

## **ITEM No ...2(i).....**

**REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 21 FEBRUARY 2019**

**REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2019/20**

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

**REPORT NO: 72-2019**

### **1.0 PURPOSE OF REPORT**

1.1 To advise members of the current position regarding the 2019/20 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2019/20 Revenue Budget and Council Tax. The report also sets out the latest projections of savings and efficiencies that may be required over the next three financial years in order to deliver a balanced budget.

### **2.0 RECOMMENDATIONS**

It is recommended that the Committee:

2.1 notes the procedures for setting the 2019/20 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 7 January 2019 and as set out in Appendix A to this report.

2.2 notes the contents of the Provisional 2019-2022 Revenue Budget Volume.

2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2019/20, as detailed in paragraphs 4.1 to 14.1 of this report.

2.4 Notes the range of projected savings and efficiencies, as set out in paragraph 10.2 that may be required over the next three financial years in order to deliver a balanced budget.

### **3.0 BACKGROUND**

3.1 Report 339-2018 on the Financial Outlook for 2019-2022 was submitted to the Policy & Resources Committee on 19 November 2018 (Article XI of the minute of the meeting refers). Thereafter, the Policy & Resources Committee on 7 January 2019 considered report 18-2019 by the Executive Director of Corporate Services. (Article XIII of the minute of the meeting refers). This report detailed the Local Government Finance Settlement for 2019/20, as announced by the Cabinet Secretary for Finance, Economy and Fair Work on 12 December 2018. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (21 February 2019). These procedures are reproduced at Appendix A to this report.

### **4.0 PROVISIONAL REVENUE BUDGET 2019-2022**

4.1 The Council prepares three year revenue budgets, in response to audit recommendations around medium and longer term financial planning. 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. The outcome of this exercise is reflected in the Provisional 2019-2022 Revenue Budget Volume. The total Revenue Budget requirement for each of the three financial years is shown on page 1 of the volume and for 2019/20 the figure is £362.090m. 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 21 February 2019.

4.2 The Provisional 2019/20 Revenue Budget reflects a number of cost pressures and savings that have been identified through the 2018/19 revenue monitoring process, together with new cost pressures that will emerge in 2019/20. Details of these items are shown in Appendix B to this report.

#### 5.0 **DRAFT REVIEW OF CHARGES 2019/20**

5.1 A draft 2019/20 Review of Charges document has also been prepared. This shows additional income of £317,000 in 2019/20. The projected additional income is already included in the Provisional 2019/20 Revenue Budget. 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 21 February 2019. It should be noted that the Council remains responsible for setting charges for services that are now delivered through the Dundee Health & Social Care Partnership.

#### 6.0 **PAY AWARDS, PRICE INFLATION ETC**

6.1 The Provisional 2019/20 Revenue Budget includes an allowance of 3% for estimated pay awards in 2019 for all categories of staff, including Teachers. The Scottish Government has recently confirmed that it will fully fund its contribution to the additional cost of the Teachers' pay deal i.e. the cost over and above the 3% allowance. Allowance has also been made for the increased Scottish Local Government Living Wage and its consolidation, and for specific items of price inflation, where appropriate.

#### 7.0 **CONTINGENCY PROVISIONS**

7.1 A number of Contingency Provisions are included on page 5 of the Provisional 2019-2022 Revenue Budget Volume:

##### General Contingency (£500,000 in 2019/20)

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 Executive Director of Corporate Services is of the opinion that £500,000 represents the minimum level of General Contingency that the City Council should have in its 2019/20 Revenue Budget.

##### Various Unallocated New Monies (£3,699,000 in 2019/20)

Additional funding has been made available by the Scottish Government for new policy initiatives and new responsibilities arising from changes in legislation. This funding is being held centrally pending its allocation to the relevant services.

##### 2018 & 2019 Pay Award Pressures (£5,151,000 in 2019/20)

Service base budgets currently include provision for a 2% pay award in 2018 and 2019. This contingency provides for the anticipated additional costs of these pay awards and will be allocated to services once the pay awards have been agreed.

##### Energy Costs Inflation (£300,000 in 2019/20)

This contingency is held centrally for anticipated energy inflation costs.

