

**ITEM No ...10.....**

**REPORT TO: POLICY & RESOURCES COMMITTEE – 11 DECEMBER 2017**

**REPORT ON: FINANCIAL OUTLOOK 2018-2021**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 439-2017**

**1.0 PURPOSE OF REPORT**

This report advises members of the financial outlook at a national level for the three year period 2018-2021. The report also outlines the current position on the Council's Revenue Budget for 2018-2021, in light of projected grant settlement figures.

**2.0 RECOMMENDATIONS**

It is recommended that the Committee:-

- 2.1 Notes the current position on the Council's Revenue Budget for 2018-2021.
- 2.2 Notes the financial outlook at a national level for the three year period 2018-2021.
- 2.3 Notes the range of projected savings and efficiencies that may be required over the next three financial years in order to deliver a balanced budget.
- 2.4 Notes that a further report will be submitted to the Policy & Resources Committee in January 2018, detailing the Council's actual grant settlement for 2018/19 and the associated implications. An update on the Council's medium-term financial strategy will also be included in this report, together with the proposed procedure for setting the Council's Revenue Budget and Council Tax for 2018/19.

**3.0 FINANCIAL IMPLICATIONS**

- 3.1 Based on current projections of budgetary requirements and available grant funding, the following range of projected savings and efficiencies may be required over the next three financial years in order to achieve a balanced budget:

	<u>Cum Savings Required - 3% Grant Reduction (£m)</u>	<u>Cum Savings Required - 4% Grant Reduction (£m)</u>	<u>Cum Savings Required - 5% Grant Reduction (£m)</u>
2018/19	18.9	21.7	24.5
2019/20	32.8	38.2	43.6
2020/21	54.1	61.9	69.6

**4.0 BACKGROUND**

- 4.1 The Council's 2017/18 Revenue Budget was approved by the Policy & Resources Committee on 23 February 2017. The overall figures were as follows:

	<u>£m</u>
Net Revenue Expenditure	<u>342.509</u>
Funded by:	
General Revenue Funding / Non Domestic Rates	280.135
Council Tax	<u>62.374</u>
Total Funding	<u>342.509</u>

The above figures highlight the significance of central funding in local authority budgeting, with over 80% of the Council's net revenue expenditure requirement being met by Scottish Government funding.

4.2 The Councils medium term financial strategy states that:

“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.”

In light of the on-going uncertainties regarding public sector funding levels, the Scottish Government has for a number of years now issued grant settlements for one year only. Accordingly, the Council has prepared revenue budgets on the same basis but at the same time longer-term budget projections are being maintained using various assumptions around future expenditure and funding levels.

4.3 The Accounts Commission's report *Local Government in Scotland: Performance and Challenges* (March 2017) highlighted the importance of medium to long term financial planning given the continuing pressures that Councils face into the future. The Accounts Commission recommend that when future Scottish Government funding is not known, Councils should plan for a range of possible scenarios so they are prepared for different levels of funding.

There were further references to longer term financial planning in Audit Scotland's 2016/17 Annual Audit Report on Dundee City Council. Audit Scotland concluded that the Council's financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at the current levels. Following on from this, Audit Scotland recommended that management should present a three year budget to members, consisting of scenario planning for different levels of assumed funding over the three year period. In response, it was agreed that the Executive Director of Corporate Services would present a three year Revenue Budget to the Policy & Resources Committee in February 2018.

4.4 This report effectively begins the process of looking ahead over next three financial years (2018-2021), by setting out the current projections and the risks / uncertainties around both the expenditure and funding sides of the revenue budget.

