

ITEM No ...13.....

REPORT TO: POLICY & RESOURCES COMMITTEE – 07 JANUARY 2019

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2019/20 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 18-2019

1.0 PURPOSE OF REPORT

1.1 This report advises elected members of the announcement made by the Cabinet Secretary for Finance, Economy and Fair Work on 12 December 2018 in respect of the Local Government Finance Settlement for 2019/20. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2019-2022 Revenue Budget and 2019-2024 Capital Plan. The Council's medium-term financial strategy is also set out.

2.0 RECOMMENDATIONS

It is recommended that the Policy & Resources Committee:

- 2.1 Notes the contents of this report.
- 2.2 Notes the Council's Revenue and Capital Funding Allocations for 2019/20, as announced by the Cabinet Secretary for Finance, Economy and Fair Work on 12 December 2018, and the associated implications.
- 2.3 Notes the package of measures that make up the settlement to be provided to Local Government, as advised by the Cabinet Secretary for Finance, Economy and Fair Work in a letter to COSLA dated 12 December 2018 (and as detailed in Section 5 of this report).
- 2.4 Notes the current position on the Council's Provisional 2019-2022 Revenue Budget and 2019-2024 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 21 February 2019.
- 2.6 Agrees the procedures to be followed for setting the 2019/20 Revenue Budget and Council Tax level, as set out in Section 11 and Appendix 1 of this report.
- 2.7 Notes the medium-term financial strategy as set out in Section 8 of this report.

3.0 FINANCIAL IMPLICATIONS

3.1 Based on current assumptions, the Council will require to identify budget savings totalling around £19.4 million in order to achieve a balanced budget in 2019/20. 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 £1.5 million, after allowing for the impact of additional Council Tax reductions.

4.0 BACKGROUND

4.1 The Scottish Government's first Medium Term Financial Strategy, setting out broad financial projections for the 5 year period 2018 to 2023, was published in late May 2018. The Chancellor of the Exchequer made his annual Budget announcements in the Westminster Parliament on 29 October 2018, including the block allocations for the devolved administrations. Report 339-2018 on the Financial Outlook for 2019-2022 was submitted to the Policy & Resources Committee on 19 November 2018. Following on from this, an announcement regarding the 2019/20 Scottish Budget was made by the Cabinet Secretary for Finance, Economy and Fair Work on 12 December 2018.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2019/20

5.1 On 12 December 2018, an announcement regarding the draft 2019/20 Scottish Budget was made in the Scottish Parliament by the Cabinet Secretary for Finance, Economy and Fair Work. This announcement included figures in respect of the Local Government Finance Settlement for 2019/20. These figures have subsequently been confirmed in Local Government Finance Circular 8/2018, issued by the Scottish Government on 17 December 2018. The figures are provisional at this stage and are subject to consultation between the Scottish Government and COSLA. The Local Government Finance (Scotland) Order is due to be debated by the Scottish Parliament in late February 2019, as part of the wider parliamentary process for finalising the 2019/20 Scottish Budget.

5.2 The revenue grant total figures for all Scotland for 2019/20 are as follows:

	<u>2019/20</u> <u>£m</u>
Updated Service Provision	11,235.311
2008-2020 Changes	177.096
Loan Charges & PPP Schemes Support	510.470
Main Floor	-
Total Estimated Expenditure (TEE)	11,922.877
Assumed Council Tax Contribution	(2,088.183)
85% Floor	<u>1.700</u>
Total Distributable Revenue Support	<u>9,836.394</u>

The methodology behind the 85% floor involves calculating total revenue funding plus estimated council tax income for each Council. Any Council whose total support per head of population falls below 85% of the Scottish average, will be topped up to the 85% level. Only one Council (Edinburgh City) will receive support through this mechanism in 2019/20.

Figures issued by SPICe highlight that when ring fenced funds are excluded from the settlement, the remaining funding available for Councils to deliver services has reduced by 1.4% in cash terms and 3.1% in real terms.

Within the 2019/20 funding envelope additional monies have been identified to meet Scottish Government policy initiatives and new statutory responsibilities as detailed in paragraph 5.4 below.

In addition to the figures set out in the table above, the following items are still to be distributed:

	<u>2019/20</u> <u>£m</u>
Teachers' Induction Scheme	37.600
Discretionary Housing Payments	63.200
1+2 Languages	3.000
Free Personal Care Under 65 (Frank's Law)	30.000
Mental Health – School Counselling	12.000
Scottish Assessor's – Barclay Review	3.300

Further, it should be noted that there are a number of other funding streams outwith the local government finance settlement for particular policy initiatives which benefit local government services.

