

REPORT TO: POLICY & RESOURCES COMMITTEE – 9 JANUARY 2012

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2012-2015, FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL AND REVENUE BUDGET / COUNCIL TAX SETTING PROCEDURE

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 22-2012

1.0 PURPOSE OF REPORT

- 1.1 This report advises elected members of the announcement made by the Cabinet Secretary for Finance, Employment & Sustainable Growth on 8 December 2011 in respect of the Local Government Finance Settlement for the three year period 2012-2015. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2012/2013 Revenue Budget. The report also sets out the procedure for setting the Revenue Budget and Council Tax for 2012/2013.

2.0 RECOMMENDATIONS

It is recommended that the Policy & Resources Committee:

- 2.1 Notes the contents of this report.
- 2.2 Notes the Council's Revenue Funding Allocation for the three year period 2012-2015, as announced by the Cabinet Secretary for Finance, Employment & Sustainable Growth on 8 December 2011, and the associated implications.
- 2.3 Notes that the Leader of the Council has written to the Cabinet Secretary for Finance, Employment and Sustainable Growth on 20 December 2011 to advise that the City Council agrees in principle to the terms set out in the letters of 21 September and 8 December (and as detailed in Section 4 of this report).
- 2.4 Notes the current position on the Council's Provisional 2012/2013 Revenue Budget.
- 2.5 Notes that the financial information included in this report will be updated as necessary and included in the Council Tax proposals to be submitted to the Special Policy & Resources Committee on 9 February 2012.
- 2.6 Agrees the procedures to be followed for setting the 2012/2013 Revenue Budget and Council Tax level, as set out in Section 8 and Appendix 2 of this report.

3.0 FINANCIAL IMPLICATIONS

- 3.1 The Council has experienced a grant reduction in 2012/2013 of £1.416 million or 0.45%, compared to 2011/2012. The Council requires to identify budget savings totalling £3.4 million in order to achieve a Council Tax freeze in 2012/2013.
- 3.2 In the event that the Council does not agree to the full package of measures related to the Local Government Finance Settlement then the loss of grant would be circa £19.2 million.

4.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2012-2015

- 4.1 On 8 December 2011, an announcement was made in the Scottish Parliament by the Cabinet Secretary for Finance, Employment & Sustainable Growth in respect of the Local Government Finance Settlement for the three year period 2012-2015. These figures have

subsequently been confirmed in Local Government Finance Circular 11/2011, issued by the Scottish Government on 8 December 2011. The figures are provisional at this stage and are subject to consultation between the Scottish Government and COSLA, with the Local Government Finance (Scotland) Order due to be debated by the Scottish Parliament in early February 2012.

4.2 The total figures for all Scotland for 2012-2015 are as follows:

	<u>2012/2013</u> <u>£m</u>	<u>2013/2014</u> <u>£m</u>	<u>2014/2015</u> <u>£m</u>
Updated Service Provision	10,707.214	10,778.019	10,849.204
2008-2013 Changes	840.496	824.363	808.757
Loan Charges & PPP Schemes Support	786.729	746.457	705.228
Main Floor	<u>-</u>	<u>-</u>	<u>-</u>
Total Estimated Expenditure (TEE)	12,334.439	12,348.839	12,363.189
Assumed Council Tax Contribution	(1,891.700)	(1,906.100)	(1,920.600)
New 85% Floor	<u>25.000</u>	<u>25.000</u>	<u>25.000</u>
Total Distributable Revenue Support	<u>10,467.739</u>	<u>10,467.739</u>	<u>10,467.589</u>
Year-on-Year Increase / (Decrease)	<u>35.950</u>	<u>0</u>	<u>(0.150)</u>
Year-on-Year Increase / (Decrease) (%)	<u>0.34%</u>	<u>0%</u>	<u>0%</u>

4.3 The following paragraphs explain the main elements of the provisional grant settlement.

Updated Service Provision reflects the ongoing support for service provision and includes the following: (i) the Grant Aided Expenditure (GAE) assessments which have updated using current distribution indicators (based largely on population), (ii) the Special Islands Needs Allowance (SINA), (iii) the ongoing revenue grants that were previously ring-fenced but are now rolled-up within the settlement, (iv) the baselined redeterminations since the 2007 Spending Review and (v) the Council Tax freeze grant. **2008-2013 Changes** is the total non-ring-fenced changes in funding arising from the Scottish Government's 2007 and 2010 and 2011 Spending Reviews. **Loan Charges and PPP Schemes Support** is the funding for historic and new capital debt, together with Level Playing Field Support (LPFS) for established PPP projects. Note, however, that support for Councils' new PPP projects has been included within Updated Service Provision.

