

**REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 14 FEBRUARY 2008**

**REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2008/09**

**REPORT BY: HEAD OF FINANCE**

**REPORT NO: 122-2008**

## **1.0 PURPOSE OF REPORT**

- 1.1 To advise members of the current position regarding the 2008/09 to 2010/11 Revenue Budgets and to remind members of those factors requiring decisions in order to set the Final 2008/09 Revenue Budget and Council Tax.

## **2.0 RECOMMENDATIONS**

It is recommended that the Committee:

- 2.1 notes the procedures for setting the 2008/09 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 28 January 2008 and as set out in Appendix A to this report.
- 2.2 notes the contents of the Provisional 2008-2011 Revenue Budget Volume.
- 2.3 notes those factors which it requires to consider when setting the final Revenue Budget and Council Tax for 2008/09, as detailed in paragraphs 4.1 to 11.2 of this report.

## **3.0 BACKGROUND**

- 3.1 The Policy & Resources Committee on 28 January 2008 considered Report 92-2008 by the Head of Finance. This report detailed the Local Government Finance Settlement for the three year period 2008-2011, as announced by the Cabinet Secretary for Finance & Sustainable Growth on 13 December 2007. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (14 February 2008). These procedures were agreed and, for ease of reference, are reproduced at Appendix A to this report.

## **4.0 PROVISIONAL 2008-2011 REVENUE BUDGETS**

- 4.1 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 2008/09 and 2009/10 and preparing new Revenue Budgets for 2010/11. The outcome of this exercise is reflected in the Provisional 2008-2011 Revenue Budget Volume. 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 meeting on 14 February 2008. The Revenue Budgets agreed by the Police, Fire & Rescue and Valuation Joint Boards on 28 January 2008 are incorporated within the Budget Volume.

## **5.0 DRAFT REVIEW OF CHARGES 2008/2009**

- 5.1 A draft 2008/09 Review of Charges document has also been prepared. This shows additional income of £503,000 in 2008/09. The projected additional income is already included in the Provisional 2008-2011 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 14 February 2008.

## 6.0 **PAY AWARDS, PRICE INFLATION ETC**

- 6.1 The Provisional 2008-2011 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 2 of the Provisional 2008-2011 Revenue Budget Volume:

### Quality of Life Funding (£846,000 in 2008/09)

These amounts are held centrally pending reallocation to departmental revenue budgets. It should be noted that, in addition, Quality of Life projects totalling £613,000 in 2008/09 have been included in the 2008-2011 Capital Plan.

### General Contingency (£578,000 in 2008/09)

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. In light of the significant changes brought in alongside the 2008-2011 Local Government Financial Settlement, there is a strong possibility that new cost pressures or responsibilities will emerge during 2008/09. The Head of Finance is therefore of the opinion that £578,000 represents the minimum level of General Contingency that the City Council should have in its 2008/09 Revenue Budget.

### Single Status (£2,795,000 in 2008/09)

The Single Status Agreement will be implemented by the City Council on 1 April 2008. The exact financial implications of the revised pay and conditions scheme are currently being assessed and, in the meantime, this Contingency is being held centrally pending reallocation to departmental revenue budgets. The Head of Finance is of the opinion that £2,795,000 represents the minimum level of Contingency that the City Council should have in its 2008/09 Revenue Budget for this purpose.

### Electricity Contract (£600,000 in 2008/09)

The City Council's existing contract for the supply of electricity runs until 31 March 2008 and a new contract will require to be entered into in due course. Latest indications from the energy market suggest that renewal prices could result in an overall increase in tariffs in excess of 20%, or around £600,000 in cash terms. This increase should be viewed in the context of the gas renewal contract entered into in September 2007, when favourable renewal terms for that commodity resulted in a budget saving of £400,000 (see below).

### Provision for Contributions to Organisations Previously Funded by the Scottish Government (£200,000 in 2008/09)

Confirmation has recently been received from the Scottish Government that some specific elements of funding previously paid directly to the Third Sector are now included within the Local Government Financial Settlement. This Contingency amount will enable the associated projects to be resourced in 2008/09.

