FINANCIAL STRATEGY 2016/17 – 2020/21

Report By Chief Financial Officer

SCOTTISH BORDERS COUNCIL

11 February 2016

1 PURPOSE AND SUMMARY

1.1 **This report seeks approval for the financial strategy for the Council covering the period 2016/17 – 2020/21. The strategy provides the context for the overall financial management of the council and covers the revenue budget, capital investment plans, the Council's treasury management arrangements and reserves policy.**

1.2 The Council, in common with other public sector organisations, continues to face significant and on-going financial challenges as it aims to provide the best possible services within the resources available. To deliver this plan the Council adopts a 5 year timeframe for revenue financial planning and has embarked upon an ambitious programme of transformation which aims to modernise services and restructure the organisation. The corporate transformation programme requires the Council to make best use of its people and its resources, focus efforts to look after the Borders and improve both efficiency and effectiveness.

The financial strategy is designed to ensure it:

a) raises the funds required by the Council to meet approved service levels in the most effective manner;

b) manages the effective deployment of those funds in line with the Council's corporate objectives and priorities; and,

c) provides stability in resource planning and service delivery as expressed through revenue and capital budgets and approved Corporate plans.

1.3 2016/17 will be the 4th year of the first 5 year Financial Plan published in 2013/14. The plan has been amended and updated each year and despite the resource challenges facing the Council and wider public services has so far delivered underspends in in 2013/14 and 2014/15. In the current year (2015/16) the latest monitoring projection indicates, despite pressures in a number of areas that a balanced out turn position will be achieved. Since inception in 2013/14 the corporate transformation programme has supported the Council in delivering savings of £15.6m (this includes the 2015/16 savings which are on track to be delivered).

1.4 Firm figures have been published via the Local Government Finance Settlement for 2016/17 only and consequently it is recognised that beyond the next financial year the financial strategy can only be based on estimated resources. The updated 5 year plan is therefore based on the best information currently available and it will continue to be adapted over time to respond to changing circumstances.

1.5 The strategy uses an approach based on a quantified financial risk register to set ensure the Council retains sufficient reserves and the level of unallocated balances underpinning the 5 year plan.

1.6 1st April 2016 will see the Integration Joint Board set up with NHS Borders go live and this will have a major impact on financial planning and service delivery within the Borders going forward.

2 RECOMMENDATIONS

2.1 It is recommended that Council approves the financial strategy for 2016/17 – 2020/21 as set out below:

- **continue to freeze council tax in 2016/17;**
- **set a prudent, sustainable budget in line with available resources;**
- **continue to invest in infrastructure through a sustainable capital programme financed by £20.485m loans charges per annum;**
- **maximise income while keeping fees charged to service users at an affordable level;**
- **continue to invest in corporate transformation and efficiency projects to deliver long term financial savings and service benefits;**
- **focus on preventative revenue and capital spend; and,**
- **maintain unallocated reserves of £5.64m for 2016/17 in line with the assessed risk register in appendix 1.**

Financial Strategy 2016/17 - 2020/21

3 Background

3.1 The financial strategy set out in this paper recognises the continuing pressure on public sector funding. The economic outlook has a direct bearing on public expenditure with the need for tight fiscal constraint maintained for the foreseeable future. This requires a financial strategy which raises the funds required by the Council to meet approved service levels in the most effective manner, manages the effective deployment of those funds in line with the Council's corporate objectives and approved service plans and provides stability in resource planning and service delivery.

3.2 This strategy also recognises the need to ensure that the Council's budget is targeted so that it:-

- provides the most effective possible stimulus to the wider economy,
- protects the environment of the Borders,
- protects those who are most vulnerable in society,
- seeks to focus spend on prevention designed to reduce future demand for council services by stopping problems arising or by addressing problems early on,
- maximises the contribution from local collaboration arrangements including the establishment of the new Health and Social care Integrated Joint Board,
- recognises the need to continue to maximise efficiency and providing good value for money.

3.3 The strategy continues to reflect the Council's duty to set a prudent, sustainable budget, to invest in core services, to work effectively with partner organisations - assisting them in the delivery of their strategic objectives where possible, to protect council tax payers and ensure service charges remain as affordable as possible for residents of the Scottish Borders.

3.4 Therefore the recommended high level financial strategy followed in updating the financial plan is therefore to:-

- **continue to freeze council tax in 2016/17;**
- **set a prudent, sustainable budget in line with available resources;**
- **continue to invest in infrastructure through a sustainable capital programme financed by £20.485m loans charges per annum;**
- **maximise income while keeping fees charged to service users at an affordable level;**
- **continue to invest in corporate transformation and efficiency projects to deliver long term financial savings and service benefits;**
- **focus on preventative revenue and capital spend; and,**
- **maintain unallocated reserves of £5.638m for 2016/17 in line with the assessed risk register in appendix 1.**

4 FUNDING

4.1 Aggregate External Finance

It is assumed the full level of AEF, estimated at £208.211m, excluding specific grants, will be deployed in setting the 2016/17 revenue budget. This level of funding is conditional upon Council Tax again being frozen at 2007/08 levels for the 9th successive year. The grant available to the Council in 2016/17 has seen a reduction of 2.8% when compared to the previous financial year. This coupled with the requirement to fund significant financial pressures arising from pay and price inflation, demographic challenges, the revenue consequences of capital investment and other service pressures including the need to ensure the corporate transformation programme is adequately resourced is now placing unprecedented pressure on the revenue budget. Given these pressures it is considered highly unlikely that the council will be in a position to freeze council tax beyond 2016/17.

