

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 17 JANUARY 2005

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2005 TO 2008 AND REVENUE BUDGET/COUNCIL TAX SETTING PROCEDURE

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 56-2005

1 PURPOSE OF REPORT

- 1.1 This report advises members of the recent announcements made by the Minister for Finance and Public Services in respect of the Local Government Finance Settlement for the three year period 2005-2008. The report identifies the City Council's Aggregate External Finance settlement for these financial years and also outlines the current position on the Revenue Budget for the three year period 2005-2008. The report also sets out the procedure for setting the Revenue Budget and Council Tax for 2005/06 and indicative Council Tax levels for 2006/07 and 2007/08.

2 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Notes the Council's Aggregate External Finance settlement for the three year period 2005-2008, as recently announced by the Minister for Finance and Public Services.
- 2.2 Notes the current position on the Revenue Budget for the three year period 2005-2008.
- 2.3 Agrees the procedures to be followed for setting the 2005-2008 Revenue Budgets and Council Tax levels, as set out in Section 12 and Appendix A of this report.

3 FINANCIAL IMPLICATIONS

- 3.1 The financial information included in this report will be included in the Council Tax proposals to be submitted to the Special Finance Committee on 10 February 2005.

4 LOCAL AGENDA 21 IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 BACKGROUND

- 6.1 The Scottish Executive announced 3-year Financial Settlement figures covering the period 2003-2006 in December 2002, following the 2002 Spending Review. This was a fundamental aspect of the agenda previously agreed between Scottish Ministers and COSLA elected members for renewing the system of local government finance in Scotland. In return, Councils are required to agree Revenue Budgets and Council Tax levels covering the 3-year period, albeit the figures for years 2 and 3 of the period are to be regarded as "indicative". This implies the need for robust 3-year Revenue Budgets, which had also been identified as a key element of Best Value Regime. Dundee City Council has previously fulfilled the requirement to announce Council Tax levels covering the grant settlement period

and these figures are now underpinned by a detailed 3-year Revenue Budget. A budget volume covering the period 2004-2007 was issued in April 2004.

- 6.2 The financial year 2005/06 marks the last year of the current 3-year Financial Settlement period. Following the Scottish Executive's 2004 Spending Review, revised grant figures for 2005/06 have recently been announced, together with (for the first time) grant figures for 2006/07 and 2007/08. Accordingly, the period 2005-2008 now effectively represents a new 3-year Financial Settlement period.

7 LOCAL GOVERNMENT FINANCE SETTLEMENT 2005 TO 2008

- 7.1 On 8 December 2004, the Minister for Finance and Public Services announced Local Government Finance Settlement figures for 2005/06, 2006/07 and 2007/08. The figures are provisional at this stage and subject to consultation, with the 2005 Local Government Finance Order due to be laid in the Scottish Parliament on 20 January 2005 and debated on 3 February 2005.

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

- 7.2 Estimated Service Expenditure (ESE) relates to revenue expenditure on all services, at outturn prices, before the deduction of Specific Government Grants. ESE is apportioned between individual Councils using the client group assessment method. This involves around 100 separate calculations, with each calculation allocating a fixed amount of money to each Council in respect of a particular service area (note, however, that the final grant is "unhypothecated" and is not ring-fenced for any particular services). The data used in each calculation is intended to reflect the relative spending needs of each Council on that particular service area. Population data is the key driver in these calculations and allocates around 85% of total ESE.

Quality of Life Funding and support for Loan and Leasing Charges and PFI/PPP Schemes are then added to ESE to give Total Estimated Expenditure (TEE). TEE represents the level of Local Government expenditure that the Scottish Executive is willing to support through the grant mechanism. A deduction is then made from TEE to reflect the proportion of that expenditure that is to be funded by the local taxpayer. This deduction is made pro rata to the number of Band D equivalent properties in each Council area. After the deduction, the amount of distributable grant is known as Aggregate External Finance (AEF). Within the overall grant calculation, a self-financing "floor" mechanism ensures that all Councils receive a minimum year-on-year increase in funding.

