SCOTTISH BORDERS COUNCIL

LONG TERM FINANCIAL STRATEGY (REVENUE)

2023/2024 - 2032/2033

Scottish Borders COUNCIL

EXECUTIVE SUMMARY

The Scottish Borders Council Long Term Financial Strategy (LTFS) is an important component of the Financial Planning process. It underpins the longer term sustainability of the Council and ensures that the financial implications of service delivery are properly considered, affordable and reflected in future budgets. The primary objective of the strategy is to ensure the Council continues to live within its means, balancing expenditure against the income raised through Government grant, Non-Domestic Rates, Council Tax and fees and charges. As such the long term financial strategy is a key tool helping the Council to deliver the objectives set out in the updated Council Plan.

This strategy seeks to build on our initial longer term Strategy adopted by the Council as part of its Financial Strategy in 2022/23 which took a 10 year view of the financial and operating environment facing the Council. The plan thereby aligns a 10 year revenue look forward for revenue income and expenditure with a 10 year look forward adopted for our planned investment in assets as set out in the Council's published Capital Strategy.

The adoption of a medium to longer term approach for financial planning enables the Council to plan the delivery of service changes across financial years through modernising services, investing in new technology, and in developing its strategic partnerships to provide longer term benefits. This approach enables the required changes to services to be delivered in a more planned, holistic manner, mitigating the need for reactive cuts to services.

This medium to longer term approach is central to the Council's Fit for 2024 transformation programme which is now fully embedded within the budget process with the delivery of cross cutting savings integral to balancing the budget.

The planning approach encompasses a longer term 10 year look forward that seeks to identify the challenges facing the Council and the opportunities we have to address them. This allows the Council to better integrate its approach to people, business, asset and financial planning processes and ensure these are fully aligned to clear priorities set out in the Council Plan. These priorities will in future be developed and defined in a co-productive way fully involving local communities, our community planning partners and the third sector.

The Long Term Financial Strategy for revenue makes a number of key assumptions. **2023/24** represents year 1 base year, with **2024/25 – 2027/28** reflected in the Council's published Revenue Financial Plan. This strategy forecasts a further 5 years giving a longer term 10 year view of both the revenue and capital budgets.

The strategy supports the Council to deliver the following outcomes:

- A forecast balanced budget in each of the 10 years of the Plan, assuming that required savings to balance the plan will be delivered on a recurring basis;
- Delivery of savings through transformational change allowing significant investment in service improvements; and
- Borrowing funded through revenue, in line with investment detailed in the Capital Plan.

The production of this strategy demonstrates that the Council is looking to the future including anticipated expenditure commitments, planned new developments and income streams.

The Council recognises that it must modernise in the face of resource constraints, changing demographics, rising expectations, calls for greater community involvement in decisions over the design and delivery of public services and the ongoing reform of the Scottish Public Sector.

With limited resources and increasing pressure on Council services it is clear we need to adapt and change the Council to be more efficient, more responsive to its citizens and more sustainable. We therefore need to adopt a co-productive approach that fully involves communities in decisions over place based and online service redesign from the outset, and ensures an approach that supports and empowers them when a different model of service delivery is proposed.

The strategy set out in this document will therefore be used to guide the Council to inform future decision making and financial planning. Many of the challenging decisions and actions necessary will require clear vision, effective partnership working, good communication and the buy in of communities through initiatives like **#playyourpart.**

This strategy seeks to ensure the Council addresses these challenges and remains financially sustainable over the longer term by living within our means, prioritising those things that are most important, adopting new ways of working, ensuring the Council is operating as efficiently as possible, exploiting new technology, developing further commercial opportunities where possible and engaging effectively with the people of the Borders to improve their quality of life and their experience of engaging with the Council.

The changes required must be understood in the context of the wider financial position of the Council, our transformation plans, wider public policy, the landscape of public service delivery in Scotland within which we operate and new national approaches such as Participatory Budgeting/ Community Choices.

