

ITEM No ...2(i).....

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 22 FEBRUARY 2018

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2018/19

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 51-2018

1.0 PURPOSE OF REPORT

1.1 To advise members of the current position regarding the 2018/19 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2018/19 Revenue Budget and Council Tax. The report also sets out the latest projections of savings and efficiencies that may be required over the next three financial years in order to deliver a balanced budget.

2.0 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 notes the procedures for setting the 2018/19 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 8 January 2018 and as set out in Appendix A to this report.
- 2.2 notes the contents of the Provisional 2018-2021 Revenue Budget Volume.
- 2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2018/19, as detailed in paragraphs 4.1 to 14.1 of this report.
- 2.4 Notes the range of projected savings and efficiencies, as set out in paragraph 10.2, that may be required over the next three financial years in order to deliver a balanced budget.

3.0 BACKGROUND

3.1 Report 439-2017 on the Financial Outlook for 2018-2021 was submitted to the Policy & Resources Committee on 11 December 2017 (Article X of the minute of the meeting refers). Thereafter, the Policy & Resources Committee on 8 January 2018 considered report 9-2018 by the Executive Director of Corporate Services. (Article V of the minute of the meeting refers). This report detailed the Local Government Finance Settlement for 2018/19, as announced by the Cabinet Secretary for Finance and the Constitution on 14 December 2017. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (22 February 2018). These procedures are reproduced at Appendix A to this report.

4.0 PROVISIONAL REVENUE BUDGET 2018-2021

4.1 As noted in report 439-2017 the Council will prepare three year revenue budgets going forward, in response to audit recommendations. Over the past few months the Chief Executive and Executive Director of Corporate Services, in conjunction with the other Executive Directors, have been preparing a Provisional Revenue Budget for 2018-2021. The outcome of this exercise is reflected in the Provisional 2018-2021 Revenue Budget Volume. The total Revenue Budget requirement for each of the three financial years is shown on page 1 of the volume and for 2018/19 the figure is £356.538m. 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 22 February 2018.

4.2 The Provisional 2018/19 Revenue Budget reflects a number of cost pressures and savings that have been identified through the 2017/18 revenue monitoring process, together with new cost pressures that will emerge in 2018/19. Details of these items are shown in Appendix B to this report.

5.0 DRAFT REVIEW OF CHARGES 2018/19

5.1 A draft 2018/19 Review of Charges document has also been prepared. This shows additional income of £461,000 in 2018/19. The projected additional income is already included in the Provisional 2018/19 Revenue Budget. 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 22 February 2018. It should be noted that the Council remains responsible for setting charges for services that are now delivered through the Dundee Health & Social Care Partnership.

6.0 PAY AWARDS, PRICE INFLATION ETC

6.1 The Provisional 2018/19 Revenue Budget includes allowances for estimated pay awards in 2018 for all categories of staff, including Teachers. These allowances are in line with the Scottish Government's revised 2018/19 Public Sector Pay Policy (3% for those earning less than £36,500; 2% for all those earning more than £36,500; and a maximum pay uplift of £1,600 for those earning over £80,000). Allowance has also been made for the increased Scottish Local Government Living Wage and for specific items of price inflation, where appropriate.

7.0 CONTINGENCY PROVISIONS

7.1 A number of Contingency Provisions are included on page 3 of the Provisional 2018-2021 Revenue Budget Volume:

General Contingency (£500,000 in 2018/19)

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 Executive Director of Corporate Services is of the opinion that £500,000 represents the minimum level of General Contingency that the City Council should have in its 2018/19 Revenue Budget.

Service Developments (£236,000 in 2018/19)

To allow for the continuation of the following service developments that were agreed in setting the 2017/18 Revenue Budget: Fairness and Equality in Schools (schools meals / school clothing grants) £120,000; Youth Investment Fund £16,000; Discretionary Housing Payments £100,000.

Apprenticeship Levy (£1,020,000 in 2018/19)

In November 2015, the Chancellor of the Exchequer announced plans for a new Apprenticeship Levy, effective from April 2017. This is a tax on all organisations that employ paid staff, set at 0.5% of employers wage bills. The proceeds from the tax are paid into a central pool which employers can then access to develop their staff. Any employer with a payroll above £3 million is liable to pay the levy and the cost to the City Council. All employers receive a small offset allowance of £15,000.

2018 Pay Award Pressures (£2,025,000 in 2018/19)

Service base budgets currently include provision for a 2% pay award in 2018. This contingency provides for the additional cost of a pay award in line with the Scottish Government's 2018/19 Public Sector Pay Policy (see paragraph 6.1 above).

