

REPORT TO: POLICY & RESOURCES COMMITTEE - 13 DECEMBER 2010

REPORT ON: THE SCOTTISH GOVERNMENT'S DRAFT BUDGET 2011/2012 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 710-2010

1.0 PURPOSE OF REPORT

1.1 This report advises elected members of the announcement made by the Cabinet Secretary for Finance & Sustainable Growth on 17 November 2010 in respect of the Scottish Government's Draft Budget for 2011/2012. The report identifies the likely implications for Local Government in general, and for the City Council specifically. The current position on the Council's Provisional 2011/2012 Revenue Budget is also set out.

2.0 RECOMMENDATIONS

It is recommended that the Policy & Resources Committee:

2.1 Notes the contents of this report.

2.2 Notes the terms of the agreement reached between the Scottish Government and COSLA's Leadership now being recommended to individual Council's and that the Scottish Government has asked each Council Leader to write to the Scottish Government by 21 December 2010, to indicate whether or not they agree to the full package on these terms.

2.3 Notes that the 2011/2012 revenue funding allocations for individual Councils will be announced by the Scottish Government around 8 December 2010 and that an update will be provided for the Policy & Resources Committee on 13 December 2010, setting out the implications for the City Council.

2.4 Notes the current position on the Council's Provisional 2011/2012 Revenue Budget.

2.5 Agrees the procedures to be followed for setting the 2011/2012 Revenue Budget and Council Tax level, as set out in Section 8 and Appendix 3 of this report.

3.0 FINANCIAL IMPLICATIONS

3.1 The proposed 2.6% cash reduction in revenue funding in 2011/2012 (compared to 2010/2011) would mean that the City Council's total revenue funding from the Scottish Government would reduce by around £8.3m. There are also inflationary and other cost pressures that require to be reflected in the Council's Provisional 2011/2012 Revenue Budget. After these have been added in, the Council would require to identify budget savings totalling £16.5m in order to achieve a Council Tax freeze in 2011/2012.

3.2 In the event that the Council does not agree to the full package of measures being recommended by the Scottish Government and COSLA's Leadership then the resultant 6.4% cash reduction in revenue funding in 2011/2012 (compared to 2010/2011) would mean that the Council's total revenue funding from the Scottish Government would reduce by around £20.6m ie an additional reduction of £12.3m.

4.0 THE SCOTTISH GOVERNMENT'S DRAFT BUDGET 2011/2012

4.1 On 17 November 2010, an announcement was made in the Scottish Parliament by the Cabinet Secretary for Finance & Sustainable Growth in respect of the Scottish Government's Draft Budget for 2011/2012. The announcement follows on from the UK Government's 2010 Spending Review and the Scottish Government's subsequent Spending Review.

4.2 In overall terms, the Scottish Government's budget for 2011/2012 is £33.5 billion. This represents a cash reduction of £1.3 billion (or 4.5%) compared to 2010/2011. Of the £1.3 billion reduction, £0.5 billion has been allocated against revenue budgets and £0.8 billion has been allocated against capital budgets. In seeking to address the budget challenge for 2011/2012, the Scottish Government are introducing a number of measures aimed at reducing costs and increasing efficiency. These measures include a 3% efficiency savings target and a pay freeze for all staff earning above £21,000. The pay policy applies directly to the 30,000 staff of the Scottish Government, its agencies and most non-departmental public bodies. It is emphasised, however, that this pay policy does not apply to local government staff as separate pay negotiation arrangements exist.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2011/2012

5.1 Negotiations have been on-going for a number of months between the Scottish Government and COSLA's Leadership regarding the Local Government Finance Settlement for 2011/2012. The outcome of these negotiations is an agreed funding settlement and package of associated measures that is now being recommended to individual Councils for acceptance.

5.2 The funding settlement for Local Government involves a £287m (or 2.6%) cut in total revenue funding, from £11.143 billion down to £10.856 billion. This compares to an average cut in revenue budgets for all other (non-protected) Scottish public services of 6.4%. For capital funding the cut is £151m (17.9%), from £843m down to £692m. This compares to an overall reduction in the Scottish Government's capital budget of 3.9%. Local Government's share of the overall Scottish Government's Budget is maintained (at 34.5%) through this funding settlement.

