
BUDGET PLANNING ASSUMPTIONS 2020/21

Report by the Chief Financial Officer

SCOTTISH BORDERS COUNCIL

31 October 2019

1 PURPOSE AND SUMMARY

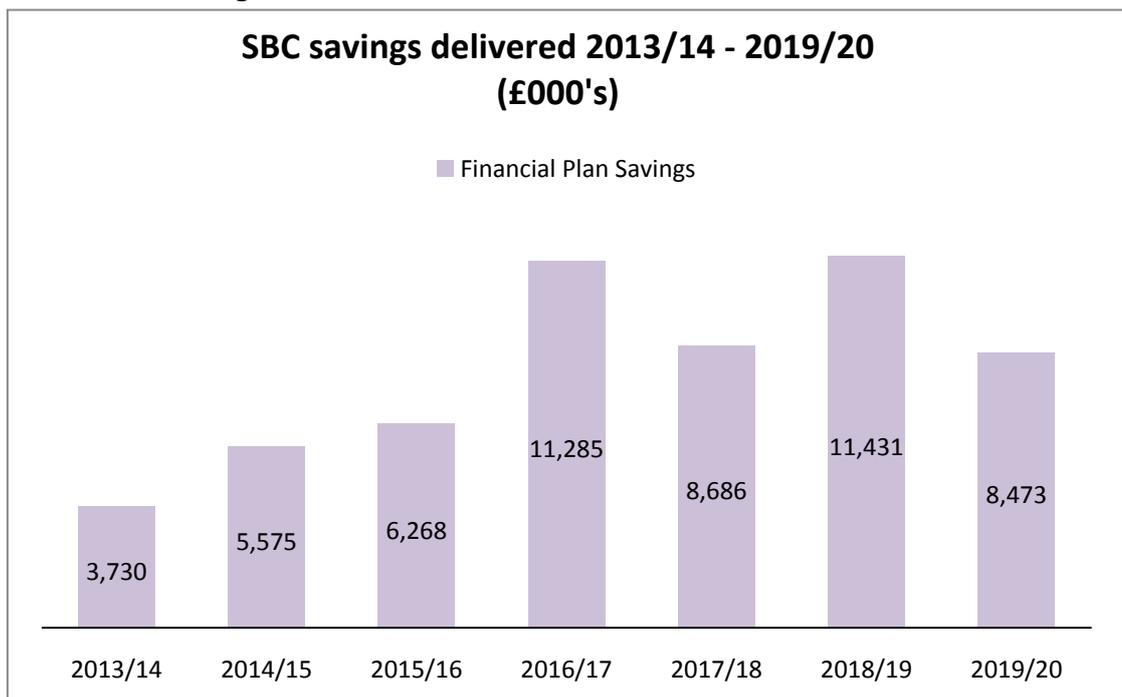
- 1.1 **This report provides Elected Members with an initial high level assessment of the broad planning assumptions being used in developing the revenue and capital plans for 2020/21 and future years.**
- 1.2 A range of assumptions were made as part of the 2019/20 5 year revenue plan approved by Council on 28 February 2019. These assumptions are now being reassessed and updated based on the most up to date information available.
- 1.3 Key assumptions regarding the budget fall into the following categories:
- Local Government Finance Settlement - Revenue Support Grant (RSG) and Non-Domestic Rates (NDR);
 - Council Tax levels;
 - Pay inflation (agreed nationally);
 - Non-pay inflation (e.g. PPP contract, care home contracts, utility costs);
 - H&SC funding;
 - Borrowing Limits to support capital investment;
 - Major changes required to capital plan with respect to Schools and Investment in the Care estate.
- 1.4 Each of the categories above have been reassessed in line with the latest information available with any resultant financial implications being included in the first draft of the 2020/21 budget papers.
- 1.5 Further reports will be brought forward to Council as part of the budget development process for 2020/21.

2 RECOMMENDATIONS

- 2.1 **It is recommended that Elected Members note the planning assumptions being made for the revenue and capital budget planning process for 2020/21.**

3 BACKGROUND

- 3.1 2020/21 will be the third year of the 5 year financial plan first adopted in 2018/19. Members will recall the Council first adopted 5 year planning 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 published for the following four years. The approach adopted to the budget process sets the direction of travel and recognises the timeframes required to embed effective service change.
- 3.2 The most recently approved Financial Plan covers the 5 year period from 2019/20 with assumptions already in place for 2020/21. The longer term corporate approach to the budget adopted will, by the end of the current financial year 2019/20, have delivered over £55m of permanent cost reduction savings.



