

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 9 FEBRUARY 2012

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2012/13

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 68-2012

1.0 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2012/13 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2012/13 Revenue Budget and Council Tax.

2.0 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 notes the procedures for setting the 2012/13 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 9 January 2012 and as set out in Appendix A to this report
- 2.2 notes the contents of the Provisional 2012/13 Revenue Budget Volume
- 2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2012/13, as detailed in paragraphs 4.1 to 11.2 of this report

3.0 BACKGROUND

- 3.1 The Policy & Resources Committee on 9 January 2012 considered Report 22-2012 by the Director of Finance. This report detailed the Local Government Finance Settlement for 2012-2015, as announced by the Cabinet Secretary for Finance, Employment & Sustainable Growth on 8 December 2011. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (9 February 2012). These procedures are reproduced at Appendix A to this report.

4.0 PROVISIONAL REVENUE BUDGET 2012/13

- 4.1 Over the past few months the Chief Executive and Director of Finance, in conjunction with the other Chief Officers, have been preparing a Provisional Revenue Budget for 2012/13. The outcome of this exercise is reflected in the Provisional 2012/13 Revenue Budget Volume. The total Revenue Budget requirement for 2012/13, as shown on page 1 of the volume, is £360.493m. 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 9 February 2012.
- 4.2 The Provisional 2012/13 Revenue Budget reflects a number of cost pressures and savings that have been identified through the 2011/12 revenue monitoring process, together with new cost pressures that will emerge in 2012/13. Details of these items are shown in Appendix B to this report.

5.0 DRAFT REVIEW OF CHARGES 2012/13

- 5.1 A draft 2012/13 Review of Charges document has also been prepared. This shows additional income of £163,000 in 2012/13. The projected additional income is already included in the Provisional 2012/13 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 9 February 2012.

6.0 PAY AWARDS, PRICE INFLATION ETC

- 6.1 The Provisional 2012/13 Revenue Budget Volume includes no allowance for pay awards in 2012 for any category of staff, including Teachers. Allowance has, however, 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 3 of the Provisional 2012/13 Revenue Budget Volume:

General Contingency (£650,000 in 2012/13)

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 £650,000 represents the minimum level of General Contingency that the City Council should have in its 2012/13 Revenue Budget.

Energy Costs (£603,000 in 2012/13)

This contingency will be used to meet cost increases in energy contract prices in 2012/13.

Single Status (£574,000 in 2012/13)

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 2012 under the new grading structure.

Voluntary Early Retirement / Voluntary Redundancy (VER/VR) Scheme (£42,000 in 2012/13)

This contingency reflects surplus VER/VR savings made over and above the figure assumed in the 2011/12 savings proposals and will provide a small contribution towards the target savings from VERs/VRs in 2012/13.

Carbon Reduction Commitment Tax (£571,000 in 2012/13)

The CRC is essentially a new tax, with the Council requiring to purchase allowances from the Government to cover its carbon outputs generated through energy usage. This contingency will be used to meet the estimated cost of purchasing CRC allowances to cover the Council's carbon outputs in 2012/13.

Corporate Savings & Efficiencies (total savings of £246,000 in 2012/13)

These savings and efficiencies, identified through corporate initiatives, are being held centrally pending their allocation to the relevant departments in the final budget volume.

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 2012/13 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2011 plus the net new borrowing shown in the 2012-2016 General Services Capital Plan, which is also being submitted for approval to the Special Policy & Resources Committee on 9 February 2012. The projected average annual interest rate is 4.8% for 2012/13. 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 2012/13 has been advised as follows:

	2012/13
	£m
General Revenue Funding	249.255
Non-Domestic Rates	<u>50.140</u>
	299.395
Ring-Fenced Funding	<u>17.021</u>
	<u>316.416</u>

The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2012/13 and reflect the decisions expected to be taken by the Scottish Parliament in February 2012. Estimated income from remaining Ring-Fenced Funding is already included in the Provisional 2012/13 Revenue Budget Volume. Accordingly, it is the sum of £299.395m that requires to be taken into account when setting the 2012/13 Council Tax.

9.2 The Council requires to identify budget savings totalling £3.576m in order to achieve a Council Tax freeze in 2012/13.

