

REPORT TO: POLICY & RESOURCES COMMITTEE – 13 JANUARY 2014

REPORT ON: REVISED LOCAL GOVERNMENT FINANCE SETTLEMENT 2014/15 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 34-2014

1.0 PURPOSE OF REPORT

- 1.1 This report advises elected members of the announcement made by the Cabinet Secretary for Finance, Employment & Sustainable Growth on 11 December 2013 in respect of the revised Local Government Finance Settlement for 2014/15. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2014/15 Revenue Budget and Draft 2014-2018 Capital Plan.

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 revised Revenue and Capital Funding Allocations for 2014/15, as announced by the Cabinet Secretary for Finance, Employment & Sustainable Growth on 11 December 2013, and the associated implications.
- 2.3 Notes the terms of the settlement to be provided to Local Government, as previously advised by the Cabinet Secretary for Finance, Employment and Sustainable Growth in a letter to COSLA dated 11 September 2013 (and as detailed in Section 4 of this report).
- 2.4 Notes the current position on the Council's Provisional 2014/15 Revenue Budget and Draft 2014-2018 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 13 February 2014.
- 2.6 Notes the procedures to be followed for setting the 2014/15 Revenue Budget and Council Tax level, as previously agreed by the Policy & Resources Committee on 28 October 2013 and as set out in Section 9 and Appendix 2 of this report.
- 2.7 Notes that, as previously agreed by the Policy & Resources Committee on 28 October 2013, the procedures for setting the Council's 2014-2018 Capital Plan should be the same as those for setting the 2014/15 Revenue Budget and Council Tax (see Section 9 and Appendix 2 of this report).

3.0 FINANCIAL IMPLICATIONS

- 3.1 It was previously reported that the Council required to identify budget savings totalling £8.4m in order to achieve a Council Tax freeze in 2014/15. Following a detailed review by officers, it has been possible to reduce the provisions required for cost pressures and inflation by £0.7m. In addition, administrative and technical savings totalling £3.9 million have already been reflected in the Provisional 2014/15 Revenue Budget (see Appendix 1). The Council therefore now requires to identify budget savings totalling £3.8 million in order to achieve a Council Tax freeze in 2014/15.

- 3.2 In the event that the Council does not agree to the full package of measures related to the Local Government Finance Settlement then the loss of grant would be circa £2.8 million in 2014/15, which equates to a Council tax increase of 4.8%.

4.0 **REVISED LOCAL GOVERNMENT FINANCE SETTLEMENT 2014/15**

- 4.1 Grant figures for the three year period 2012-2015 were first announced in December 2011 and have been subsequently updated on several occasions. These figures originally showed a revenue grant stand-still cash position in total across the three year settlement period, which was also the position for the City Council. On 11 December 2013, an announcement was made in the Scottish Parliament by the Cabinet Secretary for Finance, Employment & Sustainable Growth in respect of the revised Local Government Finance Settlement for 2014/15. These figures have subsequently been confirmed in Local Government Finance Circular 6/2013, issued by the Scottish Government on 11 December 2013. 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 early February 2014.

- 4.2 The revised revenue grant total figures for all Scotland for 2014/15 are as follows:

	<u>2014/15</u> <u>£m</u>
Updated Service Provision	10,858.204
2008-2013 Changes	808.757
Loan Charges & PPP Schemes Support	705.228
Main Floor	-
Total Estimated Expenditure (TEE)	12,372.189
Assumed Council Tax Contribution	(1,920.600)
New 85% Floor	25.000
General Revenue Changes 2013-2015 *	<u>(1,154.531)</u>
Total Distributable Revenue Support	<u>9,322.058</u>
Figure Previously Notified (February 2013)	<u>9,257.961</u>
Increase from Figure Previously Notified	<u>64.097</u>

Note: * the General Revenue Changes 2013-2015 relate largely to the removal of funding for Police and Fire.

The revised figures show an increase of £64.097m from the figures previously notified in February 2013. A full reconciliation of this increase is shown below.

	<u>2014/15</u> <u>£m</u>
Teachers' Induction Scheme	10.000
Copyright for School Pupils	(1.399)
Customer First	1.900
National Care Home Contract	2.500
Children and Young People Bill	50.849
Hostels Grant	7.000
Removal of Hostels Specific Grant	(7.753)
Sensory Impairment	<u>1.000</u>
Net Increase from Figure Previously Notified	<u>64.097</u>

In addition, the following items are still to be reflected in the grant settlement for 2014/15:

	<u>2014/15</u> <u>£m</u>
Council Tax Reduction Scheme	343.000
Council Tax Reduction Scheme Admin Costs	7.050
Funding for Second Languages	4.000
Discretionary Housing Payments	20.000
Scottish Welfare Fund	tbc
Teachers' Induction Scheme	27.600

