

ITEM No ... 2 (i).....

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 23 FEBRUARY 2017

REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2017/18

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 58-2017

1.0 PURPOSE OF REPORT

- 1.1 To advise members of the current position regarding the 2017/18 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2017/18 Revenue Budget and Council Tax.

2.0 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 notes the procedures for setting the 2017/18 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 9 January 2017 and as set out in Appendix A to this report
- 2.2 notes the contents of the Provisional 2017/18 Revenue Budget Volume
- 2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2017/18, as detailed in paragraphs 4.1 to 13.2 of this report

3.0 BACKGROUND

- 3.1 The Policy & Resources Committee on 9 January 2017 considered report 24-2017 by the Executive Director of Corporate Services. (Article IV of the minute of the meeting refers). This report detailed the Local Government Finance Settlement for 2017/18, as announced by the Cabinet Secretary for Finance and the Constitution on 15 December 2016. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (23 February 2017). These procedures are reproduced at Appendix A to this report.

4.0 PROVISIONAL REVENUE BUDGET 2017/18

- 4.1 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 2017/18. The outcome of this exercise is reflected in the Provisional 2017/18 Revenue Budget Volume. The total Revenue Budget requirement for 2017/18, as shown on page 1 of the volume, is £343.037m (to be updated for pay award pressures – see paragraph 6.2). 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 23 February 2017.
- 4.2 The Provisional 2017/18 Revenue Budget reflects a number of cost pressures and savings that have been identified through the 2016/17 revenue monitoring process, together with new cost pressures that will emerge in 2017/18. Details of these items are shown in Appendix B to this report.

5.0 DRAFT REVIEW OF CHARGES 2017/18

- 5.1 A draft 2017/18 Review of Charges document has also been prepared. This shows additional income of £219,000 in 2017/18. The projected additional income is already included in the Provisional 2017/18 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 23 February 2017. 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 2017/18 Revenue Budget Volume includes a 1% allowance for pay awards in 2017 for all categories of staff, including Teachers. Allowance has also been made for the increased Scottish Local Government Living Wage and for specific items of price inflation, where appropriate.
- 6.2 Since the Provisional Budget Volume was prepared COSLA has revised its negotiating offer around the 2017 pay awards. In light of this a further £750,000 to cover pay award pressures is considered appropriate. This results in a revised total Revenue Budget requirement for 2017/18 of £343.787m. It is anticipated that the 2017 pay awards will be weighted towards those staff on lower grades.

7.0 CONTINGENCY PROVISIONS

- 7.1 A number of Contingency Provisions are included on page 3 of the Provisional 2017/18 Revenue Budget Volume:

General Contingency (£500,000 in 2017/18)

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 2017/18 Revenue Budget.

Employer Recruitment Incentive (£66,000 in 2017/18)

This contingency will be used if required to support the continuation of the Employer Recruitment Incentive within the City.

Apprenticeship Levy (£1,000,000 in 2017/18)

In November 2015, the Chancellor of the Exchequer announced plans for a new Apprenticeship Levy, effective from April 2017. This will be a new tax on all organisations that employ paid staff, set at 0.5% of employers wage bills. The proceeds from the tax will be paid into a central pool which employers can then access to develop their staff. Any employer with a payroll above £3 million will be liable to pay the levy and the cost to the City Council is estimated to be £1m. All employers will receive a small offset allowance of £15,000.

Various Unallocated Savings (£1,616,000 in 2017/18)

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 2017/18 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2016 plus the net new borrowing shown in the 2017-2022 General Services Capital Plan. The projected average annual interest rate is 4.1% for 2017/18. 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 2017/18 is estimated as follows:

	2017/18 £m
General Revenue Funding – as announced	208.275
Non-Domestic Rates – as announced	65.199
Estimate of funding yet to be announced *	<u>3.057</u>
	276.531
Additional Funding Announced 2 February 2017 **	<u>3.604</u>
	280.135
Ring-Fenced Grants	<u>9.029</u>
	<u>289.164</u>

* This relates to funding for Teachers' Induction Scheme, Discretionary Housing Payments and for Council Tax Reduction Scheme. The Council's share of the overall funding available has not yet been announced, however estimated amounts are included in the Provisional 2017/18 Revenue Budget Volume.

** Following further debate on the Scottish Budget Bill on 2nd February 2017 an additional local government revenue settlement of £130m was announced. The City Council share of this will be £3.604m.

The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2017/18 and reflect the decisions expected to be taken by the Scottish Parliament in late February 2017. Estimated income from remaining Ring-Fenced Grants is already included in the Provisional 2017/18 Revenue Budget Volume. Accordingly, it is the sum of £280.135m that requires to be taken into account when setting the 2017/18 Council Tax.

9.2 The Council requires to identify budget savings totalling £6.390m in order to set a balanced budget in 2017/18, before the additional grant of £3.604m is taken into account. The required budget savings after recognising the additional grant is £2.786m. Councils now have the flexibility to increase Council Tax levels by up to 3%. (Note: the funding for a continued Council Tax freeze is no longer available within the local government settlement). A 3% increase in the local Council Tax level would generate net additional income of around £1.447m, after allowing for the impact of additional Council Tax reductions.

