

REPORT TO: POLICY & RESOURCES COMMITTEE – 24 FEBRUARY 2020

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2020/21 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 74-2020

1.0 PURPOSE OF REPORT

1.1 This report advises elected members of the announcement made by the Minister for Public Finance and Digital Economy on 6 February 2020 in respect of the Local Government Finance Settlement for 2020/21. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2020-2023 Revenue Budget and 2020-2025 Capital Plan. The Council's long-term financial 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 2020/21, as announced by the Minister for Public Finance and Digital Economy on 6 February 2020, 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 Minister for Public Finance and Digital Economy in a letter to COSLA dated 6 February 2020 (and as detailed in Section 5 of this report).
- 2.4 Notes the current position on the Council's Provisional 2020-2023 Revenue Budget and 2020-2025 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 5 March 2020.
- 2.6 Agrees the procedures to be followed for setting the 2020/21 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 £16.8 million in order to achieve a balanced budget in 2020/21. Councils have the flexibility to increase Council Tax levels by up to 4.84% (3% in real terms). A 4.84% increase in the local Council Tax level would generate net additional income of around £2.5 million, after allowing for the impact of additional Council Tax reductions.

4.0 BACKGROUND

4.1 The Scottish Government's second Medium Term Financial Strategy, setting out the key financial challenges and opportunities that lie ahead, was published in late May 2019. A report on the Long-Term Financial Outlook & Financial Strategy 2020-2030 was submitted to the Policy & Resources Committee on 19 August 2019 (Report 274-2019, Article XII refers). An announcement regarding the 2020/21 Scottish Budget was made by the Minister for Public Finance and Digital Economy on 6 February 2020. Current assumptions are that the Chancellor of the Exchequer will make his delayed 2020/21 Budget announcements in the Westminster Parliament on 11 March 2020, including the block allocations for the devolved administrations.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2020/21

5.1 On 6 February 2020, an announcement regarding the draft 2020/21 Scottish Budget was made in the Scottish Parliament by the Minister for Public Finance and Digital Economy. This announcement included figures in respect of the Local Government Finance Settlement for 2020/21 (no provisional allocations were issued for later years). These figures have been confirmed in Local Government Finance Circular 1/2020, issued by the Scottish Government on the same day. The figures are provisional at this stage and are subject to consultation between the Scottish Government and COSLA. The Local Government Finance (Scotland) Order is due to be debated by the Scottish Parliament in late February / early March 2020, as part of the wider parliamentary process for finalising the 2020/21 Scottish Budget.

5.2 The revenue grant total figures for all Scotland for 2020/21 are as follows:

	<u>2020/21</u> <u>£m</u>
Updated Service Provision	11,929.161
2008-2021 Changes	204.119
Loan Charges & PPP Schemes Support	484.433
Main Floor	-
Total Estimated Expenditure (TEE)	12,617.713
Assumed Council Tax Contribution	(2,106.151)
85% Floor	8.400
Total Distributable Revenue Support	<u>10,519.962</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 2020/21.

Within the 2020/21 funding envelope 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 distributed:

	<u>2020/21</u> <u>£m</u>
Teachers' Induction Scheme	37.600
Discretionary Housing Payments	11.949
Mental Health Officer Shortfall	0.500
Barclay Review - Implementation	0.378

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. During 2019 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 The Minister for Public Finance and Digital Economy wrote to COSLA on 6 February 2020 confirming the package of measures that make up the settlement to be provided to local government in return for the provisional funding amounts for 2020/21. For 2020/21, the Scottish Government will work in partnership with local government to implement the budget and joint priorities in return for the full funding package which the Minister has stated includes:

- an additional £201 million revenue funding to support the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours by 2020, together with £121.1 million capital funding
- £100 million to be transferred from the health portfolio to the Councils in-year for investment in health and social care integration and mental health services, including continued delivery of the real Living Wage, uprating of free personal and nursing care payments, implementation of the Carers Act and school counselling services.
- baselining of the £90 million additional revenue funding added last year at Stage 1 of the Budget Bill for 2019/20.
- the ongoing £88 million to maintain the pupil teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme.
- provision for the teachers' pay award (£156 million) and additional pension costs (£97 million).
- £5.3 million for Barclay implementation costs.
- a new capital £50 million Heat Networks Early Adopters Challenge Fund to support local authorities who are ready to bring forward investment-ready heat networks.

Individual local authorities will, in return for this settlement, be expected to deliver certain commitments. For 2020/21, local authorities will have the flexibility to increase Council Tax by up to a maximum of 4.84% (3% in real terms). Also, the total additional funding of £100 million allocated to Health and Social Care and Mental Health is to be additional to each Council's 2019/20 recurring budgets for these services and not substitutational.

5.5 In terms of capital funding for 2020/21, the total support within the settlement from the Scottish Government is £763.141 million. This includes £121.1 million to support expansion in ELC and a new £50 million Heat Networks Early Adopters Challenge Fund.

