
REVENUE BUDGET PLANNING ASSUMPTIONS 2017/18

Report by the Chief Financial Officer

Scottish Borders Council

22 December 2016

1 PURPOSE AND SUMMARY

- 1.1 This report provides the Council with an initial assessment of the broad planning assumptions that should be followed in constructing the revenue plans for 2017/18 onwards following the publication of the Local Government Finance Settlement for 2017/18 on the 15th December 2016. Now the Settlement has been received, this report updates the financial challenge facing the Council and sets out a recommended approach to be followed balancing the budget.**
- 1.2 Reductions in the level of government grant total 4.08% next year. This will see the resources available to the Council reduced by £8.28m when compared to 2016/17.
- 1.3 CMT in planning for the settlement has been assuming a reduction in government grant in the range of 3.5% to 5% as such the actual reduction of 4.08% is in the mid-range of these assumptions.
- 1.4 Coupled with, the reduction in Government grant, the Council will have to fund significant cost pressures next year that will require increases in the Council Tax estimated at 3%, increases in fees & charges and a significant programme of cost reductions to balance the budget and protect core services.
- 1.5 In a late change to its previously published intentions, Scottish Government has now decided that income raised through changes to the Council Tax multiplier (bands E –H) that will take effect from 1st April 2017, will be retained by Councils to contribute to general fund expenditure. This change has significantly helped the underlying financial position and reduced the gap that would otherwise have been required to be funded by the Council.
- 1.6 The £250m made available by Government in 2016/17 via the Health budget to fund the introduction of a Living Wage in the care sector has now been baselined. A further £107m has been provided by Government, again through the Health budget, to fund the full year effect of the Living Wage and further service developments. The Council's budget for 2017/18 is predicated on £5.3m of the £250m national fund being delegated by the Integration Joint Board (IJB) to fund the continuation of this initiative augmented by a pro rata £2.27m share of the £107m.

- 1.7 Government has also made available £120m nationally to establish the Scottish Attainment Fund with £1.38m of specific grant to be allocated to the Borders for distribution to Head teachers.
- 1.8 Members will recall that 2017/18 will be the final year of the 5 year financial plan first commenced in 2013/14. The longer term corporate approach to the budget adopted by the current Administration will by the end of 2016/17 have delivered £26.87m of cost reduction savings. These significant reductions have ensured the council has balanced its budget and delivered a small underspend in each year of the 5 year plan to date. Continuing the robust corporate approach to the budget in 2017/18 focussed on transforming Council services, investment in new technology to reduce costs, greater operational efficiency, new ways of working and the prioritisation of core council services will be required.

2 RECOMMENDATIONS

- 2.1 **It is recommended that Scottish Borders Council notes the outcome of the local government settlement and the planning assumptions being made for the revenue budget for 2017/18.**

3 BACKGROUND

- 3.1 2017/18 will be the final year of the 5 year financial plan first adopted in 2013/14. The longer term approach taken by the Council is advocated by Audit Scotland as good practice. The budget is updated annually on a corporate basis with indicative financial plans for the following four years. The longer term corporate approach to the budget adopted by the current Administration will by the end of the current financial year 2016/17 have delivered £26.87m of cost reduction savings. The majority of these measures have been delivered on a recurrent basis and the significant savings made have ensured the Council has not only balanced its budget each year but it has also delivered a small underspend in each year of the 5 year plan to date. This achievement has been delivered despite a continuing backdrop of austerity in public finances and a 9 year freeze in the council tax which has remained at 2007/08 levels.
- 3.2 The forthcoming budget round has once again proved very challenging for the Council. The government has previously signaled the intention to protect police budgets and to provide a budget settlement for the NHS which protects the level of resources available to health in real terms i.e. resources will increase at or above the level of inflation. With public commitments made to protect these services, the resources available to Local Government, which in total makes up around a third of the Scottish Budget, have diminished. The headline cut to Local Government in Scotland is a £350m reduction.

