Education (including the Attainment Fund)

I have considered the representations made on the Scottish Government proposals to adjust the local government settlement to pave the way for an additional £100 million investment per year, generated through reform of council tax, to go directly to schools to close the gap in the educational attainment of young people from Scotland's most and least deprived areas.

I can now confirm that provision for the additional funding to meet our commitments on the Attainment Fund will be met directly from the resources available to the Scottish Government at a national level, rather than from an adjustment to the local government finance settlement.

As the next step towards investing £750 million over the life of this Parliament we will go further than our manifesto commitment and will increase the additional resource to be made available directly to schools through the Attainment Scotland Fund from £100 million to £120 million in 2017-18. This will be paid as a ring fenced grant and distributed on the basis of P1 to S3 pupils known to be eligible for free school meals, as part of the local government settlement.

It is a condition of this agreement that this funding is additional to each council's individual spending on schools rather than substitutional and is to be used at the discretion of schools to close the attainment gap between children from the least and most deprived areas within their communities. This is on top of the existing £50 million Attainment Scotland funding that will continue to provide targeted support for those authorities and schools supporting children and young people in greatest need.

In addition, we will continue to require local authorities to maintain the overall pupil:teacher ratio at 2016-17 levels as reported in the Summary of School Statistics published on 13 December 2016, and secure places for all probationers who require one under the teacher induction scheme. This is supported by a continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the teacher induction scheme.

As previously made clear, all of the additional £111 million of Council Tax income raised by the Council Tax banding reforms we have implemented will be retained by each local authority area and, as a result of these decisions, the allocation of that funding will be for councils themselves to take based on their own local needs and priorities.

Local Taxation

2016-17 was the ninth consecutive year of the Council Tax freeze. As we have made clear this will be lifted from 2017-18, when Councils will have greater flexibility and may choose to increase Council Tax by up to a maximum of 3%. This local discretion will preserve the financial accountability of local government, whilst also potentially generating up to £70 million to support services.

Our reforms of Council Tax are only the first steps, and the Scottish Government is fully committed to further engagement with COSLA as we seek to make local taxation as a whole fair and progressive. We will work with COSLA to consider your objectives for local tax reform as set out in the Local Government Funding Review.

We will also deliver our commitment for local government to retain the net incomes from the Crown Estate for the benefit of island and coastal communities. In addition we will explore with authorities other opportunities for the development of fair and equitable local taxation that supports economic growth and public services.

Overall Settlement

As a result of the measures above, the total revenue funding for 2017-18 will be £9,496.4 million, which includes non-domestic rates incomes in 2017-18 of £2,605.8 million.

Capital funding is set at £756.5 million and delivers on our agreed commitment to maintain the local government share of the overall Scottish Government capital budget. I can also reaffirm the commitment to repay £150 million of re-profiled 2016-17 capital with an additional allocation in the period 2018-20.

The total funding which the Scottish Government will provide to local government in 2017-18 through the settlement, including the £120 million of additional support for educational attainment, is £10,252.9 million.

This is a fair settlement for Local Government.

With the addition of the real spending power that comes from the opportunity to raise up to an additional £181 million from Council Tax plus an additional £107 million to support the integration of Health and Social Care, the total spending power available to local authorities from the Scottish Government, and through local taxation will be up to £10,541 million, a total of £241 million more than was available in 2016-17, an increase of around 2.3%.

The difference between the figures reported in the Draft Budget in 2016-17 and 2017-18 will be potential spending on local government services of an increase of £266.8 million, or 2.6%.

In return for this settlement and in pursuit of our Joint Priorities, individual local authorities will deliver the specific commitments set out above.

Engagement

In line with our partnership approach we will work jointly with local government to support delivery of these commitments and undertake a review to monitor progress at an agreed mid-point in the year.

The measures set out in the settlement offer must be viewed as a package to protect our shared priorities and intensify a journey of reform. In order to access all of the benefits involved, including those priorities supported by specific financial benefits, local authorities must agree to deliver all of the measures set out in the package and will not be able to select elements of the package.

Any individual authority not intending to agree the offer and accept the full package of measures and benefits should write to me by no later than **Friday 13 January 2017.** For those authorities not agreeing the offer a revised, and inevitably less favourable, offer will be made.

Local government is essential to the health, wellbeing and prosperity of every community in Scotland. The Scottish Government are committed to work together in partnership with local authorities to do all that we can to support local authorities to ensure that the full package of agreed measures is delivered.

[redacted]

DEREK MACKAY

Falkirk Council

Title:	**Revenue Budget 2017/18**
Meeting:	**Falkirk Council**
Date:	**19 December 2016**
Submitted By:	**Director of Corporate & Housing Services**

1. Purpose of Report

1.1 This report presents a further step in the 2017/18 (and beyond) Budget process and updates Council on a wide range of Budget matters. It will be supplemented by an update on the Scottish Government Budget and Local Government Settlement which will be announced on 15 December. It is intended that this supplement will be issued on 16 December.

1.2 Appended to the report are the Budget Business Cases for both Falkirk Community Trust and the Integration Joint Board. This affords the Council the opportunity to give feedback to both organisations in the context of the Council's grant settlement.

1.3 Together with a report to January Executive which will contain both the latest revenue projection for 2016/17 and anticipated further analysis on the 2017/18 Local Government Settlement, this report will provide the platform for Council to take the necessary decisions in February to achieve a balanced Budget.

1.4 The report also offers Council the opportunity to take a provisional decision on the level of Council Tax for 2017/18. This would both help to demonstrate how the Budget gap can be closed and facilitate the logistics of Council Tax billing.

2. Recommendations

2.1 Council is asked to note:-

(1) The broad financial picture presented in Section 4.1 and its linkage with the Council's medium term planning in section 4.12
(2) The status of engagement with Trade Unions in section 4.4
(3) The Budget savings options relating to External Organisations presented at section 4.6.
(4) The status of public engagement in section 5
(5) A further report will be submitted to January Executive providing an updated Revenue Budget projection for 2016/17 and, it is anticipated, an additional analysis on the 2017/18 Settlement.

2.2 Council is invited to advise any feedback it wishes to convey to the respective Boards with regard to the Budget submissions from:-

(1) Falkirk Community Trust
(2) Integration Joint Board

2.3 Council is invited to determine if, at this meeting, it wishes to provisionally set a Council Tax Band D rate for 2017/18 in terms of the scope to raise the tax by up to 3%, with the final decision taken at the February Budget meeting where all relevant information will be presented.

3. Background

3.1 Further to a report on the Medium Term Financial Strategy which was presented to Council on 22 June 2016, an update report on the Budget fiscal environment was considered by Council at its meeting on 21 September 2016. That meeting agreed that Officer savings options would be presented to the October meeting of the Executive.

3.2 Executive duly considered these savings options at its meeting on 18 October, together with an update on negotiations with the Trade Unions.

3.3 In terms of the Member Budget Working Group, there have been further meetings as noted below:-

Date	Agenda Item
9 November 2016	The Council of the Future – presentation (all members invited)
14 November 2016	Revenue Budget Gap
29 November 2016	2017/18 Budget Options – Services
6 December 2016	2017/18 Budget Options – Services Reserves Strategy
13 December 2016	2017/18 Budget Options – FCT and IJB External Organisations
16 December 2016 (t.b.c)	Local Government Finance Settlement

3.4 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:-

- General Services Capital Programme
- HRA Revenue
- HRA Capital

These items along with the Revenue Budget will be presented to Council meeting in February.

4. Considerations

4.1 Update on the Broad Financial Picture

4.1.1 The **Autumn Statement** underpinned by the Office of Budget Responsibility forecasts, downgraded GDP growth with a sharp decline in the next two years with a resultant reduction in fiscal receipts. Spending plans are, however, carried forward from the 2015/16 Spending Review as the Chancellor has elected to cover this shortfall with additional borrowing. CPI inflation is forecast to rise sharply over the next two years.

4.1.2 The Chancellor’s decision to increase capital investment has resulted in an extra £800m allocation to Scotland over five years. Whilst the additional investment down south is being prioritised for the local road network, the Scottish Government will determine its own priorities.

4.1.3 No specific date has been set to achieve fiscal balance albeit with an extra year of austerity added for 2021/22, it will not be before then.

4.1.4 **The Fraser of Allender Institute** has published a report on “Scotland’s Budget – 2016”. The report notes that the fiscal responsibilities of the Scottish Parliament are expanding rapidly and that with the assignment of VAT revenues, 50% of devolved expenditure will be funded by tax revenues collected in Scotland.

4.1.5 Consequently, the Scottish Government budget in future will depend on the two key elements of the Scottish block grant as determined by the Barnett Formula and the growth of devolved tax revenues, particularly income tax. Moreover, this means that Scotland’s economic performance, particularly relative performance, will have a greater than ever impact on Holyrood’s spending plans.

4.1.6 The report notes that with the economic uncertainty following Brexit and a fragile Scottish economy, the devolution of new powers, “could not have come at a more challenging time” and “there is a real risk that this new framework will only add strain on Scotland’s public finances at least in the near term”.

4.1.7 The report also notes that, “Real term cuts to the Scottish block grant are likely to continue into the next decade, extending the period of fiscal consolidation to over 10 years”.

4.1.8 The gloomy prognosis was compounded by recent analysis by the independent think-tank **IPPR Scotland**. Because of Scottish Government decisions to protect certain spending, notably the NHS and Police, cuts to areas such as local government are set to be particularly deep with non-protected areas expected to lose £1.3B per year by 2019/20.

4.1.9 The IPPR director notes that, “The Autumn Statement leaves a very significant and unprecedented spending squeeze for Scotland’s unprotected departments over coming years”.

4.1.10 The **Accounts Commission** have also recently released their "Financial Overview 2015/16" and this will be the subject of a separate report to January Executive. The Overview highlights the significant challenges for local government finance reflecting the combination of long-term decline in funding, (8.4% in real terms since 2010/11) rising demand for services and increasing costs.

4.1.11 Information from the above sources are harnessed to develop the Council's medium term planning work of which more is said in Section 4.12 of this report.

4.2 **Local Government Finance Settlement**

4.2.1 It has been confirmed that the Scottish Budget and 2017/18 Local Government Settlement will be delivered on 15 December. This timing has meant that it will be necessary to issue a supplementary report for Council containing information on the Budget and Settlement. It is intended that this will be done on Friday 16 December.

4.2.2 This compressed timeframe will mean that the supplementary report will focus on the "headline" elements with a more detailed analysis submitted to a meeting of the Executive in January. Council should note that a detailed review of the Settlement figures is conducted by COSLA/Council finance officers over several weeks following the announcement and that these frequently find error which require adjustment to the figures.

