

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 16 JANUARY 2006

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2006/07 TO 2007/08 AND REVENUE BUDGET/COUNCIL TAX SETTING PROCEDURE

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 48-2006

1 PURPOSE OF REPORT

- 1.1 This report advises members of the recent announcements made by the Minister for Finance and Public Service Reform in respect of the revised Local Government Finance Settlement for 2006/07 and 2007/08. The report identifies the City Council's Aggregate External Finance settlement for these financial years and also outlines the current position on the Revenue Budget for the three year period 2006-2009. The report also sets out the procedure for setting the Revenue Budget and Council Tax for 2006/07.

2 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Notes the Council's revised Aggregate External Finance settlement for 2006/07 and 2007/08, as recently announced by the Minister for Finance and Public Service Reform.
- 2.2 Notes the current position on the Revenue Budget for the three year period 2006-2009.
- 2.3 Agrees the procedures to be followed for setting the 2006/07 Revenue Budget and Council Tax level, as set out in Section 12 and Appendix A of this report.

3 FINANCIAL IMPLICATIONS

- 3.1 The financial information included in this report will be included in the Council Tax proposals to be submitted to the Special Finance Committee on 9 February 2006.

4 LOCAL AGENDA 21 IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 BACKGROUND

- 6.1 The Scottish Executive first announced 3-year Financial Settlement figures, covering the period 2003-2006 in December 2002, following the 2002 Spending Review. This was a fundamental aspect of the agenda previously agreed between Scottish Ministers and COSLA elected members for renewing the system of local government finance in Scotland. In return, Councils were required to agree Revenue Budgets and Council Tax levels covering the 3-year period, albeit the figures for years 2 and 3 of the period are to be regarded as "indicative". This implies the need for robust 3-year Revenue Budgets, which had also been identified as a key element of Best Value Regime. A budget volume covering the period 2005-2008 was issued in April 2005.

7 REVISED LOCAL GOVERNMENT FINANCE SETTLEMENT 2006/07 AND 2007/08

- 7.1 On 23 November 2005, the Minister for Finance and Public Service Reform announced revised Local Government Finance Settlement figures for 2006/07 and 2007/08. The figures are provisional at this stage and subject to consultation, with the 2006 Local Government Finance Order due to be laid in the Scottish Parliament on 25 January 2006 and debated on 8 February 2006. The revised figures are based largely upon the figures first announced in December 2004.

The following paragraphs explain the main elements of the provisional grant settlement.

- 7.2 Estimated Service Expenditure (ESE) relates to revenue expenditure on all services, at outturn prices, before the deduction of Specific Government Grants. ESE is apportioned between individual Councils using the client group assessment method. This involves around 100 separate calculations, with each calculation allocating a fixed amount of money to each Council in respect of a particular service area (note, however, that the final grant is "unhypothesized" and is not ring-fenced for any particular services). The data used in each calculation is intended to reflect the relative spending needs of each Council on that particular service area. Population data is the key driver in these calculations and allocates around 85% of total ESE.

Quality of Life Funding and support for Loan and Leasing Charges and PFI/PPP Schemes are then added to ESE to give Total Estimated Expenditure (TEE). TEE represents the level of Local Government expenditure that the Scottish Executive is willing to support through the grant mechanism. A deduction is then made from TEE to reflect the proportion of that expenditure that is to be funded by the local taxpayer. This deduction is made pro rata to the number of Band D equivalent properties in each Council area. After the deduction, the amount of distributable grant is known as Aggregate External Finance (AEF). Within the overall grant calculation, a self-financing "floor" mechanism ensures that all Councils receive a minimum year-on-year increase in funding.

