

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 12 FEBRUARY 2015

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2015/16

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 68-2015

1.0 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2015/16 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2015/16 Revenue Budget and Council Tax.

2.0 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 notes the procedures for setting the 2015/16 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 12 January 2015 and as set out in Appendix A to this report
- 2.2 notes the contents of the Provisional 2015/16 Revenue Budget Volume
- 2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2015/16, as detailed in paragraphs 4.1 to 12.2 of this report

3.0 BACKGROUND

- 3.1 The Policy & Resources Committee on 12 January 2015 considered report 23-2015 by the Director of Corporate Services. This report detailed the Local Government Finance Settlement for 2015/16, as announced by the Cabinet Secretary for Finance, Constitution & the Economy on 11 December 2014. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (12 February 2015). These procedures are reproduced at Appendix A to this report.

4.0 PROVISIONAL REVENUE BUDGET 2015/16

- 4.1 Over the past few months the Chief Executive and Director of Corporate Services, in conjunction with the other Chief Officers, have been preparing a Provisional Revenue Budget for 2015/16. The outcome of this exercise is reflected in the Provisional 2015/16 Revenue Budget Volume. The total Revenue Budget requirement for 2015/16, as shown on page 1 of the volume, is £352.615m. It is emphasised, however, that this figure is before any amendments or budget savings which may be approved and incorporated into the Revenue Budget at the meeting of the Special Policy & Resources Committee on 12 February 2015.
- 4.2 The Provisional 2015/16 Revenue Budget reflects a number of cost pressures and savings that have been identified through the 2014/15 revenue monitoring process, together with new cost pressures that will emerge in 2015/16. Details of these items are shown in Appendix B to this report.

5.0 DRAFT REVIEW OF CHARGES 2015/16

- 5.1 A draft 2015/16 Review of Charges document has also been prepared. This shows additional income of £196,000 in 2015/16. The projected additional income is already included in the

Provisional 2015/16 Revenue Budget Volume. It is stressed, however, that the final decision on the review of charges, and any other savings, is a matter for the Special Policy & Resources Committee on 12 February 2015.

6.0 PAY AWARDS, PRICE INFLATION ETC

6.1 The Provisional 2015/16 Revenue Budget Volume includes a 1.5% allowance for estimated pay awards in 2015 for all categories of staff, including Teachers. Allowance has also been made for the increased National Living Wage of £7.85 per hour and for specific and general price inflation, where appropriate.

7.0 CONTINGENCY PROVISIONS

7.1 A number of Contingency Provisions are included on page 3 of the Provisional 2015/16 Revenue Budget Volume:

General Contingency (£650,000 in 2015/16)

The purpose of this contingency is to provide cover for any unforeseen or emergency expenditure that may occur during the course of the financial year. The Director of Corporate Services is of the opinion that £650,000 represents the minimum level of General Contingency that the City Council should have in its 2015/16 Revenue Budget.

Energy Costs (£200,000 in 2015/16)

This contingency will be used to meet cost increases in energy contract prices.

Provision for Additional Holiday Pay (£362,000 in 2015/16)

This contingency will be used to meet any increased payroll costs arising from the possible requirement to recognise additional elements within the calculation of employees holiday pay as a result of recent case law.

Employer Recruitment Incentive (£66,000 in 2015/16)

This contingency will be used if required to support the continuation of the Employer Recruitment Incentive within the City.

Various Unallocated Savings (£1,665,000 in 2015/16)

These savings and efficiencies, mainly identified through corporate initiatives, are being held centrally pending their allocation to the relevant departments.

8.0 CAPITAL FINANCING COSTS/INTEREST ON REVENUE BALANCES

8.1 The total budgetary allowance for Capital Financing Costs/Interest on Revenue Balances is shown on page 1 of the Provisional 2015/16 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2014 plus the net new borrowing shown in the 2015-2018 General Services Capital Plan, which is also being submitted for approval to the Special Policy & Resources Committee on 12 February 2015. The projected average annual interest rate is 4.2% for 2015/16. The Director of Corporate Services is of the opinion that the projected interest rate is at the minimum prudent level and cannot be reduced to a lower level.

