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## **REVENUE AND CAPITAL RESOURCES AND COUNCIL TAX 2016/17**

**Report by the Chief Financial Officer**

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### **SCOTTISH BORDERS COUNCIL**

**11 February 2016**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to advise Council of the estimated revenue and capital resources available from financial year 2016/17 following publication of the local government finance settlement on the 16 December 2015.**
- 1.2 The report also outlines the process supporting the construction of the draft revenue and capital Financial Plans from 2016/17.
- 1.3 The financial constraints and major risks to be addressed are identified.
- 1.4 This paper has been prepared assuming the council tax freeze will continue.
- 1.5 The Corporate Management Team has worked together to support Members to set a Corporate revenue and capital budget to meet identified pressures facing the Council. These pressures have arisen due to the continuing constraints on external revenue and capital funding from central government, the continuing freeze on Council Tax and the increasing pressures from demographics, inflation and employment costs. The revenue and capital budgets have been designed to ensure the effective deployment of funds available in line with the Council's corporate objectives and approved service plans.

## **2 RECOMMENDATIONS**

### **2.1 It is recommended that Council:**

- (a) notes the estimated revenue resources for 2016/17 to 2020/21;**
- (b) notes the estimated Capital Resources for 2016/17 to 2025/26 and the requirement to adhere to the prudential code for capital borrowing;**
- (c) agrees a Band D council tax of £1,084 for financial year 2016/17, freezing the council tax at 2007/08 levels for ninth successive year;**
- (d) approves the council taxes to be paid for 2016/17 in respect of chargeable dwellings as set out in appendix 1 to this report;**
- (e) proceeds to consider the Administration's Financial Plan from 2016/17 and associated fees and charges schedule for 2016/17.**

### **3 REVENUE RESOURCES**

- 3.1 The Local Government Finance Settlement (the Settlement) was published on 16 December 2015. The Settlement confirmed resources from the Scottish Government through Revenue Support Grant and Non Domestic Rates of £201.711m. Additional funding over and above the Settlement has been confirmed to fund, Free School Meals, Teachers Induction Scheme, 1 + 2 languages and Discretionary Housing Payments (DHP). The only element of this additional funding which has been allocated to date and therefore reflected in the Financial Plan papers is £1.2m for Free School Meals. All other budgets will be created during 2016/17 when funding is confirmed. A further adjustment has been made to reflect an assumed resources associated with Health and Social care partnerships assumed at £5.3m. If this full level of funding is not forthcoming it will be reduced accordingly in line with the final distribution from Government. Assuming that Council Tax is frozen again at 2007/08 levels, the total revenue resources available to the Council for 2016/17 are shown in table 1 below at £263.203m.

### **4 THE AEF SETTLEMENT 2016/17**

- 4.1 Mainstream support for Local Government from the Scottish Government is collectively known as Aggregate External Finance (AEF) and comprises:-
- General Revenue Funding to support expenditure on the complete range of Council Services;
  - A distribution of funding from the National Non-Domestic Rates Pool;
  - Ring-fenced grants which must be used for specified purposes;
  - Council Tax freeze funding, which will only be distributed if a Council freezes its Council Tax at 2007/08 levels and meets the conditions of the Scottish Government settlement. The estimated level of Council Tax collectable has been revised to £52.242m in financial year 2016/17 as shown in table 1 below. This estimate is based on the numbers of chargeable dwellings, applicable discounts, anticipated levels of bad debt and collection rates.
- 4.2 The Scottish Government has stipulated within the Settlement that it will work with local government partners on implementing the budget and the joint priorities in return for the full funding package which includes the following conditions:
- An additional £250 million transfer from the NHS to health and social care partnerships to ensure improved outcomes in social care;
  - The requirement to maintain teacher numbers at 2015 levels nationally and secure places for all probationers who require one under the teacher induction scheme; and
  - £70 million is included in the settlement to continue the council tax freeze for a ninth consecutive year.

- 4.3 Overall resources from Central Government reflect a decrease of £5.7m compared to 2015/16 comparable totals. The offer of funding contained in the finance circular is provisional at this stage pending approval of the Government's budget bill and the publication of the final 2016/17 funding circular.

