

**REPORT TO: POLICY & RESOURCES COMMITTEE - 13 DECEMBER 2010**

**REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2011/2012 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL (UPDATE TO REPORT 710-2010)**

**REPORT BY: DIRECTOR OF FINANCE**

**REPORT NO: 722-2010**

## **1.0 PURPOSE OF REPORT**

1.1 This report is an update to report 710-2010 which is also being considered by the Policy & Resources Committee on 13 December 2010. This report advises elected members of the announcement made by the Cabinet Secretary for Finance & Sustainable Growth on 9 December 2010 in respect of the Local Government Finance Settlement for 2011/2012. The report identifies the likely implications the City Council and sets out the updated position on the Council's Provisional 2011/2012 Revenue Budget.

## **2.0 RECOMMENDATIONS**

It is recommended that the Policy & Resources Committee:

2.1 Notes the contents of this update report.

2.2 Notes the Council's Revenue Funding Allocation for 2011/2012, as announced by the Cabinet Secretary for Finance & Sustainable Growth on 9 December 2010, and the associated implications.

2.3 Notes the updated position on the Council's Provisional 2011/2012 Revenue Budget.

2.4 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 10 February 2011.

## **3.0 FINANCIAL IMPLICATIONS**

3.1 The Council has experienced a grant reduction in 2011/2012 of £3.745m or 1.2%, compared to 2010/2011. The Council requires to identify budget savings totalling £14.589m 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 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 a further £12.137m.

## **4.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2011/2012**

4.1 On 9 December 2010, an announcement was made in the Scottish Parliament by the Cabinet Secretary for Finance & Sustainable Growth in respect of the Local Government Finance Settlement for 2011/2012. These figures have subsequently been confirmed in Local Government Finance Circular 14/2010, issued by the Scottish Government on 9 December 2010. The figures are provisional at this stage and 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 2011.

4.2 The total figures for all Scotland for 2011/2012 are as follows:

	<u>2011/2012</u>
	<u>£m</u>
Updated Service Provision	10,599.622
Spending Review 2007 & 2010 Extra Funding	872.908
Loan Charges & PPP Schemes Support	815.959
Floor	<u>-</u>
Total Estimated Expenditure (TEE)	12,288.489
Assumed Council Tax Contribution	<u>(1,877.100)</u>
Total Distributable Revenue Support	10,411.389
Amounts to be Distributed Later	<u>444.857</u>
Total 2011/2012	<u>10,856.246</u>
Equivalent Total 2010/2011	<u>11,140.987</u>
Year-on-Year Reduction	<u>284.741</u>
Year-on-Year Reduction (%)	<u>2.6%</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. **Spending Review 2007 & 2010 Extra Funding** is the total non-ring-fenced changes in funding arising from the Scottish Government's 2007 and 2010 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 **Floor** is a self-financing stability mechanism that ensures that all Councils receive a maximum year-on-year decrease in funding (set at 4.5% for 2011/2012). **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. **Total Distributable Revenue Support** is the total revenue funding available at this stage to Councils. **Amounts to be Distributed Later** relate mainly to funding for Police and Fire pensions and for Criminal Justice Social Work.

4.4 As outlined in report 710-2010, the Scottish Government has made it clear that, in order to access the full amount of the financial package (as outlined in the table above), Councils must also sign-up to a list of associated commitments. These commitments are detailed in Appendix 1 to report 710-2010 and include a Council Tax freeze in 2011/2012. Elected members are reminded that 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 £426.288m and for the City Council, this additional reduction would amount to £12.137m. 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.

4.5 In terms of capital funding, the total support from the Scottish Government has reduced from £843.199m in 2010/2011 to £691.800m in 2011/2012. This represents a total reduction of £151.399m or 18%. Due to a change, however, in the way that capital funding is provided by the Scottish Government, Councils will actually now receive more support by way of direct capital grants than previously.

