
REVENUE AND CAPITAL RESOURCES AND COUNCIL TAX 2017/18

Report by the Chief Financial Officer

SCOTTISH BORDERS COUNCIL

9 February 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to advise Council of the estimated revenue and capital resources available for financial year 2017/18 following publication of the local government finance settlement on the 15 December 2016 and subsequent amendments.**
- 1.2 The report also outlines the process supporting the construction of the draft revenue and capital Financial Plans from 2017/18.
- 1.3 The financial constraints and major risks to be addressed are identified.
- 1.4 This paper has been prepared following Scottish Government confirmation that the national 9 year Council Tax freeze is no longer in place. There was approval at the 22nd December 2016 Council meeting to increase Council Tax by 3% in 2017/18 whilst noting the increase is in addition to legislative changes to the 2017 Council tax multiplier affecting bands E - H.
- 1.5 The Corporate Management Team has worked together to support Members to set a Corporate revenue and capital budget to meet identified pressures facing the Council. These pressures have arisen due to the continuing constraints on external revenue and capital funding from central government and the increasing pressures from demographics, inflation and employment costs. The revenue and capital budgets have been designed to ensure the effective deployment of funds available in line with the Council's corporate objectives and approved service plans.
- 1.6 Members approved the fees & charges schedule for 2017/18 on the 22nd December 2016. Any fees & charges not presented at that meeting are appended for approval at item 12 on this agenda.

2 RECOMMENDATIONS

2.1 It is recommended that Council:

- (a) notes the estimated revenue resources for 2017/18 to 2021/22;**
- (b) notes the estimated Capital Resources for 2017/18 to 2026/27 and the requirement to adhere to the prudential code for capital borrowing;**
- (c) agrees a Band D council tax of £1,116.52 for financial year 2017/18, reflecting a 3% increase as a result of the ending of the Scottish Government Council Tax freeze policy after 9 years;**
- (d) approves the council taxes to be paid for 2017/18 in respect of chargeable dwellings as set out in appendix 1 to this report, including increases in bands E-H as a result of legislative changes by Scottish Government to the 2017 Council tax multiplier;**
- (e) proceeds to consider the Administration's proposed Financial Plan for 2017/18 including further associated fees and charges for 2017/18 in addition to those presented to the 22nd December 2016 Council meeting.**

3 REVENUE RESOURCES

3.1 The Local Government Finance Settlement (the Settlement) was published on 15 December 2016 and subsequently revised on the 17th January 2017. The Settlement confirmed resources from the Scottish Government through:

- Revenue Support Grant and Non Domestic Rates of £194.549m;
- Additional specific grant has been confirmed to fund, the Attainment Scotland fund (£1.830m), Community Justice Social Work (£1.123m) and Gaelic (£0.002m);
- Council Tax reform income of £2.809m (gross) has been confirmed as part of the Settlement which reflects the financial benefit to the Council of the legislative changes to the 2017 Council tax multiplier;
- Funding over and above the Settlement has been confirmed to fund, Teachers Induction Scheme, 1 + 2 languages, Temporary Accommodation, Council Tax Reduction Scheme Admin and Discretionary Housing Payments (DHP). All these budgets will be created during 2017/18 when funding is confirmed;
- A further adjustment has been made to reflect assumed resources to be transferred from Health through the NHS to the Social Care Partnership. This income reflects the permanent impact of the 2016/17 funding (£5.088m) approved by the Partnership plus the Council's share of the national £107m funding for 2017/18 (£2.1m) Final adjustments will be made if required to ensure the budgets are in line with that approved through the Integration Joint Board in 2017/18.

The total revenue resources available to the Council for 2017/18 are shown in table 1 on page 5 at £264.758m.

4 THE AEF SETTLEMENT 2017/18

4.1 Mainstream support for Local Government from the Scottish Government is collectively known as Aggregate External Finance (AEF) and comprises:-

- General Revenue Funding to support expenditure on the complete range of Council Services;
- A distribution of funding from the National Non-Domestic Rates Pool;
- Ring-fenced grants which must be used for specified purposes;
- Council Tax reform income as a result of legislative changes to the 2017 Council tax multiplier affecting Council Tax bands E-H.

