

FALKIRK COUNCIL

Subject: REVENUE BUDGET
Meeting: FALKIRK COUNCIL
Date: 16 December 2015
Author: CHIEF EXECUTIVE and DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report gives an overview of the Chancellor's recent Spending Review and consideration is given to its implications for the Scottish Budget and in turn the Local Government Settlement.
- 1.2 The opportunity is also taken to review progress with the Budget preparation recognising that the Council Budget meeting on 17 February is moving into sharper focus. In particular attention is directed to factors which will influence a decision on a one or two year Budget.
- 1.3 Whilst the focus of this report is on the General Fund Revenue Budget, it should not be forgotten that parallel workstreams are progressing the other elements of the Council's overall budget position in terms of:-
- a) General Services Capital Programme
 - b) HRA – Revenue
 - c) HRA – Capital
 - d) Falkirk Community Trust (FCT)
 - e) Adult Health & Social Care Integration

These items along with the Revenue Budget, will be presented to the Council meeting on 17 February.

2. BACKGROUND

- 2.1 The Council Budget meeting on 11 February 2015 agreed, in addition to a 2015/16 Budget, a provisional draft Budget for 2016/17.
- 2.2 Following work by the Scrutiny Panel, the Executive meeting on 9 June agreed that officers should prepare a report on options for Budget communications and engagement, including information about methods used by other Councils. The matter was further considered by 18 August Executive.
- 2.3 Council at its meeting on 7 October considered a report on the General Fund Revenue Budget Framework 2016/17 – 2018/19. That report directed attention to a range of elements, including:-

- The significance of the Scottish Government grant.
- The Council's current and projected financial position, noting that significant overspends were forecast in Social Work but that this was balanced in other areas and consequently the year-end position was estimated to be broadly in balance.
- The regulatory framework including the statutory requirement to approve an annual balanced Budget.
- The Budget gap of £45m projected over the next 3 years and the cumulative gap of £83m over the past 9 years. It was inevitable that this would require significant contraction in service delivery and reduction in staffing.
- Officer savings options for 2017/18 were presented in a thematic format.
- Engagement with Stakeholders through a range of channels including the Council's website and Falkirk Council News. The importance of communication with staff and trade unions was recognised.

Council agreed the progression of the necessary work, including Equality and Poverty Impact Assessments and necessary consultation and workflows, to prepare a 2 year Budget.

3. SPENDING REVIEW

- 3.1 Following the Chancellor's Spending Review on 25 November, the Scottish Government has announced that their budget will be presented on 16 December. It is expected that councils will be notified of their individual revenue and capital grants on the same day.
- 3.2 In overall terms the Chancellor's destination of a surplus by the end of this parliament, as previously set out in the March & July budgets, remains on course. Cuts to departmental budgets are not as severe as expected. This has been achieved by a combination of improved economic growth forecasts, reduced costs of government borrowing and revenue raising measures. Welfare cuts have been delayed rather than eliminated.
- 3.3 Focusing on Scotland, there will be a 5% (Scottish Government have estimated 5.7%) real terms cut in its revenue resource budgets. An error in the Barnett Formula which protected the Scottish budget from a share of the substantial cuts to local government in England has been rectified and this will reduce the grant by £0.5B by 2019/20. On a more positive vein the capital budget is expected to rise by 3% in real terms to 2020/21. If the Scottish Government decides to protect Health at the same level as England, the remaining part of its revenue budget would fall by 12% over the course of the Parliament.
- 3.4 Clearly the Scottish Government has to determine its priorities across the spending blocks, notably Health & Local Government. The Scottish Government has existing borrowing powers and new tax raising capacity from April 2016. There is also the council tax freeze and the imminent report of the Commission on Local Tax Reform in the overall frame. The Scottish Government Budget on 16 December will clarify matters somewhat.

3.5 The Chancellor announced that from April 2017 all employers with a payroll of £3m or more will have to pay a 0.5% apprenticeship levy. It had not initially been clear as to whether this would actually apply to local government but it has been established that it will. There is the prospect of some funding arrangement which would mitigate the gross cost, which will be significant, but it is not clear yet what the net impact will be. This evidently represents a further unwelcome cost pressure which will widen the Budget gap in 2017/18.

3.6 It is interesting to note that the Chancellor has introduced a range of measures applicable to local government in England:-

- a) Grant will be phased out for services (other than education) & councils will retain all Non-Domestic Rates in their area
- b) Councils will be allowed to cut business rates to boost growth
- c) Councils with elected mayors will be able to add a premium to business rates to pay for new infrastructure
- d) A 2% precept can be applied to council tax to finance social care
- e) Capital receipts can be utilised to finance the revenue costs of reform projects

It remains to be seen if any of these points are picked up to any extent by the Scottish Government.

