

REPORT TO: POLICY & RESOURCES COMMITTEE – 12 JANUARY 2015

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2015/16 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 23-2015

1.0 PURPOSE OF REPORT

1.1 This report advises elected members of the announcement made by the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy on 11 December 2014 in respect of the Local Government Finance Settlement for 2015/16. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2015/16 Revenue Budget and Draft 2015-2018 Capital Plan. The medium-term financial outlook 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 2015/16, as announced by the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy on 11 December 2014, and the associated implications.

2.3 Notes the terms of the settlement to be provided to Local Government, as previously advised by the then Cabinet Secretary for Finance, Employment and Sustainable Growth in a letter to COSLA dated 9 October 2014 (and as detailed in Section 4 of this report).

2.4 Notes the current position on the Council's Provisional 2015/16 Revenue Budget and Draft 2015-2018 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 12 February 2015.

2.6 Agrees the procedures to be followed for setting the 2015/16 Revenue Budget and Council Tax level, as set out in Section 10 and Appendix 2 of this report.

2.7 Agrees that the procedures for setting the Council's 2015-2018 Capital Plan should be the same as those for setting the 2015/16 Revenue Budget and Council Tax (see Section 10 and Appendix 2 of this report).

2.8 Notes the medium-term financial outlook as set out in Section 7 of this report.

3.0 FINANCIAL IMPLICATIONS

3.1 Based on current assumptions, the Council will require to identify budget savings totalling £7.3 million in order to achieve a Council Tax freeze in 2015/16. Officers have already identified administrative and technical budget savings totalling £3.6 million and these savings are reflected in the Provisional 2015/16 Revenue Budget. The Council therefore now requires to identify further budget savings totalling £3.7 million in order to achieve a Council Tax freeze in 2015/16.

3.2 In the event that the Council does not agree to the full package of measures related to the Local Government Finance Settlement then the loss of grant would be circa £1.755 million in 2015/16, which equates to a Council Tax increase of 3.0%.

3.3 Based on current assumptions, the Council will require to identify budget savings totalling £30.0 million in order to achieve a Council Tax freeze over the period 2015-2018. Officers have already identified administrative and technical budget savings totalling £3.6 million and these savings are reflected in the Provisional 2015/16 Revenue Budget. The Council therefore now requires to identify further budget savings totalling £26.4 million in order to achieve a Council Tax freeze over the period 2015-2018.

4.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2015/16

4.1 On 11 December 2014, an announcement was made in the Scottish Parliament by the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy in respect of the Local Government Finance Settlement for 2015/16. These figures have subsequently been confirmed in Local Government Finance Circular 9/2014, issued by the Scottish Government on 11 December 2014. The figures are provisional at this stage and are subject to consultation between the Scottish Government and COSLA, with the Local Government Finance (Scotland) Order due to be debated by the Scottish Parliament in early February 2015.

4.2 The revenue grant total figures for all Scotland for 2015/16 are as follows:

	<u>2015/16</u> <u>£m</u>
Updated Service Provision	9,842.351
2008-2016 Changes	736.355
Loan Charges & PPP Schemes Support	662.947
Main Floor	-
Total Estimated Expenditure (TEE)	11,241.653
Assumed Council Tax Contribution	(1,933.100)
New 85% Floor	25.000
General Revenue Changes 2014	<u>167.588</u>
Total Distributable Revenue Support	<u>9,501.141</u>

The grant settlement for 2015/16 is based on an overall cash freeze at national level for existing services, together with additional funding to meet new statutory responsibilities and Scottish Government policy initiatives. Funding has been made available in 2015/16 for the implementation of the Children & Young People Act 2014 (£124 million) and the extension of Free School Meals to all children in primaries 1 to 3 (£54 million).

In addition to the above figures, the following items are still to be reflected in the grant settlement for 2015/16:

	<u>2015/16</u> <u>£m</u>
Council Tax Reduction Scheme	343.000
Discretionary Housing Payments	35.000
Teachers' Induction Scheme	27.600
1+2 Languages	tbc

4.3 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. Whilst the 2015/16 grant settlement is based on an overall cash freeze at national level for existing services, the distribution of funding between Councils has been updated to reflect the latest needs-based indicators.

4.4 The then Cabinet Secretary for Finance, Employment and Sustainable Growth wrote to COSLA on 9 October 2014 setting out the terms of the settlement to be provided to local government in return for the provisional funding amounts for 2015/16, as set out in the Draft Budget. The settlement continues to be focussed on delivery of the joint priorities of growing the economy and protecting front-line services and the most vulnerable in our society. In addition to the pursuit of joint priorities, Councils will be required to deliver the following specific commitments in return for the settlement:

- maintain a Council Tax freeze
- secure places for all probationers who require one under the teacher induction scheme

(Note: the sanctions relating to teacher numbers have been suspended pending the on-going work to reach an in-principle agreement on an Educational outcomes-based approach).

