Scottish Borders COUNCIL

FINANCIAL STRATEGY 2017/18 – 2021/22

Report By Chief Financial Officer

SCOTTISH BORDERS COUNCIL

9 February 2017

1 PURPOSE AND SUMMARY

1.1 This report seeks approval of the financial strategy for the Council covering the period 2017/18 – 2021/22. The strategy provides the overall framework for the financial management of the Council and covers the revenue budget, capital investment plan, the Council's treasury management arrangements and its reserves policy.

1.2 The Council first adopted a five year approach to financial planning in 2013/14 in recognition of the significant financial challenges facing the organisation as it aims to provide the best possible services within the resources available. The continued adoption of a longer term timeframe for financial planning has enabled the Council to plan the delivery of service changes across financial years, with a focus on modernising services, investing in new technology, and adopting a range of strategic partnerships with our partners in the public, private and third sectors. The corporate transformation programme reported elsewhere on the agenda has provided a major impetus to deliver the necessary service changes and financial benefits required to address corporate priorities and ensure the Council remains financially sound in the short, medium and longer terms.

The financial strategy is designed to ensure the Council:

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

b) manages the effective deployment of those resources in line with the Council's corporate objectives and priorities; and,

c) provides stability in resource planning and service delivery as expressed through revenue and capital budgets and approved Corporate plans.

1.3 2017/18 will be the final year of the 5 year financial plan first published in 2013/14 and we will again set a rolling 5 year plan covering the period 2017/18 to 2021/22. The plan has been amended and updated each year since 2013/14 and to date savings of £26.87m have been delivered in a planned manner. Despite the resource challenges facing the Council and wider public services the approach to financial planning has so far delivered balanced budgets and small underspends in each year of the plan. In the current year 2016/17, the latest monitoring projections indicate, despite pressures in a number of areas, that once again a balanced out turn position will be achieved.

1.4 A one year budget been published via the Local Government Finance Settlement for 2017/18 and consequently it is recognised that beyond the next financial year the financial strategy can only be based on estimated resources. The updated 5 year plan 2017/18 – 2021/22 is however based on the best information currently available and it will continue to be adapted over time to respond to changing circumstances.

1.5 The financial plan is highly dependent on the delivery of savings and a risk based approach has once again been used to set the level of recommended balances. These are held both as contingency against unforeseen circumstances and additionally are used to facilitate the delivery of savings and to smooth the financial plan in the event of non-realisation of the savings envisaged.

2 RECOMMENDATIONS

2.1 It is recommended that Council approves the financial strategy for 2017/18 – 2021/22 as set out below:

- **set a prudent, sustainable budget in line with available resources;**
- **continue to invest in infrastructure through a sustainable capital programme financed by £19.952m loans charges per annum;**
- **maximise income while keeping fees charged to service users at an affordable level;**
- **continue to invest in corporate transformation and efficiency projects to deliver long term financial savings and service benefits;**
- **focus on preventative revenue and capital spend; and,**
- **maintain unallocated reserves of £5.638m for 2017/18 in line with the assessed risk register in appendix 1.**

Financial Strategy 2017/18 - 2021/22

3 Background

3.1 The Council tax freeze which has been in place since 2007/08 has now ended. Despite this the financial strategy set out in this paper recognises the continuing pressure on public sector funding. The 2017/18 settlement for local government reported elsewhere on this agenda has again proven very challenging for the Council.

3.2 This strategy continues to recognise the need to ensure that the Council's budget is targeted so that it:-

- provides the most effective possible stimulus to the wider economy,
- protects the environment of the Borders
- protects those who are most vulnerable in society,
- seeks to focus spend on prevention designed to reduce future demand for council services by stopping problems arising or by addressing problems early on
- maximises the contribution from local collaboration arrangements including the Health and Social care Integrated Joint Board
- recognises the need to continue to maximise efficiency and provide good value for money.

