

ITEM No ...5.....

REPORT TO: POLICY & RESOURCES COMMITTEE – 22 FEBRUARY 2021

REPORT ON: LOCAL GOVERNMENT FINANCE SETTLEMENT 2021/22 AND FINANCIAL IMPLICATIONS FOR THE CITY COUNCIL

REPORT BY: CHIEF EXECUTIVE

REPORT NO: 62-2021

1.0 PURPOSE OF REPORT

1.1 This report advises elected members of the announcement made by the Cabinet Secretary for Finance on 28 January 2021 in respect of the Local Government Finance Settlement for 2021/22. The report identifies the likely implications for the City Council and sets out the current position on the Council's Provisional 2021-2024 Revenue Budget and 2021-2026 Capital Plan. The Council's long-term financial strategy is also set out.

2.0 RECOMMENDATIONS

It is recommended that the Policy & Resources Committee:

- 2.1 Notes the contents of this report.
- 2.2 Notes the Council's Revenue and Capital Funding Allocations for 2021/22, as announced by the Cabinet Secretary for Finance on 28 January 2021, 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 in a letter to COSLA dated 28 January 2021 (and as detailed in Section 5 of this report).
- 2.4 Notes the current position on the Council's Provisional 2021-2024 Revenue Budget and 2021-2026 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 4 March 2021.
- 2.6 Agrees the procedures to be followed for setting the 2021/22 Revenue Budget and Council Tax level, as set out in Section 11 and Appendix 1 of this report.
- 2.7 Notes the agreed long-term financial strategy as set out in Section 8 of this report.

3.0 FINANCIAL IMPLICATIONS

3.1 Based on current assumptions, the Council will require to identify budget savings totalling around £5.7million in order to achieve a balanced budget in 2021/22. This assumes that the Council Tax will be frozen and the Council can therefore access additional grant funding of £2.123 million. If, however, the Council Tax is increased then this additional grant funding will not be available.

4.0 BACKGROUND

4.1 On 25 November 2020, the Chancellor of the Exchequer published a one-year UK Spending Review covering the 2021/22 financial year. This sets out the 2021/22 spending plans for the various departments of state, including the devolved administrations. A report on the Financial Outlook and Revenue Budget was submitted to the Policy & Resources Committee on 25 January 2021 (Report 51-2021 refers). This report advised members of the financial outlook at a national level following the UK Spending Review announcements and also outlined the current position on the Council's Revenue Budget for 2021/22, in terms of required savings. An announcement regarding the 2021/22 Scottish Budget was made by the Cabinet Secretary for Finance on 28 January 2021. The Scottish Government's third Medium Term Financial Strategy, setting out the key financial challenges and

opportunities that lie ahead, was published alongside the 2021/22 Scottish Budget. The Chancellor of the Exchequer will make his 2021/22 Budget announcements in the Westminster Parliament on 3 March 2021, including confirmation of the block allocations for the devolved administrations. The Stage 3 debate on the draft 2021/22 Scottish Budget will take place in the Scottish Parliament on 9 March 2021.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2021/22

5.1 On 28 January 2021, an announcement regarding the draft 2021/22 Scottish Budget was made in the Scottish Parliament by the Cabinet Secretary for Finance. This announcement included figures in respect of the Local Government Finance Settlement for 2021/22 (no provisional allocations were issued for later years). These figures have been confirmed in Local Government Finance Circular 1/2021, issued by the Scottish Government on 1 February 2021. The figures are provisional at this stage and are subject to consultation between the Scottish Government and COSLA. The draft 2021/22 Scottish Budget will be debated by the Scottish Parliament in late February / early March 2021, with the Local Government Finance (Scotland) Order 2021 due to be presented to the Scottish Parliament on 10 March 2021.

