

**REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 20 FEBRUARY 2007
SPECIAL FINANCE COMMITTEE - 20 FEBRUARY 2007**

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2007/08

REPORT BY: HEAD OF FINANCE

REPORT NO: 128-2007

1 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2007/08 to 2009/10 Revenue Budgets and to remind members of those factors requiring decisions in order to set the Final 2007/08 Revenue Budget and Council Tax.

2 RECOMMENDATIONS

- 2.1 The Committees are asked to note the procedures for setting the 2007/08 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 15 January 2007 and as set out in Appendix A to this report.
- 2.2 The Committees are asked to note the contents of the Provisional 2007-2010 Revenue Budget Volume.
- 2.3 The Committees are asked to approve, for their respective interests, the technical budget adjustment detailed in paragraph 6.2 of this report, and to amend the Provisional 2007-2010 Revenue Budget accordingly.
- 2.4 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 2007/08, as detailed in paragraphs 6.1 to 13.2 of this report.

3 SUSTAINABILITY POLICY IMPLICATIONS

None

4 EQUAL OPPORTUNITIES IMPLICATIONS

None

5 BACKGROUND

- 5.1 The Policy & Resources Committee on 15 January 2007 considered Report 57-2007 by the Head of Finance. This report detailed the revised Local Government Finance Settlement for 2007/08, as announced by the Minister for Finance and Public Service Reform on 13 December 2006. The report also detailed the proposed procedures to be followed by the Committees on Council Tax setting day (20 February 2007). These procedures were agreed and, for ease of reference, are reproduced at Appendix A to this report.

6 PROVISIONAL 2007-2010 REVENUE BUDGETS

- 6.1 Over the past nine months the Depute Chief Executive (Finance) and Head of Finance, in conjunction with the other Chief Officers, have been reviewing and refining the detailed Revenue Budgets for 2007/08 and 2008/09 and preparing new Revenue Budgets for 2009/10. The outcome of this exercise is reflected in the Provisional 2007-2010 Revenue Budget Volume. 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 which may be approved and incorporated at the meetings on 20 February 2007. The Revenue Budgets agreed by the Police, Fire & Rescue and Valuation Joint Boards on 29 January 2007 are incorporated within the Budget Volume.

- 6.2 Since the Provisional 2007-2010 Revenue Budget Volume was prepared, a significant technical budget adjustment has come to light. The Council's existing contract for the supply of electricity runs until 31 March 2007. The Provisional 2007/08 Revenue Budget includes an inflationary allowance of 25% in respect of the contract renewal terms. The Council has, however, very recently negotiated a revised contract at an average tariff increase of 8.5% compared to current costs. It is, therefore, now possible to remove the excess inflationary allowance of £388,000 from the Provisional 2007/08 Revenue Budget.

7 **DRAFT REVIEW OF CHARGES 2007/2008**

- 7.1 A draft 2007/08 Review of Charges document has also been prepared. This shows additional income of £207,000 in 2007/08. The projected additional income is already included in the Provisional 2007-2010 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 20 February 2007.

8 **PAY AWARDS, PRICE INFLATION ETC**

- 8.1 The Provisional 2007-2010 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, where appropriate.

9 **CONTINGENCY PROVISIONS**

- 9.1 The Provisional 2007-2010 Revenue Budget Volume includes a specific Contingency for the ongoing additional costs associated with the implementation of the Single Status Agreement (see page 2 of Budget Volume). The amount of this Contingency is £1,870,000 in 2007/08.

The exact details of revised pay gradings and conditions within the City Council have still to be agreed, however, the Head of Finance is of the opinion that the above amounts represent the minimum level of Contingency that should be held for this purpose.

- 9.2 The Provisional 2007-2010 Revenue Budget Volume also includes a General Contingency of £200,000 per annum (see page 2 of Budget Volume). 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 Head of 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 **CAPITAL FINANCING COSTS/INTEREST ON REVENUE BALANCES**

- 10.1 The total annual budgetary allowances for Capital Financing Costs/Interest on Revenue Balances are shown on page 1 of the Provisional 2007-2010 Revenue Budget Volume. These allowances are based on the actual level of capital debt outstanding at 31 March 2006 plus the net new borrowing shown in the 2007-2010 General Services Capital Plan, which is also being submitted for approval to the Policy & Resources Committee on 20 February 2007. The projected average annual interest rate is 5.9% over the three-year period 2007-2010. The Head of Finance is of the opinion that the projected interest rate is at the minimum prudent level and cannot be reduced to a lower level.