- 3.3 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 2013/14.

4 BUDGET PLANNING

4.1 Local Government Finance Settlement (LGFS)

The 2019/20 Financial Plan assumed a reduction in the grant settlement in 2020/21 and future years. Based on grant levels provided in previous financial years, officers projected an assumed 1% funding reduction in 2020/21 and 2021/22 with a 0.5% reduction assumed in the final 2 years of the 5 year plan.

- 4.2 Since the current budget was approved in February 2019, COSLA has been working with the Scottish Government to provide Councils with updated budget information to ensure there is a firm understanding of the starting point for the construction of base budgets ahead of any changes resulting from the 2020/21 Local Government Budget process. There is an expectation that following a commitment from the Cabinet Secretary Councils will be issued with a firm one year grant settlement for 2020/21

and indicative allocations for years two and three. This approach is in line with the approach taken to health budgets.

- 4.3 The information provided through the COSLA Base Budget analysis reconciles the funding provided through the LGFS in 2019/20 including in-year grant redeterminations and provides anticipated additional budget for specific purposes as shown in appendix 1. From this national picture we are able to anticipate funding at this early planning stage at a local level.
- 4.4 An updated analysis of the implications of future national budget estimates on figures for Scottish Borders Council indicates that assumptions should now be updated to reflect a more optimistic flat cash settlement for 2020/21, 2021/22 and 2022/23. Whilst this updated assumption is beneficial to the Council it should be noted that a real terms reduction in funding in core grant funding is still anticipated after the effects of inflation are factored into the budget. There is still a requirement to fund significant inflationary pressures outlined later in this report requiring significant compensatory savings to be delivered. It is recommended that the final 2 years of the plan remain at the assumed 0.5% funding reduction given current uncertainty relating to future settlements.
- 4.5 **UK Spending Announcement**
There was a UK Spending Announcement in September which, notwithstanding the current political uncertainty over the UK's withdrawal from the EU, gave key announcements around additional funding for UK public services. These will flow through to the Scottish Governments budget as Barnett consequentials and Scotland's share of the announcements are estimated to be of £1.2bn in 2020/21 representing a 2.1% real terms growth. It would be prudent to remain cautious over any potential benefit to Local Government from this announcement considering the as yet unknown allocation of resources between Health, Police Scotland and Local Government, uncertainty over the impact of Scottish Government's taxation policy and uncertainty over fiscal forecasts which are due to be announced later this Autumn.
- 4.6 **Council Tax**
Council Tax increase assumptions remain unchanged from the 2019/20 approved Financial Plan at an assumed 3% increase in each year from 2020/21.
- 4.7 **Pay inflation**
After a number of years of pay constraint, the pressure has been significantly increasing in recent years to have some level of catch up. Pay bargaining and subsequent pay settlements have resulted in significant additional cost pressure on local government budgets. In recent years the Scottish Government has made statements on public sector pay policy, which reflects a move away from the pay cap that was in force across the public sector in recent years.
- 4.8 The pay negotiations for the SJC (non-teaching) workforce were ultimately concluded, at 3.5% for 2018/19, after an initial position of 3% had been made. Although some allowance may have been made by the Scottish Government in the assumptions that underpin the overall Local Government Financial Settlement, it is not at the level of a 3.5% increase for 2018/19 and 3% for 2019/20. As a three-year agreement is now in place, allowance has also been made in the Financial Plan for 2019/20 and 2020/21 at 3%. The SJC pay settlement provided that pay negotiations could be reopened should the value of the teacher's pay settlement exceed

that agreed for SJC staff groups. While it is not anticipated that the pay negotiations will be re-opened, that cannot be discounted as a possibility.