- 7.3 The total figures for all-Scotland were announced as follows:

	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Estimated Service Expenditure (ESE)	8,733.179	9,034.213	9,274.672
Quality of Life Funding	70.000	50.000	50.000
Loan & Leasing Charges Support	870.143	904.571	916.571
PFI/PPP Schemes Support	<u>59.955</u>	<u>61.429</u>	<u>61.429</u>
Total Estimated Expenditure (TEE)	9,733.277	10,050.213	10,302.672
Deduction TEE to AEF	<u>(1,653.557)</u>	<u>(1,706.305)</u>	<u>(1,765.494)</u>
Aggregate External Finance (AEF)	<u>8,079.720</u>	<u>8,343.908</u>	<u>8,537.178</u>
Year-on-Year % Increase in AEF	<u>+5.4%</u>	<u>+3.3%</u>	<u>+2.3%</u>

- 7.4 Within the overall totals above, the figures for Dundee City Council were announced as follows:

	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Estimated Service Expenditure (ESE)	261.801	264.806	271.078
Quality of Life Funding	2.098	1.466	1.461
Loan & Leasing Charges Support	24.564	25.247	24.396
PFI/PPP Schemes Support	2.319	2.319	2.319
Floor Adjustment	<u>(0.499)</u>	<u>2.480</u>	<u>2.655</u>
Total Estimated Expenditure (TEE)	290.283	296.318	301.909
Deduction TEE to AEF	<u>(40.788)</u>	<u>(41.879)</u>	<u>(43.058)</u>
Aggregate External Finance (AEF)	<u>249.495</u>	<u>254.439</u>	<u>258.851</u>
Year-on-Year % Increase in AEF	<u>+4.7%</u>	<u>+2.0%</u>	<u>+1.7%</u>

AEF comprises three elements : Revenue Support Grant (RSG), Non-domestic Rate Income (NDRI) and Specific Grants. Income from Specific Grants will be included in the 2005-2008 Provisional Revenue Budget volume. Accordingly, it is the RSG and NDRI figures only that require to be taken into account when setting the actual Council Tax level for 2005/06 and indicative Council Tax levels for 2006/07 and 2007/08. The City Council's RSG/NDRI totals for these years are as follows :

2005/06	£ 225.945 m
2006/07	£ 230.272 m
2007/08	£ 233.772 m

It should be noted that the above grant figures do not yet include the additional support in respect of the Council's Schools' PPP Project. Grant support for this project is expected to come on-stream during 2006/07 and is estimated at £1.093m in 2006/07 and £4.367m in 2007/08.

- 7.5 There is also a significant amount of "ring-fenced" revenue funding distributed by the Scottish Executive, outwith the main AEF settlement. The major items of funding include :

Changing Children's Services Fund
 Strategic Waste Fund
 Community Regeneration Fund
 Supporting People
 Community Wardens & Tackling Anti-Social Behaviour

8 IMPLICATIONS OF LOCAL GOVERNMENT FINANCE SETTLEMENT

8.1 2005/06

The "rolling" nature of the 3-year financial settlement means that 2005/06 is an overlap year, forming both the final year of one settlement period (2003-2006) and the first year of a new settlement period (2005-2008). Accordingly, the Council's overall grant settlement figures for 2005/06 have been known for some time and have been recognised in the Council's 3-year Revenue Budget process. The revised grant figures for 2005/06 (as announced on 8 December 2004) are therefore in line with previous expectations, although there are some further items of new monies mainly in respect of Police and Fire. The revised settlement will be reflected in the 2005/06 Provisional Revenue Budget. Elected Members will recall that, at the Special Finance Committee on 12 February 2004, an indicative Council Tax level of

£1,192 was announced for 2005/06. This represented an increase of 5% over the actual 2004/05 Council Tax level.

8.2 **2006/07 & 2007/08**

Grant figures for 2006/07 and 2007/08 were announced for the first time on 8 December 2004. The average annual increases in funding at a national level are 3.3% and 2.3% respectively. These increases are lower than in previous years, partly reflecting an assumed level of savings that Councils will be expected to make under the Efficient Government initiative. Scottish Executive Ministers have acknowledged that this is a tight settlement, but have also indicated that they expect Council Tax levels to increase by no more than 2.5% in each year.

