

## **ITEM No ...2(i).....**

**REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 25 FEBRUARY 2016**

**REPORT ON: REVENUE BUDGET AND COUNCIL TAX 2016/17**

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

**REPORT NO: 72-2016**

### **1.0 PURPOSE OF REPORT**

- 1.1 To advise members of the current position regarding the 2016/17 Revenue Budget and to remind members of those factors requiring decisions in order to set the Final 2016/17 Revenue Budget and Council Tax.

### **2.0 RECOMMENDATIONS**

It is recommended that the Committee:

- 2.1 notes the procedures for setting the 2016/17 Revenue Budget and Council Tax, as previously agreed by the Policy & Resources Committee on 11 January 2016 and as set out in Appendix A to this report
- 2.2 notes the contents of the Provisional 2016/17 Revenue Budget Volume
- 2.3 notes those factors which it requires to consider when setting the Final Revenue Budget and Council Tax for 2016/17, as detailed in paragraphs 4.1 to 12.2 of this report
- 2.4 notes that the £250 million additional funding provided for the Scottish Government for social care services will enable Councils to ensure that all social care workers including in the independent and third sectors are paid the National Living Wage of £8.25 an hour

### **3.0 BACKGROUND**

- 3.1 The Policy & Resources Committee on 11 January 2016 considered report 25-2016 by the Executive Director of Corporate Services. (Article III of the minute of the meeting of the Policy & Resources Committee on 11 January 2016, Report No: 25-2016 refers). This report detailed the Local Government Finance Settlement for 2016/17, as announced by the Deputy First Minister and Cabinet Secretary for Finance, Constitution & the Economy on 16 December 2015. The report also detailed the proposed procedures to be followed by the Special Policy & Resources Committee on Council Tax setting day (25 February 2016). These procedures are reproduced at Appendix A to this report.

### **4.0 PROVISIONAL REVENUE BUDGET 2016/17**

- 4.1 Over the past few months the Chief Executive and Executive Director of Corporate Services, in conjunction with the other Chief Officers, have been preparing a Provisional Revenue Budget for 2016/17. The outcome of this exercise is reflected in the Provisional 2016/17 Revenue Budget Volume. The total Revenue Budget requirement for 2016/17, as shown on page 1 of the volume, is £354.270m. 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 25 February 2016.
- 4.2 The Provisional 2016/17 Revenue Budget reflects a number of cost pressures and savings that have been identified through the 2015/16 revenue monitoring process, together with new cost pressures that will emerge in 2016/17. Details of these items are shown in Appendix B to this report.

## 5.0 DRAFT REVIEW OF CHARGES 2016/17

- 5.1 A draft 2016/17 Review of Charges document has also been prepared. This shows additional income of £188,000 in 2016/17. The projected additional income is already included in the Provisional 2016/17 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 25 February 2016. It should also be noted that the charges for leisure and cultural services are included in the Review of Charges document for completeness but will actually be set by the board of Leisure & Culture Dundee in due course.

## 6.0 PAY AWARDS, PRICE INFLATION ETC

- 6.1 The Provisional 2016/17 Revenue Budget Volume includes a 1% allowance for pay awards in 2016 for all categories of staff, including Teachers. Allowance has also been made for the increased National Living Wage of £8.25 per hour and for specific and general price inflation, where appropriate.

## 7.0 CONTINGENCY PROVISIONS

- 7.1 A number of Contingency Provisions are included on page 3 of the Provisional 2016/17 Revenue Budget Volume:

### General Contingency (£500,000 in 2016/17)

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 2016/17 Revenue Budget.

### Employer Recruitment Incentive (£66,000 in 2016/17)

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

### National Insurance Contributions (£4,000,000 in 2016/17)

This contingency will be used to meet the increased payroll costs arising from the Westminster Government's decision to withdraw the contracting-out rebate on employers national insurance contributions from 1 April 2016.