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 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.

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 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.

10.3 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 2015/16 showed a General Fund balance of £14.4m at 31 March 2016, 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 2016/17 Council Tax in February 2016. There were underspends in 2015/16 that related to committed projects that required to be carried forward and met from balances in 2016/17: these are currently estimated at £2.0m. In addition, a sum of £5.4m was ear-marked for the Organisational Change Fund. Therefore, the effective level of uncommitted General Fund balances carried forward from 2015/16 is currently estimated at £7.0m.

The 2016/17 expenditure monitoring currently projects an overspend of £0.6m. It will be necessary to fund some of the costs associated with the Voluntary Early Retirement/Voluntary Redundancy Schemes from General Fund balances in 2016/17. At this stage it is not possible to provide an accurate estimate of the amounts involved.

Taking all of the above factors into account, the Council will aim to maintain the level of uncommitted General Fund balances at 31 March 2017 at £5.0m. 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 2017/18 Council Tax. It should be noted that, in their Report to Members on the 2015/16 audit, the Council's external auditor (KPMG) again made reference to the relatively low level of uncommitted reserves held by the Council. As at 31 March 2016, the City Council had the third lowest level of usable revenue 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 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 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%	£219k
Price Inflation	Various	+0.1%	£208k
Interest Rates (CLF Average Rate)	4.1%	+0.1%	£339k
Government Grant Income	£285.6m	-1.0%	£2.9m
Chargeable Income	£15.4m	-1.0%	£154k

11.0 MEDIUM TERM FINANCIAL OUTLOOK & STRATEGY

11.1 The medium-term financial outlook was set out in report 24-2017 to the Policy & Resources Committee on 9 January 2017. The key conclusions drawn were as follows:

- future funding levels for Local Government in Scotland are largely dependent on the outcome of the Scottish Government's 2018-2020 Spending Review, although there are a number of key areas of associated uncertainty
- the Council will continue to experience pressure on demand-led services in key areas, due to demographic and social factors
- pay and prices inflation will require to be provided for and the updating of grant distribution factors may work against the Council
- the Westminster Government's decision to withdraw the contracting-out rebate on employers national insurance contributions has added around £4.4 million to the Council's annual pay bill
- the new Apprenticeship Levy will result in additional costs of around £1 million per annum

11.2 The key aspects of a medium term financial strategy for the Council to help address the challenging financial landscape were set out in the Financial Outlook report to the Policy & Resources Committee on 26 October 2015. These are as follows:-

- the Council's corporate approach to identifying savings and efficiencies will be co-ordinated through a new Changing for the Future (Phase 4) transformational change programme.
- a new 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 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.
- 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 General Fund Balances or the Organisational Change Fund. 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 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 Executive 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.

- 11.3 The Council's budget projections and medium term financial strategy will be updated to reflect the outcome of the Autumn Statement and the Scottish Budget announcements. It is anticipated that an update report will be submitted to the Policy & Resources Committee later in 2017.

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 2015/16 inclusive show a collection rate of around 96.8% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2017/18 Council Tax requires to be decided by the Special Policy & Resources Committee on 23 February 2017. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2016/17. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2017/18 Council Tax.
- 12.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 51,922 for 2017/18. This represents a year-on-year increase of 1,565 Band D equivalent properties, reflecting current billing figures and the projected impact of the changes to the multipliers used for properties in bands E to H. 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%.

13.0 BUDGETS DELEGATED TO DUNDEE HEALTH & SOCIAL CARE PARTNERSHIP

- 13.1 Budgets totalling c£76 million in 2017/18 will be delegated to the Dundee Health & Social Care Partnership. These budgets include assumptions for various inflationary pressures, including pay awards. The Dundee Integration Joint Board will agree its 2017/18 Revenue Budget in March 2017.
- 13.2 The additional £250 million support for health and social care provided by the NHS through the Integration Fund in 2016/17 will be baselined from 2017/18 and increased by a further £107 million. To reflect this additional support, local authorities will be able to adjust their allocations to Integration Authorities in 2017/18 by up to their share of £80 million below the level of budget agreed with their Integration Authority for 2016/17. For Dundee City Council, this equates to a figure of £2.440 million.

14.0 CAPITAL PLAN

- 14.1 A Capital Plan covering the 5 year period 2017 to 2022 was submitted to the Policy & Resources Committee on 31 October 2016 (Article XII of the minute of the meeting refers). The 2017-2022 Capital Plan has been reviewed by officers in light of the Council's Capital Grant figure for 2017/18 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 October 2017.
- 14.2 Following further debate on the Scottish Budget Bill on 2nd February 2017 an additional local government capital settlement of £30m was announced. The City Council share of this will be £691,000 which will be used to support the existing Capital Plan.

15.0 CONCLUSION

- 15.1 This report provides members with the background information necessary to assist them in considering the final stages of setting the 2017/18 Revenue Budget and Council Tax.

16.0 POLICY IMPLICATIONS

- 16.1 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.