3.3 The strategy also continues to reflect the Council's duty to provide value for money for local tax payers, set a prudent, sustainable budget, to invest in core services, to work effectively with partner organisations - assisting them in the delivery of their strategic objectives where possible, and ensure service charges remain as affordable as possible for residents of the Scottish Borders, whilst ensuring ongoing stability in resource planning and service delivery.

3.4 The recommended high level financial strategy to be followed in updating the financial plan is therefore to:-

- **set a prudent, sustainable budget in line with available resources;**
- **continue to invest in infrastructure through a sustainable capital programme financed by £19.952m loans charges per annum;**
- **maximise income while keeping fees charged to service users at an affordable level;**
- **continue to invest in corporate transformation and efficiency projects to deliver long term financial savings and service benefits;**
- **focus on preventative revenue and capital spend; and,**
- **maintain unallocated reserves of £5.638m for 2017/18 in line with the assessed risk register in appendix 1.**

4 FUNDING

4.1 Aggregate External Finance

Details of the main aspects of the Local Government Finance settlement were reported to Council on the 22 December 2016. Adjustments to the provisional figures of £0.082m have been notified subsequently. These adjustments have reduced the level of grant available to the Council in 2017/18 by £8.362m. Total AEF provided by Scottish Government through the Local Government finance settlement in the form of grant will therefore total £194.549m excluding specific grants in 2017/18. The grant available to the Council in 2017/18 has seen a reduction of 4.12% when compared to the previous financial year. This coupled with the requirement to fund significant financial pressures arising from pay and price inflation, demographic challenges, the revenue consequences of capital investment and other service pressures has placed significant pressure on the revenue budget. These pressures taken together will require savings of £9.475m to be delivered to balance the plan in 2017/18.

4.2 Council Tax

Given these pressures Full Council decided on 22 December 2016 to increase the council tax across all bands by 3% in 2017/18. A full paper on council tax, including the effects of changes which legislation will introduce to the council tax multiplier affecting bands E- H is included at item 8 on this agenda.

5 RESERVES

5.1 Reserves

The Council maintains a number of funds and balances which are reported to elected members at regular intervals during the financial year. Table 1 below shows the projected balance on each fund at 1 April 2017.

Table 1 Funds and Balances	**1 April 2017**
	(Estimated)
	£m
Statutory Funds	
Corporate Property Repairs and Renewals Fund	0
Plant and Vehicles Renewals Fund	4.722
Insurance Fund	1.321
Capital Fund Excl Developer Contributions	0.791
General Fund – Earmarked	
Devolved School Management	1.419
Specific Departmental Reserves	3.192
Allocated reserves	6.215
General Fund – Non-Earmarked	5.638
Total	23.298

5.2 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 adequate reserves is a fundamental aspect of any sound financial strategy. The financial strategy and the associated reserves position is subject to scrutiny by the Council's auditors.

5.3 A Corporate Financial Risk Register has again been used as the basis for setting reserve levels in 2017/18 and future years. This approach seeks to quantify the risks facing the council's finances, including over optimistic saving assumptions, unplanned employment and pension cost increases, the failure by managers to enact effective budgetary control, severe weather events, the economic downturn, potential contractual claims and unplanned emergencies in deriving an appropriate level of unallocated balances.

5.4 A review of the major risks facing the Council has been undertaken by senior finance officers and these are shown in the risk register in appendix 1. The level of un-allocated general fund balances is directly informed by an assessment of the risks facing the Council. This approach, despite being subject to an element of informed judgement, fundamentally 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 appropriate transparency with regard to the level of balances held.

5.5 **Unallocated balances**

Given the issues identified in the risk register and risks inherent in setting the revenue budget, members are recommended to maintain an unallocated general fund equivalent to £5.638m in 2017/18. The unallocated balance projected at the 31st March 2017 equates to just over 2.13% of net revenue expenditure and is sufficient to cover 52% of the risks identified in the risk register.

6 FINANCIAL RISKS

6.1 A number of issues have a bearing on the level of unallocated balances have been identified in the financial risk register set out in appendix 1 The main issues are outlined below.