4.2.3 As part of the Settlement process, the Grant Aided Expenditure (GAE) indicators will be updated and this could affect the distribution of grant between Councils.

4.2.4 It will be evident from the preceding section that a very difficult Settlement is expected with a cash cut in grant of between 3-5%. Beyond the Scottish Government's cut in its own grant, the key factor determining impact will be how local government fares relative to other large areas of spend, notably Health & Police.

4.3 Budget Gap

4.3.1 The projected Budget gap reported to Council (21/09) and Executive (18/10) was based on a grant reduction (3.5%) similar to 2016/17. In the interim, advice from Cosla is that the cash grant reduction could be nearer 5%, which would increase the gap to circa £25m – the same overall Budget gap level as 2016/17.

4.3.2 The primary options to achieve a balanced Budget are presented in the table below, which Council will recognise from the report to the 21 September meeting. The table has been populated with indicative figures, which were considered by the Member Budget Working Group, to give a broad sense of how the gap might be addressed. It is highlighted that on these assumptions virtually all the Council Service savings would require to be accepted to achieve a balanced Budget based on a £20m gap. As noted above, the gap could be nearer £25m in which case a significant further tranche of savings would need to be identified.

	£m
Estimated gap	20
Options to Bridge the Gap	
Council Service Savings	10.5
Falkirk Community Trust	1.0
Integration Joint Board	2.0
External Organisations	0.5
Strategic Reviews	?
Budget Rebasing	2.7
Council Tax increase	2.0
Terms & Conditions	-
Application of Reserves	2.0
Gap bridged	£20.7m

4.3.3 Subsequent sections in this report give Council more information on most of these options.

4.4 Workforce Update

4.4.1 The report presented to the Executive Committee in October identified savings options which would result in a workforce reduction of 228.2 FTE posts if savings from terms and conditions are not achieved. Members will be aware however, that these options related to the initial projected £20m of savings that required to be achieved. It is likely that this number will increase if the Settlement results in an increase in the Budget gap.

4.4.2 One option to reduce the number of workforce reductions is for an agreement on changes to terms and conditions to be reached with Trade Unions. Currently, c65 FTE posts within the above figure relate specifically to the £1.5m which requires to be found directly from terms and conditions, if an agreement cannot be reached. Further to the update provided to the Executive in October, discussions have continued with Trade Unions to develop a package which can be issued to employees as part of a ballot on such changes. This has involved very detailed and complex discussions with Trade Union colleagues which are still being progressed. The Trade Unions are also aware that any ballot requires to be undertaken in time to inform the Budget report which Members will consider in February 2017. For Members' information, these discussions are now taking the form of Tripartite meetings, with both the Leader of the Council and the Leader of the Opposition involved in the discussions. The next meeting with Trade Unions is due to take place on 21 December 2016.

4.4.3 One further workforce related matter which may impact on budget projections is the local government pay award for 2017/18. The Council has received information on the starting position for this round of negotiations. This suggests that the cost of the pay award, if it were to be agreed at the initial rates being suggested, could be met from the funds identified within current projections. This is of course subject to progress with negotiations at a national level. The affordability of the pay offer will continue to be assessed if any increase is made to the offer to Trade Unions at a national level. The Council's position on affordability has been relayed to Cosla as part of their engagement with Councils.

4.5 Strategic Reviews

4.5.1 Council agreed in February 2016 as part of the Budget Report (para 4.3) for a range of strategic reviews to be undertaken. A summary of the status of each of these reviews is provided below.

4.5.2 **Trust Service Delivery & Property Portfolio**

This review has principally been taken forward as part of the Council's wider Strategic Property Review with discussion taking place between the Trust and Development Services. A degree of integration of this work with the work of the Falkirk Community Trust Policy Development Panel will take place pursuant to the decision of the Executive on 27 September which looked to establish a joint working group with the Trust which would consider the treatment of facilities. Officers are discussing arrangements for this working group with management of the Trust.

4.5.3 **Council Property Portfolio**

A separate report on this review is presented on this agenda. It will be evident that a considerable amount of work has been undertaken to get to this point and that some difficult decisions will be required to be taken by Members in due course.

4.5.4 **Enhanced Income Generation**

This review is being informed by reports on income generation from the Accounts Commission and CIPFA, together with benchmarking data on fees and charges across Scottish Councils. There are, however, restrictions as many Council services are required by statute and are free at the point of delivery, whilst a number of charges are determined at a national level. A number of options for income generation are reflected in Service savings options already presented to Members and are also reflected in the Business case submission for both the Trust and IJB.

4.5.5 **Social Work Delivery (Adults & Children)**

4.5.5.1 **Adult Social Care**

In the current year the Integration Joint Board is reporting a modest reduction in the projected Adult Social Care services overspend. The remaining overspend will be funded from Integration Funding. A separate IJB budget case submission details savings proposals for 2017/18 is set out in section 4.8 of this report.

4.5.5.2 The transformational change required to deliver effective management of finite financial resources will be enabled by a new approach to eligibility criteria and resource allocation. At its meeting on 2 December 2016, the IJB agreed to consult on a revised Eligibility Criteria Framework and approved the development of a resource allocation system to complement the revised framework. The report considered by the IJB can be accessed at http://www.falkirk.gov.uk/coins/submissiondocuments.asp?submissionid=13029. The new framework will embody self directed support principles, giving due regard to the person's strengths and assets and natural supports in contrast to a more service led approach. Eligibility for support will be established at critical and substantial levels of assessed need, while affording opportunity to provide preventative support at moderate level where resources allow. This approach will be phased in during 2017/18.

4.5.5.3 **Children and Families**

A progress report on the review of Children and Families will be presented to the Business Transformation Board on 12 December. The development of a three year strategy is nearing completion, with some arising actions already being implemented. As a result of the work to date, the overspend position for Children and Families has improved with c£0.8m forecast for 2016/17. However, Childrens' Services overall are projected to be broadly on budget for 2016/17. In turn, it is anticipated that the current provision for budget pressures of £1.5m included in the 2016/17 budget can largely be removed from the 2017/18 budget and thus contribute to bridging the Budget gap.

4.5.6 **Payment to External Organisations**

4.5.6.1 The Council funds a number of external organisations through grant funding. Annually this amounts to approximately £3.5m per annum. This total has been reducing slightly over a number of years due to savings being achieved but also due to some funding moving to the Integration Joint Board. This has meant approx. £800,000 this year being taken out of the external funding review.

4.5.6.2 Each year Services are asked to identify saving in their funding to external organisations, with last year's budget identifying just over £400,000 in savings. It was agreed by Council that a strategic review would be undertaken to further identify savings. To this end a small group of senior officers has reviewed the spend against all organisations, identified the purpose of funding groups of organisations and then developed a number of options with regards to achieving levels of savings commensurate with the services delivered by each organisation.

4.5.6.3 These options are currently being considered but could achieve anywhere from £170,000 to £700,000 in savings in the coming year. Monitoring officers have been asked to engage with all organisations to advise them that savings will be sought and to undertake an initial equality and poverty impact assessment to identify who and how specific groups would be impacted by such savings. It must be clear that the purpose of such assessments is not to measure the impact of savings on the organisation but the people they deliver services to.

4.5.6.4 In addition a review is currently underway on the information provided to Scrutiny Committee on each organisation as part of the Council's Following the Public Pound arrangements. The current reporting focuses on what the organisation has delivered over the past year. This does not assist Members to then take difficult decisions on affordability of such services. The form is therefore being revised to reflect the need to provide more focussed and evaluative information that should support Members in the difficult decisions they have to make on continued funding. A proposed way forward reflecting Council Priorities is contained at section 4.6 of this report.

4.5.7 **Alternative Models of Service Delivery**
An update on this review was presented to the Business Transformation Board on 12 December. The first stage of the review identified potential areas of service provision using a range of criteria e.g. areas offering the greatest potential for savings and where there are clear examples of successful operation elsewhere. The update outlined the next steps where more detailed business case analysis and option appraisal would be required. Further consideration of these options will be undertaken by Executive or Council in February/March.

4.5.8 **Summary**
In practice, given the scale of the preparatory work required, it is expected that most of the output from the Strategic Reviews will feed into post 2017/18 Budget rounds.

4.6 External Organisations' Grants

4.6.1 Over the last five years most externally funded organisations have had some savings attributed to them but very few organisations have had significant savings. Only one or two organisations have had funding stopped completely and where that has been the case this was due to a change in the procurement process or due to significant reserves.

4.6.2 The approach for 2017/18 has been to establish four priority categories for externally funded organisations as follows:

1. Critical and essential services – the sole provider of statutory services i.e. they provide statutory services on behalf of the Council.
2. Critical services that if withdrawn would cost the Council more to provide the equivalent.
3. Essential services that contribute to early intervention and prevention.
4. Valued service but not essential.

4.6.3 The basis for this is to recognise that all services are valued by the recipients of those services but there is an issue of affordability that the Council must consider.

4.6.4 The table below shows the value of each category and the savings that can be achieved if a percentage reduction of 5 – 20% is applied. This gives a range of scenarios.

Priority	**Total Funding in 2016/17**	**5% Saving**	**10% Saving**	**15% Saving**	**20% Saving**
	£	**£**	**£**	**£**	**£**
One	945,783	47,289	94,579	141,868	189,157
Two	333,824	16,692	33,383	50,074	66,765
Three	2,034,058	101,703	203,406	305,109	406,812
Four	322,381	16,119	32,239	48,358	64,477
Total	**3,636,046**	**181,803**	**363,607**	**545,409**	**727,211**

4.6.5 A list of the organisations which sit within each category is being finalised. Discussions will shortly commence with Members on the approach to be taken.

4.7 Falkirk Community Trust – Business Plan

4.7.1 The Funding Agreement between the Council and Falkirk Community Trust (the Trust) requires that the Trust submit a draft business plan for the following year for approval by the Council. The Trust has duly complied and appended to this report are the following detailed documents:-

- Cover letter from Trust Chief Executive
- Briefing report from the Trust summarising their submission
- Business Plan Approach 2017-2020 (Appendix I)
- Savings Proposals 2017/18 (Appendix 2)
- Fees and Charges 2017/18 (Appendix 3)
- Equality & Poverty Impact Assessment (Appendix 4)
- Helix Business Plan Strategy 2017-2020 (Appendix 5)
- Capital Programme 2017/18 (Appendix 6)

4.7.2 There is provision in the Funding Agreement between the Council and the Trust for the parties to have an initial dialogue in relation to the proposals in the draft Business Plans prior to final approval. The Council may request further information from the Trust and propose amendments in relation to the Trust's funding commitment and service specification. The Trust will consider these requests and proposals and may, as a result of this process, adjust the Business Plans. The purposes of this report are, firstly, to provide an overview of the draft Business Plans and, secondly, to allow Members to discuss the proposals in the draft Business Plans with a view to, if Members are so inclined, seeking additional information from the Trust and/or requesting the Trust to consider proposed amendments to the draft Business Plans prior to further consideration of the draft Business Plans at the Council Budget meeting in February.