5.3 The Scottish Government has made it clear that, in order to access the full amount of the financial package (as outlined in paragraph 5.2 above), Councils must also sign-up to a list of associated commitments. These commitments are detailed in Appendix 1 to this report and include a Council Tax freeze in 2011/2012. Councils must agree to the entire financial settlement and entire list of associated commitments, and cannot select just individual elements of the package. The Scottish Government has requested that each Council Leader formally indicate, by 21 December 2010, whether or not they agree to the full package on these terms. If a Council does not agree then the revenue funding available to them for 2011/2012 would be reduced by 6.4%, not 2.6%. For the whole of Local Government, this additional reduction would amount to £426m. This amount will be held back by the Scottish Government, pending the setting of Councils' budgets and confirmation that the package has been delivered in full (including the Council Tax freeze). This is similar to the arrangements in previous years for the £70m Council Tax freeze grant.

5.4 The revenue grant allocations to individual Councils will be announced by the Scottish Government around 8 December 2010. 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. A grant floor mechanism acts as a safety net and ensures that all Councils receive a minimum grant increase (for 2011/2012 this will be a maximum grant decrease).

6.0 IMPLICATIONS FOR DUNDEE CITY COUNCIL

6.1 The proposed 2.6% cash reduction in revenue funding in 2011/2012 (compared to 2010/2011) would mean that the City Council's total revenue funding from the Scottish Government would reduce by around £8.3m. In the event that the Council does not agree to the full package of measures being recommended by the Scottish Government and COSLA's Leadership then the resultant 6.4% cash reduction in revenue funding in 2011/2012 (compared to 2010/2011) would mean that the Council's total revenue funding from the Scottish Government would reduce by around £20.6m ie an additional reduction of £12.3m.

6.2 The application of updated data indicators in the grant distribution calculation (see paragraph 5.4 above) will have implications for the amount of revenue funding that the City Council receives for 2011/2012. The re-distributional effect of the grant floor mechanism will also have an impact. It is not possible, however, to identify accurately the monetary effect of these items at this stage.

6.3 The proposed 17.9% cash reduction in capital funding in 2011/2012 (compared to 2010/2011) would mean that the City Council's total capital funding from the Scottish Government would reduce by around £2.6m. The implications of this will require to be reflected in the 2011/2012 Capital Plan that will be submitted to the Special Policy & Resources Committee on 10 February 2011, although it should be noted that the 2010-2013 Capital Plan already reflects an assumed reduction in capital grants for 2011/2012. Further, the Council has recently been experiencing some very competitive tender prices for capital works and this should help mitigate the impact of the reduction in capital funding in 2011/2012.

7.0 PROVISIONAL REVENUE BUDGET 2011/2012

7.1 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 2011/2012. This has involved rolling forward the Final 2010/2011 Revenue Budget and adding in provision for anticipated pay awards and other inflationary pressures. Cost pressures and savings that have been identified through the 2010/2011 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in 2011/2012. A list of cost pressures, totalling £2.877m, that have been reflected in the Provisional 2011/2012 Revenue Budget is shown at Appendix 2 to this report. The Provisional 2011/2012 Revenue Budget currently totals £367.8m, an increase of £9.2m (or 2.6%) over the Final 2010/2011 Revenue Budget. The Provisional 2011/2012 Revenue Budget volume (including Review of Charges) will be issued late December 2010/early January 2011.

7.2 The list of commitments shown at Appendix 1 has been reviewed by the relevant Chief Officers of the Council. Some of these items will be cost pressures for the Council whilst some will generate savings. In overall terms, it is currently estimated that these commitments will be broadly cost-neutral. Appendix 1 also contains reference to a new Change Fund, totalling £70m for Scotland in 2011/2012, that has been established by the Scottish Government to enable the redesign of services that support shifting the balance of care towards primary and community care. This fund will be held by local NHS Boards with the spending of resources being overseen by a partnership governance arrangement based on plans to be agreed locally between NHS Boards, local government and the third/independent sectors. It is envisaged that the Change Fund will contribute to the continuing demand on services for Adults and Older People and therefore no adjustment has been assumed in the Council's Provisional 2011/2012 Revenue Budget.

7.3 In summary, the following items have a direct influence on the 2011/2012 Council Tax calculation and on the required level of budget savings:

- i) the 2.6% reduction in the amount of revenue funding received from the Scottish Government
- ii) the grant distribution calculations and the operation of the floor mechanism
- iii) the level of the Provisional 2011/2012 Revenue Budget
- iv) the cost implications of the commitments shown at Appendix 1

Based on current assumptions, the Council would require to identify budget savings totalling £16.5m in order to achieve a Council Tax freeze in 2011/2012. This is further predicated on the assumption that the Council agrees to the full package of measures recommended by the Scottish Government and COSLA's Leadership. It is emphasised, however, that the level of required savings may change once the Council has been notified of its actual 2011/2012 revenue funding allocation around 8 December 2010.