4 BUDGET PLANNING

4.1 Updated Gap

The challenge now facing the Council has been updated following publication of the Settlement. Since February 2016 a range of additional pressures have also been identified which have led to a revised gap and increased the challenge facing the organisation. The updated gap position highlights the assumptions being made around the current budget position and includes:

- Scottish Government funding levels detailed in the settlement
- Manpower assumptions – relating to pay awards and increments
- Updated cost projections and new pressures

4.2 Local Government Finance Settlement

The draft local government finance settlement was published on the 15 December 2016. The one year Settlement for 2017/18 indicates that the Council will receive £197.586m next year which includes £2.955m of ring-fenced specific grants (Gaelic £2k, Attainment Scotland Funding £1.83m and Criminal Justice Social Work £1.123m.) The settlement reduces the general funding available to the Council as government grant by 4.08% or £8.28m when compared to the resources available in 2016/17. Revenue grant support provides over 80% of the Council's total net revenue budget and further significant cost reductions and the generation of additional income from fees and charges and the Council tax are required in order to bridge the gap.

- 4.3 The initial planning assumption for 2017/18 when the 5 year plan was agreed by Members in February 2016 anticipated a further projected 2% reduction in government grant in 2017/18. This assumption increased when the financial planning process for 2017/18 commenced following

discussion at the CIPFA Directors of Finance Section that concluded a likely cut ranging from between 3.5% and 5% was reasonable. The increase in the final figure to a 4.08% reduction has increased the challenge faced by the Council by £4.25m over and above the £4.03m funding reduction previously assumed for 2017/18 in the 2016/17 5 year Financial Plan. This increase is shown in the table below.

Government grant reduction previously assumed	£4.03m
Grant reduction per 2017/18 Settlement	£8.28m
Increase in grant reduction	£4.25m

The figures quoted in 4.2 above relate to the reduction in government grant comparing the totals in the 2016/17 circular to the comparable document for 2017/18.

4.4 **Council Tax Reform Funding (Multiplier Funding)**

The figures in 4.2 exclude the £111m calculation of additional council tax income which will be raised nationally from changes to the council tax multiplier, now termed Council Tax Reform funding. On 3 November 2016 the parliament passed the Council Tax (substitution of Proportion (Scotland) Order, which altered the ratios of the upper council tax bands relative to the band D average from 1 April 2017. In gross income terms this funding equates to £2.809m for the Borders, the net Council Tax figure after discounts and exemptions is calculated at £2.2m. Originally the Government stated that this change to council tax would "generate £100m for additional revenue to invest in schools. It later confirmed that this funding would be distributed as a ring fenced grant on the basis of free school meal entitlement. In a subsequent policy change announced via the draft budget the Scottish Government clarified that funding for schools would be provided via a National Attainment Fund (see para 4.8) and that all Council Tax raised by this change to the multiplier, which only affects bands E – H, will be retained by Local Authorities to help pay for general fund services.

4.5 **Health and Social Care Fund**

The £250m made available by Government in 2016/17 via the Health budget to fund the introduction of a Living Wage in the care sector and funding pressures associated with the provision of care has now been baselined as recurrent funding. Members will recall that the Living Wage changes to provide an hourly rate of £8.25 for all Social Care staff was introduced from 1st October 2016 and as such the cost of this development was only partially funded by the £250m.

4.6 A further £107m, now termed the Integration Fund, has been provided by Government again through the national Health Service budget to fund the full year effect of the Living Wage and further service developments including sustainability in the care sector increasing the living wage rate to £8.45 per hour from April 2017, disregarding the value of war pensions from financial assessments for social care and pre-implementation work in respect of new carers legislation.

4.7 The government has confirmed that NHS contributions to integration authorities will be maintained at least at 2016/17 cash levels. The budget

for 2017/18 presently assumes £5.3m will be delegated by the Integration Joint Board (IJB) to fund the continuation of this initiative and a further pro rata £2.27m share of the additional £107m made available in 2017/18 is anticipated. This development brings the National total to £357m and there is the ability, should a Council chose to do so, to reduce the allocation of the budget to Integration Authorities by up to their share of £80m (Nationally) [Letter to NHS Chief Executives 15 December 2016] below the level of support provided to the integration authority in 2016/17.

4.8 **Attainment Fund**

Government has indicated that they will make available £120m of specific grants via the Settlement to be spent directly by Head Teachers as the Attainment Scotland Fund. The Borders share of this is £1.83m but no information as to the distribution of this funding has been provided at this juncture.

4.9 **Council tax**

The draft budget also confirmed that the council tax freeze will end but that any increases would be capped at 3%.