- 4.2 The Scottish Government has stipulated within the Settlement that it will work with local government partners on implementing the budget and the joint priorities in return for the full funding package which includes the following conditions:
- an additional £120 million for schools to support closing the attainment gap, which will benefit every local authority area, provision for which has been earmarked from the national budget and not from any adjustment to the local government finance settlement;
 - the additional income estimated at £111 million as a result of the Council Tax reforms that will be available in full to be spent in the local authority area it was collected;
 - local authorities will be required to maintain the overall pupil:teacher ratio at 2016-17 levels as reported in the Summary of School Statistics published on 13 December 2016, and secure places for all probationers who require one under the teacher induction scheme. This is supported by a continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the teacher induction scheme;
 - the additional £250 million support for health and social care provided by the NHS through the Integration Fund in 2016-17 will be base-lined from 2017-18 and in addition, this will be increased by a further £107 million to meet the full year costs of the joint aspiration to deliver the Living Wage for social care workers, sleepovers and sustainability (£100m) and removal of social care charges for those in receipt of war pensions and pre-implementation work in respect of the new carers legislation pressures (£7m);
 - to reflect this additional support local authorities will be able to adjust their allocations to Integration Authorities in 2017-18 by up to their share of £80 million below the level of budget agreed with their Integration Authority for 2016-17 (as adjusted where agreed for any one-off items of expenditure which should not feature in the baseline). Taken together these measures will enable Integration Authorities to ensure the collective overall level of funding for social care is maintained at £8 billion; and
 - the flexibility to increase Council Tax by up to 3% which could generate an additional £70 million.
- 4.3 Overall resources from Central Government reflect a decrease of £8.362m compared to 2016/17 comparable totals. The inclusion of the Council Tax reform income to Councils has provided gross income of £2.809m with an estimated net benefit of £2.191m after Council Tax discounts and exemptions are provided for.

Scottish Borders Council						
Draft Revenue Financial Plan 2017/18 - 2021/22						
Revenue Resources						
	2017/18 (Provisional) £'000	2018/19 (Provisional) £'000	2019/20 (Provisional) £'000	2020/21 (Provisional) £'000	2021/22 (Provisional) £'000	Total £'000
Aggregate External Finance						
General Revenue Support	162,611	162,611	162,611	162,611	162,611	813,055
Ring fenced grants	2,955	2,955	2,955	2,955	2,955	14,775
Health & Social Care Partnership	7,188	7,188	7,188	7,188	7,188	35,940
Non-domestic Rates	31,938	31,938	31,938	31,938	31,938	159,690
	204,692	204,692	204,692	204,692	204,692	1,023,460
Draw down and repay Reserves	1,515	(677)	(677)	0	0	161
Earmarked balance	1,349	15	(3,612)	(2,006)	15	(4,239)
Council Tax (Band D £1,116.52 - increase of 3% plus increase as a result of changes to the multiplier)	55,011	57,236	58,307	59,386	59,386	289,326
Council Tax Reform net Income (Multiplier on Bands E-H)	2,191	2,191	2,191	2,191	2,191	10,955
Total	264,758	263,457	260,901	264,263	266,284	1,319,663

5 AEF ESTIMATES 2017/18 AND BEYOND

5.1 At present the Scottish Government has confirmed a one year Settlement and therefore has only published draft AEF figures for 2017/18. In planning resources over the next 5 years the Council has therefore made assumptions about the levels of funding likely to be available and the level of savings which will be required to balance to these estimates.

5.2 Any movement from these assumptions in future finance settlements will require adjustments to be made to the overall level of savings made in the Financial Plan. Despite the absence of firm future figures, the scale of the challenge facing the Council is unlikely to diminish in the foreseeable future and longer term planning for the delivery of savings, which may have significant lead in times and require large scale organisational change remains a useful discipline.

6 THE REVENUE FINANCIAL PLANNING PROCESS 2017/18 TO 2021/22

6.1 The 5 year Financial Plan the Council set for 2016-2021 comprised a one year firm budget for 2016/17 and provisional figures for 2017/18-2020/21. In rolling forward the Financial Plan a corporate approach has again been pursued with a longer term planning horizon used to address the financial and service challenges facing the organisation.

6.2 In order to ensure the continued adoption of a strategic approach Members have previously agreed to focus on the delivery of a major programme of transformational change required to balance the Financial Plan through the Corporate Transformation programme.

