

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

REPORT TO: POLICY AND RESOURCES COMMITTEE – 4 MARCH 2021

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2021/22

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 108-2021

1.0 PURPOSE OF REPORT

1.1 To advise members of the current position regarding the 2021/22 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2021/22 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 2021/22 Revenue Budget and Council Tax, as previously agreed by the Policy and Resources Committee on 22 February 2021 and as set out in Appendix A to this report.
- 2.2 notes the contents of the Provisional 2021-2024 Revenue Budget Volume.
- 2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2021/22, as detailed in paragraphs 4.1 to 15.3 of this report.
- 2.4 notes the 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.
- 2.5 notes that any further changes to the Council's funding allocations, arising from the Scottish or UK Budget processes, will be the subject of a further report to the Policy and Resources Committee.

3.0 BACKGROUND

- 3.1 A report on the Financial Outlook and Revenue Budget 2021/22 was submitted to the Policy and Resources Committee on 25 January 2021 (Report 51-2021 refers). This report advised members of the financial outlook at a national level following the UK Spending Review announcements and also outlined the position on the Council's Revenue Budget for 2021/22, in terms of required savings. Thereafter, the Policy and Resources Committee on 22 February 2021 considered report 62-2021 by the Chief Executive. This report detailed the Local Government Finance Settlement for 2021/22, as announced by the Cabinet Secretary for Finance on 28 January 2021, together with the financial implications for the City Council. The report also detailed the proposed procedures to be followed by the Special Policy and Resources Committee on Council Tax setting day (4 March 2021). These procedures are reproduced at Appendix A to this report.
- 3.2 As outlined in report 62-2021, the Council is incurring a significant amount of additional costs in the current financial year related to Covid-19, including reduced income streams in many areas. Some of these cost pressures will continue beyond the end of the current financial year and into 2021/22, and possibly even beyond. The figures in this report do not include any allowance for additional costs in 2021/22 and beyond relating to Covid-19. It is anticipated that the Scottish Government will continue to provide some level of additional grant support, with £259 million of funding for Councils included in the 2021/22 Scottish Budget. In a budget

update statement to the Scottish Parliament on 16 February 2021, the Cabinet Secretary for Finance announced further Covid-related funding of £500 million for Council's over 2020/21 and 2021/22. It is, however, likely that a budget deficit will arise going forward due to Covid-19. At this point it is being assumed that this deficit can be funded by applying one or more of the three financial flexibilities that will be made available by the Scottish Government, along with the additional funding already committed by Scottish Government for Covid-related pressures. It is emphasised that the financial flexibilities are only available over the 2020/21 and 2021/22 financial years. Accordingly, it may be necessary to identify savings in later years revenue budgets in order to fund any on-going cost pressures related to Covid-19. A separate report on projected Covid-19 costs and funding over the period 2021 to 2024 will be submitted to a future meeting of the Policy and Resources Committee.

4.0 PROVISIONAL REVENUE BUDGET 2021-2024

4.1 The Council prepares three-year revenue budgets, in response to previous audit recommendations around medium and longer-term financial planning. 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 2021-2024. The outcome of this exercise is reflected in the Provisional 2021-2024 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 2021/22 the figure is £374.204m. 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 and Resources Committee on 4 March 2021.

4.2 The Provisional 2021/22 Revenue Budget reflects a number of budget growth items, cost pressures and savings that have been identified through the 2020/21 revenue monitoring process, together with new cost pressures that will emerge in 2021/22. Details of these items are shown in Appendix B to this report.

5.0 DRAFT REVIEW OF CHARGES 2021/22

5.1 A draft 2021/22 Review of Charges document has also been prepared. This shows additional income of £287,000 in 2021/22. The projected additional income is already included in the Provisional 2021/22 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 and Resources Committee on 4 March 2021. It should be noted that the Council remains responsible for setting charges for services that are now delivered through the Dundee Health and Social Care Partnership.

6.0 PAY AWARDS, PRICE INFLATION ETC

6.1 The Provisional 2021/22 Revenue Budget includes an allowance of 2% for agreed pay awards in 2021 for all categories of staff, including Teachers. Allowance has also been made for the increased Scottish Local Government Living Wage and its consolidation, and for specific items of price inflation, where appropriate.