5.2 The revenue grant total figures for all Scotland for 2021/22 are as follows:

	<u>2021/22</u> <u>£m</u>
Updated Service Provision	12,058.469
2008-2022 Changes	441.310
Loan Charges & PPP Schemes Support	452.228
Main Floor	-
Total Estimated Expenditure (TEE)	12,952.007
Assumed Council Tax Contribution	(2,122.166)
85% Floor	8.409
Council Tax Freeze Grant	<u>90.000</u>
Total Distributable Revenue Support	<u>10,928.250</u>

The methodology behind the 85% floor involves calculating total revenue funding plus estimated council tax income for each Council. Any Council whose total support per head of population falls below 85% of the Scottish average, will be topped up to the 85% level. Only one Council (Edinburgh City) will receive support through this mechanism in 2021/22.

Within the 2021/22 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>2021/22</u> <u>£m</u>
Teachers' Induction Scheme	37.600
Discretionary Housing Payments	35.369

Further, it should be noted that there are a number of other funding streams outwith the local government finance settlement for particular policy initiatives which benefit local government services.

5.3 The distribution of revenue funding is driven by a series of complicated calculations which use data indicators to identify Councils' relative spending needs across various service areas. The data indicators are heavily influenced by various population counts. The distribution of overall funding between Councils has been updated to reflect the latest needs-based indicators. During 2019 and 2020 the joint Scottish Government / CoSLA Settlement and Distribution Group has reviewed the distribution methodology around various funding streams to help streamline the system and ensure that the allocation bases are robust and properly reflect relative need across Councils. This review has led to the mergers of a number of individual funding streams and, in some cases, a change in the distribution methodology.

5.4 The Cabinet Secretary for Finance wrote to COSLA on 28 January 2021 confirming the package of measures that make up the settlement to be provided to local government in return for the provisional

funding amounts for 2021/22. For 2021/22, 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:

- £59 million revenue funding to support the final tranche of increased funding for the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours.
- £72.6 million to be transferred from the health portfolio to the Councils in-year for investment in adult health and social care and mental health services that are delegated to Integration Authorities. The additional £72.6 million includes a contribution to continued delivery of the real Living Wage (£34 million), uprating of free personal and nursing care payments (£10.1 million) and continued implementation of the Carers Act (£28.5 million).
- the ongoing £88 million to maintain the pupil teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme.
- continued provision in support of teachers' pay (£156 million) and pensions (£97 million).
- £5.3 million for Barclay implementation costs.
- the capital settlement includes an uplift in provision for flood risk schemes of £10 million.

In recognition of the unique pressures created by the Covid-19 pandemic the settlement also includes an additional £90 million available to compensate Councils who choose to freeze their Council Tax at 2020/21 levels, helping to protect household incomes. This additional allocation provides compensation to support services and equates to an increase in Council Tax of around 3%.

5.5 In terms of capital funding for 2021/22, the total support within the settlement from the Scottish Government is £617.041 million. Capital funding has now ceased for Expansion in ELC and the Heat Networks Early Adopters Challenge Fund.

5.6 Also published alongside the Scottish Budget was a Scottish public sector pay policy. The policy will see those earning up to £25,000 receive a pay increase of at least 3%, through a guaranteed cash underpin of £750. Those earning more than £25,000 will be guaranteed a 1% increase, capped at £800 above £80,000. The policy will also continue to support payment of the real Living Wage, applying the increased rate of £9.50 per hour. The Scottish Government's pay policy is not binding upon Councils. Local government in Scotland has its own dedicated negotiating mechanisms for agreeing pay awards, with separate mechanisms in place for teachers and local government employees. The Council's Provisional 2021/22 Revenue Budget includes an allowance of 2% for pay awards.

5.7 The Scottish Government has made its 2021/22 Budget announcement in advance of the UK Budget announcement, which will take place on 3 March 2021. Further, the parliamentary process for the Scottish Budget Bill is not due to conclude until 9 March 2021. This has introduced a further element of risk into the budgeting process inasmuch as the Scottish Government does not yet have confirmation of the total funding that will be available to Scotland for 2021/22. If the settlement from the UK Government is significantly different from the figures announced in the November 2020 Spending Review, then the Scottish Government may have to revisit the allocations made to Councils.