Various Unallocated Savings (£1,791,000 in 2018/19)

These savings and efficiencies, mainly identified through corporate initiatives, are being held centrally pending their allocation to the relevant services.

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 2018-2021 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2017 plus the net new borrowing shown in the 2018-2023 General Services Capital Plan. The projected average annual interest rate is 4.0% for 2018/19. The Executive Director of Corporate Services 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 2018/19 is estimated as follows:

	2018/19
	£m
General Revenue Funding – as announced	225.378
Non-Domestic Rates – as announced	55.553
Estimate of funding yet to be announced *	<u>1.498</u>
	282.429
Additional Funding Announced 31 January 2018 **	<u>4.422</u>
	286.851
Ring-Fenced Grants	<u>4.935</u>
	<u>291.786</u>

* This relates to funding for Teachers' Induction Scheme and Discretionary Housing Payments. The Council's share of the overall funding available has not yet been announced, however estimated amounts are included in the Provisional 2018/19 Revenue Budget.

** Following further debate on the Scottish Budget Bill on 31st January 2018 an additional local government revenue settlement of £159.5m was announced. The City Council share of this will be £4.422m.

The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2018/19 and reflect the decisions expected to be taken by the Scottish Parliament in late February 2018. Estimated income from Ring-Fenced Grants is already included in the Provisional 2018/19 Revenue Budget. Accordingly, it is the sum of £286.851m that requires to be taken into account when setting the 2018/19 Council Tax.

9.2 The City Council's Revenue Funding Allocation for 2018/19 includes the following new monies:

	2018/19 £m
Children & Young People (Early Learning / Childcare)	0.339
Additional Early Learning & Childcare for 2 Year Olds	0.040
Administration of Council Tax Reduction Scheme	0.025
Continuing Care	0.035
Temporary Accommodation	0.598
Teachers Pay (Additional Cost of 2017 Pay Award)	0.642
British Sign Language (Scotland) Act 2015	0.011
Social Care –Carers Act, Living Wage, Free Personal Nursing Care etc	2.004
Sensory Impairment	<u>0.009</u>
	<u>3.703</u>

10.0 BUDGET SAVINGS REQUIREMENTS

10.1 The Council requires to identify budget savings totalling £7.313m in order to set a balanced budget in 2018/19. Councils have the flexibility to increase Council Tax levels by up to 3%. A 3% increase in the local Council Tax level would generate net additional income of around £1.488m, after allowing for the impact of additional Council Tax reductions.

10.2 Page 1 of the Provisional 2018-2021 Revenue Budget Volume shows the current estimate of expenditure requirements over the three year period. Grant funding levels for 2019/20 and 2020/21 are not currently known. It is therefore necessary to base projections of future funding levels on a range of scenarios, rather than a single, absolute assumption. Projections have been made based on four scenarios: flat cash and annual cash reductions of 1%, 2% and 3%. Other anticipated high-level changes to grant allocation figures have also been factored in, however no adjustment has been made for the impact of distributional changes within the grant settlement process.

Based on current projections of budgetary requirements, ranges of available grant funding and Council Tax income, the following levels of savings and efficiencies may be required in order to achieve a balanced budget over the next three financial years:

	<u>Cum Savings Required - Flat Cash Grant (£m)</u>	<u>Cum Savings Required - 1% Grant Reduction (£m)</u>	<u>Cum Savings Required - 2% Grant Reduction (£m)</u>	<u>Cum Savings Required - 3% Grant Reduction (£m)</u>
2018/19	7.3	7.3	7.3	7.3
2019/20	14.8	17.7	20.5	23.4
2020/21	30.7	36.4	42.0	47.6

As set out in the Council's medium term financial strategy, the corporate approach to identifying savings and efficiencies will be co-ordinated through a new Changing for the Future transformational programme (2022).

11.0 RESERVES AND BALANCES

11.1 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 updates in November 2008 and July 2014), 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.

11.2 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 protocol on reserves was reviewed by officers as part of the 2013/14 budget process and was considered to remain relevant and fit for purpose. The 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 Executive Director of Corporate Services 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.

11.3 In accordance with the element of the protocol that relates to the annual budget report, the following statements are made by the Executive Director of Corporate Services:

- i the Council's Audited Statement of Accounts 2016/17 showed a General Fund balance of £8.2m at 31 March 2017, excluding the amounts reserved for Car Parking and for New Social Housing (from discount reductions on empty properties etc). No amounts were taken from balances when setting the 2017/18 Council Tax in February 2017. There were underspends in 2016/17 that related to committed projects that required to be carried forward and met from balances in 2017/18: these are currently estimated at £0.3m. In addition, a sum of £2.9m was ear-marked for the Organisational Change Fund. Therefore, the effective level of uncommitted General Fund balances carried forward from 2016/17 is currently estimated at £5.0m. The 2017/18 expenditure monitoring currently projects an overspend of £0.7m.