4.7.3 The current Policy Development Panel review of the Council's relationship with the Trust provides a further context to Council's consideration of the Trust's budget proposals, as does the Strategic Property Review, which is a separate item on this Agenda.

4.7.4 The Trust Board has recognised the extremely challenging economic climate and the financial pressures which the Council, their primary funder, will be facing. As a consequence, the Trust has rethought their approach resulting in a revised 3 year strategy. Essentially, this involves new and more intense community engagement which would sit along side the Council's wider Community Empowerment agenda. This will lead to new ways of developing, managing and delivering all aspects of culture and sport.

4.7.5 A consequence of the Council agreeing to this approach, which requires time to implement, is that the level of savings the Trust would make to bridge the Council's Budget gaps would be skewed towards 2018/19 and subsequent financial years. The Trust's proposed savings for 2017/18, whilst still substantial at c£1m, are below the target level the Council's Services have been working to. The Trust's suggested approach does, however, offer the potential of greater savings in subsequent Budget rounds. It will be for Council to take a view on this.

4.7.6 The Trust's savings proposals for 2017/18 are summarised below and detailed in Appendix 2 of the Trust's Budget submission:-

	£'000	
Income generation	428	
Community Engagement/Transfer	47	
Efficiencies	117	
Service Reductions	378	
	970	
Application of Reserves	100	(Further reserves deployed to meet anticipated redundancy costs)
	1,070	

4.7.7 The income generation targets are ambitious and the Trust note that it is with great reluctance that they bring forward service reductions. The Trust also flag that were the Council to seek further savings from them in 2017/18, this is most likely to involve facilities closure.

4.7.8 The Trust's submission also includes a Helix Business Plan 2017-20 (Appendix 5) and Capital Programme proposals totalling £520k (Appendix 6).

4.8 Integration Joint Board – Business Case

4.8.1 The Integration Scheme for the Falkirk Health and Social Care Partnership sets out the methodology for determining funding to the Integration Joint Board (IJB). This requires an IJB business case to be presented to both the Council and the Health Board for consideration. The Falkirk Health and Social Care Partnership (the partnership) presented their Business Case for 2017/18 to the Integration Joint Board on 18 November 2016. The IJB approved the Business Case for consideration by Falkirk Council. Appended to this report are the following documents:-

- Cover letter from the Falkirk Health and Social Care Partnership Chief Officer
- Integration Joint Board (IJB) Business Case 2017/18

4.8.2 In developing the Business Case, the Chief Finance Officer from the partnership has met with Council finance staff. This has ensured that consistent financial planning assumptions in key areas such as pay awards have been adopted.

4.8.3 The partnership has been kept informed of the prevailing economic challenges that the Council is facing and the anticipated Budget gap for 2017/18. The partnership was advised that savings in the order of £2m may be required. The IJB recognises the challenges the Council is facing and has proposed savings totalling £2.455m which would result in a workforce reduction of 38 FTE posts. These savings proposals reflect the strategic priorities and outcomes set out in the IJB's strategic plan and are detailed at Appendix 1 of their submission.

4.8.4 It is for the IJB to approve savings options on behalf of the partnership. Responsibility for approving budget savings and/or service redesign for adult social care services no longer rests with the Council. However, it is accepted that the Council will have a keen interest in any proposed savings and can request further information where required.

4.8.5 Responsibility for charging policy within Adult Social Care remains with the Council. A proposal to increase income is noted below for Council consideration. This proposal covers both a review of charges and improving business processes and debt recovery in order to reduce the level of debt write off. If approved, charges will be increased in line with general inflation.

4.8.6 The IJB's savings proposals are summarised below:-

	£'000
Procurement efficiencies for care at home and supported living services	775
Reviewing models of service delivery	1,380
Review of charging policy	300
	2,455

4.8.7 The Business Case includes detailed information at Appendix 1 on the areas to be targeted for the above savings along with an indication of the confidence level in being able to achieve the savings. Council will wish to note the proposal to fundamentally change the Garden Aid scheme. The IJB is also conducting a review of eligibility criteria as outlined at paragraph 4.5.5.2.

4.8.8 The covering letter from the partnership draws the Council's attention to a number of key points to note when reviewing the Business Case, including:

- The treatment of the Integration Funding (to be renamed Social Care Funding) within the 2017/18 Scottish Budget is pivotal to the financial planning for Adult Social Care. The Business Case includes a range of scenarios for this funding and highlights this as a significant financial risk for the IJB. More savings could be required should Integration Funding be lower than expected.
- The Equality and Poverty Impact Assessments for these savings are currently being prepared.
- The draft saving programme represents a challenge for the partnership and the Business Case highlights the need for appropriate management and business support to achieve this.
- A further proposal to consider future support, possibly funded through the Council's Spend to Save reserve will be developed.

4.8.9 Council should note that the IJB Business Case focuses on the funding required for Adult Care Social Services. The budget cycle for NHS Boards has traditionally been later than local authorities. The 2017/18 financial plans have not been discussed with the NHS Board at this stage. A revised Business Case, including the NHS plans will be prepared in 2017.

4.9 Reserves

4.9.1 The budget report to Council in February 2016 included a review of the Council's reserve strategy. The review noted that councils can hold reserves for three main purposes:

1. A working balance to help cushion the effect of uneven cash flows and unnecessary temporary borrowing;
2. A contingency to cushion the impact of unexpected events or emergencies; and
3. A means of building up funds to meet known or predicted requirements by earmarking a portion of the General Fund.

4.9.2 Within the report, a recommendation was made and agreed to maintain the uncommitted General Fund balance within a range of £6.6m - £10m. The most recent estimate for the reserve is c£9m.

4.9.3 Audit Scotland's "Local Government in Scotland – Financial Overview 2015/16" included the following statement:

"While usable reserves can be used to support services, Councillors must consider how and when these are used as they can only be used once. Use of reserves must comply with the Council's annually reviewed reserves policy. This should be clearly linked to financial plans and consideration must be given to the impact on the future financial position. Using reserves to support services in the short term is not sustainable unless they are used to support service transformation and generate future savings. A significant proportion of usable reserves held by councils have already been allocated for specific purposes and so will not be available for other uses".

4.9.4 A detailed list of the Council's usable reserves is provided at annex 1. The total usable reserves are £43.0m. The summary includes HRA reserves, capital reserves, the Revenue Grant reserve and the Insurance Fund. **These reserves total £21.9m and the restrictions attached to them mean that they cannot be used to support the revenue Budget gap.**

4.9.5 The General Fund reserve of £8.6m as at 31st March 2016 has a lower limit, as approved by Council of £6.6m. There is a circa £2m "cushion" within this reserve. However, Council will note that the Budget gap statement at para 4.3.2 already anticipates this sum being deployed. Moreover, Members will need to consider this reserve in a wider strategic context, bearing in mind the pressures of equal pay negotiations currently underway and potential for additional costs from e.g. winter pressures.

4.9.6 The Spend to Save reserve of £3.1m has been earmarked to fund both transformational projects and voluntary severance payments. There is no slack projected in this reserve. The Devolved School Management Reserve (£3.9m) holds funds on behalf of individual schools and deals with differences between academic and financial years. The remaining balances are used to offset pressures from rising school rolls. Scrutiny Committee has recently considered this reserve in some detail. The remaining reserves are shown in the following table and have been fully allocated. It would be open to Members to revisit previous decisions taken to apply reserve funding where the funding has not yet been committed.

Reserve	Balance £'m
Economic Development	1
Central Energy Efficiency Fund	0.5
Repairs & Renewals	4
	£5.5m

4.9.10 It should be evident from the above analysis that whilst there is a headline figure of £43m, the actual capacity to deploy any further reserves is severely constrained. Indeed, the only additional headroom would be if Members opted to change the already allocated spend in the table above, to the extent it was not already committed.

4.10 Further Savings Options

4.10.1 The report to 18 October Executive highlighted how challenging it had been for Services to identify the savings options submitted. Moreover, it was noted that as Children's Services being the Council's largest Service, had not been able to identify a proportionate share of savings options, this placed significantly disproportionate pressure on the Council's other Services, with important consequences for service delivery in these areas.

4.10.2 It is evident from the funding gap table at para 4.3.2 that many of these savings options will need to be accepted to bridge a Budget gap of £20m. As noted at para 4.3.1, however, the Settlement on 15 December could increase this gap to nearer £25m.

4.10.3 Whilst Officers are working on options to provide for this contingency, Council needs to understand that in this eventuality, <u>significant</u> additional savings are inevitably going to be required in areas which are held to be discretionary and lower priority. The challenge in dealing with this eventuality will be compounded by the compressed timeframe within which this will need to be progressed ahead of the February Budget meeting.
Examples of large areas of spend that will need to be reviewed further include:-

- Children's Services
- Integration Joint Board
- Falkirk Community Trust
- Roads

4.11 Council Tax

4.11.1 At a recent meeting of the Member Budget Working Group, there was cross party support for an increase of 3% in Council Tax. A 3% increase in Council Tax, combined with the forecast growth in property numbers, will see the 2017/18 yield grow by c£2m from the 2016/17 forecast out-turn. This is in addition to the £200k that will be raised by the Empty Homes Levy and will take the total yield up to around £57.3m. The table below shows the incremental impact of a range of potential increases.

Increase (%age)	2016/17 Out-turn	Growth	Increased Yield	Total Increase	Total Yield
	£'000	£'000	£'000	£'000	£'000
0.0%	55,103	351	0	**351**	55,454
0.5%			278	**629**	55,732
1.0%			557	**908**	56,011
1.5%			835	**1,186**	56,289
2.0%			1,113	**1,464**	56,567
2.5%			1,391	**1,742**	56,845
3.0%			1,670	**2,021**	57,124
Empty Homes Levy					200
Total Projected Yield 2017/18					**57,324**

14.11.2 The Band D charge would rise from £1,070 to £1,102, with a 3% increase. With this rise we would remain comfortably below the Scottish average Band D charge, which was £1,149 for 2016/17.

14.11.3 Legislation was passed in November which will see the amount paid by properties in Bands E-H, increase further. The money raised (estimated £100m nationally) will be directed to the national policy of closing the Attainment Gap. The table below shows the combined impact of both the 3% increase and the change in ratios.