#### 5.0 EXPENDITURE (PROVISIONAL REVENUE BUDGET 2018-2021)

5.1 As noted in paragraph 4.2 above, longer-term budget projections are being maintained using various assumptions. For the three year period 2018-2021, the current total Revenue Budget requirements are as follows:-

	<u>Total</u> (m)	<u>Annual</u> <u>Increase</u> (£m)	<u>Cumulative</u> <u>Increase</u> (£m)
2017/18 (Final)	342.5	-	-
2018/19 (Provisional)	353.0	10.5	10.5
2019/20 (Provisional)	358.8	5.8	16.3
2020/21 (Provisional)	365.3	6.5	22.8

5.2 The above figures represent the estimated cost of continuing to provide the current level of services (as reflected in the 2017/18 Final Revenue Budget) and also include the following:

- i) the full year effect of savings and cost pressures that were already reflected in the 2017/18 Final Revenue Budget
- ii) a 2% annual allowance for pay awards for all categories of staff
- iii) allowances for price inflation on specific budget heads

- iv) a 2% annual increase in chargeable income arising from the annual review of charges exercise
- v) the on-going effect of unavoidable cost pressures and savings reflected in the current year revenue monitoring
- vi) new costs pressures and savings that will arise over 2018-2021
- vii) provision for capital financing costs to support the new borrowing included in the 2018-2023 Capital Plan.

5.3 There are risks and uncertainties around all of the above items. The assumptions underpinning the current figures will be reviewed as part of the on-going budget process, particularly to identify any areas where the budgetary impact can be reduced without introducing an unacceptable level of financial risk.

## **6.0 FUNDING (GRANT SETTLEMENTS 2018-2021)**

6.1 The Chancellor of the Exchequer made his Autumn Budget announcements in the Westminster Parliament on 22 November 2017, including the block allocations for the Devolved Administrations. The Cabinet Secretary for Finance and the Constitution will make announcements on the Scottish Budget to the Scottish Parliament on 14 December 2017. The Scottish Budget announcements will include grant allocation levels for individual Councils, however it is expected that these will be for 2018/19 only.

6.2 Forward funding projections are particularly problematic at this time given the lack of information to date and a number of significant risks and uncertainties, for example:

- the UK Government's policy approach to future public spending levels and the timescales for bringing the national finances back into balance
- the impact of Brexit, particularly around economic growth and the consequential impact on the taxation revenues available to fund public spending
- the relative performance of the Scottish economy in comparison to the rest of the UK (this will be a key factor in whether the Scottish Budget is better or worse off under the new Fiscal Framework)
- the continuing operation of the Barnett formula
- Scottish Government policy on the devolved taxation streams and the key variables around the Scottish Rate of Income Tax ie income tax bands and the tax rate itself (around 40% of devolved expenditure is now funded by tax revenues generated in Scotland)
- the continuing protection of priority policy areas within the Scottish Government portfolio eg health, policing, childcare, educational attainment
- Scottish Government policy in relation to Non Domestic Rates and Council Tax
- conditions attaching to the Local Government Finance Settlement eg cap on Council Tax increases etc

6.3 The Fraser of Allander Institute, a leading economic research body, recently published *Scotland's Budget Report 2017*. This report sets out the key challenges that must be addressed in the forthcoming budget announcements. The report concludes that Scotland faces considerable public spending constraints in the years to come, with the economic outlook for Scotland and the UK remaining fragile and continuing uncertainty around the terms of Brexit. UK economic growth has slowed markedly, with growth in the Scottish economy (although strong recently) being weaker than the UK economy. The report sets out a range of possible scenarios for the Scottish Budget, with the balance of probability pointing towards further real terms reductions in the discretionary resource spending. Under the central scenario, the total Scottish resource budget is projected to fall by 2.3% in real terms between 2016 and 2021. The report also concludes that, through various manifesto and Programme for Government commitments, over half of the Scottish budget can be viewed as "protected". This could mean that "non-protected" areas face real terms cuts of between 9% and 14% between 2016 and 2021. The non-educational elements of local government could be left as the largest part of the budget that is deemed to be "non-protected". In terms of taxation revenue a number of options are possible, particularly around income tax, but there are also significant constraints. The picture is brighter on the capital budget, with the block grant from Westminster set to increase by 5% per annum up to 2019/20.

