



## REVENUE BUDGET PLANNING ASSUMPTIONS 2019/20

**Report by the Chief Financial Officer**

**Scottish Borders Council**

**20 December 2018**

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### 1 PURPOSE AND SUMMARY

- 1.1 This report provides Council with an initial assessment of the planning assumptions that should now be followed in constructing the revenue plans for 2019/20 and in subsequent financial years following the publication of the Local Government Finance Settlement for 2019/20 on the 17<sup>th</sup> December 2018. Now the Settlement has been received, this report updates the financial challenge facing the Council and sets out a recommended approach to be followed to balance the budget.
- 1.2 Reductions in the level of government grant being provided to the Council total 2.3% next year. This will see the resources available to the Council reduced by £4.604m when compared to resources available in 2018/19. The comparable figure for Local Government in Scotland is a cash reduction of 2.4%.
- 1.3 Officers in planning for the settlement had been assuming a reduction in government grant of 1% in 2019/20 which was in line with average assumptions across Scotland. The actual cash reduction of 2.3% is significantly higher than estimated and presents significant challenges to the organisation.
- 1.4 The settlement also contains a number of new statutory burdens which authorities are expected to deliver in 2019/20. This includes a requirement to increase the funding available to the Integration Joint Board (IJB) by £2.496m when compared to the 2018/19 recurrent delegated budgets.
- 1.5 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, increases in fees & charges and a significant programme of cost reductions in order to balance the budget and protect core services. The settlement permits the Council to increase the council tax by up to 3% to fund local services and offset the impact of grant reductions.

- 1.5 The Settlement notes that £120m has been made available nationally and will be transferred from the health budget to local government in year for further investment in integration, including delivery of the living wage and uprating of free personal care. This funding is in addition to the £7.347m of delegated budget from the Integration Joint Board (IJB) in 2018/19. This funding is baselined and will continue.
- 1.6 Members will recall that 2019/20 will be the second year of the 5 year financial plan which commenced in 2018/19. This longer term corporate approach to the budget will, by the end of 2018/19 have delivered over £60m of cost reduction savings thereby ensuring the Council has balanced its budget and delivered a small underspends in each year since the 5 year planning approach was first adopted in 2013/14. A corporate approach is again being taken to the development of the budget in 2019/20 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.

## **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 2019/20.**

### **3 BACKGROUND**

- 3.1 2019/20 will be the second year of the second 5 year financial plan first approved in February 2018. 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 following publication of the local government finance settlement. Indicative financial plans for the following four years are also prepared each year reflecting the time taken to plan and deliver effective change programmes. The longer term corporate approach to the budget adopted will by the end of the current financial year 2018/19 have delivered over £60m 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 since 5 year planning was first adopted in 2013/14. This achievement has been delivered despite a continuing backdrop of austerity in public finances.
- 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 for the NHS will increase at or above the level of inflation. It is understood that the budget available to NHS frontline boards, including the national waiting times centre, Scottish Ambulance Service, State Hospital and NHS 24 will increase by 4.2% next year. Resources provided to NHS Borders will it is understood increase by 2.6% in 2019/20. The resources available to Local Government, have in contrast diminished. The headline reduction in the revenue support to be provided to Local Government in Scotland is a £237m reduction in funding provided through the settlement. This equates to a reduction of equating to 2.4% nationally.

### **4 BUDGET PLANNING**

#### **4.1 Updated Gap**

The challenge now facing the Council has been updated following publication of the Settlement. Since February 2018 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 17 December 2018. The one year Settlement for 2019/20 indicates that the Council will receive £207.926m in revenue support from Scottish Government which includes £9.330m of ring-fenced specific grants (Gaelic £1k, Pupil Equity Fund £1.754m, Criminal Justice Social Work £1.177m and Early Learning and Childcare Expansion £6.398m.) The settlement reduces the general funding available to the Council by 2.3% or £4.604m when compared to the resources available in 2018/19. 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 2019/20 when the 5 year plan was agreed by Members in February 2018 anticipated a further projected 2% reduction in government grant in 2019/20. This assumption was amended when the financial planning process for 2019/20 commenced following discussion at the CIPFA Directors of Finance Section. Analysis of assumed grant reductions across Scotland demonstrated that an average reduction in grant of around 1% was a reasonable planning assumption. The grant figures published on the 17 December increased the financial challenge facing the Council by £2.529m over and above the £2m funding reduction previously assumed for planning purposes for 2019/20.
- 4.4 **Health and Social Care Fund**  
The £367m made available by Government since 2016/17 via the Health budget to fund the introduction of the Living Wage in the care sector and funding pressures associated with the provision of care is baselined as recurrent funding of £7.347m.
- 4.5 In 2018/19 a further £66m was made available nationally and £1.537m was provided to the Council via the local government settlement and again this transfer has been baselined within the social care budget for 2019/20.
- 4.6 In 2019/20 the settlement includes a further £108m to be transferred in year from health to local government to fund the ongoing costs of the living wage in the care sector. The Borders share of this funding is £2.496m. A further £12m is also to be distributed for school counsellors to provide additional mental health support in secondary schools. This funding is held back within the settlement. This is noted in table 4.11 below.
- 4.7 It is also understood that £30m is held back within the settlement to fund the introduction of Franks Law providing free personal care for those aged under 65 requiring this support. This is noted in table 4.11 below.
- 4.8 **Pupil Equity Fund**  
Pupil Equity Funding continues in 2019/20 with a reduction of £0.087m to £1.754m from the 2018/19 level of £1.841m.
- 4.9 **Council tax**  
The settlement letter has confirmed that council tax increases should again be capped at a maximum increase of 3%.
- 4.10 **Non Domestic Rates**  
The Council's distribution from the non-domestic rates pool has increased significantly by £3.834m to £36.624m in 2019/20 compared to £32.790m in 2018/19. This increase has however been more than offset by reductions in Revenue Support Grant.

