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## **BUDGET PLANNING ASSUMPTIONS 2021/22**

### **Report by the Executive Director Finance and Regulatory**

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## **SCOTTISH BORDERS COUNCIL**

**17 December 2020**

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### **1 PURPOSE AND SUMMARY**

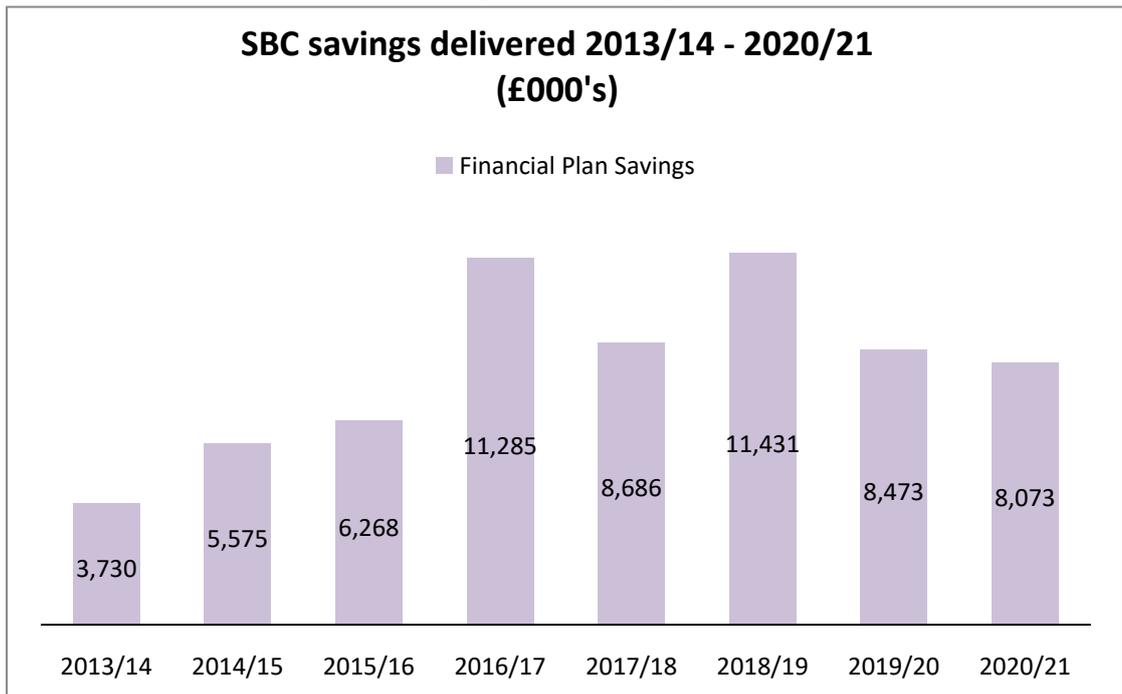
- 1.1 **This report provides Elected Members with an initial high level assessment of the broad planning assumptions being used in developing the Council's revenue and capital plans for 2021/22 and future years.**
- 1.2 A range of assumptions were made as part of the 2020/21 five year revenue plan approved by Council on 26 February 2020. These assumptions have now been 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;
  - Pay inflation (agreed nationally) and pension contributions;
  - Non-pay inflation (e.g. PPP contract, care home contracts, utility costs);
  - H&SC funding;
  - Ongoing COVID-19 impacts;
  - Assumptions on pension contributions;
  - Review of the capital plan.
- 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 2021/22 budget papers.
- 1.5 Further reports will be brought forward to Council as part of the budget development process for 2021/22.

### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that Members note the planning assumptions being made and agree these as the basis of the revenue and capital budget planning process for 2021/22.**

### 3 BACKGROUND

- 3.1 2021/22 will be the fourth year of the 5 year financial plan first adopted in 2018/19. Members will recall the Council first adopted 5 year revenue 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 longer term approach adopted to the budget process sets the direction of travel and recognises the timeframes required to fully embed effective service change.
- 3.2 The most recently approved Financial Plan covers the 5 year period from 2020/21 with a number of assumptions already in place for 2021/22. The longer term corporate approach to the budget adopted will, by the end of the current financial year 2020/21, have delivered over £64m of permanent cost reduction savings since inception.