Band	2016/17 charge	2017/18 proposed charge	%age increase
A	£713.33	£734.67	3%
B	£832.22	£857.11	3%
C	£951.11	£979.56	3%
D	£1,070.00	£1,102.00	3%
E	£1,307.78	£1,447.91	11%
F	£1,545.56	£1,790.75	16%
G	£1,783.33	£2,158.08	21%
H	£2,140.00	£2,699.90	26%

14.11.4 Households already in receipt of Council Tax Reduction will be protected from both increases. In addition, households with a weekly income below £321 for single adults, or £479 for couples/families, will be protected from the impact of the increased ratios in Bands E-H.

4.12 Medium and Long Term Financial Planning

4.12.1 Financial plans should provide information on the Council's short, medium and longer term financial outlook and the probable impacts that current trends and future decision making will have. To work effectively, financial planning must be part of the overall strategic planning process. This ensures that financial capacity is aligned with future service objectives.

4.12.2 A high level medium term financial strategy was presented to Council in June 2016, focussing on the pressures facing the Council in 2017/18 with some indicative information provided for 2018/19. The Accounts Commission placed further emphasis on medium and long term financial planning in their recent publication "The Audit of Best Value and Community Planning – Falkirk Council Best Value audit report". Their view is that uncertainty over funding and income means forward planning is more important than ever. This includes scenario planning for a range of options. The challenge is to prepare plans and options which are meaningful and can be used to inform strategic decision making.

4.12.3 A commitment was given to Council in September 2016 to further develop medium and long term financial planning and report back to Council in December 2016. It has, however, been recognised that one year financial Settlements and significant economic shocks, for example Brexit, can mean such plans are of limited value. Indeed, a recent piece in the "Financial Times" included the following observation : "Forecasts, even a year ahead, indicate little more than the general direction of travel and five years out they are basically fiction". It is important that in viewing such plans readers have an awareness of this dimension.

4.12.4 The Council has committed to further developing the current medium term, three year financial plan into a more robust medium 5 year plan. Beyond that a rationale and pragmatic approach will be taken which focuses on significant known events and best available estimates. The Chartered Institute of Public Finance and Accountancy (CIPFA) has developed a Long Term Financial Planning good practice checklist which help to ensure best practice is adopted.

4.12.5 The information within our financial plans is based on a number of key economic projection sources as outlined in section 4.1 of this report. This is a continuous process in what is a volatile and dynamic economic environment.

4.12.6 The following sections consider the key elements that must be reviewed as part of a medium and long term financial plan.

Funding Forecasts

4.12.7 The Accounts Commission report "Local Government in Scotland – Financial Overview 2015/16" provided detailed information on grant funding trends in recent years. Scottish Government revenue funding fell by almost 7% between 2010/11 and 2016/17. Brexit has clearly added to the uncertainty over the economic outlook with low growth expected, resulting in lower than anticipated tax receipts and reduced funding available for public spending. It is widely expected that the trend will continue to be a reduction in funding into the next decade, albeit the extent of the reduction is unclear. This is the most significant variable in our financial plans. A reduction of 1% equates to roughly £2.7m. This projected reduction in funding will have significant consequences for service delivery. Scottish Government proposals to replace revenue support grant with assigned tax revenues as a result of their new financial powers creates further uncertainty.

4.12.8 Further income streams for the Council include:

- Council Tax – changes in the base and central government policy must be considered;
- Non Domestic Rates; and
- Fees & Charges (see Section 4.5.4). The Accounts Commission report highlights that this is the largest growth area in council income in Scotland.

Cost drivers

4.12.9 Identifying the Council's key cost drivers, i.e. what is driving activity and therefore expenditure, is critical. Cost drivers should be used to inform strategic decision making by ensuring that any service redesign takes these drivers into account. By doing this, a clear link should be established between the Council's Single Outcome Local Development Plan (the SOLD) and financial plans. This should include a link between the allocation of budget savings and the Council's stated priorities. This should also consider suitable strategies for minimising and/or mitigating cost growth, demand management and where pressures are unavoidable, consideration of resource shift.

4.12.10 The cost drivers are similar across most local authorities, namely:

- Workforce – c60% of our costs are employee costs and a 0.5% pay rise is roughly the equivalent of £1m. This area of expenditure is clearly affected by the reduction in services, leading to fewer employees, albeit severance packages will offset savings in the early stages. A further significant cost in this area is employer pension costs.
- Population estimates – these impact on demographic pressures, notably on school rolls and adult social care.
- Service specific changes, for example increasing deprivation, leading to the potential for more demand on child protection services.
- Non pay inflation.
- Government policy decisions e.g. early years.
- Other known taxation and statutory changes, for example the changes to national insurance on pension contributions in 2016/17 which added c£4m to the wage bill.
- Interest rates for borrowing and investments.

4.12.11 When developing financial plans, it is important to consider sensitivity testing on key cost drivers to ensure the best and worst case scenarios are identified. These can then be incorporated into scenario planning.

Progress to date

This work is continuous and the figures presented in the table below represent the best information available at a point in time. Key assumptions for the next five years are:

	2017/18	2018/19	2019/20	2020/21	2021/22
RSG Reduction	3.5-5%	3.5%	2.75%	2.0%	1.5%
Pay Award	1.25%	1.5%	1.5%	1.5%	1.5%
Inflation	1.5%	2.0%	2.5%	3.0%	3.5%
Demographics	£1m	£1.5m	£1.5m	£1.5m	£1.5m

This information has been used to update our finance system to allow an estimate of future funding gaps to be calculated. Current estimates are shown below:

	Estimated Gap £'m
2017/18	20-25
2018/19	18*
2019/20	18
2020/21	16
2021/22	15

* n.b. whatever level of reserves Members apply to bridging the Budget gap in 2017/18 will need to be added to this figure.

4.12.12 As noted above, these figures will continue to be refined as information becomes known. However, it is clear that the Council faces a significant challenge. One has to question what scale and Service delivery capacity the Council will have in future if these projections prove accurate. The Audit Scotland report on best value has already emphasised the need for a significant improvement in the pace of change to be able to meet the scale of the financial challenges.

4.12.13 The development of the financial plans will link closely to the Council of the Future change programme that is currently being developed. The next stage will be to further develop our assumptions and develop a scenario planning model. The Scottish Government Budget on 15 December and the Settlement data will give, it is expected, at least some information that will inform subsequent years. This will be integrated with the scenario planning and this will lead to the preparation of Budget gap ranges for subsequent years. Attached at annex 2 is a schematic illustrating the range of factors that are expected to feed into the scenario planning work. A further report will come to Members in the new year. It is essential that we develop and maintain momentum, albeit with constrained capacity within the Council this may need external support.

5. Public Engagement

5.1 The Equality and Poverty Impact Assessment (EPIA) process, which looks at the impact of specific budget savings proposals, is in progress. In a number of instances, individual savings will require their own, separate and detailed consultation exercise with service user, providers and others who may be affected by the proposals. The purpose of these engagements will be to determine whether any adverse impacts resulting from proposals are likely, and if so, can they be mitigated. The Council's poverty strategy is taken into consideration during this process. These more detailed exercises are being carried out by the appropriate service. Where comments have been received on the website on specific budget proposals, these have been passed to the relevant service for consideration. The completed EPIAs will be available for Members consideration in the new year.

5.2 To date there have been almost 10,000 page views, with over 8,000 views by the public and over 1,000 internally, and over 470 comments have been submitted by the public. Via Twitter there have been 40,000 impressions (the number of users Tweets were delivered to) and 2,500 engagements (replies, mentions, retweets, likes).

5.3 The majority of the comments relate to Children's Services proposals and most of the feedback received relates to a small number of budget proposals, where multiple comments were received. The feedback has been split down and collated by proposal. The proposals which have generated the most feedback are detailed below:

CLD	40%
ASN / SfLA PROVISION	17%
BREAKFAST CLUBS/BABY PROVISION/SCHOOL MEALS/LETS	13%
EDUCATION – School mergers/Management time	9%
GENERAL STATEMENTS – Children's and Families	5%
TRANSPORT TO SCHOOLS	5%
MUSIC TUITION	3%
LIBRARY PROVISION	2%
SOCIAL WORK	2%
PUBLIC TOILETS	2%
REPAIRS BUDGET, NPDO JANITORS, NPDO REFINANCING	2%

5.4 The feedback received from members of the public and service users mostly voice concern about reducing/withdrawing services and highlight the impact that this will have on both children and adult learning and overall education standards across the Falkirk Council area.

5.5 There are c60 comments about the savings options proposed for Development Services. The option which attracted the most comments (a third of the total number) was the proposal to charge £25 p.a. for the brown, garden waste bin service, followed by the proposals to charge at Council-owned car parks at Larbert and Polmont stations and the option of banning vans from using the household waste recycling centres. In general, the people who commented were opposed to these options, though a small number agreed with the proposal to charge at station car parks. A very small number of people also said they were opposed to the proposed reductions to subsidised bus services, countryside rangers, school crossing patrols and employment and training services.

5.6 A very small number of respondents commented on Corporate & Housing Services budget savings – only 2% of the total comments received so no clear messages emerged.

5.7 The comments received from the website are being considered as part of the more detailed EPIA process. The completed EPIAs will be available for Members consideration in the new year.

5.8 The engagement that has taken place with Community Councils and Parent Councils is expected to continue in January.

5.9 The Trust and IJB will have their own arrangements for consultation and engagement.

6. Implications

Financial

6.1 Preparation of a balanced Budget and compliance with it thereafter is a cornerstone of the Council's corporate governance obligations.

Resources

6.2 There are significant resources required to prepare the Budget and the ultimate Budget decisions will of themselves impact on resources.

Legal

6.3 No legal implications arise from the report recommendations, other than to note that it is a legal requirement to set a balanced Budget before the statutory deadline date in March.

Risk

6.4 There are no particular risk implications arising from this report.

Equalities

6.5 Preparation of Equality & Poverty Impact Assessments (EPIAs) are an integral part of the Budget process.

Sustainability/Environmental Impact

6.6 This will be considered as part of the evaluation of savings options.

7. Conclusions

7.1 This report provides Council with a further update on the landscape impacting on the preparation of the 2017/18 Budget. The critical information on the level of the revenue support grant will be known on 15 December and this will be captured in a supplementary report for Council. This will inform Council's feedback to the Trust and IJB and may well trigger the need for Council Services to identify yet more savings options if the Budget gap widens.

7.2 It is clear, and this has been highlighted throughout the Budget process, that Members will require to take very difficult decisions at the Budget meeting on 22 February. It is also clear that many of the savings options identified to date will need to be accepted if a balanced Budget is to be achieved. The question needs to be posed, if a significant number of these savings options are not accepted, what then are the alternatives? Moreover, as this report notes, if the Settlement proves to be worse than anticipated, yet more savings will need to be identified.

