ITEM 4

FINANCIAL STRATEGY 2012/13

Report By Chief Financial Officer

SCOTTISH BORDERS COUNCIL

9 February 2012

1 PURPOSE AND SUMMARY

1.1 **This report seeks approval for the financial strategy for the Council covering the period 2012/13 – 2014/15.**

1.2 The Council aims to provide the best possible services within the resources available.

This requires a financial strategy which:-

a) raises the funds required by the Council to meet approved service levels in the most effective manner;

b) manages the effective deployment of those funds in line with the Council's corporate objectives and approved service plans.

This strategy addresses a number of important issues which must be considered in setting the budget for the coming year. The strategy adopts a revised approach to setting council balances based on a new financial risk register.

2 RECOMMENDATIONS

2.1 **It is recommended that Council approves the financial strategy for 2012/13 – 2014/15 as set out in this report including the reserves strategy and level of balances for 2012/13 detailed in section 3.6.**

3 Financial Strategy 2012/13- 2014/15

3.1 Introduction

The financial strategy set out in this paper recognises the continuing difficult economic outlook and the need for tight fiscal constraint for the foreseeable future. The strategy recognises the Council's duty to set a prudent, sustainable budget, to protect council tax payers and ensure service charges remain as affordable as possible for residents of the Scottish Borders.

The high level financial strategy to be followed over the next three years is therefore to:-

- Freeze council tax in each year of the current 3 year settlement.
- Set a prudent, sustainable budget in line with available recurrent resources.
- Invest in infrastructure through a sustainable capital programme financed by £21.3m loans charges per annum.
- Maintain unallocated reserves of £6.9m for 2012/13 in line with the assessed risk register.
- Maximise income while keeping fees charged to service users at an affordable level.
- Continue to invest in business transformation and efficiency projects to deliver long term financial savings and service benefits.

It is recognised that elected Members may wish to re-examine the Council's priorities following the elections in May 2012. This high level strategy aims to set a framework for the prudent financial management of the Authority over the next three years within which such a review can if necessary take place.

The development of a new longer term financial plan, aligned to Council priorities, early in the new administration will further assist the Council manage its finances as effectively as possible.

3.2 Aggregate External Finance

It is assumed the full level of AEF, estimated at £213.869m excluding specific grants, will be deployed in setting the 2012/13 revenue budget. **This level of funding is conditional upon council tax being frozen at 2007/08 levels during each of the three years of the current spending review.**

3.3 Council Tax

The financial strategy assumes that Council will approve a freeze in the council tax, setting band D equivalent of £1,084 for each of the next three years. All other council tax bands vary as a set proportion of the band D figure. The Scottish Borders tax product following a review of the properties, collection rates and levels of bad debt provision is estimated as £50.326m in 2012/13.

3.4 Council Tax – 2nd Homes

Council has a policy of applying a 10% discount to long trem empty dwellings and 2nd homes which is the minimum discount allowable under the Council Tax (Discount for Unoccupied Dwellings) (Scotland) regulations 2005. This provides £0.715m per annum for affordable housing in the Scottish Borders. The Government are currently consulting on potential changes to these regulations; however, pending any changes the SBC financial strategy in this area should continue as at present.

3.5 Bad Debts

Income collection, including council tax, may be adversely affected by the difficult economic conditions The budget assumes that the bad debt provision be set at £0.125m for sundry debt and £715k for council tax for 2012/13 and this will be kept under review over the three year period.

3.6 Reserves

The Council maintains a number of funds and balances which are reported to elected members at regular intervals during the financial year. Table 2 overleaf shows the actual audited balance at April 2011 and projected balance on each fund at 1 April 2012.

	1 April 2011	**1 April 2012**
	(Actual)	**(Estimated)**
	£'000	**£'000**
Statutory Funds		
Corporate Property Repairs and Renewals Fund	175	175
Plant and Vehicles Renewals Fund	2,860	2,511
Insurance Fund	1,507	1,483
General Fund – Earmarked		
Devolved School Management	1,198	639
Affordable Housing from 2nd Homes Council Tax Discount	1,589	1,214
Specific Departmental Reserves	1,820	571
General Fund – Non-Earmarked	6,868	6,985

The Council holds reserves in order to manage identified risks, smooth uneven cash flows and provide a contingency against unforeseen circumstances. The existence and management of reserves is a fundamental aspect of any sound financial strategy. The financial strategy and the associated reserves position will be subject to scrutiny by the Council auditors and other external agencies.

The Council has previously adopted a policy of holding general fund unallocated balances of between 2% - 4% of net expenditure. This policy has however previously been largely un-tested against the range of risks facing the organisation. In order to more accurately establish the level of balances which should be held, a review of risks facing the Council has been undertaken by senior finance officers as shown in the risk register in appendix 1.

Following this exercise the level of un-allocated general fund balances is now directly informed by an assessment of the risks facing the Council.

This risk assessment has considered issues including the failure by managers to enact effective budgetary control, severe winter weather, the economic downturn, potential contractual claims, and unplanned emergencies e.g. flooding.

This new risk register it is considered better reflects the risks inherent in setting the revenue budget, the reasons why reserves are held in the first place, the scale and complexity of the organisation and also provides greater transparency with regard to the level of balances held.

It is proposed that the Council adopt the risk register shown in appendix 1 as the basis for setting reserve levels in 2012/13. The risk register underpinning general fund reserves will hence forth be reviewed periodically and as part of the budget setting process and any reduction in the level of perceived risk will result in proposals to return balances to fund service expenditure. Conversely, should the level of risk increase, Council will be asked to increase the balances held commensurate with managing these risks.