##### Various Unallocated Savings (£1,866,000 in 2019/20)

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

#### 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 2019-2022 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2018 plus the net new

borrowing shown in the 2019-2024 General Services Capital Plan. The projected average annual interest rate is 4.0% for 2019/20. The Executive 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 2019/20 is estimated as follows:

	<b>2019/20</b> <b>£m</b>
General Revenue Funding – as announced	217.390
Non-Domestic Rates – as announced	64.307
Deduction for NDR - ALEO Properties (Barclay Review)	(0.465)
Estimate of funding yet to be announced *	<u>3.789</u>
	285.021
Additional Funding Announced 31 January 2019 **	<u>2.503</u>
	287.524
Ring-Fenced Grants	<u>17.188</u>
	<u>304.712</u>

\* This relates to funding for Teachers' Pensions, Teachers' Induction Scheme and Discretionary Housing Payments. The Council's share of the overall funding available has not yet been announced, however estimated amounts are included in the Provisional 2019/20 Revenue Budget.

\*\* Following further debate on the Scottish Budget Bill on 31 January 2019 an additional local government revenue settlement of £90m was announced. The City Council share of this will be £2.503m.

9.2 Other key changes announced on 31 January 2019 that impact on the Council's 2019/20 budget planning assumptions include:

- Councils will have the flexibility to offset their adult social care allocations to Integration Authorities in 2019/20 by 2.2% compared to 2018/19.
- Councils will have the flexibility to increase the Council Tax by 3% in real terms, which equates to 4.79% next year.
- The Scottish Government will fully fund its contribution to the cost of the Teachers' pay deal.
- The shortfall in funding for the additional cost of Teachers pension contributions is likely to be around 21%, rather than the figure of 33% that Councils are currently assuming.
- The Scottish Government intends to bring forward, early in the new financial year, changes to legislation which will allow Councils to vary loans fund repayments for advances made before 1 April 2016.

In addition, the Scottish Government has committed to make a number of changes to local government taxation between now and the end of the current parliamentary term in May 2021:

- To consult, in 2019, on the principles of a locally determined tourist tax, prior to introducing legislation to permit local authorities to introduce a transient visitor levy, if it is appropriate for local circumstances.
- To support an agreed amendment the Transport (Scotland) Bill that would enable those local authorities who wish to use such a power, to introduce a workplace parking levy.
- To devolve Non-Domestic Rates Empty Property Relief to local authorities in time for the next revaluation (2022).

- To convene cross-party talks on a replacement for the Council Tax system with a view to publishing legislation, should cross-party agreement on a replacement be reached, with that legislation taken forward in the following Parliament.

These changes to local government taxation do not impact on the Council's 2019/20 budget planning assumptions, however they will have an impact in the medium and longer term.

- 9.3 The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2019/20 and reflect the decisions expected to be taken by the Scottish Parliament on 21 February 2019. Estimated income from Ring-Fenced Grants is already included in the Provisional 2019/20 Revenue Budget. Accordingly, it is the sum of £287.524m that requires to be taken into account when setting the 2019/20 Council Tax.
- 9.4 The City Council's Revenue Funding Allocation for 2019/20 includes the following new monies:

	<b>2019/20 £m</b>
Access to Sanitary Products in Public Bodies	0.113
Whole System Approach in Criminal Justice Services	0.025
Removal of Charging for Child Burials	0.008
Carers Act Extension	0.301
Health & Social Care	<u>3.252</u>
	<u>3.699</u>

#### 10.0 BUDGET SAVINGS REQUIREMENTS

- 10.1 The Council requires to identify budget savings totalling £10.332m in order to set a balanced budget in 2019/20. As noted in paragraph 9.2 above, Councils now have the flexibility to increase the Council Tax by 3% in real terms, which equates to 4.79% in 2019/20. A 4.79% increase in the local Council Tax level would generate net additional income of around £2.453m, after allowing for the impact of additional Council Tax reductions. The corresponding figure for a 3% increase is £1.528m.
- 10.2 Page 1 of the Provisional 2019-2022 Revenue Budget Volume shows the current estimate of expenditure requirements over the three year period. Grant funding levels for 2020/21 and 2021/22 are not currently known (although the Scottish Government has recently committed to three year funding settlements, from next year's budget). It is therefore necessary to base projections of future funding levels on a range of scenarios, rather than a single, absolute assumption. Projections have been made based on four scenarios: flat cash and annual cash reductions of 1%, 2% and 3%. 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.

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 - Flat Cash Grant (£m)</u>	<u>Cum Savings Required - 1% Grant Reduction (£m)</u>	<u>Cum Savings Required - 2% Grant Reduction (£m)</u>	<u>Cum Savings Required - 3% Grant Reduction (£m)</u>
2019/20	10.3	10.3	10.3	10.3
2020/21	28.5	31.4	34.2	37.1
2021/22	38.3	43.9	49.5	55.1

As set out in the Council's medium term financial strategy, the corporate approach to identifying savings and efficiencies will be co-ordinated through the new Changing for the Future transformational programme (C2022).