- 6.3 Following a review of the Plan previously agreed for 2016-2021, additional pressures have arisen from a reduction in funding from the Scottish Government, increasing demographic pressures, Scottish Government policy decisions such as the requirement to maintain teacher numbers, the Apprenticeship Levy and continuing manpower pressures.
- 6.4 In order to support the longer term Financial Plan Corporate Management Team (CMT) adopted the following process:
- a review and update of the assumptions made within the 2016-21 Financial Plan for funding, pressures and savings;
 - Departments continued to monitor the benefits being realised by their programme of transformation and identified new project savings to meet any budget gap;
 - further savings were identified that can support the Financial Plan which can be implemented in the shorter term;
 - external fees & charges were reviewed as part of the financial planning process to maximise income whilst meeting the needs of the most vulnerable with a minimum increase of 3% unless there was service reason not to do so;
 - CMT proposals were presented to and considered by Elected Members through the Administration Finance & Resources Working Group and have been discussed with the wider Council Administration.

7 CAPITAL RESOURCES

- 7.1 The Council in setting its Capital Plan must adhere to The Prudential Code of Capital Finance (the Code) in Local Authorities as published by CIPFA. The Code was established to both give Local Authorities an element of flexibility but also to ensure they do not over borrow beyond levels that are sustainable over the longer term.
- 7.2 The code requires the Council to set a Capital Annual Treasury Management Strategy (the Strategy) which includes how it will finance its Capital Plans in an affordable and sustainable way. The Strategy is approved each year along with the Revenue and Capital Plans.
- 7.3 The borrowing requirements associated with the proposals are anticipated to be fully financed by the Loans Charges revenue budget of:

	£m
2017/18	19.952
2018/19	19.952
2019/20	19.952
2020/21	19.952
2021/22	19.952

- 7.4 The Administration's 10 year Capital Financial Plan, being presented to Council today, contains the proposed allocations. The Plan presented includes all approved budget changes between years agreed by Executive up to 21st December 2016.

8 CAPITAL FUNDING ASSUMPTIONS

8.1 Capital Financed from current revenue

- (a) Capital Financed from current revenue (CFCR) allows the authority to supplement its capital plan using available revenue sources.
- (b) The proposed plan includes an element of CFCR for cell capping at Easter Langlee and a small element previously agreed for Wilton Lodge Park.

8.2 Scottish Government –Capital Grants

- (a) These are grants issued to Local Authorities for specific projects or areas of expenditure. These include Cycling, Walking and Safer Routes to School (CWSRS), Flood and Schools such as School Estate Review. The proposed plan assumes specific grants of £60.4m over the 10 year period.
- (b) There is however a significant element of unconfirmed funding (£50.1m, 82%) assumed within the plan. The unconfirmed funding elements are Hawick Flood Protection and School Estate Review.
- (c) This is an increase in funding of £6.3m (12%) in comparison to the 2016/17 plan due to increased Hawick Flood Protection and Flood Scheme Preparation funding.

8.3 Other External Capital Grants & Contributions

- (a) Many projects and programs are successful in bringing in matched funding from a range of external sources such as Sports Scotland, Historic Scotland and Lottery and European funds. These funds each come with specific conditions and are usually time limited.
- (b) The majority of the £7.7m funding assumed in the proposed plan is unconfirmed (£5.8m, 75%) and subject to further business case and grant application processes. This unconfirmed funding includes:

Jim Clark Museum	£0.7m
Sir Walter Scott (phase 2)	£2.0m
Central Borders Business Park	£1.0m
Great Tapestry of Scotland - building	£0.7m
Synthetic Pitches	£1.4m

8.4 Developer Contributions

- (a) Developer Contributions are contributions made by private developers for specific items. Legal agreements in place detail the terms of both the location and type of asset. Due to the uncertainty of the timing on payment of these it is not prudent to include large sums of developer contributions being received at the same time as the assets are being constructed. This means the Council is required to either use the General Capital Grant or Borrowing to up front fund the construction until the contributions are received.
- (b) The proposed Plan includes an assumed £5.5m of developer contributions, of which £2.0m is directly related to the proposed new Peebles Bridge which is in the later years of the Plan. There is also an assumption of £0.3m for Broomlands for which there are identified developments.
- (c) The assumption around Peebles Bridge and Broomlands contributions is subject to a timing risk as the proposed Plan assumes that these will be received in line with the construction of the projects; however, an element of the contributions may require to be built first in order to fully release the development progress.

