

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 11 FEBRUARY 2010

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2010/11

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 82-2010

1.0 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2010/11 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2010/11 Revenue Budget and Council Tax.

2.0 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 notes the procedures for setting the 2010/11 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 7 December 2009 and as set out in Appendix A to this report
- 2.2 notes the contents of the Provisional 2010/11 Revenue Budget Volume
- 2.3 notes those factors which it requires to consider when setting the final Revenue Budget and Council Tax for 2010/11, as detailed in paragraphs 4.1 to 11.2 of this report

3.0 BACKGROUND

- 3.1 The Policy & Resources Committee on 7 December 2009 considered Report 593-2009 by the Director of Finance. This report detailed the revised Local Government Finance Settlement for 2010/11, as announced by the Cabinet Secretary for Finance & Sustainable Growth on 26 November 2009. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (11 February 2010). These procedures were agreed and, for ease of reference, are reproduced at Appendix A to this report.

4.0 PROVISIONAL REVENUE BUDGET 2010/11

- 4.1 A budget volume covering the three year period 2009-2012 was issued on 12 May 2009. In previous years, it has been normal practice to now submit an updated 3 Year Revenue Budget to the Policy & Resources Committee, with years 2 and 3 of the budget being "provisional" in nature. In light of the current economic climate and the anticipated reduction in funding levels beyond 2010/11, it is considered prudent to present a Revenue Budget for 2010/11 only at this stage. The Council's Revenue Budget for 2011/12 and beyond will be developed as the broader funding position becomes clearer over the next nine months.
- 4.2 Over the past few months the Chief Executive and Director of Finance, in conjunction with the other Chief Officers, have been reviewing and refining the detailed Revenue Budgets for 2010/11. The outcome of this exercise is reflected in the Provisional 2010/11 Revenue Budget Volume. The total Revenue Budget requirement for 2010/11 is shown on page 1 of the volume. It is emphasised, however, that this figure is before any amendments or budget savings which may be approved and incorporated into the Revenue Budget at the meeting of the Special Policy & Resources Committee on 11 February 2010. The Revenue Budgets agreed by the Police, Fire & Rescue and Valuation Joint Boards on 1 February 2010 are incorporated within the Revenue Budget Volume.

- 4.3 The Provisional 2010/11 Revenue Budget has been updated to reflect a number of cost pressures and funding transfers that have emerged over the past eight months or so. Details of the key items are shown in Appendix B to this report. For the avoidance of doubt, it is stressed that these figures relate to the change in the budget since May 2009 and not to the total budget for the items concerned.

5.0 DRAFT REVIEW OF CHARGES 2010/11

- 5.1 A draft 2010/11 Review of Charges document has also been prepared. This shows additional income of £243,000 in 2010/11. The projected additional income is already included in the Provisional 2010/11 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 Committee on 11 February 2010.

6.0 PAY AWARDS, PRICE INFLATION ETC

- 6.1 The Provisional 2010/11 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, where appropriate.

7.0 CONTINGENCY PROVISIONS

- 7.1 A number of Contingency Provisions are included on page 4 of the Provisional 2010/11 Revenue Budget Volume:

General Contingency (£200,000 in 2010/11)

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 Director of Finance is of the opinion that £200,000 represents the minimum level of General Contingency that the City Council should have in its 2010/11 Revenue Budget.

Increase in Electricity Contract Price (£1,021,000 in 2010/11)

The existing contract for the supply of electricity is due for renewal on 1 April 2010. This contingency allows for the expected increase in the electricity budget.

Single Status (£1,295,000 in 2010/11)

The Single Status Agreement was implemented by the City Council on 1 April 2008, with affected staff transferring to new grades on that date. The purpose of this contingency is to fund the net increments that will become payable on 1 April 2010 under the new grading structure. (Note: the movement in the Single Status contingency since May 2009, as shown in Appendix B, is £341,000).

Corporate Savings and Efficiencies (£298,000 in 2010/11)

Corporate savings and efficiencies have been identified and these savings will be allocated to departmental revenue budgets in due course.

16% Increase in Non-Domestic Rates (2010 Revaluation) (£862,000 in 2010/11)

A revaluation of non-domestic properties in Scotland will be implemented on 1 April 2010. Local government properties have generally experienced significant increases in rateable values as a result of the revaluation exercise. This is offset, to some extent, by a reduction in the rate poundage. It is estimated, however, that the Council's overall non-domestic rates bill will increase by around 16% after allowing for the budgetary inflation provision of 2%.

8.0 CAPITAL FINANCING COSTS/INTEREST ON REVENUE BALANCES

- 8.1 The total budgetary allowance for Capital Financing Costs/Interest on Revenue Balances is shown on page 1 of the Provisional 2010/11 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2009 plus the net new borrowing shown in the 2010-2013 General Services Capital Plan, which is also being submitted for approval to the Special Policy & Resources Committee on 11 February 2010. The projected average annual interest rate is 5.4% for 2010/11. The Director of Finance is of the opinion that the projected interest rate is at the minimum prudent level and cannot be reduced to a lower level.

9.0 REVENUE FUNDING ALLOCATION

- 9.1 The City Council's Revenue Funding Allocation for 2010/11 has been advised as follows:

	2010/11 £m
General Revenue Funding	242.582
Non-Domestic Rates	57.010
Council Tax Freeze Grant	<u>1.762</u>
	301.354
Ring-Fenced Funding	<u>18.260</u>
	<u>319.614</u>

The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2010/11 and reflect the decisions taken by the Scottish Parliament on 3 February 2010.