Delivery of these commitments will be monitored by the Scottish Government and, in the event of a failure to deliver, individual Councils would see their funding package reduced. The package must be accepted in full and it will not be possible for Councils to select specific elements of the package or elements of the funding on offer. If any Council does not agree to the full package available then it will have its funding reduced by its share of the £70 million of funding available to deliver a Council Tax freeze. Only those Council Leaders who do not intend to take up the offer and agree the full package of measures set out in the 9 October 2014 letter are required to write to the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy setting out the reasons why they do not wish to comply. This is to be done by no later than 10 March 2015, but preferably by the end of February 2015 (and ideally as soon as possible after they have set their budgets and announced their Council Tax levels for 2015/16). The Council's share of the £70 million Council Tax freeze funding is £1.755 million in 2015/16, which equates to a Council Tax increase of 3.0%.

4.5 In terms of capital funding for 2015/16, the total support within the settlement from the Scottish Government is £856.3 million. This includes £69.0m for the capital consequences arising from the implementation of the Children & Young People Act 2014.

5.0 GRANT FIGURES FOR DUNDEE CITY COUNCIL

5.1 Within the overall totals shown in paragraph 4.2 above, the revised revenue grant figures for Dundee City Council are as follows:

	<u>2015/16</u> £m
Updated Service Provision	279.636
2008-2016 Changes	20.295
Loan Charges & PPP Schemes Support	19.586
Main Floor	<u>0.132</u>
Total Estimated Expenditure (TEE)	319.649
Assumed Council Tax Contribution	(45.961)
New 85% Floor	-
General Revenue Changes 2014	<u>7.109</u>
Total Distributable Revenue Support	<u>280.797</u>

The above figures include funding for the implementation of the Children & Young People Act 2014 (£3.814 million) and the extension of Free School Meals to all children in primaries 1 to 3 (£1.282 million). In addition, funding has been made available to support the continued operation of the Dundee to London flight service (£1.639 million).

- 5.2 The updating of the needs-based indicators in the grant distribution calculation (see paragraph 4.3 above) has resulted in a year-on-year reduction of £1.577 million in the Council's grant allocation.
- 5.3 Total Funding comprises three elements: General Revenue Funding (GRF), Non-Domestic Rates (NDR) and the remaining elements of Ring-Fenced Funding. Only one item remains within Ring-Fenced Funding (support for Gaelic) and the City Council does not receive any allocation of this. Accordingly the City Council's GRF/NDR total for 2015/16, which requires to be taken into account when setting the Council Tax level, is £280.797 million. This figure will be augmented, in due course, by the share of the items shown in paragraph 4.2 above that are still to be reflected in the grant settlement for 2015/16.
- 5.4 The Council's total Capital Grants figure for 2015/16 is £21.082 million. This includes £1.940 million for the capital consequences arising from the implementation of the Children & Young People Act 2014.

6.0 PROVISIONAL REVENUE BUDGET 2015/16

- 6.1 Over the past few months the Chief Executive and Director of Corporate Services, in conjunction with the other Chief Officers, have been preparing a Provisional Revenue Budget for 2015/16. This has involved rolling forward the Final 2014/15 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Cost pressures and savings that have been identified through the 2014/15 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in 2015/16. A list of cost pressures and savings that have been reflected in the Provisional 2015/16 Revenue Budget is shown at Appendix 1 to this report. The Provisional 2015/16 Revenue Budget currently totals £356.6 million. The Provisional 2015/16 Revenue Budget volume (including Review of Charges) will be issued in mid-January 2015.
- 6.2 Based on current assumptions, the Council will require to identify budget savings totalling £7.3 million in order to achieve a Council Tax freeze in 2015/16. Officers have already identified administrative and technical budget savings totalling £3.6 million (see Appendix 1) and these savings are reflected in the Provisional 2015/16 Revenue Budget. This leaves a balance of £3.7 million of savings that still require to be identified. This is further predicated on the assumption that the Council agrees to the full package of measures related to the Local Government Finance Settlement. It is stressed, however, that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2015/16 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 12 February 2015.

7.0 MEDIUM-TERM FINANCIAL OUTLOOK

- 7.1 The recent grant announcements are in respect of the 2015/16 financial year only: no figures are currently available beyond this point. Following the UK General Election in May 2015, the incoming Government will almost certainly undertake a Spending Review. Regardless of the outcome of the General Election, it is very likely that the new Government will continue to pursue an austerity agenda to drive down the annual budget deficit and return the UK public finances to a balanced position. Current projections from the UK Office for Budget Responsibility suggest that economic growth will not return to "normal" levels until at least 2019. It is anticipated that the Scottish Block grant from the Westminster

Government will continue to fall in both cash and real terms in the period to 2019. The impact on funding for Local Government in Scotland is likely to be exacerbated by the continued protection of the NHS budget. There are also other key areas of uncertainty, including the impact of the Scottish Government's increased borrowing powers and the outcome of the Smith Commission's recommendations. Notwithstanding all of the variables and uncertainties, it can be stated with some confidence that Local Government in Scotland will experience funding cuts (in both cash and real terms) for the remainder of this decade.