The annual increases in grant for Dundee City Council are lower than the national average, at only 2.0% and 1.7% for 2006/07 and 2007/08 respectively. These are the minimum percentage increases in funding that all Councils are guaranteed under the self-financing "floor" mechanism. The Scottish Executive have decided that the floor mechanism will operate at a much lower level than in previous years. Notwithstanding this, it can be seen from the figures in paragraph 7.4 that the Council has still been protected to a significant degree by the floor mechanism (by £2.480m in 2006/07 and £2.655m in 2007/08). Without this protection, the Council's grant increases would have been even lower at only 1% and 0.7%. This is due to the fact the Council's continuing population decline (both actual and projected) is being reflected in the grant settlement calculations for 2006/07 and 2007/08. As noted in paragraph 7.2 above, population data is the key driver in these calculations. Whilst the impact of falling population was anticipated, it was also expected that the overall grant increases would be higher and that the Council would receive a greater degree of protection via the floor mechanism.

Pay awards are currently being settled at 2.5 - 3% and general inflation is running at around 2%. In addition, the Council is facing areas of specific cost pressure such as further increases in superannuation contributions and substantial increases in energy charges. It can therefore be concluded that the grant increases will not be sufficient to continue to fund the current level of services into 2006/07 and 2007/08 without significant budget reductions and/or significant increases in the Council Tax level. This is exacerbated by the fact that within the announced increases there are also new monies (for new initiatives, new responsibilities and new legislation) that may not be available to fund the current level of services.

9 **PROVISIONAL REVENUE BUDGET 2005-2008**

- 9.1 As noted in paragraph 6.1 above, a budget volume covering the period 2004-2007 was issued in April 2004. 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 and 2006/07 and preparing new Revenue Budgets for 2007/08. The outcome of this exercise will be reflected in the 2005-2008 Provisional Revenue Budget volume, which will be issued on 3 February 2005, with the papers for the Special Committee Meetings on 10 February 2005.

10 **COMMON COUNCIL TAX SETTING DATE**

- 10.1 As has been the practice in recent years, COSLA has agreed a common Council Tax setting date. This has been fixed as 10 February 2005. On that date the Council will be required to set its 2005/06 Revenue Budget and Council Tax and its indicative Revenue Budgets and Council Tax levels for 2006/07 and 2007/08.

11 NON-DOMESTIC RATE INCOME

- 11.1 The Non-Domestic Rate Income (NDRI) 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 Aggregate External Finance (AEF) which each authority will receive, as the AEF is decided first and any NDRI received from the "pool" effectively reduces the level of Revenue Support Grant payable to each Council. Dundee City Council will receive £53.674m from the Non-domestic Rates Pool in 2005/06.
- 11.2 The Minister for Finance and Public Services has announced that the national rate poundage for Scotland for 2005/06 has been provisionally set at 46.1p. This represents a decrease of 2.7p or 5.5%, to partly offset the increases in rateable values arising from the 2005 revaluation. The Minister also announced that a supplement of 0.45p will be levied on larger businesses and ratepayers to fund the Small Business Rate Relief Scheme. The Council will make provision for non-domestic rates on its own properties within the 2005-2008 Provisional Revenue Budget.

12 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2005-2008

- 12.1 The proposed procedure for the setting of the 2005-2008 Revenue Budget and Council Tax is very similar to the procedure adopted last year for the setting of the 2004-2007 Revenue Budget and Council Tax.
- 12.2 The procedure in respect of submitting savings and review of charges amendments to the Chief Executive and Depute Chief Executive (Finance) for prior approval as to their competence will again apply in setting the 2005-2008 Revenue Budgets and Council Tax levels. It must be stressed that, for all Departments including Education, savings and review of charges proposals by any Group or individual member (including co-opted members) must be submitted to the Chief Executive by **5 pm on 2 February 2005** 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 meetings on 10 February 2005.
- 12.3 If there are any further technical adjustments required to the 2005-2008 Provisional Revenue Budget or grant settlement figures then these will be included in the separate report by the Depute Chief Executive (Finance) which will be issued along with the agenda for the meetings on 10 February 2005. The Depute Chief Executive (Finance) will also make recommendations in that report regarding the use of balances in the setting of the Council Tax levels.
- 12.4 A timetable showing the procedure for setting the 2005-2008 Revenue Budgets and Council Tax levels on 10 February 2005 is enclosed at Appendix A.

13 CONSULTATION

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

14 BACKGROUND PAPERS

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

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

11 JANUARY 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 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 2005/06 and indicative Revenue Budgets and Council Tax levels for 2006/07 and 2007/08.