- 7.3 The total figures for all-Scotland were announced as follows:

	<u>2006/07</u> <u>£m</u>	<u>2007/08</u> <u>£m</u>
Estimated Service Expenditure (ESE)	9,035.931	9,276.390
Quality of Life Funding	50.000	50.000
Loan & Leasing Charges Support	904.571	916.571
PFI/PPP Schemes Support	<u>61.429</u>	<u>61.429</u>
Total Estimated Expenditure (TEE)	10,051.931	10,304.390
Deduction TEE to AEF	<u>(1,706.904)</u>	<u>(1,767.451)</u>
Aggregate External Finance (AEF)	<u>8,345.027</u>	<u>8,536.939</u>
Year-on-Year % Increase in AEF	<u>+3.2%</u>	<u>+2.3%</u>

- 7.4 Within the overall totals above, the figures for Dundee City Council were announced as follows:

	<u>2006/07</u> <u>£m</u>	<u>2007/08</u> <u>£m</u>
Estimated Service Expenditure (ESE)	265.174	271.452
Quality of Life Funding	1.467	1.463
Loan & Leasing Charges Support	25.325	24.501
PFI/PPP Schemes Support	2.319	2.319
Floor Adjustment	<u>2.170</u>	<u>2.348</u>
Total Estimated Expenditure (TEE)	296.455	302.083
Deduction TEE to AEF	<u>(41.894)</u>	<u>(43.107)</u>
Aggregate External Finance (AEF)	<u>254.561</u>	<u>258.976</u>
Year-on-Year % Increase in AEF	<u>+2.0%</u>	<u>+1.7%</u>

AEF comprises three elements : Revenue Support Grant (RSG), Non-domestic Rate Income (NDRI) and Specific Grants. Income from Specific Grants will be included in the 2006-2009 Provisional Revenue Budget volume. Accordingly, it is the RSG and NDRI figures only that require to be taken into account when setting the Council Tax level for 2006/07. The City Council's RSG/NDRI total for 2006/07 is £229.986m.

It should be noted that the above grant figures do not yet include the additional support in respect of the Council's Schools' PPP Project. Grant support for this project is expected to come on-stream during 2007/08 and is estimated at £2.133m in that financial year. Furthermore, some additions to AEF for specific initiatives have been advised by the Scottish Executive in the period since the main announcements were made on 23 November 2005. These total £0.838m in 2006/07 and £0.838m in 2007/08. For the purposes of the 2006/07 Council Tax calculation, this amount should be added to the RSG/NDRI total referred to above.

- 7.5 There is also a significant amount of "ring-fenced" revenue funding distributed by the Scottish Executive, outwith the main AEF settlement. The major items of funding include :

Changing Children's Services Fund
Strategic Waste Fund
Community Regeneration Fund
Supporting People
Community Wardens & Tackling Anti-Social Behaviour

8 IMPLICATIONS OF LOCAL GOVERNMENT FINANCE SETTLEMENT

- 8.1 Grant figures for 2006/07 and 2007/08 were announced for the first time on 8 December 2004. The average annual increases in funding at a national level were 3.3% and 2.3% respectively. These increases were lower than in previous years, partly reflecting an assumed level of savings that Councils will be expected to make under the Efficient Government initiative. Scottish Executive Ministers acknowledged that this was a tight settlement, but also indicated that they expected Council Tax levels to increase by no more than 2.5% in each year. As noted in paragraph 7.1 above, the revised figures recently announced are based largely upon the December 2004 figures. Any adjustments to the December 2004 figures are minor and are of a technical nature. Despite the numerous representations from Scottish Councils including this authority, there has been no upward revision to the figures.

