

ITEM No ...3(a).....

REPORT TO: POLICY & RESOURCES COMMITTEE – 11 JANUARY 2016

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2016/17 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 25-2016

1.0 PURPOSE OF REPORT

- 1.1 This report advises elected members of the announcement made by the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy on 16 December 2015 in respect of the Local Government Finance Settlement for 2016/17. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2016/17 Revenue Budget and 2016-2021 Capital Plan. The medium-term financial outlook and strategy is also set out.

2.0 RECOMMENDATIONS

It is recommended that the Policy & Resources Committee:

- 2.1 Notes the contents of this report.
- 2.2 Notes the Council's Revenue and Capital Funding Allocations for 2016/17, as announced by the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy on 16 December 2015, and the associated implications.
- 2.3 Notes the package of measures that make up the settlement to be provided to Local Government, as advised by the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy in a letter to COSLA dated 16 December 2015 (and as detailed in Section 5 of this report).
- 2.4 Notes the current position on the Council's Provisional 2016/17 Revenue Budget and 2016-2021 Capital Plan.
- 2.5 Notes that the financial information included in this report will be updated as necessary and included in the Council Tax proposals to be submitted to the Special Policy & Resources Committee on 25 February 2016.
- 2.6 Agrees the procedures to be followed for setting the 2016/17 Revenue Budget and Council Tax level, as set out in Section 11 and Appendix 1 of this report.
- 2.7 Notes the medium-term financial outlook and strategy as set out in Section 8 of this report.

3.0 FINANCIAL IMPLICATIONS

- 3.1 Based on current assumptions, the Council will require to identify budget savings totalling around £23 million in order to achieve a balanced budget in 2016/17.
- 3.2 The savings requirement of £23m is predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement and does not, therefore, suffer any financial sanctions.

4.0 BACKGROUND

- 4.1 A report by the Executive Director of Corporate Services on the Financial Outlook 2016-2018 was submitted to the Policy & Resources Committee on 26 October 2015 (Article IX of the minute of the meeting of the Policy & Resources Committee on 26 October 2015, Report No 372-2015, refers).
- 4.2 Based on projections at that time of budgetary requirements and available grant funding, savings and efficiencies totalling £16.0m were required to achieve a balanced budget in 2016/17. Further savings and efficiencies totalling £12.1m were required to achieve a balanced budget in 2017/18. These figures were based on an assumption that the Council's grant allocation would reduce by 1.6% per annum in cash terms over the period 2016-2018.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2016/17

- 5.1 On 16 December 2015, an announcement was made in the Scottish Parliament by the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy in respect of the Local Government Finance Settlement for 2016/17. These figures have subsequently been confirmed in Local Government Finance Circular 7/2015, issued by the Scottish Government on 16 December 2015. The figures are provisional at this stage and are subject to consultation between the Scottish Government and COSLA, with the Local Government Finance (Scotland) Order due to be debated by the Scottish Parliament in late February 2016.
- 5.2 The revenue grant total figures for all Scotland for 2016/17 are as follows:

	<u>2016/17</u> <u>£m</u>
Updated Service Provision	10,387.300
2008-2016 Changes	397.063
Loan Charges & PPP Schemes Support	619.694
Main Floor	-
Total Estimated Expenditure (TEE)	11,404.057
Assumed Council Tax Contribution	(1,948.565)
New 85% Floor	<u>25.000</u>
Total Distributable Revenue Support	<u>9,480.492</u>

The grant settlement for 2016/17 reflects an overall cash cut at national level of £350 million, or 3.5%. Within the reduced 2016/17 funding envelope, additional monies have been identified to meet new statutory responsibilities and Scottish Government policy initiatives, particularly around the implementation of the Children & Young People Act 2014.

In addition to the figures set out in the table above, the following items are still to be reflected in the grant settlement for 2016/17:

	<u>2016/17</u> <u>£m</u>
Free School Meals	53.918
Discretionary Housing Payments	35.000
Teachers' Induction Scheme	37.475

- 5.3 The distribution of revenue funding is driven by a series of complicated calculations which use data indicators to identify Councils' relative spending needs across various service areas. The data indicators are heavily influenced by various population counts. In addition to

the overall cash cut at national level, the distribution of funding between Councils has been updated to reflect the latest needs-based indicators.