### Various Unallocated Savings (£884,000 in 2016/17)

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

### Various Unallocated New Monies (£1,059,000 in 2016/17)

Additional funding has been made available by the Scottish Government for new responsibilities arising from changes in legislation. This funding is being held centrally pending its 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 2016/17 Revenue Budget Volume. This allowance is based on the actual level of capital debt outstanding at 31 March 2015 plus the net new borrowing shown in the 2016-2021 General Services Capital Plan. The projected average annual interest rate is 4.1% for 2016/17. 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 2016/17 is estimated as follows:

	<b>2016/17 £m</b>
General Revenue Funding – as announced	211.613
Non-Domestic Rates – as announced	<u>71.011</u>
	282.624
Estimate of funding yet to be announced *	<u>3.007</u>
	<u><b>285.631</b></u>

\* This relates to funding for Free School Meals, Teachers' Induction Scheme, Discretionary Housing Payments and for 1+2 Language Policy. The Council's share of the overall funding available has not yet been announced, however estimated amounts are included in the Provisional 2016/17 Revenue Budget Volume.

The above figures represent the best-estimate of the Total Revenue Funding that will be available to the Council in 2016/17 and reflect the decisions expected to be taken by the Scottish Parliament in late February 2016. The total of £285.631m requires to be taken into account when setting the 2016/17 Council Tax.

9.2 The Council requires to identify budget savings totalling £9.916m in order to set a balanced budget in 2016/17.

## 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 2014/15 showed a General Fund balance of £12.0m at 31 March 2015, 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 2015/16 Council Tax in February 2015. There were underspends in 2014/15 that related to committed projects that required to be carried forward and met from balances in 2015/16: these are currently estimated at £2.5m. In addition, a sum of £4.5m was ear-marked for a new Organisational Change Fund. Therefore, the effective level of uncommitted General Fund balances carried forward from 2014/15 is currently estimated at £5.0m.
- The 2015/16 expenditure monitoring currently projects an underspend of £4.0m. It will be necessary to fund some of the costs associated with the Voluntary Early Retirement/Voluntary Redundancy Schemes from General Fund balances in 2015/16. At this stage it is not possible to provide an accurate estimate of the amounts involved, however a figure of around £0.8m would appear to be reasonable. In due course, the actual underspend for 2015/16, net of additional VER / VR costs, will be transferred to the Organisational Change Fund.
- Taking all of the above factors into account, the level of uncommitted General Fund balances at 31 March 2016 is estimated 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 2016/17 Council Tax. It should be noted that, in their Report to Members on the 2014/15 audit, the Council's external auditor (KPMG) again made reference to the relatively low level of reserves and balances held by the Council. As at 31 March 2015, 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%	£211k
Price Inflation	Various	+0.1%	£206k
Interest Rates (CLF Average Rate)	4.1%	+0.1%	£327k
Government Grant Income	£285.6m	-1.0%	£2.9m
Chargeable Income	£15.1m	-1.0%	£151k

## 11.0 MEDIUM TERM FINANCIAL OUTLOOK & STRATEGY

11.1 The medium-term financial outlook was set out in report 25-2016 to the Policy & Resources Committee on 11 January 2016. The key conclusions drawn were as follows:

- Local Government in Scotland will experience funding cuts (in both cash and real terms) for the remainder of this decade
- 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 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

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. continuation of Council Tax freeze, 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. 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 once the outcome of the Scottish Government's 2017-2020 Spending review is known.

## 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 2014/15 inclusive show a collection rate of around 96.5% with outstanding amounts continuing to be collected. A provision for the anticipated level of non-collection of the 2016/17 Council Tax requires to be decided by the Special Policy & Resources Committee on 25 February 2016. Elected Members will recall that a non-collection provision of 3.2% was agreed in setting the Council Tax for 2015/16. Based on the actual collection figures referred to above, it would be prudent to use the same level of non-collection when setting the 2016/17 Council Tax.
- 12.2 For the purposes of determining the net Council Tax base, the number of Band D equivalent properties is estimated at 50,357 for 2016/17. This represents a year-on-year increase of 476 Band D equivalent properties, reflecting current billing figures and the on-going impact of the Review of Long Term Empty Property Discount (Article X of the Minute of Meeting of the Policy & Resources Committee on 8<sup>th</sup> December 2014, Report No 440-214 refers). The figure of 50,357 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 TO BE DELEGATED TO DUNDEE HEALTH & SOCIAL CARE INTEGRATION JOINT BOARD**

