

ITEM No ...4.....

REPORT TO: POLICY AND RESOURCES COMMITTEE – 10 JANUARY 2022

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2022/23 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 22-2022

1.0 PURPOSE OF REPORT

1.1 This report advises elected members of the figures issued by the Scottish Government on 20 December 2021 in respect of the Local Government Finance Settlement for 2022/23. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2022-2025 Revenue Budget and 2022-2027 Capital Plan. The Council's agreed long-term financial strategy is also set out.

2.0 RECOMMENDATIONS

It is recommended that the Policy and Resources Committee:

- 2.1 Notes the contents of this report.
- 2.2 Notes the Council's Revenue and Capital Funding Allocations for 2022/23, as issued by the Scottish Government on 20 December 2021, and the associated implications.
- 2.3 Notes the package of measures that make up the overall settlement to be provided to Local Government, as advised by the Cabinet Secretary for Finance and Economy in a letter to COSLA dated 9 December 2021 (and as detailed in Section 5.4 of this report).
- 2.4 Notes the current position on the Council's Provisional 2022-2025 Revenue Budget and 2022-2027 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 and Resources Committee on 24 February 2022.
- 2.6 Agrees the procedures to be followed for setting the 2022/23 Revenue Budget and Council Tax level, as set out in Section 11 and Appendix 1 of this report.
- 2.7 Notes the agreed long-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 £12.2 million in order to achieve a balanced budget in 2022/23. This is before taking into account any additional income from an increase in the Council Tax level. For 2022/23 Councils will have full flexibility to set the Council Tax rate that is appropriate for their local area.

4.0 BACKGROUND

4.1 On 27 October 2021, the Chancellor of the Exchequer published the 2021 UK Autumn Budget and a multi-year Spending Review. This followed on from the Spring Budget announcements in early March 2021. The Spending Review sets out, for the three-year period 2022 to 2025, budget allocations for UK Government departments and for the devolved administrations, including Scotland. A report on the Financial Outlook and Revenue Budget 2022/23 was submitted to the Policy and Resources Committee on 6 December 2021 (Report 311-2021 refers). This report advised members of the financial outlook at a national level following the UK Budget and Spending Review announcements and also outlined the current position on the Council's Revenue Budget for 2022/23, in terms of required savings. An announcement regarding the 2022/23 Scottish Budget was made by the Cabinet

Secretary for Finance and Economy on 9 December 2021. The following documents were also published along with the 2022/23 Scottish Budget:

- Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy
- Investing in Scotland's Future: Resource Spending Review Framework
- Public Sector Policy 2022-23
- Scotland's Economic and Fiscal Forecasts (Scottish Fiscal Commission)

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2022/23

5.1 On 9 December 2021, an announcement regarding the draft 2022/23 Scottish Budget was made in the Scottish Parliament by the Cabinet Secretary for Finance and Economy. This announcement included high level aggregate figures in respect of the Local Government Finance Settlement for 2022/23 (no provisional allocations were issued for later years). Subsequently, figures for individual Councils have been advised in Local Government Finance Circular 9/2021, issued by the Scottish Government on 20 December 2021. The figures are provisional at this stage and are subject to consultation between the Scottish Government and COSLA. The draft 2022/23 Scottish Budget will be debated by the Scottish Parliament in January 2022, with the Local Government Finance (Scotland) Order 2022 due to be presented to the Scottish Parliament in early February 2022.

5.2 The revenue grant total figures for all Scotland for 2022/23 are as follows:

	<u>2022/23</u> <u>£m</u>
Updated Service Provision	12,595.095
2008-2023 Changes	521.659
Loan Charges and PPP Schemes Support	383.931
Main Floor	-
Total Estimated Expenditure (TEE)	13,500.686
Assumed Council Tax Contribution	(2,140.082)
85% Floor	<u>10.116</u>
Total Distributable Revenue Support	<u>11,370.720</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 2022/23.

Within the 2022/23 funding envelope additional monies have been identified to meet Scottish Government policy initiatives and new statutory responsibilities as detailed in paragraph 5.4.1 below.

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

	<u>2022/23</u> <u>£m</u>
Teachers' Induction Scheme	37.600
Discretionary Housing Payments	80.200
Pupil Equity Fund	10.000
Scottish Child Payment (Bridging Payments)	68.200
Health and Social Care	200.000
Removal of School Curriculum Charges	8.000
Removal of School Music Tuition Charges	12.000
Expansion of Free School Meals - P4 and P5	42.200
Expansion of Free School Meals – Holiday Provision	21.750

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. In recent years, the

joint Scottish Government / CoSLA Settlement and Distribution Group has reviewed the distribution methodology around various funding streams to help streamline the system and ensure that the allocation bases are robust and properly reflect relative need across Councils. This review has led to the mergers of a number of individual funding streams and, in some cases, a change in the distribution methodology.