- 5.4 The Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy wrote to COSLA on 16 December 2015 confirming the package of measures that make up the settlement to be provided to local government in return for the provisional funding amounts for 2016/17. For 2016/17, the Scottish Government will work with local government partners on implementing the budget and joint priorities in return for the full funding package which includes:

- an additional £250 million transfer from the NHS to health and social care partnerships to ensure improved outcomes in social care
- maintain teacher numbers at 2015 levels nationally and secure places for all probationers who require one under the teacher induction scheme
- £70 million is included in the settlement to continue the Council Tax freeze for a ninth consecutive year

It is proposed by the Depute First Minister that further discussions will take place with Local Government to consider the approach to implementing the measures set out in the budget. At the conclusion of these discussions, the expectation is that the Depute First Minister will then write to Council Leaders confirming all the details that have been agreed. This will include the final sign off arrangements for any Council Leader not intending to take up the offer and inviting them to write to the Depute First Minister confirming their decision by no later than 22 January 2016.

- 5.5 In terms of capital funding for 2016/17, the total support within the settlement from the Scottish Government is £606.9 million. The 2016/17 capital allocation includes a re-profiling reduction of £150 million. The Scottish Government has given a commitment that £150 million will be added back to the Local Government capital allocation in the next Spending Review, covering the period 2017 to 2020.

6.0 GRANT FIGURES FOR DUNDEE CITY COUNCIL

- 6.1 Within the overall totals shown in paragraph 5.2 above, the revenue grant figures for Dundee City Council are as follows:

	<u>2016/17</u> <u>£m</u>
Updated Service Provision	301.951
2008-2016 Changes	10.855
Loan Charges & PPP Schemes Support	19.022
Main Floor	<u>(3.182)</u>
Total Estimated Expenditure (TEE)	328.646
Assumed Council Tax Contribution	(46.022)
New 85% Floor	-
Total Distributable Revenue Support	<u>282.624</u>

After adjusting grant figures to a comparable basis, the effective year-on-year cash reduction in funding is around 4.3%. It should be noted that the previous (October 2015) projections of savings requirements were based on a 1.6% cash reduction in funding.

- 6.2 The updating of the needs-based indicators in the grant distribution calculation (see paragraph 5.3 above) has been marginally favourable in terms of the Council's 2016/17 grant allocation.

- 6.3 Total Funding comprises three elements: General Revenue Funding (GRF), Non-Domestic Rates (NDR) and the remaining elements of Ring-Fenced Funding. Only one item remains within Ring-Fenced Funding (support for Gaelic) and the City Council does not receive any allocation of this. Accordingly the City Council's GRF/NDR total for 2016/17, which requires to be taken into account when setting the Council Tax level, is £282.624 million. This figure will be augmented, in due course, by the share of the items shown in paragraph 5.2 above that are still to be reflected in the grant settlement for 2016/17.
- 6.4 The Council's total Capital Grants figure for 2016/17 is £14.259 million. The Council will also receive a share of the £30 million allocation that has been set aside for the capital consequences arising from the implementation of the Children & Young People Act 2014.

7.0 PROVISIONAL REVENUE BUDGET 2016/17

- 7.1 Over the past few months the Chief Executive and Executive Director of Corporate Services, in conjunction with the other Chief Officers, have been preparing a Provisional Revenue Budget for 2016/17. This has involved rolling forward the Final 2015/16 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Cost pressures and savings that have been identified through the 2015/16 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in 2016/17. This is an on-going process, with clarity still emerging around certain elements of the funding package (particularly items of additional funding). It is anticipated that the Provisional 2016/17 Revenue Budget volume (including Review of Charges) will be issued in late January 2016.
- 7.2 Based on current assumptions, the Council will require to identify budget savings totalling around £23 million in order to achieve a balanced budget in 2016/17. Administrative and technical budget savings that have been identified by officers will be reflected in the Provisional 2016/17 Revenue Budget and these will have a positive impact in terms of reducing the £23 million savings requirement. The administrative and technical budget savings will mainly reflect decisions that have already been taken by the Council, together with adjustments to previous assumptions around pay awards, inflationary allowances, cost pressures, contingencies etc. An analysis of the administrative and technical budget savings and other base budget adjustments will be provided to elected members along with the Provisional 2016/17 Revenue Budget volume.
- 7.3 The savings requirement of £23 million is predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement and does not, therefore, suffer any financial sanctions. It is stressed that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2016/17 Revenue Budget. The financial information included in this report will be updated as necessary and included in the Council Tax proposals to be submitted to the Special Policy & Resources Committee on 25 February 2016.