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 2010/11 showed a General Fund balance of £5.889m at 31 March 2011, excluding the amounts reserved for Car Parking and for schools participating in the Devolved School Management Scheme. No amounts were taken from balances when setting the 2011/12 Council Tax in February 2011. There were underspends in 2010/11 that related to committed projects that required to be carried forward and met from balances in 2011/12: these are currently estimated at £0.452m. Therefore, the effective level of uncommitted General Fund balances carried forward from 2010/11 is currently estimated at £5.437m. The 2011/12 expenditure monitoring currently projects an underspend of £0.080m. It may be necessary to fund some of the costs associated with the current Voluntary Early Retirement/Voluntary Redundancy Scheme from General Fund balances. At this stage, however, it is not possible to provide an accurate estimate of the amounts involved.

Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2012 is estimated at £5.517m. 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 around £5.5m. Accordingly, it is recommended that no amounts should be taken from General Fund balances when setting the 2012/13 Council Tax.

iii it should be noted that the Police and Fire Boards in Tayside have recently agreed to return a proportion of their accumulated balances to the constituent Councils. For the City Council, the amount to be returned totals £0.943m (£0.559m from Police and £0.384m from Fire). These amounts will be returned by 31 March 2012 and will add to the Council's General Fund balances. This has, however, been treated as a savings item in the budget preparation process and is not therefore included in the balances figures shown above.

iv 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 reductions in grant funding levels and reductions in chargeable income.
- the requirement to make significant savings and efficiencies over the short to medium term.
- the possibility of new cost pressures or responsibilities emerging during the course of the financial year.
- potential changes in service provision.
- the certainty of significant income streams.
- the inherent uncertainty surrounding matters such as pay awards, 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 general and specific 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 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 2010/11 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 2012/13 Council Tax requires to be decided by the Special Policy & Resources Committee on 9 February 2012. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2011/12. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2012/13 Council Tax.

11.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 49,070 for 2012/13. 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 2012/13 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 11/2011 (8 December 2011)
Scottish Government Finance Circular 12/2011 (22 December 2011)

MARJORY M STEWART
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2 FEBRUARY 2012

PROCEDURE FOR COUNCIL TAX SETTING DAY - 9 FEBRUARY 2012

Date and Time

Action

**9 February 2012
3pm**

Special Policy and Resources Committee meets.

The Special Policy and Resources Committee will consider the City Council's 2012/2013 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 2012/2013.

APPENDIX B

COST PRESSURES REFLECTED IN PROVISIONAL 2012/2013 REVENUE BUDGET

<u>Department / Item</u>	<u>£m</u>
Education – PPP Unitary Charges inflation shortfall 2011/12	0.092
Social Work – cost pressures, demographic pressures and contributions to new Change Funds	4.398
City Development – 12.7% increase in Street Lighting electricity charges	0.283
City Development – reduction in Building Quality income	0.200
Chief Executive / Communities & Policy – Dundee Ice Arena management fee	0.060
Corporate Services / Finance Revenues – reduction in HB / CBT administration grant	0.068
Corporate – new Carbon Reduction Commitment tax	0.571
Corporate – 2012 local elections	<u>0.200</u>
	<u>5.872</u>

SAVINGS REFLECTED IN PROVISIONAL 2012/2013 REVENUE BUDGET

<u>Department / Item</u>	<u>£m</u>
Various – full year effect of 2011/12 budget savings	(0.639)
Various – full year effect of 2011/12 VERs / VRs	(0.111)
Corporate – reduction in loan charges	(0.700)
Corporate Services / Entitlement Cards – additional external funding	(0.206)
Various – savings from new Scottish Water contract	(0.150)
Various – Changing for the Future savings already approved	(0.423)
Education – reduction in cleaning and catering charges	(0.079)
Social Work – rationalisation of buildings (CFTF report)	(0.200)
City Development – rationalisation of organisational structure	(0.150)
City Development – reduction in non domestic rates for Dundee House	(0.130)
Chief Executive / Communities & Policy – additional non domestic rates saving on services transferring to Leisure & Culture Dundee	(0.179)
Environment – reconfiguration of street cleaning functions	(0.149)
Environment – ground maintenance efficiencies	<u>(0.100)</u>
	<u>(3.216)</u>