- 6.4 The overall Scottish block figures announced on 22 November 2017 as part of the UK Budget are as follows:

	2018/19	2019/20	2020/21
	£m	£m	£m
<b>Cash Terms</b>	30,247	30,725	31,111
Year-on-Year Movement		+ 478	+ 386
Year-on-Year Movement (%)		+ 1.6%	+ 1.3%
<b>Real Terms</b>	29,781	29,812	29,768
Year-on-Year Movement		+ 31	-44
Year-on-Year Movement (%)		+ 0.1%	-0.1%
Barnett Formula Consequentials Included Above *	523	656	567

\*Total Barnett Formula consequentials over the period 2017-2021 are £1.970m, being: revenue resources £347m, capital resources £508m and Financial Transactions £1,115m. The additional £1,115m relating to Financial Transactions must ultimately be repaid to HM Treasury.

As part of the budget announcements, the UK Government has made available an additional £1.5bn for Councils across the UK to address concerns about Universal Credit. The funding will be used to reduce the waiting period for payments and make it easier for claimants to receive an advance payment.

- 6.5 In light of the limited information currently available and the significant risks and uncertainties set out above, it is prudent to base projections of future funding levels on a range of scenarios, rather than a single, absolute assumption. Accordingly, projections of the Council's grant allocation for 2018-2021 have been made based on three scenarios: annual cash reductions of 3%, 4% and 5%. Other anticipated high-level changes to grant allocation figures have also been factored in, however no adjustment has been made for the impact of distributional changes within the grant settlement process. The projected grant allocation figures are set out in the following table.

	<u>Grant Allocation Based on 3% Reduction (£m)</u>	<u>Grant Allocation Based on 4% Reduction (£m)</u>	<u>Grant Allocation Based on 5% Reduction (£m)</u>
2017/18 (Final)	280.1	280.1	280.1
2018/19 (Provisional)	271.7	268.9	266.1
2019/20 (Provisional)	263.6	258.2	252.8
2020/21 (Provisional)	248.8	241.0	233.3

It is emphasised that there is a significant degree of uncertainty over these projections. It is understood that the Council's projections, in terms of percentage grant reductions, are consistent with those being used by other Councils across Scotland.

## 7.0 SAVINGS & EFFICIENCIES REQUIREMENTS 2018-2021

- 7.1 Based on current projections of budgetary requirements, ranges of available grant funding and Council Tax income, the following levels of savings and efficiencies may be required in order to achieve a balanced budget over the next three financial years:

	<u>Cum Savings Required - 3% Grant Reduction (£m)</u>	<u>Cum Savings Required - 4% Grant Reduction (£m)</u>	<u>Cum Savings Required - 5% Grant Reduction (£m)</u>
2018/19	18.9	21.7	24.5
2019/20	32.8	38.2	43.6
2020/21	54.1	61.9	69.6

The above projected budget shortfalls are based on a combination of the new Budget requirement shown in paragraph 5.1 and the ranges of reduced grant settlements set out in paragraph 6.5.

7.2 To set these figures in context it is estimated that a 3% increase in Council Tax, all other things being equal, would yield additional income of just under £1,500,000 (after allowing for additional Council Tax reductions).

7.3 The above figures assume that there will be no reserves available to help address the projected budget shortfalls over the next three financial years. The Council's approved reserve policy is to maintain an uncommitted General Fund balance at a minimum level of the lower of £5 million or 1.5% of budgeted revenue expenditure. The Council's General Fund balance as at 31 March 2017 meets the minimum requirements of the policy. The Council currently has the lowest level of usable reserves (expressed as a percentage of net revenue expenditure) across Scottish local authorities.

## 8.0 THE WAY AHEAD

8.1 A further report will be submitted to the Policy & Resources Committee in January 2018, detailing the Council's actual grant settlement for 2018/19 and the associated implications. An update on the Council's medium-term financial strategy will also be included in this report, together with the proposed procedure for setting the Council's Revenue Budget and Council Tax for 2018/19.

## 9.0 CONCLUSION

9.1 The Council is facing a significant challenge to deliver a balanced budget over the next three years. This is due to anticipated inflationary pressures and other cost pressures, together with projected annual cash reductions in grant funding.

## 10.0 POLICY IMPLICATIONS

10.1 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 is a real risk that the actual grant reductions could be more severe than those currently being assumed.

## 11.0 CONSULTATION

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

## 12.0 BACKGROUND PAPERS

12.1 None.