7.0 CONTINGENCY PROVISIONS

7.1 A number of Contingency Provisions are included in the Provisional 2021/22 Revenue Budget. These include the general contingency for any unforeseen or emergency expenditure (£0.500m), together with specific amounts for budget growth / cost pressures (£3.700m), new monies included in the local government finance settlement (£2.034m) and unallocated corporate savings (£3.394m). Full details are shown on page 5 of the Provisional 2021-2024 Revenue 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 2021-2024 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2020 plus the net new borrowing shown in the 2021-2026 General Services Capital Plan. The projected average annual interest rate is 3.5% for 2021/22. 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 2021/22 is estimated as follows:

	2021/22 £m
General Revenue Funding – as announced	266.999
Non-Domestic Rates – as announced	33.763
Council Tax Freeze Grant – as announced *	2.123
Deduction for NDR - ALEO Properties (Barclay Review)	(0.450)
Estimate of funding yet to be announced **	<u>0.747</u>
	303.182
Ring-Fenced Grants – as announced	<u>24.863</u>
	<u>328.045</u>

* In recognition of the unique pressures created by the Covid-19 pandemic the local government finance settlement includes an additional £90 million available to compensate Councils who choose to freeze their Council Tax at 2020/21 levels, helping to protect household incomes. This additional allocation provides compensation to support services and equates to an increase in Council Tax of around 3%.

** This relates to funding for Discretionary Housing Payments and Teachers' Induction Scheme. The Council's share of the overall funding available has not yet been announced, however estimated amounts are included in the Provisional 2021/22 Revenue Budget.

9.2 The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2021/22. Estimated income from Ring-Fenced Grants is already included in the Provisional 2021/22 Revenue Budget. Accordingly, it is the sum of £303.182m that requires to be taken into account when setting the 2021/22 Council Tax.

9.3 The City Council's Revenue Funding Allocation for 2021/22 includes the following new monies and other funding adjustments:

	2021/22 £m
School Transport	0.007
Carers Act (Children and Families)	0.052
Carers Act (DHSCP)	0.794
Living Wage (DHSCP)	1.010
Personal and Nursing Care for Older People (DHSCP)	0.153
Community Justice CPP Transitional Funding	0.012
SAA – Barclay Implementation	0.005
Environmental Health Officers – Extra Officers	0.037
1 + 2 Languages (funding reduced)	(0.016)

BSL (Scotland) Act 2015 (funding discontinued)	(0.005)
Educational Psychologist Training (funding transfer)	<u>(0.015)</u>
	<u>2.034</u>

Also, additional ring-fenced funding of £1.8m has been received for Early Learning and Childcare and is included within Children and Families Services in the Provisional 2021/22 Revenue Budget volume.

10.0 BUDGET SAVINGS REQUIREMENTS

10.1 The Council requires to identify budget savings totalling £1.352m in order to set a balanced budget in 2021/22. This assumes that the Council Tax will be frozen and the Council can therefore access additional grant funding of £2.123 million. If, however, the Council Tax is increased then this additional grant funding will not be available.

10.2 Page 1 of the Provisional 2021-2024 Revenue Budget Volume shows the current estimate of expenditure requirements over the three-year period. Grant funding levels for 2022/23 and 2023/24 are not currently known. The Council's long-term financial projections currently assume flat cash settlements and no adjustment for the impact of distributional changes within the grant settlement process. Based on current projections of budgetary requirements, 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>
2021/22	1.4
2022/23	8.7
2023/24	15.4

As set out in the Council's long-term financial strategy, the corporate approach to identifying savings and efficiencies will be co-ordinated through the Changing for the Future transformational programme (C2022).

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 and 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 11.1 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 11.1 above:

In the annual budget report that is considered by the Policy and 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 2019/20 showed a General Fund balance of £15.2m at 31 March 2020, excluding the amounts reserved for Car Parking, New Social Housing (from discount reductions on empty properties etc) and small balances ear-marked for specific projects. The £1.8m ear-marked to fund any liabilities arising following the sale of the DERL Plant was taken as a saving in setting the 2020/21 Revenue Budget and Council Tax in March 2020. There were underspends in 2019/20 totalling £2.4m that related to committed projects that required to be carried forward and met from balances in 2020/21: these are currently estimated at £0.4m, with the remaining £2.0m included in the Covid-19 financial recovery plan. In addition, a sum of £3.0m was ear-marked for the Organisational Change Fund. Therefore, the effective level of uncommitted General Fund balances carried forward from 2019/20 is currently estimated at £8.0m. The latest Covid-19 financial recovery plan projects an overall deficit of £0.5m for 2020/21, resulting in projected uncommitted General Fund balances of £7.5m at 31 March 2021.