7.3 It is inevitable that savings of the magnitude implied in this report, both for 2017/18 and beyond, will have a material impact on the Council's service delivery capacity, internally as well as externally and on jobs.

7.4 It is emphasised that there is an extremely compressed period from the date of this meeting, also noting the Festive closure, before the Budget report will need to be prepared for the Council meeting in February.

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Date: 9 December 2016

Appendices

- As per para 4.7.1
- As per para 4.8.1
- Annex 1 – Usable Reserves
- Annex 2 – Scenario Planning

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- Budget Working Papers

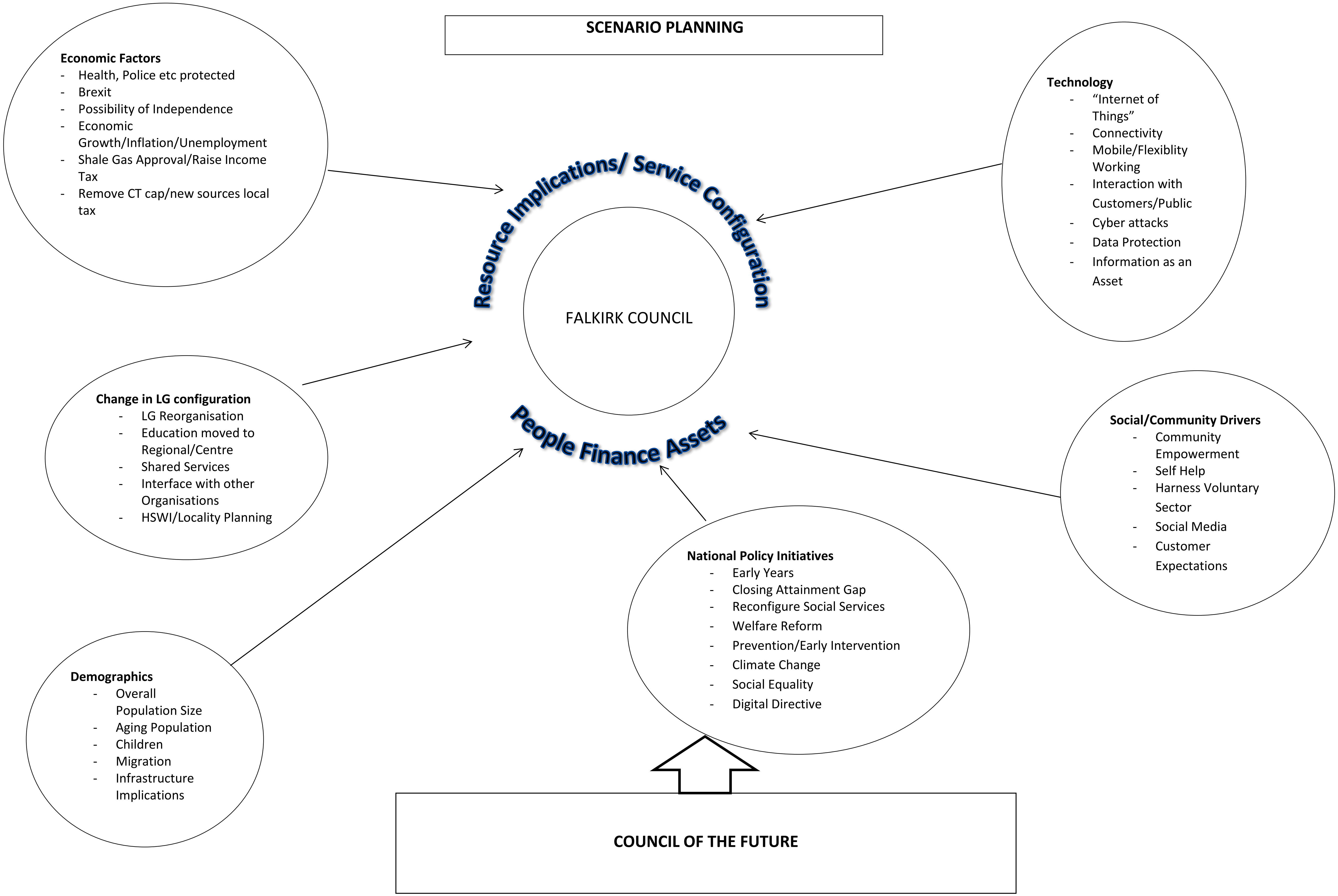
USABLE RESERVES - 2016/17

	Balance 1/4/16 £'000	Comments
HRA CAPITAL		
Capital Receipts - HRA	2,426	These are receipts that have been achieved through the sale of council houses and/or land on the HRA register. Any such receipt can only be used for HRA capital expenditure or the repayment of debt.
Capital Grants Unapplied - HRA	1,082	These receipts will include specific external contributions or grant funding which has restrictions attached to it. Failure to apply the funding correctly could result in the Council having to return the funds.
	3,508	
HRA REVENUE	**5,093**	The HRA revenue reserve has been built up through housing rents, with a view to delivery of housing improvements over a period of time. It can only be used for HRA purposes.
TOTAL HRA RESERVES	**8,601**	**Only available for HRA purposes.**

	Balance 1/4/16 £'000	Comments
GENERAL FUND CAPITAL		
Capital Receipts - General Fund	4,072	These are receipts that have been achieved through the sale of council assets. Any such receipt can only be used for capital expenditure or the repayment of debt. An exception to this is the revised guidance from Scottish Government on using capital receipts for some elements of equal pay or voluntary severance payments.
Captal Grants Unapplied - General Fund	2,544	These receipts will include specific external contributions or grant funding which has restrictions attached to it. Failure to apply the funding correctly could result in the Council having to return the funds.
	6,616	**Only available for capital purposes (subject to above SG guidance).**
GENERAL FUND REVENUE		
General Fund Revenue Reserve	8,562	It is prudent and necessary to have a reserve which can help to cushion the effect of uneven cash flows and the impact of unexpected events or emergencies. However, each £1 can only be spent once and the application of reserves to help balance the budget does not address the underlying funding issues.
Revenue Grant Reserve	1,508	Technical reserve – ring fenced grant funding that we have been given approval to carry forward to fund specific initiatives/projects etc. All funds are effectively earmarked.
Repairs & Renewals Fund	4,021	A sum of £0.193m has already been transferred back to the General Fund as a contribution towards savings targets in 2017/18. The remaining funds have been earmarked for specific purposes as detailed in the financial projection reports and attached sheet. However there is scope to incorporate some of the proposals into the capital programme, such as the proposed expenditure of £0.6m on Castings Hostel.
Devolved Schools Management	3,890	As part of previous budget savings, a contribution of £0.5m was factored into the budget. In addition a sum of £0.5m has already been transferred back to the General Fund as a contribution towards savings targets in 2017/18. The remaining balances will help to offset pressures from rising school rolls and the new Carrongrange school. A large element of the reserve is held on behalf of individual schools and deals with differences between the academic and financial years. Scrutiny Committee have recently considered this reserve in some detail.
Economic Development	1,003	These funds are earmarked for specific projects, including £0.5m for the Falkirk Townscape Initiative (FTI), £0.284m for dilapidations and £0.219m for business support/landscape initiatives. As with the R&R Fund there is scope to incorporate some of the proposals into the capital programme - i.e. the £0.5m for the FTI.
Central Energy Efficiency Fund	500	The loan fund was initially established in 2004 with money provided by the Scottish Government to enable energy management projects. The Council has provisionally been awarded another £0.500m of match loan funding from Salix, a government funded company which provides grants and loans to public organisations across the UK. It is anticipated that the remaining capital will be spent through the Scottish Government's Non-Domestic Energy Efficiency Framework. Proposed works under this framework will be completed by the end of 2017/18, and will improve energy efficiency and reduce costs at up to 15 non-domestic buildings, including schools, leisure centres and care homes.
Insurance	5,180	It is necessary to maintain an Insurance fund to settle liabilities arising from past or future insurance claims. A triennial valuation of the insurance fund is carried out by an actuary to assess the appropriate level for the fund. The last actuarial valuation in 2015 recommended that the fund should remain at current levels. The fund can only be used for the purpose it was established.
Spend to Save	3,136	This reserve has previously been ring-fenced to fund specific spend to save projects and voluntary severance costs. To date, voluntary severance costs have been met from existing revenue budgets. However, going forward it is anticipated that this reserve will be required to fund these costs.
	27,800	
TOTAL GENERAL FUND RESERVES	**34,416**	

Overall Total	**43,017**	

Spend and transfers are as per the Projected Financial Position 2016/17 Report that went to Executive on 18 October for Revenue and the Capital Programmes Update 2016/17 that went to Executive 29 November.


SCENARIO PLANNING
Economic Factors
- Health, Police etc protected
- Brexit
- Possibility of Independence
- Economic Growth/Inflation/Unemployment
- Shale Gas Approval/Raise Income Tax
- Remove CT cap/new sources local tax
Technology
- "Internet of Things"
- Connectivity
- Mobile/Flexiblity Working
- Interaction with Customers/Public
- Cyber attacks
- Data Protection
- Information as an Asset
Resource Implications/ Service Configuration
FALKIRK COUNCIL
People Finance Assets
Change in LG configuration
- LG Reorganisation
- Education moved to Regional/Centre
- Shared Services
- Interface with other Organisations
- HSWI/Locality Planning
Social/Community Drivers
- Community Empowerment
- Self Help
- Harness Voluntary Sector
- Social Media
- Customer Expectations
National Policy Initiatives
- Early Years
- Closing Attainment Gap
- Reconfigure Social Services
- Welfare Reform
- Prevention/Early Intervention
- Climate Change
- Social Equality
- Digital Directive
Demographics
- Overall Population Size
- Aging Population
- Children
- Migration
- Infrastructure Implications
COUNCIL OF THE FUTURE

ADDENDUM 6

Agenda Item 10

Falkirk Council

Title: **Projected Financial Position 2016/17**

Meeting: **Executive**

Date: **10 January 2017**

Submitted By: **Director of Corporate & Housing Services**

1. Purpose of Report

1.1 This report presents an update on the financial position of the Council for 2016/17. It also provides an update on the position with Reserves in line with the policy approved by the Executive in January 2015.

2. Recommendations

2.1 The Executive is invited to:

(i) Note the Council's projected year-end financial position for 2016/17
(ii) Note the position with respect to Reserves

3. Background

3.1 Following the Council's approved 2016/17 budget in February, and the update reports to Executive in August and October, this report details progress with meeting the budgeted financial targets. The projections are based on the latest information provided by Services but these may change depending on the spend in the months remaining.