5.4.1 The Cabinet Secretary for Finance and Economy wrote to COSLA on 9 December 2021 confirming the package of measures that make up the settlement to be provided to local government in return for the provisional funding amounts for 2022/23. For 2022/23, the Scottish Government will work in partnership with local government to implement the budget and the joint priorities in return for the full funding package which the Cabinet Secretary has stated includes:

- £145 million for additional teachers and support staff in addition to the £88 million to maintain the pupil-teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme
- funding to maintain 100-day commitments including the removal of curriculum and music tuition charges and expanded School Clothing Grant
- £68.2 million for Child Bridging Payments
- maintaining the £292.6 million provided in 2021/22 and providing a further £353.9 million transfer from Health for investment in health and social care and mental health services – including £174.5 million to support ongoing adult social care pay, £20.4 million to continue implementing improved rights and support for carers, £15 million to uplift free personal nursing care rates, £124 million of recurring care at home investment, and £20 million for interim care;
- in addition, a further £200 million will be transferred to support pay and sustainability of social care services
- £5.3 million for Assessors Barclay implementation costs.
- an extra £62.5 million of capital funding including; £30 million for Free School Meals, £20 million for the Local Bridge Maintenance Fund, £11 million for Flood Prevention and £1.6 million for Coastal Protection

5.4.2 In response to the Live Well Locally campaign, the Cabinet Secretary for Finance and Economy has offered a number of funding flexibilities to Councils, including:

- full flexibility to set the Council Tax rate that is appropriate for their local authority area. In setting Council Tax rates, Councils are expected to take full account of the local needs and impacts on household budgets of the decisions they make.
- a commitment to reviewing all ring-fenced funding as part of the forthcoming Resource Spending Review.
- a commitment to working with COSLA to develop a rules-based fiscal framework to support future funding settlements for local government. The development of a fiscal framework will have direct relevance to the Scottish Government's Resource Spending Review.
- an extension of the flexibilities to allow capital receipts to be used to fund the financial impact of Covid and to fund transformational projects in 2022/23, subject to confirmation from the UK Government that this will not result in an adjustment to Scotland's block grant.
- an extension to the period for the loans fund principal repayment holiday for one further year.
- in response to a request for a change in policy on capital accounting for service concessions, a commitment to continuing to work with Directors of Finance and CIPFA/LASAAC on the capital accounting review.
- confirmation that regulations to implement the powers contained in the Transport (Scotland) Act 2019 will be laid early next year, to enable Councils to introduce workplace parking licensing schemes.

The Cabinet Secretary for Finance and Economy also highlights that across Scotland some Councils have accrued additional reserves during the pandemic and, as the economic and fiscal challenges are likely to continue during 2022/23, encourages all Councils to consider whether current levels of General Fund Reserve balances are an efficient use of public funds at this time.

- 5.4.3 The Cabinet Secretary for Finance and Economy has advised the Councils will again be expected to deliver further certain specific commitments and outcomes. The Scottish Government will again work with local government to help ensure Integration Authorities use total resources to focus on delivery of key areas for improvement, including: reducing delayed discharges; improving availability of, and access to, community-based health and social care services; and ensuring more people are supported to stay at home. The Scottish Government also wish to ensure that the social care workforce is supported and sustained during and following the challenges of the Covid pandemic. To support retention, and begin to embed improved pay and conditions for care workers, the additional £200 million funding transfer requires local government to deliver a £10.50 minimum pay settlement for adult social care workers in commissioned services, in line with the equivalent commitment being made in the public sector pay policy.
- 5.4.4 The Cabinet Secretary for Finance and Economy has advised that the funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2021/22 recurring budgets for adult social care services that are delegated. The Scottish Government will provide support and challenge by working with local government to agree a shared national and local approach to accountability for delivery, building upon existing shared mechanisms for routine reporting of expenditure, activity and outcomes across Scotland.
- 5.5 In terms of capital funding for 2022/23, the total support within the settlement from the Scottish Government is £679.641 million. This includes £52.601 million of capital funding that has still to be distributed (for Free School Meals, Flooding and Coastal Protection).
- 5.6 Also published alongside the Scottish Budget was a Scottish public sector pay policy for 2022/23. The key features of the 2022/23 public sector pay policy are:
- setting a guaranteed wage floor of £10.50 per hour, going beyond the current real Living Wage rate of £9.90;
 - providing a guaranteed cash underpin of £775 for public sector workers who earn £25,000 or less;
 - providing a basic pay increase of up to £700 for those public sector workers earning between £25,000 to £40,000;
 - provide a cash uplift of £500 for public sector workers earning above £40,000;
 - allowing flexibilities for employers to use up to 0.5 per cent of pay bill savings on baseline salaries in 2022 to address clearly evidenced equality or pay coherence issues.