## 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 for 2011/2012 are as follows:

	<u>2011/2012</u>
	<u>£m</u>
Updated Service Provision	315.168
Spending Review 2007 & 2010 Extra Funding	24.897
Loan Charges & PPP Schemes Support	23.108
Floor	<u>(0.986)</u>
Total Estimated Expenditure (TEE)	362.187
Assumed Council Tax Contribution	<u>(44.980)</u>
Total Distributable Revenue Support 2011/2012	<u>317.207</u>
Equivalent Total 2010/2011	<u>320.952</u>
Year-on-Year Reduction	<u>3.745</u>
Year-on-Year Reduction (%)	<u>1.2%</u>

5.2 The Council has experienced a grant reduction in 2011/2012 of £3.745m or 1.2%, compared to 2010/2011. This is the third lowest reduction in Scotland and compares favourably with the all Scotland average reduction of 2.6%. As explained in report 710-2010, 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. The Council's relatively favourable grant reduction of 1.2% is a reflection of the latest data indicators used in the 2011/2012 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 2011/2012 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 2011/2012. The City Council's GRF/NDR total for 2011/2012 is £300.132m. This includes an amount of £12.137m which will be held back pending agreement to the full package of measures being recommended by the Scottish Government and COSLA's Leadership

5.4 Following receipt of the Council's grant figures for 2011/2012, the list of cost pressures to be reflected in the Provisional 2011/2012 Revenue Budget has been revised. The updated list, totalling £4.323m, is show at Appendix 1 to this report. The Council's grant figures for 2011/2012 also include a number of new funding streams and funding transfers that require equivalent technical adjustments to be included in the Provisional 2011/2012 Revenue Budget. These technical budget adjustments, totalling £2.013m, are also shown in Appendix 1.

5.5 The Provisional 2011/2012 Revenue Budget currently totals £371.243m. The Council requires to identify budget savings totalling £14.589m in order to achieve a Council Tax freeze in 2011/2012. It is stressed, however, that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2011/2012

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 10 February 2011. It is envisaged that the Provisional 2011/2012 Revenue Budget volume will be issued early in 2011.

- 5.6 The Council's capital grant funding for 2011/2012 has been advised as £15.691m. An all-Scotland figure of £10.009m for Vacant & Derelict Land is still to be allocated to Councils. Therefore, at this stage, it is not possible to make direct year-on-year comparisons. The Council's 2011/2012 Capital Plan will be submitted to the Special Policy & Resources Committee on 10 February 2011.

## **6.0 NON-DOMESTIC RATE INCOME**

- 6.1 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 £60.992m from the Non-Domestic Rates Pool in 2011/2012.

- 6.2 The 2011/2012 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 4.6%, in line with the September RPI increase. The rate poundage for Scotland for 2011/2012 is therefore expected to be 42.6p. The Scottish Government has announced that a supplement of 0.7p will be levied on larger businesses and ratepayers to fund the Small Business Bonus Scheme. The Council will make provision for non-domestic rates on its own properties within the 2011/2012 Provisional Revenue Budget.

## **7.0 POLICY IMPLICATIONS**

- 7.1 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.

## **8.0 CONSULTATIONS**

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

## **9.0 BACKGROUND PAPERS**

- 9.1 Scottish Government Local Government Finance Circular 14/2010 (9 December 2010)

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**13 DECEMBER 2010**

**COST PRESSURES REFLECTED IN PROVISIONAL 2011/2012 REVENUE BUDGET (UPDATED)**

	<b>£M</b>
Education - Provision of Bus Passes	0.022
Education - Children's Services	0.200
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	0.568
City Development - Winter Maintenance	0.300
Finance Revenues - HB/CTB Admin Grant	0.030
Various - Shortfall in Chargeable Income	0.300
Various - Non-Domestic Rates Increase	0.166
Corporate - General Contingency	<u>0.450</u>
	<u>4.323</u>

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

**TECHNICAL BUDGET ADJUSTMENTS REQUIRED IN LIGHT OF LGFS 2011/2012**

	<b>£M</b>
Education - Determined to Succeed (t/f from ring-fenced)	0.447
Education - Curriculum for Excellence (new monies)	0.109
Social Work - Adult Support & Protection (new monies) **	0.438
City Development - Flood Risk Management (new monies)	0.166
Other Housing - Public Sector Housing Grant (t/f from capital) **	<u>0.853</u>
	<u>2.013</u>

\*\* These items are also subject to redeterminations of funding in 2010/2011.