4. Considerations

4.1 General Fund

4.1.1 Appendix 1 sets out both General Fund net expenditure by Service and how it is financed. Movements between budget and projected outturn are expressed in monetary and percentage terms.

4.1.2 Net expenditure at the year end is forecast to be £328.8m which is £2.025m (0.6%) below the resources available. This is a movement of £0.112m (0.03%) from the position at August and is mainly due to favourable movements in Children's Services and Corporate & Housing Services as detailed in 4.1.3. The main spending pressures are attributable to the cost of voluntary severance payments. However this has been offset by the £1.5m provided in the budget for spending pressures that have not yet materialised, along with projected underspends within other Services. In preparing the 2017/18 Budget, consideration will be given as to whether this provision, and at this level, is required. Moreover, underspends will be reviewed as candidates for budget rebasing.

4.1.3 The reasons for significant overall deviations from budget are described below:-

Children's Services – (under budget by £0.194m; 0.1%)

(i) Education (under budget by £0.959m)
At this stage of the year, the Education Division is projecting £0.959m below budget. This projection assumes that the Service continues to demonstrate that it can meet the required savings targets and that there is no significant increase in demand for individual support packages for those children who have additional support needs. The Service has been successful in meeting its commitment on the prescribed pupil teacher ratio in line with the agreement made with the Scottish Government. In terms of significant variations, higher property costs of £0.171m are offset by a reduction in residential schools expenditure of £0.505m, as a result of a reduced number of children in these schools, and lower employee costs of £0.894m due to vacant posts.

(ii) Social Work – Children & Families (over budget by £0.765m)
This position is lower than previous years (2014/15 – reported overspend of £2.8m) as the number of children in expensive residential schools and residential accommodation has reduced.

The projected overspend is primarily due to the costs associated with providing care packages for children looked after away from home, where the demand remains volatile and unpredictable. Under the direction of the Strategic Review Group savings have been realised by negotiating improved contract bed rates with our private care providers which has improved the overall position. Whilst the Service remains committed to making efficiencies in both fostering and residential placement provision both remain a highly challenging and financially volatile area. There also remains the potential risk of additional costs being incurred as a result of the obligations under the Children and Young People Act in relation to kinship care and continuing and after care provision.

Social Work Adult Services (under budget by £0.258m; 2.7%)
This budget is in large part made up of administration, property and transport costs for Social Work Adult Services that have remained with the Council. It also includes an area of direct social work provision, the mental health officer service. The underspend is principally due to lower expenditure on property costs.

Development Services (over budget by £0.191m; 0.6%)
The projected overspend is primarily due to higher third party payment costs within Operational Services associated with the processing and disposing of waste. This is an area which is undergoing significant change in how it delivers its service. In addition, there is an under-recovery of income, particularly within Council Car Parks and Commercial & Industrial rental properties. These pressures are offset by lower employee costs and lower spend within supplies & services.

Corporate & Housing Services (under budget by £1.317m; 9.7%)

(i) General Fund Housing (under budget by £0.227m)
There are lower than anticipated staff costs of £456k within Welfare Advice, Homeless and Private Sector Housing. This underspend is offset with the cost of not implementing the Budget savings proposal relating to Garden Aid, with the general fund in-scope amount of £0.275m now passed across to the Integration Joint Board.

(ii) Central Support Services (under budget by £0.925m)
An underspend on staffing costs across all central support services, along with property costs savings within Admin Buildings has reduced the overall costs of Central Support Services to the General Fund by £0.925m.

(iii) Miscellaneous Services (under budget by £0.165m)
There are various underspends across several areas of Miscellaneous Services which are partly offset by reduced interest receipts due to the lower bank rate, increased Housing Benefit costs and the deficit within Printworks.

Integration Joint Board
Members will be aware that the Integration Joint Board (IJB) assumed responsibility from April for the delivery of Adult Health & Social Care Services which incorporates a range of functions deemed by legislation to be in scope. To date, a net sum of £61.252m (£59.512m from the General Fund) has been passed to the IJB for delegation back to the Council. It is for the IJB to manage its expenditure within the resources provided, although Members should be aware that for the Council Services passed over to the IJB, the projected overspend has reduced to £0.789m. This is a result of improved efficiency from Home Care Services and reduction in residential care cost benefiting from ongoing work in negotiating and harmonising rate for external providers. A further £0.896m of the Integration Fund has also been set aside for Council related activities should projected overspends materialise. The

overspend primarily reflects significant demand pressures on service provision, in particular Adult Residential care and Adult Home Care purchasing.

Compensatory Lump Sums (£1.490m)
The projected cost of compensatory lump sums paid as a result of employees leaving through voluntary severance stands at £1.490m. This projection is based on estimating the number of severance requests likely to be approved over the financial year. Currently the projected costs can be managed within the Council's overall budget for 2016/17. This will be monitored during the course of the financial year. Savings from staff leaving will materialise in future years.

Capital Financing Costs
An underspend of £0.228m is forecast and is due to a reduction in interest rates reflecting the bank base rate which has reduced from 0.5% to 0.25%.

Council Tax (over budget by £0.210m; 0.4%)
The increase in the council tax yield follows on from the previous financial year's outturn. A combination of factors, such as new properties, the reduced cost of the council tax reduction scheme and an ongoing improvement in the collection rate has improved the yield.

4.2 Trading Account

4.2.1 The projected overall surplus of Building Maintenance is £0.511m, marginally less than budgeted.

4.3 Workforce Changes

4.3.1 Members will be aware of the requirement for Services to reduce staff numbers by c231 Full Time Equivalent (FTE) in 2016/17. In order to manage this Services must follow a framework which includes:-

- non-filling of vacancies where possible;
- a review of all temporary employees and agency workers, ending contracts where possible;
- any other options to achieve savings through voluntary means; and
- severance.

4.3.2 To date, progress with employees seeking redeployment and leaving through voluntary severance is as follows:-

	No of Posts 2015/16	2016/17	2017/18
Seeking Redeployment	95	44	
Severance	163	115	1

Overall, from October 2015 to October 2016, headcount and FTE have reduced as follows:

	October 2015	October 2016
Headcount	7,203	7,091
FTE	6,051	5,965

4.4 Housing Revenue Account (HRA)

4.4.1 Overall, the HRA is projected to breakeven (Appendix 2). There are savings in staff costs and operational expenditure, together with additional rental income from commercial properties. These savings will be utilised in a number of areas across the Housing Revenue Account, including Estates improvement work and provision of additional Capital Financed from Current Revenue [CFCR] to augment the resources available to undertake housing investment. The projection for the HRA incorporates a payment of £1.414m to the IJB for in scope services e.g. garden aid and adaptation expenditure.

4.4.2 The reserve balance brought forward at 1 April 2016 was £5.093m and no application from reserves is planned for 2016/17. The current projected level of reserves is considered to be prudent to meet future revenue and capital investment requirements. This level is in line with the Scottish average of c10% of annual expenditure.

4.5 General Fund Reserves

4.5.1 The Council policy on its Reserves Strategy was reviewed and approved by the Executive on 13 January 2015. In respect of the Council's Uncommitted General Fund, the policy provides for 2% of annual revenue expenditure (giving a range of £6.6m - £10m) to be held as a contingency against unforeseen events and emergencies. The Reserves Strategy also states that the purpose of each earmarked Reserve must be clearly understood and highlights the requirement for an agreed protocol for use which accords with the Council's priorities and can enable the use of these Reserves to better feed into the budget process. Any sums deemed surplus, should properly be returned to the Uncommitted General Fund.

4.5.2 Appendix 1 shows a projected balance of £9.080m at March 2017, which incorporates a transfer of £0.693m from Earmarked Reserves. At its meeting on 19 December, Council made two decisions with implications for the general fund reserve. Firstly, a decision was taken on equal pay settlements which will impact on the reserve. Secondly, the decision on the new Council HQ may require fees paid to date to be treated as revenue and thus met from this reserve.

4.5.3 The following paragraphs provide an update on the expenditure and transfers in respect of the Council's reserves and earmarked funds. A summary of the transactions and balances is included at Appendix 3.

4.5.4 **Repairs and Renewals Fund**

The significant balances brought forward from 2016/17 and movements on the fund are detailed as follows:

<u>Printworks (£0.203m)</u>
Having regard to the downward trend in printworks income, the planned replacement of printing equipment was reassessed and £0.156m has been returned to the General Fund as a contribution to the 2017/18 savings targets, with a small balance retained for other equipment needs.

<u>Roads (£0.080m)</u>
The balance will be used in 2016/17 to fund improvements to the Earls Road Depot, including upgrading the CCTV.

<u>Waste Strategy (£0.118m)</u>
The balance of £0.118m has been fully utilised to support the purchase of recycling bins, undertake recycling centre maintenance and to upgrade and assist with expanding the recycling provision.

<u>Computer Software – Building Design & Engineering Design Units (£0.130m)</u>
The funding will be used as a contribution towards the cost of upgrading the current computer aided design software used by Building Design and Engineering Design units as the version currently installed is incompatible with the Council's new system to enable mobile and flexible working.

<u>Vehicle Replacement (£0.533m)</u>
A sum of £0.533m has been earmarked to augment funding for the vehicle replacement programme with £0.200m now due to be spent in 2017/18. The balance of £0.333m will be spent in 2018/19. This application of reserves is necessary to help fund the replacement of refuse collection vehicles.

<u>Crematorium (£0.200m)</u>
The funding will supplement the approved refurbishment works being undertaken at the crematorium. It is anticipated that this will now be utilised in 2017/18.

Social Work Services Properties (£1.159m)
As part of the capital programme, Members approved at the meeting of Executive on 27 September, the rescheduling of a number of projects to future years, including £3.4m of planned expenditure on Older People's Accommodation. Funding of £0.500m from Repairs and Renewals has already been earmarked to support this capital expenditure and it is proposed to increase this by a further £0.270m, with the balance of £0.389m being utilised to enable the refurbishment of premises following condition surveys.

General Fund Housing (£0.904m)
This will be used to deliver efficiencies and savings in the current and future financial years. Work to upgrade the Council's hostel accommodation has commenced in order to help reduce future accommodation and support costs, with £0.262m to be spent in 2016/17. The balance of the fund will be utilised by 2017/18.

Citizens Advice Bureau (£0.111m)
In February 2015 an Executive report outlined a proposal to relocate Falkirk's Citizen Advice Bureau to premises in Meeks Road. Funding of £0.203m was identified to meet the estimated fit out costs, including the contribution of £0.111m from Repairs and Renewals Fund. Repairs are currently underway, however, the £0.111m will now be utilised in 2017/18.