CONTEXT

The LTFS is part of a suite of strategic management plans including:

- Council Plan
- Council's Financial & Transformation plans
- Capital Investment Strategy
- Treasury Strategy
- Digital Strategy
- Anti-poverty Strategy
- Climate Change route map
- Procurement Strategy

As well as transforming the services the Council provides, and the way in which they are provided, the Council must also ensure that it is sustainable for the future. In order to do this, the Council needs to ensure that it has a sound financial base, good governance arrangements, efficient processes that are joined up and automated wherever possible, effective transformation plans, strong ICT infrastructure and capabilities, well maintained operational premises, and a well-trained and motivated workforce.

The LTFS projects forward the approach already taken to the medium term financial plan which is developed over a 5 year timescale and aims to identify the financial impact of known, anticipated and potential events and requirements over a 10 year time-frame.

It is recognised that future projections covering this length of time will naturally contain some degree of uncertainty and the strategy therefore sets out clearly the assumptions made. In doing so the Council has reviewed a range of different potential outcomes with a best, worst and mid case scenario and has assumed that a mid case scenario will apply as the most likely outcome (as set out in Appendix 2).

The level of uncertainty and risk increases as the amount of influence the Council has over events reduces and the timespan of the projection increases. However, it is crucial that in planning the future model of public service delivery in the Borders that the Council takes this long-term view, models the range of outcomes which may occur and accepts the inherent uncertainties in future planning. By considering a range of outcomes it is felt that this will give the Council the best chance of optimising its future service delivery model and responding to the changes required.

The key to future sustainability is to develop a range of deliverable options and solutions which can be adapted quickly to reflect changing circumstances. Flexibility and agility are needed when conditions and outcomes are uncertain. In order to do this, the Council must have clear priorities, policies and plans supported by robust information and evidence so that financial resources can be targeted in the most effective way.

The Council is clear that it wants the Borders to be a place where people want to live and learn; an attractive destination for visitors, with high quality job opportunities and infrastructure which provides the conditions for local businesses to thrive in a smart rural region. This includes the provision of high-quality, online connectivity for our homes, businesses and communities.

The Council is clear that it operates within a wider economic context and therefore in realising this vision a number of key issues and risks have to be considered.

KEY INFLUENCES AND RISKS

The LTFS has considered a number of key macro-economic issues, some of which are out with the Council's control, and those internal issues which the Council has the ability to influence. Both external and internal influences need to be considered with key variables modelled to guide Council decisions about the future.

External Influences (outwith the Council's control)

Economic changes such as:

- Interest rate fluctuations;
- Level of grant funding from Scottish Government;
- National Pay agreements and wider price inflation;
- Unemployment levels in the Borders; and
- Supply chain issues associated with the wider economy.

Climate related issues such as:

- Climate change;
- Flooding; and
- Storm damage.

Public Health issues including:

- The health and wellbeing of the local population; and
- Further financial and economic impacts from COVID-19 and potential future pandemics.

Internal Influences (within the Council's control)

- Working to clear corporate priorities as set out in the Council Plan;
- Transformational change programme to improve outcomes;
- Effective people planning;
- Asset management plan to optimise the Council's property estate;
- Use of robust performance data to drive improvement;
- Use of digital technology and automation to improve services and reduce costs;
- The Council's commitment to net zero and resultant actions required to reduce the carbon footprint;
- Community engagement, partnership working and co-production of future service delivery models;
- Community Empowerment including Participatory Budgeting/Community Choices with a Council commitment that communities will be enabled to make and influence decisions at a local level equating to 1% of the Council's budget; and
- Optimising the Council's treasury function and ensuring the financing of the capital programme remains affordable to the Council in the longer term.

KEY VARIABLES INFLUENCING THE PLAN

For this Long Term Financial Strategy, **2023/24** represents year 1 base year. The Council's medium term financial plan covers the period to **2027/28** and this longer term financial plan projects forward to 2032/33 giving a longer term 10 year view of the revenue budget. This strategy thereby aligns the planning horizon for revenue with the approach already adopted for capital. The following key variables have been considered in preparing the 10 year plan:

- Anticipated Scottish Government funding levels;
- Council Tax income levels;
- Opportunities for increased commercialisation to increase income including fees & charges and increased grant funding opportunities;
- Assumptions on inflation including pay increases;
- Assumptions on increased demand for services such as in Health & Social Care services;
- Investment in modernisation of the Council such as:
    - IT investment to improve services, deliver revenue savings and to maintain a secure and reliable operating environment;
    - investment in plant and vehicles to improve service delivery and addressing climate change, replacing ageing vehicles with modern electric vehicles where possible; and
    - investment in buildings to improve service delivery and energy efficiency.

