

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

REPORT TO: POLICY AND RESOURCES COMMITTEE – 5 MARCH 2020

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2020/21

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 109-2020

1.0 PURPOSE OF REPORT

1.1 To advise members of the current position regarding the 2020/21 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2020/21 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 2020/21 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 24 February 2020 and as set out in Appendix A to this report.
- 2.2 notes the contents of the Provisional 2020-2023 Revenue Budget Volume.
- 2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2020/21, as detailed in paragraphs 4.1 to 15.2 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 & Resources Committee.

3.0 BACKGROUND

3.1 Report 274-2019 on the Long-Term Financial Outlook & Financial Strategy 2020-2030 was submitted to the Policy & Resources Committee on 19 August 2019 (Article XII of the minute of the meeting refers). Thereafter, the Policy & Resources Committee on 24 February 2020 considered report 74-2020 by the Executive Director of Corporate Services. This report detailed the Local Government Finance Settlement for 2020/21, as announced by the Minister for Public Finance and Digital Economy on 6 February 2020. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (5 March 2020). These procedures are reproduced at Appendix A to this report.

4.0 PROVISIONAL REVENUE BUDGET 2020-2023

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 2020-2023. The outcome of this exercise is reflected in the Provisional 2020-2023 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 2020/21 the figure is £370.888m. 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 5 March 2020.

- 4.2 The Provisional 2020/21 Revenue Budget reflects a number of cost pressures and savings that have been identified through the 2019/20 revenue monitoring process, together with new cost pressures that will emerge in 2020/21. Details of these items are shown in Appendix B to this report.

5.0 DRAFT REVIEW OF CHARGES 2020/21

- 5.1 A draft 2020/21 Review of Charges document has also been prepared. This shows additional income of £420,000 in 2020/21. The projected additional income is already included in the Provisional 2020/21 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 5 March 2020. 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 2020/21 Revenue Budget includes an allowance of 3% for agreed pay awards in 2020 for all categories of staff, including Teachers. The Scottish Government will fully fund its contribution to the additional cost of the Teachers' pay deal i.e. the cost over and above the 3% allowance. 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 on page 5 of the Provisional 2020-2023 Revenue Budget Volume:

General Contingency (£500,000 in 2020/21)

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 2020/21 Revenue Budget.

Pay Pressures (Including LACD Pay Award) (£1,750,000 in 2020/21)

To cover pay pressures not already reflected in service revenue budgets.

Insurance Costs Increase (£60,000 in 2020/21)

To cover increases in insurance premiums.

Various Unallocated New Monies (£8,358,000 in 2020/21)

Additional funding has been made available by the Scottish Government for new policy initiatives and new responsibilities arising from changes in legislation. This funding is being held centrally pending its allocation to the relevant services.

Various Unallocated Savings (£1,962,000 in 2020/21)

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 2020-2023 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2019 plus the net new borrowing shown in the 2020-2025 General Services Capital Plan. The projected average annual interest rate is 3.5% for 2020/21. 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 2020/21 is estimated as follows:

	2020/21 £m
General Revenue Funding – as announced	245.322
Non-Domestic Rates – as announced	49.119
Deduction for NDR - ALEO Properties (Barclay Review)	(0.465)
Estimate of funding yet to be announced *	<u>0.282</u>
	294.258
Additional Funding Announced 26 February 2020 **	<u>2.640</u>
	296.898
Ring-Fenced Grants	<u>22.978</u>
	<u>319.876</u>

* This relates to funding for 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 2020/21 Revenue Budget.

** In advance of the Stage 1 debate on the Scottish Budget Bill an additional local government revenue settlement of £95m was announced on 26 February 2020. The Council's share of this will be £2.640m. Also announced was additional funding of £25m for energy efficiency area based schemes and £15m (capital) for cycling, walking and safer streets. The Council's share of these two additional funding streams has not yet been advised.

9.2 The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2020/21. Estimated income from Ring-Fenced Grants is already included in the Provisional 2020/21 Revenue Budget. Accordingly, it is the sum of £296.898m that requires to be taken into account when setting the 2020/21 Council Tax.

9.3 The City Council's Revenue Funding Allocation for 2020/21 includes the following new monies:

	2020/21 £m
Teachers Pay Award	4.054
Additional Support for Learning	0.396
School Counsellors	0.394
Carers Act Extension (Children & Families)	0.050
Access to Sanitary Products in Schools	0.053
Educational Psychologists (funding transfer)	(0.023)
Whole System Approach (funding discontinued)	(0.025)
Appropriate Adult Services	0.028
Carers Act Extension (DHSCP)	0.295
Health & Social Care	2.443
Personal & Nursing Care	0.033
Seat Belts on School Transport	0.004
Rapid Rehousing Transition Plan	0.271
Discretionary Housing Payments	0.232
Scottish Welfare Fund	0.110
Barclay Review Implementation	<u>0.043</u>
	<u>8.358</u>

Also, additional ring-fenced funding of £6.0m has been received for Early Learning & Childcare and is included within Children & Families Services in the Provisional 2020/21 Revenue Budget volume.

