

ITEM No ...4.....

REPORT TO: POLICY & RESOURCES COMMITTEE – 09 JANUARY 2017

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2017/18 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 24-2017

1.0 PURPOSE OF REPORT

1.1 This report advises elected members of the announcement made by the Cabinet Secretary for Finance and the Constitution on 15 December 2016 in respect of the Local Government Finance Settlement for 2017/18. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2017/18 Revenue Budget and 2017-2022 Capital Plan. The medium-term financial outlook and 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 2017/18, as announced by the Cabinet Secretary for Finance and the Constitution on 15 December 2016, 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 and the Constitution in a letter to COSLA dated 15 December 2016 (and as detailed in Section 5 of this report).

2.4 Notes the current position on the Council's Provisional 2017/18 Revenue Budget and 2017-2022 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 23 February 2017.

2.6 Agrees the procedures to be followed for setting the 2017/18 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 outlook and 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 £12.5 million in order to achieve a balanced budget in 2017/18. Councils now, however, 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 £1.45 million, after allowing for the impact of additional Council Tax reductions. These figures take on board the impact of the revised multipliers used for properties in Council Tax bands E to H.

3.2 The savings requirement of £12.5 million is predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement.

4.0 BACKGROUND

4.1 The Chancellor of the Exchequer issued his 2016 Autumn Statement on 23 November 2016. This statement sets out annual spending and taxation plans covering the whole of the UK public sector, including the devolved administrations, for the period up to March 2022. Following on from this, an announcement regarding the 2017/18 Scottish Budget was made by the Cabinet Secretary for Finance and the Constitution on 15 December 2016.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2017/18

5.1 On 15 December 2016, an announcement regarding the 2017/18 Scottish Budget was made in the Scottish Parliament by the Cabinet Secretary for Finance and the Constitution. This announcement included figures in respect of the Local Government Finance Settlement for 2017/18. These figures have subsequently been confirmed in Local Government Finance Circular 9/2016, issued by the Scottish Government on 15 December 2016. The figures are provisional at this stage and are subject to consultation between the Scottish Government and COSLA, with the Local Government Finance (Scotland) Order due to be debated by the Scottish Parliament in late February 2017.

5.2 The revenue grant total figures for all Scotland for 2017/18 are as follows:

	<u>2017/18</u> <u>£m</u>
Updated Service Provision	10,727.659
2008-2018 Changes	76.690
Loan Charges & PPP Schemes Support	605.233
Main Floor	_____ -
Total Estimated Expenditure (TEE)	11,409.582
Assumed Council Tax Contribution	(2,074.697)
85% Floor	<u>10.000</u>
Total Distributable Revenue Support	<u>9,344.885</u>

The grant settlement for 2017/18 reflects an overall cash reduction at national level of £350 million, or 3.5%. Within the 2017/18 funding envelope, however, 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 reflected in the grant settlement for 2017/18:

	<u>2017/18</u> <u>£m</u>
Teachers' Induction Scheme	37.473
Discretionary Housing Payments	47.900
Temporary Accommodation	22.500
Council Tax Reduction Scheme	42.946

Outwith the Local Government Finance Settlement, additional revenue funding of £30 million has been provided within the Education and Skills portfolio for the expansion of early learning and childcare to 1,140 hours. This funding will principally support workforce development and capacity building.

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. In addition to the overall cash reduction at national level, the distribution of funding between Councils has been updated to reflect the latest needs-based indicators.

5.4 The Cabinet Secretary for Finance and the Constitution wrote to COSLA on 15 December 2016 confirming the package of measures that make up the settlement to be provided to local government in return for the provisional funding amounts for 2017/18. For 2017/18, the Scottish Government will work in partnership with local government on implementing the budget and joint priorities in return for the full funding package which includes:

- an additional £120 million for schools to support closing the attainment gap
- the additional income estimated at £111 million as a result of the Council Tax reforms
- local authorities will be required to maintain the overall pupil/teacher ratio at 2016/17 levels and secure places for all probationers who require one under the teacher induction scheme
- the additional £250 million support for health and social care provided by the NHS through the Integration Fund in 2016/17 will be baselined from 2017/18 and increased by a further £107 million. To reflect this additional support, local authorities will be able to adjust their allocations to Integration Authorities in 2017/18 by up to their share of £80 million below the level of budget agreed with their Integration Authority for 2016/17.
- the flexibility to increase Council Tax levels by up to 3%, which could generate an additional £70 million

In order to access all of the funding involved, including those priorities supported by specific funding, local authorities must agree to deliver all of the measures set out in the package and will not be able to select elements of the package (although it should be noted that any increase in Council Tax levels by up to 3% is at the discretion of Councils and is not mandatory). Any individual authority not intending to agree the offer and accept the full package of measures and funding has been asked to notify the Cabinet Secretary for Finance and the Constitution by 13 January 2017.