The useable (i.e. non-earmarked) General Fund Reserve is projected to be at **£6.9m** at 1 April 2012 and this is the level of balances Council are recommended to maintain in financial year 2012/13.

3.7 Treasury Management Strategy

This forms a key aspect of the Council's overall financial management strategy and in line with best practice. The Treasury Management Strategy for 2012/13 is submitted elsewhere on the agenda for approval.

3.8 Capital Investment

The 10 year capital plan and an accompanying report are also submitted elsewhere on the agenda. The financial strategy aims to ensure capital borrowing is within prudential borrowing limits and sustainable in the longer term. In this regard it is important to recognise the capital investment decisions taken now have long term borrowing implications which have the potential to place an undue burden on future tax payers. The draft revenue budget sets loans charges associated with capital borrowing over the next 3 years at £21.3m per annum. This will be kept under review in light of the prevailing economic conditions, opportunities for debt re-structuring and the priorities of the next Administration. The Council has significant revenue resources tied up in capital assets and work will continue within the financial strategy to identify surplus property for disposal in order to reduce revenue running costs and deliver capital receipts.

3.9 Staffing

Pay and associated on-costs represent the largest single element of the council expenditure. The current pay freeze approved by the Council will continue until April 2013. Thereafter, the government has signalled a desire to see public sector pay controlled tightly and consequently is likely to only support modest increases. These are estimated for budgetary purposes at 2% in 2014/15 and 2015/16 and this may reduce further.

The present increment freeze will end in November 2013 and accordingly part year provision has been required in the revenue budget for this item from that date.

The ability to right size the Council's work force in response to continuing financial pressures remains a key tool in mitigating future cost pressures and this strategy, assisted by provision for voluntary severance, should continue. Provision of £1.07m exists in the revenue budget 2012/13 to assist with this policy.

3.10 Local Government Pension Fund

The Council's actuary Barnett Waddingham has now completed the triennial review of pension fund liabilities. This indicates that, based on investment performance, the demographic structure of the fund, changes to retirement ages and the recent move from RPI to CPI, the funding level of the Borders Pension scheme is now 95%, a small reduction from the 97% funding level at the 2008 revaluation. A recovery plan is in place and this shows a period of 13 -14 years will be required to bridge the current funding deficit. This is based on the current recommended 18% employer contribution rate continuing for the next three years.

3.11 Inflation on non pay items

A range of inflationary provision has been made on non pay items and this will be the subject to ongoing scrutiny within the budget process. It is evident that the continuing increasing levels of non pay inflation will require additional resources which will create pressure in future revenue budgets. This will increase the need for future efficiency savings and how we manage inflation requires to be revisited in future updates of this strategy.

3.12 Overall approach to cost reduction and service reviews

It is evident that the Council faces ongoing cost pressures in its revenue budget and this will require a robust financial strategy, an innovative approach to business transformation and change management and an ongoing drive to improve efficiency.

The wider economic outlook, with largely flat cash AEF funding from central government, an ongoing council tax freeze and a range of demographic, environmental, inflationary and other service pressures mean that significant savings will be required year on year to ensure the council balances its books.

In setting future year's revenue budgets these factors lead to the conclusion that net savings year on year of around 2% will require to be found from departments to balance the budget and resource council priorities. This will be a central theme of a new longer term financial plan for the Council.

At present the revenue budget contains provision for a Change Fund of £0.984m based on a 2.6% share of national totals. It is proposed that this provision, if it is not finally required when confirmation of the funding expectations around change funds is intimated by the Government, should be deployed to establish an "efficiency fund." This fund would advance funding to elected Member approved projects and be repaid by service departments through sustainable cash releasing budget savings in line with an agreed repayment profile.

4 IMPLICATIONS

4.1 Financial

There are no additional financial implications associated with this report its content referring specifically to the financial strategy of the Council and the associated revenue and capital budgets.

4.2 Risk and Mitigations

(a) The existence of appropriate balances is a fundamental aspect of sound governance and effective stewardship. There is therefore a risk to the Council from not having an appropriate financial strategy underpinned by cash backed reserves which will be mitigated by approval of this report.

(b) If the identified risks were to materialise, without an appropriate level of reserves, Council would be required to identify alternative funding, possibly at short notice, through reduced services, asset disposals, increased charges or additional unbudgeted borrowing.

4.3 Equalities

There are no adverse equality implications arising from this report.

4.4 Acting Sustainably

There are no economic, social or environmental effects arising directly from this report.

4.5 Carbon Management

There are no effects on carbon emissions.

4.6 Rural Proofing

There are no implications that would compromise the Council's rural proofing policy.

4.7 Changes to Scheme of Administration or Scheme of Delegation

There are no changes required to either the Scheme of Administration or the Scheme of Delegation

5 CONSULTATION

5.1 The Head of Legal and Democratic Services, the Head of Audit and Risk and the Clerk to the Council have been consulted in the preparation of this report.

Approved by

David Robertson
Chief Financial Officer

Author

Name	Designation and Contact Number
David Robertson	01835 825012

Background Papers:
Previous Minute Reference: Council Report 24 November 2011

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Finance can also give information on other language translations as well as providing additional copies.

Contact us at: Debbie Collins, Financial Services Manager, Scottish Borders Council, Council Headquarters, Newtown St Boswells, and Melrose, TD6 0SA.
Telephone – 01835 825018. Fax – 01835 825011. e-mail – debbie.collins@scotborders.gov.uk