8.5 Capital Receipts

- (a) Capital Receipts are funds generated from the disposal of capital assets. These funds are held in the Capital Fund and used to either finance new capital expenditure or repay existing loan principle. The estimate is reviewed on a regular basis to determine assets available for disposal and their likely disposal value and timing.
- (b) The Plan is predicated on £6.3m of capital receipts being generated over first 5 years of the plan. The assumptions around the deliverability of these will be subject to continual review.

8.6 General Capital Grant

- (a) A General Capital Grant is issued to each Local Authority in Scotland. The capital grant settlement issued to Scottish Borders Council on 15 December 2016, and subsequently amended has resulted in General Capital Grant above the amount previously assumed in the draft plan. The funding levels have therefore been reinstated to the 2015/16 levels. It has been confirmed the £150m of funds top-sliced nationally by Scottish Government in 2016/17 will not now be returned until 2018/2020.
- (b) The total estimated Capital Grant over the period of the Plan is estimated at £143.2m, an increase of £33.2m from the previous Plan. Although indicative grant figures have not been provided for future years the assumption with the Plan are assumed the

2017/18 levels will be maintained. There is a risk that the assumptions for future years may be over or under estimated.

8.7 Replacement Funds

- (a) A fund was established by the Council in 2004 to ensure funds were in place for the continued replacement of its fleet. The fund is used to purchase the vehicles and then reimbursed by the department's revenue budgets over the life of the vehicle. The Plan has assumed purchases of £2m per annum over the period of the Plan which are fully funded from the Fund.
- (b) A Fund was established by the Council in 2016 to ensure funds were available to provide for the replace carpets on synthetic pitches. The plan is based on assumed replacement lives of 10 years for each facility.

8.8 Borrowing

- (a) The balance of the funds required for the Plan is secured by borrowing. Local Authorities are able to borrow to fund Capital expenditure or if given specific consent by Scottish Government. When determining the borrowing requirements the Council must follow the Prudential Code which requires Councils to ensure they are acting prudentially and sustainably. The costs of borrowing are charged to revenue via the Loans Charges Budgets.
- (b) This proposed revenue budget to support capital through loans charges is set out in paragraph 7.2 and the proposed Financial Strategy states that the borrowing will be constrained within this available budget. Decisions to increase capital borrowing will require permanent adjustments, funded by savings elsewhere to be made to the loans charges budget in order to repay additional capital borrowing.
- (c) The proposed Plan includes a total borrowing over the 10 year period of £74.1m borrowing an increase of £6.1m from the previous plan. It is estimated based on assumptions around cash flow and interest rates that this is deliverable within the estimated revenue resources. There however is a risk if interest rates rise above the assumed levels this may result in additional charges. This will require regular monitoring to ensure that the borrowing levels are sustainable and affordable.

- 8.9 The total funding available is £321.1m. The following table summarises the total resources for the proposed Capital Plan and movement from the 2016/17 plan:

	Operational	Strategic	Total	Move vs 2016/17 Plan
	£m	£m	£m	£m
CFCR	0.7	0.0	0.7	0.0
Scottish Government – Specific Grants	15.4	45.0	60.4	6.3
Other External Grants & Contributions	6.2	1.5	7.7	0.0
Developer Contributions	2.8	2.7	5.5	0.9
Estimate Capital receipts	6.0	0.3	6.3	(0.6)
General Capital Grant	45.2	98.0	143.2	33.3
Replacement Funds	6.4	16.8	23.2	3.2
Borrowing	34.3	39.8	74.1	6.1
Total available funding	117.0	204.1	321.1	