6.0 GRANT FIGURES FOR DUNDEE CITY COUNCIL

6.1 Within the overall totals shown in paragraph 5.2 above, the revenue grant figures for Dundee City Council are as follows:

	<u>2021/22</u> £m
Updated Service Provision	349.600
2008-2022 Changes	12.222
Loan Charges & PPP Schemes Support	5.967
Main Floor	<u>5.215</u>
Total Estimated Expenditure (TEE)	373.004
Assumed Council Tax Contribution	(47.379)
Council Tax Freeze Grant	2.123
85% Floor	-

Total Distributable Revenue Support	327.748
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- 6.2 The updating of the needs-based indicators in the grant distribution calculation (see paragraph 5.3 above) has again been detrimental in terms of the Council's 2021/22 grant allocation. As expected, the Council has also suffered a reduction of £4.1 million in support for loan charges, to reflect the pattern of repayment of the Council's debt. These reductions have, however, been more than offset by increases in grant arising from: the operation of the floor mechanism which, for 2021/22, guarantees all Councils a minimum grant increase of 1.73%; the Council's share of £94.8 million additional funding that has been made available to fund existing core services, and; the Council's share of the £90 million Council Tax Freeze Grant.
- 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 2021/22 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 2021/22. The Council's GRF/NDR total for 2021/22, as set out in Local Government Finance Circular 1/2021, is £302.885 million. This figure assumes that the Council Tax will be frozen and the Council can therefore access additional grant funding of £2.123 million. If, however, the Council Tax is increased then this additional grant funding will not be available. The figure of £302.885 million 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 2021/22.
- 6.4 The Council's total Capital Grants figure for 2021/22 is £14.505 million.

7.0 PROVISIONAL REVENUE BUDGET 2021-2024

- 7.1 Over the past few months the Chief Executive and Executive Director of Corporate Services, in conjunction with the other Executive Directors, have been preparing a Provisional Revenue Budget for 2021-2024. This has involved rolling forward the Final 2020/21 Revenue Budget and adding in provision for anticipated inflationary pressures, including pay awards. Recurring cost pressures and savings that have been identified through the 2020/21 revenue monitoring process have also been reflected, together with new cost pressures that will emerge in the period 2021-2024. This is an ongoing process, with clarity still emerging around certain elements of the funding package. The Provisional 2021-2024 Revenue Budget volume (including Review of Charges) will be issued later in February 2021.
- 7.2 Based on current assumptions, the Council will require to identify budget savings totalling around £5.7million in order to achieve a balanced budget in 2021/22. This figure assumes that the Council Tax will be frozen and the Council can therefore access additional grant funding of £2.123 million. If, however, the Council Tax is increased then this additional grant funding will not be available.
- 7.3 Administrative and technical budget savings that have been identified by officers will be reflected in the Provisional 2021/22 Revenue Budget and these will have a positive impact in terms of reducing the £5.7 million savings requirement. An analysis of the administrative and technical budget savings and other base budget adjustments (including cost pressures) will be provided to elected members along with the Provisional 2021-2024 Revenue Budget volume.
- 7.4 It is stressed that officers are still examining the details of the grant settlement and refining the assumptions and figures in the Provisional 2021/22 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 4 March 2021.
- 7.5 An update on the projected savings requirement over the three-year period 2021-2024 will be included in the report to be submitted to the Special Policy & Resources Committee on 4 March 2021.
- 7.6 The Council is incurring a significant amount of additional costs in the current financial year related to Covid-19, including reduced income streams in many areas. Some of these cost pressures will continue beyond the end of the current financial year and into 2021/22, and possibly even beyond. Specifically, it is anticipated that shortfalls in some income streams (eg car parking, building control, trade waste collection etc) will not recover fully in the short to medium term due to the continuing economic downturn and new ways of working post-Covid 19 (eg more homeworking). This is a particular concern for Leisure and Culture Dundee, where it is anticipated that an income shortfall may occur across several financial years. The figures in this report do not include any allowance for additional costs relating to Covid-19. It is anticipated that the Scottish Government will continue to provide some level of additional grant support, with £259 million of funding for Councils included in the