4.10 **Non Domestic Rates**

The Council's distribution from the non-domestic rates pool has fallen significantly by £1.656m to £31.938m in 2017/18 compared to £33.594m in 2016/17. This reduction has had a material impact on the overall grant distribution available to the council and forms part of the £8.25m reduction noted above.

4.11 There are a number of funding streams excluded from the current settlement and held back by Scottish Government for future distribution. At present only national figures are available. The main sums held back are shown in the table below.

Funding Stream	National Total
Teacher Induction	£37.473m
Discretionary Housing payments	£47.9m
Temporary Accommodation	£22.5m
Council tax reduction scheme	£42.946m

4.12 **Manpower**

The impact of manpower movement is reflected in the updated gap position. Pay awards are assumed at 1% in 2017/18 and 1.5% for the subsequent 4 years. Increments are reflected on a biennial basis for SJC staff and annually for teachers.

4.13 **Updated and new Revenue Pressures**

All known inflation and pressures have been updated. These pressures include national policy decisions with financial implications for the Council such as the Apprenticeship Levy, Attainment Scotland Fund, Criminal Justice and Rates revaluations. There is also provision built in to support the inflation in Education PPP contract, the new CGI contract and other council budgets that are expected to be subject to inflation.

4.14 **Changes to 2017/18 Assumptions**

In addition to changes in the level of grant funding from Government, the Corporate Management Team (CMT) has also reassessed the assumptions made in forming the indicative 2017/18 financial plan in February 2016. A number of these assumptions

have proved to be too optimistic and have required a reassessment of the challenge facing the Council. Consequently continuing the robust corporate approach to the budget focussed on modernising Council services through the transformation programme, investment in new technology to reduce costs e.g. the new Enterprise Resource Planning System which will replace existing general ledger, HR, payroll, payment and billing systems, greater operational efficiency, new ways of working e.g. sharing services, additional income raised through fees and charges and council tax and the prioritisation of core Council services will all be required.

4.15 **Approach to closing the gap**

Following the publication of the Local Government Finance Settlement the resultant gap is £9.1m. Proposals are being worked up to bridge this gap in setting the 2017/18 budget including:

- A management review of all areas of the budget to ascertain where opportunities exist;
- a review of all existing and proposed budget pressures in order to minimise and absorb pressures within existing budgets wherever possible;
- a review of all existing savings proposals to ascertain whether there are opportunities to increase and / or accelerate the savings already in future years' plan;
- a review of income streams and an increase in Fees & Charges by at least 3% across all areas to generate additional income.
- **an increase in Council tax of 3% across all council tax bands (A- H) in 2017/18.***

***N.B. the proposal to raise council tax by 3% is consistent with the Revenue Plan published in February 2016 and is in addition to the Scottish Government change to the council tax multiplier. A paper showing the effect of the 3% change and the changes to be made to the Council tax multiplier affecting tax bands E – H is contained elsewhere on the Council agenda.**

5 IMPLICATIONS

5.1 **Financial**

There are no further costs associated with the content of this paper its content relating to the preparation of the revenue budget for 2017/18 onwards

5.2 **Risk and Mitigations**

The revenue budget expresses the recommended approach the Council should take to ensure that services are delivered within a prudent and sustainable financial plan. This paper highlights the major planning assumptions to be made in constructing the revenue budget and provides information made available via the draft 2017/18 Local Government Finance Settlement. Figures will only finally be confirmed following acceptance of the Settlement by individual local authorities and parliamentary approval of the Local Government Finance (Scotland) Order 2017 in February. The paper has been prepared using the best information available, including intelligence concerning planning assumptions shared within the Local Government CIPFA Directors of Finance Section.

5.3 **Equalities**

A full equalities impact assessment will be undertaken and published as

part of the budget preparation exercise. There are no adverse impacts due to race, disability, gender, age, sexual orientation or religion/belief arising from the contents of this report.

5.4 Acting Sustainably

There are no significant effects on the economy, community or environment.

5.5 Carbon Management

No effects on carbon emissions are anticipated.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to either the Scheme of Administration or the Scheme of Delegation are required.

6 CONSULTATION

5.1 Corporate Management Team is fully engaged in the preparation of the revenue plans for the forthcoming financial year. The Chief Legal Officer, the Chief Officer Audit and Risk have also been consulted and any comments received will be reported to Council.

Approved by

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Signature

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Previous Minute Reference:

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