9.4 For 2020/21, local authorities will have the flexibility to increase Council Tax by up to a maximum of 4.84% (3% in real terms).

10.0 BUDGET SAVINGS REQUIREMENTS

10.1 The Council requires to identify budget savings totalling £7.501m in order to set a balanced budget in 2020/21. As noted in paragraph 9.4 above, Councils have the flexibility to increase the Council Tax by 4.84% in 2020/21 (3% in real terms). A 4.84% increase in the local Council Tax level would generate net additional income of around £2.547m, after allowing for the impact of additional Council Tax reductions. The corresponding figure for a 3% increase is £1.576m.

10.2 Page 1 of the Provisional 2020-2023 Revenue Budget Volume shows the current estimate of expenditure requirements over the three year period. Grant funding levels for 2021/22 and 2022/23 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</u> <u>Required -</u> <u>Flat Cash</u> <u>Grant</u> <u>(£m)</u>
2020/21	7.5
2021/22	16.6
2022/23	23.6

As set out in the Council's medium term financial strategy, the corporate approach to identifying savings and efficiencies will be co-ordinated through the new 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 & 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 & 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 2018/19 showed a General Fund balance of £12.5m at 31 March 2019, 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 2019/20 Council Tax in February 2019. There were underspends in 2018/19 that related to committed projects that required to be carried forward and met from balances in 2019/20: these are currently estimated at £1.8m. In addition, a sum of £1.4m was ear-marked for the Organisational Change Fund and a sum of £1.8m was ear-marked to fund any future liabilities arising following the sale of the DERL Plant in November 2017. Therefore, the effective level of uncommitted General Fund balances carried forward from 2018/19 is currently estimated at £7.5m. The 2019/20 expenditure monitoring currently projects a net overspend of £0.5m, resulting in projected uncommitted General Fund balances of £7.0m at 31 March 2020.

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 the level of uncommitted General Fund balances at 31 March 2020 at £7.0m.

- 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 £7.0m (around 2.0% of budgeted net expenditure). Accordingly, it is recommended that no amounts should be taken from General Fund balances when setting the 2020/21 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 & Repair Fund, Insurance Fund Reserve, Capital Fund and Unapplied Capital Receipts) 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 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	3%	+0.1%	£241k
Price Inflation	Various	+0.1%	£245k
Interest Rates (CLF Average Rate)	3.5%	+0.1%	£435k
Government Grant Income	£296.9m	-1.0%	£3.0m
Chargeable Income	£19.6m	-1.0%	£196k

12.0 MEDIUM TERM FINANCIAL OUTLOOK & STRATEGY

12.1 The long-term financial outlook and financial strategy 2020 to 2030 were set out in Report 274-2019, which was submitted to the Policy & Resources Committee on 19 August 2019 (article XII refers). The approved Long Term Financial Strategy was also set out in Report 74-2020 (Local Government Finance Settlement 2020/21 and Financial Implications for the City Council) which was submitted to the Policy & Resources Committee on 24 February 2020.

12.2 It is anticipated that an update report on the long term financial outlook and financial strategy will be submitted to the Policy & Resources Committee later in 2020.

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 2018/19 inclusive show a collection rate of around 96.7% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2020/21 Council Tax requires to be decided by the Special Policy & Resources Committee on 5 March 2020. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2019/20. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2020/21 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 2020/21 (an increase of 241 over the figure used in setting the 2019/20 Council Tax, reflecting new builds coming on-stream etc). 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 & SOCIAL CARE PARTNERSHIP

14.1 Budgets totalling c£81.7 million in 2020/21 will be delegated to the Dundee Health & 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 2020/21 Revenue Budget later in March 2020.

15.0 OUTCOME OF BUDGET CONSULTATION EXERCISE

15.1 A budget consultation survey was made available via the Council's internet site during October and November 2019. A total of 1302 completed responses were received, an increase of around 130 on the previous year's consultation. The survey asked a number of questions based on 15 areas across the Council - the 5 City Plan themes and 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. Of the themes, Health Care and Wellbeing achieved the highest level of importance, followed by Children and Families and Community Safety and Justice. Building Stronger Communities and Fair Work and Enterprise had lower scores. In relation to specific services, Education Services and Older People's services had the highest averages on the scale of importance and Leisure and Culture had the lowest.

15.2 Respondents were asked what percentage change in Council Tax was preferable, with two-thirds stating they would be comfortable to see an increase in Council Tax. 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 and reducing or stopping some non-essential services to protect other services.

16.0 CAPITAL PLAN

16.1 A Capital Plan covering the 5 year period 2020 to 2025 was submitted to the Policy & Resources Committee on 24 February 2020 (report 61-2020 refers). The 2020-2025 Capital Plan reflects the budget announcements in respect of capital funding, made by the Minister for Public Finance and Digital Economy on 6 February 2020.

17.0 CHANGING FOR THE FUTURE BUDGET OVERVIEW 2020-2023

17.1 Council Officers have circulated the above overview which provides a strategic context for the budget decisions the Council is required to make over the next three years. The overview sets out the Council's priorities for change, long term financial strategy and its approach to service transformation.