- 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. This approach to financial planning, has ensured the continuing financial sustainability of the Council during a period of unprecedented challenges for public finances.

### 4 BUDGET PLANNING

#### 4.1 Local Government Finance Settlement (LGFS)

The 2020/21 Financial Plan assumed a reduction in the grant settlement in 2021/22 and future years. Based on grant levels provided in previous financial years, officers projected an assumed 1% funding reduction in each of the financial years from 2021/22 to 2024/25.

- 4.2 An updated analysis of the implications of future national budget estimates on figures for Scottish Borders Council indicates that this assumption remains realistic with a funding reduction of 1% in each financial year continuing to be forecast and reflected in the 5 year revenue plan. The Council has recently received confirmation that the Local Government Finance Settlement for 2021/22 is now expected on the 28<sup>th</sup> January 2021.

As in previous years this settlement will cover one financial year only with the aspiration of receiving multi-year settlements still to be realised.

#### 4.3 **UK Spending Announcement**

The UK Spending Announcement in November which, notwithstanding the current political uncertainty over the UK's withdrawal from the EU and the on-going impacts of COVID-19, gave key announcements around additional funding for UK public services. These will flow through to the Scottish Government's budget as Barnett consequentials. Scotland's share of the announcements are estimated to be in the order of £2.4bn in 2021/22. A significant element of this increase relates to COVID-19 funding of £1.3bn. The projected increase in funding covers the whole public sector in Scotland including the NHS. It is considered prudent to remain cautious over the level of potential benefits that may accrue to Local Government from this announcement considering the as yet unknown allocation of resources between Health, Further Education, Protective Services and Local Government.

#### 4.4 **Council Tax**

Council Tax increase assumptions remain unchanged from the 2020/21 approved Financial Plan at an assumed 3% increase in each year from 2021/22.

- 4.5 The table below shows impacts on Council Tax levels at the assumed 3% along with 2%, 1% and 0%. It should be noted that any deviation from the planned increase of 3% will have an impact on the financial plan. For example an increase of 2% would leave a funding shortfall of £0.6m, an increase of 1% would leave a funding shortfall of £1.3m and no increase in Council Tax would leave a gap of £2m in the 2021/22 financial plan.

<b>Council Tax Income Financial Plan 2021/2022</b>	<b>% Increase</b>	<b>2021/22 (Provisional) £000's</b>
<b>Forecast Council Tax Income at Increase</b>	<b>3%</b>	<b>£68,419</b>
<b>Impact of 3% (as assumed in draft budget)</b>		<b>£1,981</b>
<b>Forecast Council Tax Income at Increase</b>	<b>2%</b>	<b>£67,759</b>
<b>Impact of 2%</b>		<b>£1,321</b>
<b>Forecast Council Tax Income at Increase</b>	<b>1%</b>	<b>£67,099</b>
<b>Impact of 1%</b>		<b>£661</b>
<b>Forecast Council Tax Income at Increase</b>	<b>0%</b>	<b>£66,438</b>

#### 4.6 **Pay inflation and pension contributions**

A 3 year pay agreement has been in place, including all Local Government staff, covering the period 2018/19 to 2020/21. New pay negotiations have commenced nationally to consider pay levels for 2021/22, with potentially a further multi-year proposal being agreed. Current planning assumptions for Scottish Borders Council are that a pay award of 2% will be made in each of the 5 years of the Plan. Any national deviation from this level, along with any national funding to support pay, will require to be reflected in the plan as information becomes available. A 1% increase in the pay bill is equivalent to £1.6m.

- 4.7 The Scottish Borders Council Pension Fund is currently finalising the 2020 triennial valuation which reviews the Funds funding level and sets the Employer contribution rates. The Fund is working with the Actuary to enable contribution rates to be kept as nearly constant as possible for employers whilst ensuring the funds required to pay pensions are in

place. This valuation however has additional challenges which will result in increased liabilities for the Fund. These areas include the recent McCloud case, the breach of the Cost Cap, final outcomes of the Guaranteed Minimum Pension and the effect of COVID on longer term markets. The full effect of these are currently unknown but recommendations will be presented to the Pension Fund Committee and Pension Fund Board which will see the rates set at 18% until 31 March 2024 and a recommended increase thereafter of between 0.5% and 1%. The final increase on 1st April 2024 will be closely monitored as the outcome of challenges are more fully known.

