

**REPORT TO: POLICY & RESOURCES COMMITTEE – 08 JANUARY 2018**

**REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL**

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

**REPORT NO: 9-2018**

## **1.0 PURPOSE OF REPORT**

1.1 This report advises elected members of the announcement made by the Cabinet Secretary for Finance and the Constitution on 14 December 2017 in respect of the Local Government Finance Settlement for 2018/19. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2018/19 Revenue Budget and 2018-2023 Capital Plan. The Council's medium-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 2018/19, as announced by the Cabinet Secretary for Finance and the Constitution on 14 December 2017, 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 Cabinet Secretary for Finance and the Constitution in a letter to COSLA dated 14 December 2017 (and as detailed in Section 5 of this report).

2.4 Notes the current position on the Council's Provisional 2018/19 Revenue Budget and 2018-2023 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 22 February 2018.

2.6 Agrees the procedures to be followed for setting the 2018/19 Revenue Budget and Council Tax level, as set out in Section 11 and Appendix 1 of this report.

2.7 Notes the medium-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 £15.7 million in order to achieve a balanced budget in 2018/19. Councils have the flexibility to increase Council Tax levels by up to 3%. A 3% increase in the local Council Tax level would generate net additional income of around £1.5 million, after allowing for the impact of additional Council Tax reductions.

3.2 The savings requirement of £15.7 million is predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement.

#### 4.0 BACKGROUND

4.1 The Chancellor of the Exchequer made his 2017 Autumn Budget announcements in the Westminster Parliament on 22 November 2017, including the block allocations for the devolved administrations. Report 439-2017 on the Financial Outlook for 2018-2021 was submitted to the Policy & Resources Committee on 11 December 2017. Following on from this, an announcement regarding the 2018/19 Scottish Budget was made by the Cabinet Secretary for Finance and the Constitution on 14 December 2017.

#### 5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19

5.1 On 14 December 2017, an announcement regarding the draft 2018/19 Scottish Budget was made in the Scottish Parliament by the Cabinet Secretary for Finance and the Constitution. This announcement included figures in respect of the Local Government Finance Settlement for 2018/19. These figures have subsequently been confirmed in Local Government Finance Circular 5/2017, issued by the Scottish Government on 14 December 2017. 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 2018, as part of the wider parliamentary process for finalising the 2018/19 Scottish Budget.

5.2 The revenue grant total figures for all Scotland for 2018/19 are as follows:

	<u>2018/19</u> <u>£m</u>
Updated Service Provision	10,693.012
2008-2019 Changes	201.175
Loan Charges & PPP Schemes Support	570.416
Main Floor	-
Total Estimated Expenditure (TEE)	11,464.603
Assumed Council Tax Contribution	(2,072.802)
85% Floor	<u>8.700</u>
Total Distributable Revenue Support	<u>9,400.501</u>

When adjusted to a “like-for-like” basis, the grant settlement for 2018/19 reflects an overall year-on-year reduction at national level of 0.3% in cash terms and 1.8% in real terms (SPICe Briefing, 18 December 2017). Within the 2018/19 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>2018/19</u> <u>£m</u>
Teachers' Induction Scheme	37.469
Discretionary Housing Payments	52.100
Criminal Justice Social Work (specific grant)	86.450
Early Years Expansion	52.200

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.

5.4 The Cabinet Secretary for Finance and the Constitution wrote to COSLA on 14 December 2017 confirming the package of measures that make up the settlement to be provided to local government in return for the provisional funding amounts for 2018/19. For 2018/19, 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 Cabinet Secretary has stated includes:

- baselining from 2018/19 of the £130 million additional revenue investment announced earlier this year at Stage 1 of the Budget Bill for 2017/18.
- £52.2 million revenue and £150 million capital to deliver on the joint agreed ambitious programme for the expansion of Early Years Education and Childcare provision. This is in addition to the £11 million of revenue which has been added to support the initial expansion of Early Years set out in the 2014 Act provisions.
- an additional £24 million to cover the additional full year cost of the teachers' pay offer for 2017/18.
- a continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the Teacher Induction Scheme. Local authorities will continue to be required to maintain an overall pupil:teacher ratio of 13:7, and secure places for all probationers who require one under the Teacher Induction Scheme.
- an additional £66 million to support additional investment in social care in recognition of a range of pressures local authorities are facing, including support for the implementation of the Carers (Scotland) Act 2016, maintaining the joint commitment to the Living Wage (including the agreement to now extend it to cover sleepovers following the further work we have undertaken) and an increase in the Free Personal and Nursing Care payments.
- maintenance of the £355 million baseline transfer from NHS Boards to Integration Authorities in support for health and social care.
- the continued flexibility to increase Council Tax by up to 3% which could generate an additional £77 million.