The Council's agreed long-term financial strategy states that the minimum uncommitted element of the General Fund balance will be the lower of £7.0 million or 2% 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 uncommitted General Fund balances of at least £7.0m at 31 March 2021.

The Scottish Government has recently announced significant amounts of additional funding to assist Councils in addressing the Covid-19 pandemic. Most of this additional funding will be paid over in March 2021 and will require to be accounted for in the 2020/21 financial year, including funding originally intended for the 2021/22 financial year. Given the timing of this funding, it is inevitable that there will be a large underspend in 2020/21 and, consequently, a temporary increase in overall General Fund balances at 31 March 2021. These underspends will, however, require to be carried forward and ear-marked to fund Covid-related costs in 2021/22.

- 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 £7.5m (around 2.0% of budgeted net expenditure). Accordingly, it is recommended that no amounts should be taken from General Fund balances when setting the 2021/22 Council Tax. Elected members will be aware of previous references made by the Council's external auditor (Audit Scotland) to the relatively low level of uncommitted reserves held by the Council.
- iii the Council's earmarked reserves (ie the Renewal and Repair Fund, Insurance Fund Reserve, Capital Fund and Capital Grants/Receipts Unapplied) have all been

reviewed and are considered to be adequate for their respective intended purposes. As at 31 March 2020, the Council had set-aside capital receipts totalling £2.9m. These receipts will be used in 2020/21 and beyond to fund costs associated with transformation projects, particularly severance costs associated with VER / VR schemes. The savings associated with VER / VR schemes will be reflected in revenue budgets going forward.

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 on-going impact of the Covid-19 pandemic and the implications for the Council's expenditure and income streams
- the anticipated short to medium term impact of the current financial climate including reductions in core grant funding levels and reductions in chargeable income.
- the impact of the UK's withdrawal from the European Union (Brexit), including the impact on economic growth and the level of taxation revenues available to fund public services.
- 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 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	2%	+0.1%	£234k
Price Inflation	Various	+0.1%	£244k
Interest Rates (CLF Average Rate)	3.5%	+0.1%	£426k
Government Grant Income	£303.2m	-1.0%	£3.0m
Chargeable Income	£19.7m	-1.0%	£197k

12.0 LONG-TERM FINANCIAL OUTLOOK AND STRATEGY

12.1 The long-term financial outlook and financial strategy for 2020 to 2030 were set out in Report 274-2019, which was submitted to the Policy and Resources Committee on 19 August 2019 (article XII refers). The approved Long-Term Financial Strategy was also set out in Report 62-2021 (Local Government Finance Settlement 2021/22 and Financial Implications for the City Council) which was submitted to the Policy and Resources Committee on 22 February 2021.

12.2 The Council's longer-term financial projections and strategies will require to be revisited and updated to reflect the post-Covid situation and reports will be brought forward to the Policy and Resources Committee once more clarity emerges.

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 2019/20 inclusive show a collection rate of around 96.8% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2021/22 Council Tax requires to be decided by the Special Policy and Resources Committee on 4 March 2021. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2020/21. Based on the actual collection figures referred to above, and in light in the current economic circumstances, it would be prudent to use the same level of non-collection when setting the 2021/22 Council Tax.
- 13.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 52,192 for 2021/22, the same figure used in setting the 2020/21 Council Tax. The figure of 52,192 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 AND SOCIAL CARE PARTNERSHIP

- 14.1 Budgets totalling c£83.4 million in 2021/22 will be delegated to the Dundee Health and Social Care Partnership, including budgets currently held in contingencies in respect of new monies. These budgets include assumptions for various inflationary pressures, including pay awards. The Dundee Integration Joint Board will agree it's 2021/22 Revenue Budget later in March 2021.

15.0 OUTCOME OF BUDGET CONSULTATION EXERCISE

- 15.1 A budget consultation survey was made available via the Council's internet site during December 2020 and January 2021. A total of 574 completed responses were received. The survey included questions about the Council's response to the Covid-19 pandemic, asking what citizens thought the Council had done well as well as commenting on services that respondents had missed and the impact this had. The main areas where people thought the Council had done well included maintaining essential services, refuse collection, support for citizens (including the vulnerable) and communication. The areas where most comment was made in relation to services that were missed included leisure and culture/libraries, garden maintenance, recycling centres and food waste collection.
- 15.2 The survey also asked specific questions based on 10 Council services. Respondents were asked to rate the relative importance (within a budget setting context) and the level of importance that they felt towards these on a scale of 1 to 10 from least to most important. Waste collection and recycling and older people's services had the highest averages on the scale of importance and leisure and culture had the lowest.
- 15.3 Respondents were asked what percentage change in Council Tax was preferable. The greatest response (43.2%) was for no change, followed by 17.8% stating that they were comfortable with a 1% increase and 17.2% comfortable with 2%. The survey also asked for views on how the Council could review its services and property in order to save money, with the highest levels of agreement being for selling property that is no longer used, reducing or stopping some non-essential services to protect other services and changing or reducing opening hours for some public service and buildings.