8.0 MEDIUM-TERM FINANCIAL OUTLOOK & STRATEGY

- 8.1 The outcome of the Westminster Spending Review was announced by the Chancellor of the Exchequer on 25 November 2015. The Scottish Budget totals show a cash increase of £1 billion (3.3%) between 2015/16 and 2019/20, largely due to the Barnett consequential of changes to other Whitehall departmental budgets. When adjusted for projected inflation, however, this represents a real terms reduction of 4.1%. For 2016/17, the year-on-year cash increase is £0.5 billion (1.7%), which represents a standstill budget in real terms.
- 8.2 The recent grant announcements by the Scottish Government reflect the outcome of the Westminster Spending Review. The figures announced by the Scottish Government are in respect of the 2016/17 financial year only: no figures are currently available beyond this point. It is anticipated that the Scottish Government will undertake a Spending Review covering the period 2017 to 2020, although the timescale for this review is not yet known.

- 8.3 As noted in paragraph 5.2 above, the local government grant settlement for 2016/17 reflects an overall cash cut at national level of £350 million, or 3.5%.
- 8.4 Looking forward at a national level, it is clear that much will depend on the outcome of the Scottish Government's Spending Review for the period 2017 to 2020. There are also other key areas of uncertainty, including the impact of the new power to set a Scottish Rate of Income Tax (SRIT) and the post-Smith Commission Fiscal Settlement to be agreed with the UK Government. Notwithstanding all of the variables and uncertainties, it can be stated with some confidence that Local Government in Scotland will continue to experience funding cuts (in both cash and real terms) for the remainder of this decade.
- 8.5 At a local level, the Council will continue to experience pressure on demand-led services in key areas, due to demographic and social factors. Pay and prices inflation will require to be provided for and the updating of grant distribution factors may work against the Council. Further, the Westminster Government's intention to withdraw the contracting-out rebate on employers national insurance contributions will add around £4.0 million to the Council's annual pay bill, from 2016/17 onwards.
- 8.6 The key aspects of a medium term financial strategy for the Council to help address the challenging financial landscape were set out in the Financial Outlook report to the Policy & Resources Committee on 26 October 2015. These are as follows:-
- the Council's corporate approach to identifying savings and efficiencies will be co-ordinated through a new Changing for the Future (Phase 4) transformational change programme.
 - a new Organisational Change Fund will help support and resource, on a spend-to-save basis, the organisational transformation that will be needed to deliver the required savings and efficiencies.
 - the Council will set annual balanced budgets, taking on board the prevailing constraints e.g. continuation of Council Tax freeze, reducing grant settlements, unavailability of balances etc.
 - the Council will seek to achieve an overall outturn position each year in line with or below budget.
 - the uncommitted element of the General Fund balance will be maintained at a minimum level of the lower of £5 million or 1.5% of budgeted revenue expenditure.
 - services will be expected to operate within the limits of their overall revenue budget allocation. Cost pressures which emerge in-year should, where possible, be accommodated within the relevant service revenue budgets. The General Contingency should normally be used to fund items of a non-recurring or emergency nature. Expenditure of a recurring nature should normally be funded from within service revenue budgets.
 - allocation of resources will be informed by a thematic approach designed to reflect the strategic priorities of the Council.
 - budget provision will be made for estimated pay awards and, in limited circumstances, for areas of specific price inflation. The costs of incremental progression for staff will be funded from service revenue budgets.
 - the initial costs associated with VERs / VRs will be met from General Fund Balances. On-going staff costs savings from VERs / VRs will be reflected in service revenue budgets.