8.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2011/2012

8.1 The proposed procedure for the setting of the 2011/2012 Revenue Budget and Council Tax is the same as the procedure adopted last year for the setting of the 2010/2011 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 2011/2012 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 2 February 2011 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 10 February 2011.
- 8.3 If there are any further technical adjustments required to the 2011/2012 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 10 February 2011. 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 2011/12 Revenue Budget and Council Tax level on 10 February 2011 is attached at Appendix 3.

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.

10.0 **BACKGROUND PAPERS**

- 10.1 Scotland's Spending Plans and Draft Budget 2011/2012 (17 November 2010)
Letter from Scottish Government / COSLA to Council Leaders (17 November 2010)

MARJORY M STEWART
DIRECTOR OF FINANCE

06 DECEMBER 2010

SCOTTISH GOVERNMENT DRAFT BUDGET 2011/2012

Terms of the agreement reached between the Scottish Government and COSLA's Leadership and now being recommended to individual Council's

To secure the funding package, individual Councils will agree:

- To remain committed to the delivery of the current Single Outcome Agreements, the 3 jointly agreed social strategies and the Curriculum for Excellence.
- To a Council Tax freeze for 2011-12.
- To police officers being maintained at 17,234 throughout 2011-12.
- To maintain the pupil-teacher ratio in P1-P3, the crucial early years of primary school.
- To protect the number of teacher posts as far as possible in order to secure:
 - places for all probationers who require a place under the induction scheme in August 2011;
 - Sufficient teaching posts available for all probationers who achieve Standard for Full Registration in summer 2011 (i.e. successfully complete their probation); and
 - A reduction in the total number of unemployed teachers.
- To an independently chaired review of all aspects of the McCrone Agreement, to report by June 2011 with the clear intention that its recommendations should be available for implementation before August 2012.
- To continue to deliver the shared Scottish Government/COSLA commitments on Free Personal Care, for which payments will be uprated in 2011-12.
- To continue to work with the Scottish Government towards implementation of the Carers and Young Carers Strategy at local level, including the maintenance of an extra 10,000 weeks respite provision.

In return for delivery of these commitments, the Scottish Government:

- Will ensure that the funding to be provided to police forces within the funding settlement will be subject to a loss of resources no greater than that affecting the remainder of the local government family.
- Has included an additional £15 million within the total of £11.548 billion to cover the education costs associated with protecting, as far as possible, the number of teacher posts.
- Has agreed to consider changes through the Scottish Negotiating Committee for Teachers negotiations (or other changes that achieve the same value), on which decisions would be sought by end January 2011 and which would deliver:
 - A pay freeze in 2011/12 and 2012/13 for all employees (teachers and all associated professionals);
 - An increase in contact time for probationers to 0.9 FTE;
 - Agreement that all supply teachers are paid on Point 1 of the Main Grade Scale and only for hours worked;
 - Removal of salary conservation;

- Agreement that the Teacher leave year is moved to 40 days per annum for the calculation of family leave entitlements; and
 - Freeze entry into the Chartered Teacher Scheme.
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- In recognition of the wider pressures on the health and social care system, has allocated £70 million for a new change fund in 2011-12. The fund, which will be held by NHS Boards and so be additional to the local government settlement amount of £11.548 billion, is intended to enable the redesign of services that support shifting the balance of care towards primary and community care. The spending of these resources will be overseen by a partnership governance arrangement on the basis of plans to be agreed locally between NHS Boards, local government and the third/independent sectors. The detailed governance arrangements and guidance for these plans is currently being developed in partnership.

COST PRESSURES REFLECTED IN PROVISIONAL 2011/2012 REVENUE BUDGET

	£M
Education - Provision of Bus Passes *	0.022
Social Work - Children's Services	1.000
Social Work - Adult Services	1.175
Social Work - Out of Hours Service	0.062
Leisure & Communities - Dundee Ice Arena Management Fee **	0.050
Other Housing - Reduction in Housing Benefit	
Subsidy for Temporary Homeless Accommodation	<u>0.568</u>
	<u>2.877</u>

* This item is being submitted for Committee approval on 6 December 2010.

** This item is being submitted for Committee approval on 13 December 2010.

PROCEDURE FOR COUNCIL TAX SETTING DAY - 10 FEBRUARY 2011

Date and Time

Action

**10 February 2011
3pm**

Special Policy and Resources Committee meets.

The Special Policy and Resources Committee will consider the City Council's 2011/2012 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Director of Finance.

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.

The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2011/2012.