The Council's medium term financial strategy states that the minimum uncommitted element of the General Fund balance will be the lower of £5 million or 1.5% of budgeted revenue expenditure but, ideally, a higher level will be held for operational purposes.

Through on-going expenditure monitoring and prudent financial management across all of the Council's cash-backed reserves, the Council will aim to maintain the level of uncommitted General Fund balances at 31 March 2018 at a minimum of £5.0m.

- 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 £5.0m (around 1.5% of budgeted net expenditure). Accordingly, it is recommended that no amounts should be taken from General Fund balances when setting the 2018/19 Council Tax. It should be noted that, in their Report to Members on the 2016/17 audit, the Council's external auditor (Audit Scotland) again made reference to the relatively low level of uncommitted reserves held by the Council. As at 31 March 2017, the City Council had the lowest level of usable reserves as a percentage of net revenue spend.

- iii 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.

11.4 In preparing the above statements, the Executive Director of Corporate Services 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 on-going impact of Welfare Reforms, which is considered to be significant.

By way of exemplification, the following table shows the potential financial impact of any variations against the current key budget assumptions:

Budget Area	Current Assumption	Example Variation	Financial Impact
Pay Awards	Scottish Government Pay Policy	+0.1%	£221k
Price Inflation	Various	+0.1%	£217k
Interest Rates (CLF Average Rate)	4.0%	+0.1%	£405k
Government Grant Income	£286.9m	-1.0%	£2.9m
Chargeable Income	£17.6m	-1.0%	£176k

12.0 MEDIUM TERM FINANCIAL OUTLOOK & STRATEGY

12.1 The medium-term financial outlook was set out in Report 439-2017 (Financial Outlook 2018-2021) which was submitted to the Policy & Resources Committee on 11 December 2017.

12.2 The key aspects of a medium term financial strategy for the Council to help address the challenging financial landscape were first set out in the Financial Outlook report to the Policy & Resources Committee on 26 October 2015. These have been updated as necessary and were set out in Report 9-2018 (Local Government Finance Settlement 2018/19 and Financial Implications for the City Council) which was submitted to the Policy & Resources Committee on 8 January 2018.

12.3 It is anticipated that an update report on the medium term financial outlook and strategy will be submitted to the Policy & Resources Committee later in 2018.

13.0 PROVISION FOR NON-COLLECTION OF THE COUNCIL TAX

13.1 The Council Tax was introduced in 1993/94 and the current collection figures in respect of the financial years 1993/94 to 2016/17 inclusive show a collection rate of around 96.5% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2018/19 Council Tax requires to be decided by the Special Policy & Resources Committee on 22 February 2018. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2017/18. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2018/19 Council Tax.

13.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 51,922 for 2018/19. The figure of 51,922 is before the provision for non-collection has been deducted. The Executive Director of Corporate Services is firmly of the opinion that the allowance for non-collection provision cannot be lower than 3.2%.

14.0 BUDGETS DELEGATED TO DUNDEE HEALTH & SOCIAL CARE PARTNERSHIP

14.1 Budgets totalling c£76.8 million in 2018/19 will be delegated to the Dundee Health & Social Care Partnership. These budgets include assumptions for various inflationary pressures, including pay awards. The Dundee Integration Joint Board will agree its 2018/19 Revenue Budget in March 2018.

15.0 CAPITAL PLAN

15.1 A Capital Plan covering the 5 year period 2018 to 2023 was submitted to the Policy & Resources Committee on 30 October 2017 (Article VII of the minute of the meeting refers). The 2018-2023 Capital Plan has been reviewed by officers in light of the Council's Capital Grant figure for 2018/19 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 2018.

16.0 CONCLUSION

16.1 This report provides members with the background information necessary to assist them in considering the final stages of setting the 2018/19 Revenue Budget and Council Tax.

17.0 POLICY IMPLICATIONS

17.1 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.

18.0 CONSULTATION

18.1 The Council Management Team have been consulted on the content of this report.

19.0 BACKGROUND PAPERS

19.1 Scottish Government Finance Circular 5/2017 (14 December 2017)

PROCEDURE FOR POLICY & RESOURCES COMMITTEE - 22 FEBRUARY 2018

Date and Time

Action

**22 February 2018
3pm**

Revenue Budget and Council Tax

The Special Policy and Resources Committee will consider the Council's 2018/19 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 Group and Liberal Democrat Group will move any amendments.

