

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 15 JANUARY 2007

**REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2007/08 AND
REVENUE BUDGET/COUNCIL TAX SETTING PROCEDURE**

REPORT BY: HEAD OF FINANCE

REPORT NO: 57-2007

1 PURPOSE OF REPORT

- 1.1 This report advises members of the recent announcements made by the Minister for Finance and Public Service Reform in respect of the revised Local Government Finance Settlement for 2007/08. The report identifies the City Council's Revised Aggregate External Finance settlement for 2007/08 and also outlines the current position on the Revenue Budget for the three year period 2007-2010. The report also sets out the procedure for setting the Revenue Budget and Council Tax for 2007/08.

2 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Notes the Council's revised Aggregate External Finance settlement for 2007/08, as recently announced by the Minister for Finance and Public Service Reform.
- 2.2 Notes the current position on the Revenue Budget for the three year period 2007-2010.
- 2.3 Agrees the procedures to be followed for setting the 2007/08 Revenue Budget and Council Tax level, as set out in Section 11 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 20 February 2007.

4 SUSTAINABILITY POLICY IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 BACKGROUND

- 6.1 The Scottish Executive first 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 were 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. A budget volume covering the period 2006-2009 was issued in April 2006.

7 REVISED LOCAL GOVERNMENT FINANCE SETTLEMENT 2007/08

- 7.1 On 13 December 2006, the Minister for Finance and Public Service Reform announced revised Local Government Finance Settlement figures for 2007/08. The figures are provisional at this stage and subject to consultation. The revised figures are based largely upon the figures first announced in December 2004, but also include a significant amount of new monies (see Section 8 below).

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 "unhypothesized" 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>Revised</u> <u>2007/08</u> <u>£m</u>
Estimated Service Expenditure (ESE)	9,454.987
Quality of Life Funding	50.000
Loan & Leasing Charges Support	916.571
PFI/PPP Schemes Support	<u>61.429</u>
Total Estimated Expenditure (TEE)	10,482.987
Deduction TEE to AEF	<u>(1,767.577)</u>
Aggregate External Finance (AEF)	<u>8,715.410</u>
Year-on-Year % Increase in AEF	<u>+4.7%</u>

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

	<u>Revised</u> <u>2007/08</u> <u>£m</u>
Estimated Service Expenditure (ESE)	275.830
Quality of Life Funding	1.463
Loan & Leasing Charges Support	24.501
PFI/PPP Schemes Support	2.319
Floor Adjustment	<u>2.370</u>
Total Estimated Expenditure (TEE)	306.483
Deduction TEE to AEF	<u>(42.986)</u>
Aggregate External Finance (AEF)	<u>263.497</u>
Year-on-Year % Increase in AEF	<u>+4.1%</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 2007-2010 Provisional Revenue Budget volume. Accordingly, it is the RSG and NDRI figures only that require to be taken into account when setting the Council Tax level for 2007/08. The City Council's RSG/NDRI total for 2007/08 is £235.536m.

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 2007/08 and is estimated at £0.477m in that financial year. Furthermore, some additions to AEF for specific initiatives are not included within the figures that were announced by the Scottish Executive on 13 December 2006. These total £0.838m in 2007/08. For the purposes of the 2007/08 Council Tax calculation, these amounts should be added to the RSG/NDRI total referred to above.

- 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 Grant figures for 2007/08 were first announced in December 2004, as part of the three-year settlement figures for the period 2005-2008. At that time, the average annual increase in funding between 2006/07 and 2007/08 was only 2.3% at a national level. The increase for Dundee City Council was even lower than the national average at only 1.7%. This was the minimum percentage increase in funding that all Councils were guaranteed under the self-financing "floor" mechanism. The Scottish Executive had decided that the floor mechanism would operate at a much lower level than in previous settlements. In light of these figures, it was concluded that the Council would be facing significant challenges in setting its Revenue Budget and Council Tax for 2007/08.