	2016/17 £'000	2017/18 (Provisional) £'000	2018/19 (Provisional) £'000	2019/20 (Provisional) £'000	2020/21 (Provisional) £'000	Total £'000
<b>Aggregate External Finance (1)</b>						
General Revenue Support (2)	168,117	168,117	168,117	168,117	168,117	840,585
Assumed further 2% reduction from 2017/18	0	(4,034)	(4,034)	(4,034)	(4,034)	(16,137)
Separate funding for Free School Meals	1,200	1,200	1,200	1,200	1,200	6,000
Health & Social Care Partnership Outcomes (assumed)	5,300	5,300	5,300	5,300	5,300	26,500
Non-domestic Rates	33,594	33,594	33,594	33,594	33,594	167,970
	<b>208,211</b>	<b>204,177</b>	<b>204,177</b>	<b>204,177</b>	<b>204,177</b>	<b>1,024,918</b>
Reserves	962	153	0	0	0	1,115
Draw down and repay Reserves	0	1,353	(677)	(677)	0	(1)
Earmarking adjustments (as per 2015/16 Financial Plan)	874	9	0	0	0	883
Earmarked balances required to support the Plan	914	0	(1,651)	(2,069)	0	(2,806)
Council Tax (Band D £1,084 - no increase)	52,242	52,642	54,705	56,861	57,932	274,382
Assumed Council Tax Increase (3% from 2017/18, 1% from 2019/20)	0	1,579	1,641	556	564	4,340
<b>Total</b>	<b>263,203</b>	<b>259,912</b>	<b>258,195</b>	<b>258,848</b>	<b>262,673</b>	<b>1,302,831</b>

1. Funding from Scottish Government excludes ring-fenced grants (the budgets which follow are net of such grants).

## 5 AEF ESTIMATES 2016/17 AND BEYOND

- 5.1 At present the Scottish Government has only published draft AEF figures for 2016/17. In planning resources over the next 5 years the Council has therefore made assumptions about the levels of funding likely to be available and the level of savings which will be required to balance to these estimates.
- 5.2 Any movement from these assumptions in future finance settlements will require adjustments to be made to the overall level of savings made in the Financial Plan. Despite the absence of firm future figures, the scale of the challenge facing the Council is unlikely to diminish in the foreseeable future and longer term planning for the delivery of savings, which may have significant lead in times and require large scale organisational change remains a useful discipline.

## 6 THE REVENUE FINANCIAL PLANNING PROCESS 2016/17 TO 2020/21

- 6.1 The 5 year Financial Plan the Council set for 2015-20 comprised a one year firm budget for 2015/16 and provisional figures for 2016/17-2019/20. In rolling forward the Financial Plan a corporate approach has again been pursued with a longer term planning horizon used to address the financial and service challenges facing the organisation.

- 6.2 In order to ensure the continued adoption of a strategic approach Members have previously agreed to focus on the delivery of a major programme of transformational change required to balance the Financial Plan.
- 6.3 Following a review of the Plan previously agreed for 2015-2020, additional pressures have arisen from a reduction in funding from the Scottish Government, increasing demographic pressures, the continuation of Local Authority support to the Council Tax Reduction scheme inflationary increases and continuing manpower pressures.
- 6.4 In order to support the longer term Financial Plan Corporate Management Team (CMT) adopted the following process:
- a review and update of the assumptions made within the 2015-20 Financial Plan for both pressures and savings;
  - Departments continued to monitor the benefits being realised by their programme of transformation and identified new project savings to meet any budget gap;
  - further savings have been identified that can support the Financial Plan which can be implemented in the shorter term;
  - external fees & charges were reviewed as part of the financial planning process to maximise income whilst meeting the needs of the most vulnerable;
  - CMT proposals were presented to and considered by elected members through the Administration Budget Working Group and the Administration.

