

**REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 9 FEBRUARY 2006
SPECIAL FINANCE COMMITTEE - 9 FEBRUARY 2006**

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2006/07

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 92-2006

1 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2006/07 to 2008/09 Revenue Budgets and to remind members of those factors requiring decisions in order to set the Final 2006/07 Revenue Budget and Council Tax.

2 RECOMMENDATIONS

- 2.1 The Committees are asked to note the procedures for setting the 2006/07 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 16 January 2006 and as set out in Appendix A to this report.
- 2.2 The Committees are asked to note the contents of the Provisional 2006-2009 Revenue Budget Volume (Report 90-2006).
- 2.3 The Special Finance Committee is asked to note those factors which it requires to consider when setting the final Revenue Budget and Council Tax for 2006/07, as detailed in paragraphs 6.1 to 13.2 of this report.

3 LOCAL AGENDA 21 IMPLICATIONS

None.

4 EQUAL OPPORTUNITIES IMPLICATIONS

None.

5 BACKGROUND

- 5.1 The Policy & Resources Committee on 16 January 2006 considered Report 48-2006 by the Depute Chief Executive (Finance). This report detailed the revised Local Government Finance Settlement for 2006/07 and 2007/08, as announced by the Minister for Finance and Public Service Reform on 23 November 2005. The report also detailed the proposed procedures to be followed by the various Committees on Council Tax setting day (9 February 2006). These procedures were agreed and, for ease of reference, are reproduced at Appendix A to this report.

6 PROVISIONAL 2006-2009 REVENUE BUDGETS

- 6.1 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 2006/07 and 2007/08 and preparing new Revenue Budgets for 2008/09. The outcome of this exercise is reflected in the Provisional 2006-2009 Revenue Budget Volume (Report 90-2006). The total Revenue Budget requirement for each of the three financial years is shown on page 1 of the volume. It is emphasised, however, that these figures are before any budget amendments or budget savings which may be approved and incorporated at the meetings on 9 February 2006. The 3-Year Revenue Budgets agreed by the Police, Fire & Rescue and Valuation Joint Boards on 30 January 2006 are incorporated with the Budget Volume.

7 DRAFT REVIEW OF CHARGES 2006/2007

- 7.1 A draft 2006/07 Review of Charges document has also been prepared (Report 91-2006). This shows additional income of £612,000 in 2006/07. The projected additional income is already included in the Provisional 2006-2009 Revenue Budget Volume. It is stressed, however, that the final decision on the review of charges, and any other savings, is a matter for the Special Policy & Resources and Finance Committees on 9 February 2006.

8 PAY AWARDS, PRICE INFLATION ETC

- 8.1 The Provisional 2006-2009 Revenue Budget Volume includes allowance for agreed and anticipated pay awards over the period for all categories of staff, including Teachers. Allowance has also been made for specific and general price inflation.

9 CONTINGENCY PROVISIONS

- 9.1 The Provisional 2006-2009 Revenue Budget Volume includes a specific Contingency for the ongoing additional costs associated with the implementation of the Single Status Agreement from 1 April 2006 (see page 2 of Budget Volume). The amount of this Contingency is £1,000,000 in 2006/07.

The exact details of revised pay gradings and conditions within the City Council have still to be agreed, however, the Depute Chief Executive (Finance) is of the opinion that the above amounts represent the minimum level of Contingency that should be held for this purpose. It should also be noted that this Contingency will address only the ongoing implications of Single Status : it does not provide for the cost of any historical Equal Pay claims that the Council may have to settle. These claims will require to be met from General Fund balances (see Section 13 of this report).

- 9.2 The Provisional 2006-2009 Revenue Budget Volume also includes a General Contingency of £200,000 per annum (see page 2 of Budget Volume). The purpose of this contingency is to provide cover for any unforeseen or emergency expenditure that may occur during the course of the financial year. The Depute Chief Executive (Finance) is of the opinion that this is the minimum level of General Contingency that the City Council should have in its annual Revenue Budget.

10 CAPITAL FINANCING COSTS/INTEREST ON REVENUE BALANCES

- 10.1 The total annual budgetary allowances for Capital Financing Costs/Interest on Revenue Balances are shown on page 1 of the Provisional 2006-2009 Revenue Budget Volume. These allowances are based on the actual level of capital debt outstanding at 31 March 2005 plus the net new borrowing shown in the 2006-2009 General Services Capital Plan, which was approved by the Policy & Resources Committee on 16 January 2006. The projected average annual interest rate is 6.05% over the three-year period 2006-2009. The Depute Chief Executive (Finance) is of the opinion that the projected interest rate is at the minimum prudent level and cannot be reduced to a lower level.

11 AGGREGATE EXTERNAL FINANCE (AEF)

11.1 The Council's Aggregate External Finance (AEF) can be analysed into two distinct elements, being RSG/NDRI and Specific Grants:

	<u>2006/07</u> £m	<u>2007/08</u> £m
a Revenue Support Grant (RSG)	178.918	N/A
Non Domestic Rate Income (NDRI)	<u>51.982</u>	<u>N/A</u>
TOTAL RSG/NDRI	230.900	236.337
b Specific Grants	<u>24.575</u>	<u>25.663</u>
TOTAL AGGREGATE EXTERNAL FINANCE	<u>255.475</u>	<u>262.000</u>

The above figures represent the best-estimate of the total AEF that will be available to the Council and incorporate recent revisions to the figures that were previously announced by the Scottish Executive on 23 November 2005. The additional support in respect of the Council's Schools PPP Project is also included in the above figures (estimated at £2.133m in 2007/08).

