

REPORT TO: POLICY & RESOURCES COMMITTEE - 26 OCTOBER 2009

REPORT ON: PROVISIONAL REVENUE BUDGET PROJECTION 2010/2011 AND MEDIUM-TERM FINANCIAL OUTLOOK 2011-2014

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 515-2009

1.0 PURPOSE OF REPORT

1.1 This report advises members of the current position on the Council's Provisional 2010/2011 Revenue Budget, in light of the anticipated revised grant settlement. The report also outlines the medium-term financial outlook for the period 2011-2014, based on the Centre for Public Policy for Regions (CPPR) projections, as reviewed and updated by SOLACE, CIPFA Directors of Finance and the Improvement Service.

2.0 RECOMMENDATIONS

It is recommended that the Committee:

2.1 Notes the current position on the Council's Provisional 2010/2011 Revenue Budget.

2.2 Notes the medium-term financial outlook for the period 2011-2014.

2.3 Notes that a further report will be submitted to the Policy & Resources Committee in early course, detailing the Council's actual revised grant settlement for 2010/2011 and the associated implications. The proposed procedure for setting the Council's Revenue Budget and Council Tax for 2010/2011 will also be included in this report.

3.0 FINANCIAL IMPLICATIONS

3.1 Based on current projections, the following levels of savings and efficiencies are required in order to achieve a Council Tax freeze in each of the following four financial years:

	<u>Annual (£m)</u>	<u>Cumulative (£m)</u>
2010/2011	5.893	5.893
2011/2012	12.553	18.446
2012/2013	6.500	24.946
2013/2014	5.161	30.107

3.2 These figures assume that the Council will achieve a Council Tax freeze in 2010/2011 and will therefore receive Council Tax freeze grant of £1.762m. No additional Council Tax freeze grant has been assumed beyond 2010/2011 at this stage.

4.0 BACKGROUND

4.1 Councils have been preparing 3-Year Revenue Budgets for a number of years now, as part of the Best Value regime. A budget volume covering the period 2009-2012 was issued by the Director of Finance in May 2009. Councils are also being encouraged by Audit Scotland to prepare longer-term financial plans as part of their overall financial management arrangements.

4.2 Following the Scottish Government's 2007 Spending Review, grant figures for the three financial years 2008/09, 2009/10 and 2010/11 were first announced in December 2007. In

normal circumstances, the previously announced figures for 2010/11 would have been revised in December 2008 to reflect new monies, transfers of responsibility etc. The Scottish Government, however, held back from revising the 2010/11 figures due to the Chancellor's November 2008 Pre-Budget Report. In response to the prevailing economic crisis, one of the implications of the Pre-Budget Report was an addition of £5 billion to the public sector efficiency savings target for 2010/11. UK Departmental budgets were subsequently reduced in the Chancellor's April 2009 Budget to reflect this increase in the target. HM Treasury have applied a consequential reduction of £521m in the Scottish Government budget for 2010/2011. In his announcements on the 2010/2011 Draft Scottish Budget on 17 September 2009, the Cabinet Secretary for Finance & Sustainable Growth set out how this budget reduction would be distributed across the various Scottish Government portfolios, including Local Government.

5.0 ANTICIPATED REVISED GRANT SETTLEMENT 2010/2011

- 5.1 The Scottish Government Budget has suffered a reduction of £521m following the Chancellor's April 2009 Budget. The 2010/2011 Draft Scottish Budget shows that Local Government has been allocated a one-third share (£174m) of this reduction. Within Local Government, the reduction of £174m has been split between Revenue funding (£131m) and Capital funding (£43m). The allocation of these reductions against individual Councils was not identified but should be announced in November 2009. Based on the proposed method of allocation (pro rata to additional monies awarded in the 2007 Spending Review), it is estimated that the City Council's share of the reduction in revenue funding in 2010/2011 will be £3.8m. This reduction will be applied against the Council's 2010/2011 revenue grant figure, as previously announced in December 2007.
- 5.2 This report deals with the effect that this anticipated reduction will have on the Council's revenue funding. It is evident, however, that the reduction in capital funding (estimated in 2010/2011 at £1.4m) will also have consequences for the City Council's Capital Plan. The reduction in capital funding will require to be reflected in the Council's 2010-2013 Capital Plan, which will be submitted to the Policy & Resources Committee for approval in February 2010.

6.0 PROVISIONAL REVENUE BUDGET 2010/2011

- 6.1 As noted in paragraph 4.1 above, a budget volume covering the period 2009-2012 was issued in May 2009. Over the past few months the Chief Executive and Director of Finance, in conjunction with the other Chief Officers, have been reviewing and refining the detailed Revenue Budgets for 2010/2011.
- 6.2 A number of new cost pressures have emerged during the course of the current financial year, particularly in Social Work and City Development, and these are being reflected in the monthly revenue monitoring reports to the Policy & Resources Committee. Where these cost pressures are of a recurring nature they will require to be added into the Provisional 2010/2011 Revenue Budget. Further, anticipated additional demand pressures in Social Work Adult Services will require increased budgetary provision from 2010/2011 onwards.
- 6.3 A revaluation of non-domestic properties in Scotland is due to be implemented on 1 April 2010. Initial indications from the revaluation exercise are that local government properties are likely to experience significant increases in rateable values. Whilst to some extent this will be offset by a reduction in the rate poundage, it is projected that the overall non-domestic rates payable on City Council properties will increase by around 18% in 2010/2011. This compares with a budgetary inflation allowance of only 2%, leaving a shortfall of 16% (£0.9m) that will require to be added into the Provisional 2010/2011 Revenue Budget.