## 11.0 RESERVES AND BALANCES

11.1 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.

11.2 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 11.1 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 11.1 above:

In the annual budget report that is considered by the Policy & Resources Committee on Council Tax setting day, the Executive 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.

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

- i the Council's Audited Statement of Accounts 2017/18 showed a General Fund balance of £13.0m at 31 March 2018, excluding the amounts reserved for Car Parking and for New Social Housing (from discount reductions on empty properties etc). No amounts were taken from balances when setting the 2018/19 Council Tax in February 2018. There were underspends in 2017/18 that related to committed projects that required to be carried forward and met from balances in 2018/19: these are currently estimated at £2.5m. In addition, a sum of £1.7m was ear-marked for the Organisational Change Fund and a sum of £1.8m was ear-marked to fund any future liabilities arising following the sale of the DERL Plant in November 2017. Therefore, the effective level of uncommitted General Fund balances carried forward from 2017/18 is currently estimated at £7.0m. The 2018/19 expenditure monitoring currently projects a break-even position.

The Council's medium term financial strategy states that 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.

Through on-going expenditure monitoring and prudent financial management across all of the Council's cash-backed reserves, the Council will aim to maintain the level of uncommitted General Fund balances at 31 March 2019 at the current level of £7.0m.

- 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 £7.0m (around 2.0% of budgeted net expenditure). Accordingly, it is recommended that no amounts should be taken from General Fund balances when setting the 2019/20 Council Tax. It should be noted that, in their Report to Members on the 2017/18 audit, the Council's external auditor (Audit Scotland) again made reference to the relatively low level of uncommitted reserves held by the Council. As at 31 March 2018, the City Council had the lowest level of usable 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.

11.4 In preparing the above statements, the Executive 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 core grant funding levels and reductions in chargeable income.
- the exact terms and impact of the UK's withdrawal from the European Union (Brexit), including the impact on economic growth and the level of taxation revenues available to fund public services.
- 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	3%	+0.1%	£230k
Price Inflation	Various	+0.1%	£220k
Interest Rates (CLF Average Rate)	4.0%	+0.1%	£423k
Government Grant Income	£287.5m	-1.0%	£2.9m
Chargeable Income	£17.9m	-1.0%	£179k

## 12.0 **MEDIUM TERM FINANCIAL OUTLOOK & STRATEGY**

- 12.1 The 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.
- 12.2 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 was set out in Report 339-2018 and also in Report 18-2019 (Local Government Finance Settlement 2019/20 and Financial Implications for the City Council) which was submitted to the Policy & Resources Committee on 7 January 2019.
- 12.3 It is anticipated that an update report on the medium term financial outlook and strategy will be submitted to the Policy & Resources Committee later in 2019.

## 13.0 **PROVISION FOR NON-COLLECTION OF THE COUNCIL TAX**

- 13.1 The Council Tax was introduced in 1993/94 and the current collection figures in respect of the financial years 1993/94 to 2017/18 inclusive show a collection rate of around 96.6% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2019/20 Council Tax requires to be decided by the Special Policy & Resources Committee on 21 February 2019. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2018/19. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2019/20 Council Tax.
- 13.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 51,922 for 2019/20. The figure of 51,922 is before the provision for non-collection has been deducted. The Executive Director of Corporate Services is firmly of the opinion that the allowance for non-collection provision cannot be lower than 3.2%.

## 14.0 **BUDGETS DELEGATED TO DUNDEE HEALTH & SOCIAL CARE PARTNERSHIP**

- 14.1 Budgets totalling c£79.2 million in 2019/20 will be delegated to the Dundee Health & Social Care Partnership, including budgets currently held in Contingencies in respect of new monies and pay awards. These budgets include assumptions for various inflationary pressures, including pay awards. The Dundee Integration Joint Board will agree its 2019/20 Revenue Budget in March 2019.

## 15.0 **CAPITAL PLAN**

- 15.1 A Capital Plan covering the 5 year period 2019 to 2024 was submitted to the Policy & Resources Committee on 10 December 2018 (Article II of the minute of the meeting refers). The 2019-2024 Capital Plan has been reviewed by officers in light of the Council's Capital Grant figure for 2019/20 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.

## 16.0 **CONCLUSION**

- 16.1 This report provides members with the background information necessary to assist them in considering the final stages of setting the 2019/20 Revenue Budget and Council Tax.

**17.0 POLICY IMPLICATIONS**

17.1 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.