In order to access all of the benefits involved, including those priorities supported by specific financial benefits, local authorities must agree to deliver all of the measures set out in the package and will not be able to select elements of the package (although it should be noted that any increase in Council Tax levels by up to 3% is at the discretion of Councils and is not mandatory). Any individual authority not intending to agree the offer and accept the full package of measures and benefits has been asked to notify the Cabinet Secretary for Finance and the Constitution by 19 January 2018. For those authorities not agreeing the offer a revised, and inevitably less favourable, offer will be made.

5.5 In terms of capital funding for 2018/19, the total support within the settlement from the Scottish Government is £876.4 million. This includes £150 million additional capital funding for early years expansion which is still to be distributed between Councils. The total funding figure does not, however, include any of the re-profiling reduction of £150 million made in

2016/17. The Scottish Government has stated that this £150 million will be added back to the Local Government capital allocation in 2019/20.

- 5.6 Alongside the 2018/19 Budget, the Scottish Government also published its 2018/19 Public Sector Pay Policy. This includes a 3% pay increase for those earning less than £30,000; caps the pay bill at 2% for all those earning more than £30,000; and limits the maximum pay uplift for those earning over £80,000 to £1,600. The Public Sector Pay Policy does not apply directly to local authorities, however it is noted that the Scottish Government have stated that: "This policy also acts as a benchmark for all major public sector workforce groups across Scotland."

## 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>2018/19</u> <u>£m</u>
Updated Service Provision	313.159
2008-2019 Changes	5.602
Loan Charges & PPP Schemes Support	18.570
Main Floor	<u>(4.405)</u>
Total Estimated Expenditure (TEE)	332.926
Assumed Council Tax Contribution	(47.467)
85% Floor	-
Total Distributable Revenue Support	<u>285.459</u>

When adjusted to a "like-for-like" basis, the grant settlement for the Council for 2018/19 reflects an overall year-on-year increase of 0.7% in cash terms, but a 0.8% reduction in real terms (SPICe Briefing, 18 December 2017).

- 6.2 The updating of the needs-based indicators in the grant distribution calculation (see paragraph 5.3 above) has again been marginally favourable in terms of the Council's 2018/19 grant allocation.
- 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 2018/19 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 2018/19. The Council's GRF/NDR total for 2018/19, as set out in Local Government Finance Circular 5/2017, is £280.524 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 2018/19.
- 6.4 The Council's total Capital Grants figure for 2018/19 is £20.360 million. The Council will also receive a share of the £150 million additional capital funding that has been provided for early years expansion.

## 7.0 PROVISIONAL REVENUE BUDGET 2018-2021

- 7.1 As noted in report 439-2017 the Council will prepare three year revenue budgets going forward, in response to audit recommendations. 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 2018-2021. This has involved rolling forward the Final 2017/18 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Cost pressures and savings that have been identified through the 2017/18 revenue monitoring process have also been

reflected, together with new cost pressures that will emerge in over the period 2018-2021. This is an on-going process, with clarity still emerging around certain elements of the funding package. It is anticipated that the Provisional 2018-2021 Revenue Budget volume (including Review of Charges) will be issued in mid-January 2018.