#### **4.8 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 1.5% and 1% respectively. This level is significantly lower than historical levels due to the impact of COVID-19. It is anticipated inflation levels will return broadly to pre-COVID-19 levels from 2022/23 which will be reflected in the plan.

#### **4.9 Health and Social Care Fund**

The assumptions included within the 2020/21 Financial Plan around H&SC have been updated where appropriate and are now reflected as follows:

- It is assumed the current Social Care Fund of at least £7.619m will continue to be directed to the Council through the IJB;
- To date no additional funding has been confirmed for 2021/22 specifically for H&SC but given the specific funding received in the last 3 financial years coupled with the continued impact of COVID-19 on these services it is deemed reasonable to assume that anticipated demographic costs and further increases to the Living Wage will be funded through increased Scottish Government grant in line with previous practice. When known this funding will be reflected in the Financial Plan.

#### **4.10 Ongoing impact of COVID-19**

There are currently anticipated impacts of COVID-19 which will extend into 2021/22. As such the Corporate Management Team (CMT) is proposing to provide for additional anticipated revenue costs on a one-off basis in the budget for 2021/22. Any ongoing impact will then be assessed during 2021/22 when further consideration can be given to any permanent budget adjustments required as part of the 2022/23 financial plan.

4.11 In further developing longer term planning, the Council's approach extended to preparing a 10 year outlook from 2020/21 which will continue to be developed as part of the 2021/22 financial planning process. This approach makes 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/March 2021.

4.12 Scenario planning will be a crucial element of the 2021/22 financial planning process given uncertainties around the Local Government Finance Settlement, pay award levels and ongoing financial impacts of COVID-19. It is therefore essential that the Council is as prepared as possible for any eventuality by assuming high, medium and low outcomes for each variable and continues to plan on a realistic, prudent basis.

#### 4.13 **Approach to balancing the revenue budget**

A first draft of the 2021/22 budget proposals are currently being developed. Proposals are being worked up to balance the 2021/22 budget including:

- 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 ensure there are firm plans in place for delivery from the 1<sup>st</sup> April 2021 and to ascertain whether there are opportunities to increase and / or accelerate the savings already in future years' plan;
- the Council's Fit for 2024 transformation programme continues to be the key vehicle for delivery of significant transformational change within the organisation. It is assumed that this approach to transformation will deliver the savings required to balance the plan;
- a review of income streams and an increase in Fees & Charges by at least 3% across all areas to generate additional income.

#### 4.14 **Capital Plan**

The Capital Plan is being reviewed and updated for 2021/22. The assumed General Capital Grant from Scottish Government for 2021/22 is £14.8m. Assumptions have also been made on specific grants from Scottish Government to support projects such as Hawick Flood Protection scheme, Cycling, Walking & Safer Streets and Early Years expansion. The Capital planning process includes the provision of updated budget estimates through the Project Business Case (PBC) process with updates in the following key priorities requiring update in the 2021/22 Capital Plan:

- Provision of new care homes;
- New schools including the addition of Peebles High School;
- Reflection of £28.3m investment in digital transformation to enable revenue savings and service improvements as part of the CGI contract extension (total £34m investment with £5.7m provided for as part of the 2020/21 Capital Plan).

4.15 Borrowing implications will be assessed as part of this review of the Capital Plan to ensure capital affordability and 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 2021/22 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 2021/22 financial planning process. Assumptions will continue to change and develop as further information becomes available leading up to the Local Government Finance Settlement in January 2021 and approval of the budget in February/March 2021. 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 Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into this report.

6.2 CMT is fully engaged in the preparation of the revenue and capital plans for the forthcoming financial year.

### **Approved by**

**David Robertson**

**Executive Director Finance and Regulatory Services**

**Signature .....**

### **Author(s)**

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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 Author. Information on other language translations as well as additional copies can also be provided.

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