- the Council's Capital Plan will be prudent, sustainable and affordable. In particular, affordability will be assessed with reference to the level of loan charges and additional running costs that can be reasonably included within future revenue budgets.
- the Council's immediate planning horizon for revenue expenditure will reflect the availability of information on future years grant allocations from the Scottish Government. The Executive Director of Corporate Services will maintain longer-term budget projections using appropriate assumptions and based on the best available information.
- proposals for service re-design and service development will be underpinned by a comprehensive and robust business case, including options appraisal.

It should be noted that many of the above areas are already covered by the Council's Financial Regulations, reflect previous Committee decisions or are in line with established custom and practice.

- 8.7 The Council's budget projections and medium term financial strategy will be updated once the outcome of the Scottish Government's 2017-2020 Spending review is known.

9.0 NON-DOMESTIC RATE INCOME

- 9.1 The Non-Domestic Rate income (NDR) collected by Dundee City Council will be paid into an all-Scotland central pool and thereafter distributed to individual Councils on the basis of the amount each Council estimates it will collect (based on 2015/16 mid-year estimates). This arrangement has no effect on the Total Revenue Support (TRS) which each authority will receive, as the TRS is decided first and any NDR income received from the "pool" effectively reduces the level of General Revenue Funding payable to each Council. Dundee City Council will receive £71.011 million from the Non-Domestic Rates Pool in 2016/17.
- 9.2 The Scottish Government has advised that the increase in the 2016/17 Non-Domestic Rate Poundage for Scotland has been provisionally set at 3.4% for Large Businesses. The Council will make appropriate provision for non-domestic rates on its own properties within the 2016/17 Provisional Revenue Budget.

10.0 CAPITAL PLAN 2016-2021

- 10.1 A Capital Plan covering the 5 year period 2016 to 2021 was submitted to the Policy & Resources Committee on 24 August 2015 (Article IX of the minute of the meeting of the Policy & Resources Committee on 24 August 2015, Report No 279-2015, refers).
- 10.2 The 2016-2021 Capital Plan has been reviewed by officers in light of the Council's Capital Grants figure for 2016/17 (see paragraph 6.4 above) and it is confirmed that the previously agreed programme is still considered to be deliverable. The next review of the Capital Plan is scheduled for October 2016.

11.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2016/17

- 11.1 The proposed procedures for setting the 2016/17 Revenue Budget and Council Tax is the same as the procedure adopted last year for the setting of the 2015/16 Revenue Budget and Council Tax.
- 11.2 The procedure in respect of submitting budget proposals and review of charges proposals to the Chief Executive and Executive Director of Corporate Services for prior approval as to their competence will again apply in setting the 2016/17 Revenue Budget and Council Tax level. It must be stressed that, for all Services, budget proposals and review of charges

proposals by any Group or individual member must be submitted to the Chief Executive by 5pm on 17 February 2016 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 meeting on 25 February 2016.

11.3 If there are any further technical adjustments required to the 2016/17 Provisional Revenue Budget or grant settlement figures then these will be included in the separate report by the Executive Director of Corporate Services which will be issued along with the agenda for the meeting on 25 February 2016. The Executive Director of Corporate Services will also make recommendations in that report regarding the use of balances in the setting of the Council Tax level.

11.4 A timetable showing the procedure for setting the 2016/17 Revenue Budget and Council Tax level on 25 February 2016 is attached at Appendix 1.

12.0 **POLICY IMPLICATIONS**

12.1 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.

13.0 **CONSULTATIONS**

13.1 The Chief Executive and Head of Democratic and Legal Services have been consulted on the content of this report.

14.0 **BACKGROUND PAPERS**

14.1 Scottish Government Local Government Finance Circular 7/2015 (16 December 2015)
Scottish Government Letter to COSLA (16 December 2015)

MARJORY M STEWART
DIRECTOR OF CORPORATE SERVICES

07 JANUARY 2016

PROCEDURE FOR POLICY & RESOURCES COMMITTEE - 25 FEBRUARY 2016

Date and Time

Action

**25 February 2016
3pm**

Revenue Budget and Council Tax

The Special Policy and Resources Committee will consider the City Council's 2016/17 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Executive Director of Corporate Services.

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 Labour Group, Conservative Member, Independent Member and Liberal Democrat Member will move any amendments.

The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2016/17.