The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2018/19.

APPENDIX B

COST PRESSURES REFLECTED IN PROVISIONAL 2018/19 REVENUE BUDGET

Service / Item	£m
Children & Families / City Development – Baldragon Academy additional property costs (per Committee report 129-2016)	0.405
Children & Families / City Development – Coldside schools additional property costs (per Committee report 371-2016)	0.037
Children & Families – cost pressures in children’s care services	3.105
City Development – loss of income following termination of leases with DERL for plant and equipment	2.115
City Development – contribution to Dundee to Stansted air service (per Committee report 99-2017)	0.243
City Development – cost pressures in property maintenance	0.500
Neighbourhood Services – new waste contract (per Committee report 320-2017)	2.682
Neighbourhood Services – other cost pressures, including recycling roll-out and grounds maintenance	0.518
Corporate Services – staffing pressures	0.100
Corporate Services – reduction in housing benefit administration grant	0.100
Corporate Services – loss of residual income for Police and Fire services	0.110
Corporate Services – additional charges / lost income on credit and debit card payments	0.070
Corporate Services – information governance manager and assistant posts	0.061
Corporate Services – Microsoft licences	0.200
Chief Executive – revenue funding for V&A at Dundee (per Committee report 56-2014)	0.350
Various – 3% / 2% pay award wef from 1 April 2018 (including LACD)	6.583
Various – inflationary uplift to 2017/18 base budget (net of income uplift)	1.447
Various – new monies included in grant settlement (see paragraph 9.2)	3.703
Corporate – additional loan charges to support new capital borrowing, including prudential borrowing	1.539
	<u>23.868</u>

Note: £3.182m of the above cost pressures relate to Dundee Health & Social Care Partnership

SAVINGS REFLECTED IN PROVISIONAL 2018/19 REVENUE BUDGET

Service / Item	£m
Children & Families / City Development– new North East School Campus	(0.189)
Children & Families – reduction in subsidy payable to Tayside Contracts for school meals, to reflect review of charges	(0.077)
City Development – additional rental income from new Railway Station	(0.749)
City Development – savings from conversion of street lighting to LED	(0.225)
City Development – purchase of Friarfield House (per Committee report 115-2017)	(0.132)
City Development – staff cost savings from service restructure / VERs	(0.475)
City Development – savings in various property cost budgets	(0.095)
City Development – savings in various supplies & services and transport budgets	(0.150)

City Development – efficiency savings within employability budgets	(0.020)
City Development – reduction in budgets for overtime / standby payments	(0.040)
City Development – efficiencies achieved through partnership approach to economic development activities, additional sponsorship etc	(0.085)
City Development – additional car parking income to reflect review of charges, additional income from road safety audits	(0.321)
City Development – additional rental income from properties purchased from Dundee City developments Ltd	(0.081)
Neighbourhood Services – income from HRA for open space maintenance	(0.642)
Neighbourhood Services – staff costs savings from structure reviews, deletion of vacant posts etc	(0.386)
Neighbourhood Services - savings in budget for private sector improvement grants, to reflect current and projected level of spend	(0.200)
Neighbourhood Services - savings in various supplies & services and transport budgets	(0.024)
Neighbourhood Services – additional service level agreement income and pest control income	(0.026)
Chief Executive – savings in various budgets	(0.010)
Chief Executive – contribution to National Entitlement Card project changed from financial to in-kind	(0.046)
Corporate Services - staff costs savings from structure reviews, deletion of vacant posts etc	(0.214)
Corporate Services – saving from revised share of costs of procurement collaborative	(0.039)
Corporate Services - savings in training budget, to reflect current level of spend	(0.100)
Corporate Services – savings in telephony costs from migration to new digital platform	(0.035)
Corporate Services – additional DWP funding for Universal Credit	(0.150)
Corporate Services – additional Scottish Government funding for administration of discretionary housing payments	(0.052)
Corporate Services – contribution to Tayside Valuation Joint Board capital budget to be met from Capital Plan	(0.008)
Various – full year effect of agreed 2016/17 and 2017/18 savings	(0.403)
Contingencies – savings from new multi-functional device contract	(0.079)
Contingencies – savings from transportation review	(0.500)
Corporate – savings in loan charges from debt rescheduling	(0.320)
Corporate – savings in loan charges following write-off of outstanding advances to DERL	(1.846)
Corporate – savings in loan charges from revised calculation methodology	(0.712)
Corporate – savings in budget for Council Tax Reduction Scheme, to reflect current level of reductions	(0.200)
Corporate – additional Tayside Contracts surpluses	<u>(0.009)</u>
	<u>(8.640)</u>