5.3 The distribution of revenue funding is driven by a series of complicated calculations which use data indicators to identify Councils' relative spending needs across various service areas. The data indicators are heavily influenced by various population counts. The distribution of overall funding between Councils has been updated to reflect the latest needs-based indicators.

5.4 The Accounts Commission's report *Local Government in Scotland: Financial Overview 2017/18* highlighted that since 2008/09, the total amount of Grant-aided Expenditure (GAE) has remained at £7.9 billion and the weighting allocated to each GAE indicator has stayed the same. Each year the councils' relative proportion of funding has been recalculated using the 89 indicators, which means that the amount each council receives may change as its 'population', 'number of teachers', or value of

other indicators change. However, the methodology used, and relative importance of each indicator used in arriving at the overall distribution of GAE has not changed in ten years.

The report also notes that the majority of GAE is allocated according to population-based factors. Other factors are far less significant influences on total funding. For example, those which might be considered to link to deprivation, for example 'the number of current income deprived', are linked to a much smaller proportion of funding than population-based weighting factors.

5.5 The Cabinet Secretary for Finance, Economy and Fair Work wrote to COSLA on 12 December 2018 confirming the package of measures that make up the settlement to be provided to local government in return for the provisional funding amounts for 2019/20. For 2019/20, the Scottish Government will work in partnership with local government to implement the budget and joint priorities in return for the full funding package which the Cabinet Secretary has stated includes:

- baselining from 2019/20 of the full £170 million additional revenue investment announced earlier this year at Stage 1 of the Budget Bill for 2018/19.
- an additional £210 million revenue and £25 million capital to support the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours by 2020.
- in addition to the £66 million baselined provision from 2018/19, a further £40 million is included to support expansion of Free Personal and Nursing Care for under 65s, as set out in the Programme for Government, and implementation of the Carer's Act.
- £120 million to be transferred from the health portfolio to the Local Authorities in-year for investment in integration, including delivery of the Living Wage and uprating free personal care, and includes £12 million for school counselling services.
- the ongoing £88 million to maintain the pupil teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme.
- an indicative allocation of £3.3 million for Barclay implementation costs.
- repayment in full of the reprofiled £150 million capital funding.
- a new £50 million Town Centre Fund to enable local authorities to stimulate and support place-based economic improvements and inclusive growth through a wide range of investments which contribute to the regeneration and sustainability of centres.

Individual local authorities will, in return for this settlement, be expected to deliver certain specific commitments. For 2019/20, local authorities will continue to have the flexibility to increase Council Tax by up to a maximum of 3%. Also, the total additional funding of £160 million allocated to Health and Social Care and Mental Health is to be additional to each Council's 2018/19 recurrent spending on social care and not substitutonal.

5.6 In terms of capital funding for 2019/20, the total support within the settlement from the Scottish Government is £1,084.210 million. This includes repayment in full of the re-profiling reduction of £150 million that was made in 2016/17. Also included is an additional £25 million to support expansion in ELC and a new £50 million Town Centre Fund.

6.0 GRANT FIGURES FOR DUNDEE CITY COUNCIL

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

	<u>2019/20</u> £m
Updated Service Provision	329.697
2008-2020 Changes	4.924
Loan Charges & PPP Schemes Support	14.921
Main Floor	<u>(3.285)</u>
Total Estimated Expenditure (TEE)	346.257
Assumed Council Tax Contribution	<u>(47.372)</u>
85% Floor	-
Total Distributable Revenue Support	<u>298.885</u>

Figures issued by SPICe highlight that when ring-fenced funds are excluded from the Council's grant settlement, the remaining funding available for the Council to deliver services has reduced by 1.7% in cash terms and 3.4% in real terms.

6.2 The updating of the needs-based indicators in the grant distribution calculation (see paragraph 5.3 above) has been marginally detrimental in terms of the Council's 2019/20 grant allocation.