- 8.2 The annual increases in grant for Dundee City Council are lower than the national average, at only 2.0% and 1.7% for 2006/07 and 2007/08 respectively. These are the minimum percentage increases in funding that all Councils are guaranteed under the self-financing "floor" mechanism. The Scottish Executive had decided that the floor mechanism will operate at a much lower level than in previous years. Notwithstanding this, it can be seen from the figures in paragraph 7.4 that the Council has still been protected to a significant degree by the floor mechanism (by £2.170m in 2006/07 and £2.348m in 2007/08). Without this protection, the Council's grant increases would have been even lower at only 1.1% and 0.8%. This is due to the fact the Council's continuing population decline (both actual and projected) is being reflected in the grant settlement calculations for 2006/07 and 2007/08. As noted in paragraph 7.2 above, population data is the key driver in these calculations. Whilst the impact of falling population was anticipated, it was also expected that the overall grant increases would be higher and that the Council would receive a greater degree of protection via the floor mechanism.
- 8.3 Pay awards are currently being settled at between 2.5% and 3% and general inflation is running at around 2%. In addition, the Council is facing areas of specific cost pressure such as the implementation of the Single Status Agreement and substantial increases in energy charges. It can therefore be concluded that the Council is facing significant challenges in setting its Revenue Budget and Council Tax levels for the period 2006-2009.

9 PROVISIONAL REVENUE BUDGET 2006-2009

- 9.1 As noted in paragraph 6.1 above, a budget volume covering the period 2005-2008 was issued in April 2005. 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 will be reflected in the 2006-2009 Provisional Revenue Budget volume, which will be issued on 2 February 2006, with the papers for the Special Committee Meetings on 9 February 2006.

10 COMMON COUNCIL TAX SETTING DATE

- 10.1 As has been the practice in recent years, COSLA has agreed a common Council Tax setting date. This has been fixed as 9 February 2006. On that date the Council will be required to set its 2006/07 Revenue Budget and Council Tax.

11 NON-DOMESTIC RATE INCOME

- 11.1 The Non-Domestic Rate Income (NDRI) 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 Aggregate External Finance (AEF) which each authority will receive, as the AEF is decided first and any NDRI received from the "pool" effectively reduces the level of Revenue Support Grant payable to each Council. Dundee City Council will receive £51.982m from the Non-domestic Rates Pool in 2006/07.
- 11.2 The Minister for Finance and Public Service Reform has announced that the national rate poundage for Scotland for 2006/07 has been provisionally set at 44.9p. This represents a decrease of 1.2p or 2.6%, reflecting the Scottish Executive's policy commitment to bring the rate poundage in Scotland into line with England by 2007. The Minister also announced that a supplement of 0.4p will be levied on larger businesses and ratepayers to fund the Small Business Rate Relief Scheme. The Council will make provision for non-domestic rates on its own properties within the 2006-2009 Provisional Revenue Budget.

12 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2006/07

- 12.1 The proposed procedure for the setting of the 2006/07 Revenue Budget and Council Tax is the same as the procedure adopted last year for the setting of the 2005/06 Revenue Budget and Council Tax.
- 12.2 The procedure in respect of submitting savings and review of charges amendments to the Chief Executive and Depute Chief Executive (Finance) for prior approval as to their competence will again apply in setting the 2006/07 Revenue Budget and Council Tax level. It must be stressed that, for all Departments including Education, savings and review of charges proposals by any Group or individual member (including co-opted members) must be submitted to the Chief Executive by **5 pm on 1 February 2006** 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 meetings on 9 February 2006.
- 12.3 If there are any further technical adjustments required to the 2006/07 Provisional Revenue Budget or grant settlement figures then these will be included in the separate report by the Depute Chief Executive (Finance) which will be issued along with the agenda for the meetings on 9 February 2006. The Depute Chief Executive (Finance) will also make recommendations in that report regarding the use of balances in the setting of the Council Tax level.
- 12.4 A timetable showing the procedure for setting the 2006/07 Revenue Budget and Council Tax level on 9 February 2006 is enclosed at Appendix A.

13 CONSULTATION

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

14 BACKGROUND PAPERS

Scottish Executive Finance Circular 8/2004 (8 December 2004)
Scottish Executive Finance Circular 8/2005 (23 November 2005)

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DEPUTE CHIEF EXECUTIVE (FINANCE)

9 JANUARY 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 will 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 will 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.