17.0 CONSULTATION

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

18.0 BACKGROUND PAPERS

18.1 Scottish Government Finance Circular 9/2016 (15 December 2016)

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

15 FEBRUARY 2017

PROCEDURE FOR POLICY & RESOURCES COMMITTEE - 23 FEBRUARY 2017

Date and Time

Action

23 February 2017
3pm

Revenue Budget and Council Tax

The Special Policy and Resources Committee will consider the City Council's 2017/18 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 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 2017/18.

APPENDIX B

COST PRESSURES REFLECTED IN PROVISIONAL 2017/18 REVENUE BUDGET

<u>Service / Item</u>	<u>£m</u>
Children & Families – Baldragon Academy additional property costs (per Committee report 129-2016)	0.135
Children & Families – Harris Academy additional running costs	0.530
Children & Families – Claypotts PS and St John’s HS modular classroom provision	0.056
Children & Families – cost pressures in children’s care services	1.500
City Development – Festivals & Events (per Committee Report 225-2016)	0.050
Corporate Services – staffing pressures	0.085
Corporate Services – reduction in housing benefit administration grant	0.100
Corporate Services – loss of Service Level Agreement income from Tayside Community Justice Authority	0.025
Staff Costs – 1.0% pay award wef from 1 April 2017	2.123
Various – inflationary uplift to 2016/17 base budget (net of income uplift)	0.932
Various – new monies included in revised grant settlement	0.466
Various – end of national insurance contracting-out rebate	0.385
Various – other miscellaneous cost pressures	0.009
Corporate – new Apprenticeship Levy	1.000
Corporate – additional allowance for Discretionary Non Domestic Rates Relief	<u>0.100</u>
	<u>7.496</u>

SAVINGS REFLECTED IN PROVISIONAL 2017/18 REVENUE BUDGET

<u>Service / Item</u>	<u>£m</u>
Children & Families – restructure of Offsite Service (per Committee report 184-2016)	(0.306)
Children & Families – mainstreaming of former ring-fenced funding by NHS	(0.177)
Children & Families – restructure of centrally based staff	(0.075)
Children & Families – redesign of devolved training	(0.086)
Children & Families – additional recharge of administration cost against ring-fenced grant for Criminal Justice Services	(0.250)
Children & Families – reduction in third party payments to reflect actual budgetary requirements for 2017/18	(0.060)
City Development – staff costs savings from service restructure / VERs	(0.557)
City Development – capitalisation of salaries within Design and Property	(0.242)
City Development – saving in energy costs due to smart metering of street lighting	(0.180)
City Development – additional Planning / Building Warrant income	(0.270)
City Development – savings in various property cost budgets	(0.233)
City Development – additional recharges for health and safety works	(0.100)
City Development – increase Design and Property fees by 2%	(0.136)
City Development – reduction in expenditure on mainstream economic development activities to reflect existing underspends	(0.100)

City Development – reduction in various Transportation budgets to reflect existing underspends	(0.178)
City Development – increase in Car Parking income to reflect current levels, review of charges, review of enforcement and debt collection	(0.614)
Neighbourhood Services – further VERs from service redesign	(0.250)
Neighbourhood Services – anti-social behaviour funding payment to Police Scotland to be met from Change Fund	(0.219)
Neighbourhood Services – introduction of Service Level Agreements with Housing Service for Pest Control and Special Collections services	(0.100)
Neighbourhood Services – release of deferred income as existing grounds maintenance budgets are sufficient going forward to provide required cemetery upkeep	(0.500)
Neighbourhood Services – capitalisation of Landscape Team staff costs	(0.048)
Neighbourhood Services – reduction in Other Housing costs	(0.150)
Corporate Services – income generation in Learning & Workforce Development	(0.060)
Corporate Services – funding of 3 clerical posts from external funding	(0.064)
Corporate Services – restructure of Customer Services & IT	(0.287)
Corporate Services – restructure of Corporate Finance	(0.030)
Corporate Services – savings from centralisation of furniture and travel procurement	(0.022)
Corporate Services – recharge for TRBJB for procurement services	(0.010)
Corporate Services – restructure of Democratic & Legal Services	(0.111)
Corporate Services – reduction in external audit fee	(0.032)
Various – full year effect of agreed 2016/17 savings	(1.782)
Various – hybrid mail / new Xerox contract	(0.100)
Various – shared cost AVCs	(0.100)
Various – car leasing salary sacrifice scheme	(0.075)
City Development – reduction in Tayplan requisition due to use of reserves	(0.046)
Corporate – net reduction in cost of Council Tax Reduction Scheme	(0.452)
Corporate – reduction in TVJB requisition	<u>(0.046)</u>
	<u>(8.048)</u>

TECHNICAL BUDGET ADJUSTMENTS REFLECTED IN PROVISIONAL 2017/18 REVENUE BUDGET

<u>Service / Item</u>	<u>£m</u>
Children & Families – GIRFEC funding removed from financial settlement	(0.050)
Children & Families – 1+2 Languages funding still to be included in financial settlement	<u>(0.190)</u>
	<u>(0.240)</u>