2021/22 Scottish Budget. It is, however, likely that a significant budget deficit will arise going forward due to Covid-19. At this point, it is being assumed that this deficit will be funded by applying one or more of the three financial flexibilities that will be made available by the Scottish Government. It is emphasised that these financial flexibilities are only available over the 2020/21 and 2021/22 financial years. Accordingly, it may be necessary to identify savings in later years revenue budgets in order to fund any on-going cost pressures related to Covid-19. A separate report on projected Covid-19 costs and funding over the period 2021 to 2024 will be submitted to a future meeting of the Policy and Resources Committee.

8.0 LONG-TERM FINANCIAL OUTLOOK AND FINANCIAL STRATEGY

8.1 The long-term financial outlook and financial strategy for 2020 to 2030 were set out in Report 274-2019, which was submitted to the Policy and Resources Committee on 19 August 2019 (article XII refers). The approved long-term financial strategy, as set out in Report 274-2019 (and as subsequently updated in Report 51-2021 to the Policy and Resources Committee on 25 January 2021), is as follows:

- the Council's corporate approach to identifying savings and efficiencies will be coordinated through the Changing for the Future transformational change programme (C2022) as agreed by Committee on 25 June 2018 (Article V of the minute of meeting of the Policy and Resources Committee of 25 June 2018, Report 223-2018 refers).
- the Organisational Change Fund, together with any capital receipts set aside to fund costs associated with future transformation projects, will help support and resource, on a spend-to-save basis, the organisational transformation that will be needed to deliver the required savings and efficiencies. This may include costs associated with VERs / VRs however, if no balances are available, then the initial costs associated with VERs / VRs will normally be met from service revenue budgets. On-going staff costs savings from VERs / VRs will be reflected in service revenue budgets.
- the Council will set annual balanced budgets, taking on board the prevailing constraints e.g. limits on Council Tax increases, reducing grant settlements, unavailability of balances etc.
- the Council will seek to achieve an overall outturn position each year in line with or below budget.
- the minimum uncommitted element of the General Fund balance will be the lower of £7 million or 2% of budgeted revenue expenditure but, ideally, a higher level will be held for operational purposes.
- services will be expected to operate within the limits of their overall revenue budget allocation. Cost pressures which emerge in-year should, where possible, be accommodated within the relevant service revenue budgets. The General Contingency should normally be used to fund items of a non-recurring or emergency nature. Expenditure of a recurring nature should normally be funded from within service revenue budgets.
- allocation of resources will be informed by a thematic approach designed to reflect the strategic priorities of the Council.
- budget provision will be made for estimated pay awards and, in limited circumstances, for areas of specific price inflation. The costs of incremental progression for staff will be funded from service revenue budgets.
- demographic growth will not be funded given the scale of the financial challenge. All services are expected to redesign services and work in partnership with other bodies to meet the cost of additional pressures.
- the reduction of grant that the Council receives after providing for new responsibilities will be shared by all directly provided and commissioned services, including Health and Social Care, Leisure & Culture Dundee and the Third Sector.
- Council Tax levels are planned to be increased by at least 3% per annum, but annual increases may be higher if allowed under the terms of the local government finance settlement.

- a review of resources within the Council will be undertaken to look at ways to deliver services more efficiently and effectively. Given employee costs currently account for around 65% of the net revenue budget, there is likely to be a significant reduction in the workforce of the Council.
- the Council's Capital Plan will be prudent, sustainable and affordable. In particular, affordability will be assessed with reference to the level of loan charges and additional running costs (including lifecycle maintenance) that can be reasonably included within future revenue budgets.
- the Council's immediate planning horizon for revenue expenditure will be three years and a rolling three-year revenue budget will be prepared annually and submitted to the Policy & Resources Committee as part of the budget approval process. In addition, projections covering a rolling ten-year period will be maintained and submitted, as necessary, to the Policy & Resources Committee.
- proposals for service re-design and service development will be underpinned by a comprehensive and robust business case, including options appraisal.
- the budget deficit associated with Covid-19 will be funded by applying one or more of the financial flexibilities made available by the Scottish Government.