- Savings deliverable from transformational change including investment in digital technologies, increased automation and a reducing property footprint;

- Loans charges – the revenue cost of borrowing to support investment through the Capital Plan including the recent Service Concessions Arrangement where PPP debt has been reprofiled over the life of the asset rather than the life of the contract; and

- National policy decisions which will impact on Local Government in the future such as the National Care Service.

This is not an exhaustive list of variables which need to be considered; however, the issues identified are considered to be the core issues which require to be considered. If these are followed and refined in the future, this will provide the Council with a robust approach to ensuring that the Council remains financially and operationally sustainable, and in doing so ensures that it meets its statutory obligations, its policy aspirations and the needs of local communities.

Anticipated Scottish Government funding levels

Scottish Government grant through Revenue Support Grant (RSG) and Non-Domestic Rates (NDR) accounts for around 80% of the Council's funding. The Scottish Government has historically provided one year funding settlements to Local Authorities which has impacted on the ability to plan over the longer term with certainty. Single year settlements from Scottish Government have required the Council to make assumptions in the revenue plan from years 2-5 and plan on that basis.

For financial year **2023/24** another one year settlement was provided in **December 2022** and updated in **January 2023.** There is a commitment from Scottish Government to multi-year settlements in the future.

Looking forward, the policy intent set out in the Scottish Governments' programme for government and the pressures being experienced in the Health Service budget drive a broad expectation that resources for local government services will continue to be constrained for the foreseeable future.

The current assumptions are that there will be a flat cash settlement each year in the core Grant Aided Expenditure (GAE) from Scottish Government. Each 1% deviation from this flat cash position accounts for around **£2.5m** of movement in funding.

Should a future reduction in Scottish Government grant materialise, options for bridging the resultant budget gap would be to apply reserves, accelerate savings plans, defer expenditure plans or revise future assumptions around Council Tax income.

A multi-year funding settlement from Scottish Government including clarification on ring-fencing of funding remains an aspiration for local government and it is hoped this may be forthcoming in future years. Such a forward projection, even if only based on indicative figures, would allow more accurate future forecasting to take place.

Council Tax income levels

Council Tax income accounts for around **20%** of net funding. Current assumptions reflected in the plan assume a 5% increase in Council Tax in **2023/24,** and a **4%** increase in the following 4 years. Subsequent financial years include an assumption of **4%** per annum.

This mid case assumption for increases in Council Tax attempts to maintain the Council's spending power in future years in the face of increasing inflation while recognising the demands on household budgets.

In **2023/24,** each **1%** increase in the Council Tax raises **£0.69m** and increases Band D by **£12.92** annually (from **£1,291.53** per annum to **£1,304.45 (1%), £1,317.36 (2%), £1,330.28 (3%), £1,343.19 (4%)** and **£1,356.11 (5%)).**

It is recognised that the Scottish Government is on record as seeking a replacement for the Council Tax system. Should this be enacted through legislation this will have a profound impact on the Council's finances. In the absence of firm plans to reform Council Tax; however, the longer term model assumes the current system will continue during the 10 year period examined.

Opportunities for increased commercialisation

Increasing commercialisation within the Council has been identified as a priority focus from **2023/24.** A benchmarking exercise was undertaken with other Scottish local authorities on fees & charges to ensure the Council's policy with respect to charging for services is in line with levels applied elsewhere and equally to determine whether the introduction of charging for new services may be appropriate. The Council income management policy was approved during 2021 and the benchmarking review also ensured that appropriate cost recovery is in place from the charges levied.

All additional income opportunities including fees & charges and grant funding opportunities will have a beneficial impact on the Council's financial position over the next 10 years.

