

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 13 FEBRUARY 2014

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2014/15

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 83-2014

1.0 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2014/15 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2014/15 Revenue Budget and Council Tax.

2.0 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 notes the procedures for setting the 2014/15 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 28 October 2013 and as set out in Appendix A to this report
- 2.2 notes the contents of the Provisional 2014/15 Revenue Budget Volume
- 2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2014/15, as detailed in paragraphs 4.1 to 12.2 of this report

3.0 BACKGROUND

- 3.1 The Policy & Resources Committee on 13 January 2014 considered Report 34-2014 by the Director of Corporate Services. This report detailed the revised Local Government Finance Settlement for 2014/15, as announced by the Cabinet Secretary for Finance, Employment & Sustainable Growth on 11 December 2013. The report also detailed the previously agreed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (13 February 2014). These procedures are reproduced at Appendix A to this report.

4.0 PROVISIONAL REVENUE BUDGET 2014/15

- 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 2014/15. The outcome of this exercise is reflected in the Provisional 2014/15 Revenue Budget Volume. The total Revenue Budget requirement for 2014/15, as shown on page 1 of the volume, is £348.283m. 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 13 February 2014.
- 4.2 The Provisional 2014/15 Revenue Budget reflects a number of cost pressures and savings that have been identified through the 2013/14 revenue monitoring process, together with new cost pressures that will emerge in 2014/15 and transfers of responsibility. Details of these items are shown in Appendix B to this report.

5.0 DRAFT REVIEW OF CHARGES 2014/15

- 5.1 A draft 2014/15 Review of Charges document has also been prepared. This shows additional income of £227,000 in 2014/15. The projected additional income is already included in the Provisional 2014/15 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 13 February 2014.

6.0 PAY AWARDS, PRICE INFLATION ETC

6.1 The Provisional 2014/15 Revenue Budget Volume includes a 1% allowance for pay awards in 2014 for all categories of staff, including Teachers. Allowance has also been made for the increased National Living Wage of £7.65 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 2014/15 Revenue Budget Volume:

General Contingency (£628,000 in 2014/15)

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 £628,000 represents the minimum level of General Contingency that the City Council should have in its 2014/15 Revenue Budget.

Energy Costs (£289,000 in 2014/15)

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

Various Unallocated Savings (£871,000 in 2014/15)

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

New Monies – Children & Young People Bill (£1,370,000 in 2014/15)

Additional revenue and capital funding has been made available by the Scottish Government to support the implementation of this key piece of legislation. The above funding represents the revenue funding which will be allocated to the Social Work and Education departments in due course.

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 2014/15 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2013 plus the net new borrowing shown in the 2014-2018 General Services Capital Plan, which is also being submitted for approval to the Special Policy & Resources Committee on 13 February 2014. The projected average annual interest rate is 4.3% for 2014/15. 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 2014/15 is estimated as follows:

	2014/15 £m
General Revenue Funding – as announced	216.097
Non-Domestic Rates – as announced	<u>59.025</u>
	275.122
Estimate of funding yet to be announced *	<u>11.604</u>
	<u>286.726</u>

* This relates to funding for the Council Tax Reduction Scheme and from the Scottish Welfare Fund. The Council's share of the overall funding available has not yet been announced, however estimated amounts are included in the Provisional 2014/15 Revenue Budget Volume.

The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2014/15 and reflect the decisions expected to be taken by the Scottish Parliament in February 2014. The total of £286.726m requires to be taken into account when setting the 2014/15 Council Tax.

- 9.2 The Council requires to identify budget savings totalling £3.723m in order to achieve a Council Tax freeze in 2014/15. Going forward, it is estimated that the Council will require to identify further budget savings of around £7.8m in 2015/16 in order to achieve a Council Tax freeze for that year.

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 an update in November 2008), 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 2012/13 showed a General Fund balance of £8.460m at 31 March 2013, 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 2013/14 Council Tax in February 2013. There were underspends in 2012/13 that related to committed projects that required to be carried forward and met from balances in 2013/14: these are currently estimated at £1.468m. At 31 March 2013 the Council held balances of £1.388m in respect of Police which have subsequently been returned to the Scottish Government. Therefore, the effective level of uncommitted General Fund balances carried forward from 2012/13 is currently estimated at £5.604m. The 2013/14 expenditure monitoring currently projects an underspend of £0.050m. It will be

necessary to fund some of the costs associated with the Voluntary Early Retirement/Voluntary Redundancy Schemes from General Fund balances in 2013/14. At this stage it is not possible to provide an accurate estimate of the amounts involved, however a figure of around £0.700m would appear to be reasonable.

Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2014 is estimated at £4.954m. 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 2014/15 Council Tax. It should be noted that, in their Report to Members on the 2012/13 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	1.0%	+0.1%	£195k
Price Inflation	Various	+0.1%	£200k
Interest Rates (CLF Average Rate)	4.3%	+0.1%	£190k
Government Grant Income	£286.7m	-1.0%	£2.9m
Chargeable Income	£11.6m	-1.0%	£116k

11.0 LOOKING AHEAD: THE COUNCIL'S MEDIUM TERM FINANCIAL STRATEGY

- 11.1 In September 2013, the Cabinet Secretary for Finance, Employment & Sustainable Growth made announcements in the Scottish Parliament in respect of the Scottish Government Draft Budget for 2014/15 and 2015/16. This included high level figures for the Local Government portfolio which continued the broad trend of flat cash settlements. Local government grant figures for the three year period 2012-2015 were first announced in December 2011 and had been subsequently updated at various points. This was, however, the first time that figures had been announced for the 2015/16 financial year. The Scottish Government Draft Budget announcement followed on from the Westminster Government's Spending Review for 2015/16. In normal circumstances, 2015/16 would mark the beginning of a new three year spending review period (covering 2015-2018). In light of the likely UK election in Spring 2015, however, the Spending Review was restricted to one year with the next Spending Review expected to be undertaken in mid-to-late 2015.
- 11.2 Grant allocations to individual Councils for 2014/15 were announced in December 2013, however no allocation of the 2015/16 high level figures has yet been decided. As noted in paragraph 9.2 above, it is estimated that the Council will require to identify further budget savings of around £7.8m in 2015/16 in order to achieve a Council Tax freeze for that year. This figure is based on a number of assumptions regarding the variables in the budget calculations. It will be appreciated that the government grant allocation is a key variable and the lack of firm (or even indicative) allocations beyond 2014/15 inhibits future financial planning to some extent. Nonetheless it is considered that the Council should seek to develop a medium term financial strategy, in line with external audit recommendations and good practice generally.
- 11.3 The key aspects of a medium term financial strategy for the Council are set out as follows:
- 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 5-year 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 2012/13 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 2014/15 Council Tax requires to be decided by the Special Policy & Resources Committee on 13 February 2014. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2013/14. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2014/15 Council Tax.
- 12.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 49,336 for 2014/15. The figure of 49,336 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 2014/15 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 6/2013 (11 December 2013)

PROCEDURE FOR COUNCIL TAX SETTING DAY - 13 FEBRUARY 2014

<u>Date and Time</u>	<u>Action</u>
13 February 2014 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 2014/15 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 2014/15.

APPENDIX B

COST PRESSURES REFLECTED IN PROVISIONAL 2014/15 REVENUE BUDGET

Department / Item	£m
Education – Barnhill PS Extension (additional property costs)	0.054
Education – reduction in income due to cessation of Music Tuition fees	0.088
Social Work – cost pressures, demographic pressures and contributions to new Change Funds	3.422
City Development – increase in Carbon Reduction Commitment liability	0.155
Communities & Policy – Dundee Ice Arena	0.147
Corporate Services – reduction in Housing Benefit admin grant	0.058
Corporate Services – loss of income from Police & Fire	0.083
Corporate – reduction in share of Tayside Contracts surpluses	0.064
Various – 1% pay award wef from 1 April 2014	1.948
Various – inflationary uplift to 2013/14 base budget	0.809
Various – new monies / transfers included in revised grant settlement	1.806
Various – other various cost pressures and income shortfalls	1.141
	9.775

SAVINGS REFLECTED IN PROVISIONAL 2014/15 REVENUE BUDGET

Department / Item	£m
Education – rates savings on facilities leased to LACD	(0.138)
Education – various operational efficiencies	(0.085)
Social Work – various operational savings and efficiencies	(0.089)
Social Work – increased number of in-house foster carers	(0.180)
Social Work / Education – reduction in Residential Schools fees due to lower number of placements	(0.400)
City Development – savings and efficiencies in Architectural Services	(0.219)
City Development – reduction in expenditure on Partnership Projects	(0.045)
City Development – savings and efficiencies in Street Lighting	(0.100)
City Development – reduction in net cost of Convention Bureau	(0.040)
City Development – savings and efficiencies in Engineering Services	(0.125)
City Development – reduction in Sustainable Transport budget	(0.090)
City Development – VERs / non-filling of vacant clerical posts	(0.072)
City Development - various other savings and efficiencies	(0.104)
Environment – efficiencies in service delivery in Construction Services	(0.050)
Environment – reduction in expenditure on Cyclone Ash disposal	(0.100)
Environment – reduction in expenditure on Zero Waste Fund projects	(0.180)
Environment - various items of additional income	(0.040)
Chief Executive – reduction in staff costs for Capital Projects Team	(0.068)
Chief Executive – reduction in expenditure on Consumer Survey	(0.005)
Corporate Services – savings from increased public use of online facilities	(0.054)
Corporate Services – Network and Telephony savings	(0.060)
Corporate Services – VERs / non-filling of vacant posts	(0.090)
Corporate Services – savings in Software costs	(0.100)
Corporate Services – savings from corporate approach to Debt Recovery	(0.150)
Corporate Services – additional income from Scottish Water	(0.100)
Corporate Services - various other savings and efficiencies	(0.040)
Other Housing – reduction in net cost of Private Sector Housing Grants	(0.333)
Corporate – reduction in cost of Contract Car Hire Scheme	(0.055)
Corporate – reduction in Mail costs	(0.014)
Corporate – savings in Loan Charges due to lower interest rates	(0.500)
Corporate – reduction in Supplementary Superannuation costs	(0.079)
Corporate – reduction in cost of Council Tax Reduction Scheme	(0.200)
	(3.905)