- 13.1 Budgets totalling c£78 million in 2016/17 will be delegated to the Dundee Integration Joint Board on 1<sup>st</sup> April 2016. These budgets are currently shown within the Social Work (Adults / Older People) and Supporting People pages in the Provisional Budget volume. These budgets include assumptions for various inflationary pressures, including pay awards.
- 13.2 In 2016/17, the Scottish Government has allocated funding totalling £250 million nationally to Health Boards, to pass onto Integration Authorities for social care services. Of the £250 million, the first £125 million is to support additional spend on expanding social care to support the objectives of integration, including through making progress on charging thresholds for all non-residential services to address poverty. This additionality reflects the need to expand capacity to accommodate growth in demand for services as a consequence of demographic change. The second £125 million is to help meet a range of existing costs faced by local authorities in the delivery of effective and high quality health and social care services in the context of reducing budgets. This includes the Scottish Government and COSLA's joint aspiration to deliver the Living Wage for all social care workers as a key step in improving the quality of social care. The allocation of this resource will enable Councils to ensure that all social care workers including in the independent and third sectors are paid the National Living Wage of £8.25 an hour. In 2016/17, Councils can allocate up to £125 million of their 2015/16 costs of providing social care services to Integrated Joint Boards including the uprating of staff to the Living Wage. This will ensure an overall benefit to the provision of health and social care of £250 million. To ensure transparency for the flow of funding support for local authorities and delivery of the Living Wage commitment the arrangements will be signed off at a local level by the appropriate Integration Authority Section 95 Officer.
- 13.3 No assumptions have been made in the Provisional 2016/17 Revenue Budget regarding the potential benefit of funding existing cost pressures around social care from the additional funding that has been made available by the Scottish Government.
- 13.4 Scottish Government has now confirmed the distribution of this funding and the allocation of this for Dundee is £7.65m. Of this £3.83m is to be used to support growth in social care spend and the balance of £3.83m is to provide support for Living Wage and other cost pressures.

### **14.0 CAPITAL PLAN**

- 14.1 A Capital Plan covering the 5 year period 2016 to 2021 was submitted to the Policy & Resources Committee on 24 August 2015 (Article IX of the minute of the meeting of the Policy & Resources Committee on 24 August 2015, Report No 279-2015, refers). The 2016-2021 Capital Plan has been reviewed by officers in light of the Council's Capital Grant figure for 2016/17 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 2016.

### **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 2016/17 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 7/2015 (16 December 2015)

Letter from Deputy First Minister to Leaders of all Scottish Local Authorities (27 January 2016)

**MARJORY M STEWART**  
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**17 FEBRUARY 2016**



## APPENDIX A

### PROCEDURE FOR COUNCIL TAX SETTING DAY - 25 FEBRUARY 2016

<u>Date and Time</u>	<u>Action</u>
25 February 2016 3pm	<p><u>Revenue Budget and Council Tax</u></p> <p>The Special Policy and Resources Committee will consider the City Council's 2016/17 Revenue Budget, as submitted in the Provisional Revenue Budget volume, along with the report by the Executive 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 2016/17.</p>

