

**REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 12 FEBRUARY 2004
SPECIAL FINANCE COMMITTEE - 12 FEBRUARY 2004**

**REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2004/05 AND
INDICATIVE COUNCIL TAX 2005/06 & 2006/07**

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 144-2004

1 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2004/05 to 2006/07 Revenue Budgets and to remind members of those factors requiring decisions in order to set the Final 2004/05 Revenue Budget and Council Tax, together with indicative Council Tax levels for 2005/06 and 2006/07.

2 RECOMMENDATIONS

- 2.1 The Committees are asked to note the procedures for setting the 2004/05 Revenue Budget and Council Tax, as previously agreed by the Special Policy & Resources Committee on 19 January 2004 and as set out in Appendix A to this report.
- 2.2 The Committees are asked to note the contents of the Provisional 2004-2007 Revenue Budget Volume that had been issued previously.
- 2.3 The Committees are asked to approve, for their respective interests, the budget adjustments detailed in Appendix B to this report and to amend the Provisional 2004-2007 Revenue Budgets 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 2004/05, as detailed in paragraphs 6.1 to 14.2 of this report.
- 2.5 The Special Finance Committee is asked to note the comments regarding the setting of indicative Council Tax levels for 2005/06 and 2006/07, as set out in paragraph 15.1 of this report.

3 LOCAL AGENDA 21 IMPLICATIONS

None.

4 EQUAL OPPORTUNITIES IMPLICATIONS

None.

5 BACKGROUND

- 5.1 The Special Policy & Resources Committee on 19 January 2004 considered Report 56-2004 by the Depute Chief Executive (Finance). This report detailed the revised Local Government Finance Settlement for the financial years 2004/05 and 2005/06, as announced by the Scottish Executive in December 2003. The report also detailed the proposed procedures to be followed by the various Committees on Council Tax setting day (12 February 2004). These procedures were agreed and, for ease of reference, are reproduced at Appendix A to this report.

6 PROVISIONAL 2004-2007 REVENUE BUDGET

- 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 2004/05, 2005/06 and 2006/07. The outcome of this exercise is reflected in the Provisional 2004-2007 Revenue Budget Volume, that had been issued previously. 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 technical budget adjustments or budget savings have been identified, approved and incorporated.
- 6.2 A draft 2004/05 Review of Charges document had also been issued previously. This is based on Chief Officers' recommendations and shows additional income of £222,000 in 2004/05, reflecting an overall inflationary increase of around 3%. The projected additional income is already included in the Provisional 2004-2007 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 12 February 2004.

Unfortunately, the draft 2004/05 Review of Charges document (as issued) contained some errors in respect of the car parking charges shown on page 4. The corrected figures are as follows:-

		<u>Present charge</u> £	<u>Proposed Charge</u> £
<u>Off Street Car Parking Charges</u>			
Monthly Season Ticket Charges to Non-Dundee Residents			
		60.00	50.00
<u>Broughty Ferry Off-Street Car Parks</u>			
Fort Street	0-1 hours	0.40	0.40
	1-2 hours (max)	0.80	0.80
Brook Street	0-1 hours	0.40	0.40
	1-2 hours (max)	0.80	0.80
Queen Street	0-1 hours	0.40	0.40
	1-2 hours	0.80	0.80
	2-3 hours	1.20	1.20
	Over 4 hours	2.50	2.50

7 TECHNICAL BUDGET ADJUSTMENTS

- 7.1 Since the Provisional 2004-2007 Revenue Budget Volume was prepared, a number of required technical budget adjustments have come to light. These adjustments are detailed in Appendix B to this report and amend the Revenue Budget totals as follows:

	<u>2004/05</u> £m	<u>2005/06</u> £m	<u>2006/07</u> £m
Totals Per Provisional 2004-2007 Revenue Budget Volume	270.946	280.114	286.697
Adjustments Per Appendix B	<u>(0.301)</u>	<u>(0.452)</u>	<u>0.058</u>
REVISED REVENUE BUDGET TOTALS	<u>270.645</u>	<u>279.662</u>	<u>286.755</u>

- 7.2 The technical budget adjustments outlines at items 1 and 2 in Appendix B are necessitated by recent notifications from the Scottish Executive. These two adjustments also have an impact on the Council's Aggregate External Finance (AEF) figures (see paragraph 12.1).

8 NEW INITIATIVES AND TRANSFERS OF RESPONSIBILITY

- 8.1 The original grant settlement figures for 2004/05 and 2005/06, announced in December 2002, included significant amounts of new monies to resource new initiatives. The revised grant settlement figures for these two years, announced in December 2003, included further provision for new initiatives that had been announced during the past year. All of these new monies were detailed in paragraphs 6.2 and 8.1 of Report 56-2004. The Provisional 2004-2007 Revenue Budget Volume includes these new monies.
- 8.2 The revised grant settlement figures announced in December 2003 also reflected two fairly significant transfers of responsibility that had been agreed previously between the Scottish Executive and COSLA. These transfers relate to the funding of Teachers Superannuation contributions and the funding of Housing and Council Tax Benefit Residual Subsidy. The transfers were detailed in paragraph 8.2 of Report 56-2004 and have been reflected in the Provisional 2004-2007 Revenue Budget Volume.