4.2 Council Tax

The financial strategy assumes that Council will approve a freeze in the Council Tax, again setting a band D equivalent of £1,084 for 2016/17. All other Council Tax bands vary as a set proportion of the band D figure and therefore also remain static. The Scottish Borders Council Tax product, following a review of properties, collection rates and levels of bad debt provision, is estimated as £52.242m in 2016/17.

5 RESERVES

5.1 Reserves

The Council maintains a number of funds and balances which are reported to elected members at regular intervals during the financial year. Table 1 below shows the projected balance on each fund at 1 April 2016.

Table 1 Funds and Balances	**1 April 2016**
	(Estimated)
	£m
Statutory Funds	
Plant and Vehicles Renewals Fund	4.795
Insurance Fund	1.244
Capital Fund Excl Developer Contributions	1.699
General Fund – Earmarked	
Devolved School Management	1.388
Specific Departmental Reserves	6.103
Allocated reserves	4.328
General Fund – Non-Earmarked	5.638
Total	25.195

5.2 The Council holds reserves in order to manage identified risks, smooth uneven cash flows and provide a contingency against unforeseen circumstances. The existence and management of adequate reserves is a fundamental aspect of any sound financial strategy. The financial strategy and the associated reserves position is subject to scrutiny by the Council's auditors.

5.3 A Corporate Financial Risk Register (an updated version of which is attached at Appendix 1) has again been used as the basis for setting reserve levels in 2016/17 and future years. This approach seeks to quantify the risks facing the Council's finances, including over optimistic saving assumptions, unplanned employment and pension cost increases, the failure by managers to enact effective budgetary control, severe weather events, the economic downturn, potential contractual claims and unplanned emergencies in deriving an appropriate level of unallocated balances.

5.4 A review of the major risks facing the Council has been undertaken by senior officers and these are shown in the risk register in appendix 1. The level of un-allocated general fund balances is directly informed by an assessment of the risks facing the Council. This approach, despite being subject to an element of informed judgement, fundamentally reflects the risks inherent in setting the budget, the reasons why reserves are held in the first place, the scale and complexity of the organisation and also provides appropriate transparency with regard to the level of balances held.

5.5 **Unallocated balances**

Given the issues identified in the risk register and risks inherent in setting the revenue budget, members are recommended to maintain an unallocated general fund equivalent to £5.638m in 2016/17. The unallocated balance projected at the 31st March 2016 equates to just over 2% of net revenue expenditure and is sufficient to cover 49% of the risks identified in the risk register.

6 FINANCIAL RISKS

6.1 A number of issues which have a bearing on the level of unallocated balances have been identified in the financial risk register set out in appendix 1 in determining the recommended level of unallocated reserves to be held at £5.638m.

6.2 **Winter**

Members will recall that £0.65m of the general fund reserves have previously been allocated within reserves to winter as part of the final revenue outturn for 2013/14. Currently the revenue budget monitoring position projects that expenditure this year will be within budget and barring a significant deterioration in the weather between now and the 31 March 2016 will not require a draw down to support winter. It is therefore proposed that this balance be rolled forward within allocated reserves to support winter in 2016/17.

6.3 **Drawdown of balances to support the revenue and capital budget**

The 5 year revenue plan assumes the drawdown of £0.962m in 2016/17 from reserves. A further draw down is planned in 2017/18 to be repaid in the following 2 financial years.

7 TREASURY AND CAPITAL

7.1 **Treasury Management Strategy 2016/17**

This forms a key aspect of the Council's overall financial management strategy. The Treasury Management Strategy, submitted elsewhere on the agenda for approval, sets out the arrangements for financing the Council's capital investment plans, the associated prudential indicators, how the treasury function will be organised, and an investment strategy setting out the parameters governing how the Council's investments are to be managed.

7.2 **Capital Investment**

The updated 10 year capital plan and an accompanying report are also submitted on this agenda. The financial strategy aims to ensure capital borrowing is within prudential borrowing limits and sustainable in the longer term. In this regard it is important to recognise the capital investment decisions taken now have long term borrowing implications and these have the potential to place a significant burden on future tax payers. The draft revenue budget sets loans charges associated with capital borrowing over the next 5 years at £20.485m. This reduction in loans charges is largely a phasing adjustment in 2016/17 and in future years reflects a permanent reduction as a result of the planned repayment of specific consents to borrow previously granted by Scottish Government.