6.3 Total Funding comprises three elements: General Revenue Funding (GRF), Non-Domestic Rates (NDR) and Ring-Fenced Grants. Income from Ring-Fenced Grants will be included in the 2019/20 Provisional Revenue Budget Volume. Accordingly, it is the GRF and NDR figures only which require to be taken into account when setting the Council Tax level for 2019/20. The Council's GRF/NDR total for 2019/20, as set out in Local Government Finance Circular 8/2018, is £281.697 million. This figure will be augmented as necessary, in due course, by the share of the items shown in paragraph 5.2 above that are still to be reflected in the grant settlement for 2019/20.

6.4 The Council's total Capital Grants figure for 2019/20 is £27.361 million. The Council will also receive a share of the £50 million additional capital funding that has been provided through the new Town Centre Fund.

7.0 PROVISIONAL REVENUE BUDGET 2019-2022

7.1 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 2019-2022. This has involved rolling forward the Final 2018/19 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Cost pressures and savings that have been identified through the 2018/19 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in the period 2019-2022. This is an on-going process, with clarity still emerging around certain elements of the funding package. It is anticipated that the Provisional 2019-2022 Revenue Budget volume (including Review of Charges) will be issued later in January 2019.

7.2 Based on current assumptions, the Council will require to identify budget savings totalling around £19.4 million in order to achieve a balanced budget in 2019/20. 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 £1.5 million, after allowing for the impact of additional Council Tax reductions.

7.3 The Provisional 2019/20 Revenue Budget includes an emerging and recurring cost pressure of £2.9m per annum in respect of an increase to the teachers' pension contribution rate for employers, from 17.2% to 22.4%. This is as a result of changes in the SCAPE discount rate assumptions used by the UK Treasury for the teachers' pension valuation. It is likely that some additional funding will be made available in 2019/20 to partly offset this cost pressure. In line with professional guidance, it has been assumed that two-thirds of the cost pressure will be funded in 2019/20 and this additional funding is reflected in the savings requirement of £19.4m referred to above. However, the final position regarding additional funding will not be known until early in the new financial year and this therefore represents a key risk area in the Council's 2019/20 Revenue Budget.

- 7.4 Administrative and technical budget savings that have been identified by officers will be reflected in the Provisional 2019/20 Revenue Budget and these will have a positive impact in terms of reducing the £19.4 million savings requirement. An analysis of the administrative and technical budget savings and other base budget adjustments will be provided to elected members along with the Provisional 2019/20 Revenue Budget volume.
- 7.5 It is stressed that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2019/20 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 21 February 2019.
- 7.6 An update on the projected savings requirement over the three year period 2019-2022 will be included in the report to be submitted to the Special Policy & Resources Committee on 21 February 2019.

8.0 MEDIUM-TERM FINANCIAL OUTLOOK & STRATEGY

- 8.1 The updated medium-term financial outlook was set out in Report 339-2018 (Financial Outlook 2019-2022) which was submitted to the Policy & Resources Committee on 19 November 2018. It is anticipated that a further update report will be submitted to the Policy & Resources Committee later in 2019, following the UK Government's annual Budget announcement.
- 8.2 The key aspects of a Medium Term Financial Strategy (MTFS) 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 and have been updated in various subsequent reports to the Policy & Resources Committee. The current approved MTFS, as set out in Report 339-2018, is as follows:
- the Council's corporate approach to identifying savings and efficiencies will be co-ordinated through a new Changing for the Future transformational change programme (C2022), as agreed by Committee on 25 June 2018.
 - the Organisational Change Fund will help support and resource, on a spend-to-save basis, the organisational transformation that will be needed to deliver the required savings and efficiencies.
 - the Council will set annual balanced budgets, taking on board the prevailing constraints e.g. limits on Council Tax increases, reducing grant settlements, unavailability of balances etc.
 - the Council will seek to achieve an overall outturn position each year in line with or below budget.
 - the 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. (note: the position on uncommitted reserve levels will be covered further in the report by the Executive Director of Corporate Services which will be issued along with the agenda for the meeting on 21 February 2019).
 - services will be expected to operate within the limits of their overall revenue budget allocation. Cost pressures which emerge in-year should, where possible, be accommodated within the relevant service revenue budgets. The General Contingency should normally be used to fund items of a non-recurring or emergency nature. Expenditure of a recurring nature should normally be funded from within service revenue budgets.
 - allocation of resources will be informed by a thematic approach designed to reflect the strategic priorities of the Council.
 - budget provision will be made for estimated pay awards and, in limited circumstances, for areas of specific price inflation. The costs of incremental progression for staff will be funded from service revenue budgets.
 - demographic growth will not be funded given the scale of the financial challenge. All services are expected to redesign services and work in partnership with other bodies to meet the cost of additional pressures.