## **7 CAPITAL RESOURCES**

- 7.1 The Council in setting its Capital Plan must adhere to The Prudential Code of Capital Finance (the Code) in Local Authorities as published by CIPFA. The Code was established to both give Local Authorities an element of flexibility but also to ensure they do not over borrow beyond levels that are sustainable over the longer term.
- 7.2 The code requires the Council to set a Capital Annual Treasury Management Strategy (the Strategy) which includes how it will finance its Capital Plans in an affordable and sustainable way. The Strategy is approved each year along with the Revenue and Capital Plans.
- 7.3 The borrowing requirements associated with the proposals are anticipated to be fully financed by the Loans Charges revenue budget of:

	<b>£m</b>
2016/17	20.485
2017/18	20.185
2018/19	20.185
2019/20	20.185
2020/21	20.185

- 7.4 The Administration's 10 year Capital Financial Plan, being presented to Council today, contains the proposed allocations. The Plan presented does not include any budget changes between years agreed by Executive since 9 June 2015.

## **8 CAPITAL FUNDING ASSUMPTIONS**

### **8.1 Capital Financed from current revenue**

- a) Capital Financed from current revenue (CFCR) allows the authority to supplement its capital plan using available revenue sources.
- b) The proposed plan includes an element of CFCR for cell capping at Easter Langlee which is funded from a provision established under accounting requirements. It also includes a small element previously agreed for Wilton Lodge Park.

### **8.2 Scottish Government – Specific Capital Grants**

- a) These are grants issued to Local Authorities for specific projects or areas of expenditure. These include Cycling, Walking and Safer Routes to School (CWSRS), Flood and Schools such as Galashiels School Review. The proposed plan assumes specific grants of £60.9m over the 10 year period.
- b) There is however a significant element of unconfirmed funding (£50.1m, 82%) assumed within the plan. The unconfirmed funding elements are Hawick Flood Protection and Galashiels School Review.
- c) In addition to the unconfirmed the CWSRS funding levels is only confirmed for 2016/17 and no confirmation has been received for future years although the plan assumes this grant will continue and will return to the 2015/16 levels over time.
- d) This is a decrease in funding of £31.8m (35%) in comparison to the 2015/16 plan due to the partial completion of Selkirk Flood Protection, partial completion of Duns Primary School and the movement of Kelso High School to fully revenue grant funding from Scottish Futures Trust.

### **8.3 Other External Capital Grants & Contributions**

- a) Many projects and programs are successful in bringing in matched funding from a range of external sources such as Sports Scotland, Historic Scotland and Lottery and European funds. These funds each come with specific conditions and are usually time limited.
- b) The majority of the £8.9m funding assumed in the proposed plan is unconfirmed (£7.8m, 88%) and subject to further business case and grant application processes. This unconfirmed funding includes:

Jim Clark Museum	£0.8m
Sir Walter Scott (phase 2)	£2.0m
Central Borders Business Park	£1.0m

Great Tapestry of Scotland - building	£2.5m
Synthetic Pitches	£1.4m

- c) This is a decrease in funding of £2.9m (25%) in comparison to the 2015/16 plan due to the exclusion of Supported Care Housing – Berwickshire which will to be delivered via a Partnership arrangement with RSL’s.

#### 8.4 **Developer Contributions**

- a) Developer Contributions are contributions made by private developers for specific items. Legal agreements in place detail the terms of both the location and type of asset. The economic downturn has seen the number of contributions drop and developers pushing back as late as possible the payment of these. Due to the uncertainty of the timing on payment of these it is not prudent to include large sums of developer contributions being received at the same time as the assets are being constructed. This means the Council is required to either use the General Capital Grant or Borrowing to up front fund the construction until the contributions are received.
- b) The proposed Plan includes an assumed £3.3m of developer contributions, of which £2.0m is directly related to the proposed new Peebles Bridge which is in the later years of the Plan. There is also an assumption of £0.3m for Broomlands for which there are identified developments.
- c) The assumption around Peebles Bridge and Broomlands contributions is subject to a timing risk as the proposed Plan assumes that these will be received in line with the construction of the projects; however, an element of the contributions may require to be built first in order to fully release the development progress.

#### 8.5 **Capital Receipts**

- a) Capital Receipts are funds generated from the disposal of capital assets. These funds are held in the Capital Fund and used to either finance new capital expenditure or repay existing loan principle. The estimate is reviewed on a regular basis to determine assets available for disposal and their likely disposal value and timing.
- b) The Plan is predicated on £8.1m of capital receipts being generated over first 5 years of the plan. The assumptions around the deliverability of these will be subject to continual review.