Miscellaneous Repairs & Maintenance (£0.106m)
Funding of £0.106m has been included to offset the cost of repairs within the Travelling Peoples Site and to the lift within the Municipal Buildings and will be spent in 16/17.

Mobile & Flexible Working (£0.339m)
In December 2014 a report was presented to the Executive detailing a project on Mobile and Flexible working. Funding of £0.093m is due to be spent in 2016/17 with the balance of the fund being utilised in 2017/18.

4.5.5 **Earmarked Reserves**

The position with each of the five funds is as follows:

Devolved Schools Management (£3.890m)
The balance on the fund at 1 April 2016 was £3.890m. Included in the total is a sum of £1.895m, which is mainly in respect of balances held at individual school level for use by headteachers and accounts for ring fenced external funding monies. The remaining balance of £1.995m is principally and prudently earmarked to help manage the expected growth and expansion in early years provision. Increased demand for places from qualifying 2 year olds is anticipated and for the potential increased cost of maintaining teaching numbers in light of increased roll numbers.

As indicated in the October report a sum of £0.500m has been earmarked to be transferred to the General Fund as a contribution to the 2017/18 savings targets. This will be subject to ongoing review.

Economic Development (£1.003m)
The fund assists with the delivery of economic projects where the Council has a significant property related interest. The balance on the fund at 31/03/16 was £1.003m, with £0.624m earmarked to support the Falkirk Townscape Initiative, £0.284m for property maintenance/dilapidations works at Meeks Road, Almond Court and Victoria Mills (Bo'ness) and £0.095m for business Support/Landscape Initiatives including delivery of tourism signage works.

Central Energy Efficiency Loan Fund (£0.500m)
The loan fund was initially established in 2004 with money provided by the Scottish Government to enable energy management projects. The Council has provisionally been awarded another £0.500m of match loan funding from Salix, a government funded company which provides grants and loans to public organisations across the UK. In 2016/17, the energy efficiency fund has been used to fund LED lighting replacements in schools, and it is anticipated that the remaining capital will be spent through the Scottish Government's Non-Domestic Energy Efficiency Framework. Proposed works under this framework will be completed by the end of 2017/18, and will improve energy efficiency and reduce costs at up to 15 non-domestic buildings, including schools, leisure centres and care homes.

Insurance Fund (£5.180m)
The Insurance Fund was actuarially valued in 2015, the results of which were previously advised to Members. Although the Fund is considered to be broadly healthy, it does face uncertainty in terms of future MMI claims.

Spend to Save (£3.136m)
Funding of c£2.5m was earmarked to help cover the costs of voluntary severance, with the remaining balance of c£0.6m used to fund the Rehab Group proposals for the factory unit at Central Business Park and enabling Social Work staff to be trained as Mental Health Officers. As noted at section 4.1 the voluntary severance costs for 2016/17 are being funded by the Council's mainstream resources. It is therefore proposed to fund a number of initiatives emerging from the Strategic and Improvement Reviews currently underway. These include the following:

Baler for processing recyclates
The purchase of a baler for processing recyclates will help to ensure the Council maximises income from waste processing and reduce pressure on the existing budget for managing waste. The cost of the baler is £180,000 and estimated to generate additional income of £145,000 per annum, with a payback period of 15 months.

SWIS Project Manager
A project manager is being recruited on a temporary basis to lead on the procurement, implementation and development contract of a new ICT system for Social Work Services. This system will replace the current older and limited in house system and will offer improvements and efficiencies in business processes, data and information sharing (with Health and other partner agencies), information management, internal accounting and will augment the Council's move to promote flexible and mobile working. The estimated cost of this for a 23 month period is £80,000.

4.5.6 **Linkage with 2017/18 Revenue Budget**

As detailed above and noted in the report to Council on 19 December, the reserves are fully committed and not available to support the revenue Budget gap. However, a potential option open to Members is to fund some of these commitments through the capital programme, which would then free up the reserve balances to be used as a contribution towards the 2017/18 savings targets. The amount that could be utilised in these terms is £2.870m. The capital grant settlement for 2017/18 was announced by the Scottish Government on 15 December 2016. The settlement for Falkirk Council is better than anticipated. As a result, there could be scope to use the additional grant to substitute for the planned application of reserves. In turn the following commitments could be incorporated into the capital programme, £0.533m for the vehicle replacements, £0.125m for the crematorium, £0.946m for social work services properties, £0.642m for general fund housing and £0.624m for the Falkirk Townscape Initiative.

It is highlighted that the Reserves paragraphs already reflect a contribution of £0.656m towards bridging the 17/18 Budget gap with respect to Printworks and Devolved Schools Management. Moreover, the Budget report to Council on 19 December showed an indicative £2m from the General Fund reserve towards bridging the gap. Council would need to be very careful of the quantum applied to closing the gap from reserves recognising that this is not dealing with the underlying difference between sustainable spend and resources. Moreover, Council would need to be alert to the fact that any deployment of reserves are added straight into the gap for the subsequent financial year.

5. Consultation

5.1 There is no requirement to carry out a consultation based on the report proposals.

6. Implications

Financial

6.1 The financial implications are detailed within the report. Overall the General Fund is projecting £2.025m below the resources available and the Housing Revenue Account is on budget.

Resources

6.2 There are no resource implications arising from the report recommendations.

Legal

6.3 There are no legal implications arising from the report recommendations.

Risk

6.4 There are no risk implications arising from the report recommendations.

Equalities

6.5 EPIAs, as appropriate, were carried out as part of the Budget process which led to these Budget figures.

Sustainability/Environmental Impact

6.6 A sustainability assessment was not required.

7. Conclusions

7.1 Net expenditure on the General Fund is now forecast to be £328.8m which is £2.025m (0.6%) below the resources available. The projected General Fund balance for 2016/17 is £9.080m.

7.2 Spending within the Housing Revenue Account is in line with budget, leading to year-end reserves of £5.093m which will be deployed in a planned manner over time.

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Director of Corporate & Housing

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Date: 22 December 2016

APPENDICES

Appendix 1 – General Fund Projected Outturn Statement 2016/17
Appendix 2 – Housing Revenue Account Projected Outturn Statement 2016/17
Appendix 3 – Repairs & Renewals Fund and Other Earmarked Reserves

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- **Budget Working Papers**

FALKIRK COUNCIL

GENERAL FUND

PROJECTED REVENUE OUTTURN STATEMENT 2016/17

	Budget	Projected Outturn	(Fav)/ Adv Variance		Previous (Fav)/Adv Variance
	£'000	£'000	£'000	%	£'000
Childrens Services	185,207	185,013	(194)	(0.1)	(43)
Social Work - Adult Services	9,659	9,401	(258)	(2.7)	(286)
Development Services	32,964	33,155	191	0.6	45
Corporate & Housing Services	13,571	12,254	(1,317)	(9.7)	(852)
Trading Accounts	(512)	(511)	1	(0.2)	1
Provision for Budget Pressures	1,500	-	(1,500)	(100.0)	(1,520)
Sub - Total	242,389	239,312	(3,077)	(1.3)	(2,635)
Falkirk Community Trust	11,934	11,934	-	-	-
Valuation Board	1,022	1,022	-	-	-
Integration Joint Board	59,512	59,512	-	-	-
Compensatory Lump Sums	-	1,490	1,490	-	1,160
Adj. for Capital Financing Costs / Capital Charges	15,710	15,482	(228)	(1.5)	(228)
NET EXPENDITURE	330,567	328,752	(1,815)	(0.5)	(1,703)
Financed By :					
General Revenue Funding	205,386	205,386	-	-	-
Non-Domestic Rates	68,028	68,028	-	-	-
Council Tax / Council Tax Reduction Scheme	54,953	55,163	(210)	(0.4)	(210)
NET INCOME	328,367	328,577	(210)	(0.1)	(210)
SURPLUS/(DEFICIT)	(2,200)	(175)	(2,025)	(0.6)	(1,913)
Add : General Fund Surplus as at 1 April 2016		8,562			
Transfers (to)/from Earmarked Funds		693			
Projected General Fund Balance as at 31 March 2017		9,080			
Reserves Strategy Policy - Lower Threshold		6,600			

Appendix 2

FALKIRK COUNCIL

HOUSING REVENUE ACCOUNT

PROJECTED REVENUE OUTTURN STATEMENT 2016/17

	Budget £'000	Projected Outturn £'000	(Fav)/ Adv Variance £'000	%	Previous Variance £'000
Employee Expenses	5,717	5,447	(270)	(4.7)	(520)
Property Expenses	23,237	22,394	(843)	(3.6)	(650)
Transport Expenses	12	12	-	-	-
Supplies and Services	4,136	3,409	(727)	(17.6)	(725)
Third Party Payments	1,696	1,702	6	0.4	10
Support Services	5,519	5,219	(300)	(5.4)	(300)
Capital Charges	16,541	19,014	2,473	15.0	2,542
Sub-Total	56,858	57,197	339	0.6	357
Integration Joint Board	1,414	1,414	-	-	-
Compensatory Lump Sums	-	69	69	-	61
Gross Expenditure	58,272	58,680	408	0.7	418
Income	58,272	58,680	(408)	(0.7)	(418)
Surplus/(Deficit)	-	-	-		-
Add: Surplus brought forward at 1 April 2016		5,093			
Projected Surplus at 31 March 2017		5,093			

Appendix 3

ANALYSIS OF REPAIRS & RENEWALS FUND

Service		Balance 01/04/2016 £'000	Spend £'000	Transfers £'000	Projected Balance 31/03/2017 £'000
Development	Roads	80	(80)	-	-
	Waste Strategy	118	(118)	-	-
	Computer Software	130	(130)	-	-
	Vehicle Replacement Programme	533	-	-	533
	Crematorium	200	-	-	200
	Birkhill Mine Demolition	51	(51)	-	-
	Pavilion Improvement	50	(50)	-	-
Social Work	Older People's Accommodation	1,159	(156)	-	1,003
Corp & Housing	Printworks	203	-	(156)	47
	General Fund Housing	904	(262)	-	642
	Citizens Advice Bureau	111	-	-	111
	Travelling Peoples Site)	73	(73)	-	-
	Municipal Buildings Lift Repair)	33	(33)	-	-
	Mobile & Flexible Working	339	(93)	-	246
Other	Mariner Centre - Lift Repairs	37	-	(37)	-
TOTAL		**4,021**	**(1,046)**	**(193)**	**2,782**

ANALYSIS OF EARMARKED RESERVES

Description	Balance 01/04/2016 £'000	Spend £'000	Transfers £'000	Projected Balance 31/03/2017 £'000
Devolved Schools Management	3,890	(1,100)	(500)	2,290
Economic Development	1,003	(155)	-	848
Central Energy Efficiency	500	-	-	500
Insurance	5,180	-	-	5,180
Spend to Save	3,136	(218)	-	2,918
TOTAL	**13,709**	**(1,473)**	**(500)**	**11,736**

OVERAL TOTAL	**17,730**	**(2,519)**	**(693)**	**14,518**

Addendum 7

Agenda Item 9

Falkirk Council

Title:	**Accounts Commission "Local Government in Scotland - Financial Overview 2015/16"**
Meeting:	**Executive**
Date:	**10 January 2017**
Submitted By:	**Director of Corporate & Housing Services**

1. Purpose of Report

1.1 The purpose of this report is to present the key messages from the Accounts Commission's report entitled "Local Government in Scotland – Financial Overview 2015/16". This report was published on 29 November 2016. This should help inform Members' consideration of the Council's 2017/18 Budget.

