to committed projects that required to be carried forward and met from balances in 2004/05 : these are currently estimated at £2.4m. Therefore, the effective level of uncommitted General Fund balances carried forward from 2003/04 is currently estimated at £4.13m. The 2004/05 expenditure monitoring currently projects a position close to break-even.

Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2005 is estimated at £4.1m. There are no further known expenditure commitments or additional income that would materially affect this projected balances figure.

- ii after taking into account the strategic, operational and financial risks facing the Council, it is considered that the minimum level of uncommitted balances that the Council should maintain is £2.5m. Accordingly, the maximum sum that can be taken from General Fund balances when setting the 2005/06 Council Tax is £1.6m.
- iii the Council's earmarked reserves (ie Renewal & Repair Fund, Car Park Reserve, Insurance Fund Reserve and Capital Fund) have all been reviewed and are considered to be adequate for their respective intended purposes.

13.4 In preparing the above statements, the Depute Chief Executive (Finance) has taken into account the key strategic, operational and financial risks facing the Council over the period. The main factors considered were:-

- anticipated changes in service provision, mainly arising from new monies awarded by the Scottish Executive.
- the certainty of significant income streams.
- the inherent uncertainty surrounding matters such as interest rates and price inflation.
- the impact of the new Prudential Code for Capital Finance.
- the possibility of major items of unforeseen expenditure.
- the availability of a General Contingency provision.
- the possibility of identifying budget savings, if required.
- the adequacy of the Council's insurance arrangements.

14 PROVISION FOR NON-COLLECTION OF THE COUNCIL TAX

- 14.1 The Council Tax was introduced in 1993/94 and the current collection figures in respect of the financial years 1993/94 to 2003/2004 inclusive show a collection of over 94%, with outstanding amounts continuing to be collected. Indeed, the collection rate for 1993/94 is now in excess of 96%. A provision for the anticipated level of non-collection of the 2005/06 Council Tax requires to be decided by the Special Finance Committee on 10 February 2005. Elected Members will recall a non-collection provision of 3.5% was agreed in setting the Council Tax for 2004/05. Based on the actual collection figures referred to above, it would not be imprudent to use that same level of non-collection provision when setting the 2005/06 Council Tax.
- 14.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 47,700 for 2005/06. This figure is before the provision for non-collection has been deducted. The Depute Chief Executive (Finance) is firmly of the opinion that the allowance for non-collection provision cannot be lower than 3.5%.

15 INDICATIVE COUNCIL TAX LEVELS 2006/07 AND 2007/08

- 15.1 In addition to setting the 2005/06 Revenue Budget and Council Tax, the Special Finance Committee on 10 February 2005 would also, in normal circumstances, announce indicative Council Tax levels for 2006/07 and 2007/08. Elected members will recall that Report 56-2005, considered by the Policy & Resources Committee on 17 January 2005, set out the implications for the Council of the financial settlement for 2006/07 and 2007/08. The report highlighted that the grant funding available would not be sufficient to continue even the current level of services into 2006/07 and 2007/08, without significant budget reductions and/or significant increases in the Council Tax levels. In light of this position, the Committee agreed to instruct the Chief Executive and Leader of the Administration to write to the Minister for Finance and Public Services setting out the severe implications of the settlement for Dundee City Council in respect of financial years 2006/07 and 2007/08 and requesting that the settlement for these years be revised. There is now ongoing dialogue with the Scottish Executive on this matter. It is understood that several other Councils have also made similar representations to the Scottish Executive.
- 15.2 There is no statutory requirement for Councils to announce indicative Council Tax levels for future years. Rather, this is part of the informal agenda for renewing the system of local government finance in Scotland, agreed between Scottish Ministers and COSLA elected members in 2000. It is understood that several Councils will not be announcing indicative Council Tax levels for future years on 10 February 2005, in light of the possibility that the financial settlement for 2006/07 and 2007/08 may be revised by the Scottish Executive.

16 CONCLUSION

- 16.1 This report provides members with the background information necessary to assist them in considering the final stages of the 2005/06 Revenue Budget and Council Tax. The report also outlines the latest position regarding the announcement and indicative Council Tax levels for 2006/07 and 2007/08.

17 CONSULTATION

The Chief Executive and Depute Chief Executive (Support Services) have been consulted on the content of this report.

18 BACKGROUND PAPERS

Scottish Executive Finance Circular 8/2004 (8 December 2004)

**DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)**

4 FEBRUARY 2005

PROCEDURE FOR COUNCIL TAX SETTING DAY - 10 FEBRUARY 2005

Time

Action

9.30

Special Education Committee meets.

The Special Education Committee will consider the Education Department's 2005-2008 Provisional Revenue Budget, along with the report by the Depute Chief Executive (Finance) and any proposals for savings and review of charges as they affect the Education Department. All savings and review of charges proposals must be tabled at the start of the meeting to enable their legality and competence to be confirmed.

The Special Education Committee will then refer all proposals to the Special Policy & Resources Committee for its consideration.

**Immediately following
Special Education
Committee**

Special Policy and Resources Committee meets.

The Special Policy and Resources Committee will consider the City Council's 2005-2008 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Depute Chief Executive (Finance) and all proposals considered at the Special Education Committee.

All savings and review of charges proposals must be tabled at the start of the meeting to enable their legality and competence to be confirmed. A short recess may be required to enable this process to take place.

The Special Policy and Resources Committee will resolve that the final decision on savings and review of charges will be remitted to the Special Finance Committee to be considered in conjunction with the Council Tax proposals.

**Immediately following
Special Policy and
Resources Committee**

Special Finance Committee meets.

All proposals for Council Tax, savings and review of charges must be tabled at the start of the meeting to be checked for legality and competence. A short recess may be required to enable these to be checked.

The Special Finance Committee will reconvene and the Finance Convener will move the Administration's savings, review of charges proposals and Council Tax proposals. Thereafter, the Opposition Groups and Independent Member will move any amendments.

The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2005/06 and indicative Revenue Budgets and Council Tax levels for 2006/07 and 2007/08.