7.3 **On-going Monitoring Of Capital Investment and associated costs**

These will be kept under review in light of the prevailing economic condition and opportunities for debt re-structuring. The Council has significant revenue resources tied up in capital assets and work will continue to identify surplus property for disposal in order to reduce revenue running costs and deliver capital receipts.

8 FINANCIAL PLANNING

8.1 **Overall approach to cost reduction and service reviews**

It is evident that the Council faces on-going cost pressures in its revenue budget and this will require a continued focus on cost control, corporate transformation, robust change management processes and a sustained drive to improve efficiency. To ensure that the Council can continue to deliver its services within available resources the financial strategy continues to focus on the delivery of a longer term 5 year Financial Plan.

8.2 **Staffing**

Pay Awards Provision

Public sector pay policy continues to be subject to on-going restraint and the financial provides for a cost of living increase of 1% in 2016/17 in line with the current national agreements reached during 2015/16. The ability to adapt terms and conditions to reflect modern working practices and downsize the Council's work force in response to continuing financial pressures is a key tool in mitigating future cost pressures. The agreement with the Unions to change terms and conditions to better reflect how the Council delivers services introduced over 3 years from April 2014 remains on track to realise recurring savings of £3.6m.

8.3 **National Insurance**

The 5 year revenue plan recognises the removal of the current national insurance rebate which is received by the council as a provider of an occupational pension scheme contracted out of the second state pension scheme from April 2016/17.

8.4 **Bad Debts**

Income collection, including council tax, may be adversely affected by the difficult economic conditions The budget assumes that the contribution to the bad debt provision will remain at £0.125m for sundry debt and £0.715m for council tax for 2016/17 and this will continue to be kept under review and may be adjusted through the earmarking of balances in the current year.

8.5 **Children's Placements**

Scottish Borders has seen a significant rise in recent years in the numbers of out of Area Placements and particularly those Children with Social, Emotional and behavioural difficulties. The budget provides an additional £0.5m per annum to support out of area placements while longer term strategies to provide additional support to children with additional needs, within the Borders, are delivered for example through the Earlston complex needs base.

8.6 **Health and Social care integration**

The Council along with NHS Borders is well advanced in planning for the integration of Health and Social care services through an Integrated Joint Board (IJB) which will assume its full responsibility on 1 April 2016. The budget provides £3m to be passed to the IJB to commission services from the Council and this change is reflected in the 5 year revenue plan. Scottish Government has provided £5.3m (being the Borders share of £250m made available nationally) to fund pressures in Health and Social care services, introduce the living wage for 3rd party care providers and improve outcomes for older people in the Borders who may access health and social care services. These resources will help to enhance delivery of the IJB strategic plan, resource the roll out of the living wage to external care providers and address existing cost pressures within Adult services.

8.7 **Local Government Pension Fund**

The 2014 triennial revaluation of the pension fund by the Council's actuary Barnett Waddingham produced favourable results with a funding position of 101% and maintenance of the current 18% pooled contribution rate. The long term view is that the fund remains in a healthy state with membership increasing. It should be noted that the Council's employer contributions remain relatively low compared to the majority of Scottish Local Authority Pension funds and there may be a requirement for these contributions to increase in response to fluctuations in future investment returns, legislative change and as the membership structure of the fund evolves over time in response to changes such as the establishment of the Integrated Sport & Culture Trust.

8.8 **Teachers Pension Scheme**

There is an ongoing cost of funding the teachers' pension scheme following changes made to employers contribution by the UK government from 1 September 2015. This change added an additional £1.1m per annum to employee costs.

9 IMPLICATIONS

9.1 **Financial**

There are no additional financial implications associated with this report, its content referring specifically to the financial strategy of the Council and the associated revenue and capital budgets and reserve levels.

9.2 **Risk and Mitigations**

(a) The existence of appropriate balances is a fundamental aspect of sound governance and effective stewardship. There is therefore a risk to the Council from not having an appropriate financial strategy underpinned by reserves which will be mitigated by approval of this report.

(b) If the identified risks were to materialise, without an appropriate level of reserves, Council would be required to identify alternative funding, possibly at short notice, through reduced services, asset disposals, increased charges or additional unbudgeted borrowing.

9.3 **Equalities**

There are no adverse equality implications arising from this report.

9.4 **Acting Sustainably**

There are no economic, social or environmental effects arising directly from this report.

9.5 **Carbon Management**

There are no effects on carbon emissions.

9.6 **Rural Proofing**

There are no implications that would compromise the Council's rural proofing policy.

9.7 **Changes to Scheme of Administration or Scheme of Delegation**

There are no changes required to either the Scheme of Administration or the Scheme of Delegation

10 CONSULTATION

The Corporate Management Team, Head of Corporate Governance, the Head of Audit and Risk and the Clerk to the Council have been consulted in the preparation of this report.

Approved by

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Background Papers:
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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.

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