9.0 REVENUE FUNDING ALLOCATION

9.1 The City Council's Revenue Funding Allocation for 2015/16 is estimated as follows:

	2015/16
	£m
General Revenue Funding – as announced	218.318
Non-Domestic Rates – as announced	<u>62.479</u>
	280.797
Estimate of funding yet to be announced *	<u>10.674</u>
	<u><u>291.471</u></u>

* This relates to funding for the Council Tax Reduction Scheme, Discretionary Housing Payments and for 1+2 Language Policy. The Council's share of the overall funding available has not yet been announced, however estimated amounts are included in the Provisional 2015/16 Revenue Budget Volume.

The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2015/16 and reflect the decisions expected to be taken by the Scottish Parliament in February 2015. The total of £291.471m requires to be taken into account when setting the 2015/16 Council Tax.

- 9.2 The Council requires to identify budget savings totalling £3.310m in order to achieve a Council Tax freeze in 2015/16. Going forward, it is estimated that the Council will require to identify further budget savings of around £22.7m over the two year period 2016-2018 in order to maintain a Council Tax freeze.

10.0 RESERVES AND BALANCES

- 10.1 Section 12(1) of the Local Government in Scotland Act 2003 states that "It is the duty of a local authority to observe proper accounting practices". CIPFA have previously issued guidance on Local Authority Reserves and Balances (including updates in November 2008 and July 2014), and this guidance is considered to constitute proper accounting practice. The key requirements of the guidance, as they affect the Council, are two-fold:

- i the setting out of a clear protocol covering the purpose, utilisation, management, control and review of reserves and balances.
- ii the inclusion in the annual budget report of a statement on reserves and balances detailing the proposed strategy over the budget period, after taking into account the strategic, operational and financial risks facing the Council.

- 10.2 The Policy & Resources Committee on 9 February 2004 agreed report 70-2004 (Revised Guidance on Reserves and Balances) by the Depute Chief Executive (Finance). This report included a protocol for the operation of the Council's various Reserves and Balances, thereby addressing the first key requirement detailed in paragraph 10.1 above. The protocol on reserves was reviewed by officers as part of the 2013/14 budget process and was considered to remain relevant and fit for purpose. The protocol includes the following element which in itself addresses the second key requirement detailed in paragraph 10.1 above:

In the annual budget report that is considered by the Policy & Resources Committee on Council Tax setting day, the Director of Corporate Services shall include the following:

- i a statement showing the estimated opening and closing General Fund balances for the financial year ahead.
- ii a statement advising as to the adequacy of the General Fund balances over the budget period(s) under consideration, after taking into account the strategic, operational and financial risks facing the Council.
- iii a statement reporting on the annual review of earmarked Reserves.

10.3 In accordance with the element of the protocol that relates to the annual budget report, the following statements are made by the Director of Corporate Services:

i the Council's Audited Statement of Accounts 2013/14 showed a General Fund balance of £6.832m at 31 March 2014, excluding the amounts reserved for Car Parking and for schools participating in the Devolved School Management Scheme. No amounts were taken from balances when setting the 2014/15 Council Tax in February 2014. There were underspends in 2013/14 that related to committed projects that required to be carried forward and met from balances in 2014/15: these are currently estimated at £1.631m. Therefore, the effective level of uncommitted General Fund balances carried forward from 2013/14 is currently estimated at £5.201m. The 2014/15 expenditure monitoring currently projects an underspend of £0.045m. It will be necessary to fund some of the costs associated with the Voluntary Early Retirement/Voluntary Redundancy Schemes from General Fund balances in 2014/15. At this stage it is not possible to provide an accurate estimate of the amounts involved, however a figure of around £0.230m would appear to be reasonable.

Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2015 is estimated at £5.016m. There are no further known expenditure commitments or additional income that would materially affect this projected balances figure.

ii after taking into account the strategic, operational and financial risks facing the Council, it is considered that the minimum level of uncommitted balances that the Council should maintain is around £5.0m (around 1.5% of budgeted net expenditure). Accordingly, it is recommended that no amounts should be taken from General Fund balances when setting the 2015/16 Council Tax. It should be noted that, in their Report to Members on the 2013/14 audit, the Council's external auditor (KPMG) again made reference to the issue of reserves and balances. KPMG noted that, based on Audit Scotland's review of all 32 Scottish local authorities, the City Council continues to have the lowest level of uncommitted general reserves as a percentage of net revenue spend.

iii the Council's earmarked reserves (ie the Renewal & Repair Fund, Insurance Fund Reserve and Capital Fund) have all been reviewed and are considered to be adequate for their respective intended purposes.

10.4 In preparing the above statements, the Director of Corporate Services has taken into account the key strategic, operational and financial risks facing the Council over the period. The main factors considered were:-

- the anticipated short to medium term impact of the current financial climate including reductions in grant funding levels and reductions in chargeable income.
- the requirement to make significant savings and efficiencies over the short to medium term.
- the possibility of new cost pressures or responsibilities emerging during the course of the financial year.
- potential changes in service provision.
- the certainty of significant income streams.
- the inherent uncertainty surrounding matters such as pay awards, interest rates and price inflation.
- the impact of the Prudential Code for Capital Finance.
- the possibility of major items of unforeseen expenditure.
- the availability of general and specific Contingency provisions.
- the possibility of identifying further budget savings and efficiencies, if required.
- the adequacy of the Council's insurance arrangements.
- the on-going impact of Welfare Reforms, which is considered to be significant.

By way of exemplification, the following table shows the potential financial impact of any variations against the current key budget assumptions:

Budget Area	Current Assumption	Example Variation	Financial Impact
Pay Awards	1.5%	+0.1%	£211k
Price Inflation	Various	+0.1%	£190k
Interest Rates (CLF Average Rate)	4.2%	+0.1%	£320k
Government Grant Income	£291.5m	-1.0%	£2.9m
Chargeable Income	£15.7m	-1.0%	£157k

11.0 MEDIUM TERM FINANCIAL OUTLOOK & STRATEGY

11.1 The medium-term financial outlook was set out in report 23-2015 to the Policy & Resources Committee on 12 January 2015. The key conclusions drawn were as follows:

- Local Government in Scotland will experience funding cuts (in both cash and real terms) for the remainder of this decade
- the Council will continue to experience pressure on demand-led services in key areas such as Education and Social Work, due to demographic factors
- pay and prices inflation will require to be provided for and the updating of grant distribution factors will likely continue to work against the Council
- the Westminster Government's intention to withdraw the contracting-out rebate on employers national insurance contributions will add around £4.0 million to the Council's annual pay bill, from 2016/17 onwards

11.2 As stated in paragraph 9.2 above, it is estimated that the Council will require to identify further budget savings of around £22.7m over the two year period 2016-2018 in order to maintain a Council Tax freeze. Chief Officers will start to bring forward reports in due course, aimed at identifying budget savings that will contribute towards this overall target.

11.3 The key aspects of a medium term financial strategy for the Council to help address the challenges ahead were set out in the corresponding budget report to the Special Policy & Resources Committee on 13 February 2014 (report 83-2014 refers). For completeness, these are repeated below:

- the Council's corporate approach to identifying savings and efficiencies will be co-ordinated through the Changing for the Future Board in the first instance, with subsequent reports to the Policy & Resources Committee where relevant.
- the Council will set annual balanced budgets, taking on board the prevailing constraints eg continuation of Council Tax freeze, flat-cash 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.
- departments 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 departmental 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 departmental revenue budgets.
- 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 departmental revenue budgets.

- the initial costs associated with VERs / VRs will be met from General Fund Balances. Ongoing staff costs savings from VERs / VRs will be reflected in departmental 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 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.

12.0 PROVISION FOR NON-COLLECTION OF THE COUNCIL TAX

- 12.1 The Council Tax was introduced in 1993/94 and the current collection figures in respect of the financial years 1993/94 to 2013/14 inclusive show a collection rate of around 96.5% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2015/16 Council Tax requires to be decided by the Special Policy & Resources Committee on 12 February 2015. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2014/15. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2015/16 Council Tax.
- 12.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 49,881 for 2015/16. This represents a year-on-year increase of 545 Band D equivalent properties, reflecting current billing figures and the Review of Long Term Empty Property Discount (Article X of the Minute of Meeting of the Policy & Resources Committee on 8th December 2014, Report No 440-214 refers). The figure of 49,881 is before the provision for non-collection has been deducted. The Director of Corporate Services is firmly of the opinion that the allowance for non-collection provision cannot be lower than 3.2%.