9 PAY AWARDS, PRICE INFLATION ETC

- 9.1 The Provisional 2004-2007 Revenue Budget Volume includes an annual allowance of 2.5% for the anticipated level of pay awards (plus the continuing impact of the McCrone Teachers Pay Settlement) and an annual allowance of 1.25% for specific and general price inflation.

10 GENERAL CONTINGENCY PROVISION

- 10.1 The Provisional 2004-2007 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.

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 2004-2007 Revenue Budget Volume. These allowances are based on the actual level of capital debt outstanding at 31 March 2003 plus the net new borrowing shown in the approved General Services Capital Plan 2003-2007. The projected average annual interest rate is 6.05% over the three-year period 2004-2007. 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>2004/05</u> £m	<u>2005/06</u> £m	<u>2006/07 (est)</u> £m
a Revenue Support Grant (RSG)	162.691	N/A	N/A
Non Domestic Rate Income (NDRI)	<u>54.079</u>	<u>N/A</u>	<u>N/A</u>
TOTAL RSG/NDRI	216.770	223.875	229.556
b Specific Grants	<u>21.497</u>	<u>22.658</u>	<u>23.224</u>
TOTAL AGGREGATE EXTERNAL FINANCE	<u>238.267</u>	<u>246.533</u>	<u>252.780</u>

The above figures incorporate the impact of the technical budget adjustments outlined in items 1 and 2 in Appendix B (see also paragraph 7.2). There are also two further matters that have necessitated a revision to the Council's AEF figures that were announced in December 2003. The Scottish Executive have recently indicated that additional revenue funding will be made available for Dundee Airport capital financing costs and that there will be a revision to the transfer of the funding for Housing and Council Tax Benefit Residual Subsidy. The resultant increases in the Council's AEF are reflected in the above figures. The revised AEF figures above are subject to final confirmation in the Local Government Finance Order 2004, which will be debated by the Scottish Parliament on 5 February 2004.

- 12.2 Estimated income from Specific Grants is already included in the Provisional 2004-2007 Revenue Budget Volume (as amended). Accordingly, it is the RSG/NDRI totals which require to be taken into account when setting the 2004/05 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 recently issued revised 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 will consider Report 70-2004 (Revised Guidance on Reserves and Balances) by the Depute Chief Executive (Finance). This report includes proposals for 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 Unaudited Statement of Accounts 2002/03 showed a General Fund balance of some £6.23m at 31 March 2003, excluding the amounts reserved for schools participating in the Devolved School Management Scheme. The sum of £1.5m was taken from these balances and used in setting the 2003/04 Council Tax. Also, there were underspends in 2002/03 that related to committed projects that required to be carried forward and met from balances in 2003/04 : these are currently estimated at £2.03m. Therefore, the effective level of uncommitted General Fund balances carried forward from 2002/03 is currently estimated at £2.7m. The 2003/04 expenditure monitoring currently projects a position close to break-even. There have been several additional grants for 2003/04 announced recently by the Scottish Executive and, in some instances, these relate to areas where no further expenditure or budgetary provision is required by the Council (eg additional grant for Dundee Airport). These "windfall" grants are estimated at £0.95m and will also add to balances.

Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2004 is estimated at £3.65m. 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 £2m. Accordingly, the maximum sum that can be taken from General Fund balances when setting the 2004/05 Council Tax is £1.65m.
- 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 pay awards, 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 2002/2003 inclusive show a collection of 96%. A provision for the anticipated level of non-collection of the 2004/05 Council Tax requires to be decided by the Special Finance Committee on 12 February 2004. Elected Members will recall a non-collection provision of 3.5% was agreed in setting the Council Tax for 2003/04. 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 2004/05 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 2004/05. 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 2005/06 AND 2006/07

- 15.1 In addition to setting the 2004/05 Revenue Budget and Council Tax, the Special Finance Committee on 12 February 2004 will also be required to agree indicative Council Tax Levels for 2005/06 and 2006/07. These figures, by their very nature, are not binding upon the Council in future years and do not require to be under-pinned by detailed calculations. Rather they can be regarded as broad targets around which future Council Tax levels will be set. The Council would, however, be required to explain any significant changes to these figures (particularly increases) in future years, to both the local electorate and to Scottish Ministers. Elected Members are reminded that the approved Council Plan 2004-2007 includes a commitment to restrict Council Tax increases to a maximum of 5% per annum over the plan period.

16 CONCLUSION

- 16.1 This report provides members with the background information necessary to assist them in considering the final stages of the 2004/05 Revenue Budget and Council Tax. The report also outlines the arrangements for setting indicative Council Tax levels for 2005/06 and 2006/07.