18.0 CONCLUSION

18.1 This report provides members with the background information necessary to assist them in considering the final stages of setting the 2020/21 Revenue Budget and Council Tax.

19.0 POLICY IMPLICATIONS

19.1 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.

20.0 CONSULTATION

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

21.0 BACKGROUND PAPERS

21.1 Scottish Government Finance Circular 1/2020 (6 February 2020)
Changing for the Future Budget Overview 2020-2023

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

27 FEBRUARY 2020

PROCEDURE FOR POLICY AND RESOURCES COMMITTEE – 5 MARCH 2020

Date and Time

Action

5 March 2020
3pm

Revenue Budget and Council Tax

The Policy and Resources Committee will consider the Council's 2020/21 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 2020/21.

APPENDIX B

COST PRESSURES REFLECTED IN PROVISIONAL 2020/21 REVENUE BUDGET

<u>Service / Item</u>	<u>£m</u>
Children & Families – additional 12 teachers to reflect rising secondary pupil roll	0.382
City Development – various recurring cost pressures identified in 2019/20 revenue monitoring	1.500
City Development – increase in Business Gateway contract costs	0.150
City Development – property costs for new Menzieshill Community Centre	0.155
Neighbourhood Services – loss of income from Menzieshill Community Centre	0.027
Corporate Services – reduction in housing benefit administration grant	0.100
Chief Executive – WIFI costs at Regional Performance Centre	0.010
Contingencies – various new monies included in the local government finance settlement (see page 5 of Provisional Revenue Budget volume)	8.358
Contingencies – pay pressures	1.250
Contingencies – increase in insurance premiums	0.060
Council Tax Reduction Scheme – additional reductions identified in 2019/20 revenue monitoring	0.120
Discretionary Non Domestic Rates Relief – cost of relief award for V&A	0.084
Various – 3% pay award wef from 1 April 2020 (including LACD)	6.891
Various – inflationary uplift to 2019/20 base budget (net of income uplift)	1.913
Various – savings agreed in previous years now falling out	<u>2.165</u>
	<u>23.165</u>

SAVINGS REFLECTED IN PROVISIONAL 2020/21 REVENUE BUDGET

<u>Service / Item</u>	<u>£m</u>
Children & Families – reductions in central staffing costs and education psychology service staffing costs	(0.196)
Children & Families – early years costs to be met from additional funding streams	(0.950)
Children & Families – savings across various miscellaneous budget heads	(0.100)
City Development – savings from reduced opening hours for Dundee House	(0.086)
City Development – savings within employability and working for families budgets	(0.020)
City Development – savings in various administrative budgets	(0.021)
City Development – savings in sustainable transport budgets	(0.028)
City Development – additional Fleet recoveries	(0.020)
City Development – savings across various miscellaneous budget heads	(0.150)
Neighbourhood Services – additional income from HRA per approved budget for HRA	(0.324)
Neighbourhood Services – income from supply of wheelie bins to new builds	(0.015)
Neighbourhood Services – staff costs savings from service redesign, structure reviews, deletion of vacant posts, overtime reductions etc	(0.148)
Neighbourhood Services – reduction in payments to internal providers	(0.090)
Neighbourhood Services – reduction in costs and additional income from	(0.022)

Dundee Flower & Food Festival	
Neighbourhood Services – savings across various miscellaneous budget heads	(0.174)
Chief Executive – savings in staffing and administrative budgets	(0.043)
Chief Executive – savings across various miscellaneous budget heads	(0.004)
Corporate Services – staff costs savings in Human Resources & Business Support from structure reviews, deletion of vacant posts etc	(0.330)
Corporate Services – reduction in Corporate Finance staff costs to reflect operating structure going forward	(0.070)
Corporate Services – increased uptake of Shared Cost AVCs	(0.020)
Corporate Services – savings across various miscellaneous budget heads	(0.100)
Miscellaneous Items – increased central support services to HRA per approved budget for HRA	(0.075)
Tayside Valuation Joint Board – saving in requisition per approved budget for TVJB	(0.019)
Capital Financing Costs – further savings from Loans Fund Review and slippage in 2019/20 capital programme	(3.000)
Various – full year effect of savings agreed in previous years	(1.396)
Various – net additional income from review of charges	(0.111)
Various – removal of inflationary allowance on third party payments	<u>(0.280)</u>
	<u>(7.792)</u>

TECHNICAL BUDGET ADJUSTMENTS REFLECTED IN PROVISIONAL 2020/21 REVENUE BUDGET

Service / Item	£m
Various baselined funding streams included in 2019/20 local government finance settlement but not allocated by Scottish Government until after 2019/20 DCC budget had been agreed:	
Children & Families – 1+2 Languages	0.080
DHSCP – Free Personal Care for Under 65s (Frank’s Law)	0.834
DHSCP – Carers Act Extension	0.015
Corporate Services – Discretionary Housing Payments	0.833
Tayside Valuation Joint Board – Barclay Review Implementation	<u>0.048</u>
	<u>1.810</u>