The Scottish Government's pay policy is not binding upon Councils. Local government in Scotland has its own dedicated negotiating mechanisms for agreeing pay awards, with separate mechanisms in place for teachers and local government employees. The Council's Provisional 2022/23 Revenue Budget includes an allowance within service budgets of 2% for pay awards. In addition, an amount is held within Contingencies to reflect the estimated additional cost of pay awards in line with the Scottish Government's public sector pay policy for 2022/23.

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>2022/23</u> <u>£m</u>
Updated Service Provision	361.878
2008-2023 Changes	14.994
Loan Charges and PPP Schemes Support	5.762
Main Floor	<u>3.124</u>
Total Estimated Expenditure (TEE)	385.758
Assumed Council Tax Contribution	(47.795)
85% Floor	-
Total Distributable Revenue Support	<u>337.963</u>

- 6.2 The updating of the needs-based indicators in the grant distribution calculation (see paragraph 5.3 above) has again been detrimental in terms of the Council's 2022/23 grant allocation. These reductions from distribution have, however, been partly offset by the operation of the floor mechanism which, for 2022/23, guarantees all Councils a maximum grant reduction of 0.42%.
- 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 2022/23 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 2022/23. The Council's GRF/NDR total for 2022/23, as set out in Local Government Finance Circular 9/2021, is £314.778 million. The figure of £314.778 million 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 2022/23.
- 6.4 The Council's figure for Ring Fenced Grants for 2022/23 includes £14.665 million for the expansion of Early Learning and Childcare. This represents a reduction of £1.676 million against the equivalent allocation for 2021/22. At an all-Scotland level, there has been a net reduction of £15 million in funding for expansion of Early Learning and Childcare. Further, the Council has suffered a reduction of £1.230 million in its allocation from the Scottish Attainment Challenge (SAC) fund (which sits outwith the local government finance settlement). The reduction in SAC funding is due to a change in the distribution model: previously SAC funding was distributed to only 9 Councils whereas, with effect from 2022/23, every Council will receive an allocation of this funding. The new funding model is being introduced on a phased basis over the period to 2025/26 and the Council will continue to see reductions of this magnitude in its annual SAC funding allocation over this period.
- 6.5 The Council's total Capital Grants figure (including ring-fenced capital grants) for 2022/23 is £14.374 million.

7.0 PROVISIONAL REVENUE BUDGET 2022-2025

- 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 2022-2025. This has involved rolling forward the Final 2021/22 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Recurring cost pressures and savings that have been identified through the 2021/22 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in the period 2022-2025. This is an on-going process, with clarity still emerging around certain elements of the funding package. The Provisional 2022-2025 Revenue Budget volume (including Review of Charges) will be issued in February 2022.
- 7.2 Based on current assumptions, the Council will require to identify budget savings totalling around £12.2 million in order to achieve a balanced budget in 2022/23. This is before taking into account any additional income from an increase in the Council Tax level. For 2022/23 Councils will have full flexibility to set the Council Tax rate that is appropriate for their local area.
- 7.3 Administrative and technical budget savings that have been identified by officers will be reflected in the Provisional 2022/23 Revenue Budget and these will have a positive impact in terms of reducing the £12.2 million savings requirement. An analysis of the administrative and technical budget savings and other base budget adjustments (including cost pressures) will be provided to elected members along with the Provisional 2022-2025 Revenue Budget volume.
- 7.4 It is stressed that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2022/23 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 and Resources Committee on 24 February 2022.
- 7.5 An update on the projected savings requirement over the three-year period 2022-2025 will be included in the report to be submitted to the Special Policy and Resources Committee on 24 February 2022.
- 7.6 The Council is continuing to incur 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 2022/23, and possibly even beyond. Specifically, it is anticipated that shortfalls in some income streams (eg car parking, building control, trade waste collection etc) will not recover fully in the short to medium term due to the continuing economic downturn and new ways of working post-Covid 19 (eg more homeworking). This is a particular concern for Leisure and Culture Dundee, where it is anticipated that an income shortfall may

occur across several financial years. The required savings figure for 2022/23 of around £12.2 million, referred to in paragraph 7.2 above, does not include any allowance for additional costs relating to Covid-19. For the purposes of the Council's financial projections, it is assumed that additional costs related to Covid-19 can be met from confirmed Government funding and from the amounts earmarked within General Fund balances. In line with Audit Scotland recommendations, the Council's long-term financial forecasts will be updated and reported to elected members, by September 2022.