13.0 CONCLUSION

- 13.1 This report provides members with the background information necessary to assist them in considering the final stages of setting the 2015/16 Revenue Budget and Council Tax.

14.0 POLICY IMPLICATIONS

- 14.1 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.

15.0 **CONSULTATION**

15.1 The Chief Executive and Head of Democratic and Legal Services have been consulted on the content of this report.

16.0 **BACKGROUND PAPERS**

16.1 Scottish Government Finance Circular 9/2014 (11 December 2014)

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4 FEBRUARY 2015

PROCEDURE FOR COUNCIL TAX SETTING DAY - 12 FEBRUARY 2015

<u>Date and Time</u>	<u>Action</u>
12 February 2015 3pm	Special Policy and Resources Committee meets.
Immediately after Capital Plan is agreed	<u>Revenue Budget and Council Tax</u> The Special Policy and Resources Committee will consider the City Council's 2015/16 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the 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 2015/16.

APPENDIX B

COST PRESSURES REFLECTED IN PROVISIONAL 2015/16 REVENUE BUDGET

<u>Department / Item</u>	<u>£m</u>
Education – 2.3% increase in teachers pension contributions	0.750
Social Work – cost pressures and demographic pressures	1.600
Staff Costs – 1.5% pay award wef from 1 April 2014	3.136
Various – inflationary uplift to 2014/15 base budget (net of 1% reduction in LGPS pension contributions)	1.037
Various – new monies / transfers included in revised grant settlement	5.304
Various – provision for additional holiday pay	0.362
Various – other various cost pressures and income shortfalls	<u>0.299</u>
	<u>12.488</u>

SAVINGS REFLECTED IN PROVISIONAL 2015/16 REVENUE BUDGET

<u>Department / Item</u>	<u>£m</u>
Education – slippage allowance for Secondary Staffing Budgets	(0.200)
Education – various other operational efficiencies	(0.110)
Social Work – savings in departmental management costs	(0.065)
Social Work – realignment of Early Years Change Fund	(0.200)
Social Work / Education – reduction in Residential Schools Fees due to lower number of placements	(0.465)
Social Work – efficiencies within Welfare Rights / Finance team	(0.032)
City Development – additional ERDF Grant for Business Gateway	(0.050)
City Development – VERs /non-filling of vacant posts	(0.252)
City Development – savings in Transport and Supplies & Services budgets	(0.125)
Environment – savings in Waste Disposal Costs	(0.315)
Environment - VERs /non-filling of vacant posts	(0.043)
Environment – efficiencies in service delivery in Construction Services	(0.080)
Environment – efficiencies within Skip & Container service	(0.025)
Chief Executive – reduction in Other Outlays budget	(0.020)
Chief Executive -VERs /non-filling of vacant posts in Communities Division	(0.082)
Chief Executive – various other savings and efficiencies	(0.057)
Corporate Services - non-filling of vacant posts across the department	(0.132)
Corporate Services – further savings from corporate approach to Debt Recovery	(0.100)
Corporate Services – VERs / VRs and Flexible Retirements across the department	(0.150)
Corporate Services – savings in Telephony costs	(0.025)
Corporate Services – various other savings and efficiencies	(0.175)
Other Housing – Housing Support Team now funded by HRA	(0.066)
Other Housing – staffing efficiencies within Anti Social Behaviour Team	(0.039)
Other Housing – reduction in charges to General Fund for Landlord Registration	(0.049)
Other Housing – adjustments to internal recharging	(0.100)
Corporate – impact of savings and efficiencies within Tayside Contracts	(0.200)
Corporate – removal of inflationary provision on Third Party Payments	(0.380)
Corporate – adjustment to requisition from Tayside Valuation Joint Board	<u>(0.016)</u>
	<u>(3.553)</u>