11 AGGREGATE EXTERNAL FINANCE (AEF)

11.1 The Council's Aggregate External Finance (AEF) for 2007/08 can be analysed into two distinct elements, being RSG/NDRI and Specific Grants:

	<u>2007/08</u> <u>£m</u>
a Revenue Support Grant (RSG)	184.955
Non Domestic Rate Income (NDRI)	<u>51.896</u>
TOTAL RSG/NDRI	236.851
b Specific Grants	<u>27.961</u>
TOTAL AGGREGATE EXTERNAL FINANCE	<u>264.812</u>

The above figures represent the best-estimate of the total AEF that will be available to the Council in 2007/08. The additional support in respect of the Council's Schools PPP Project is also included in the above figures (estimated at £0.477m in 2007/08).

11.2 Estimated income from Specific Grants is already included in the Provisional 2007-2010 Revenue Budget Volume (Report 126-2007). Accordingly, it is the RSG/NDRI total of £236.851m that requires to be taken into account when setting the 2007/08 Council Tax.

12 RESERVES AND BALANCES

12.1 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 previously issued guidance on Local Authority Reserves and Balances, and this guidance is considered to constitute proper accounting practice. The key requirements of the 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.

12.2 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 12.1 above. The proposed protocol includes the following element which in itself addresses the second key requirement detailed in paragraph 12.1 above:

In the annual budget report that is considered by the Policy & Resources and Finance Committees on Council Tax setting day, the Head of 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.

12.3 In accordance with the element of the proposed protocol that relates to the annual budget report, the following statements are made by the Head of Finance:

- i the Council's Audited Statement of Accounts 2005/06 showed a General Fund balance of some £4.5m at 31 March 2006, excluding the amounts reserved for Car Parking and for schools participating in the Devolved School Management Scheme. No amounts were taken from balances when setting the 2006/07 Council Tax in February 2006, largely in light of the requirement to meet Equal Pay claims from the Council's General Fund balances. There were underspends in 2005/06 that related to committed projects that required to be carried forward and met from balances in 2006/07: these are currently estimated at £1.6m. Therefore, the effective level of uncommitted General Fund balances carried forward from 2005/06 is currently estimated at £2.9m. The 2006/07 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 2007 is estimated at £2.9m. There are no further known expenditure commitments or additional income that would materially affect this projected balances figure. In particular, it should be noted that the Council has now largely addressed the issue of funding historical Equal Pay claims for certain categories of staff: a charge of £3.481m was included in the Council's 2005/06 Accounts. Whilst it will be necessary to make a further charge in the 2006/07 Accounts, the amounts involved will not be significant in comparison with the amounts already provided for. Appropriate provision has been made in the 2006/07 outturn projection for this further charge.

- 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 £1.6m. Accordingly, it is recommended that the maximum sum that can be taken from General Fund balances when setting the 2007/08 Council Tax is £1.3m.
- iii the Council's earmarked reserves (ie Renewal & Repair Fund, Insurance Fund Reserve and Capital Fund) have all been reviewed and are considered to be adequate for their respective intended purposes.

12.4 In preparing the above statements, the Head of 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 Prudential Code for Capital Finance.
- the possibility of major items of unforeseen expenditure.
- the availability of Contingency provisions.
- the possibility of identifying further budget savings and efficiencies, if required.
- the adequacy of the Council's insurance arrangements.
- the likely impact of the Single Status Agreement.

13 PROVISION FOR NON-COLLECTION OF THE COUNCIL TAX

13.1 The Council Tax was introduced in 1993/94 and the current collection figures in respect of the financial years 1993/94 to 2005/2006 inclusive show a collection of around 95.6% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2007/08 Council Tax requires to be decided by the Special Finance Committee on 20 February 2007. Elected Members will recall that a non-collection provision of 3.5% was agreed in setting the Council Tax for 2006/07. Based on the actual collection figures referred to above and the continuing success of the Recovery Initiative, it would not be imprudent to reduce the level of non-collection provision to 3.2% when setting the 2007/08 Council Tax.

13.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 47,520 for 2007/08. This figure is before the provision for non-collection has been deducted. The Head of Finance is firmly of the opinion that the allowance for non-collection provision cannot be lower than 3.2%.

14 CONCLUSION

14.1 This report provides members with the background information necessary to assist them in considering the final stages of the 2007/08 Revenue Budget and Council Tax.

15 CONSULTATION

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

16 BACKGROUND PAPERS

Scottish Executive Finance Circular 6/2006 (13 December 2006)

**MARJORY M STEWART
HEAD OF FINANCE**

13 FEBRUARY 2006

PROCEDURE FOR COUNCIL TAX SETTING DAY - 20 FEBRUARY 2007

Date and Time

Action

**19 February 2007
7pm**

Education Committee meets.

The Education Committee will consider the Education Department's 2007-2010 Provisional Revenue Budget, along with the report by the Head of 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 Education Committee will then refer all proposals to the Special Policy & Resources Committee for its consideration.

**20 February 2007
7pm**

Special Policy and Resources Committee meets.

The Special Policy and Resources Committee will consider the City Council's 2007-2010 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Head of Finance and all proposals considered at the 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 will 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 will 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 2007/08.