8.2 The Council's Long-Term Financial Strategy will be underpinned by other key corporate strategies, including those relating to IT, Digital and Our People. It should be noted that many of the above areas are already covered by the Council's Financial Regulations, reflect previous Committee decisions or are in line with established custom and practice.

8.3 The national response to the Covid-19 epidemic has seen the UK Government incur unprecedented levels of expenditure, both in terms of measures to contain and fight the spread of the virus and to deal with the impact on the economy. The devastating economic impact has seen a record fall in GDP levels, leading to significant reductions in taxation revenues which in turn has necessitated record levels of government borrowing. This position is clearly unsustainable into the medium / longer term, where the resultant level of government debt will require to be addressed and managed down. This will be an enormous challenge for the public finances and is likely to have significant implications for the levels of government grant support that are available to Councils. This will be at a time when vital Council services will be required to deal with the social and economic aftermath of the epidemic, and when other sources of income available to Councils will be under severe pressure. The Council's longer-term financial projections and strategies will require to be revisited and updated to reflect the post-Covid situation and reports will be brought forward to the Policy and Resources Committee once more clarity emerges.

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 2020/21 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 £33.763 million from the Non-Domestic Rates Pool in 2021/22.

9.2 The Scottish Government has advised that the 2021/22 Non-Domestic Basic Property Rate ("poundage") for Scotland has been provisionally set as follows:

Rateable Value	Rate 2021/22 (pence)	Rate 2020/21 (pence)	Decrease (pence)	Decrease (%)
Less than £51,000	49.0	49.8	0.8	1.6
£51,000 to £95,000	50.3	51.1	0.8	1.6
More than £95,000	51.6	52.4	0.8	1.5

The Council will make appropriate provision for non-domestic rates on its own properties within the 2021/22 Provisional Revenue Budget.

9.3 The Scottish Government has also committed, within the fiscal limitations of the devolved settlement, to extending the existing 100% Retail, Hospitality and Leisure (RHL) and aviation relief for at least three months, to 30 June 2021. This interim measure aims to provide a degree of certainty, pending confirmation from the UK Government over both the future of their equivalent RHL relief and other macroeconomic support measures such as the furlough scheme. Should the UK Government bring forward an extension to their equivalent RHL relief that generates consequential funding, Scottish Ministers will match the extension period as part of a tailored package of business support measures.

10.0 CAPITAL PLAN 2021-2026

10.1 An updated Capital Plan, covering the 5-year period 2021 to 2026, is included separately on the agenda for the Policy & Resources Committee on 22 February 2021 (Report No 55-2021 refers). This updated Capital Plan reflects the budget announcements in respect of capital funding, made by the Cabinet Secretary for Finance on 28 January 2021.

11.0 PROCEDURE FOR SETTING REVENUE BUDGET AND COUNCIL TAX 2021/22

11.1 The proposed procedure for setting the 2021/22 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 2021/22 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 1 March 2021 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 4 March 2021.

11.3 If there are any further technical adjustments required to the 2021/22 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 4 March 2021. The Executive Director of Corporate Services will also make recommendations in that report regarding the use of balances in the setting of the Council Tax level. A timetable showing the procedure for setting the 2021/22 Revenue Budget and Council Tax level on 4 March 2021 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 Letter to COSLA (28 January 2021)
Scottish Government Local Government Finance Circular 1/2021 (1 February 2021)

GREGORY COLGAN
CHIEF EXECUTIVE

12 FEBRUARY 2021

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PROCEDURE FOR POLICY & RESOURCES COMMITTEE – 4 MARCH 2021

Date and Time

Action

**4 March 2021
3pm**

Revenue Budget and Council Tax

The Special Policy and Resources Committee will consider the Council's 2021/22 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 2021/22.

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