- 4.9 The negotiations for the teacher workforce were protracted during 2018/19, and ultimately resulted in the Scottish Government implementing and funding "policy interventions". This was due to a noticeable decline in students taking up the university places available, and increasing challenges in a number of local authority areas where it has been difficult to fill all their teaching vacancies. Austerity and public sector pay restraint over the past ten years was deemed to be causing negative impacts on recruitment to, and retention of, staff in the teaching profession.
- 4.10 For 2018/19 the Scottish Government funded 1% of the 3% pay award for salaries above £36,500. From January 2019 there was funding of 3% salary inflation, together with a collapsing of the main grade scale from six incremental points down to five incremental points, increasing the starting salary for probationary teachers, in line with other graduate professions. Furthermore, the Scottish Government funded 1% salary inflation from April 2020 and the cumulative future effect of these elements on salary inflation for future years. The cumulative impact of this complicated pay settlement for the c. 52,000 teachers in Scottish schools, will result in a compound increase in teacher pay of 13.51% over three years.
- 4.11 Assumptions for both teachers and SJC in future years of the plan where no pay deal is currently in place are 2% increases in each year.
- 4.12 **Non-pay inflation**
Inflation assumptions are made within the budget through % increases which are primarily based on either assumed % contract inflation or directly linked to RPI or CPI rates. For planning purposes and based on recent trends RPI and CPI projections for 2020/21 have been assumed at 2.8% and 2% respectively.
- 4.13 **Health and Social Care Fund**
The assumptions included within the 2019/20 Financial Plan around H&SC have been updated where appropriate and are now reflected as follows:
- assume the current Social Care Fund of at least £7.347m will continue to be directed to the Council through the IJB
 - it has been confirmed in the COSLA base budget work, referenced above, that the additional funding allocated directly to LAs as part of the 2019/20 settlement (£2.496m) has been baselined and will therefore be included in the base budget permanently from 2020/21
 - no additional funding has been confirmed in the 2020/21 COSLA analysis at this stage for H&SC therefore it is deemed prudent to build in anticipated demographic costs and further increases to the Living Wage as being funded by the Council as part of the Financial Plan.
- 4.14 In further developing longer term planning the Council's approach will extend to preparing a 10 year outlook from 2020/21. This approach will make best estimates on key aspects of the budget as outlined above and will be presented to Council as part of the budget papers in February 2020.
- 4.15 Scenario planning previously employed as part of the budget process will also be further developed during the 2020/21 financial planning process

to ensure the Council is as prepared as possible for any eventuality by assuming a high, medium and low outcome for each variable.

4.16 **Approach to balancing the revenue budget**

A first draft of the 2020/21 budget proposals are currently being developed. Proposals are being worked up to balance the 2020/21 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;
- further development of the Council's Fit for 2024 transformation programme to deliver significant efficiencies;
- 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 2020/21.

4.17 **Capital Plan**

The Capital Plan will be reviewed and updated for 2020/21 with specific update required in light of Scottish Government announcements on funding of new schools and also requirements to invest in the care estate. Borrowing implications will be assessed as part of this review to ensure affordability within the revenue plan.

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 Council's budget for 2020/21 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 available at this early stage in the 2020/21 financial planning process. Assumptions will continue to change and develop as further information becomes available leading up to the Local Government Finance Settlement in December 2019 and approval of the budget in February 2020.

There are risks that the planning assumptions are too optimistic, any impact from this will be mitigated through scenario planning as part of the financial planning process.

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

6.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

6.2 Corporate Management Team is fully engaged in the preparation of the revenue plans for the forthcoming financial year.

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 825012

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

Scottish assumptions on the national budget (SBC to receive a share of this)**Revenue Expected Baseline 2020-21**

	General Resource Grant £m	NDRI £m	Specific Grants £m	Total £m
Revenue 2019-20 Base Budget	6,932.558	2,853.000	507.732	10,293.290
Total Expected Redeterminations	65.946	0.000	201.000	266.946
Total Expected Baseline Revenue 2020-21	6,998.504	2,853.000	708.732	10,560.236

Capital Expected Baseline 2020-21

	General Capital Grant £m	Specific Grants £m	Total Capital £m
Circular 2/2019	703.969	380.241	1,084.210
Less Early Learning and Childcare 19-20		-175.000	-175.000
Add Early Learning and Childcare 20-21		121.000	121.000
Less Reprofiled From 2016-17	-122.800	-27.159	-149.959
Town Centre Fund		-50.000	-50.000
Total Expected	-122.800	-131.159	-253.959
Total Expected Baseline Capital 2020-21	581.169	249.082	830.251