A commissioning strategy is being produced which will include the development of a market positioning statement for all services, explore opportunities for more income and examine the way that the Council can best use its influenceable spend to support local business and lever in community benefits.

Assumptions on inflation

CPI and RPI inflationary increases are assumed for a range of contractual commitments and purchasing of materials. CPI (consumer price index) and RPI (retail price index) assumptions rates reflected in the financial plan are shown below:

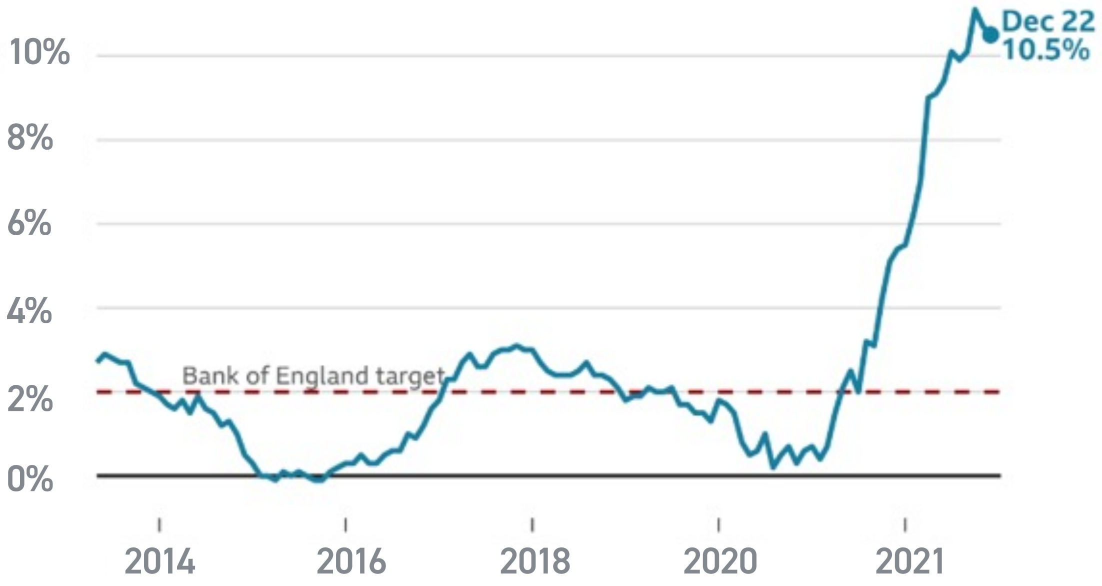
2023/24	**CPI**	8.20%
	RPI	12.30%
2024/25	**CPI**	1.90%
	RPI	4.00%
2025/26	**CPI**	0.70%
	RPI	3.40%
2026/27	**CPI**	0.70%
	RPI	3.40%
2027/28	**CPI**	0.70%
	RPI	3.40%

2028/29	**CPI**	1.00%
	RPI	2.00%
2029/30	**CPI**	1.00%
	RPI	2.00%
2030/31	**CPI**	1.00%
	RPI	2.00%
2031/32	**CPI**	1.00%
	RPI	2.00%
2032/33	**CPI**	1.00%
	RPI	2.00%

The UK has experienced unprecedented inflationary increases during **2022/23.** Shown below in graphical form is the CPI trend from **September 2013** through to **December 2022.**

Inflation at 10.5% in December 2022

Consumer Prices Index



Source: Office for National Statistics

Assumptions on Pay

Pay agreements for Council staff are negotiated at a national level. Agreement was reached for Scottish Joint Council (SJC) staff for **2022/23** with the negotiations for Teachers and Chief Officers pay remaining outstanding for **2022/23.** Negotiations continue on pay agreements for **2023/24.**

Assumptions for increases in pay over the 10 year period from **2023/24** reflect an assumed **2%** increase in pay in each year, on the grounds of affordability. As future pay agreements are confirmed, these assumptions will be updated in the model. Every **1%** increase in the Council's pay bill for SJC, Teachers and Chief Officer staff, costs circa **£1.8m.**

Assumptions on increased demand for services

The Council operates key services such as in Social Work which are subject to increased demographic demand from an ageing local population. This increase has been factored into the financial plan over the 10 year period to ensure that base budgets increase in line with the increased number of clients and increased complexity of care packages. Close monitoring is required to ensure that demographic growth investment is in line with increased demand for services. If investment in this area is insufficient over a number of years this could destabilise the budget whilst an over-provision of growth would mean the Council would not be effectively allocating resources across the Council in line with need and priority.