11.2 Estimated income from Specific Grants is already included in the Provisional 2006-2009 Revenue Budget Volume (Report 90-2006). Accordingly, it is the RSG/NDRI total of £230.900m that requires to be taken into account when setting the 2006/07 Council Tax.

12 RESERVES AND BALANCES

12.1 Section 12(1) of the Local Government in Scotland Act 2003 states that "It is the duty of a local authority to observe proper accounting practices". CIPFA have previously issued guidance on Local Authority Reserves and Balances, and this guidance is considered to constitute proper accounting practice. The key requirements of the guidance, as they affect the Council, are two-fold:

- i the setting out of a clear protocol covering the purpose, utilisation, management, control and review of reserves and balances.
- ii the inclusion in the annual budget report of a statement on reserves and balances detailing the proposed strategy over the budget period, after taking into account the strategic, operational and financial risks facing the Council.

12.2 The Policy & Resources Committee on 9 February 2004 agreed Report 70-2004 (Revised Guidance on Reserves and Balances) by the Depute Chief Executive (Finance). This report included a protocol for the operation of the Council's various Reserves and Balances, thereby addressing the first key requirement detailed in paragraph 12.1 above. The proposed protocol includes the following element which in itself addresses the second key requirement detailed in paragraph 12.1 above:

In the annual budget report that is considered by the Policy & Resources and Finance Committees on Council Tax setting day, the Depute Chief Executive (Finance) shall include the following:

- i a statement showing the estimated opening and closing General Fund balances for the financial year ahead.
- ii a statement advising as to the adequacy of the General Fund balances over the budget period(s) under consideration, after taking into account the strategic, operational and financial risks facing the Council.

- iii a statement reporting on the annual review of earmarked Reserves.

12.3 In accordance with the element of the proposed protocol that relates to the annual budget report, the following statements are made by the Depute Chief Executive (Finance):

- i the Council's Audited Statement of Accounts 2004/05 showed a General Fund balance of some £7.0m at 31 March 2005, excluding the amounts reserved for Car Parking and for schools participating in the Devolved School Management Scheme. The sum of £1.6m was taken from these balances and used in setting the 2005/06 Council Tax. Also, there were underspends in 2004/05 that related to committed projects that required to be carried forward and met from balances in 2005/06 : these are currently estimated at £2.2m. Therefore, the effective level of uncommitted General Fund balances carried forward from 2004/05 is currently estimated at £3.2m. The 2005/06 expenditure monitoring currently projects a position close to break-even.

Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2006 is estimated at £3.2m. As stated in paragraph 9.1 above, however, the Council will require to meet the cost of any successful Equal Pay claims. This cost could be significant in overall terms and would require to be met from the Council's General Fund balances.

- ii after taking into account the strategic, operational and financial risks facing the Council, it is considered that the minimum level of uncommitted balances that the Council should maintain is £3.2m. Accordingly, it is recommended that no amounts should be taken from General Fund balances when setting the 2006/07 Council Tax.
- iii the Council's earmarked reserves (ie Renewal & Repair Fund, Insurance Fund Reserve and Capital Fund) have all been reviewed and are considered to be adequate for their respective intended purposes.

12.4 In preparing the above statements, the Depute Chief Executive (Finance) has taken into account the key strategic, operational and financial risks facing the Council over the period. The main factors considered were:-

- anticipated changes in service provision, mainly arising from new monies awarded by the Scottish Executive.
- the certainty of significant income streams.
- the inherent uncertainty surrounding matters such as interest rates and price inflation.
- the impact of the Prudential Code for Capital Finance.
- the possibility of major items of unforeseen expenditure.
- the availability of Contingency provisions.
- the possibility of identifying further budget savings and efficiencies, if required.
- the adequacy of the Council's insurance arrangements.
- the likely impact of the Single Status Agreement and historical Equal Pay claims.

13 PROVISION FOR NON-COLLECTION OF THE COUNCIL TAX

13.1 The Council Tax was introduced in 1993/94 and the current collection figures in respect of the financial years 1993/94 to 2004/2005 inclusive show a collection of around 95.5% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2006/07 Council Tax requires to be decided by the Special Finance Committee on 9 February 2006. Elected Members will recall a non-collection provision of 3.5% was agreed in setting the Council Tax for 2005/06. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection provision when setting the 2006/07 Council Tax.

13.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 47,520 for 2006/07. This figure is before the provision for non-collection has been deducted. The Depute Chief Executive (Finance) is firmly of the opinion that the allowance for non-collection provision cannot be lower than 3.5%.

14 CONCLUSION

14.1 This report provides members with the background information necessary to assist them in considering the final stages of the 2006/07 Revenue Budget and Council Tax.

15 CONSULTATION

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

16 BACKGROUND PAPERS

Scottish Executive Finance Circular 8/2005 (23 November 2005)

DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)

2 FEBRUARY 2006

PROCEDURE FOR COUNCIL TAX SETTING DAY - 9 FEBRUARY 2006

Time

Action

9.30

Special Education Committee meets.

The Special Education Committee will consider the Education Department's 2006-2009 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 2006-2009 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 may 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 may 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 2006/07.