16.0 CAPITAL PLAN

- 16.1 A Capital Plan covering the 5-year period 2021 to 2026 was submitted to the Policy and Resources Committee on 22 February 2021 (report 55-2021 refers). The 2021-2026 Capital

Plan reflects the budget announcements in respect of capital funding, made by the Cabinet Secretary for Finance on 28 January 2021.

17.0 CONCLUSION

17.1 This report provides members with the background information necessary to assist them in considering the final stages of setting the 2021/22 Revenue Budget and Council Tax.

18.0 POLICY IMPLICATIONS

18.1 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.

19.0 CONSULTATION

19.1 The Council Management Team has been consulted and is in agreement with the content of this report.

20.0 BACKGROUND PAPERS

20.1 Scottish Government Finance Circular 1/2021 (1 February 2021)

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

25 FEBRUARY 2021

PROCEDURE FOR POLICY AND RESOURCES COMMITTEE – 4 MARCH 2021

Date and Time

Action

4 March 2021
3pm

Revenue Budget and Council Tax

The Policy and Resources Committee will consider the Council's 2021/22 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 2021/22.

APPENDIX B

BUDGET GROWTH / COST PRESSURES REFLECTED IN PROVISIONAL 2021/22 REVENUE BUDGET

Service / Item	£m
Children and Families – rising secondary pupil roll	0.230
City Development – various cost pressures and income shortfalls	1.000
City Development – resources for Net Zero team	0.150
City Development/Neighbourhood Services - Waterfront Place: Maintenance of Public Open Space	0.085
Chief Executive – additional funding for protecting people	0.100
Corporate Services – loss of rechargeable income	0.038
Contingencies – various new monies included in the local government finance settlement (see page 5 of Provisional Revenue Budget volume)	2.034
Various – 2% pay award wef from 1 April 2020 (including LACD)	4.679
Various – inflationary uplift to 2020/21 base budget (net of income uplift)	2.110
	10.426

SAVINGS REFLECTED IN PROVISIONAL 2021/22 REVENUE BUDGET

Service / Item	£m
Children and Families – reductions in staffing costs: music instruction service, education support officer, management team and senior support workers (attendance)	(0.257)
Children and Families – early years costs to be met from additional funding streams	(0.260)
Children and Families – savings from review of special education sector	(0.056)
City Development – savings within employability and working for families budgets	(0.015)
City Development – reduction in expenditure on tourism and convention bureau	(0.025)
City Development – lease of Lynch Centre to third party	(0.056)
City Development – additional street lighting fees	(0.025)
City Development – additional network management and road construction consent income per review of charges	(0.065)
Neighbourhood Services – additional income from HRA per approved budget for HRA	(0.066)
Neighbourhood Services – staff costs savings across service from service redesign, structure reviews, deletion of vacant posts etc	(0.693)
Neighbourhood Services / City Development – additional income from waste contract	(0.200)
Chief Executive – savings in staffing and media budgets	(0.094)
Corporate Services – reduction in cost of printing services	(0.100)
Corporate Services – reduction in Corporate Finance staff costs to reflect current operating structure	(0.050)
Corporate Services – additional housing benefits administration grant	(0.111)
Corporate Services – savings across various miscellaneous budget heads in customer services and information technology	(0.117)
Miscellaneous Items – increased central support services to HRA per approved budget for HRA	(0.041)
Capital Financing Costs – savings from slippage in 2020/21 capital	(1.600)

programme and lower interest rates	
Various – additional savings in staff travel costs	(0.162)
Various – removal of inflationary allowance on third party payments	(0.239)
	<u>(4.232)</u>

**TECHNICAL BUDGET ADJUSTMENTS REFLECTED IN PROVISIONAL 2021/22
REVENUE BUDGET**

<u>Service / Item</u>	<u>£m</u>
Various – savings agreed in previous years now falling out	4.697
Various – full year effect of savings agreed in previous years	(2.849)
Various – budget growth / budget pressures added in previous years now falling out	<u>(0.406)</u>
	<u>1.442</u>