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

Updated Service Provision reflects the ongoing support for service provision and includes the following: (i) the Grant Aided Expenditure (GAE) assessments, (ii) the Special Islands Needs Allowance (SINA), (iii) the ongoing revenue grants that were previously ring-fenced but are now rolled-up within the settlement, (iv) the baselined redeterminations since the 2007 Spending Review and (v) the Council Tax freeze grant. **2008-2013 Changes** are the total non-ring-fenced changes in funding arising from the Scottish Government's 2007 and 2010 and 2011 Spending Reviews. **Loan Charges and PPP Schemes Support** is the funding for historic and new capital debt, together with Level Playing Field Support (LPFS) for established PPP projects. Note, however, that support for Councils' new PPP projects is included within Updated Service Provision.

The **Main Floor** is the established self-financing stability mechanism that ensures that all Councils receive a maximum year-on-year decrease in funding (set at 1.4% for 2014/15). **Total Estimated Expenditure (TEE)** represents the level of Local Government expenditure that the Scottish Government is willing to support through the grant mechanism. The **Assumed Council Tax Contribution** is a deduction made from TEE to reflect the proportion of expenditure that is to be funded by the local taxpayer. The **New 85% Floor** represents the Scottish Government's commitment to ensure that no Council receives less than 85% of the Scottish average in terms of revenue support. **General Revenue Changes 2013-2015** are the changes to the funding figures previously notified in February 2012. **Total Distributable Revenue Support** is the total revenue funding available to Councils.

4.4 The Cabinet Secretary for Finance, Employment and Sustainable Growth wrote to COSLA on 11 September 2013 setting out the terms of the settlement to be provided to local government in return for the provisional funding amounts for 2014/15, as set out in the Draft Budget. The settlement continues to be focussed on delivery of the joint priorities of growing the economy and protecting front-line services and the most vulnerable in our society. This includes joint commitment to the delivery of the Government's programme as set out in the First Minister's statement to Parliament on 3 September 2013 and the *Government Economic Strategy*. In addition, Councils will be required to deliver the following specific commitments in return for the settlement:

- maintain a Council Tax freeze
- maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme

Delivery of these commitments will be monitored by the Scottish Government and, in the event of a failure to deliver, individual Councils would see their funding package reduced. The package must be accepted in full and it will not be possible for Councils to select specific elements of the package or elements of the funding on offer. If any Council does not agree to the full package available then it will have its funding reduced by its share of:

- £70 million to deliver a Council Tax freeze

- £39 million for the teacher commitments

Only those Council Leaders who do not intend to take up the offer and agree the full package of measures set out in the 11 September 2013 letter are required to write to the Cabinet Secretary for Finance, Employment and Sustainable Growth setting out the reasons why they do not wish to comply. This is to be done by no later than 11 March 2014, but preferably by the end of February 2014 (and ideally as soon as possible after they have set their budgets and announced their Council Tax levels for 2014/15). The Council's estimated share of the above £109 million package of resources is £2.8m in 2014/15, which equates to a Council Tax increase of 4.8%.

- 4.5 In terms of capital funding for 2014/15, the total support within the settlement from the Scottish Government has been increased by £30.0m (from £813.921m to £843.921m) from the total previously notified in February 2013. The increase of £30.0m relates to the capital consequences arising from the Children and Young People Bill. Within the revised overall total of £843.921m, two items remain to be allocated to Councils: Schools Funding (£50.5m) and Digital Infrastructure (£20.2m).

5.0 REVISED FIGURES FOR DUNDEE CITY COUNCIL

- 5.1 Within the overall totals shown in paragraph 4.2 above, the revised revenue grant figures for Dundee City Council are as follows:

	<u>2014/15</u> <u>£m</u>
Updated Service Provision	321.055
2008-2013 Changes	23.319
Loan Charges & PPP Schemes Support	20.989
Main Floor	<u>(1.517)</u>
Total Estimated Expenditure (TEE)	363.846
Assumed Council Tax Contribution	(45.515)
New 85% Floor	-
General Revenue Changes 2013-2015 *	<u>(43.209)</u>
Total Distributable Revenue Support	<u>275.122</u>
Figure Previously Notified	<u>273.423</u>
Increase from Figure Previously Notified	<u>1.699</u>

Note: * the General Revenue Changes 2013-2015 relate largely to the removal of funding for Police and Fire.

- 5.2 The revised figures show an increase of £1.699m from the figures previously notified in February 2013, for the reasons outlined in paragraph 4.2 above. A full reconciliation of the City Council's net increase is shown below.