**COST PRESSURES REFLECTED IN PROVISIONAL 2016/17 REVENUE BUDGET**

<u>Department / Item</u>	<u>£m</u>
Education – 2.3% increase in teachers pension contributions (full year effect)	0.550
Education – shortfall in non-domestic rates budget	0.392
Social Work – cost pressures and demographic pressures	0.400
Social Work – shortfall in national care home contract inflation	0.175
Social Work – non-residential sector pay uplift	0.150
Social Work – replacement contract & care management system	0.150
Social Work – kinship care funding shortfall (per Committee report 427-2015)	0.143
Social Work – DCC contribution towards MASH post	0.017
Environment – various cost pressures and income shortfalls	0.500
Corporate Services – reduction in housing benefit administration grant	0.183
Scottish Welfare Fund – increase to reflect higher grant figure	0.070
Staff Costs – 2.0% pay award wef from 1 April 2016	4.247
Various – inflationary uplift to 2015/16 base budget (net of income uplift)	2.007
Various – new monies included in revised grant settlement	0.524
Various – end of national insurance contracting-out rebate (per Committee report 345-2015)	4.000
Various – other various cost pressures and income shortfalls	0.095
Various – provision for general inflationary pressures / cost pressures	0.500
Corporate – additional loan charges to support new capital borrowing	0.500
	<b>14.603</b>

**SAVINGS REFLECTED IN PROVISIONAL 2016/17 REVENUE BUDGET**

<u>Department / Item</u>	<u>£m</u>
Education – closure of Menzieshill HS (per Committee report 175-2015)	(0.756)
Education – reduction in primary supply budget	(0.302)
Education – reduction in secondary supply budget	(0.302)
Education – slippage allowance for secondary staffing budgets	(0.450)
Education – reduction in PPP schools insurance costs	(0.047)
Education – full year effect of 2014/15 teachers VER savings	(0.265)
Education – various other operational efficiencies	(0.031)
Education – reduction in inflation on schools PPP unitary charge	(0.142)
Education – redesign of pre-school staffing allocations across school and nursery settings	(0.066)
Social Work – remove provision for cost pressures and demographic pressures	(0.400)
Social Work – additional VER savings	(0.010)
City Development – provision of salt barn (per Capital Plan 2016-2021 – Committee report 279-2015)	(0.174)
City Development – saving in Carbon Reduction Commitment Tax	(0.145)
City Development – saving in energy costs	(0.100)
City Development – transfer of Flood Prevention budget to Capital Plan	(0.079)
City Development – reduction in expenditure on mainstream economic development activities to reflect existing underspends	(0.200)

City Development – reduction in cleaning costs to reflect agreed specification	(0.056)
City Development – additional Planning / Building Warrant income	(0.328)
City Development – reduction in car parking CFCR expenditure	(0.150)
Environment – street scene and open space (per Committee report 439-2015)	(1.045)
Environment – additional surplus from Construction Services	(0.500)
Environment – recharging of Landscaping Team to Capital Plan	(0.120)
Environment – increased allowance for staff slippage	(0.113)
Neighbourhood Services – additional HMO income	(0.100)
Neighbourhood Services – additional recharges to HRA	(0.100)
Neighbourhood Services – additional income from translation service	(0.050)
Neighbourhood Services – other additional income from review of charges	(0.020)
Corporate Services – reduction in printing costs	(0.004)
Other Housing – termination of lease at Red Admiral Court	(0.200)
Other Housing – various other savings and efficiencies	(0.097)
Various – full year effect of agreed 2015/16 savings *	(1.037)
Various – remove provision for general inflationary pressures / cost pressures	(0.500)
Various – savings from Council Management Structure Review (per Committee report 216-2015)	(0.400)
Staff Costs – reduction in 2016 pay award to 1%	(2.107)
Corporate – remove provision for additional loan charges to support new capital borrowing	(0.500)
Corporate – savings in loan charges due to lower than budgeted interest costs	(1.000)
Corporate – release of provision for Council Tax exemptions etc.	(0.400)
Corporate – reduction in cost of Council Tax Reduction Scheme	(0.500)
Corporate – reduction in General Contingency	(0.150)
Corporate – removal of contingency for energy costs	(0.321)
Corporate – removal of contingency for additional holiday pay	(0.369)
Corporate – removal of third party payment inflation allowances	(0.231)
Corporate – reduction in general inflation allowances	(0.069)
Corporate – reduction in TVJB requisition	(0.021)
Corporate – reduction in supplementary superannuation costs	(0.045)
	<u>(14.002)</u>

\* Already assumed in £15.957m savings requirement, as reported to Policy & Resources Committee on 26 October 2015