9 COUNCIL TAX

- 9.1 Scottish Government has confirmed that the Council Tax freeze which has been in place for 9 years will not continue. As reflected in paragraph 4.2 above, the Settlement for 2017/18 provides flexibility for Councils to increase Council Tax by up to 3%. As approved in the Council report of the 22nd December 2016 Scottish Borders Council will increase Council Tax by 3% in 2017/18. There will be further increases in Council Tax over and above the Council's 3% increase as a result of legislative changes to the 2017 Council Tax multiplier affecting bands E-H. As part of the Settlement arrangements Councils will continue to be funded for the Council Tax freeze previously provided.
- 9.2 It is anticipated that financial budget pressures facing the Council will continue over the next 5 years. For this reason coupled with the removal of the Council Tax freeze policy, the Financial Plan assumes that Council Tax will deliver further additional income of 3% in 2018/19 with further indicative increases of 1% signalled in future financial years. This approach aims to balance the need to provide value for money for the tax payer alongside funding for essential Council services.
- 9.3 The Council is required under legislation to approve its Council Tax for the following financial year commencing 1 April by the 11 March in the preceding financial year.

10 IMPLICATIONS

10.1 Financial Implications

There are no additional financial implications associated with this report, its content referring specifically to the revenue budget.

10.2 Risk And Mitigation

Revenue Plan

- (a) The Council faces a number of risks in setting its Revenue Financial Plan for five years 2017/18 - 2021/22. The main identified risks are set out in the Financial Strategy.
- (b) It should be noted that the offer of funding from Scottish Government contained in the finance circular is provisional at this stage pending Parliamentary approval of the Government's budget bill and the publication of the final 2017/18 funding order. Any adjustment to the Scottish Governments proposed budget and the local government settlement as part of the parliamentary approvals process may require subsequent adjustment to the Council's budget. In this event a further report will be submitted to Council at the earliest opportunity.
- (c) There is an ongoing requirement for robust management action to further develop the Corporate Transformation Programme and continue to deliver Financial Plan savings. This is fundamental to ensure the delivery of the proposals set out in the five year Financial Plan on time and to the levels expected by the approved budget. The failure to deliver savings in line with the budget plan represents the most significant risk to the Council.

Capital Plan

- (d) The key risks associated with the projects and associated funding has been identified and will be monitored on a regular basis within the regular monitoring of the Capital Plan.
- (e) Due to affordability several major projects have not been included within the proposed plan. There are a number which are linked to substantial developer contributions and major housing developments, such as Newtown St'Boswells. There are also a number of ongoing strategic reviews across the Council, including Waste, Roads and School Estates, which may result in Capital requirements. The current discussions with Scottish Government relating to City deal may also result in a requirement for additional capital allowance.
- (f) The Capital Plan includes in various years Planned Program Adjustments which require to be met by project movements with individual financial years. If these movements do not materialise there is a risk the plan will be oversubscribed which will result an adjustment to the loans charges budget from other budget heads. This will be kept under review and be reported on a regular basis the monitoring of the revenue budget and Capital Plan.

Council Tax

- (g) If a Band D Council Tax of less than £1,116.52 is set, revenue resources would be insufficient to meet planned expenditure, unless expenditure plans were to be correspondingly modified.

10.3 **Equalities**

An equalities impact assessment has been undertaken with regard to individual budget proposals, where issues have been identified mitigating actions will be put in place. There are no further equalities impacts arising from this specific report.

10.4 **Acting Sustainably**

The revenue budget will affect the people and economy of the borders it has been designed to be as financially, socially and environmentally sustainable as possible.

10.5 **Carbon Management**

There are no effects on carbon emissions.

10.6 **Rural Proofing**

This report contains no implications that will compromise the Council’s rural proofing strategy.

10.7 **Changes To The Scheme Of Administration Or Scheme Of Delegation**

There are no changes required to either the scheme of administration or the scheme of delegation.

11 CONSULTATION

11.1 Corporate Management Team has compiled the revenue and capital Financial Plan.

11.2 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit & Risk, the Chief Officer HR, and the Clerk to the Council are being consulted and any comments have been reflected in the report.

Approved by

David Robertson
Chief Financial Officer

Signature

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Background Papers:

Previous Minute Reference:

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 Suzy Douglas, Council HQ, sdouglas@scotborders.gov.uk, 01835 824000 X5881.

Council Tax levels 2017/18

Band	Proportion of Band D Tax	£
A	6/9	744.35
B	7/9	868.40
C	8/9	992.46
D	9/9	1,116.52
E	11/9	1,466.98
F	13/9	1,814.35
G	15/9	2,186.52
H	18/9	2,735.47