	<u>2014/15</u> <u>£m</u>
Teachers' Induction Scheme	0.285
Copyright for School Pupils	(0.038)
Customer First	0.000
National Care Home Contract	0.088
Children and Young People Bill	1.370
Hostels Grant	0.073
Removal of Hostels Specific Grant	(0.107)
Sensory Impairment	<u>0.028</u>
Net Increase from Figure Previously Notified	<u>1.699</u>

The above changes will be reflected in the City Council's 2014/15 Provisional Revenue Budget together with, in due course, the share of the items shown in paragraph 4.2 above that are still to be reflected in the grant settlement for 2014/15.

- 5.3 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 2014/15, which requires to be taken into account when setting the Council Tax level, is £275.122m. This figure will be augmented, in due course, by the share of the items shown in paragraph 4.2 above that are still to be reflected in the grant settlement for 2014/15.
- 5.4 The Council's total Capital Grants figure for 2014/15 has been increased by £0.795m (from £17.717m to £18.512m) from the total previously notified in February 2013. The increase of £0.795m relates to the capital consequences arising from the Children and Young People Bill.

6.0 PROVISIONAL REVENUE BUDGET 2014/15

- 6.1 Over the past few months the Chief Executive and Director of Corporate Services, in conjunction with the other Chief Officers, have been preparing a Provisional Revenue Budget for 2014/15. This has involved rolling forward the Final 2013/14 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Cost pressures and savings that have been identified through the 2013/14 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in 2014/15 and transfers of responsibility. A list of cost pressures and savings that have been reflected in the Provisional 2014/15 Revenue Budget is shown at Appendix 1 to this report. The Provisional 2014/15 Revenue Budget currently totals £348.3 million. The Provisional 2014/15 Revenue Budget volume (including Review of Charges) will be issued in mid-January 2014.
- 6.2 Based on current assumptions, the Council would require to identify budget savings totalling £3.8 million in order to achieve a Council Tax freeze in 2014/15. This is further predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement. It is stressed, however, that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2014/15 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 13 February 2014.

7.0 NON-DOMESTIC RATE INCOME

- 7.1 The Non-Domestic Rate income (NDR) collected by Dundee City Council will be paid into an all-Scotland central pool and, as proposed under the Business Rates Incentivisation Scheme, thereafter distributed to individual Councils on the basis of their share of the 2011/12 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 £59.025 million from the Non-Domestic Rates Pool in 2014/15.
- 7.2 The Scottish Government has confirmed that the increase in the 2014/15 Non-Domestic Rate Poundage for Scotland will be restricted to 2%. The Council will make appropriate provision for non-domestic rates on its own properties within the 2014/15 Provisional Revenue Budget.

8.0 DRAFT CAPITAL PLAN 2014-2018

- 8.1 The Council's existing Capital Plan (2013-2017) is currently being updated to reflect the latest estimates of the cost and phasing of projects and the overall capital resources available. A new financial year (2017/18) will also be added to the Capital Plan, with the new Plan then covering the period 2014-2018. The Draft 2014-2018 Capital Plan will be issued in mid-January 2014.
- 8.2 The Council's 2014-2018 Capital Plan will be submitted to the Special Policy and Resources Committee on 13 February 2014. It was previously agreed by the Policy & Resources Committee on 28 October 2013 that the procedures for setting the Council's 2014-2018 Capital Plan should be the same as those for setting the 2014/15 Revenue Budget and Council Tax (see Section 9 and Appendix 2 of this report).

9.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2014/15

- 9.1 The procedures to be followed for setting the 2014/15 Revenue Budget and Council Tax level were previously agreed by the Policy & Resources Committee on 28 October 2013.
- 9.2 Elected members are reminded that, for all Departments, budget proposals and review of charges proposals by any Group or individual member must be submitted to the Chief Executive by 5pm on 5 February 2014 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 13 February 2014. It should be noted that this deadline also applies to any proposed adjustments to the draft 2014-2018 Capital Plan.
- 9.3 If there are any further technical adjustments required to the 2014/15 Provisional Revenue Budget or grant settlement figures then these will be included in the separate report by the Director of Corporate Services which will be issued along with the agenda for the meeting on 13 February 2014. The Director of Corporate Services will also make recommendations in that report regarding the use of balances in the setting of the Council Tax level.
- 9.4 A timetable showing the procedure for setting the 2014-2018 Capital Plan and the 2014/15 Revenue Budget and Council Tax level on 13 February 2014 is attached at Appendix 2.

10.0 POLICY IMPLICATIONS

- 10.1 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.