- 7.2 Based on current assumptions, the Council will require to identify budget savings totalling around £15.7 million in order to achieve a balanced budget in 2018/19. Councils have the flexibility to increase Council Tax levels by up to 3%. A 3% increase in the local Council Tax level would generate net additional income of around £1.5 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 2018/19 Revenue Budget and these will have a positive impact in terms of reducing the £15.7 million savings requirement. An analysis of the administrative and technical budget savings and other base budget adjustments will be provided to elected members along with the Provisional 2018/19 Revenue Budget volume.
- 7.4 The savings requirement of £15.7 million is predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement (although it should be noted that any increase in Council Tax levels by up to 3% is at the discretion of Councils and is not mandatory). It is stressed that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2018/19 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 22 February 2018.
- 7.5 An update on the projected savings requirement over the three year period 2018-2021 will be included in the report to be submitted to the Special Policy & Resources Committee on 22 February 2018.

## 8.0 **MEDIUM-TERM FINANCIAL OUTLOOK & STRATEGY**

- 8.1 The medium-term financial outlook was set out in Report 439-2017 (Financial Outlook 2018-2021) which was submitted to the Policy & Resources Committee on 11 December 2017. It is anticipated that an update report will be submitted to the Policy & Resources Committee later in 2018.
- 8.2 The key aspects of a medium term financial strategy 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. These have been updated as necessary and are as follows:-
  - the Council's corporate approach to identifying savings and efficiencies will be co-ordinated through a new Changing for the Future transformational change programme (C2022).
  - the Organisational Change Fund 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.
  - 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 £5 million or 1.5% of budgeted revenue expenditure but, ideally, a higher level will be

held for operational purposes. (note: the position on uncommitted reserve levels will be covered further in the report by the Executive Director of Corporate Services which will be issued along with the agenda for the meeting on 22 February 2018).

- 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.
- the initial costs associated with VERs / VRs will be met from service revenue budgets. On-going staff costs savings from VERs / VRs will be reflected in service 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 (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. In the continuing absence of three year grant allocations from the Scottish Government, years two and three of the budget period will, by necessity, be provisional in nature.
- 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.

## 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 2017/18 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 £55.553 million from the Non-Domestic Rates Pool in 2018/19.

9.2 The Scottish Government has advised that the 2018/19 Non-Domestic Rate Poundage for Scotland has been provisionally set at 50.6 pence for Large Businesses. This represents a year-on-year increase of 2.8%. The Council will make appropriate provision for non-domestic rates on its own properties within the 2018/19 Provisional Revenue Budget.

## 10.0 **CAPITAL PLAN 2017-2022**

10.1 A Capital Plan covering the 5 year period 2018 to 2023 was submitted to the Policy & Resources Committee on 30 October 2017 (Article VII of the minute of the meeting of the Policy & Resources Committee on 30 October 2017, Report No 350-2017, refers).

10.2 The 2018-2023 Capital Plan has been reviewed by officers in light of the Council's Capital Grants figure for 2018/19 (see paragraph 6.4 above). The 2018-2023 Capital Plan assumed that the Council's share of the re-profiling reduction of £150 million made by the Scottish government in 2016/17 would be repaid in 2018/19. It has now been confirmed that repayment will happen in 2019/20, therefore the Council will have to undertake additional borrowing for one year. Provision for the associated loan charges will be included in the Provisional 2018/19 Revenue Budget. Notwithstanding this timing adjustment, it is confirmed that the previously agreed programme is still considered to be deliverable. The next review of the Capital Plan is scheduled for October 2018.

#### **11.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2018/19**

11.1 The proposed procedure for setting the 2018/19 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 2018/19 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 14 February 2018 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 22 February 2018.

11.3 If there are any further technical adjustments required to the 2018/19 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 22 February 2018. 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.

11.4 A timetable showing the procedure for setting the 2018/19 Revenue Budget and Council Tax level on 22 February 2018 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 5/2017 (14 December 2017)  
Scottish Government Letter to COSLA (14 December 2017)  
SPICe Briefing - Local Government Finance: Draft Budget 2018-19 and Provisional Allocations to Local Authorities (18 December 2017)

**GREGORY COLGAN**  
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**04 JANUARY 2018**

**PROCEDURE FOR POLICY & RESOURCES COMMITTEE - 22 FEBRUARY 2018**

**Date and Time**

**Action**

**22 February 2018  
3pm**

**Revenue Budget and Council Tax**

The Special Policy and Resources Committee will consider the Council's 2018/19 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 2018/19.