#### 8.6 **General Capital Grant**

- a) A General Capital Grant is issued to each Local Authority in Scotland. The current Grant letter issued to Scottish Borders Council on 16 December for 2016/17 has seen a drop in grant due to £2.8m being top sliced. These funds will be returned to Council but the timing is currently unknown
- b) The total estimated Capital Grant over the period of the Plan is

estimated at £110.0m, a reduction of £13.0m from the previous Plan. Although indicative grant figures have not been provided for future years the assumption with the Plan are assumed prudent levels although there remains the risk that the assumptions for future years may be over or under estimated.

#### 8.7 **Plant & Vehicle Fund**

- a) The fund was established by the Council in 2004 to ensure funds were in place for the continual replacement of its fleet. The fund is used to purchase the vehicles and then reimbursed by the department's revenue budgets over the life of the vehicle.
- b) The Plan has assumed purchases of £2m per annum over the period of the Plan which are fully funded from the Fund. This assumption will be subject to review as structural and operational changes are made across the Council which may have a direct impact on the vehicle requirements.
- c) This is an increase of £20m in comparison to the 2015/16 approved plan which did not contain any expenditure or funding assumptions for Plant & Vehicle.

#### 8.8 **Borrowing**

- a) The balance of the funds required for the Plan is secured by borrowing. Local Authorities are able to borrow to fund Capital expenditure or if given specific consent by Scottish Government. When determining the borrowing requirements the Council must follow the Prudential Code which requires Councils to ensure they are acting prudentially and sustainably. The costs of borrowing are charged to revenue via the Loans Charges Budgets.
- b) This proposed revenue budget to support capital through loans charges is set out in paragraph 3.2 and the proposed Financial Strategy states that the borrowing will be constrained within this available budget. Decisions to increase capital borrowing will require permanent adjustments, funded by savings elsewhere to be made to the loans charges budget in order to repay additional capital borrowing.
- c) The proposed Plan includes a total borrowing over the 10 year period of £97.0m borrowing an increase of £5.0m from the previous plan. It is estimated based on assumptions around cash flow and interest rates that this is deliverable within the estimated revenue resources. There however is a risk if interest rates rise above the assumed levels it may result in additional charges. This will require regular monitoring to ensure that the borrowing levels are sustainable and affordable.



- 8.9 The total funding available is £309.2m a decrease of £22.9m from the 2015/16 plan. The following table summarises the total resources for the proposed Capital Plan and movement from the 2015/16 plan;

	<b>Operational</b>	<b>Strategic</b>	<b>Total</b>	<b>Move vs 2015/16 Plan</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
CFCR	0.7	0	<b>0.7</b>	<b>(0.9)</b>
Scottish Government – Specific Grants	11.1	49.8	<b>60.9</b>	<b>(31.8)</b>
Other External Grants & Contributions	7.4	1.5	<b>8.9</b>	<b>(2.9)</b>
Developer Contributions	0.7	2.7	<b>3.4</b>	<b>0.4</b>
Estimate Capital receipts	4.2	3.9	<b>8.1</b>	<b>0.3</b>
General Capital Grant	33.2	77.0	<b>110.2</b>	<b>(13.0)</b>
Plant & Vehicle Fund	6.0	14.0	<b>20.0</b>	<b>20.0</b>
Borrowing	50.0	47.0	<b>97.0</b>	<b>5.0</b>
<b>Total available funding</b>	<b>113.3</b>	<b>195.9</b>	<b>309.2</b>	<b>(22.9)</b>

## 9 COUNCIL TAX

- 9.1 The aspiration to have Council Tax levels frozen at 2007/08 is to continue for a ninth year. A decision by elected members to vary the Council Tax beyond the rates set in 2007/08 would result in resources being withdrawn by central Government. The potential “claw-back” from Scottish Borders Council in this eventuality is detailed in the settlement at £1.536m per annum. This would be equivalent to an increase of 3% on the Council Tax levels to replace the lost income.
- 9.2 The Financial Plan is pending a longer term national review of Local Authority funding through a new Council Tax Commission established by the Scottish Government which may result in changes to Local Government finance during the 5 year period.
- 9.3 Regardless of national changes to the system of local government finance the financial budget pressures facing the Council make it highly likely that it will be impossible to freeze Council Tax beyond 2016/17 without significant and lasting damage to public services. For this reason the Financial Plan assumes that the Council Tax or its replacement will deliver additional income of 3% in 2017/18 with further increases signalled in future financial years.
- 9.4 The Council is required under legislation to approve its Council Tax for the

following financial year commencing 1 April by the 11 March in the preceding financial year.