11.0 CONSULTATIONS

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

12.0 BACKGROUND PAPERS

- 12.1 Scottish Government Local Government Finance Circular 11/2011 (8 December 2011)
Scottish Government Local Government Finance Circular 1/2012 (9 February 2012)
Scottish Government Local Government Finance Circular 3/2012 (15 March 2012)
Scottish Government Local Government Finance Circular 5/2012 (27 November 2012)
Scottish Government Local Government Finance Circular 1/2013 (7 February 2013)
Scottish Government Letter to COSLA (11 September 2013)
Scottish Government Local Government Finance Circular 6/2013 (11 December 2013)

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DIRECTOR OF CORPORATE SERVICES

08 JANUARY 2014

COST PRESSURES REFLECTED IN PROVISIONAL 2014/15 REVENUE BUDGET

<u>Department / Item</u>	<u>£m</u>
Education – Barnhill PS Extension (additional property costs)	0.054
Education – reduction in income due to cessation of Music Tuition fees	0.088
Social Work – cost pressures, demographic pressures and contributions to new Change Funds	3.422
City Development – increase in Carbon Reduction Commitment liability	0.155
Communities & Policy – Dundee Ice Arena	0.147
Corporate Services – reduction in Housing Benefit admin grant	0.058
Corporate Services – loss of income from Police & Fire	0.083
Corporate – reduction in share of Tayside Contracts surpluses	0.064
Various – 1% pay award wef from 1 April 2014	1.948
Various – inflationary uplift to 2013/14 base budget	0.809
Various – new monies / transfers included in revised grant settlement	1.806
Various – other various cost pressures and income shortfalls	1.141
	<u>9.775</u>

SAVINGS REFLECTED IN PROVISIONAL 2014/15 REVENUE BUDGET

<u>Department / Item</u>	<u>£m</u>
Education – rates savings on facilities leased to LACD	(0.138)
Education – various operational efficiencies	(0.085)
Social Work – various operational savings and efficiencies	(0.089)
Social Work – increased number of in-house foster carers	(0.180)
Social Work / Education – reduction in Residential Schools fees due to lower number of placements	(0.400)
City Development – savings and efficiencies in Architectural Services	(0.219)
City Development – reduction in expenditure on Partnership Projects	(0.045)
City Development – savings and efficiencies in Street Lighting	(0.100)
City Development – reduction in net cost of Convention Bureau	(0.040)
City Development – savings and efficiencies in Engineering Services	(0.125)
City Development – reduction in Sustainable Transport budget	(0.090)
City Development – VERs / non-filling of vacant clerical posts	(0.072)
City Development - various other savings and efficiencies	(0.104)
Environment – efficiencies in service delivery in Construction Services	(0.050)
Environment – reduction in expenditure on Cyclone Ash disposal	(0.100)
Environment – reduction in expenditure on Zero Waste Fund projects	(0.180)
Environment - various items of additional income	(0.040)
Chief Executive – reduction in staff costs for Capital Projects Team	(0.068)
Chief Executive – reduction in expenditure on Consumer Survey	(0.005)
Corporate Services – savings from increased public use of online facilities	(0.054)
Corporate Services – Network and Telephony savings	(0.060)
Corporate Services – VERs / non-filling of vacant posts	(0.090)
Corporate Services – savings in Software costs	(0.100)
Corporate Services – savings from corporate approach to Debt Recovery	(0.150)
Corporate Services – additional income from Scottish Water	(0.100)
Corporate Services - various other savings and efficiencies	(0.040)
Other Housing – reduction in net cost of Private Sector Housing Grants	(0.333)
Corporate – reduction in cost of Contract Car Hire Scheme	(0.055)
Corporate – reduction in Mail costs	(0.014)
Corporate – savings in Loan Charges due to lower interest rates	(0.500)
Corporate – reduction in Supplementary Superannuation costs	(0.079)
Corporate – reduction in cost of Council Tax Reduction Scheme	(0.200)
	<u>(3.905)</u>

PROCEDURE FOR POLICY & RESOURCES COMMITTEE - 13 FEBRUARY 2014

<u>Date and Time</u>	<u>Action</u>
13 February 2014 3pm	<p>Special Policy and Resources Committee meets.</p> <p><u>Capital Plan</u> The Special Policy and Resources Committee will consider the City Council's draft 2014-2018 Capital Plan, along with the report by the Director of Corporate Services.</p> <p>All proposals for adjustments to the draft 2014-2018 Capital Plan 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 proposals. Thereafter, the Labour Group, Conservative Member, Independent Member and Liberal Democrat Member will move any amendments.</p> <p>The Committee will then commence the debate and approval of the 2014-2018 Capital Plan.</p>
Immediately thereafter	<p><u>Revenue Budget and Council Tax</u> The Special Policy and Resources Committee will consider the City Council's 2014/15 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Director of Corporate Services.</p> <p>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.</p> <p>The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2014/15.</p>