### Corporate Savings (£2,087,000 in 2008/09)

The contracts for Mobile Telephones and Gas were both renewed during the course of 2007/08 and resulted in savings over existing costs (£87,000 and £400,000 per annum respectively). These savings will be allocated to departmental revenue budgets in due course. In addition, an anticipated surplus of resources in the Capital Programme (£1,600,000) has been transferred to the Revenue Budget. This transfer is also reflected in the 2008-2011 Capital Plan.

## 8.0 CAPITAL FINANCING COSTS/INTEREST ON REVENUE BALANCES

- 8.1 The total annual budgetary allowances for Capital Financing Costs/Interest on Revenue Balances are shown on page 1 of the Provisional 2008-2011 Revenue Budget Volume. These allowances are based on the actual level of capital debt outstanding at 31 March 2007 plus the net new borrowing shown in the 2008-2011 General Services Capital Plan, which is also being submitted for approval to the Special Policy & Resources Committee on 14 February 2008. The projected average annual interest rate is 5.9% over the three-year period 2008-2011. The Head 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 2008/09 has been advised as follows:

	2008/09 £m
General Revenue Funding	219.461
Non-Domestic Rates	54.535
Council Tax Freeze Grant	<u>1.762</u>
	275.758
Ring-Fenced Funding	<u>30.105</u>
	<u>305.863</u>

The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2008/09.

- 9.2 Estimated income from remaining Ring-Fenced Funding is already included in the Provisional 2008-2011 Revenue Budget Volume. Accordingly, it is the sum of £275.758m that requires to be taken into account when setting the 2008/09 Council Tax. It is stressed, however, that the Council Tax Freeze Grant of £1.762m can be assumed in the 2008/09 Council Tax calculation only if the 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, 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 Head 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 Head of Finance:

- i the Council's Audited Statement of Accounts 2006/07 showed a General Fund balance of some £7.3m at 31 March 2007, 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 2007/08 Council Tax in February 2007. There were underspends in 2006/07 that related to committed projects that required to be carried forward and met from balances in 2007/08: these are currently estimated at £1.6m. Therefore, the effective level of uncommitted General Fund balances carried forward from 2006/07 is currently estimated at £4.4m. The 2007/08 expenditure monitoring currently projects an overspend of around £0.5m. Also, the Council is currently holding £0.483m of transitional funding for Tayside Fire & Rescue Board in its General Fund balances.

Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2008 is estimated at £3.4m. 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 £2.1m. Accordingly, it is recommended that the maximum sum that can be taken from General Fund balances when setting the 2008/09 Council Tax is £1.3m. In addition, as noted above, the Council is currently holding £0.483m of transitional funding for Tayside Fire & Rescue Board in its General Fund balances. The Tayside Fire & Rescue Board agreed its 2008/09 Revenue Budget on 28 January 2008. Within the Board's approved funding strategy, it was assumed that the Council would make this transitional funding available to the Board in 2008/09. Based on this assumption, the amount of £0.483m would also require to be shown as taken from General Fund balances in the Council's 2008/09 Council Tax calculation.
- 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.

10.4 In preparing the above statements, the Head 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 possibility of new cost pressures or responsibilities emerging during the course of the financial year.
- anticipated changes in service provision, mainly arising 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 likely impact of the Single Status Agreement.

#### **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 2006/2007 inclusive show a collection of around 96.1% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2008/09 Council Tax requires to be decided by the Special Policy & Resources Committee on 14 February 2008. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2007/08. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2008/09 Council Tax.

11.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 47,700 for 2008/09. This figure is before the provision for non-collection has been deducted. The Head 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 2008/09 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, Depute Chief Executive (Finance) and Depute Chief Executive (Support Services) have been consulted on the content of this report.

#### **15.0 BACKGROUND PAPERS**

15.1 Scottish Executive Finance Circular 6/2007 (13 December 2007)

**MARJORY M STEWART**  
**HEAD OF FINANCE**

**7 FEBRUARY 2008**

**PROCEDURE FOR COUNCIL TAX SETTING DAY - 14 FEBRUARY 2008**

**Date and Time**

**Action**

**14 February 2008  
3pm**

**Special Policy and Resources Committee meets.**

The Special Policy and Resources Committee will consider the City Council's 2008-2011 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Head 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 2008/09.