The **Main Floor** is the established self-financing stability mechanism that ensures that all Councils receive a maximum year-on-year decrease in funding (set at 1.2% for 2012/2013 and 1.4% for both 2013/2014 and 2014/2015). **Total Estimated Expenditure (TEE)** represents the level of Local Government expenditure that the Scottish Government is willing to support through the grant mechanism. The **Assumed Council Tax Contribution** is a deduction made from TEE to reflect the proportion of expenditure that is to be funded by the local taxpayer. The **New 85% Floor** represents the Scottish Government's commitment to ensure that no Council receives less than 85% of the Scottish average in terms of revenue support. **Total Distributable Revenue Support** is the total revenue funding available to Councils

4.4 The Cabinet Secretary for Finance, Employment and Sustainable Growth wrote to COSLA on 21 September 2011 setting out the terms of the settlement to be provided to local government in return for the provisional funding allocations now set out in the Circular 11/2011. This has been re-affirmed in his letter dated 8 December 2011 to Council Leaders. Under the terms of the settlement all Councils will be required to continue to work in partnership with the Scottish Government in pursuit of Joint Priorities, including delivery of the Government's programme as set out in *Renewing Scotland: the Government's Programme for Scotland 2011-12* and the *Government Economic Strategy*. In addition,

Councils will be required to deliver the following specific commitments in return for the settlement:

- maintain a Council Tax freeze
- maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme
- pass on the full flat-cash share of funding to Police Boards

The 2012/2013 provisional allocations set out in the Circular assume that all Councils will sign up to the package and therefore that the **full** amount (£10,468 million) will be issued.

The allocations have been arrived at using the standard agreed distribution methodology. This is in line with the view reached by COSLA Leaders at their meeting of 18 November 2011. The Circular includes a separate column for each year showing the additional resources that the Scottish Government is providing to ensure each Council receives at least 85% of the Scottish average revenue per capita allocation. As in previous years, the Circular shows, for illustrative purposes, the amount of Council Tax Freeze Grant which the Scottish Government plans to hold back under the terms of the Cabinet Secretary for Finance, Employment and Sustainable Growth's letter of 8 December 2011 to Council Leaders on the sign-off arrangements. The letter of 8 December 2011 also confirmed that if any council does not agree to the full package available then it will not receive its needs based share of the overall average revenue increase of 0.3%, but will instead have its allocation reduced by its needs based share of an average decrease of 5.2% (which is a package of resources worth in total £579 million across the whole of local government in each year of the three year settlement). This package of resources to be removed is made up of each council's needs based share of:

- £70 million to deliver a Council Tax freeze
- £39 million, which represents the £24m added to the 2012/2013 settlement for teachers pay and the £15m added as part of the negotiations on the SNCT Teachers agreement in the 2011/2012 settlement
- £470 million which is Councils 49% share of the flat-cash funding to be made available as a contribution to Police Boards to allow them to maintain the number of police officers

Council Leaders have been asked to write to the Cabinet Secretary for Finance, Employment and Sustainable Growth by 20 December 2011 to advise whether their Council agrees in principle to the terms set out in the letters of 21 September and 8 December. If any Council Leader replies to say that their Council does not agree then the full amount of the Council's needs based share of the £579 million sanction will be withdrawn from the overall local government settlement and redeployed by Scottish Ministers in the Budget Bill which will be laid before the Scottish Parliament in January 2012. The City Council's estimated share of the £579 million package of resources is £19.2m in 2012/2013.

- 4.5 In terms of capital funding, the total support from the Scottish Government has reduced from £691.8 million in 2011/2012 to £563.0 million in 2012/2013, largely as a result of the re-profiling of £120.0 million capital funding from 2012/2013 to 2014/2015. A further £100 million has been re-profiled from 2013/2014 to 2015/2016.