- 9.2 Estimated income from remaining Ring-Fenced Funding is already included in the Provisional 2010/11 Revenue Budget Volume. Accordingly, it is the sum of £301.354m that requires to be taken into account when setting the 2010/11 Council Tax. It is stressed, however, that the Council Tax Freeze Grant of £1.762m can be assumed in the 2010/11 Council Tax calculation only if the 2010/11 Council Tax level is frozen.

10.0 RESERVES AND BALANCES

- 10.1 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 (including an update in November 2008), 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.

- 10.2 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 10.1 above. The proposed protocol includes the following element which in itself addresses the second key requirement detailed in paragraph 10.1 above:

In the annual budget report that is considered by the Policy & Resources Committee on Council Tax setting day, the Director of 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.

10.3 In accordance with the element of the proposed protocol that relates to the annual budget report, the following statements are made by the Director of Finance:

- i the Council's Audited Statement of Accounts 2008/09 showed a General Fund balance of some £6.3m at 31 March 2009, excluding the amounts reserved for Car Parking and for schools participating in the Devolved School Management Scheme. It was agreed that the sum of £1.3m be taken from balances when setting the 2009/10 Council Tax in February 2009. There were underspends in 2008/09 that related to committed projects that required to be carried forward and met from balances in 2009/10: these are currently estimated at £0.7m. Therefore, the effective level of uncommitted General Fund balances carried forward from 2008/09 is currently estimated at £4.3m. The 2009/10 expenditure monitoring currently projects an overspend of around £0.5m.

Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2010 is estimated at £3.750m. There are no further known expenditure commitments or additional income that would materially affect this projected balances figure.

- 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 £3m. Accordingly, it is recommended that the maximum sum that can be taken from General Fund balances when setting the 2010/11 Council Tax is £0.750m.
- iii the Council's earmarked reserves (ie the Renewal & Repair Fund, Insurance Fund Reserve and Capital Fund) have all been reviewed and are considered to be adequate for their respective intended purposes.

10.4 In preparing the above statements, the Director of Finance has taken into account the key strategic, operational and financial risks facing the Council over the period. The main factors considered were:-

- the anticipated short to medium term impact of the current financial climate including significant reductions in grant funding levels and reductions in chargeable income
- the possibility of new cost pressures or responsibilities emerging during the course of the financial year.
- anticipated changes in service provision, mainly arising from the Concordat and from new monies awarded by the Scottish Government.
- 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 ongoing impact of the Single Status Agreement.
- the potential impact of the introduction of International Financial Reporting Standards

11.0 PROVISION FOR NON-COLLECTION OF THE COUNCIL TAX

- 11.1 The Council Tax was introduced in 1993/94 and the current collection figures in respect of the financial years 1993/94 to 2008/2009 inclusive show a collection of around 96.3% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2010/11 Council Tax requires to be decided by the Special Policy & Resources Committee on 11 February 2010. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2009/10. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2010/11 Council Tax.
- 11.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 48,217 for 2010/11. This figure is before the provision for non-collection has been deducted. The Director of Finance is firmly of the opinion that the allowance for non-collection provision cannot be lower than 3.2%.

12.0 CONCLUSION

- 12.1 This report provides members with the background information necessary to assist them in considering the final stages of the 2010/11 Revenue Budget and Council Tax.

13.0 POLICY IMPLICATIONS

- 13.1 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.

14.0 CONSULTATION

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

15.0 BACKGROUND PAPERS

- 15.1 Scottish Government Finance Circular 12/2009 (26 November 2009)

MARJORY M STEWART
DIRECTOR OF FINANCE

5 FEBRUARY 2010

APPENDIX A

PROCEDURE FOR COUNCIL TAX SETTING DAY - 11 FEBRUARY 2010

Date and Time

**11 February 2010
3pm**

Action

Special Policy and Resources Committee meets.

The Special Policy and Resources Committee will consider the City Council's 2010/11 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 2010/11.

APPENDIX B

SPECIAL POLICY & RESOURCES COMMITTEE - 11 FEBRUARY 2010

PROVISIONAL REVENUE BUDGET 2010/11

Cost Pressures & Funding Transfers - Key Items

	<u>Movement</u> <u>Since</u> <u>May 2009</u> <u>£000</u>
<u>Cost Pressures</u>	
Social Work - Childrens Services Staffing	150
Social Work - Family Placements	900
Social Work - Residential Schools and Secure Care	250
Social Work - Adults Services	500
Social Work - Free Personal Care Waiting Time	656
Remove Transfer of Resources from Capital Programme	1,600
Various - 16% increase in Non-Domestic Rates (2010 Revaluation)	862
City Development - various cost pressures (including Winter Maintenance)	650
Various - Single Status increments payable on 1 April 2010	341 **
Education - inflation on Schools PPP Unitary Charges	225
 <u>Funding Transfers / Additional Funding</u>	
City Development - Scottish Enterprise Regeneration	257 *
Waste Management - Zero Waste Fund	672 *
Police - Pensions Transfer to Scottish Government	(3,237) *
Fire - Pensions Transfer to Scottish Government	(1,930) *

Items marked * are subject to a corresponding grant adjustment

** The total Single Status Contingency for 2010/11 is £1.295m