**18.0 CONSULTATION**

18.1 The Council Management Team has been consulted and is in agreement with the content of this report.

**19.0 BACKGROUND PAPERS**

19.1 Scottish Government Finance Circular 8/2018 (17 December 2018)  
Letter from Cabinet Secretary for Finance, Economy & Fair Work to COSLA President (31 January 2019)

**GREGORY COLGAN  
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**11 FEBRUARY 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.



**APPENDIX B**

**COST PRESSURES REFLECTED IN PROVISIONAL 2019/20 REVENUE BUDGET**

<u>Service / Item</u>	<u>£m</u>
Children & Families – increase in teachers’ pension contribution rate	2.900
Children & Families – Active Schools programme	0.056
DHSCP – additional posts	0.100
City Development / Chief Executive – loss of rental income from Dundee University for DCA	0.160
City Development / Chief Executive – property and operational costs for new Regional Performance Centre	0.424
City Development – cost pressures in property maintenance	0.699
City Development – property costs for new Menzieshill Community Centre	0.228
City Development – additional marketing budget for Dundee Waterfront	0.100
Neighbourhood Services – community safety resilience post	0.055
Neighbourhood Services – Public Open Spaces Fund (one-off saving in 2018/19)	0.391
Corporate Services – reduction in housing benefit administration grant	0.100
Chief Executive – UNESCO City of Design	0.060
Chief Executive – lease costs for gym equipment	0.014
Chief Executive – re-allocation of CRF budgets between revenue and capital resources	0.030
Chief Executive – establishment of City marketing budget	0.100
Various – shortfall in provision for 2018 pay award	1.150
Various – 3% pay award wef from 1 April 2019 (including LACD)	6.748
Various – inflationary uplift to 2018/19 base budget (net of income uplift)	1.881
Various – new monies included in grant settlement	3.699
Contingencies – increase in energy costs	0.300
Various – other miscellaneous cost pressures	<u>0.002</u>
	<u>19.197</u>

**SAVINGS REFLECTED IN PROVISIONAL 2019/20 REVENUE BUDGET**

<u>Service / Item</u>	<u>£m</u>
Children & Families / City Development– new North East School Campus	(0.115)
Children & Families - savings from review of school technician service	(0.027)
Children & Families – savings in residential schools and secure care costs	(0.312)
Children & Families – additional income from adult meals	(0.020)
Children & Families – reduction in central staffing costs	(0.067)
City Development – savings from conversion of street lighting to LED	(0.291)
City Development – abolition of Carbon Reduction Commitment tax	(0.350)
City Development – savings in various supplies & services budgets	(0.025)
City Development – savings within employability and working for families budgets	(0.120)
City Development – savings in urban traffic control budget	(0.010)
City Development – additional income from architects and engineers fees	(0.160)
City Development – additional car parking income to reflect review of charges	(0.135)
City Development – additional income from planning and building warrant fees	(0.070)

City Development – additional income from assignments, wayleaves and other miscellaneous fees	(0.025)
Neighbourhood Services – staff costs savings from structure reviews, deletion of vacant posts etc	(0.609)
Neighbourhood Services - savings in budget for private sector improvement grants and buy-backs	(0.100)
Neighbourhood Services – removal of budget for dog litter bags	(0.016)
Neighbourhood Services – reallocation of costs for multi storey tenancy team and anti-social behaviour team	(0.141)
Neighbourhood Services – savings in contractual overtime	(0.061)
Chief Executive – savings in staffing budgets	(0.043)
Chief Executive – additional income from National Entitlement Card project and other projects	(0.055)
Chief Executive – savings in subscriptions budget	(0.007)
Corporate Services – staff costs savings from structure reviews, deletion of vacant posts etc	(0.634)
Corporate Services – savings in various information technology budgets	(0.080)
Corporate Services – saving in various supplies and services budgets across the service	(0.100)
Construction Services – increased surplus	(0.350)
Corporate – savings in loan charges arising from capital spend profile in 2019-2024 Capital Plan and from re-profiling of capital receipts	(1.900)
Corporate – savings in budget for Council Tax Reduction Scheme, to reflect current level of reductions	(0.351)
Corporate – reduction in Tayside Valuation Joint Board requisition	(0.061)
Corporate – removal of budget for Level Playing Field Support payment to Angus Council	(0.249)
Various – full year effect of savings agreed in previous years	(1.303)
Various – other miscellaneous savings	(0.014)
Various – removal of inflationary allowance on third party payments	<u>(0.391)</u>
	<u>(8.192)</u>