- 7.2 At a local level, the Council will continue to experience pressure on demand-led services in key areas such as Education and Social Work, due to demographic factors. Pay and prices inflation will require to be provided for and the updating of grant distribution factors will likely continue to work against the Council. Further, the Westminster Government's intention to withdraw the contracting-out rebate on employers national insurance contributions will add around £4.0 million to the Council's annual pay bill, from 2016/17 onwards.
- 7.3 After taking all of the above factors into account, it is projected that the Council will require to identify budget savings totalling £30.0 million over the period 2015-2018, in order to maintain a Council Tax freeze. Officers have already identified administrative and technical budget savings totalling £3.6 million and these savings are reflected in the Provisional 2015/16 Revenue Budget. The Council therefore now requires to identify further budget savings totalling £26.4 million in order to achieve a Council Tax freeze over the period 2015-2018. Chief Officers will start to bring forward reports early in 2015, aimed at identifying budget savings that will contribute towards this overall target.

8.0 NON-DOMESTIC RATE INCOME

- 8.1 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 their share of the 2013/14 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 £62.479 million from the Non-Domestic Rates Pool in 2015/16.
- 8.2 The Scottish Government has confirmed that the increase in the 2015/16 Non-Domestic Rate Poundage for Scotland will be restricted to 2%. The Council will make appropriate provision for non-domestic rates on its own properties within the 2015/16 Provisional Revenue Budget.

9.0 DRAFT CAPITAL PLAN 2015-2018

- 9.1 The Council's existing Capital Plan (2014-2018) is currently being updated to reflect the latest estimates of the cost and phasing of projects and the overall capital resources available. The Draft 2015-2018 Capital Plan will be issued in mid-January 2015.
- 9.2 The Council's 2015-2018 Capital Plan will be submitted to the Special Policy and Resources Committee on 12 February 2015. It is proposed that the procedures for setting the Council's 2015-2018 Capital Plan should be the same as those for setting the 2015/16 Revenue Budget and Council Tax (see Section 10 and Appendix 2 of this report).

10.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2015/16

- 10.1 The proposed procedures for setting the 2015/16 Revenue Budget and Council Tax is the same as the procedure adopted last year for the setting of the 2014/15 Revenue Budget and Council Tax.
- 10.2 The procedure in respect of submitting budget proposals and review of charges proposals to the Chief Executive and Director of Corporate Services for prior approval as to their

competence will again apply in setting the 2015/16 Revenue Budget and Council Tax level. It must be stressed that, for all Departments, budget proposals and review of charges proposals by any Group or individual member must be submitted to the Chief Executive by 5pm on 4 February 2015 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 12 February 2015. It should be noted that this deadline also applies to any proposed adjustments to the draft 2015-2018 Capital Plan.

10.3 If there are any further technical adjustments required to the 2015/16 Provisional Revenue Budget or grant settlement figures then these will be included in the separate report by the Director of Corporate Services which will be issued along with the agenda for the meeting on 12 February 2015. The Director of Corporate Services will also make recommendations in that report regarding the use of balances in the setting of the Council Tax level.

10.4 A timetable showing the procedure for setting the 2015-2018 Capital Plan and the 2015/16 Revenue Budget and Council Tax level on 12 February 2015 is attached at Appendix 2.

11.0 POLICY IMPLICATIONS

11.1 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.

12.0 CONSULTATIONS

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

13.0 BACKGROUND PAPERS

13.1 Scottish Government Local Government Finance Circular 9/2014 (11 December 2014)
Scottish Government Letter to COSLA (9 October 2014)

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DIRECTOR OF CORPORATE SERVICES

05 JANUARY 2015

COST PRESSURES REFLECTED IN PROVISIONAL 2015/16 REVENUE BUDGET

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

SAVINGS REFLECTED IN PROVISIONAL 2015/16 REVENUE BUDGET

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

PROCEDURE FOR POLICY & RESOURCES COMMITTEE - 12 FEBRUARY 2015

<u>Date and Time</u>	<u>Action</u>
12 February 2015 3pm	<p>Special Policy and Resources Committee meets.</p> <p><u>Capital Plan</u> The Special Policy and Resources Committee will consider the City Council's draft 2015-2018 Capital Plan, along with the report by the Director of Corporate Services.</p> <p>All proposals for adjustments to the draft 2015-2018 Capital Plan 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 proposals. Thereafter, the Labour Group, Conservative Member, Independent Member and Liberal Democrat Member will move any amendments.</p> <p>The Committee will then commence the debate and approval of the 2015-2018 Capital Plan.</p>
Immediately thereafter	<p><u>Revenue Budget and Council Tax</u> The Special Policy and Resources Committee will consider the City Council's 2015/16 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Director of Corporate Services.</p> <p>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.</p> <p>The Committee will then commence the debate and approval of the Final Revenue Budget and Council Tax for 2015/16.</p>