17 BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)

5 FEBRUARY 2004

PROCEDURE FOR COUNCIL TAX SETTING DAY - 12 FEBRUARY 2004

<u>Time</u>	<u>Action</u>
9.30	<p>Special Education Committee meets.</p> <p>The Special Education Committee will consider the Education Department's 2004-2007 Provisional Revenue Budget, along with the Depute Chief Executive (Finance) report 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.</p> <p>The Special Education Committee will then refer all proposals to the Special Policy & Resources Committee for its consideration.</p>
Immediately following Special Education Committee	<p>Special Policy and Resources Committee meets.</p> <p>The Special Policy and Resources Committee will consider the City Council's 2004-2007 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the Depute Chief Executive (Finance) report and all proposals considered at the Special Education Committee.</p> <p>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.</p> <p>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.</p> <p>After the Special Policy and Resources Committee ends, there will be a minimum period of 3 hours for all members to consider each set of savings and review of charges proposals.</p>
2.00	<p>Special Finance Committee meets.</p> <p>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.</p> <p>The Special Finance Committee will reconvene and the Finance Convener will move the Administration's savings, review of charges proposals and Council Tax. Thereafter, the Opposition Groups and Independent Member will move any amendments.</p> <p>The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2004/05 and indicative Revenue Budgets and Council Tax levels for 2005/06 and 2006/07.</p>

PROPOSED TECHNICAL ADJUSTMENTS TO PROVISIONAL 2004-2007 REVENUE BUDGET

	2004/05 £000	2005/06 £000	2006/07 £000
1 <u>Common Police Service Costs</u> Tayside Joint Police Board were recently advised by the Scottish Executive of a change to the method by which certain elements of Common Police Service Costs are funded. These elements are now to be funded directly by the Scottish Executive, rather than by Council's via the normal requisition arrangements. These costs have been removed from the Police Budget and the Council's requisition decrease is £222k. There has been a corresponding decrease in the Council's AEF figures.	(222)	(222)	0
2 <u>Police Partnership New Monies (Net of Specific Grant)</u> Tayside Joint Police Board were recently advised by the Scottish Executive of additional funding of £84,000 in 2004/05 for Police Partnerships. This new money has been added to the Police Budget and the Council's requisition increase is £19k, after deduction of 51% specific grant. There has been a corresponding increase in the Council's AEF figures.	19	0	0
3 <u>Joint Boards Approved Budgets</u> On 26 January 2004, the Joint Boards approved 3-Year Revenue Budgets covering the period 2004-2007. It is now necessary to adjust the Council's Provisional 2004-2007 Revenue Budget to reflect the Boards' approved budgets:			
Police	(3)	8	75
Fire	97	(21)	160
Valuation	(1)	(6)	17
4 <u>Department of Work & Pensions (DWP) Grant</u> The Council has recently been advised by the DWP of the amount of grant it will receive for the administration of Housing & Council Tax Benefits, Tax Credits, and Pension Credits. The total grant is £44,000 less than the amount currently included in the Provisional 2004-2007 Revenue Budget.	44	44	44
5 <u>COSLA Levy</u> The Council has recently been advised by the COSLA of the annual levy for the three year period 2004-2007. Some minor adjustments are required to the Provisional 2004-2007 Revenue Budget.	0	(1)	1
6 <u>Audit Scotland Charges</u> The Council has recently been advised by Audit Scotland of the indicative audit fee for 2004/05. There is to be a phasing-in of the new Best Value Audit Regime and the amounts currently included in the Provisional 2004-2007 Revenue Budget can be reduced.	(40)	(25)	(10)
7 <u>Capital Financing Costs</u> A recent restructuring of long-term borrowing will produce savings in interest costs of £81,000 per annum	(81)	(81)	(81)

8	<u>Grant to Dovetail Enterprises</u> Following discussions with Dovetail Enterprises on their budgetary requirements for 2004/05, it is now necessary to decrease slightly the amounts included in the Provisional 2004-2007 Revenue Budget.	(15)	(15)	(15)
9	<u>Grant to Dundee Citizens Advice Bureau</u> Following discussions with Dundee CAB on their budgetary requirements for 2004/05, it is now necessary to increase slightly the amounts included in the Provisional 2004-2007 Revenue Budget.	4	4	4
10	<u>Economic Development Income</u> A review of income budgets within the Property Management & Valuation Section has concluded that it would be reasonable to increase projected income levels.	(27)	(27)	(27)
11	<u>Personnel Department Income</u> A review of income budgets within the Training Section has concluded that it would be reasonable to increase projected income levels.	(50)	(50)	(50)
12	<u>Planning & Transportation Income</u> A review of income budgets within the Building Quality Section has concluded that it would be reasonable to increase projected income levels.	(26)	(60)	(60)
GRAND TOTAL		(301)	(452)	58