6.2 **Winter**

Members will recall that £0.65m of the general fund reserves have previously been allocated to winter as part of the final revenue outturn for 2013/14. Currently the monitoring projects indicate that average weather condition have been experienced so far in 2016/17 and consequently winter expenditure this year will be within budget and barring a significant deterioration in the weather between now and the 31 March will not require a draw down to support winter. It is therefore proposed that this balance be rolled forward to the support winter plan in 2017/18.

6.3 **Drawdown of balances to support the revenue and capital budget.**

The 5 year revenue plan assumes the drawdown of £1.353m in 2017/18 from reserves to be repaid in the following 2 financial years.

7 TREASURY AND CAPITAL

7.1 Treasury Management Strategy 2017/18

This forms a key aspect of the Council's overall financial management strategy. The Treasury Management Strategy, submitted at item 9 on the agenda for approval, sets out the arrangements for financing the Council's capital investment plans, the associated prudential indicators, how the treasury function will be organised, and an investment strategy setting out the parameters governing how the Council's investments are to be managed.

7.2 Capital Investment

With regards to the 10 year capital plan 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 and these 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 5 years at £19.952m.

7.3 On-going Monitoring Of Capital Investment and associated costs

These will be kept under review in light of the prevailing economic condition and any opportunities for debt re-structuring. The Council has significant revenue resources tied up in capital assets and work will continue to identify surplus property for disposal in order to reduce revenue running costs and deliver capital receipts.

8 FINANCIAL PLANNING

8.1 Overall approach to cost reduction and service reviews

It is evident that the Council faces on-going cost pressures in its revenue budget and this will require a continued focus on cost control, corporate transformation, robust change management processes and a sustained drive to improve efficiency.

8.2 Staffing

Pay Awards Provision

Public sector pay policy continues to be subject to on-going restraint and the financial plan provides for a of cost of living increases of 1% in 2017/18. The ability to adapt terms and conditions to reflect modern working practices and size the Council's work force in response to continuing financial pressures is a key tool in mitigating future cost pressures. Provision to increase the living wage to £8.45 from April 2017 is included within the financial plan alongside appropriate provision for increments.

8.3 **Bad Debts**

Income collection, including council tax, may be adversely affected by the difficult economic conditions The budget assumes that the contribution to the bad debt provision will remain at £0.125m for sundry debt and £0.715m for council tax for 2017/18 and this will continue to be kept under review.

8.4 **Health and Social care integration**

Health and Social care services have been commissioned through an integrated joint board since 1 April 2016. Scottish Government has baselined the £250m made available nationally in 2016/17 to fund pressures in Health and Social Care services, introduce the living wage for 3rd party care providers and improve outcomes for older people in the Borders accessing health and social care services. To date funding of £5.088m has been agreed with the IJB on a recurrent funding basis. These resources have been used to enhance delivery of the IJB strategic plan, roll-out of the living wage to external care providers and address demographic cost pressures in Adult services. The 2017/18 budget provides for an additional £2.1m as part of an additional £107m made available nationally to fund the ongoing full year implementation of the living wage, increases in the living wage base rate from £8.25 to £8.45 and fund further service developments including sustainability in the wider care sector. The sums available can also be used to fund expenditure pressures and it is assumed that demographic and service pressures totalling £0.487m will also be funded from this funding which will be passed from the IJB to fund services by the council. This anticipated transfer is reflected in the 5 year plan.

9 IMPLICATIONS

9.1 **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 and reserve levels.

9.2 **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.

(c) The budget is being developed pending agreement of the local government settlement by parliament. Any amendments to the finance order by parliament will have implications for the Council's budget in 2017/18.

9.3 **Equalities**

There are no adverse equality implications arising from this report.

9.4 **Acting Sustainably**

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

9.5 **Carbon Management**

There are no effects on carbon emissions.

9.6 **Rural Proofing**

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

9.7 **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

10 CONSULTATION

10.1 The Corporate Management Team, Head of Corporate Governance, the Head of Strategic Policy, 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 **Signature ....**
Chief Financial Officer

Author

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Background Papers:
Previous Minute Reference: Council Report 22 December 2016 and Executive 17 January 2017

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.

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