2. Recommendation

2.1 Executive is asked to consider the key messages from the Accounts Commission report entitled "Local Government in Scotland – Financial Overview 2015/16".

3. Background

3.1 The Accounts Commission has previously produced an annual overview report for Local Government in Scotland, usually published around March. In 2016, the Accounts Commission changed their approach to overview reporting. This earlier release Financial Overview report is the first of their new overview reports. A further performance overview report is expected in March 2017. The Financial Overview report can be accessed at http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_161129_local_government_finance.pdf

3.2 The Financial Overview report has been brought forward from March so that councils and councillors can consider it when setting their 2017/18 budgets. An interactive exhibit and further financial information are also available on the Audit Scotland website.

3.3 The report looks at the overall financial position of Scottish local authorities and collates the data to provide a national picture. It also, on occasion, highlights particular points to note for individual councils. Where Falkirk Council has been specifically mentioned, this is highlighted in section 4 of this report.

4. Considerations

4.1 Income & Spending

4.1.1 The report notes that the overall financial health of local government was generally good. More than two thirds of councils operated within their budgets and there was a slight increase in overall reserves and a reduction in overall debt. Whilst 15 councils had planned to apply reserves to support service expenditure, only seven councils drew on their reserves.

4.1.2 Spending on providing services remains lower than in 2011/12, but it is increasing in key services, most noticeably social care, because of rising demand from an aging population. Many councils overspent in this area which poses a significant risk to their financial position. Falkirk Council is specifically mentioned alongside Clackmannanshire and Dundee councils for reporting overspends relating to fostering services and residential school placements.

Funding

4.1.3 The report considers aggregate Scottish local government funding levels. Between 2010/11 and 2016/17, Scottish Government funding reduced by 8.4% in real terms for capital and revenue combined. An increasing proportion of funding comes from Non Domestic Rates (NDR), although this has not fully offset reductions in revenue grant funding. Since 2010/11, combined revenue funding (NDR and revenue grants) has fallen by 6.8%.

4.1.4 Paragraph 20 of the report refers specifically to Falkirk Council and states that Falkirk Council saw a 16% annual reduction in NDR income from 2014/15 to 2015/16. It is important to note that the NDR income figures at that time were based on estimated data collected c.2 years earlier. It is also important to note that the forecast reduction in NDR income collected by the Council did not result in reduced income to the Council due to a compensatory adjustment in the revenue support grant.

4.1.5 The NDR figure for 2014/15 was based on the 2011/12 mid year estimate (MYE), whilst the 2015/16 NDR figure was based on the 2013/14 MYE. The MYE included an estimate of the financial impact of valuation roll appeals that were likely to be resolved within the financial year. The basis for the estimate is provided by the Assessor for Central Scotland but fewer appeals than expected were resolved within the financial year. The difference between the estimate and actual impact was c. £10m.

4.1.6 The Council refined the process for the calculation of appeals estimates for subsequent years, following the 2013/14 MYE.

Fees & Charges

4.1.7 Councils are raising an increasing proportion of their income through fees, charges and specific grants and this represents the largest growth area in council income. The most significant increase was in social work and social care services. The report notes that councils must be clear about the impact of their charging policies. For Falkirk Council, this should be addressed by the EPIA process.

Capital Funding

4.1.8 Scottish Government capital funding has increased by 3% in real terms between 2010/11 and 2015/16. 28 councils underspent significantly against their combined general fund and housing revenue account capital budgets in 2015/16, mainly as a result of project delays.

Workforce

4.1.9 The report highlights that councils continue to generate savings through workforce reductions with 2,246 staff leaving councils in 2015/16 at a cost of £79.7m. A more detailed consideration of workforce reductions will be published as part of the Performance Overview report in March 2017.

4.1.10 Equal pay is also highlighted as being a significant issue, particularly the potential impact on usable reserves. Again, work is being carried out by Audit Scotland in this area and will be published in 2017.

4.2 Financial Outlook

4.2.1 The report notes that all councils face future funding gaps and there is significant variation in how well placed individual councils are to address them. It also states that relying on reserves is not sustainable and councils will have to make further savings and/or generate additional income. However, opportunities to make savings are partly affected by national policy commitments and the cost of servicing debt.

Reserves (see also subsequent references)

4.2.2 Twenty three councils increased their general fund reserves in 2015/16. When planning to use reserves, councils must consider the impact on the future financial position as using reserves to support services in the short term is not sustainable.

Debt

4.2.3 Servicing debt accounts for 12% of available funding nationally and the report notes that those councils with PFI/PPP/NPD debt will have to make more complex affordability assessments for future borrowing. In addition, as council's revenue budgets decrease, and the repayments increase in line with inflation, the proportion of revenue budgets being used to service the payments on these contracts will increase.

Pensions

4.2.4 The report highlights the pressure that councils administering Local Government Pension Schemes (LGPS) have been under, mainly as a result of the new scheme introduced in 2015, pensions auto-enrolment and an increase in severance calculations. Whilst councils have coped well, the ongoing administrative pressures are acknowledged.

4.2.5 Council contributions to the LGPS are reviewed every three years with the next review scheduled for 2017.

Financial Planning

4.2.6 The importance of robust financial planning is again emphasised, building on themes already reflected in the Best Value Follow Up report of Falkirk Council. Falkirk Council is specifically mentioned as one of two councils that have financial plans covering less than three years, the other being Glasgow City Council. Falkirk's current medium term financial plan in fact covers three years, as demonstrated by the budget gap projections previously presented to Council. The Executive will be aware that Falkirk Council has already given a commitment to develop medium and long term financial planning beyond the current three years and progress in this area was covered in the report to Council on 19 December.

4.2.7 The importance of presenting Council with appropriate financial information to allow fully informed decision making is highlighted, noting that councillors should fully understand the implications of budget decisions.

Funding Gap

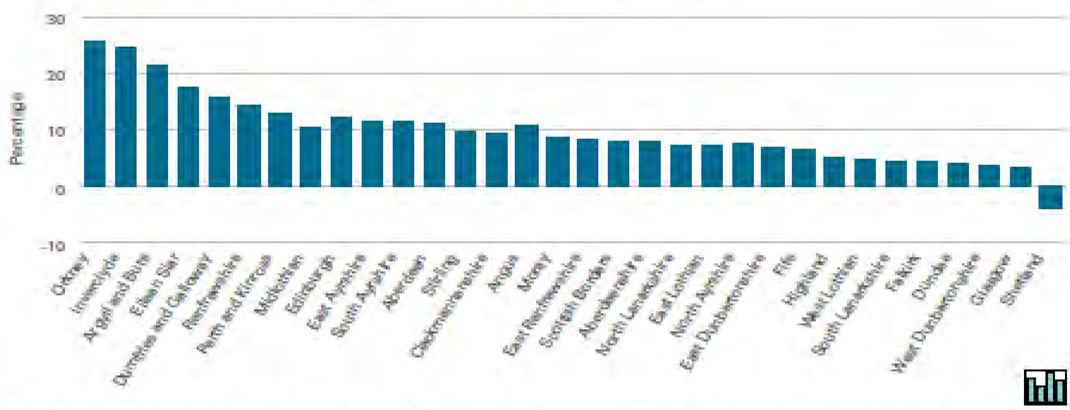
4.2.8 The report focuses on the general fund revenue budget for 2016/17, the level of savings within the budget and the potential impact of this on reserves. Most councils are forecasting a continuing reduction in revenue grant, rising demand through demographics and wage inflation of between 1 and 1.5% in both 2017/18 and 2018/19.

4.2.9 The report includes an exhibit which shows general fund reserves as a percentage of council's income, adjusted for planned reserve use in 2016/17. The graph has been reproduced below and shows that Falkirk has the fifth lowest percentage of reserves to income.

Exhibit 15

2015/16 General Fund reserves as a percentage of councils' income, adjusted for planned reserve use in 2016/17

The level of reserves held as a percentage of income varies widely among councils.



Note: Shetland Islands Council classifies its reserves differently. This is not an indication of financial difficulties or an unbalanced budget.

Source: Councils' audited accounts 2015/16 and auditor returns

4.2.10 In 2016/17 all councils had general fund reserves that could be used to fund any budget gaps not addressed by savings. Falkirk is highlighted as one of two councils (the other being South Lanarkshire) forecasting a funding gap in excess of general fund reserves for 2017/18. A further 11 councils forecast a funding gap in excess of their general fund reserves in 2018/19. In reality, there is no expectation that reserves would be applied in such a way. The report does, however, recognise that since the budget data was collated, councils will have identified further budget savings to bridge their funding gaps.

4.2.11 The Accounts Commission clearly raises concerns about the reliance on using general fund reserves to bridge funding gaps and the need to appraise all possible options for delivering services to avoid reliance on reserves is emphasised.

4.3.12 The report includes at exhibit 17 a graph highlighting the percentage of councils' income spent on education, social work and interest payments in 2015/16. It is noted that savings will be more difficult to find where councils devote more spending to education, social work and paying interest on external debt. Falkirk Council sits in the middle of the table with spend in these areas of between 70 and 75%.

5. Consultation

5.1 No consultation is required on this report.

6. Implications

Financial

6.1 The financial implications of the report are noted in section 4 of this report.

Resources

6.2 All services will be required to feed into the process of further developing financial plans.

Legal

6.3 There are no legal implications in this report.

Risk

6.4 The report highlights the challenging financial environment that local authorities are operating within. The importance of robust financial planning in meeting these challenges is emphasised.

Equalities

6.5 There are no equalities implications in this report.

Sustainability/Environmental Impact

6.6 There are no sustainability/environmental implications in this report.

7. Conclusions

7.1 The report highlights that councils face tough decisions around their finances that require sound financial management. Long term financial strategies are needed to ensure that spending is aligned with priorities.

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Director of Corporate & Housing Services

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k Date: 21 December 2016

Appendices

None

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None

Falkirk Council

www.falkirk.gov.uk/budget