- 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.

<b>Funding Stream</b>	<b>National Total (£m)</b>
Teachers Induction Scheme	£37.600
Discretionary Housing payments	£63.200
Free Personal Care Under 65s	£30.000
School Counselling	£12.000
Scottish Assessors -Barclay Review	£3.300
Gaelic	£0.128
Customer First Top Up	£1.540
Free Sanitary Products - schools	tbc
1+2 languages	£3.000

#### 4.11 **Manpower**

The currently assumed impact of manpower movement is reflected in the updated gap position. Pay awards are assumed at 3% in 2019/20 and 2% for the subsequent 4 years. It is understood however that COSLA Leaders approved a revised pay offer to SJC staff on the 14 December of 3.5% in 2018/19, 3% in 2019/20 and 3% in 2020/21. This equates to a cumulative 9.8% offer over the 3 year period 2018/19 – 20/21. It is understood that teaching staff will be offered a 3% increase in each of the three years beginning 18/19 (with a flat rate of £1,600 for those above £80k in year 1 only). The offer will confirm the already agreed restructuring of the main grade teacher's scale (as set out in the August COSLA Leaders paper) and an extension to that policy intervention giving 2% to promoted posts. It is anticipated that additional funding will be provided by Scottish Government to implement the revised offer to teachers.

#### 4.12 **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 Health & Social Care Funding, Carers Act Extension and Early Learning and Childcare expansion. There is also provision built in to support the inflation in Education PPP contract, the CGI contract and other council budgets that are expected to be subject to inflation.

#### 4.13 **Changes to 2019/20 Assumptions**

In addition to changes in the level of grant funding from Government, the Corporate Management Team has also reassessed the assumptions made in forming the indicative 2019/20 financial plan in February 2018. A number of these assumptions have proved to be too optimistic and have required reassessment. Continuing the robust corporate approach to the budget focussed on modernising Council services through the transformation programme, investment in new technology to reduce costs, 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 to deliver a balanced budget in 2019/20.

#### **4.14 Approach to closing the gap**

Following the publication of the Local Government Finance Settlement the resultant revenue planning gap in 2019/20 totals £11.1m. Proposals are being worked up to bridge this gap including:

- a management review of all areas of the budget to ascertain where further savings 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 savings and / or accelerate the savings already anticipated 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 the Council tax

A paper showing the effect of the 3% Council Tax increase 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 2019/20 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 2019/20 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 in February 2019.

5.3 It is assumed That Scottish Gov't will provide additional funding to support increases in the teacher's pay award and anything above current pay policy i.e. 3% up to £35,500, 2% to £80k and £1,600 flat rate above this level will be funded through additional grant.

5.4 It should also be noted that the government actuaries department has now reduced the discount rate for teachers pensions. This will have the effect of increasing the costs of the scheme in future. It is understood the HM Treasury view responsibility for funding this increase as lying with the devolved administrations and it is assumed that funding to meet the increased liability will be provided by Scottish Government. Provisional figures for SBC highlight the financial implication of the change in the discount rate will be £2.5m based on current pay award assumptions.

## **5.5 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.

## **5.6 Acting Sustainably**

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

## **5.7 Carbon Management**

No effects on carbon emissions are anticipated.

## **5.8 Rural Proofing**

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

## **5.9 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. Due to the late availability of the Local Government Settlement this paper has been issued out-with the normal consultation timescales. Consequently any comments received from the Chief Legal Office or the Chief Officer Audit and Risk will be reported verbally to Council.

**Approved by**

**David Robertson  
Chief Financial Officer**

**Signature .....**

**Author(s)**

Name	Designation and Contact Number
Suzy Douglas	Financial Services Manager 01835 824000 X 5881
David Robertson	Chief Financial Officer 01835 82 5012

**Background Papers:  
Previous Minute Reference:**

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the Author. Information on other language translations as well as additional copies can also be provided.

Contact us at [sdouglas@scotborders.gov.uk](mailto:sdouglas@scotborders.gov.uk)