5.5 In terms of capital funding for 2017/18, the total support within the settlement from the Scottish Government is £756.5 million. This does not include any of the re-profiling reduction of £150 million made in 2016/17. The Scottish Government has given a commitment that £150 million will be added back to the Local Government capital allocation in the next Spending Review, covering the period 2018 to 2020. Outwith the Local Government Finance Settlement, additional capital funding of £30 million has been provided within the Education and Skills portfolio for the expansion of early learning and childcare to 1,140 hours. This funding will principally support the first phase of infrastructure investment.

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>2017/18</u> £m
Updated Service Provision	312.919
2008-2018 Changes	2.126
Loan Charges & PPP Schemes Support	19.164
Main Floor	<u>(3.936)</u>
Total Estimated Expenditure (TEE)	330.273
Assumed Council Tax Contribution	(47.799)
85% Floor	-
Total Distributable Revenue Support	<u>282.474</u>

The Council's share of the additional £120 million that has been made available for schools to support closing the attainment gap is £4.975 million. It is understood that this funding will be paid as a ring-fenced grant and allocated directly to headteachers. The Executive Director of Children and Families Service will be bringing forward a report to the Children and Families Services Committee on 23 January 2017, providing further details around this new funding stream.

- 6.2 The updating of the needs-based indicators in the grant distribution calculation (see paragraph 5.3 above) has been marginally favourable in terms of the Council's 2017/18 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 2017/18 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 2017/18. The Council's GRF/NDR total for 2017/18 is £273.445 million. This figure will be augmented, 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 2017/18.
- 6.4 The Council's total Capital Grants figure for 2017/18 is £26.081 million. The Council will also receive a share of the £30 million additional capital funding that has been provided within the Education and Skills portfolio for the expansion of early learning and childcare to 1,140 hours.

7.0 PROVISIONAL REVENUE BUDGET 2017/18

- 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 2017/18. This has involved rolling forward the Final 2016/17 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Cost pressures and savings that have been identified through the 2016/17 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in 2017/18. This is an on-going process, with clarity still emerging around certain elements of the funding package. It is anticipated that the Provisional 2017/18 Revenue Budget volume (including Review of Charges) will be issued in late January 2017.
- 7.2 Based on current assumptions, the Council will require to identify budget savings totalling around £12.5 million in order to achieve a balanced budget in 2017/18. Councils now, however, have the flexibility to increase Council Tax levels by up to 3%. (Note: the funding for a continued Council Tax freeze is no longer available within the local government settlement). A 3% increase in the local Council Tax level would generate net additional income of around £1.45 million, after allowing for the impact of additional Council Tax reductions.
- 7.3 Administrative and technical budget savings that have been identified by officers will be reflected in the Provisional 2017/18 Revenue Budget and these will have a positive impact in terms of reducing the £12.5 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 2017/18 Revenue Budget volume.
- 7.4 In November 2016, the Scottish Parliament passed the Council Tax (Substitution of Proportion) (Scotland) Order. This introduces changes to the multipliers used for properties in Council Tax bands E to H, meaning that properties in these bands will pay proportionately more Council Tax from 2017/18 onwards. The original intention was that the additional income generated would be redistributed amongst Councils to support closing the attainment gap, however the Scottish Government has now advised that the additional income will be available in full to be spent in the local authority area it was collected. It is

estimated that the revised multipliers will result in a net increase of around £1.3 million in local Council Tax income, after allowing for the impact of additional Council Tax reductions. This additional income is already reflected in the figures quoted in paragraph 7.2 above.

7.5 The savings requirement of £12.5 million is predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement (although it should be noted that any increase in Council Tax levels by up to 3% is at the discretion of Councils and is not mandatory). It is stressed that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2017/18 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 23 February 2017.

8.0 MEDIUM-TERM FINANCIAL OUTLOOK & STRATEGY

8.1 The Chancellor of the Exchequer issued his 2016 Autumn Statement on 23 November 2016. The Scottish Budget totals for revenue expenditure show a cash increase of £572 million (2.2%) between 2016/17 and 2019/20, largely due to the Barnett consequential changes to other Whitehall departmental budgets. When adjusted for projected inflation, however, this represents a real terms reduction of 3.1% over the period. For 2017/18, the year-on-year cash increase is £415 million (1.6%), which represents a small increase (0.1%) in real terms.

8.2 The recent grant announcements by the Scottish Government follow on from the Chancellor's Autumn Statement. The figures announced by the Scottish Government are in respect of the 2017/18 financial year only: no detailed figures are currently available beyond this point. It is anticipated that the Scottish Government will undertake a Spending Review covering the period 2018 to 2020, although the timescale for this review is not yet known.