5.6 The Scottish Government has made its 2020/21 Budget announcement in advance of the delayed UK Budget announcement, which it is currently assumed will take place on 11 March 2020. The parliamentary process for the Scottish Budget Bill is due to conclude on 5 March 2020. This has introduced a further element of risk into the budgeting process inasmuch as the Scottish Government does not yet know the total funding that will be available to Scotland for 2020/21. As yet, there is no confirmation of the Barnett consequentialities that will flow from changes in UK Government departmental expenditure. Further, updated economic and tax forecasts (issued with the UK Budget) are needed to finalise the block grant adjustments that impact on over 30% of the Scottish Government's resource budget. The Scottish Government has advised that it has taken a cautious approach in estimating the likely outcome of the UK Budget but, if the settlement from the UK Government is significantly different from assumptions, then the Scottish Government may have to revisit the allocations made to Councils.

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>2020/21</u> £m
Updated Service Provision	347.548
2008-2021 Changes	5.671
Loan Charges & PPP Schemes Support	10.101
Main Floor	<u>1.485</u>
Total Estimated Expenditure (TEE)	364.805
Assumed Council Tax Contribution	(47.386)
85% Floor	-
Total Distributable Revenue Support	<u>317.419</u>

6.2 The updating of the needs-based indicators in the grant distribution calculation (see paragraph 5.3 above) has been detrimental in terms of the Council's 2020/21 grant allocation. As expected, the Council has also suffered a reduction of £4.8 million in support for loan charges, to reflect the pattern

of repayment of the Council's debt. The Scottish Government has, however, continued the grant support for teachers' additional pension costs and the Council will receive £2.6 million in 2020/21 to help offset this cost pressure.

- 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 2020/21 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 2020/21. The Council's GRF/NDR total for 2020/21, as set out in Local Government Finance Circular 1/2020, is £294.441 million. This figure 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 2020/21.
- 6.4 The Council's total Capital Grants figure for 2020/21 is £17.393 million. The Council may also receive an allocation from the new £50 million Heat Networks Early Adopters Challenge Fund.

7.0 PROVISIONAL REVENUE BUDGET 2020-2023

- 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 2020-2023. This has involved rolling forward the Final 2019/20 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Recurring cost pressures and savings that have been identified through the 2019/20 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in the period 2020-2023. This is an on-going process, with clarity still emerging around certain elements of the funding package. The Provisional 2020-2023 Revenue Budget volume (including Review of Charges) will be issued later in February 2020.
- 7.2 Based on current assumptions, the Council will require to identify budget savings totalling around £16.8 million in order to achieve a balanced budget in 2020/21. Councils have the flexibility to increase Council Tax levels by up to 4.84% (3% in real terms). A 4.84% increase in the local Council Tax level would generate net additional income of around £2.5 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 2020/21 Revenue Budget and these will have a positive impact in terms of reducing the £16.8 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 2020-2023 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 2020/21 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 5 March 2020.
- 7.5 An update on the projected savings requirement over the three year period 2020-2023 will be included in the report to be submitted to the Special Policy & Resources Committee on 5 March 2020.

8.0 LONG-TERM FINANCIAL OUTLOOK & 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 & Resources Committee on 19 August 2019 (article XII refers). The approved long-term financial strategy, as set out in Report 274-2019, is 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 & 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 & 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 & Resources Committee.
 - proposals for service re-design and service development will be underpinned by a comprehensive and robust business case, including options appraisal.
- 8.2 The Council's Medium-Term 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.
- 8.3 It is anticipated that an update report on the long term financial outlook and financial strategy will be submitted to the Policy & Resources Committee later in 2020.

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 2019/20 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 £49.119 million from the Non-Domestic Rates Pool in 2020/21.

9.2 The Scottish Government has advised that the 2020/21 Non-Domestic Rate Poundage for Scotland has been provisionally set at 52.4 pence for properties with a rateable value above £95,000. This represents a year-on-year increase of 1.6%. The Scottish Government has introduced a new Intermediate Rate of 51.1 pence for properties with a rateable value between £51,000 and £95,000. As a result, the rates liabilities for properties in this new banding will be reduced. The Council will make appropriate provision for non-domestic rates on its own properties within the 2020/21 Provisional Revenue Budget.

10.0 CAPITAL PLAN 2020-2025

10.1 An updated Capital Plan, covering the 5 year period 2020 to 2025, is included separately on the agenda for the Policy & Resources Committee on 24 February 2020 (Report No 61-2020 refers). This updated Capital Plan reflects the budget announcements in respect of capital funding, made by the Minister for Public Finance and Digital Economy on 6 February 2020. It should be noted that these announcements include additional capital funding of £7.5m in 2019/20 for the Michelin Scotland Innovation Parc joint project.

11.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2020/21

11.1 The proposed procedure for setting the 2020/21 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 2020/21 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 2 March 2020 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 5 March 2020.

11.3 If there are any further technical adjustments required to the 2020/21 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 5 March 2020. 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 2020/21 Revenue Budget and Council Tax level on 5 March 2020 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 Local Government Finance Circular 1/2020 (6 February 2020)
Scottish Government Letter to COSLA (6 February 2020)

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

17 FEBRUARY 2020

PROCEDURE FOR POLICY & RESOURCES COMMITTEE – 5 MARCH 2020**Date and Time****Action****5 March 2020
3pm****Revenue Budget and Council Tax**

The Special Policy and Resources Committee will consider the Council's 2020/21 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 2020/21.