8.0 LONG-TERM FINANCIAL OUTLOOK AND FINANCIAL STRATEGY

8.1 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 updated approved Long-Term Financial Strategy was set out in Report 62-2021 which was submitted to the Policy and Resources Committee on 22 February 2021 (article V refers), as follows:

- the Council's corporate approach to identifying savings and efficiencies will be coordinated through the Changing for the Future transformational change programme (C2022) as agreed by Committee on 25 June 2018 (Article V of the minute of meeting of the Policy and Resources Committee of 25 June 2018, Report 223-2018 refers).
- the Organisational Change Fund, together with any capital receipts set aside to fund costs associated with future transformation projects, 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. This may include costs associated with VERs / VRs however, if no balances are available, then the initial costs associated with VERs / VRs will normally be met from service revenue budgets. On-going staff costs savings from VERs / VRs will be reflected in service revenue budgets.
- 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 £7 million or 2% of budgeted revenue expenditure but, ideally, a higher level will be held for operational purposes.
- 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 and Culture Dundee and the Third Sector.
- Council Tax levels are planned to be increased by at least 3% per annum, but annual increases may be higher if allowed under the terms of the local government finance settlement.
- a review of resources within the Council will be undertaken to look at ways to deliver services more efficiently and effectively. Given employee costs currently account for around 65% of the

net revenue budget, there is likely to be a significant reduction in the workforce of the Council.

- 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 and a rolling three-year revenue budget will be prepared annually and submitted to the Policy and Resources Committee as part of the budget approval process. In addition, projections covering a rolling ten-year period will be maintained and submitted, as necessary, to the Policy and Resources Committee.
- proposals for service re-design and service development will be underpinned by a comprehensive and robust business case, including options appraisal.
- any budget deficit associated with Covid-19 (not funded by items outlined in paragraph 7.6) will be funded by applying one or more of the financial flexibilities made available by the Scottish Government.

8.2 The Council's Long-Term Financial Strategy will be underpinned by other key corporate strategies, including those relating to IT, Digital and Our People. 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 2021/22 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 £35.496 million from the Non-Domestic Rates Pool in 2022/23.

9.2 The Scottish Government has advised that the 2022/23 Non-Domestic Basic Property Rate ("poundage") for Scotland has been provisionally set as follows:

Rateable Value	Rate 2022/23 (pence)	Rate 2021/22 (pence)	Increase (pence)	Increase (%)
Less than £51,000	49.8	49.0	0.8	1.6
£51,000 to £95,000	51.1	50.3	0.8	1.6
More than £95,000	52.4	51.6	0.8	1.3

The Council will make appropriate provision for non-domestic rates on its own properties within the 2022/23 Provisional Revenue Budget.

9.3 The Scottish Government has also confirmed that 50% rates relief for the Retail, Hospitality and Leisure sectors will apply for the first three months of the 2022/23 financial year, capped at £27,500 per ratepayer.

10.0 CAPITAL PLAN 2022-2027

10.1 An updated Capital Plan, covering the 5-year period 2022 to 2027, will be submitted for approval to the Policy and Resources Committee on 24 January 2022. This updated Capital Plan will reflect the figures issued by the Scottish Government on 20 December 2021.

11.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2022/23

11.1 The proposed procedure for setting the 2022/23 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 2022/23 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 21 February 2022 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 24 February 2022.
- 11.3 If there are any further technical adjustments required to the 2022/23 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 24 February 2022. 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 2022/23 Revenue Budget and Council Tax level on 24 February 2022 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 Letter to COSLA (9 December 2021)
Scottish Government Local Government Finance Circular 9/2021 (20 December 2021)

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

07 JANUARY 2022

PROCEDURE FOR POLICY AND RESOURCES COMMITTEE – 24 February 2022

Date and Time

Action

**24 February 2022
3pm**

Revenue Budget and Council Tax

The Special Policy and Resources Committee will consider the Council's 2022/23 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, Liberal Democrat Group and Independent Groups will move any amendments.

The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2022/23.