Investment in modernisation of the Council

The Council has, over the last number of years, recognised the importance of investment in services to support communities in the best possible way. This investment to modernise the Council will continue, within the resources available, to focus on:

- IT investment to drive automation of processes in order to deliver revenue savings and maintain a secure and reliable operating environment;
- Enabling data driven decision making through investment in technology to increase efficiency and improve service delivery;
- Investment in hand held technology and support systems to transform the front line delivery of services, reduce the administrative burden and allow professional staff to be focused on key tasks that only they can undertake;
- Investment in new, more efficient plant and vehicles to improve service delivery and addressing climate change, replacing ageing, polluting vehicles with modern electric vehicles where possible; and
- Investment in new buildings and improvement in the fabric and condition of existing buildings to improve service delivery and energy efficiency.

Investment in modernising the Council must continue to be weighed against the savings required to fund this modernisation.

Savings deliverable from transformational change

Delivery of planned savings through transformational change remains a cornerstone of the Council's financial sustainability for the future. Since **2013/14** the Council has delivered more than **£78m** of recurring savings through a medium term planning approach supported by extensive efficiency savings and transformation activity.

However, it is becoming increasingly challenging to deliver savings on a recurrent basis and, in order to remain sustainable, the Council will need to make significant changes to its operating model, engage more effectively with our partners and communities and focus on agreed priorities.

Future transformational change will be required to focus on investment in digital technologies (building on the current Social Work pathfinder project), increased automation, customer self-service and a reduction in the Council's extensive property footprint.

Loan charges - borrowing to support investment through the Capital Plan

The Council adopts a strategic approach to its Treasury Management activities and projects the costs of funding its Capital programme through its Treasury Management Strategy. The Council has delivered significant savings in loans charges over the last number of years through the decision to defer long term borrowing in a favourable interest rate environment. By only fixing longer term borrowing when absolutely necessary the Council avoids the cost of carry and seeks to minimise the costs of capital financing over the short, medium and long term.

Alignment of borrowing costs with available budget will be managed over the 10 year period through the use of the Council's Treasury Reserve. This reserve will allow smoothing of borrowing costs over the 10 year period. Additional budget requirements are reflected in the 5 year revenue plan and continue for years 6-10 in the 10 year revenue strategy to reflect resources required to fund the current Capital Plan.

Council was presented with a report on the 16th February 2023 to consider the impact for the Council of changing the statutory accounting treatment for Service Concession Arrangements (SCAs) as set out in Finance Circular 10/2022. The flexibility permits Councils to undertake internal accounting changes that extend the period over which the principal repayment of the unitary charge can be made over the life of the asset rather than the life of the contract. This debt reprofiling has been reflected in the Loans charges budget with adjustments specific to SCAs reflected in the 5 year revenue plan and continuing for years 6-10 in the 10 year revenue strategy.

National policy decisions which will impact on Local Government

National policy decisions impacting on local government such as the National Care Service bring further long term uncertainty to the plan. Developments in these national decisions will be followed closely by the Convention of Scottish Local Authorities and Directors of Finance to ensure implications for local government can be reflected in local planning as soon as possible.

CONCLUSION

This longer term Strategy for revenue seeks to build on our initial longer term Strategy adopted by the Council as part of its Financial Strategy in 2022/23 taking a 10 year view of the financial and operating environment facing the Council. The plan thereby aligns the 10 year Capital programme with a 10 year revenue look forward. Such a longer term approach is recommended as good practice by Audit Scotland and should be seen as one of a range of tools to help the Council plan effectively as it moves forward. The inherent uncertainty of the future operating environment facing the Council is recognised; however, it is felt that by looking forward, anticipating potential issues and examining a range of scenarios the Council will be better placed to respond to future challenges.

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