4. BUDGET PREPARATION STATUS

4.1 Government Grant

4.1.1 Flowing from section 3 the Council should learn its specific grant allocation on 16 December when the Scottish Government Budget is announced.

4.1.2 Cosla are very concerned at the potential scale of the grant reduction and they are actively engaging with the Scottish Government to try and mitigate the impact.

4.1.3 The Scottish Government has announced that there will be just a one year Settlement for 2016/17 with a longer term Settlement provided in the next Budget in the autumn of 2016. There may in consequence be some spreading of the degree of cuts across the years. The Council's grant projections are based on 2017/18 being the worst of the 3 years.

4.1.4 To give an illustration of the significance of the grant Settlement to the Council's finances, just one tenth of one percent movement from the projected position equates to £280k.

4.2 2016/17 Provisional Budget Savings

4.2.1 As noted at para 2.1 the Council agreed in February a provisional draft Budget for 2016/17. This will need to be confirmed or adjusted as determined by Members to achieve the legal balanced Budget per para 2.3.

- 4.2.2 Members will be aware that the Rowans closure has been put on hold. Moreover, following the action taken by the Scottish Government requiring councils to maintain teacher numbers, the Director of Childrens' Services presented to Council in October alternative proposals to close this gap. Council agreed these proposals subject to progression of Equality and Poverty Impact Assessments and any other necessary consultation.
- 4.2.3 A report has been prepared for the Council meeting on the level of savings that might be achieved from any reduction in services provided by the Employment and Training Unit in Development Services having regard to decisions which require to be taken on the attraction of external funds.
- 4.2.4 Section 4.3 sets out the position with respect to Terms and Conditions.

4.3 **Terms & Conditions**

- 4.3.1 A budget saving for 2016/17 of £1.5m which has to come from terms and conditions was agreed by Members at the February meeting of Council. Negotiations have progressed and a proposal on changes to terms and conditions which will allow this saving to be realised has now been issued to the Trade Unions. The main change being proposed is a reduction in the Council's standard working week from 37 hours to 36 hours, with a corresponding reduction in pay for SJC, Craft and Chief Officer employees. There are some caveats to this such as no reduction for those working 16 hours or less, as well as other changes to conditions such as excess travel, relocation, subsistence, etc. A copy of the full proposal issued to the Trade Unions has been made available on the 'news' section of the Council's intranet site.
- 4.3.2 Officers and Trade Unions are currently in discussion on a number of agreements that the Unions would wish to seek from the Council in return for an agreement on the changes. Subject to successful conclusion of these discussions, the Trade Unions intend to consult, then ballot their members on the proposals, with a view to seeking an agreement to the changes.
- 4.3.3 The Trade Unions have not yet confirmed the timescales for this. They are aware that subject to a successful ballot the intention is to submit the proposals and agreements being asked for in return by the Unions to Members for consideration in February.

4.4 **Public Engagement on the Budget**

- 4.4.1 As noted at para 2.2, earlier this year the Scrutiny Panel on Participation and Consultation identified scope to review the way the Council engaged on its budget options, particularly in relation to the timescale for information about savings proposals being available to the public. In response, a report was submitted to the Executive in August. This set out the principles underpinning "Have Your Say", the Council's plan for local involvement, which include clarity of purpose, methods, timescales, involvement and information. The report also included information about engagement activities in other authorities and proposals for how engagement on the Council's saving options could be taken forward.

- 4.4.2 Following this, a range of activity has been carried out to inform people at an early stage about the general approach being taken to the budget, including setting out information about the financial challenges.
- 4.4.3 Immediately following the Council meeting on 7 October, full information was published on the Council's website, setting out the general budget framework and also all the savings options, grouped into themes. The information was clearly linked from the homepage by way of a graphic and also included a "Comment on our Budget Proposals" button for the public to make any comments.
- 4.4.4 In the period from 7 October to 1 December there have been over 1,900 views by the public. The average time spent on the page is around 10 minutes which indicates that people are taking the time to read it (the average time spent on a page is usually under two minutes). The savings themes which have been viewed most often are administration, young people and transformation. During the same period there have been over 1,800 views by employees, with an average time spent on the page of over 13 minutes. The themes viewed most often are young people, administration and transformation. Despite a relatively high level of views, there have been very few completed surveys, a total of 16 to date, and a low number of comments submitted via e-mail. There is no common issue within the comments received which include:

Areas that should be protected:

- Adult education provision
- Breakfast clubs
- School library budgets
- Tackling dog fouling, fly tipping and litter

General comments

- This could be a catalyst to streamline services
- Long overdue
- Like any business, there will be savings to make
- Amalgamate, streamline and share services
- More efficient procurement
- Reduce capital works and expenditure on making the area more attractive
- Less paperwork and bureaucracy
- Increase Council Tax
- Review HQ project

- 4.4.5 As well as the online information, information about the Council's budget challenges was published on the front page of the October and December editions of Falkirk Council News, which is distributed directly to every household in the Falkirk Council area. A media release was also issued immediately following the October Council meeting and a briefing for Community Councils was held on 25 November.
- 4.4.6 Engagement with specific groups is being carried out by Services via the Equality & Poverty Impact Assessment process. Communication with employees has been carried out in a range of ways, including regular update letters from the Chief Executive, consultation with Trade Unions and a face-to-face communications cascade to all employees following the Council meeting on 7 October.