8.2 The pressures caused by the extremely tight grant settlement for 2007/08 were felt across Scotland and have been the subject of much lobbying by Councils. In response, the Minister for Finance and Public Service Reform had indicated that he was prepared to look again at the funding for local government in 2007/08. It is therefore now pleasing to report that additional funding has indeed been made available for 2007/08. In the announcements on 13 December 2006, the Minister for Finance and Public Service Reform confirmed that Councils would receive additional revenue funding of £140 million for 2007/08. This includes an amount of £19.5m to deal with the increase in employers contributions to the Teachers Pension Scheme. The remaining £120.5m is not, however, earmarked against any particular service or initiative but rather is a general recognition of a number of pressures and challenges that Councils are facing across the range of services that they provide (eg increases in LGPS pension contributions and energy costs, the impact of Single Status, cost pressures in Children's and Older People's Services etc). The City Council's share of the extra £140m is £4.104m and this is included in the figures shown in paragraph 7.4 above.

8.3 Whilst the additional funding of £120.5m is effectively "unhypothecated", the Ministerial Statement to the Scottish Parliament did set out a number of broad conditions that Councils will be expected to observe. These are to:

- take action to increase Council Tax collection rates
- continue to exert downward pressure on Council Tax levels
- ensure effective asset management strategies are in place
- increase the target level of efficiency savings
- work with the Scottish Executive to complete a study into the costs and identify best practice in delivering Free Personal Care.

8.4 In addition to the £140m above, extra funding totalling £16.8m has been made available for cost pressures and new initiatives in Education services. The City Council's share of this extra funding is £0.484m and again this is included in the figures shown in paragraph 7.4 above.

9 PROVISIONAL REVENUE BUDGET 2007-2010

9.1 As noted in paragraph 6.1 above, a budget volume covering the period 2006-2009 was issued in April 2006. 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 will be reflected in the 2007-2010 Provisional Revenue Budget volume, which will be issued on 13 February 2007, with the papers for the Special Committee Meetings on 20 February 2007. The 2007-2010 Provisional Revenue Budget will include the additional funding detailed in Section 8 above.

10 NON-DOMESTIC RATE INCOME

10.1 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 £51.896m from the Non-Domestic Rates Pool in 2007/08.

- 10.2 The Minister for Finance and Public Service Reform has announced that the national rate poundage for Scotland for 2007/08 has been provisionally set at 44.1p. This represents a decrease of 0.8p or 1.8%, reflecting the Scottish Executive's policy commitment to bring the rate poundage in Scotland into line with England by 2007. A supplement of 0.3p 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 2007-2010 Provisional Revenue Budget.

11 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2007/08

- 11.1 The proposed procedure for the setting of the 2007/08 Revenue Budget and Council Tax is the same as the procedure adopted last year for the setting of the 2006/07 Revenue Budget and Council Tax.
- 11.2 The procedure in respect of submitting savings and review of charges amendments to the Chief Executive and Head of Finance for prior approval as to their competence will again apply in setting the 2007/08 Revenue Budget and Council Tax level. 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 12 February 2007** 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 20 February 2007.
- 11.3 If there are any further technical adjustments required to the 2007/08 Provisional Revenue Budget or grant settlement figures then these will be included in the separate report by the Head of Finance which will be issued along with the agenda for the meetings on 20 February 2007. The Head of Finance will also make recommendations in that report regarding the use of balances in the setting of the Council Tax level.
- 11.4 A timetable showing the procedure for setting the 2007/08 Revenue Budget and Council Tax level on 20 February 2007 is enclosed at Appendix A.

12 CONSULTATION

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

13 BACKGROUND PAPERS

Scottish Executive Finance Circular 8/2004 (8 December 2004)
 Scottish Executive Finance Circular 8/2005 (23 November 2005)
 Scottish Executive Finance Circular 6/2006 (13 December 2006)

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HEAD OF FINANCE

9 JANUARY 2007

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.