## **10 IMPLICATIONS**

### **10.1 FINANCIAL IMPLICATIONS**

There are no additional financial implications associated with this report, its content referring specifically to the revenue budget.

### **10.2 RISK AND MITIGATION**

#### **Revenue Plan**

- (a) The Council faces a number of risks in setting its Revenue Financial Plan for five years 2016/17 - 2020/21. The main identified risks are set out in the Financial Strategy.
- (b) There is an ongoing requirement for robust management action to further develop the Corporate Transformation Programme and continue to deliver Financial Plan savings. This is fundamental to ensure the delivery of the proposals set out in the five year Financial Plan on time and to the levels expected by the approved budget. The failure to deliver savings in line with the budget plan represents the most significant risk to the Council.

#### **Capital Plan**

- (c) The key risks associated with the projects and associated funding has been identified and will be monitored on a regular basis within the regular monitoring of the Capital Plan.
- (d) Due to affordability several major projects have not been included within the proposed plan. There are a number which are linked to substantial developer contributions and major housing developments, such as Newtown St'Boswells. There are also a number of ongoing strategic reviews across the Council, including IT, Waste and School Estates , which may result in Capital requirements. The current discussions with Scottish Government relating to City deal may also result in a requirement for additional capital allowance.
- (e) The Capital Plan includes in various years Planned Program Adjustments which require to be met by project movements with individual financial years. If these movements do not materialise there is a risk the plan will be oversubscribed which will result in a over spend in loans charges. This will be monitored on a regular basis within the monitoring of the Capital Plan.

#### **Council Tax**

- (f) If a Band D Council Tax of less than £1,084 is set, revenue resources would be insufficient to meet planned expenditure, unless expenditure plans were correspondingly modified.

- (g) If a Band D Council Tax above £1,084 is set, AEF from the Scottish Government will be reduced by up to £1.536m per annum.

10.3 **EQUALITIES**

An equalities impact assessment has been undertaken with regard to individual budget proposals, where issues have been identified mitigating actions will be put in place. There are no further equalities impacts arising from this specific report.

10.4 **ACTING SUSTAINABLY**

The revenue budget will affect the people and economy of the borders it has been designed to be as financially, socially and environmentally sustainable as possible.

10.5 **CARBON MANAGEMENT**

There are no effects on carbon emissions.

10.6 **RURAL PROOFING**

This report contains no implications that will compromise the Council's rural proofing strategy.

10.7 **CHANGES TO THE SCHEME OF ADMINISTRATION OR SCHEME OF DELEGATION**

There are no changes required to either the scheme of administration or the scheme of delegation.

**11 CONSULTATION**

- 11.1 Corporate Management Team has compiled the revenue and capital Financial Plan.
- 11.2 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit & Risk, the Chief Officer HR, and the Clerk to the Council are being consulted and any comments have been reflected in the report.

**Approved by**

**David Robertson**  
**Chief Financial Officer**

**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 address below. Finance can also give information on other language translations as well as providing additional copies.

Contact us at Suzy Douglas, Council HQ, [sdouglas@scotborders.gov.uk](mailto:sdouglas@scotborders.gov.uk), 01835824000 X5881.

## Council Tax levels 2016/17

<b>Band</b>	<b>Proportion of Band D Tax</b>	<b>£</b>
A	6/9	722.67
B	7/9	843.11
C	8/9	963.56
<b>D</b>	<b>9/9</b>	<b>1,084.00</b>
E	11/9	1,324.89
F	13/9	1,565.78
G	15/9	1,806.67
H	18/9	2,168.00