8.3 Looking forward at a national level, it is clear that much will depend on the outcome of the Scottish Government's Spending Review for the period 2018 to 2020. There are also other key areas of uncertainty, including:

- revisions to the UK Budget, with knock-on effects to the Scottish Budget via the Barnett formula, particularly in relation to the impact of Brexit
- economic growth in Scotland, which is currently slower than the rest of the UK and which will now impact directly on the Scottish Budget as the Scottish Government has control of income tax
- continued protection of other priority policy areas eg NHS, Police Scotland etc
- future policy in relation to Non Domestic Rates, Council Tax and the devolved taxation streams that the Scottish Government controls

8.4 At a local level, the Council will continue to experience pressure on demand-led services in key areas, due to demographic and social factors. Pay and prices inflation will require to be provided for and the updating of grant distribution factors may work against the Council. Further, the Westminster Government's decision to withdraw the contracting-out rebate on employers national insurance contributions from 2016/17 onwards has added around £4.4 million to the Council's annual pay bill and the new Apprenticeship Levy will result in additional costs of around £1 million from 2017/18 onwards.

8.5 The key aspects of a medium term financial strategy for the Council to help address the challenging financial landscape were set out in the Financial Outlook report to the Policy & Resources Committee on 26 October 2015. These are as follows:-

- the Council's corporate approach to identifying savings and efficiencies will be co-ordinated through a new Changing for the Future (Phase 4) transformational change programme.

- a new 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 uncommitted element of the General Fund balance will be maintained at a minimum level of the lower of £5 million or 1.5% of budgeted revenue expenditure.
- 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.
- the initial costs associated with VERs / VRs will be met from General Fund Balances. On-going 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 that can be reasonably included within future revenue budgets.
- the Council's immediate planning horizon for revenue expenditure will reflect the availability of information on future years grant allocations from the Scottish Government. The Executive Director of Corporate Services will maintain longer-term budget projections using appropriate assumptions and based on the best available information.
- 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.

- 8.6 The Council's budget projections and medium term financial strategy will be updated to reflect the outcome of the Autumn Statement and the Scottish Budget announcements. It is anticipated that an update report will be submitted to the Policy & Resources Committee later in 2017.

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 2016/17 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 £65.199 million from the Non-Domestic Rates Pool in 2017/18.
- 9.2 The Scottish Government has advised that the 2017/18 Non-Domestic Rate Poundage for Scotland has been provisionally set at 49.2 pence for Large Businesses. This represents a year-on-year reduction of 3.5%. New rateable values will be applied from 1 April 2017 following the revaluation of all non-domestic properties. The estimated total income from non-domestic rates across Scotland shows a 5.9% year-on-year decrease. The Council will make appropriate provision for non-domestic rates on its own properties within the 2017/18 Provisional Revenue Budget.

10.0 CAPITAL PLAN 2017-2022

- 10.1 A Capital Plan covering the 5 year period 2017 to 2022 was submitted to the Policy & Resources Committee on 31 October 2016 (Article XII of the minute of the meeting of the Policy & Resources Committee on 31 October 2016, Report No 331-2016, refers).
- 10.2 The 2017-2022 Capital Plan has been reviewed by officers in light of the Council's Capital Grants figure for 2017/18 (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 October 2017.

11.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2017/18

- 11.1 The proposed procedure for setting the 2017/18 Revenue Budget and Council Tax is the same as the procedure adopted last year for the setting of the 2016/17 Revenue Budget and Council Tax.
- 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 again apply in setting the 2017/18 Revenue Budget and Council Tax level. It must be stressed that, for all services, budget proposals and review of charges proposals by any Group or individual member must be submitted to the Chief Executive by 5pm on 15 February 2017 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 23 February 2017.
- 11.3 If there are any further technical adjustments required to the 2017/18 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 23 February 2017. 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.
- 11.4 A timetable showing the procedure for setting the 2017/18 Revenue Budget and Council Tax level on 23 February 2017 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 Chief Executive and Head of Democratic and Legal Services have been consulted on the content of this report.

14.0 BACKGROUND PAPERS

14.1 Scottish Government Local Government Finance Circular 9/2016 (15 December 2016)
Scottish Government Letter to COSLA (15 December 2016)

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

06 JANUARY 2017

PROCEDURE FOR POLICY & RESOURCES COMMITTEE - 23 FEBRUARY 2017**Date and Time****Action**

**23 February 2017
3pm**

Revenue Budget and Council Tax

The Special Policy and Resources Committee will consider the Council's 2017/18 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 Member, Independent Member and Liberal Democrat Member will move any amendments.

The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2017/18.