4.5 **Council's Financial Position**

- 4.5.1 The previously reported position to Members was noted at para 2.3, where a balanced position was projected at the year end. An updated projection is currently being prepared and this will be reported to the Executive in January.
- 4.5.2 To the extent that it is not anticipated that reserves will be applied to help balance the Budget, in these terms the projected outcome assumes less significance. Members will know from previous reports that is not best practice to use reserves for this purpose as it not sustainable. It is anticipated that the current level of reserve will come under pressure going forward.

4.6 **Falkirk Community Trust**

- 4.6.1 There is a separate report on this agenda dealing with the Trust's 2016/17 Business Plan and how that may be taken forward by Council.

4.7 **Adult Health & Social Care Integration**

- 4.7.1 Similarly, there is a separate report on this agenda on the Integrated Joint Board's draft Strategic Plan. Appended to that report is a breakdown of the functions in scope showing their 2015/16 budget position.
- 4.7.2 Discussions are ongoing with Forth Valley Health Board (FVHB) on the classification of functions that will be transferred to the new Board. Both the Council and FVHB will need to determine their respective budget allocation to the Board flowing from their Budget processes.

4.8 **Budget Process**

- 4.8.1 As part of the ongoing evolution of the Council's Budget process a cross group Member Budget Working Group has been formed. The first meeting of this Group was on 22 October and there have been 3 subsequent meetings. A range of topics have been considered including:-
- Alternative models of service delivery
 - Falkirk Community Trust
 - Health & Social Care Integration
 - Staff Terms & Conditions

5. **CONSIDERATION OF ONE v TWO YEAR BUDGET**

- 5.1 Members will be well aware from previous reports that it has been argued that preparing Budgets over a period longer than one year allows a more strategic approach and reflects best practice. Indeed, a two year budget was submitted to Council in February and the report to October Council approved progression of a further two year Budget.

5.2 There is, however, a confluence of factors which might cause that position to be questioned with respect to 2016/17 and 2017/18:-

- a) Councils are receiving only a one year grant Settlement.
- b) Scottish Government is only doing a one year Budget.
- c) Possible changes flowing from Holyrood:-
 - End council tax freeze
 - Outcome of Commission on Local Tax Reform
 - Harness new tax raising powers
 - End Teacher numbers sanction
- d) The Council may need to draw significantly on draft 2017/18 savings options to balance 2016/17.
- e) The challenge for Members to agree, what are very difficult options, to achieve a balanced 2017/18 position consistent with a tight timeframe leading to a Budget Council meeting on 17 February.

5.3 Moreover, there is the opportunity by not pursuing a two year Budget now to buy time to allow more strategic reviews to be conducted in preparation for 2017/18. Some particularly relevant examples are given below, but the approach need not be restricted to these:-

- a) The report on this agenda for the Falkirk Community Trust suggests such an approach with respect to rationalisation of its service delivery locations.
- b) A similar review is being conducted by the Council on its portfolio of property assets.
- c) A review of Adult Social Work in terms of eligibility criteria and charging has already been agreed and there is potential to widen the scope.
- d) Integrated review of waste collection and implementation of the household waste recycling charter.

5.4 It is emphasised that opting to go for a one year Budget merely defers, and buys more time to prepare for, the very difficult decisions Members will need to take to produce a balanced Budget in 2017/18. The options appended to the October report to Council and other options still to be identified and will need to be confronted. Officers will need to continue identifying and working up options for 2017/18 for Member consideration.

6. CONCLUSIONS

6.1 This report has provided an update on the Spending Review and what it might mean for the Council. The opportunity has been taken to give an overview on the progress of the Budget preparation. A question has also been raised as to whether, at this time, it would make more sense to pursue only a one year Budget for 2016/17.

7. RECOMMENDATIONS

Members are invited to:-

- 7.1 Note the outcome of the Spending Review.
- 7.2 Note the progress of the Budget preparation.
- 7.3 Consider whether a one year Budget should be pursued and also note the strategic review process per para 5.3.
- 7.4 Note the progress on Terms and Conditions.

Chief Executive

Director of Corporate & Housing Services

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LIST OF BACKGROUND PAPERS

- 1. Budget Working Paper File.