5.0 IMPLICATIONS FOR DUNDEE CITY COUNCIL

- 5.1 Within the overall totals shown in paragraph 4.2 above, the figures for Dundee City Council are as follows:

	<u>2012/2013</u> <u>£m</u>	<u>2013/2014</u> <u>£m</u>	<u>2014/2015</u> <u>£m</u>
Updated Service Provision	316.082	319.127	320.948
2008-2013 Changes	24.173	23.776	23.319
Loan Charges & PPP Schemes Support	22.396	21.695	20.989
Main Floor	<u>(1.002)</u>	<u>(1.179)</u>	<u>(1.517)</u>
Total Estimated Expenditure (TEE)	361.649	363.419	363.739
Assumed Council Tax Contribution	(45.253)	(45.382)	(45.515)
New 85% Floor	<u>-</u>	<u>-</u>	<u>-</u>
Total Distributable Revenue Support	<u>316.396</u>	<u>318.037</u>	<u>318.224</u>
Year-on-Year Increase / (Decrease)	<u>(1.416)</u>	<u>1.641</u>	<u>187</u>
Year-on-Year Increase / (Decrease) (%)	<u>(0.45)%</u>	<u>0.52%</u>	<u>0.06%</u>

5.2 The Council has experienced a grant reduction in 2012/2013 of £1.416m or 0.45%, compared to 2011/2012. This compares with an all Scotland average increase of 0.34%. The distribution of revenue funding is driven by a series of complicated calculations which use data indicators to identify Councils' relative spending needs across various service areas. The data indicators are heavily influenced by various population counts. The Council's grant reduction of 0.45% is a reflection of the latest data indicators used in the 2012/2013 distribution calculation.

5.3 Total Funding comprises three elements: General Revenue Funding (GRF), Non-Domestic Rates (NDR) and the remaining elements of Ring-Fenced Funding. Income from Ring-Fenced Funding will be included in the 2012/2013 Provisional Revenue Budget Volume. Accordingly, it is the GRF and NDR figures only that require to be taken into account when setting the Council Tax level for 2012/2013. The City Council's GRF/NDR total for 2012/2013 is £299.375m.

5.4 The Council's Capital Funding for 2012/2013 to 2014/2015 has been advised at :

2012/2013 - £12.751m
2013/2014 - £12.016m
2014/2015 - £17.401m

In addition, the Council has been awarded Cycling, Walking and Safer Streets specific capital grant of £168,000 in 2012/2013, £154,000 in 2013/2014 and £226,000 in 2014/2015. The Vacant and Derelict Land Fund specific capital grant allocations have not yet been decided by the Scottish Government. The Council's 2012-2016 Capital Plan will be submitted to the Special Policy and Resources Committee on 9 February 2012.

6.0 PROVISIONAL REVENUE BUDGET 2012/2013

6.1 Over the past few months the Chief Executive and Director of Finance, in conjunction with the other Chief Officers, have been preparing a Provisional Revenue Budget for 2012/2013. This has involved rolling forward the Final 2011/2012 Revenue Budget and adding in provision for anticipated inflationary pressures. Cost pressures and savings that have been identified through the 2011/2012 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in 2012/2013. A list of cost pressures and savings that have been reflected in the Provisional 2012/2013 Revenue Budget is shown at Appendix 1 to this report. The Provisional 2012/2013 Revenue Budget currently totals £360.3 million, an increase of £3.4 million (or 0.95%) over the Final 2011/2012 Revenue Budget. The Provisional 2012/2013 Revenue Budget volume (including Review of Charges) will be issued early January 2012.

- 6.2 Based on current assumptions, the Council would require to identify budget savings totalling £3.4 million in order to achieve a Council Tax freeze in 2012/2013. This is further predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement. It is stressed, however, that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2012/2013 Revenue Budget. The financial information included in this report will be updated as necessary and included in the Council Tax proposals to be submitted to the Special Policy & Resources Committee on 9 February 2012.

7.0 NON-DOMESTIC RATE INCOME

- 7.1 The Non-Domestic Rate income (NDR) collected by Dundee City Council will be paid into an all-Scotland central pool and thereafter distributed to individual Councils on the basis of their resident population. This arrangement has no effect on the Total Revenue Support (TRS) which each authority will receive, as the TRS is decided first and any NDR income received from the "pool" effectively reduces the level of General Revenue Funding payable to each Council. Dundee City Council will receive £50.140 million from the Non-Domestic Rates Pool in 2012/2013.
- 7.2 The 2012/2013 Non-Domestic Rate Poundage for Scotland will be set following confirmation of the equivalent rate in England. The Scottish Government has committed to keeping increases in the rate poundage in line with those in England. It is expected that the rate poundage in England will increase by 5.6%, in line with the September RPI increase. The rate poundage for Scotland for 2012/2013 is therefore expected to be 45.0p. The Council will make provision for non-domestic rates on its own properties within the 2012/2013 Provisional Revenue Budget.