- the reduction of grant that the Council receives after providing for new responsibilities will be shared by all directly provided and commissioned services, including Health and Social Care, Leisure & Culture Dundee and the Third Sector.
- Council Tax levels are planned to be increased by 3% per annum over the next 3 years.
- a review of resources within the Council will be undertaken to look at ways to deliver services more efficiently and effectively. Given employee costs account for around 62% of the net revenue budget, there is likely to be a significant reduction in the workforce of the Council over the next 3 years.
- the initial costs associated with VERs / VRs will be met from service revenue budgets. Ongoing staff costs savings from VERs / VRs will be reflected in service revenue budgets.
- the Council's Capital Plan will be prudent, sustainable and affordable. In particular, affordability will be assessed with reference to the level of loan charges and additional running costs (including lifecycle maintenance) that can be reasonably included within future revenue budgets.
- the Council's immediate planning horizon for revenue expenditure will be three years. In the continuing absence of three year grant allocations from the Scottish Government, years two and three of the budget period will, by necessity, be provisional in nature.
- proposals for service re-design and service development will be underpinned by a comprehensive and robust business case, including options appraisal.

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

9.0 **NON-DOMESTIC RATE INCOME**

- 9.1 The Non-Domestic Rate income (NDR) collected by Dundee City Council will be paid into an all-Scotland central pool and thereafter distributed to individual Councils on the basis of the amount each Council estimates it will collect (based on 2018/19 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 £64.307 million from the Non-Domestic Rates Pool in 2019/20.
- 9.2 The Scottish Government has advised that the 2019/20 Non-Domestic Rate Poundage for Scotland has been provisionally set at 51.6 pence for Large Businesses. This represents a year-on-year increase of 2.0%. The Council will make appropriate provision for non-domestic rates on its own properties within the 2019/20 Provisional Revenue Budget.

10.0 **CAPITAL PLAN 2019-2024**

- 10.1 A Capital Plan covering the 5 year period 2019 to 2024 was submitted to the Policy & Resources Committee on 10 December 2018 (Report No 331-2018, refers).
- 10.2 The 2019-2024 Capital Plan has been reviewed by officers in light of the Council's Capital Grants figure for 2019/20 (see paragraph 6.4 above) and it is confirmed that the previously agreed programme is still considered to be deliverable. The next review of the Capital Plan is scheduled for May 2019 and this review will take on board the impact of the Tay Cities Deal in terms of the Council's funding contribution towards projects.

11.0 **PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2019/20**

11.1 The proposed procedure for setting the 2019/20 Revenue Budget and Council Tax is as follows.

11.2 The procedure in respect of submitting budget proposals and review of charges proposals to the Chief Executive and Executive Director of Corporate Services for prior approval as to their competence will apply in setting the 2019/20 Revenue Budget and Council Tax level as in previous years. It must be stressed that, for all services, budget proposals and review of charges proposals by any Group must be submitted to the Chief Executive by 5pm on 13 February 2019 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 21 February 2019.

11.3 If there are any further technical adjustments required to the 2019/20 Provisional Revenue Budget or grant settlement figures then these will be included in the separate report by the Executive Director of Corporate Services which will be issued along with the agenda for the meeting on 21 February 2019. The Executive Director of Corporate Services will also make recommendations in that report regarding the use of balances in the setting of the Council Tax level. A timetable showing the procedure for setting the 2019/20 Revenue Budget and Council Tax level on 21 February 2019 is attached at Appendix 1.

12.0 **POLICY IMPLICATIONS**

12.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

13.0 **CONSULTATIONS**

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

14.0 **BACKGROUND PAPERS**

14.1 Scottish Government Local Government Finance Circular 8/2018 (17 December 2018)
Scottish Government Letter to COSLA (12 December 2018)
SPICe Briefing - Local Government Finance: Budget 2019-20 and Provisional Allocations to Local Authorities (19 December 2018)

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

04 JANUARY 2019

PROCEDURE FOR POLICY & RESOURCES COMMITTEE - 21 FEBRUARY 2019**Date and Time****Action****21 February 2019
3pm****Revenue Budget and Council Tax**

The Special Policy and Resources Committee will consider the Council's 2019/20 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 2019/20.