6.4 In setting the Revenue Budgets and Council Tax levels for 2008/2009 and 2009/2010 a transfer of resources from the capital programme of £1.6m was assumed each year. In light of the likely pressures on the capital programme in 2010/2011 and beyond, it is considered that this transfer of resources is no longer sustainable. Accordingly, this income can not be assumed in setting the Revenue Budget and Council Tax for 2010/2011.

7.0 **SAVINGS AND EFFICIENCIES REQUIRED TO ACHIEVE A COUNCIL TAX FREEZE IN 2010/2011**

7.1 A Revenue Budget projection for 2010/2011 has been prepared, taking on board the issues detailed in sections 5 and 6 above. A copy is included at Appendix 1 to this report.

7.2 The projection shows that in order to deliver a Council Tax freeze in 2010/2011, savings and efficiencies of £7.655m are required. If a Council Tax freeze can be achieved then the Council would receive Council Tax freeze grant of £1.762m thereby reducing the actual level of required savings and efficiencies to £5.893m.

8.0 **MEDIUM-TERM FINANCIAL OUTLOOK 2011-2014**

8.1 Grant figures for the three-year period 2011-2014 are due to be announced for the first time by the Scottish Government in December 2010, following the 2010 Spending Review. The Scottish Government has already made it clear that public sector expenditure levels will continue to be severely constrained for the medium-term.

8.2 A recent report by the Centre for Public Policy for Regions (CPPR) looked at possible scenarios for the Scottish Government's Budget over the period 2011-2014. This report has since been reviewed by SOLACE, CIPFA Directors of Finance and the Improvement Service and cumulative real terms funding reductions of 12% in the period up to 2014 are now considered to be a reasonable working assumption. After taking account of inflation, this represents a cash reduction over the three years.

8.3 A Revenue Budget projection for 2011-2014 has been prepared, based on rolling forward the revised Provisional 2010/2011 Revenue Budget (per Appendix 1) and also taking on board likely new cost pressures and the grant funding assumptions detailed in paragraph 8.2 above. A copy of the 2011-2014 Revenue Budget projection is included at Appendix 2 to this report.

8.4 The projection shows that in order to achieve a Council Tax freeze, annual savings and efficiencies of £12.553m, £6.500m and £5.161m require to be identified. These figures assume that the Council will achieve a Council Tax freeze in 2010/2011 and will therefore receive Council Tax freeze grant of £1.762m. No additional Council Tax freeze grant has been assumed beyond 2010/2011 at this stage.

9.0 **CONCLUSIONS**

9.1 The Council is facing a significant challenge to deliver a Council Tax freeze in 2010/2011, largely due to the reduction in grant funding flowing through to the Scottish Government from the Chancellor's April 2009 Budget. The medium-term position is even more challenging, with both real terms and cash terms reductions in annual grant funding levels the likely scenario.

10.0 **POLICY IMPLICATIONS**

10.1 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.

11.0 CONSULTATION

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

12.0 BACKGROUND PAPERS

12.1 Scottish Draft Budget 2010/2011
Centre for Public Policy for Regions report "The Scottish Government's Budget - Growth Prospects and Budget Options"

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21 OCTOBER 2009

APPENDIX 1**DUNDEE CITY COUNCIL****REVENUE BUDGET PROJECTION 2010/2011**

	<u>2010/2011</u> <u>£000</u>
Revised Provisional Revenue Budget	367,268
<u>Less:</u> General Revenue Funding	(301,791)
Use of Balances	<u>(1,300)</u>
Amount To Be Met From Council Tax	64,177
Amount to be Met from Council Tax at Freeze Level	<u>56,522</u>
Savings and Efficiencies Required to Achieve Council Tax Freeze	7,655
<u>Less:</u> Council Tax Freeze Grant	<u>(1,762)</u>
Revised Savings and Efficiencies Required to Achieve Council Tax Freeze	<u>5,893</u>

APPENDIX 2**DUNDEE CITY COUNCIL****REVENUE BUDGET PROJECTION 2011-2014**

	<u>2011/12</u> <u>£000</u>	<u>2012/13</u> <u>£000</u>	<u>2013/14</u> <u>£000</u>
Revised Provisional Revenue Budget	375,143	378,263	381,359
<u>Less</u> : General Revenue Funding	(297,113)	(295,033)	(292,968)
Use of Balances	<u>(1,300)</u>	<u>0</u>	<u>0</u>
Amount To Be Met From Council Tax	76,730	83,230	88,391
Amount to be Met from Council Tax at Freeze Level	<u>56,522</u>	<u>56,522</u>	<u>56,522</u>
Savings and Efficiencies Required to Achieve Council Tax Freeze	20,208	26,708	31,869
<u>Less</u> : Council Tax Freeze Grant 2010/2011	(1,762)	(1,762)	(1,762)
Previous Years Savings and Efficiencies	<u>(5,893)</u>	<u>(18,446)</u>	<u>(24,946)</u>
Revised Savings and Efficiencies Required to Achieve Council Tax Freeze	<u>12,553</u>	<u>6,500</u>	<u>5,161</u>