8.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2012/2013

- 8.1 The proposed procedure for the setting of the 2012/2013 Revenue Budget and Council Tax is the same as the procedure adopted last year for the setting of the 2011/2012 Revenue Budget and Council Tax.
- 8.2 The procedure in respect of submitting budget proposals and review of charges proposals to the Chief Executive and Director of Finance for prior approval as to their competence will again apply in setting the 2012/2013 Revenue Budget and Council Tax level. It must be stressed that, for all Departments, budget proposals and review of charges proposals by any Group or individual member must be submitted to the Chief Executive by 5 pm on 1 February 2012 in order for their competence and accuracy to be checked. Proposals received after that deadline will not be considered at the Revenue Budget and Council Tax setting meeting on 9 February 2012.
- 8.3 If there are any further technical adjustments required to the 2012/2013 Provisional Revenue Budget or grant settlement figures then these will be included in the separate report by the Director of Finance which will be issued along with the agenda for the meeting on 9 February 2012. The Director of Finance will also make recommendations in that report regarding the use of balances in the setting of the Council Tax level.
- 8.4 A timetable showing the procedure for setting the 2012/13 Revenue Budget and Council Tax level on 9 February 2012 is attached at Appendix 2.

9.0 POLICY IMPLICATIONS

- 9.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

10.0 CONSULTATIONS

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

11.0 BACKGROUND PAPERS

- 11.1 Scottish Government Local Government Finance Circular 11/2011 (8 December 2011)

MARJORY M STEWART
DIRECTOR OF FINANCE

28 DECEMBER 2011

COST PRESSURES REFLECTED IN PROVISIONAL 2012/2013 REVENUE BUDGET

<u>Department / Item</u>	<u>£m</u>
Education – PPP Unitary Charges inflation shortfall 2011/12	0.092
Social Work – cost pressures, demographic pressures and contributions to new Change Funds	4.398
City Development – 12.7% increase in Street Lighting electricity charges	0.283
City Development – reduction in Building Quality income	0.200
Chief Executive / Communities & Policy – Dundee Ice Arena management fee	0.060
Corporate Services / Finance Revenues – reduction in HB / CBT administration grant	0.068
Corporate – new Carbon Reduction Commitment tax	0.571
Corporate – 2012 local elections	<u>0.200</u>
	<u>5.872</u>

SAVINGS REFLECTED IN PROVISIONAL 2012/2013 REVENUE BUDGET

<u>Department / Item</u>	<u>£m</u>
Various – full year effect of 2011/12 budget savings	(0.639)
Various – full year effect of 2011/12 VERs / VRs	(0.111)
Corporate – reduction in loan charges	(0.700)
Corporate Services / Entitlement Cards – additional external funding	(0.206)
Various – savings from new Scottish Water contract	(0.150)
Various – Changing for the Future savings already approved	(0.423)
Education – reduction in cleaning and catering charges	(0.079)
Social Work – rationalisation of buildings (CFTF report)	(0.200)
City Development – rationalisation of organisational structure	(0.150)
City Development – reduction in non domestic rates for Dundee House	(0.130)
Chief Executive / Communities & Policy – additional non domestic rates saving on services transferring to Leisure & Culture Dundee	(0.179)
Environment – reconfiguration of street cleaning functions	(0.149)
Environment – ground maintenance efficiencies	<u>(0.100)</u>
	<u>(3.216)</u>

PROCEDURE FOR COUNCIL TAX SETTING DAY - 9 FEBRUARY 2012

<u>Date and Time</u>	<u>Action</u>
9 February 2012 3pm	<p>Special Policy and Resources Committee meets.</p> <p>The Special Policy and Resources Committee will consider the City Council's 2012/2013 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Director of Finance.</p> <p>All proposals for Council Tax 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 senior Councillor with responsibility for Finance will then move the Administration's Council Tax and review of charges proposals. Thereafter, the Opposition Groups and Independent Members will move any amendments.</p> <p>The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2012/2013.</p>